Trends in Developing Economies

1995

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Trends in Developing Economies 1995

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Introduction

The seventh edition of *Trends in Developing Economies (TIDE)* provides brief reports on 119 World Bank, borrowing member countries as of May 1995. This compendium of individual country economic reports complements the World Bank's comprehensive country studies and annual reviews, such as the *World Development Report* and *Global Economic Prospects*, which look at global and regional economic trends and their implications for developing economies.

TIDE draws on information from national sources and adds commentary on recent economic developments. In many instances, the data for the most recent years are preliminary World Bank staff estimates that are subject to revision. Although they may not conform to data published by national authorities, the differences are generally not considered analytically significant. However, readers should pay careful attention to the provisional character of the data and commentary reported here.

The text is concerned mainly with current events and the recent past of each economy. It places events in context by bringing out the distinguishing characteristics of an economy, its problems and prospects, and the principal elements of its development strategy. While the choice of topics may vary from one economy to another, several themes recur: government initiatives in progress or under consideration, economic and social factors affecting development, and external finance and debt issues.

For each economy the descriptive text is followed by tables of socioeconomic indicators and graphs. The "development diamond" graph portrays relationships among socioeconomic indicators for an economy compared with the average of the income group to which it belongs. The other graphs also help users to visualize relationships among economic indicators and to facilitate comparisons among economies. Differences in data between text and tables may reflect the use of data of different vintages or variations in definitions and concepts. The tables contain the latest available information, although it is not always comparable across countries and time periods. The Development Data Group of the World Bank's International Economics Department welcomes comments. The full text and data from *TIDE* using the ☆STARS☆ system is also available on diskette and CD-ROM.

This seventh edition covers most World Bank borrowers, arranged in alphabetical order. Texts were edited by Joost Polak.

Readers interested in more detailed descriptions of the economic indicators should refer to other World Bank publications, notably *World Development Report, Global Economic Prospects, World Tables*, and *World Debt Tables*. The statistical tables and notes in these publications are available on diskette, using the ☆STARS☆ retrieval system. A CD-ROM World☆Data, containing information from many of these publications is also available. Readers interested in more comprehensive country studies should write to the Distribution Unit, Office of the Publisher, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A., for a copy of the World Bank's *Index of Publications*.

Symbols and Abbreviations

..	Data not available or nonexistent
0.0	Zero or less than half the unit shown
AIDS	Acquired immune deficiency syndrome
ASEAN	Association of South East Asian Nations
CARICOM	Carribean Common Market
c.i.f.	Cost, insurance, and freight
CMEA	Council for Mutual Economic Assistance
f.o.b.	Free on board
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
CFAF	Communauté Economique Africaine (franc zone)
LIBOR	London interbank offered rate
MERCOSUR	Agreement between Argentina, Brazil, Paraguay, and Uruguay to form a common market
MPLA	Popular Movement for the Liberation of Angola
NAFTA	North American Free Trade Agreement
nfs	Nonfactor services
NGO	Non-government organization
NMP	Net material product
UNDP	United Nations Development Programme
UNITA	the Union for the Total Independence of Angola
VAT	Value added tax

Albania

Albania has a largely rural economy with agriculture generating 43 percent of output, and industry and mining generating only 16 percent. After an output decline of nearly 40 percent between 1989 and 1992, a recovery has begun. During the past two years growth has been rapid; output increased 7.4 percent in 1994, after growing 11 percent in 1993. Despite these significant advances, Albania, with a population of 3.4 million, has the lowest GNP per capita in Europe: in 1993 it was estimated at $340.

Recent Political Developments

Following the complete breakdown of public order that accompanied the fall of the previous regime, the Democratic Party has governed Albania since its first fully democratic elections in March 1992. Participation in this election was close to 90 percent and resulted in a parliamentary voting majority of nearly two-thirds for the new Democratic Party. Some support has since been lost as the government experienced a setback when 52 percent of the voters rejected a new constitution in November 1994. The defeat in the referendum has not been interpreted as a loss of public support for economic liberalization, but instead as reflecting the weakening of the mainstream of the Democratic Party after conservative-nationalist deputies formed a splinter group in parliament, and disapproval of the old-style campaign and television coverage before the referendum.

The regional political situation represents a considerable risk for Albania. Potential spillovers from the ongoing Yugoslav tragedy have so far been avoided. However, the situation of the nearly 2 million ethnic Albanians in the Federal Republic of Yugoslavia's Kosovo region remains unclear, and recent clashes in Macedonia concerning the education of the Albanian minority represent a serious challenge to the Tirana government. Relations with Greece have also been difficult after paramilitary incursions into Albania from Greece and alleged mistreatment of Greeks in southern Albania. Relations have improved in recent months, as Greece lifted its veto of European Union balance-of-payments assistance to Albania in response to greater tolerance of Greek culture in public schools near the border.

Recent Economic Developments

Albania began a stabilization and adjustment program over two years ago, and macroeconomic stability has been firmly established. In addition to good growth performance, inflation fell from 226 percent in 1992 to 22.5 percent by the end of 1994, with a few months even showing price deflation, due to the strict monetary stance followed by the central bank in coordination with the Ministry of Finance and strong appreciation of the freely floating currency, the lek.

The economic recovery was a major contributor to the decline in open unemployment to 18 percent of the labor force from a peak of 37 percent in March 1993. The civil service was a net supplier of labor, as about 30,000 people — 14 percent of the nearly 200,000 public employees in March 1993 — were retrenched during 1993-94.

GDP growth and the rate of domestic absorption continue to be strong. In part, the output and consumption rebound was supported by increasing remittances from abroad, which are estimated to have reached $245 million — 17 percent of GDP — in 1994.

Following the complete privatization of state farms and cooperative land, the government has focused on the sale of enterprises with fewer than 300 workers. Nearly 2,000 units were sold by end-1994, and only a few medium and small enterprises remain public. Privatization of large enterprises has progressed at a slower pace. The government created an Enterprise Restructuring Agency in July 1993 to deal with a group of politically sensitive enterprises that could not be easily privatized. The agency has been successful in downsizing: employment in the 32 enterprises it supervises has fallen to 26 percent of mid-1992 levels, with a 6 percent reduction in employment during 1994 alone. However, only one of the enterprises has been fully privatized, while three others have been partially sold. No enterprise has initiated liquidation, although several candidates have been identified. A mass privatization program is being launched and may benefit large state enterprises, including utilities.

The recent advances in stabilization and the sustainability of economic growth are being undermined by worsening infrastructure. Electricity outages are now common in Albania, particularly since the cold winter of December 1994, which put enormous strain on transmission and distribution works. But the difficulties in rehabilitating infrastructure have not been limited to electric power. Albania's infrastructure continues to be weak in general, and whatever is functioning is in a bad state of repair: roads are worse than anywhere else in post-communist Europe, with a third of the population cut off from major markets because of poor feeder roads. Water supply is precarious, interrupting economic production and affecting public health; over 400 municipalities cannot be reached by phone, and the country's largest port, in Durres, functions under very poor conditions. Weak infrastructure makes private economic activity, including foreign investment, difficult and costly.

Medium-Term Economic Framework

Albania faces the challenge of transforming its hard-won early success in stabilization into sustainable growth. In addition to maintaining consistent macroeconomic policies, the government is committed to further reducing the fiscal deficit. The government is also giving priority to rehabilitating and expanding basic infrastructure to provide the emerging private sector with adequate transport services, power, water and sewerage, telecommunications, and municipal services at reasonable cost. The government started building a modern system of public investment management in late 1993 and set up a Department of Economic Development and Aid Coordination under the Council of Ministers in May 1994. Some improvements have already been achieved in identifying and coordinating public investment projects.

The government is determined to pursue poverty alleviation by creating a fiscally affordable social safety net and providing basic education and health services while recognizing that over the medium term only private-sector growth, jobs, and rising productivity will reduce poverty and the need for fiscal support.

The government also recognizes that the financial sector needs strengthening to support efficient mobilization and intermediation of resources through the banking system. Private-sector investment has been supported by significant remittances from Albanians working abroad, which have effectively substituted for domestic savings and financial intermediation. The government has begun restructuring banks into a more effective two-tier system, improving management and encouraging private banks to enter. It is also developing a regulatory framework for the banking system and has enacted a new civil code and land registration law to strengthen institutional support for its growing private sector.

Albania's external balance is sensitive to a number of factors. Exports consist mostly of minerals and agricultural products. With chromium products accounting for about 20 percent of the total, Albania is particularly vulnerable to fluctuations in the metal's prices. Exports in 1994 were still 60 percent below 1989 levels, albeit growing at high annual rates (doubling between 1992 and 1994). Sustaining more moderate annual growth of 8 percent will require investment in infrastructure and macroeconomic stability.

The dramatic decline of exports since 1989 has been more than offset by remittances from Albanian workers abroad, part of which are not captured by the official balance-of-payments accounts. As many workers face uncertain legal situations and may have to return to Albania at short notice should the regional situation deteriorate, these transfers may be cut substantially. While a decline would not affect Albania's official external position, it could undermine the social acceptability of reforms, since remittances have acted as an unofficial safety net for a large segment of the population.

Improved access to European Union markets will play a crucial role in the medium term. A first step was Albania's inclusion into the Council of Europe's Generalized System of Preferences in 1992. Albania is negotiating additional reductions in tariff and nontariff barriers from Europe and has applied for World Trade Organization membership. A substantial effort is still needed to open European markets for those products in which Albania has a comparative advantage in agriculture, agroprocessing, and other labor-intensive commodities.

External Debt

Albania faces a serious external debt problem. Outstanding obligations, including interest arrears, amount to about $931 million equivalent. Arrears to commercial and bilateral creditors on short-term obligations accumulated to $561 million by the end of 1994. The lion's share of this, about $480 million, represents unmet obligations to commercial banks and accrued interest from failure to clear arrears with commercial creditors on spot foreign exchange purchases, money market transactions, and letter-of-credit liabilities authorized over 1989-91. Unpaid external liabilities conflict with export expansion and economic growth, as they obstruct trade credits, and are likely to discourage foreign direct investment. The new Albanian debt negotiator, appointed in late 1993, promptly initiated negotiations with bilateral and commercial creditors. Rescheduling agreements have been signed with all bilateral creditors, and all payments due under these Paris Club agreements have been made. Negotiations with commercial banks are under way, and recent progress suggests that they could be concluded in the near future.

Albania is resolved to manage its external balance prudently, although the government recognizes that the country will remain dependent on a declining but substantial flow of concessional external financing over the medium term. Government's commitment to sound policies is hampered by the very limited availability of domestic finance. In this sense, external resources will directly support the reform program, providing space for greater domestic credit to the emerging private sector while safeguarding gains against inflation. The donor community recognizes this, and the Commission of the European Union has been coordinating aid to Albania in the G-24 framework.

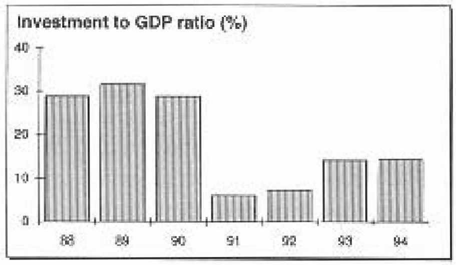
Albania

Population mid-1993 *(millions)*	**3.4**
GNP per capita 1993 *(US$)*	**340**

Income group: **Low**
Indebtedness level: **Moderately indebted**

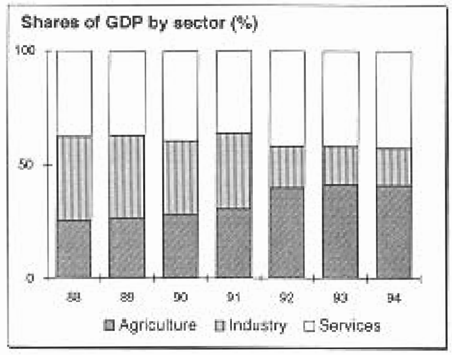
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.8	28.9	7.4	14.3	14.5
Exports of goods and nfs/GDP	16.2	15.1	12.6	18.9	15.6
Gross domestic savings/GDP	30.5	21.0	-77.3	-44.0	-21.9
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	-1.9	-7.4	-68.4	-37.0	-16.8
Interest payments/GDP	0.0	0.1	0.3	0.0	0.1
Total debt/GDP	0.0	16.6	96.8	75.6	58.8
Total debt/exports	0.1	110.0	269.8	161.6	356.6



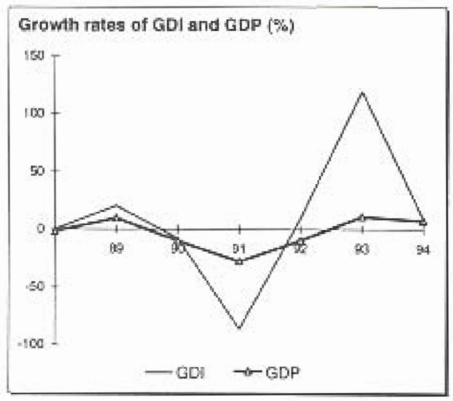
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	27.9	28.0	40.1	41.3	41.1
Industry	34.9	32.7	18.2	16.9	16.4
Manufacturing	..	..	..	..	..
Services	37.2	39.3	41.7	41.8	42.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.3	5.8	18.0	14.4	6.8
Industry	0.5	-22.5	-50.6	2.8	4.7
Manufacturing	..	..	..	..	..
Services	1.6	-2.0	4.5	11.3	9.1
GDP	0.9	-4.9	-9.7	11.0	7.4



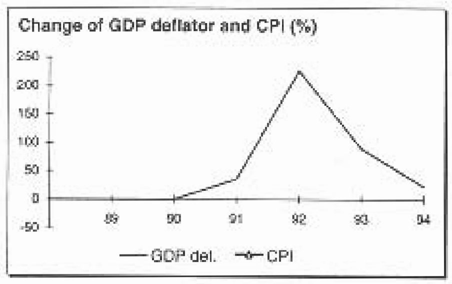
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	60.2	69.2	156.1	128.3	107.6
General government consumption	9.3	9.8	21.2	15.7	14.3
Gross domestic investment	32.8	28.9	7.4	14.3	14.5
Exports of goods and nfs	16.2	15.1	12.6	18.9	15.6
Imports of goods and nfs	18.4	23.1	97.3	77.2	52.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.1	..	..	-8.3	-10.2
General government consumption	1.0	..	..	-15.9	-2.1
Gross domestic investment	1.8	-11.3	9.2	119.4	9.0
Exports of goods and nfs	1.2	6.0	56.5	69.7	-11.4
Imports of goods and nfs	6.8	25.0	215.4	-10.0	-27.6
Gross national product	0.9	-4.9	-9.7	11.0	7.4
Gross national income	0.8	-4.8	-9.7	11.0	7.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	0.4	0.0	226.0	89.0	22.6
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..

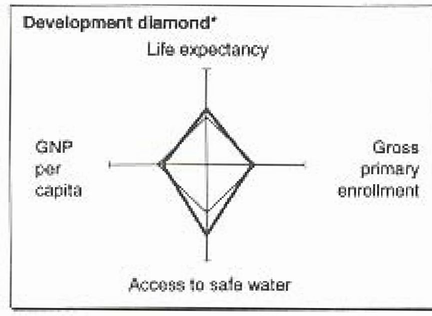


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

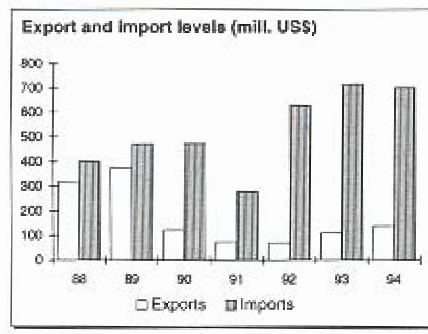
	1985-90	1990-94
(annual growth rates)		
Population	2.1	1.0
Labor force	2.6	2.3

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	72.2
Infant mortality *(per 1,000 live births)*	29.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	454.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	101.0



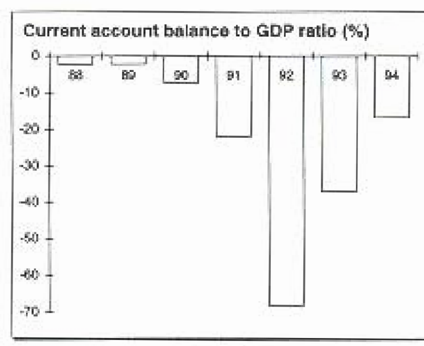
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	123	70	112	140
Chromium and derivatives	..	..	14	14	17
Tobacco	..	..	12	15	15
Manufactures	..	..	..	..	..
Total imports (cif)	..	474	629	716	702
Food	..	..	224	219	181
Fuel and energy	..	..	35	82	86
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	95	98	100
Import price index *(1987=100)*	..	..	103	101	103
Terms of trade *(1987=100)*	..	..	93	96	97
Openness of economy *(trade/GDP,%)*	35	38	110	96	68



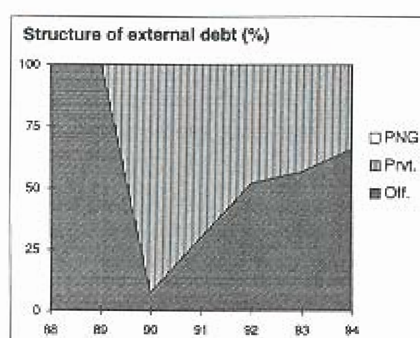
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	319	318	82	189	221
Imports of goods and nfs	363	485	636	768	737
Resource balance	-44	-167	-555	-579	-516
Net factor income	1	-3	-35	-20	12
Net current transfers	6	15	148	230	266
Current account balance					
Before official transfers	-37	-156	-442	-369	-238
After official transfers	-37	-156	-101	-66	-146
Long-term capital inflow	-3	27	53	179	157
Total other items (net)	22	-66	174	-44	17
Changes in net reserves	17	194	-126	-69	-28
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	31	142	192
Conversion rate *(local/US$)*	8.6	8.0	75.1	102.1	94.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	0.1	11.4	48.7	37.2	101.6
IMF credit/exports	0.0	0.0	5.7	6.4	13.3
Short-term debt/exports	0.0	98.6	215.4	118.0	241.9
Total debt service/exports	0.0	1.0	0.9	0.3	1.3
GDP ratios					
Long-term debt/GDP	0.0	1.7	17.5	17.5	16.8
IMF credit/GDP	0.0	0.0	2.1	3.0	2.2
Short-term debt/GDP	0.0	14.9	77.3	55.4	39.9
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.0	93.1	48.0	43.4	34.2
Official creditors/long-term	100.0	7.2	51.9	56.6	65.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Algeria

Algeria is in the midst of a critical process of economic and systemic transition from a centralized oil-based economy to a diversified market economy. A large and far-reaching program of stabilization and structural reform is being conducted in a situation of political turmoil. While the social instability poses some challenges to the implementation of these reforms and heightens the risk for domestic and foreign investors, furthering economic reforms is a necessary condition to emerging from crisis. After a period of hesitancy and limited progress, economic stabilization and structural adjustment reforms gained momentum during 1994 and are continuing at a satisfactory pace; a social protection program has been established to ease the social costs of these reforms. After the sharp drop in oil prices in November 1993, which generated severe pressure on the balance of payments and led to the accumulation of substantial arrears over the first quarter of 1994, the Algerian government agreed on a short-term stabilization program with the IMF in May. A Paris Club rescheduling agreement was reached on June 1, and discussions on refinancing and restructuring medium- and long-term private debt are under way. Considerable progress has been achieved in reducing inflation, strengthening the balance of payments and putting fiscal balances on track. To strengthen the social protection system the government set up a program introducing an unemployment insurance system. Actions have also been taken to reform the broadly targeted social safety net introduced in 1992.

For more than 25 years after independence in 1962 the Algerian economy was dominated by central planning. While the private sector was always present, it suffered from restricted access to domestic credit and foreign exchange and was excluded from strategic industries. The inefficiencies and distortions caused by centralized economic management were partially masked by high oil prices and readily available external financing. The collapse of world oil prices in 1986 caused resource constraints to tighten, magnifying economic distortions and plunging the economy into severe recession. In response, the authorities launched a wide-ranging program of macroeconomic adjustment and structural reform aimed at increasing economic efficiency by transforming Algeria into a market economy.

Stabilization efforts began in earnest in 1989. Tighter fiscal and monetary policies were accompanied by adjustments in the exchange rate and interest rates. Supported by tight fiscal policy, the central bank slowed money growth, enabling excess liquidity to be absorbed. The ratio of broad money to GDP fell from a peak of 84 percent in 1988 to 52 percent by 1991, largely absorbing the "money overhang." Liquidity absorption allowed domestic prices to be progressively liberalized without unmanageable increases in inflation. However, the pace of adjustment slackened in 1992. Financial restructuring costs, wage increases, and higher social spending generated a sharp increase in expenditures, while revenues stagnated in real terms, largely because of a decision to stabilize the nominal exchange rate. After surpluses in 1990 and 1991, the treasury registered a deficit of 1.7 percent of GDP in 1992 and 9.4 percent (under a new definition) in 1993. The reemerging deficits increased inflationary pressures. Annual inflation accelerated from 23 percent in 1991 to 32 percent in 1992, before easing somewhat to 21 percent in 1993 under the impact of new administrative controls. As a result, the real effective exchange rate began to appreciate, and real interest rates became sharply negative. At the same time, the external resource constraint remained severe: the medium- and long-term debt service ratio reached 67 percent in 1993. The first stage of reform concentrated on modifying the legal and institutional framework and decentralizing economic decisionmaking. The broad scope of the program was signaled by the 1987 breakup of the large state-owned agricultural farms into private cooperatives holding long-term leases to the land. Farmers were given autonomy in production and investment decisions, including the right to keep profits. Subsequently, most public enterprises in the industrial, construction, and transport sectors were made autonomous, legal import monopolies were abolished; and constraints on the private sector's access to resources were eliminated. The March 1990 Law on Money and Credit expanded the autonomy of the Bank of Algeria and established its jurisdiction over monetary and exchange rate policy. In parallel with institutional reforms, price liberalization was initiated, and the exchange rate and interest rates were adjusted.

During the second stage of reform, which began in early 1991, the focus shifted to increasing productive efficiency at the firm level and promoting competition. An ambitious program of financial and physical restructuring of public enterprises and banks was initiated. To stimulate competition, the playing field between the public and private sectors was increasingly leveled, and trade liberalization was accelerated. Although access to foreign exchange and external credit remained restricted, formal import licenses were abolished, and the development of a network of importers and wholesalers was encouraged. In the financial sector, prudential regulations were promulgated and modern accounting standards were established. Structural reforms included an overhaul of the incentive framework, including price, tax, and trade reforms. Most prices subject to ceilings on markup margins have been freed. The share of free prices in the consumer price index now exceeds 80 percent, compared with only 10 percent in 1989.

In January 1992 a major tax reform was enacted; a VAT was introduced to simplify the indirect tax structure, while unified corporate and individual income taxes replaced a series of schedular taxes and special tax regimes. The tax reform included a significant tariff reform component, including a reduction in the maximum tariff from 120 percent to 60 percent, and unifying the rates on imports and domestically produced goods of the parafiscal compensation tax used to finance the subsidy system.

Recent Political Developments

Reform has been taking place against a background of political turmoil. Following civil unrest in October 1988, a new pluralist constitution was adopted in early 1989. Fueled by political discontent and a search for social identity, the Islamic Salvation Front swept to victory in the first round of national legislative elections in December 1991. The second round of elections was suspended, and the president was replaced by a five-member High Council of State, which was replaced at the end of January 1994 by a new president, a retired general who has called for a break with the past centralized management of the economy and national reconciliation. The present government, composed largely of technocrats, was appointed in April 1994 with a mandate to accelerate the adjustment and reform program. An effort has been launched to open a dialogue with political opponents.

Hopes for starting a process of negotiations between the government and the banned Islamic Salvation Front were raised when the government released the representatives of this political formation from prison. But the initiative failed apparently following the refusal of this leadership to halt violence. A call for a negotiated settlement from the opposition side by what had become known as the Group of Rome had also failed. Meanwhile, the political violence, which has claimed several thousand lives since 1992, continues. The focus of attacks attributed to Islamist militants has broadened to include public officials, journalists, and other prominent citizens, as well as the security forces, to which government is reacting forcefully. Foreigners have also been targeted. Recently violence extended to the sabotage of some infrastructure edifices.

Recent Economic Developments

Despite the progress achieved in implementing adjustment, the economic crisis has persisted. Weak economic growth has lowered per capita consumption and exacerbated unemployment. Over 1985-94 aggregate GDP growth averaged a disappointing 0.1 percent a year. Agriculture has been the bright spot of the economy, averaging an encouraging 3.0 percent growth rate over the same period. In contrast, the value added by the core "enterprise sector" — industry, construction, and services — has declined by an average of about 2.8 percent over 1985-94. Limited output growth translated into a decline in per capita private consumption of some 3.3 percent on average over the period. The recession has worsened unemployment. The number of unemployed workers tripled over the period, and the official open unemployment rate is approaching 25 percent. The younger population has been particularly affected; at last count, two-thirds of the unemployed were under 25 years old.

In response to a deepening balance of payments crisis linked to a drop in oil prices, the government adopted a short-term stabilization program with IMF support in early 1994. The goals were to restore growth and contain inflation by alleviating the external debt service burden, reducing macroeconomic imbalances, correcting price distortions, and pursuing exchange and trade liberalization. A series of measures to stimulate employment and cushion the impact of the program on vulnerable groups was undertaken. The program targeted GDP growth initially at 3 percent in 1994, and 6 percent in 1995, made possible through a significant increase in imports. However, these targets have been revised subsequently to 0.6 and 3.8 percent respectively, partly because of persistent drought and partly because of continued compression of imports, owing apparently to difficulties in having import credits confirmed by foreign banks.

Given lower oil prices, hydrocarbon export revenues are projected to fall, leading to significant current account deficits. Program financing requirements were met largely through a combination of continued flows of trade-linked credits (albeit at a diminished level) and the recent multilateral debt restructuring, which contributed to a significant reduction of external debt service. Measures to reduce macroeconomic imbalances included devaluation, trade liberalization, fiscal adjustment, and tighter monetary and incomes policies. In mid-April 1994 the exchange rate was adjusted to 36 dinar to the dollar, a nominal devaluation of some 50 percent. Exchange-fixing sessions were introduced in October 1994, and the establishment of an interbank foreign exchange market is foreseen in 1995. As of January 15, 1995, imports have been fully liberalized except for five categories of items, the importation of which is still subject to observance of "professional criteria." Other incentive reforms under the program include interest rate adjustments, further price liberalization, and reductions in subsidies with a view to eliminating them completely. The pass-through effect of most of the measures should have occurred during 1994, and inflation is projected to fall significantly in 1995.

The government is attempting to accelerate delivery of some 310,000 public housing units planned or under construction and launch new public housing programs to alleviate Algeria's critical housing shortage. The authorities understand, however, that generating a supply response sufficient to eliminate the 2 million unit housing shortfall requires extensive structural reform of the sector. It undertook a comprehensive sectoral reform in March 1993 that includes codifying landlord-tenant relations, liberalizing real estate development, and overhauling the housing finance and subsidy systems. These measures will reduce price distortions, increase efficiency, and promote private-sector involvement in housing supply.

The authorities recognize that the current education system, of poor quality and rife with inefficiencies and ineffectiveness, must be reformed, particularly as 40 percent of Algeria's population is under 15. While extensive, health care services are inefficiently administered and insufficiently focused on preventive care. Given the high population growth rate, the government has identified the development of family planning as a priority.

Based on the registered substantial decline in average per capita income and the sharp rise in unemployment since 1986, absolute poverty must have increased, but comprehensive measures of living standards are unavailable and there are no data on income distribution or the incidence of absolute poverty. The authorities recognize the need to assess living standards more accurately and are preparing a survey. Education and health care are free in Algeria, and state benefits include transfers for each child, regardless of income level, to workers employed in the formal economy. Ongoing reform measures include gradual replacement of general price subsidies with targeted income transfers. This targeted income transfer system could become the nucleus of a future integrated social assistance program.

To stimulate competition and the supply response, the authorities have reaffirmed several key initiatives in favor of the private sector, including opening public enterprise capital to the private sector, promulgating a law on privatization and a new investment code, launching a pilot privatization program, and revising the commercial code. The new commercial code formalizes the level playing field between the public and private sectors, establishes bankruptcy procedures for autonomous public enterprises, and authorizes private joint-stock companies. The new investment code is targeted to promote foreign investment by clarifying the investment regime, cutting through bureaucratic red tape. In addition, a new law on prices and competition has been adopted by the Council of Ministers.

The authorities recognize that further efforts are needed to strengthen the safety net for redundant workers and tighten the budget constraints on firms. A reform of the social safety net has been launched, including the introduction of a program of public works and the publication of implementing regulations for a national unemployment insurance system for workers laid off for economic reasons.

Despite enormous public investments in infrastructure, low tariffs have deprived many operating agencies of the funds needed to properly maintain these investments, and rehabilitation will be effective only if accompanied by tariff adjustments that ensure full coverage of operation and maintenance costs and rationally manage demand.

Environment and Natural Resources

Given its semi-arid climate, growing population, and history of rapid centrally planned industrialization, Algeria faces major environmental challenges, including water shortages, erosion, land degradation, and industrial pollution. There are insufficient incentives to conserve water, and distribution losses run as high as 40 percent. Erosion is estimated to threaten roughly 12 million hectares of farmland; some 40,000 hectares of cultivated land are lost annually. Rapid population growth, urban encroachment, forest fires, and overgrazing have reduced forested areas and expanded agriculture into marginal lands. This has severe implications for the stability and sustainability of agricultural production and the well-being of watershed communities. Industrial pollution is widespread; hazardous sludge is sometimes stockpiled in uncontrolled municipal dumping grounds. Although almost half Algeria's industrial plants are equipped with pollution control systems, many are defective or out of order. While there is a substantial body of environmental legislation, institutional strengthening is needed to ensure adequate implementation.

Medium-Term Prospects

Although economic difficulties may persist in the short run, Algeria is projected to return to sustained growth over the medium term. If successfully implemented and accompanied by a deepening of structural reform, the stabilization program will provide a solid basis for a medium-term macroeconomic framework geared to supporting structural adjustment and setting the economy on a permanent high-growth path. A key objective is a sustained reduction in the debt service ratio to 40 percent or less, and the large increase in gas exports projected over the medium term should complement further debt-restructuring efforts. If the proper preconditions are established, channeling foreign exchange through the future interbank market should ensure efficient allocation. Maintaining positive real interest rates will facilitate exchange rate unification by reducing excess demand for domestic credit. Continued tight fiscal policy will provide additional resources to cushion the costs of structural adjustment and ease inflationary pressures without crowding out productive activities. If the political situation improves, macroeconomic stability is maintained, and the foundations of a market economy are securely established, Algeria has the potential to sustain levels of growth over the medium term sufficient to ensure steady improvements in consumption and a reduction in unemployment.

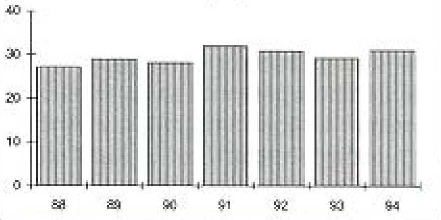
Algeria

Population mid-1993 *(millions)*	**26.7**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,780**	Indebtedness level:	**Moderately indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	33.2	28.1	30.8	29.2	31.0
Exports of goods and nfs/GDP	23.5	24.3	25.4	21.9	23.1
Gross domestic savings/GDP	36.4	26.6	32.3	28.3	26.5
Gross national savings/GDP	36.0	25.7	30.8	27.9	25.7
Current account balance/GDP	1.2	2.3	2.1	0.7	-3.5
Interest payments/GDP	2.4	3.0	3.8	3.4	3.4
Total debt/GDP	31.5	46.5	56.0	51.8	64.1
Total debt/exports	132.1	202.2	206.3	216.6	246.6

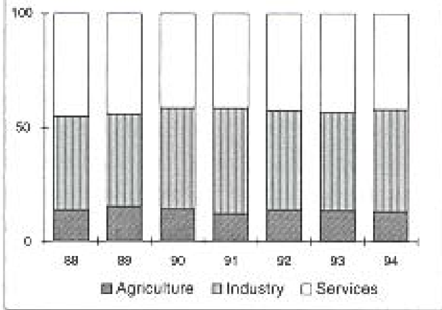
Investment to GDP ratio (%)



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	10.0	14.1	13.7	13.5	13.0
Industry	50.7	44.7	43.9	43.3	45.2
Manufacturing	12.2	10.6	10.6	11.4	13.5
Services	39.3	41.2	42.3	43.2	41.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.4	1.1	2.0	-4.4	-5.0
Industry	-2.3	0.6	2.9	0.0	0.4
Manufacturing	-9.3	-3.8	0.3	-25.1	14.6
Services	1.7	0.2	3.6	1.9	-0.1
GDP	0.6	0.0	1.4	-1.2	0.6

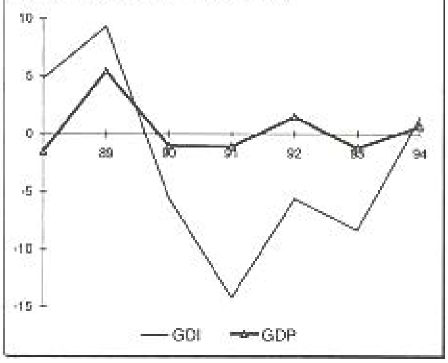
Shares of GDP by sector (%)



GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	47.9	56.8	51.6	54.4	56.6
General government consumption	15.7	16.6	16.1	17.4	16.9
Gross domestic investment	33.2	28.1	30.8	29.2	31.0
Exports of goods and nfs	23.5	24.3	25.4	21.9	23.1
Imports of goods and nfs	20.4	25.8	23.9	22.8	27.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.9	0.0	1.7	0.6	-1.8
General government consumption	3.2	6.0	9.3	-0.4	7.7
Gross domestic investment	-4.3	-6.9	-5.6	-8.3	1.4
Exports of goods and nfs	3.7	0.3	3.9	-1.8	-0.5
Imports of goods and nfs	-8.0	-4.0	4.6	-8.4	6.1
Gross national product	0.4	0.0	1.9	-0.6	0.6
Gross national income	-1.9	-1.2	-0.3	-2.7	-0.1

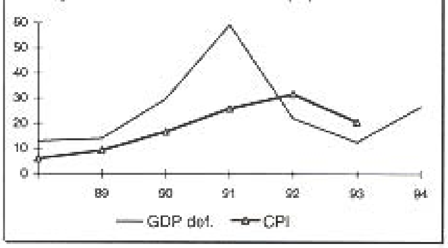
Growth rates of GDI and GDP (%)



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.5	16.6	31.7	20.5	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.4	29.7	22.0	12.5	26.7
Government finance					
(% of GDP)					
Current budget balance	..	..	7.2	1.9	6.0
Overall surplus/deficit	..	..	-1.7	-9.4	-4.9

Change of GDP deflator and CPI (%)



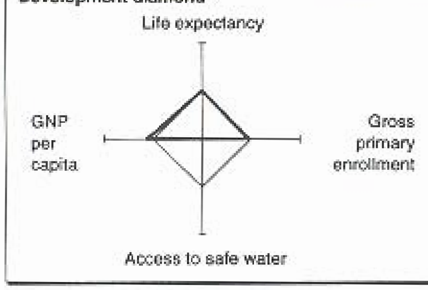
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Algeria

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.6	2.3
Labor force	3.7	3.7

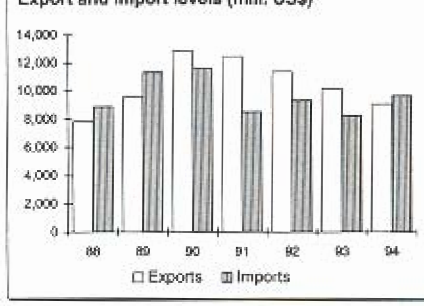
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	67.5
Infant mortality *(per 1,000 live births)*	52.8
Child malnutrition *(% of children under 5)*	9.2
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	955.1
Illiteracy *(% of population age 15+)*	42.6
Gross primary enrollment *(% of school-age population)*	99.0



Development diamond*

TRADE

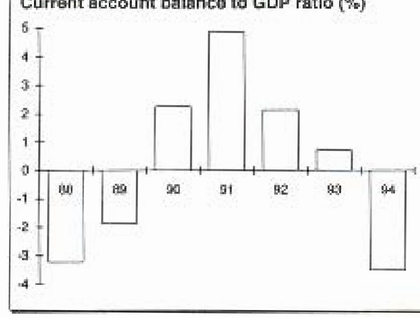
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	12,975	12,886	11,375	10,159	9,081
Fuel	3,056	2,776	2,989	2,842	2,599
Other fuel	3,209	3,293	2,849	2,401	2,255
Manufactures	26	246	213	178	149
Total imports (cif)	11,414	11,625	9,340	8,276	9,682
Food	2,181	2,136	2,141	1,998	2,314
Fuel and energy	184	141	147	133	167
Capital goods	3,280	3,257	2,050	1,858	2,150
Export price index *(1987=100)*	159	133	114	103	93
Import price index *(1987=100)*	87	136	128	107	116
Terms of trade *(1987=100)*	183	97	89	96	79
Openness of economy *(trade/GDP,%)*	44	50	49	45	51



Export and import levels (mill. US$)

BALANCE of PAYMENTS

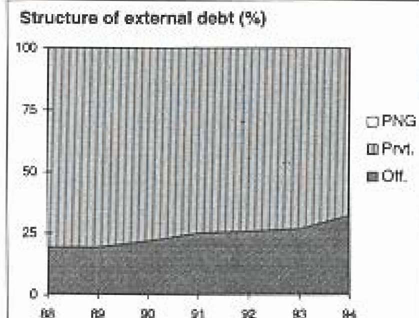
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	13,373	13,395	12,056	10,757	9,753
Imports of goods and nfs	12,448	11,481	10,336	10,038	10,900
Resource balance	925	1,914	1,720	719	-1,147
Net factor income	-1,571	-2,090	-2,158	-1,945	-1,735
Net current transfers	1,358	1,528	1,458	1,586	1,400
Current account balance					
Before official transfers	713	1,352	1,020	361	-1,482
After official transfers	713	1,352	1,020	361	-1,482
Long-term capital inflow	396	-478	218	-481	1,638
Total other items (net)	254	-959	-1,172	421	-223
Changes in net reserves	-1,363	85	-67	-301	67
Memo:					
Reserves excluding gold *(mill. US$)*	2,819	725	1,457	1,475	2,674
Reserves including gold *(mill. US$)*	4,645	2,703	3,318	3,656	4,813
Conversion rate *(local/US$)*	5.0	9.0	21.8	23.3	35.1



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	118.6	191.6	194.1	206.8	229.2
IMF credit/exports	0.0	4.9	6.1	4.0	9.4
Short-term debt/exports	13.5	5.7	6.1	5.9	8.0
Total debt service/exports	36.2	63.9	71.6	76.9	75.0
GDP ratios					
Long-term debt/GDP	28.3	44.1	52.7	49.4	59.6
IMF credit/GDP	0.0	1.1	1.7	0.9	2.4
Short-term debt/GDP	3.2	1.3	1.7	1.4	2.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	76.6	78.4	74.4	73.3	67.8
Official creditors/long-term	23.4	21.6	25.6	26.7	32.2



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Angola

Angola is the fifth-largest country in Sub-Saharan Africa, and its population of about 11 million is growing at 2.8 percent a year. Population density is low at 8 inhabitants per square kilometer. GNP per capita was estimated at $600 in 1992. Its rich natural endowment includes petroleum, diamonds, and other mineral resources, abundant arable land, a diversified climate that favors a wide variety of agricultural crops, cattle, and fisheries, and considerable hydroelectric and irrigation potential. Before independence in 1975 Angola's infrastructure was relatively well developed; it has deteriorated substantially because of lack of maintenance and damage from the war. Angola has suffered from armed conflict for three decades, first in the struggle for independence and subsequently in a long and destructive civil war between the Popular Movement for the Liberation of Angola (MPLA), and the Union for the Total Independence of Angola (UNITA). The transition to a democratically elected government, initiated after a cease-fire in May 1991, was derailed by renewed fighting soon after elections in the fall of 1992. In November 1994 the MPLA-led government and UNITA signed a new peace agreement.

Angola's economic growth after World War II was stimulated by investment in coffee plantations that made it the world's fourth largest coffee exporter by 1974, and oil production, which started in the late 1950s and reached 144,000 barrels a day by 1973. From 1960 through the end of the colonial period in 1974, GDP growth averaged about 8 percent a year in real terms. Economic opportunities attracted Portuguese settlers, whose number rose from 40,000 in 1940 to 340,000 in 1974. The benefits of growth, however, were not equally distributed. A significant proportion of the rural population was employed in the plantations, mines, and factories until 1961 under a system of forced labor and, after that, at very low wages. The vast majority of Angolans lived in poverty, and social indicators were below regional averages.

The armed struggle for independence, the subsequent exodus of most Portuguese settlers, civil war, and misguided economic policies led to a drastic contraction of output, deteriorating social standards, and environmental degradation. Nonoil per-capita GDP has declined steadily in real terms since 1975. From a net exporter of agricultural products, Angola has become increasingly dependent on food imports to supply its urban population, while much of its fertile land lies fallow. Skilled labor and managerial talent are scarce. Infrastructure has been ravaged by war and neglect.

Angola's war economy has been fueled by the growth of the oil industry, whose output increased 6 percent a year between 1973 and 1993 to over 500,000 barrels a day, and exploitation of diamonds. Over 1991-93, oil exports generated over 90 percent of Angola's export revenue, equivalent to about $300 per capita. Oil revenue financed the government's war effort and met the basic needs of the urban elite, mostly public-sector employees. The government has used central planning and administrative controls to manage most of the modern economy. The rest of the economy, including diamond mining, has relied on informal activities. Most farmers have reverted to subsistence.

Angola had a command economy from 1975 through 1991. Several economic reform programs formulated between 1987 and 1990 were not implemented. Administered exchange rates, prices, and interest rates resulted in large distortions, uneconomic use of resources, and lack of transparency. Nonoil investment and exports were discouraged, and traditional agricultural exports virtually disappeared. Persistent large public sector deficits, particularly after 1985, were financed through money creation, fueling inflation. The 1991 budget deficit was equivalent to 23 percent of GDP, and inflation reached 175 percent. Given a fixed exchange rate pegged to the dollar, the new kwanza quickly appreciated, and by 1991 it commanded only 17 percent of its official value on the parallel market. The overvaluation of the kwanza severely distorted relative prices, encouraged excessive unproductive imports and capital-intensive investment, and led to increasing failure to meet domestic demand for most goods and services. Excess demand for foreign exchange was curtailed through administrative controls. Government policies encouraged consumption through widespread consumer price subsidies and remunerating civil servants in kind by granting them access to rationed goods, partly in lieu of cash payment of wages. A relatively small proportion of the population thus appropriated the bulk of consumer goods, including imports, at prices substantially below market. Similarly, state-owned enterprises sold part of their production at below-market prices to their employees. Public employees traded these underpriced goods on the parallel market for food and consumer goods unavailable in state stores.

Recent Economic Developments

The government tried several policy measures over 1991-93 to reduce price distortions and improve the incentive framework, but they were not complemented by fiscal and monetary restraint and were sometimes reversed. The exchange rate was devalued by a cumulative 92 percent in foreign currency terms through February 1993, from NKz 580 to NKz 7,600 to the dollar, with the latter figure determined by a pilot auction of foreign exchange as a step toward unification of exchange rates. Commercial banks were authorized to trade foreign exchange at rates close to the parallel market rate, in-kind compensation of public employees was replaced with monetary wages, producer and consumer price controls were eased — with the notable exception of utilities, petroleum products, and essential commodities — and profit margin controls were removed from all but 25 goods and services, including common medicines, agricultural tools, utility rates, and petroleum products. The partial reforms were largely derailed by the inflationary impact of fiscal deficits that were over 38 percent of GDP in 1992 and 21 percent in 1993. Inflation was about 500 percent in 1992 and 1,800 percent in 1993. Moreover, the government reintroduced a fixed dollar exchange rate, set at NKz 4,000 in April 1993, and NKz 6,500 in November. The gap between official and market exchange rates widened again as the kwanza fell to NKz 106,000 to the dollar at year's end in the parallel market.

In 1994 the government proposed stabilization measures within a framework of economic, legal, and institutional reform. The program aimed to cut the fiscal deficit and to reduce monthly inflation from 30 percent in January to 2 percent by December 1994. Fiscal targets implied major cuts in government spending and were set with the expectation of additional official and private external capital flows. The program envisaged quick introduction of market mechanisms to replace administrative controls, including removing most remaining price controls and subsidies, and privatizing some state assets. Program results were mixed: real 1994 GDP growth is estimated at 5 percent; inflation at 900 percent (about half the 1993 rate) and the ratio of the parallel market exchange rate to the official rate was reduced to 3:1 from 16:1 at the end of 1993. However, in December 1994 monthly inflation rose steeply to about 58 percent, and the reform process appears to have lost momentum.

Social Indicators

Angola's social indicators declined as a result of the civil war, inappropriate public expenditure policies, rapid rural migration, and emigration of skilled manpower. Life expectancy at birth was estimated at 46 years in 1990; the infant mortality rate was 129 per 1,000, less than 30 percent of the population had access to health services and safe water, and the adult literacy rate was 42 percent. The regional disparity in social conditions is substantial. Rural poverty is acute, due to disruption of production, interruption of trade with urban areas and between regions, shortage of traded goods, and lack of access to social services. Women's access to basic educational opportunities has been expanded; their literacy rate, although low at 28 percent in 1989, is higher than before independence. Women are well represented in the civil service and hold senior positions.

Recent Political Developments

Angola initiated a process of national reconciliation in 1991 and replaced its single-party system with a democratically elected government. In May 1991 MPLA and UNITA signed a comprehensive peace agreement mediated by Portugal, the United States, and the then Soviet Union and assisted by about 600 United Nations peacekeeping troops. The agreement set a detailed timetable for demobilization, creating an integrated national army and multiparty elections.

Despite some delays, the peace process was generally on track until the elections in September, although demobilization of the MPLA and UNITA armies was well behind schedule. The new national army, with a purely defensive mission, was formally established and began to be organized under the guidance and direct assistance of Portugal, France, and Great Britain, although genuine integration of the opposing forces was not successful.

Elections for the National Assembly and the first round of presidential elections were calm and orderly, and were monitored by the United Nations and other external observers, who pronounced them fair. With over 90 percent of registered voters participating, the government party received 53.7 percent of the votes cast for the National Assembly, the rebel party 34.1 percent; the balance was divided among 16 other parties. As no presidential candidate obtained an absolute majority, a second ballot was needed to choose between the two front-runners.

UNITA refused to accept the outcome of the elections, moved its headquarters from Luanda to Huambo, Angola's second largest city; withdrew from the Unified National Armed Forces; and resumed fighting. It gained control of large parts of the country but lost much of it in 1994. There was considerable international pressure on both sides to make peace. A UN-brokered peace initiative was successfully concluded in Lusaka in November 1994 with the signing of new peace accords.

Medium-Term Outlook

Angola requires durable peace and firm commitment to economic stabilization and structural adjustment to develop its considerable economic assets; it has the potential for sustained growth with equity and economic diversification, and could aspire to triple its per capita income in one generation and join the group of middle-income countries.

Angola's economy could grow at 6 to 7 percent a year through further growth of petroleum and mineral production, the recovery of agricultural production, and selective industrial development. During a transition period of five to eight years, Angola would need considerable external support, including extensive debt restructuring and relief. Reduced public spending resulting from peace and fiscal restraint could increase total saving from about 11 percent of GDP in 1994 to 18 percent of GDP by the beginning of the next decade. While the peace dividend could be substantial, in the near future the cost of demobilization and reintegration of excess military personnel, de-mining and infrastructure rehabilitation, administrative and civil service reform, and other structural measures will be high. During the transition period, Angola will face a saving gap projected at 7 to 8 percent of GDP, assuming rescheduling of substantial external arrears under favorable conditions.

External Debt

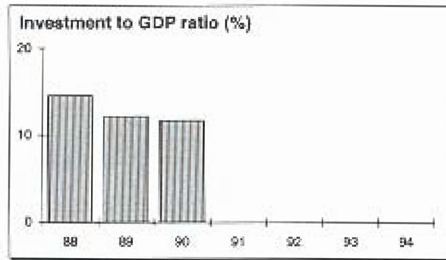
Angola's long- and medium-term external debt at end-1994 was estimated at $9.6 billion (excluding interest arrears and moratorium interest), of which 55 percent was owed mostly to the former Soviet Union, China, Cuba, and Eastern European countries; 38 percent to Western bilateral creditors; and 7 percent to multilateral agencies. Over half of the debt is war-related. In June 1989 the then Soviet Union rescheduled its loans, including arrears and maturities falling due through 1990, on favorable terms, and that July the Paris Club rescheduled nearly $550 million in arrears and maturities falling due through September 1990; other Western creditors have rescheduled their debt on similar terms. The remaining maturity profile, however, is unfavorable for the medium term; unless restructured, debt service obligation over 1995-97 (including penalty interest but before clearing of arrears) would absorb about half of projected exports of goods and services.

Angola

Population mid-1993 *(millions)*	10.3	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Severely Indebted**

KEY RATIOS

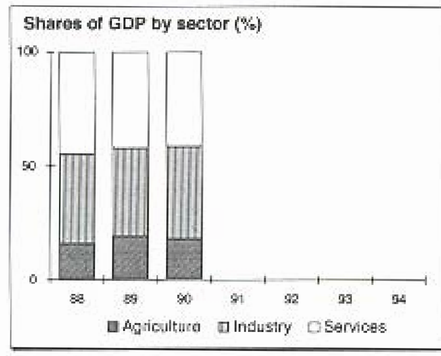
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.8	11.7	..	..	..
Exports of goods and nfs/GDP	32.9	38.9	..	..	..
Gross domestic savings/GDP	22.0	26.8	..	..	..
Gross national savings/GDP	20.4	18.7	..	..	..
Current account balance/GDP	3.0	-2.3	..	..	..
Interest payments/GDP	0.4	0.9	..	..	..
Total debt/GDP	36.4	78.0	..	..	..
Total debt/exports	102.8	200.9	238.8	336.6	..



GDP: PRODUCTION

(% of GDP)	1985	1990	1992	1993	1994
Agriculture	13.4	17.9	..	..	..
Industry	42.9	40.7	..	..	..
Manufacturing	9.6	5.0	..	..	..
Services	43.7	41.4	..	..	..

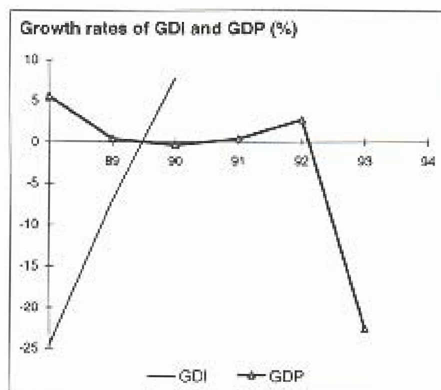
(average annual growth)	1985-90	1990-94	1992	1993	1994
Agriculture	0.5	..	..	..	..
Industry	6.4	..	..	..	..
Manufacturing	-11.1	..	..	..	..
Services	1.8	..	..	..	..
GDP	3.5	*-6.3*	2.7	-22.6	..



GDP: EXPENDITURE

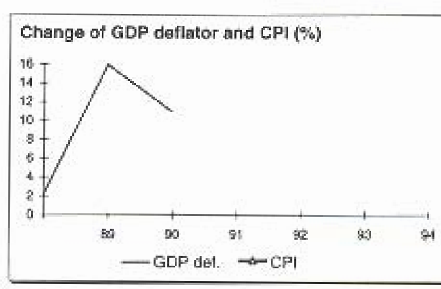
(% of GDP)	1985	1990	1992	1993	1994
Private consumption	47.0	44.7	..	..	..
General government consumption	31.0	28.5	..	..	..
Gross domestic investment	17.8	11.7	..	..	..
Exports of goods and nfs	32.9	38.9	..	..	..
Imports of goods and nfs	28.7	23.8	..	..	..

(average annual growth)	1985-90	1990-94	1992	1993	1994
Private consumption	-0.6	..	..	..	..
General government consumption	2.1	..	..	..	..
Gross domestic investment	-6.8	..	..	..	..
Exports of goods and nfs	14.7	..	..	..	..
Imports of goods and nfs	1.2	..	..	..	..
Gross national product	2.0	..	..	..	..
Gross national income	1.1	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	11.0	..	..	..
Government finance					
(% of GDP)					
Current budget balance	-1.3	-14.2	..	..	..
Overall surplus/deficit	..	..	..	..	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

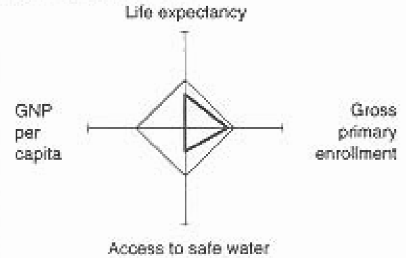
Angola

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.8	3.7
Labor force	1.9	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.0
Infant mortality *(per 1,000 live births)*	121.6
Child malnutrition *(% of children under 5)*	20.0
Access to safe water *(% of population)*	37.6
Energy consumption per capita *(kg oil equivalent)*	95.9
Illiteracy *(% of population age 15+)*	58.3
Gross primary enrollment *(% of school-age population)*	91.0

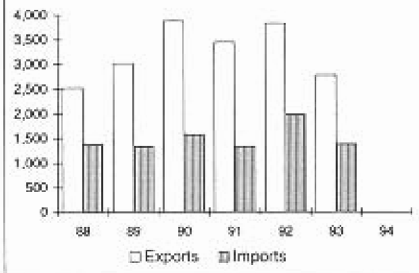
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,301	3,884	3,833	2,783	..
Other fuel	1,946	3,525	3,490	2,688	..
Diamonds	74	242	250	15	..
Manufactures	..	..	..	..	..
Total imports (cif)	1,402	1,578	1,988	1,368	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	62	63	..	..	..

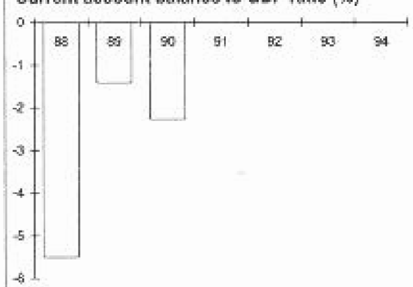
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,408	3,992	3,978	2,858	..
Imports of goods and nfs	2,095	3,395	4,087	3,278	..
Resource balance	313	597	-109	-420	..
Net factor income	-130	-755	-824	-707	..
Net current transfers	21	-77	102	132	..
Current account balance					
Before official transfers	204	-235	-831	-995	..
After official transfers	204	-235	-831	-995	..
Long-term capital inflow	454	-608	-447	-470	..
Total other items (net)	-637	807	1,427	1,189	..
Changes in net reserves	-21	37	-150	276	..
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	29.9	29.9	457.0	4,832.0	..

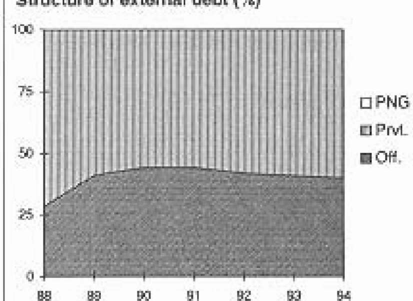
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	75.3	177.7	189.6	269.4	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	27.5	23.1	49.2	67.2	..
Total debt service/exports	6.4	7.5	6.2	5.3	..
GDP ratios					
Long-term debt/GDP	26.7	69.0	..	..	..
IMF credit/GDP	0.0	0.0	..	..	..
Short-term debt/GDP	9.7	9.0	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	84.1	55.7	58.2	59.2	60.1
Official creditors/long-term	15.9	44.3	41.8	40.8	39.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Argentina

Argentina was once one of the world's most prosperous economies but experienced slow economic growth from the 1940s to the early 1990s. By the mid-1970s long-term growth declined noticeably, and in the last half of the 1980s it suffered from its longest period of stagnation in the century. Savings and investment rates fell precipitously from the mid-1970s until 1989. Argentines, responding to the unstable macroeconomic environment, increasingly saved and invested abroad. Labor productivity fell and poverty worsened.

This economic performance was traceable to chronic public-sector deficits and endemic inflation. After the return to constitutional democracy in 1983, public demands to control inflation were translated into four successive stabilization programs. All failed to eradicate inflation, and each ended in a more virulent inflation than the one preceding it. The main reason for these failures was the inability of the stabilization programs to redress rapidly and permanently the structural deficit of the public sector.

Structural deficits emerged from the postwar organization of the economy. Beginning in the 1940s economic policy was used to propagate rules and transfers favoring the interests of successive private groups with access to power. By the early 1980s public expenditures approached 35 percent of GDP. Unionized labor benefited from high wages, guaranteed employment, and rigid rules governing hiring and dismissals. Industry benefited from highly protected markets, tax exemptions through special promotion regimes, subsidized credit — or even effective grants as many loans were not collected — subsidized inputs, and high prices on sales to public enterprises. Housing contractors and selected middle-class home buyers benefited from enormous public transfers through earmarked taxes and effective grants through the Housing Bank. Tobacco growers benefited from special taxes, as did sugar growers, the merchant marine, and other small interest groups. Consumers enjoyed below-cost tariffs from public enterprise and lax collection practices. Provincial governments had access to costless credit from the provincial banks, which the central bank reimbursed. The military enjoyed expanding budgets, especially over 1976-82, and management perquisites in state companies they controlled. By 1989 subsidies through the budget, tax exemptions, agricultural regulations, public enterprise tariffs, and central bank rediscounts were estimated to amount to $8 billion.

The growth of the state and concomitant rents and subsidies, along with the capital flight provoked by an inconsistent exchange rate policy, were financed in the late 1970s largely by external borrowing through the expanding Eurodollar market at low or even negative real international interest rates. This permitted the government to run large deficits and sustain a revalued exchange rate with relatively low levels of inflation in the second half of the 1970s. The abrupt halt in voluntary foreign commercial credit in the early 1980s and the sudden rise in real international interest rates provoked a financial collapse and placed additional pressure on public finances. The situation was complicated by the South Atlantic War.

The loss of external finance and lack of adjustment meant the Treasury had to resort to increased inflationary finance through monetary creation. The private sector, in an effort to avoid the resulting inflation tax, gradually withdrew its resources from the financial system and reduced its real holdings of currency; this, together with the negative effects of inflation on real tax collections, made the macroeconomy progressively more unstable in the 1980s. Even though the deficit fell from near 20 percent of GDP in the early 1980s to an average of about 10 percent over 1987-89, the base for the inflation tax shrank even faster — efforts to reduce the deficit were not fast or permanent enough to convince the private sector that its savings in domestic currency would not be taxed by inflation. Inflation became high and unpredictable, and thus became the main impediment to a recovery in private savings and investment. The decade ended with two episodes of hyperinflation in 1989.

Post-1989 Structural Reforms

A new administration took office in July 1989 during a traumatic hyperinflation — July inflation alone was 200 percent. This culminated a decade-long crisis in public finance. The new team inherited weak public institutions accustomed to deficit spending and an institutionalized reliance on the inflation tax. In addition, claims on the state's revenues were far greater than its capacity to mobilize resources — in short, the Argentine state was insolvent.

The new government undertook stabilization programs in 1989 and 1990. Neither succeeded, principally because of the intractability of the fiscal deficit. The first terminated in a new hyperinflation at the end of 1989 and in early 1990. The second lasted from March to December 1990 and ended in a new inflationary outburst; unlike in previous breakdowns, however, the economy did not spin into hyperinflation. Instead, a new fiscal package in February 1991 was sufficient to close the remaining fiscal gap. This was followed by the April 1991 Law of Convertibility, guaranteeing one-to-one convertibility of the peso into dollars and effectively proscribing money creation other than to buy net foreign reserves. The convertibility program disciplines monetary policy and limits the government's power to finance its deficit through inflation.

Since 1991 the government has sustained structural reform efforts that progressively improved the foundations of public finance. Argentina has made difficult-to-reverse reforms in its legal framework, institutions, and policies. This process included federal government institutional reforms, privatizations, and restructuring liabilities with domestic and foreign creditors to adjust them to serviceable levels. Other reforms have helped elicit efficient private investment, notably trade, deregulation, and financial-sector reform.

The government undertook a major effort to improve revenues through a much-broadened and uniform VAT, first applied to goods in February 1990 and later extended to services in November 1990. The government in 1989 also undertook to improve tax administration — establishing a control system for the largest taxpayers, and improving audits and controls substantially. The tax penalty law, adopted by the congress in 1990, provided much-needed sanctions for noncompliance. The tax package of February 1991 improved the quality of revenue mobilization substantially by eliminating export taxes — which had been reduced progressively during 1990 and early 1991 — deducting higher taxes on financial transactions from the income/asset tax and removing several minor taxes. In December 1992 subsidies to industrial promotion were substantially cut through the replacement of self-monitored tax deductions with a tax bond program. The increase in VAT collection allowed the government to eliminate inefficient taxes such as the gas-oil tax and the federal stamp tax in November 1992. These efforts cumulatively produced dramatic rises in tax collections.

Because the wage bill dominated expenditures, the government set up legal and administrative machinery to reduce the size of the federal bureaucracy in November 1990. Federal employment decreased from 671,000 to 284,000 by laying off 103,000 personnel and transferring 284,000 teachers and health workers to the provinces. This effort was based on a ministerial reorganization that focused federal activities on core objectives and improvements in the civil service system through an improved salary structure and efficiency measures. The government increased average salaries and partially restored salary differentials.

The government has separated the central bank from the nonfinancial public sector to establish it as an independent, effective monetary authority. Eliminating the central bank's domestic short-term interest-bearing obligations by converting them into external treasury bonds in January 1990 was a first step toward recapitalizing the central bank. The Law of Convertibility established a money-creation rule that effectively limits monetary policy or central bank inflationary financing of public sector deficits, much like a currency board. In September 1992 a new law strengthened the central bank's autonomy and further restricted its ability to extend credit to the government and the banking system. This measure reinforces the Convertibility Law and paves the way for an independent, disciplined monetary authority. The central bank intends to complete the process of removing functions ancillary to a monetary authority by transferring legal authority over failed institutions to the courts for their resolution.

The publicly owned housing and development banks, long subject to political influence and dependent on government financial support, are undergoing major restructuring. Branches of the National Development Bank and the National Housing Bank have been closed since March 1990, and their staffs have been reduced by almost 75 percent. The government is now liquidating the development bank and closing the housing bank's retail functions. The government has established a second-tier bank to be managed, and ultimately owned, by the private sector to mobilize financing for its investment needs.

The government has followed an accelerated timetable for privatizing or partially divesting nearly all state enterprises to reduce the budgetary burden on the treasury, make the firms more competitive, and increase the volume and efficiency of new investment. The privatization program, in the works since 1988, gained credibility with the sale of the telephone parastatal in November 1990. The program removed politics from price setting in the formerly vast segment of the economy covered by the state. The change in the institutional organization of these sectors cut off public subsidies to consumers and labor groups benefiting from high wages and excess staffing, and transfers for investment. The program also improves public finances: transitionally with more than $2.5 billion in capital receipts to help close fiscal accounts in 1991 and 1992, more permanently by eliminating transfers and increasing tax revenues.

The government has sold two television stations, the national telephone company, and Aerolineas Argentinas. In mid-1991 it began the first comprehensive restructuring of the petroleum industry in Latin America by auctioning off areas of the petroleum parastatal. It granted road and railroad concessions to the private sector and privatized long-distance cargo lines, and reduced the railway's work force by 15 percent. The government privatized in 1992 defense industries, the nation's largest distributor of electricity, ports, reinsurance, and the entire power sector. In July 1993 the successful privatization of the state-owned oil company enabled the government to cancel obligations to pensioners (about $2.7 billion) and to oil-producing provinces (about $1.2 billion).

Debt Restructuring

In January 1990, faced with rising central bank deficits and a renewed threat of hyperinflation, the government took the drastic action of converting the central bank's domestic short-term (mainly seven-day), interest-bearing obligations into $3.5 billion ten-year dollar-denominated treasury bonds. This virtually eliminated the central bank's quasi-fiscal deficit and the monetary emission necessary to finance it — at the cost of penalizing savers and reducing already low confidence in the financial system.

In April 1988 the government suspended payment on its external debt to commercial creditors. By 1992 it had accumulated $9.2 billion in arrears as part of a $30 billion medium-term commercial bank debt. Public external debt was $58 billion. The progressive improvement in fiscal fundamentals over 1990-91 allowed the government to begin negotiations with commercial banks on a debt reduction deal. The external debt agreement with commercial creditors, signed in April 1993, ended the accumulation of arrears, regularized existing arrears, reduced interest obligations in the initial years, and sharply limited interest obligations if international rates rise. The agreement formalized arrears in a twelve-year uncollateralized bond at LIBOR with a three-year grace period, after a $700 million down payment; existing debt was exchanged for collateralized par bonds with a fixed interest rate or collateralized discount bonds at 65 percent of face value paying LIBOR; the collateralized bonds have a twelve-month rolling interest guarantee.

For most of the last decade, the government has paid only about half the legally mandated pensions owed social security recipients. Arrearages were not recorded in the fiscal accounts but are estimated to be as high as $7 to $10 billion. To stop the accumulation of arrears, the government modified the tax revenue sharing in favor of the social security system in August 1992. Since then, the social security system has run a small operating surplus. The government also accumulated arrears in 1990 with suppliers through the formal suspension of payment on goods and services already provided, and the health funds have arrears with their service providers that will also result in new debt. To settle these claims, the congress authorized the government to issue consolidation bonds with terms of ten to sixteen years (with shorter terms for social security recipients) and a five-year grace on principal and interest. At the end of 1992 approximately $5.1 billion — out of an estimated total of $16.9 billion — of these bonds were distributed. Debt service will be capitalized until 1997, but payments on the order of $3 billion will be required in the last years of this decade. The proceeds of the privatization of the state oil company allowed the government to cancel about $4.5 billion of its debt with pensioners in 1993.

Recent Economic Developments

With the dynamic evolution of Argentina's economy from consumption- to export- and investment-led growth, GDP in 1993 and 1994 grew by 6 and 7.1 percent. Gross fixed investment reached 20 percent in 1994, associated with increased national and foreign savings. Exports, which were affected by declining international prices in 1992-93, rose by 20 percent in 1994 (in nominal terms), with manufactured goods exports exhibiting particular buoyancy, growing at an average of 27 percent over 1993-94. Strong productivity growth, better international prices for grains, and improved economic conditions in Brazil contributed to the growth in exports. In 1994, imports grew at 26.7 percent. Imports of capital goods led the expansion, indicative of the acceleration in investment and the restructuring of the economy. Financing trade and current account deficits was not difficult, given Argentina's improved access to international financial markets during 1993 and 1994. During the first three months of 1995, exports rose by 45 percent, while imports remained approximately at the previous year's level.

In August 1994 Argentina reached an accord with Brazil, Uruguay, and Paraguay, its MERCOSUR partners, to eliminate most intragroup tariffs from January 1, 1995, and establish a common external tariff covering 85 percent of the positions of the import-tariff nomenclature in January 1995, to be subsequently increased to 97 percent in January 2001. To ease the transition, exemptions have been authorized; each government may exclude up to 60 positions from MERCOSUR trade and up to 300 positions from the common external tariff. Moreover, the automobile, sugar, and telecommunications sectors will continue to benefit temporarily from their existing privileged regimes. Since Argentina's trade in MERCOSUR is primarily with Brazil, its prospects are closely tied to Brazil's continued stabilization and resumption of sustainable economic growth, which accounts for 22 percent of Argentina's total trade.

Unemployment has increased continuously since 1992 and reached 12 percent in late 1994; this partly reflects increased participation, as improved economic prospects have apparently generated a labor force increase of about 3 percent in the last three years. Much of the increase in unemployment is likely to be transitory — because of industrial restructuring, public sector downsizing, and relative price changes — but Argentina's labor market remains rigid and noncompetitive. Nonwage labor costs remain excessive, equal to more than 50 percent of gross wages, while the relative price of capital compared with labor has recently declined with the opening of the trade regime.

Argentina's fiscal performance has been broadly satisfactory since 1992, although it deteriorated somewhat in the last half of 1994, as revenues were lower than expected while expenditures continued to increase. The government initiated a program of remedial measures in the last quarter of the year to increase tax collections and reduce spending, bringing the fiscal accounts close to equilibrium for 1994.

In spite of major national-level reforms, extending economic reform to the provinces still presents a significant challenge; provincial fiscal deficits equaled 0.7 percent of GDP in 1994, mainly because of the continued inability of provincial governments to contain current expenditures or increase revenue collection.

Monetary aggregates expanded rapidly as international reserves rose and bank reserve requirements were reduced in 1993. Bank credit grew at an even faster rate, reflecting the subpar, but fast improving, monetization of the economy. Interest rates on peso deposits declined from 25 percent in December 1992 to 9 percent in early December 1994, just before the Mexican crisis began. Interest rate spreads, although declining, remained high, reaching 13 percent, indicative of the continued segmentation and shallowness of the financial system. By end-1994, approximately half of Argentina's financial transactions were in dollars, and these interest rates and spreads were much lower. Continued capital inflows sustained the growth in aggregate demand. Liquid international reserves at end-November 1994 stood at $14.5 billion, a significant increase since the end of 1992. Nonetheless, the general instability in world financial markets that started in early 1994, and the more recent crisis in Mexico, had a negative impact on Argentine financial markets.

Argentina's banking system proved vulnerable to the Mexican crisis. After a 30 percent decline in the stock market index and declines in dollar-denominated government bond prices between the beginning of the crisis and mid-March, plus mounting nonperforming loans, bank asset values deteriorated sharply. This portfolio deterioration, in conjunction with the initial tightening of credit in the banking system and the decline in bank deposits, led to three small wholesale banks ceasing operations — one has since resumed operations — and a brokerage firm and a number of other institutions were left in weakened financial condition. By March the private banking system was undergoing some consolidation through mergers and acquisitions.

The government reacted forcefully to the crisis. During late February and March, it took measures to reestablish a fiscal surplus by cutting expenditures on export subsidies, public sector wages, and social security expenditures while raising VAT rates and other taxes. Swift action by the congress in approving unpalatable emergency measures added to the credibility of the measures, which were supported by a conditional IMF program. As the government was announcing these measures in mid-March, it also assembled an international financial package of approximately $11 billion to support the Convertibility Plan. The announcements effectively stopped the accelerating decline in bank deposits, and by early April financial markets showed signs of stabilization.

On the financial side, immediately after the Mexican crisis erupted, the central bank tightened liquidity to prevent a currency run. It did not bail out two failed banks, but set up first a private facility, and subsequently a facility at Banco de la Nación — financed through the imposition of a 2 percent bank reserve requirement — to assist small banks in crisis. To counter the risk of further bank failures, it also facilitated the use of interbank credit, and temporarily reduced reserve requirements in both dollar and peso deposits, and used rediscounts at a faster pace. Nevertheless, between the beginning of the crisis and March 22, total deposits in the financial system declined by about $7 billion, most of them in peso deposits. During this crisis, the central bank had to perform a delicate balancing act between averting a run on the currency (by imposing tight liquidity) and avoiding a banking run (by subsequently injecting liquidity), two contradictory policies for two not unrelated risks. In the end of March, the authorities created two trust funds, principally funded with foreign capital, to deal with the domestic financial crisis. The first fund will facilitate the privatization or closure of distressed provincial public banks, while the second will help recapitalize private banks and finance mergers and acquisitions. Finally, in early April, a deposit insurance system was introduced with the objective of restoring the confidence of small depositors. The insurance system will be financed by contributions from banks.

Medium-Term Prospects

The government's central macroeconomic objective is to achieve robust long-term growth while expanding employment and holding inflation to international levels. Continued private capital inflows will be needed to ensure a smooth transition to a sustainable balance of payments. Recent developments in international financial markets have underscored Argentina's vulnerability to external shocks and the critical importance of enhancing its export performance. In the short term the decline in international reserves and demonetization evident in early 1995 are expected to produce an automatic monetary tightening to complement the needed fiscal tightening. The government has indicated its intent to strengthen the adjustment in factor markets to make the economy more flexible and able to improve its response to external shocks by restructuring the financial markets, and reforming labor market legislation and the health insurance system. Following this adjustment and the rebuilding of domestic and international confidence in the economic program, the Argentine economy could grow at a medium-term rate of 4 percent annually, if inflation continues at international levels and efforts to expand its export base are successful.

Improved competitiveness through economic restructuring, growing investment, and slower increases in domestic consumption should help switch resources from nontradables to tradables. Domestic consumption growth should slow to reflect reduced privatization capital inflows and the attainment of a higher and sustainable level of income resulting from structural adjustments. Slower growth in the domestic market — aided by deregulation and other measures to enhance productivity in the tradable sector and changes in relative prices — should shift production toward exports. The private sector is expected to be the leading expansionary force while public investment grows from its present depressed level but is concentrated in fewer activities.

The government projects that consolidated public sector accounts will be basically balanced over 1995-97. This is consistent with macroeconomic objectives and the projected net financing needs of the public sector. The overall 1.8 percent of GDP federal government surplus in 1993 is expected to decline in 1995-97 because of the substantial achievement of the privatization program, the fiscal costs of transition to a capitalized pension system, and higher capital expenditures by federal and provincial governments. Increasing transfers to the provinces, and the elimination of the few remaining distortionary taxes and tariffs within MERCOSUR, are expected to reduce federal government revenues. In contrast, provincial finances are expected to improve progressively over 1995-97 as the provinces reform their tax systems and institute civil service reforms that reduce or stabilize personnel expenditures.

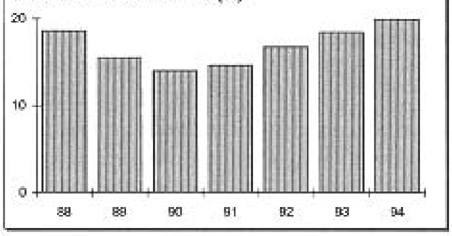
The resumption of medium-term economic growth will depend on both external and domestic factors. On the external front, lower capital inflows could induce a sharp economic contraction, straining a still weak financial system and public finances. Improving the competitiveness of Argentine exports is a prerequisite in the context of a fixed exchange rate regime. Finally, unforeseen political developments and the deterioration of provincial finances could threaten sustainability of the current fiscal equilibrium, and high capital mobility could produce a sharp decline in international reserves, severely testing the convertibility program, as the temptation to engage in a more expansionary monetary policy would be strong. However, memories of the 1989-90 hyperinflation and economic chaos of the preceding years also make it unlikely that populist policies would easily undermine the hard-won gains in fiscal discipline. Economic management since the Mexican crisis has been pragmatic and stable, despite the disruption in capital inflows and decline in asset values.

Argentina

Population mid-1993 *(millions)*	**33.8**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**7,220**	Indebtedness level:	**Severely indebted**

KEY RATIOS

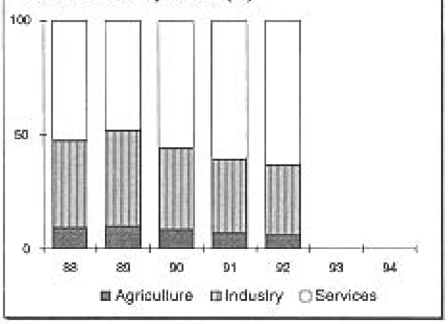
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.6	14.0	16.7	18.4	20.0
Exports of goods and nfs/GDP	11.7	10.4	6.6	6.3	6.8
Gross domestic savings/GDP	23.1	19.7	15.2	16.6	17.6
Gross national savings/GDP	17.7	15.4	13.3	15.0	15.9
Current account balance/GDP	-1.1	1.2	-3.7	-3.5	-4.2
Interest payments/GDP	5.0	1.6	1.0	1.4	1.4
Total debt/GDP	57.8	44.0	29.6	29.1	29.2
Total debt/exports	493.2	414.7	437.6	446.2	411.1



Investment to GDP ratio (%)

GDP: PRODUCTION

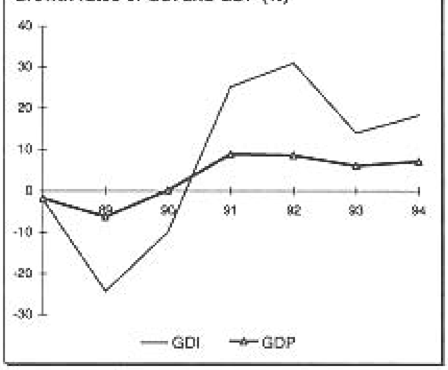
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	7.6	8.1	6.0	..	..
Industry	39.3	36.0	30.7	..	..
Manufacturing	29.6	26.8	21.9	..	..
Services	53.1	55.9	63.3	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.1	0.8	0.1	-1.1	1.5
Industry	-0.9	8.0	9.2	5.9	6.3
Manufacturing	-0.7	6.7	7.3	4.5	4.1
Services	-0.2	8.3	9.6	7.1	8.4
GDP	-0.3	7.5	8.6	6.0	7.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

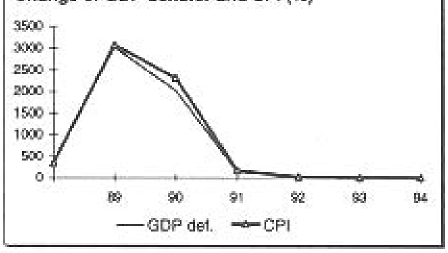
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	17.6	14.0	16.7	18.4	20.0
Exports of goods and nfs	11.7	10.4	6.6	6.3	6.8
Imports of goods and nfs	6.3	4.6	8.1	8.2	9.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	-3.2	21.9	30.9	13.9	18.2
Exports of goods and nfs	6.0	2.1	-1.3	5.0	14.8
Imports of goods and nfs	-2.7	37.9	66.0	11.0	20.9
Gross national product	-0.4	8.3	9.9	6.3	6.9
Gross national income	-0.5	8.6	10.8	6.4	7.2



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	672.1	2,314.0	24.9	10.6	4.2
Wholesale prices	662.9	1,606.9	6.0	1.6	0.7
Implicit GDP deflator	618.0	2,021.1	15.4	6.3	2.3
Government finance					
(% of GDP)					
Current budget balance	..	-1.5	0.6	1.7	0.5
Overall surplus/deficit	..	-2.5	0.6	1.7	0.0



Change of GDP deflator and CPI (%)

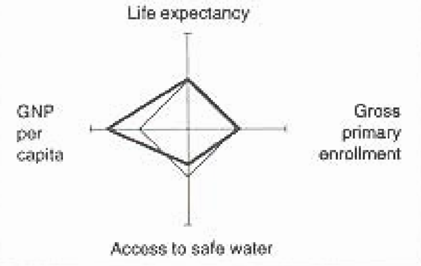
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.4	1.4
Labor force	1.2	1.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	72.3
Infant mortality *(per 1,000 live births)*	23.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	64.3
Energy consumption per capita *(kg oil equivalent)*	1,351.2
Illiteracy *(% of population age 15+)*	4.7
Gross primary enrollment *(% of school-age population)*	111.0

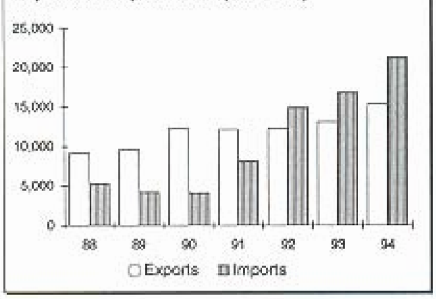
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	12,252	12,235	13,090	15,403
Food	..	1,505	1,734	1,723	2,171
Meat	..	1,113	1,065	1,212	1,151
Manufactures	..	7,089	6,361	6,977	8,011
Total imports (cif)	..	4,100	14,872	16,786	21,205
Food	..	..	..	..	..
Fuel and energy	..	203	414	398	399
Capital goods	..	540	3,094	3,892	5,771
Export price index *(1987=100)*	..	171	165	165	179
Import price index *(1987=100)*	..	63	229	230	239
Terms of trade *(1987=100)*	..	273	72	72	75
Openness of economy *(trade/GDP,%)*	18	15	15	14	16

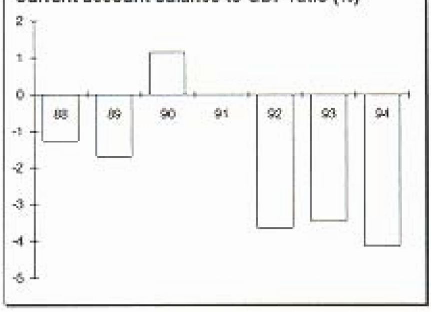
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	10,039	14,727	15,048	16,075	18,660
Imports of goods and nfs	5,285	6,954	18,803	21,016	25,543
Resource balance	4,754	7,773	-3,755	-4,941	-6,883
Net factor income	-5,706	-6,203	-4,574	-3,931	-4,821
Net current transfers	0	71	-32	0	100
Current account balance					
Before official transfers	-952	1,641	-8,361	-8,872	-11,603
After official transfers	-952	1,641	-8,361	-6,557	-11,603
Long-term capital inflow	2,979	1,021	3,292	16,513	8,049
Total other items (net)	-779	331	9,061	-5,937	4,054
Changes in net reserves	-1,248	-2,993	-3,992	-4,019	-500
Memo:					
Reserves excluding gold *(mill. US$)*	3,273	4,592	9,990	13,791	..
Reserves including gold *(mill. US$)*	4,703	6,222	11,447	15,499	..
Conversion rate *(local/US$)*	6.0E-05	0.5	1.0	1.0	1.0

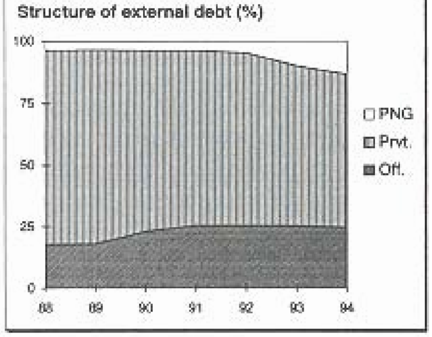
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	405.7	324.6	318.2	368.6	340.7
IMF credit/exports	22.4	20.5	14.9	21.1	21.1
Short-term debt/exports	65.2	69.6	104.5	56.4	49.4
Total debt service/exports	60.1	41.1	32.3	47.6	37.2
GDP ratios					
Long-term debt/GDP	47.5	34.5	21.5	24.1	24.2
IMF credit/GDP	2.6	2.2	1.0	1.4	1.5
Short-term debt/GDP	7.6	7.4	7.1	3.7	3.5
Long-term debt ratios					
Private nonguaranteed/long-term	10.9	3.7	4.6	9.9	13.3
Public and publicly guaranteed					
Private creditors/long-term	77.6	73.3	69.9	64.6	62.0
Official creditors/long-term	11.5	23.0	25.6	25.4	24.7

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Armenia

Armenia is a small, landlocked country with an area of 29,800 square kilometers and a population of 3.65 million. Turkey lies to the west, Georgia to the north, Iran to the south, and Azerbaijan to the east. GNP per capita was estimated at $660 in 1993. With few natural resources and stony land, the Armenians have survived through strong traditions of education and of entrepreneurship. Armenia declared independence in September 1991; presidential elections were held that October, and a parliament of 260 members was elected in May 1990.

Armenia's development into a modern economy is constrained by the legacy of Soviet central planning. It has inherited a structure of production and trade that is significantly out of line with its comparative advantage. Armenia's product composition yielded a high degree of dependence on trade with other republics, with exports and imports representing over 50 percent of GDP during the 1980s. Industry constituted about 60 percent of NMP. Under the Soviet regime Armenia exported large volumes of light industrial goods (40 percent of exports in 1991), but also substantial heavy industrial products, foodstuffs, and semifinished goods, mainly for the Soviet market. In the absence of raw materials and primary processing facilities, Armenia had to rely heavily on imports of semifinished goods as critical inputs into domestic industry (25 percent of imports in 1991) and was a net importer of food. Armenia also had a disproportionate share of the Soviet military-industrial complex, supplying high technology lasers and electronics.

Poverty and Social Indicators

Living standards have plummeted in Armenia in recent years and a substantial proportion of the population is living in poverty. Average real wages at the end of 1993 had fallen to about 6 percent of their level two years earlier. In June 1994 the average wage in the state sector stood at about $2 a month — equivalent to one kilogram of meat — and $4 to $5 economy-wide; the average monthly pension was about $1. Registered unemployment reached almost 7 percent of the labor force in May 1994, and an estimated 12 percent was on shortened hours or forced leave. Severe energy shortages have sharply reduced the availability of electricity and heating to households, particularly in winter. The bulk of the population appears to be living on remittances from the diaspora, humanitarian aid, and income from informal-sector activity, primarily in subsistence agriculture.

Recent Economic Performance

Armenia is still experiencing severe economic difficulties arising from the breakdown of the trade, payments, and financial system of the Soviet Union, and the consequent severe terms-of-trade shock. In addition, the conflict over Nagorno-Karabakh has led to a trade and transport blockade by Azerbaijan, traditionally Armenia's principal transit route for oil, gas, and other products, and the closure of the Turkish border. The effects of this have been compounded by civil strife in Georgia, which has further reduced Armenia's transit options. GDP fell by 52 percent in 1992 to about one-third of its 1989 level, and another 15 percent in 1993. Even allowing for non-recorded growth in the informal sector, it is clear that the effects of the blockade have severely compounded the output collapse across the former Soviet Union. The massive increase in the costs of transport and energy as a consequence of the blockade have induced a shift in the structure of production; food production for domestic consumption and light industrial exports with low energy and transport costs, such as jewelry, have grown in importance relative to bulky export goods, such as machinery.

There have been several recent positive developments in Armenia's relations with its neighbors. Of greatest importance is the progress towards peace in the six-year-old Karabakh conflict: on July 27, 1994, Azerbaijan, Karabakh, and Armenia signed an agreement in Moscow formalizing the cease-fire, which has held since May 1994, and providing for the immediate commencement of negotiations of a comprehensive peace agreement. This development offers a real prospect of a lifting of the blockade in the near future. In addition, rapidly growing trade with Iran, which is now second in importance only to that with Russia, and increasing stability in Georgia have significantly eased Armenia's isolation. In the first half of 1994, GDP is estimated to have grown by 2 to 3 percent compared to the same period in 1993; the increase reflects, at least in part, the development of these alternative trade routes. Faced with rampant inflation, the authorities began to tighten financial policies in early 1994. Beginning in the second quarter of 1994, public expenditures were limited to priority items — which included a drastic reduction in net lending and subsidies to enterprises — and revenue collection was enhanced; consequently, monetary growth declined and the central bank refinance rate became highly positive in real terms.

Inflation declined from an average of 46 percent a month in the first quarter of 1994 to less than 3 percent a month in the third quarter. Prices rose again in the fourth quarter by an average 27 percent a month, in large part as a result of substantial increases in administered prices — most significantly, a 1,000 percent in the price of bread as the first step to eliminating bread subsidies, and a 600 percent increase in the household electricity tariff that removed the cross-subsidy between industry and households. Monetary tightness has also been reflected in the stability of the nominal exchange rate since May 1994 and the sharp appreciation of the dram in real terms over the same period. Armenia's stabilization program for 1995 is supported by a Systemic Transformation Facility from the IMF.

Medium-Term Prospects

Armenia began its reform process quickly after independence with the privatization of 87 percent of agricultural land and of more than 300 small-scale enterprises. This momentum was subsequently somewhat dissipated in the day-to-day management of a siege economy but returned with the government's stabilization efforts. Small-scale enterprise privatization restarted in 1994 and preparation for medium- to large-scale privatization accelerated. To harden the enterprise budget constraint, budget subsidies to enterprises were eliminated and central bank credit was supplied at market-determined interest rates. Measures to tighten payments discipline for energy were taken, prudential regulation of the financial sector was strengthened, and bank supervision was reinforced.

In 1995 the government intends to deepen the process of structural reform. The government's program contains a number of interdependent elements. The continued hardening of enterprise budget constraints will encourage enterprises to respond to the new market forces. This shift in behavior will be induced through accelerated privatization and improved enforceability of creditor rights, and the government plans to enact and enforce a bankruptcy law. Strict financial policy, improved prudential regulation of the fragile banking sector, clearing of enterprise arrears, and a program to isolate and restructure or liquidate major loss makers are planned to support the changes at the enterprise level that are expected from privatization and improved creditor rights. The removal of remaining undue restrictions on the emerging private sector will also be undertaken to encourage new private activity and to integrate the substantial informal sector into the formal economy.

Export controls have been abolished, import tariffs are low and uniform, and the state's direct role in trading is being reduced as fast as energy security constraints allow. Finally, the targeting of the social safety net is being significantly improved by the replacement of generalized bread and electricity subsidies with cash benefits to vulnerable groups, and by flattening the pension structure and raising the retirement age to allow the state pension system to be more effective and affordable in the medium term. Output is expected to grow as the reform program begins to have an impact on the economy and as the lifting of the blockade removes constraints on external trade, sharply decreases transport and energy costs, and enhances access to external financing. In early years, the rapid GDP growth is expected to result primarily from a rise of capacity utilization from its present 20 to 30 percent and rapid private-sector development. Growth is expected to be led by export demand in former Soviet Union markets as those economies recover and by increasing penetration of nontraditional markets, such as the Middle East and Europe.

Export growth and diversification will be stimulated by the improvement in the incentive framework induced by the reform program. Average productivity is expected to increase substantially as the role of the private sector is enlarged and financial discipline is imposed on the public sector. Infrastructure investments designed to overcome Armenia's poor transport and communications connections with neighboring countries will significantly facilitate growth in external trade. Export growth is expected to come primarily from light industry and, to a lesser extent, from services and agroprocessing; the relative importance of heavy industry is likely to continue to diminish because of the increased real price of energy and other inputs.

Satisfaction of previously repressed demand for services in the domestic market is also likely to make a major contribution to growth. Private consumption is projected to recover as incomes rise and the real exchange rate appreciates as a consequence of macroeconomic stabilization. The initial growth in private consumption can be expected to be quite rapid after several years of very low consumption levels; however, the increase is expected to tail off in later years as savings are first restored (after very substantial dissaving) and then increased as incentives to save are improved by the reduction in inflationary expectations, and by enhanced confidence and competition in the financial sector.

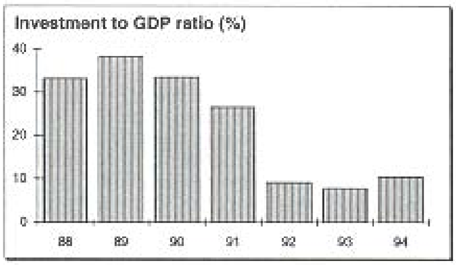
Investment in new capacity will play an increasing role in generating growth as the potential for increased capacity utilization is gradually exhausted. This will occur as private sector confidence, both domestic and foreign — including from the Armenian diaspora — responds to the improved investment climate, and as the financial sector plays a more effective role in channeling savings into investment. The projected reduction in the overall fiscal deficit will release substantial resources to the private sector. Public investment is projected to increase initially, since accumulated infrastructure rehabilitation needs are large; however, at the same time it is expected that public investment will be oriented away from direct production to complementing private sector development.

Armenia

Population mid-1993 *(millions)*	**3.7**	Income group: **Low**
GNP per capita 1993 *(US$)*	**660**	Indebtedness level: **Less Indebted**

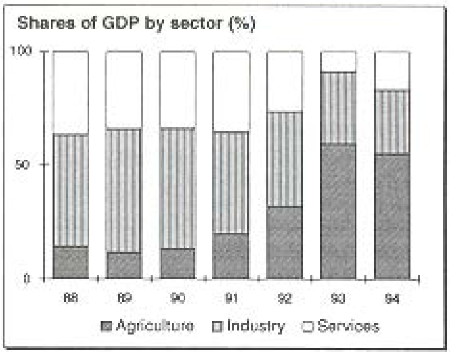
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	27.8	33.5	9.1	7.9	10.4
Exports of goods and nfs/GDP	..	..	..	47.2	56.0
Gross domestic savings/GDP	32.8	22.4	-29.3	-47.2	-53.9
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-6.5	-8.0	-8.6
Interest payments/GDP	..	..	0.0	0.1	0.5
Total debt/GDP	..	..	0.4	5.8	5.9
Total debt/exports	..	..	4.4	67.0	68.9


Investment to GDP ratio (%)

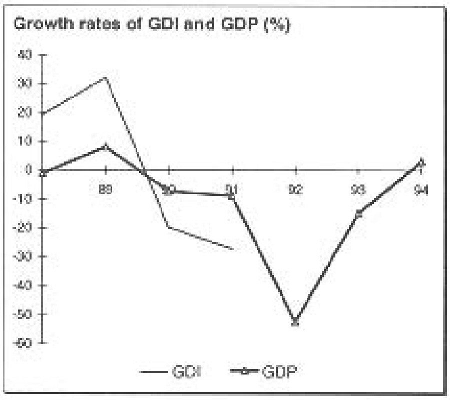
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	14.7	13.1	31.9	59.3	55.1
Industry	55.3	53.0	41.7	32.0	27.9
Manufacturing	..	..	..	..	..
Services	30.0	34.0	26.4	8.7	16.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-11.2	..	..	..	..
Industry	2.2	..	..	..	..
Manufacturing	..	..	..	..	..
Services	3.2	..	..	..	..
GDP	0.8	-24.6	-52.3	-14.8	3.0


Shares of GDP by sector (%)

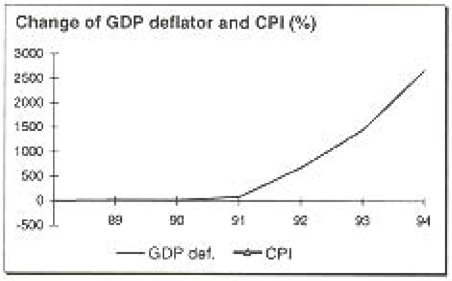
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	46.4	54.2	102.4	109.5	123.9
General government consumption	20.8	23.4	26.9	37.7	30.0
Gross domestic investment	27.8	33.5	9.1	7.9	10.4
Exports of goods and nfs	..	..	..	47.2	56.0
Imports of goods and nfs	..	..	..	102.3	120.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.0	..	..	..	..
General government consumption	3.0	..	..	..	..
Gross domestic investment	8.8	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	0.8	-24.6	-52.3	-14.8	3.0
Gross national income	..	..	..	..	..


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-3.7	10.1	677.9	1,449.1	2,670.3
Government finance					
(% of GDP)					
Current budget balance	..	..	-8.1	-9.8	..
Overall surplus/deficit	..	..	..	..	..


Change of GDP deflator and CPI (%)

Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

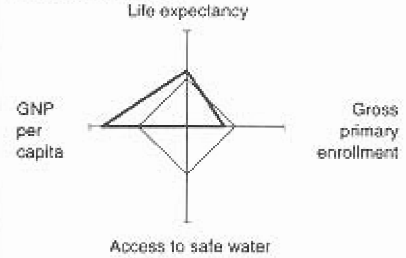
Armenia

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.5	*1.5*
Labor force	1.0	*0.1*

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	72.6
Infant mortality *(per 1,000 live births)*	20.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	897.1
Illiteracy *(% of population age 15+)*	1.2
Gross primary enrollment *(% of school-age population)*	84.0

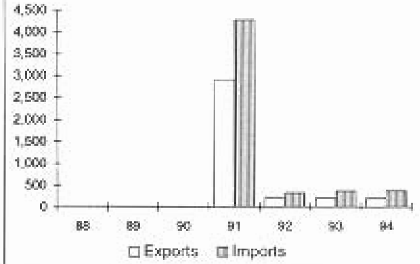
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	220	206	209
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	334	372	381
Food	..	..	..	..	..
Fuel and energy	..	..	60	101	166
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	150	176

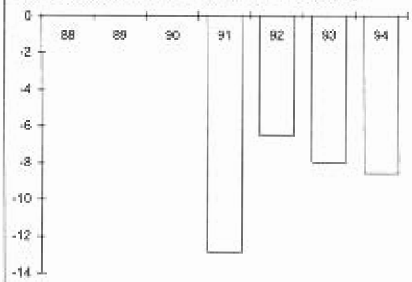
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	230	209	219
Imports of goods and nfs	..	..	364	454	470
Resource balance	..	..	-135	-245	-251
Net factor income	..	..	-39	-3	-7
Net current transfers	..	..	3	56	36
Current account balance					
Before official transfers	..	..	-171	-192	-222
After official transfers	..	..	-164	-69	0
Long-term capital inflow	..	..	175	90	40
Total other items (net)	..	..	7	-162	-35
Changes in net reserves	..	..	-19	141	-5
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	8.1E-03	6.3E-03	0.1	1.6	43.1

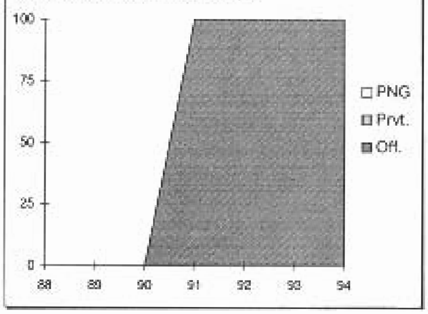
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	1.3	67.0	68.9
IMF credit/exports	..	..	0.0	0.0	0.0
Short-term debt/exports	..	..	3.2	0.0	0.0
Total debt service/exports	..	..	0.0	1.0	23.3
GDP ratios					
Long-term debt/GDP	..	..	0.1	5.8	5.9
IMF credit/GDP	..	..	0.0	0.0	0.0
Short-term debt/GDP	..	..	0.3	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	0.0	0.0	0.0
Official creditors/long-term	..	..	100.0	100.0	100.0

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Azerbaijan

Azerbaijan covers an area of 86,600 square kilometers on the southeastern flanks of the Caucasus Mountains, bounded on the east by the Caspian Sea. About 40 percent of its population of 7.4 million lives in the capital, Baku. GDP per capita was estimated at $730 in 1993. Azerbaijan is one of the oldest oil exporters in the world. The country is well endowed with fertile agricultural land and a well-educated labor force. The industrial structure reflects the country's resource base, but also planned specialization in the former Soviet Union.

Azerbaijan was beset with political instability from independence until the October 1993 presidential elections, aggravated by the conflict with Armenia over Nagorno-Karabakh — brought to a halt by a May 1994 cease-fire — which resulted in an influx of refugees and the displacement of about 650,000 people from occupied areas. The Organization for Security and Cooperation in Europe is leading the effort to a peaceful settlement of the dispute with Armenia and facilitate the return of the displaced persons. Parliamentary elections are planned for later this year.

Recent Economic Developments

The collapse of trade among the republics of the former Soviet Union and the conflict with Armenia have been the main sources of continuous output decline and high inflation. The severing of transport links to Azerbaijan's traditional markets in September 1994 as a result of fighting in Chechnya has compounded the deterioration in external trade and intensified output contraction.

Domestic political instability and external conflict distracted the government from the tasks associated with the transition to a market economy. However, a national currency, the manat, was introduced in 1992. The government liberalized most prices in fiscal 1993, except bread, energy, public transport, and housing rents.

Other structural reforms have been slow and piecemeal. With the end of civil strife, the government has begun to design and implement an economic reform program supported by the World Bank and the IMF's Systemic Transformation Facility.

Real output fell by half between 1989 and 1993. In the first 11 months of 1994 output was 20 percent lower than in the same period of 1993. The largest contraction occurred in the construction sector, followed by industrial activities. Real wages fell even more than output. By November 1994 reported average monthly wages, in constant 1993 prices, were only 37 percent of their October 1993 level. The decline reflects sharing the burden of unemployment through declining real wages for all workers rather than open unemployment for a limited number, and also the tight liquidity situation of enterprises that has forced them to limit payments of all kinds. The minimum wage fell even more rapidly, amounting to 30 percent of the average wage in January 1993, but only 15 percent in November 1994. The minimum wage is important mainly because some social benefits are fixed in terms of the minimum wage; it cannot be considered a subsistence level wage.

Inflation accelerated in 1994 as a result of generous credit to the budget and to state enterprises in late 1993 and early 1994. Annualized inflation was about 800 percent through 1993 and the first quarter of 1994. The rate began to rise in March 1994 and reached 1,800 percent by November. For the year to September the growth in prices was 1,554 percent, but money supply increased only 550 percent. The marked increase in velocity reflects the increased uncertainty and instability during the year, as well as the scarcity of many goods. The exchange rate depreciated 34 percent (in real terms) between March and November 1994, adding to inflationary pressures during the year.

The current account of the balance of payments changed from a deficit of $4 million in 1993 to a deficit estimated at about $200 million in 1994. Two-thirds of the change is due to the increase in the cost of natural gas imports from Turkmenistan. Much of the remainder is explained by the fall in exports of a variety of manufactured goods to Commonwealth of Independent States trading partners, which reflects continuing problems of inter-republican payments, further reduction in the levels of economic activity in the commonwealth, and a general tendency to redirect trade outside the area. The deficit in 1994 was financed by government medium-and long-term borrowing, arrears with Turkmenistan for natural gas imports, and an initial payment from the oil consortium with which Azerbaijan concluded an agreement to develop offshore oil resources in the Caspian Sea.

The major task confronting the government is to stabilize the economy and to begin a comprehensive program of structural reforms to create the conditions for sustainable growth. The authorities have reached agreement with the IMF on a program to reduce monthly inflation to 5 percent by the middle of the year, and to 2 percent by the end of 1995. The program includes unification of the exchange rate, reducing the budget deficit to 4.5 percent of GDP in 1995, and credit ceilings compatible with fiscal and inflation targets.

The fiscal adjustment will rely on revenue-raising and expenditure-reduction measures. The government has introduced comprehensive tax measures in the parliament to raise revenues amounting to an additional 7 percent of GDP. It has also proposed in its 1995 budget a sharp reduction of budgetary expenditures through drastic cuts in security-related expenditures, subsidies on bread and energy only partly compensated by targeted cash transfers, and direct subsidies to enterprises. Domestic financing of the budget is to be limited to 2 percent of GDP.

The National Bank of Azerbaijan raised its refinancing rate to 17.5 percent a month in January 1995 and discontinued automatic overdraft facilities for the Agroprom and Prominvest banks, which were the major sources of indiscriminate financing of enterprises. In February 1995 it introduced credit auctions with participation of 30 private commercial banks and limited allocations to the four state banks. The National Bank's refinancing rates are set at positive real rates but will eventually be based on the results of the auctions.

The government has begun to accelerate structural reforms. It has liberalized all food prices, including that of bread, with cash compensation to children, students, and nonworking pensioners. Prices of oil, oil products, and gas were raised to 50 percent of world levels in February 1995, and are to be raised further in March and June 1995 to 75 percent and 100 percent of border prices. Price regulation will be limited to natural monopolies, such as electricity, gas, district heating, water, sewage, rents, and public transport.

The system of domestic trade was liberalized through the abolition of state orders on January 1, 1995. Procurement related to the government's own needs is to be carried out at market prices on the basis of competitive bidding. Exchange-rate unification eliminated the implicit taxation of strategic exports resulting from differentiated surrender requirements at below-market rates.

Licensing of energy product exports is expected to be abolished on July 1, 1995. Export taxes on oil, oil products, and cotton are to be introduced as temporary fiscal measures. The state's dominance in foreign trade will be significantly reduced, including elimination of government imports of grain, which should help the private sector play a greater role in foreign trade.

The government has decided to speed up the privatization of enterprises. To strengthen the State Property Committee, the president appointed a deputy prime minister responsible for the program. Although a law on privatization was passed in 1993, no implementation program was adopted. The government is preparing a comprehensive new privatization program to be submitted to parliament. It envisages privatization of small enterprises of up to 50 workers by auctions and direct sales to individual workers by end-1995, initial corporatization of at least 20 medium and large enterprises into joint stock companies, and commencement of sale of majority of shares in these companies to domestic and foreign private buyers, a review by September 1995, and adoption thereafter of a program for corporatizing and privatizing all other state enterprises.

The government is aware that without strict financial discipline on the enterprise level the stabilization program will not be sustainable. To enforce discipline, it has decided that it will not provide budgetary support to enterprises, will refrain from extending directed credits to enterprises, and will encourage banks to force borrowers to adhere to strict financial conditions and make credit available only to enterprises with viable restructuring plans. It also intends to enforce vigorously the recently approved bankruptcy law.

While privatization itself has been slow, there is evidence of significant private-sector activity. The development of the sector has been, however, haphazard. To facilitate private-sector development, the government is working to clarify the legislative environment and eliminate constraints, particularly access to credit and land and office space. The abolition of state orders and the liberalization of external trade should facilitate development of the private sector.

The financial system in Azerbaijan consists of a central bank, two specialized state banks, and over 200 private commercial banks. With a view to increasing competition, the banking law initially set low capital requirements for commercial banks. This resulted in a mushrooming of banks, which are largely owned by public enterprises and which act as conduits for channeling central bank refinancing at negative real interest rates. The government is raising minimum capital requirements to promote bank consolidations.

Azerbaijan is attempting to protect vulnerable groups during the transition in a fiscally sustainable manner. While liberalizing prices, especially of bread, on February 1, 1995, the government increased cash transfers to children, students, and nonworking pensioners. It is also developing a program for improving targeting of cash compensation, consolidating family allowances, increasing the minimum pension, and improving unemployment benefits to facilitate labor allocations. In the medium term promoting growth will be a key requirement for reducing poverty and mitigating social tensions. Azerbaijan is receiving modest help from bilateral and multilateral donors, the latter coordinated by UN agencies, in facing the tremendous burden of supporting over 600,000 displaced persons.

Medium-Term Prospects

Azerbaijan's medium-term prospects are strengthened by its petroleum resources and potentially strong private sector. It entered into an agreement in September 1994 with a consortium of oil companies to develop offshore resources in the Caspian Sea. This should help to arrest the decline in oil production and increase exports. A turnaround in energy production is essential for resumption of growth, but this depends on early resolution of the difficult issues of Caspian territorial rights and pipeline routes. Although a resolution of the conflict with Armenia would bring about a welcome reduction in military expenditures and outlays for displaced persons, the costs of reconstruction and resettlement would still be very large and continue for some years. Azerbaijan is unlikely to regain even the per capita income levels of 1993 until after the turn of the century.

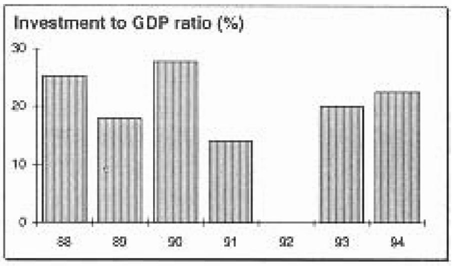
Azerbaijan

Population mid-1993 *(millions)*	7.4
GNP per capita 1993 *(US$)*	730

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

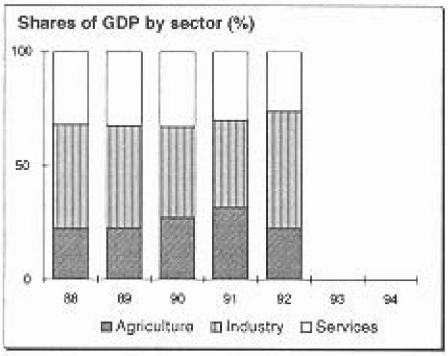
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	28.3	27.8	..	20.0	22.5
Exports of goods and nfs/GDP	..	..	..	54.8	55.4
Gross domestic savings/GDP	37.5	28.5	..	10.3	4.1
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	7.8	2.0	-5.0
Interest payments/GDP	..	..	..	0.0	0.0
Total debt/GDP	..	..	..	0.8	1.0
Total debt/exports	..	..	..	..	..



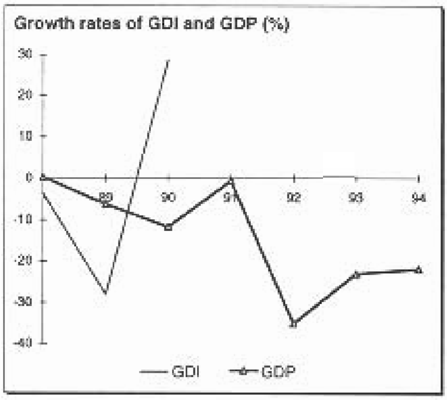
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	25.2	27.1	22.3	..	..
Industry	47.0	40.0	51.6	..	..
Manufacturing	36.9	30.6	43.8	..	..
Services	27.9	32.9	26.0	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-3.4	..	..	..	..
Industry	-2.1	..	..	..	..
Manufacturing	-0.4	..	..	..	..
Services	0.1	..	..	..	..
GDP	-1.7	-22.9	-35.2	-23.1	-21.9



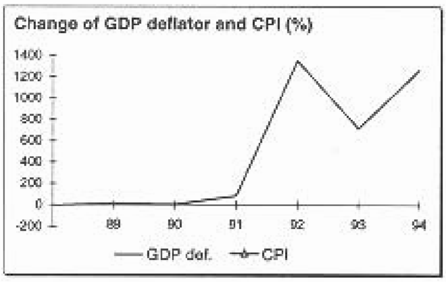
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	42.8	51.9	..	..	..
General government consumption	19.7	19.7	..	..	..
Gross domestic investment	28.3	27.8	..	20.0	22.5
Exports of goods and nfs	..	..	..	54.8	55.4
Imports of goods and nfs	..	..	..	64.5	73.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.2	..	..	..	..
General government consumption	-1.9	..	..	..	..
Gross domestic investment	-4.4	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	-1.7	-22.9	-35.2	-23.1	-21.9
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-7.5	7.5	1,350.9	714.5	1,266.3
Government finance					
(% of GDP)					
Current budget balance	..	-55.0	-40.9	..	..
Overall surplus/deficit	..	..	..	..	..



Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

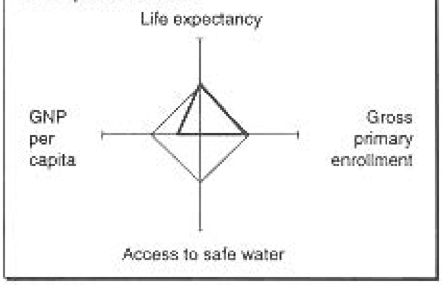
Azerbaijan

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.3	*1.2*
Labor force	1.4	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	70.7
Infant mortality *(per 1,000 live births)*	27.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	2,469.8
Illiteracy *(% of population age 15+)*	2.7
Gross primary enrollment *(% of school-age population)*	97.0

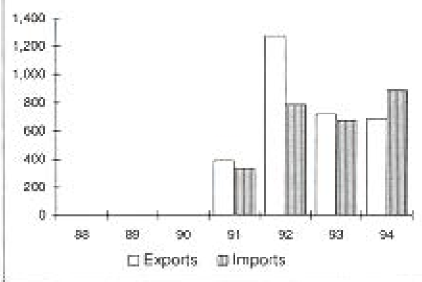
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	1,275	720	687
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	788	677	885
Food	..	..	..	601	648
Fuel and energy	..	..	..	76	236
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	119	129

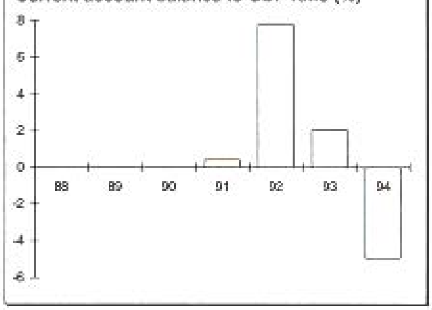
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	1,275	720	687
Imports of goods and nfs	..	..	873	724	946
Resource balance	..	..	402	-4	-259
Net factor income	..	..	..	..	..
Net current transfers	..	..	50	100	90
Current account balance					
Before official transfers	..	..	452	96	-181
After official transfers	..	..	452	96	-181
Long-term capital inflow	..	..	165	8	268
Total other items (net)	..	..	-617	-111	-38
Changes in net reserves	..	..	0	7	-49
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	0.2	4.3	33.5	459.6

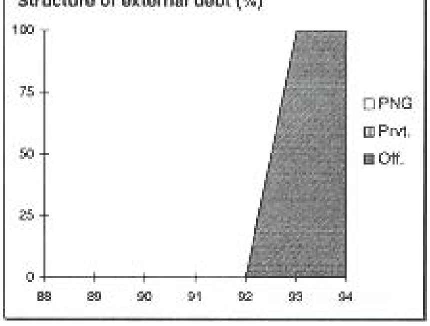
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	..	..
IMF credit/exports	..	..	..	..	..
Short-term debt/exports	..	..	..	..	..
Total debt service/exports	..	..	..	..	..
GDP ratios					
Long-term debt/GDP	..	..	..	0.8	1.0
IMF credit/GDP	..	..	..	0.0	0.0
Short-term debt/GDP	..	..	..	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	0.0	0.0
Official creditors/long-term	..	..	..	100.0	100.0

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Bangladesh

Bangladesh has limited natural resources, a population density of 750 persons per square kilometer — about three times that of India and seven times that of China — and is highly vulnerable to devastating cyclones and floods. Despite these adverse factors, annual GDP growth has averaged around 4 percent over the two decades since independence. Over the past five years a structural adjustment program has brought macroeconomic stability and improvements in public resource management. As a result, inflation has been at record lows, the balance of payments has been sound, and the government's domestic resource position is favorable.

In agriculture, after services still the largest economic sector, Bangladesh has increased its rice production by more than 50 percent and reduced output variability during the past two decades, largely because of Green Revolution technology and the increased use of fertilizers and groundwater irrigation spurred by input liberalization. In foreign trade, helped by strong domestic policy facilitation and the quota system under the Multi-Fibre Agreement, ready-made garment exports have increased from $7 million in fiscal 1981 to $1.3 billion in fiscal 1994.

Despite these achievements, the absolute challenges facing Bangladesh remain formidable. Per capita GNP was still only $220 in 1993. Life expectancy at birth is estimated to be only around 55 years, and adult literacy only 35 percent. Poverty remains pervasive; almost half the population is still below the poverty line, and the absolute number of the poor has grown every year since independence, even though poverty incidence declined slightly over the 1980s.

The progress of the past two decades must therefore be viewed as encouraging progress toward the enormous task of stemming the growth of poverty and making lasting improvements in living standards. The stable macroeconomy and the robust external and domestic resource positions continue to offer a window of opportunity to accelerate the effectiveness of reforms aimed at raising growth and improving the impact and efficiency of human resource development programs.

Bangladesh remains heavily dependent on foreign aid, with over 50 percent of its Annual Development Program financed by concessional project aid. Total aid disbursements, though declining, still accounted for 6 percent of GDP in fiscal 1994.

Recent Political Developments

During 1994 Bangladesh saw the relative political stability it has enjoyed since the parliamentary elections in February 1991 slowly unravel. Opposition members began a boycott of the parliament in May, then tendered their resignations en masse at the end of the year. Despite repeated attempts at mediation, several judicial appeals, and compromise solutions proposed by the Bangladesh National Party government and the Awami League-led opposition, the impasse continued past the first two quarters of fiscal 1995. The next parliamentary elections must be held before February 1996 but are widely expected to take place sooner. In the interim, increased political uncertainty is likely to slow the implementation of reforms and hamper the consolidation of private sector confidence.

Recent Economic Developments

Excessive government spending on consumption caused fiscal and external imbalances to emerge in the late 1980s. Under a new government that came to power in 1991, and with support from IDA and the IMF, policymakers have successfully stabilized the economy. All fiscal 1994 macroeconomic indicators continued to show a marked improvement over fiscal 1990: the fiscal deficit was lower at 5.9 percent of GDP compared to 7 percent; the inflation rate was lower at 1.8 percent (9.3 percent); the current account deficit was lower at 1.4 percent of GDP (to 6.9 percent); and foreign exchange reserves stood at 8.2 months of imports (1.9 months). The introduction of a VAT has broadened the tax base and substantially raised revenues. The focus of the Annual Development Program has been improved through a project prioritization exercise and establishing a three-year rolling investment plan. Interest rates are now largely market determined. Trade liberalization has advanced significantly in an effort to remove anti-export and anti-private sector biases.

Structural reform has included efforts to open new sectors to private entry, deregulate private investment, relax exchange controls — including making the taka convertible on current account transactions — reform business law, and downsize the state enterprise sector. The government has repeatedly emphasized that it desires greater private participation in the economy. The government in May 1994 signed a production-sharing contract with an overseas consortium to explore and develop natural gas. In January 1995 the Board of Investment hosted an investor conference in Dhaka that drew international attention to Bangladesh as an emerging market. With rising foreign portfolio investment, the market capitalization of the Dhaka Stock Exchange has risen considerably and reached a high of about $1.1 billion in mid-November 1994, up from $746 million a year earlier. To downsize employment in public enterprises 25,000 state firm workers in the jute sector were retrenched between June 1990 and December 1993 through a voluntary separation scheme. The government in early 1994 initiated a major restructuring program in the jute sector that will privatize or close almost all public jute mills, with only two expected to remain in state hands by the end of the program. A further 12,600 workers were retrenched from the public Bangladesh Jute Manufacturing Corporation in 1994.

Many of the policy distortions affecting irrigation, fertilizer use, and cropping patterns have been removed. Gross domestic saving, though still low, has been on an upward secular trend since 1990, more than doubling the less than 3 percent rate for most of the 1980s. The continued strength of worker remittances has added to this upward trend in saving.

Despite these gains, effectively changing the structure of what was until recently a highly protected and inward-looking economy, and downsizing and improving the efficiency of the public sector continues to pose complex challenges. With the exception of the impressive performance of the ready-made garments sector, the economy has by and large remained sluggish. At 4.6 percent, GDP growth in fiscal 1994, as in the past four years, has remained below expectations. More important, it has fallen considerably short of the GDP growth of 6 to 7 percent required for substantial and lasting poverty alleviation. This slow growth is due to lackluster performance in several crucial areas, particularly private investment, which has been increasing slowly but still remains below 8 percent of GDP.

Global experience suggests that the deep reforms Bangladesh is embarked upon will take time to yield a private investment response. However, this investment pause is in part due also to the uncertainty caused by the often slow and halting implementation of policy changes. Public investment through the ADP, which did not increase relative to GDP over fiscal 1991-93, rose considerably in fiscal 1994, but the bunching of expenditures toward the close of the fiscal year suggests that there may have been some quality tradeoffs in implementation. Low investment continues to remain a problem, and with total investment still around 14 percent of GDP in fiscal 1994, aggregate demand has remained weak. Import demand also remained weak in fiscal 1994, and agricultural growth was low because of a fall in food-grain production of 1.8 percent, even though this was balanced to some extent by the growth in noncrop agriculture, particularly fisheries and livestock.

Inflation, which had fallen in to 1.3 percent a year in fiscal 1993 because of record low prices for rice, rose slightly to 1.8 percent in fiscal 1994.

Preliminary evidence for the first few months of fiscal 1995 suggests some improvement over the same period last year in several areas. ADP expenditures during July-December 1994 are estimated to account for some 32 percent of the planned fiscal 1995 ADP spending, a considerable improvement over the realization for the first six months of fiscal 1994, when expenditures were much more bunched toward the end of the fiscal year. Tax revenues over July-November 1994 were some 14 percent higher than their levels during the same period a year earlier, with customs duty and VAT collections higher by some 18 and 21 percent.

The external payments position also has strengthened further, with gross official reserves growing to about $3.08 billion (more than eight months of imports) by November 1994. Provisional estimates suggest that exports grew by 33 percent in dollar terms in the first quarter of fiscal 1995, with garment exports 26 percent higher than last year's corresponding level. Worker remittances have continued their growth, with inflows during the first quarter of fiscal 1995 some 13 percent above the same period the previous year. Import demand also appears to have picked up from its depressed level in fiscal 1994, with the first five months of fiscal 1995 showing 34 percent higher imports over the previous year. Rice prices have moved up in fiscal 1995 after having recovered in fiscal 1994 from the sharp drop during the previous year. This had moved the annual inflation rate to 3.5 percent on a twelve-month moving-average basis by October 1994. Growth prospects in fiscal 1995 will, however, be affected adversely by the drought that hit the main aman (summer) rice crop in 1994; a pickup in winter boro and rabi production due to rising rice prices may ameliorate the situation somewhat.

Development Goals

The overriding goal of development in Bangladesh is the alleviation of poverty. The sources of economic growth in Bangladesh are anchored in the agricultural and manufacturing sectors. Continued agricultural growth is important for Bangladesh's poorest, largely landless and quasi-landless, rural households. Given Bangladesh's excellent soils and year-round growing season, there is considerable potential for increased incomes from small plots through crop intensification and diversification, and by tackling demand- and supply-side constraints to more diversified agriculture. Manufacturing growth is most likely to come in competitive, export-oriented sectors such as garments, leather, frozen fish and shrimp, and agro-based activities.

To encourage the private sector, the government is reforming fiscal and financial incentives and the regulatory and legal environment. A phased program of import liberalization covering both quantitative restrictions and tariff rationalization is in progress. Measures have been taken to improve export incentives. government policies have moved considerably away from controlling private investment to facilitating it through the Board of Investment. Building on the 1991 Industrial Policy, the list of industries reserved for the public sector has been curtailed to allow private investment in the power, telecommunications and domestic air transport sectors. In these many areas, how reforms are actually implemented on the ground, whether they actually lower the costs of doing business in Bangladesh, and whether the government maintains consistency in its policy formulation continue to be important determinants of private-sector confidence.

The problems of downsizing and privatizing state-owned enterprises in manufacturing, infrastructure, and the utilities remain largely unresolved, particularly the management and financial problems of the biggest money losers, including the Bangladesh Jute Manufacturing Corporation, the Bangladesh Power Development Board, the Bangladesh Agricultural Development Corporation, and the Bangladesh Railways. Restructuring and employment rationalization programs in these enterprises are in various stages of implementation, including a major jute sector restructuring program and an ongoing railway restructuring program. The government established a Privatization Board in 1993 to accelerate divestiture. Progress has, however, remained slow. It is recognized that the privatization and restructuring of state enterprises alone will not generate the required efficiencies, particularly in the important utilities area. The government has therefore embarked on a policy of bringing the private sector to assume a greater role in the investment, operation, and maintenance of utilities and economic infrastructure. The process is, however, tied to the formulation of appropriate regulatory frameworks for private entry in these areas, and progress in moving toward private participation in power, telecommunications, and gas operations has been slow.

Actions toward financial sector reform, particularly in strengthening some Bangladesh banking capabilities, new loan classification and provisioning regulations, and establishing financial courts have been taken in recent years, but overall progress on restructuring banks has been inadequate, raising the eventual costs of resolving the sector's difficulties. Recently the government granted new banking licenses to seven private banks. Though committed in principle to privatization of one or more of the national commercial banks, the government has not yet taken substantial, concrete actions toward this goal.

Urban labor markets can have an important bearing on the enabling environment for greater private sector activity and on international competitiveness. In Bangladesh, trade unions have developed close links with major political parties, labor unrest is frequently linked to other political considerations, and state enterprise wage policies can influence private wage formation.

Population and Social Indicators

Since independence in 1971 Bangladesh's population has increased by some 33 million people, which has severely impinged on poverty alleviation efforts. It has greatly increased the number of rural landless households and the number of urban poor through rapid rural-urban migration. Population growth has overstretched social services and worsened the impact of natural disasters as a result of encroachments on marginal lands. The government's family planning program has been successful in increasing the contraceptive prevalence rate from 8 percent in 1975 to 45 percent in fiscal 1994, and in reducing the total fertility rate from above 7 in the mid-1970s to around 4 by 1994. Efforts are being made to strengthen the links between family planning and maternal and child health care activities, as well as to the health sector in general. Projects are also utilizing nongovernmental organizations and the private sector in innovative ways to improve service delivery.

Social indicators for literacy, health, and nutrition remain low in Bangladesh. The adult literacy rate (35 percent) is among the lowest in the world, and primary and secondary school enrollment rates (73 percent and 18 percent), though increasing, are still significantly lower than in comparable countries. Female enrollment has nearly doubled compared to 15 years ago. Programs to expand primary education and improve its quality are being implemented. Programs are also under preparation to expand educational access to disadvantaged groups, for example, through nonformal literacy programs administered by NGOs, and to improve female school enrollment. In particular, the government is planning a major expansion of scholarship programs for female secondary school enrollment. Implementation of a Food for Education program began on a pilot basis during fiscal 1994 and is likely to be expanded significantly. The program will provide food for targeted rural households with primary school-attending children, and have both school-retention and nutrition objectives. In many of these areas, Bangladesh's unusually strong NGO community has played a very important part.

The government recognizes that improved macroeconomic policy and economic growth alone are not sufficient to improve the prospects of the poor, who must be protected during the process of structural reforms. It has therefore undertaken to expand employment opportunities through programs such as Food for Work and to target income transfer programs to the lowest income groups, particularly women, through the Vulnerable Group Development program; these two programs reach approximately 5 million poor beneficiaries.

Environment

Bangladesh's topography makes it prone to natural disasters, especially floods and cyclones. While most of the studies for a national Flood Action Plan have been completed, there is now general agreement that they and the draft summary report should be viewed as steps in an ongoing program to strengthen water management. The next phase will integrate the lessons of the planning process, including recommendations on institutions, participation, and the environment, into a new multidisciplinary National Water Plan. A long-term cyclone protection program is being prepared, taking into account the lessons of recent experience. Forest depletion has greatly exceeded the natural replenishment rate. Another environmental problem relates to water pollution due to expanding industrialization. The government has established a Ministry of Environment and Forests, which is reviewing priorities and identifying feasible approaches to address these and other environmental issues that are being incorporated in an environmental action plan.

External Debt

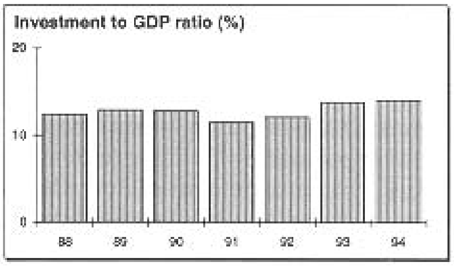
Bangladesh's outstanding medium- and long-term external debt is projected to increase from $14.2 billion at the end of fiscal 1994 to about $16.6 billion by the end of fiscal 1999. This would imply a declining ratio of debt outstanding to GDP from about 54 percent to well below 50 percent. Because the bulk of the debt is contracted at highly concessional terms, the debt-service ratio at end-fiscal 1994, excluding IMF repurchases, was manageable at 11.6 percent of current receipts. Projected end-fiscal 1995 estimates for the debt-service ratio show a marginal increase to just above 12 percent. Debt-service ratios are expected to decline somewhat based on the projection of an acceleration of GDP and export growth.

Bangladesh

Population mid-1993 *(millions)*	115.2	Income group:	**Low**
GNP per capita 1993 *(US$)*	220	Indebtedness level:	**Moderately indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.9	12.8	12.1	13.8	14.0
Exports of goods and nfs/GDP	7.4	8.5	10.4	12.0	11.6
Gross domestic savings/GDP	2.0	2.9	6.2	7.5	7.9
Gross national savings/GDP	4.8	6.1	10.0	11.6	12.7
Current account balance/GDP	-8.4	-6.9	-2.2	-2.2	-1.4
Interest payments/GDP	0.6	0.7	0.6	0.6	0.7
Total debt/GDP	42.3	54.6	55.6	57.9	57.4
Total debt/exports	418.0	447.9	387.8	352.1	348.7

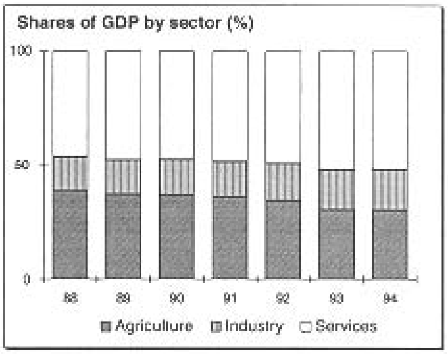


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	41.8	36.8	34.5	30.5	30.4
Industry	16.0	15.8	16.6	17.5	17.7
Manufacturing	9.9	8.7	9.1	9.7	9.9
Services	42.3	47.4	49.0	52.0	51.8

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	1.5	1.9	2.2	1.8	1.8
Industry	5.6	7.1	7.1	8.0	8.5
Manufacturing	4.0	7.2	7.3	9.1	9.3
Services	5.3	5.0	4.8	5.3	5.3
GDP	3.8	4.2	4.2	4.4	4.5

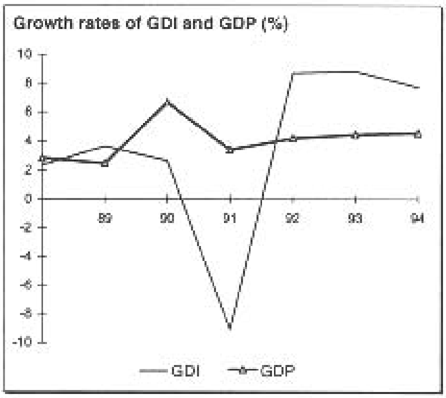


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	90.6	83.1	80.0	78.6	85.0
General government consumption	7.3	14.0	13.8	13.9	7.0
Gross domestic investment	12.9	12.8	12.1	13.8	14.0
Exports of goods and nfs	7.4	8.5	10.4	12.0	11.6
Imports of goods and nfs	18.3	18.4	16.3	18.3	17.7

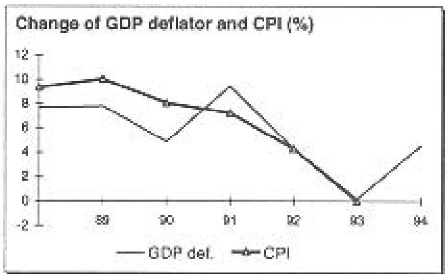
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	3.9	4.7	8.7	8.8	7.7
Exports of goods and nfs	10.9	11.7	13.0	20.6	4.1
Imports of goods and nfs	4.9	2.2	2.8	13.9	0.9
Gross national product	3.8	4.3	3.9	4.9	4.7
Gross national income	3.6	4.2	4.2	4.5	4.4



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.7	8.1	4.3	0.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	11.1	4.9	4.3	0.2	4.5
Government finance					
(% of GDP)					
Current budget balance	1.3	0.1	1.8	2.7	1.4
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

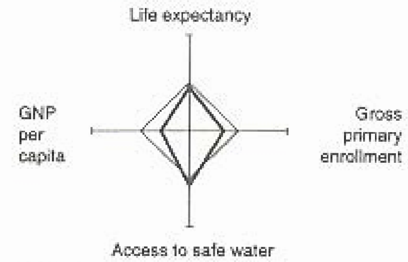
Bangladesh

POVERTY and SOCIAL

(annual growth rates)	1985-90	1990-94
Population	1.9	2.1
Labor force	2.9	3.0

	most recent estimate
Poverty level: headcount index *(% of population)*	47.5
Life expectancy at birth	56.1
Infant mortality *(per 1,000 live births)*	105.6
Child malnutrition *(% of children under 5)*	68.0
Access to safe water *(% of population)*	78.2
Energy consumption per capita *(kg oil equivalent)*	59.4
Illiteracy *(% of population age 15+)*	64.7
Gross primary enrollment *(% of school-age population)*	77.0

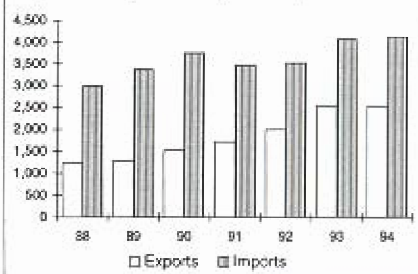
Development diamond*



TRADE

(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	940	1,524	1,993	2,534	2,535
Other agriculture	151	125	85	74	57
Hides	70	179	149	151	198
Manufactures	506	940	1,366	1,532	1,844
Total imports (cif)	2,647	3,759	3,526	4,071	4,135
Food	601	543	450	366	289
Fuel and energy	359	297	320	354	290
Capital goods	691	1,296	1,289	1,346	1,330
Export price index *(1987=100)*	74	124	150	193	183
Import price index *(1987=100)*	104	120	107	117	119
Terms of trade *(1987=100)*	71	103	140	164	154
Openness of economy *(trade/GDP,%)*	26	27	27	30	29

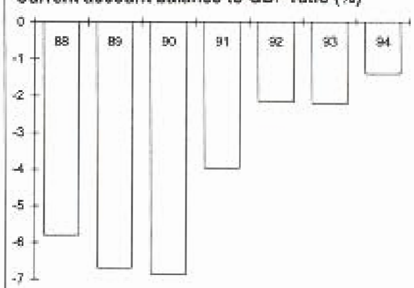
Export and import levels (mill. US$)



BALANCE of PAYMENTS

(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	1,162	1,903	2,467	2,906	3,045
Imports of goods and nfs	2,864	4,124	3,869	4,433	4,635
Resource balance	-1,702	-2,220	-1,403	-1,527	-1,590
Net factor income	-90	-123	-89	-73	-23
Net current transfers	477	802	975	1,065	1,244
Current account balance					
Before official transfers	-1,314	-1,541	-516	-535	-369
After official transfers	-613	-775	301	243	341
Long-term capital inflow	550	833	498	687	1,001
Total other items (net)	-13	-271	-151	-323	-646
Changes in net reserves	77	213	-647	-607	-696
Memo:					
Reserves excluding gold *(mill. US$)*	337	629	1,825	2,411	3,139
Reserves including gold *(mill. US$)*	356	660	1,853	2,447	3,175
Conversion rate *(local/US$)*	26.0	32.9	38.2	39.5	39.6

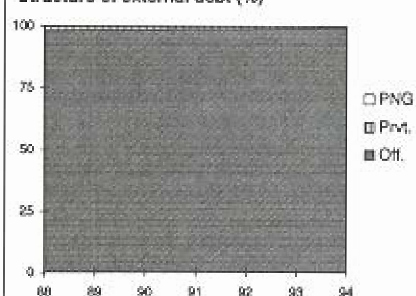
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	376.7	419.3	359.5	331.0	330.0
IMF credit/exports	32.8	22.9	21.5	17.3	15.1
Short-term debt/exports	8.5	5.7	6.8	3.8	3.6
Total debt service/exports	21.7	28.5	16.0	13.5	13.2
GDP ratios					
Long-term debt/GDP	38.1	51.1	51.5	54.4	54.4
IMF credit/GDP	3.3	2.8	3.1	2.8	2.5
Short-term debt/GDP	0.9	0.7	1.0	0.6	0.6
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	2.4	1.8	1.4	1.1	0.8
Official creditors/long-term	97.6	98.2	98.6	98.9	99.2

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Belarus

Belarus has a population of about 10.3 million and an area of about 200,000 square kilometers. It is landlocked and has borders with the Russian Federation, Ukraine, Poland, Lithuania, and Latvia. Belarus has limited natural resources, but its population is well educated and GNP per capita, which was one of the highest in the former Soviet Union, was estimated at $2,870 in 1993.

Belarus' economy has historically been oriented toward industrial production, which represents nearly 50 percent of GDP and has been concentrated mostly in machinery and metallurgy, with a large component of military industries. Agriculture represents over 20 percent of GDP. Belarus's trade has been highly integrated both within the former Soviet Union and with Eastern Europe. Before the Union's breakdown Belarus exported about 40 percent of its industrial output to other Soviet republics and imported from them 90 percent of its primary energy and 70 percent of its raw materials.

Recent Economic Developments

Over 1991-93, Belarus fared comparatively better than the larger former Soviet republics (Russia, Ukraine, Kazakhstan), with a cumulative GDP decline of 20 percent. In 1993 it began steps toward macroeconomic stabilization and accelerated the pace of structural reform. Progress was also made in strengthening the institutions in charge of economic management and implementing a World Bank rehabilitation loan approved in November 1993.

As the reforms began to take effect, the economic shock that had been postponed finally began to take place in 1994 when GDP declined sharply, the external payments position deteriorated to a current account deficit of some $250 million, and arrears with Russia approached $500 million. Inflation averaged 30 to 40 percent a month in 1994, and GDP declined by about 22 percent. The exchange rate depreciated further and ended the year at 10,600 rubels to the dollar.

At the outset of 1995 Belarus reached an agreement with Russia that will allow it to pay $53 per 1,000 cubic meters for Russian gas, significantly less than Russian export prices for the Western European market. Belarus will still pay close to world market prices for oil imports. In January the government agreed on a stabilization program with the IMF.

The situation remains difficult. The decline in output has not been accompanied by a comparable decline in employment, depressing profitability and competitiveness. In addition, Belarus remains highly dependent on imported energy and has made little progress toward diversifying its exports and entering new markets. Further declines in output and large external financing requirements are likely.

Since the election in July 1994, the government appears to be more convinced that reforms are essential, an attitude that has contributed to modest reform progress. All national wholesale and retail trade margins were abolished and prices of food products were liberalized in November and December 1994. Prices of rents and public utilities were increased in February 1995 to recover at least 20 percent of the costs of providing services. Significantly tighter guidelines for monetary and credit targets were approved for 1995. The export regime was liberalized as virtually all export taxes, licenses, and quotas were lifted. The 1995 budget contains a provision for a maximum 4 percent budget deficit.

Monthly inflation exceeded 40 percent in November 1994 before declining to 31 percent in December. Industrial output in the last quarter of 1994 is reported to have been at about the level of the same period of the previous year, which represents a significant improvement from the large declines registered earlier in the year, partly because of new export orders. While the minimum wage remained at 20,000 Belarussian rubels through the end of 1994, average wages rose by 52 percent in November, well above inflation.

During 1994, the implementation of a structural reform program — including measures to liberalize domestic prices and trade, promote competition through entry and demonopolization, improve corporate governance, accelerate the privatization of state enterprises and housing, and begin the privatization of land — slowed. Corporatization, privatization, and demonopolization lagged significantly behind the government's objectives, and its draft 1994-95 economic package emphasizes structural measures in demonopolization and privatization, particularly in trade, further liberalization of foreign trade policy, and reducing registration and licensing requirements for private enterprises.

The government recognizes that fiscal and financial policies will have to be tight in 1995 to offset the inflationary pressures caused by the large overrun in monetary expansion during the last two months of 1994, and these policies will aim at limiting the external current account deficit to 5.7 percent of GDP. In volume terms, total exports are projected to remain flat, and imports to decline by some 9 percent. Monthly inflation is expected to decline to around 5 percent after mid-1995, and 1 percent by the end of the year.

Monetary policy will carry most of the burden of adjustment to the reduced availability of external financing. As part of an early effort to tighten monetary conditions, in late December 1994 the National Bank of Belarus increased its one-month refinance rate to 40 percent and the minimum monthly interest rates for time and demand deposits to 32 percent and 20 percent respectively; it intends to maintain these rates in 1995. Tight ceilings have also been placed on the expansion of net domestic assets.

The government also has taken measures — and plans more — to promote competition by eliminating relative price distortions caused by subsidies, liberalizing the trade regime by eliminating state orders and export restrictions, and reducing concentration in the industrial sector and the distribution system by breaking up monopolies and cartels. The program will further liberalize licensing and labor market regulations, privatize small businesses and commercial real estate, and begin privatization of medium- and large-scale enterprises. Mass privatization voucher distribution began in April 1994. Measures to establish an effective and affordable social safety net include increasing targeting of family allowances, tightening eligibility for unemployment benefits, improving active labor market policies, and imposing limits on indexation of social security benefits.

The government recognizes that structural reform has been slower than originally envisaged and that substantial additional measures will be needed to complete the transition to a market economy. It aims to complete the transition over the next five years by completing price liberalization and demonopolization, strengthening the legislative framework for private sector development, and privatizing two-thirds of all assets in the economy. The transition to a market economy will also require re-orienting social programs; the government plans to undertake a comprehensive review of its social policies to ensure that they are effective in reaching the targeted groups and that they remain affordable.

Medium-Term Prospects

Given the uncertainty of output and trade developments in the rest of the former Soviet Union, the speed of adjustment of the import prices of energy products to world levels, and the reliability of statistical data, medium-term macroeconomic projections are necessarily tentative. On the basis of assumptions including the maintenance of a policy framework consistent with successful but gradual implementation of reform and stabilization, a further decline in economic activity is expected in 1995, followed by a moderate recovery in subsequent years. This would be accompanied by a gradual shift in the composition of trade and the direction of trade away from Belarus' traditional markets. Continuing dependence on energy imported from Russia is likely to result in sizable trade deficits with that country.

In the short run economic prospects, particularly foreign trade, will continue to be dominated by the evolution of the prices of imported energy products. Substantial resources from multilateral and bilateral sources, including Russia, will be required as these prices reach world levels and Belarus adjusts to the corresponding terms-of-trade shift.

The requirements of restructuring enterprises and their ability to compete internationally are expected to be the main factors determining the strength of the economic recovery and the external balances. The mobilization of alternative non-debt forms of financing could also play an important role. Attracting non-debt financing in general, and foreign direct investment in particular, will require macroeconomic stabilization and achievement of full convertibility.

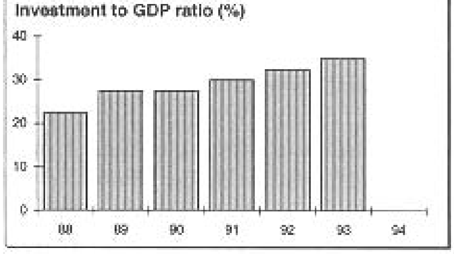
Belarus

Population mid-1993 *(millions)*	**10.2**	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	**2,870**	Indebtedness level: **Less indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.3	27.4	32.3	35.0	..
Exports of goods and nfs/GDP	..	47.3	60.0	45.8	..
Gross domestic savings/GDP	34.2	29.6	33.8	26.6	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	0.6	-1.2	-2.5
Interest payments/GDP	..	..	0.0	0.0	0.1
Total debt/GDP	..	..	0.6	3.5	5.3
Total debt/exports	..	..	5.2	32.0	39.0

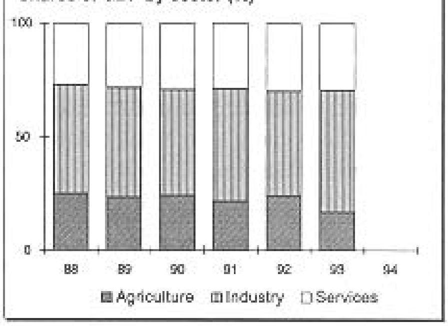
Investment to GDP ratio (%)



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	27.2	24.2	23.9	16.9	..
Industry	45.3	46.8	46.4	53.7	..
Manufacturing	36.5	38.6	39.1	43.8	..
Services	27.6	29.1	29.7	29.4	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-3.1	*-6.8*	-14.4	0.6	..
Industry	7.3	*-5.3*	-4.9	-10.7	..
Manufacturing	7.9	*-5.1*	-4.4	-10.5	..
Services	6.6	*-11.1*	-15.0	-14.0	..
GDP	4.7	-10.5	-9.5	-9.7	-21.5

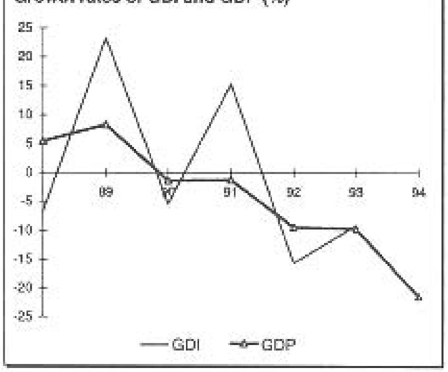
Shares of GDP by sector (%)



GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	43.0	44.3	45.5	50.9	..
General government consumption	22.9	26.1	20.7	22.5	..
Gross domestic investment	21.3	27.4	32.3	35.0	..
Exports of goods and nfs	..	47.3	60.0	45.8	..
Imports of goods and nfs	..	45.0	58.5	54.2	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.6	*-9.7*	-13.3	-7.2	..
General government consumption	3.6	*-8.8*	-12.6	-5.0	..
Gross domestic investment	5.4	*-5.3*	-15.7	-9.1	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	4.7	-10.5	-9.5	-9.7	-21.5
Gross national income	..	..	..	..	..

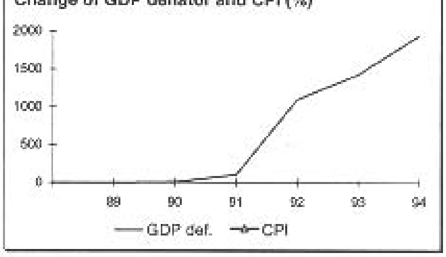
Growth rates of GDI and GDP (%)



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	0.2	7.4	1,099.1	1,428.7	1,940.7
Government finance					
(% of GDP)					
Current budget balance	..	..	-2.1	-3.6	3.4
Overall surplus/deficit	..	..	-1.7	-8.2	-1.6

Change of GDP deflator and CPI (%)

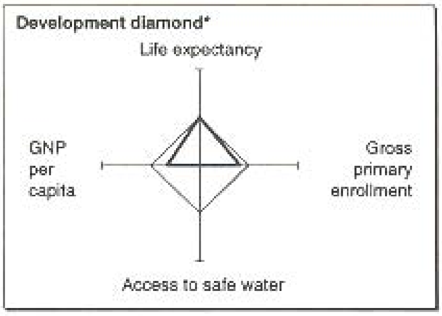


Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

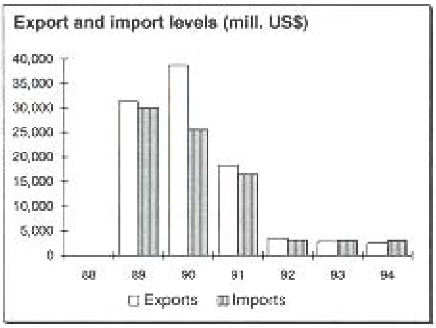
	1985-90	1990-94
(annual growth rates)		
Population	0.5	*-0.1*
Labor force	0.1	*-2.2*

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.7
Infant mortality *(per 1,000 live births)*	16.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	3,426.8
Illiteracy *(% of population age 15+)*	2.1
Gross primary enrollment *(% of school-age population)*	87.0



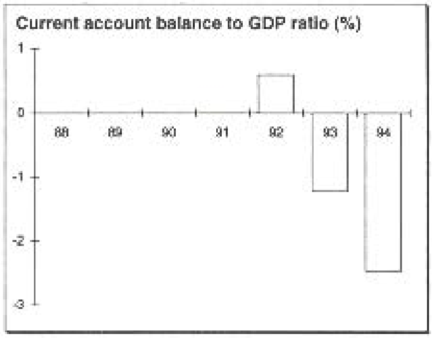
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	38,747	3,557	2,941	2,650
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	25,589	3,278	3,217	3,125
Food	..	2,328	..	..	..
Fuel and energy	..	3,198	..	..	..
Capital goods	..	689	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	92	118	100	..



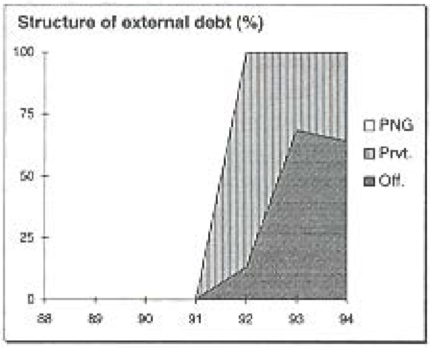
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	3,661	3,005	2,770
Imports of goods and nfs	..	..	3,557	3,400	3,316
Resource balance	..	..	104	-395	-546
Net factor income	..	..	-1	-11	-29
Net current transfers	..	..	79	70	70
Current account balance					
Before official transfers	..	..	182	-336	-505
After official transfers	..	..	182	-336	-505
Long-term capital inflow	..	..	188	722	461
Total other items (net)	..	..	-365	-183	59
Changes in net reserves	..	..	-5	-203	-15
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	0.1	2.9	46.2	996.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	5.2	28.8	35.5
IMF credit/exports	..	..	0.0	3.2	3.6
Short-term debt/exports	..	..	0.0	0.0	0.0
Total debt service/exports	..	..	0.0	0.5	1.0
GDP ratios					
Long-term debt/GDP	..	..	0.6	3.2	4.8
IMF credit/GDP	..	..	0.0	0.4	0.5
Short-term debt/GDP	..	..	0.0	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	87.1	31.5	35.9
Official creditors/long-term	..	..	12.9	68.5	64.1



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Belize

Belize, located south of Mexico's Yucatan Peninsula on the Caribbean coast of Central America, attained independence from the United Kingdom in September 1981. With a 1993 population estimated at 205,500 occupying an area of about 22,000 square kilometers, population density is extremely low. About one-fourth of the population lives in Belize City, the country's largest city. Belize is endowed with abundant and fertile land, literate urban labor, proximity to North America, a stable currency that has been pegged to the dollar since 1976, and a supportive environment for private development, all of which make it attractive to foreign investment. GNP per capita reached $2,450 in 1993.

Belize has an open, private-sector-led economy based on export agriculture and tourism. In recent years, diversification away from excessive reliance on sugar has been taking place. Citrus and banana production and fishing are oriented to the export market, while corn, rice, beans, and livestock are grown for domestic consumption. Industry, including construction and electricity accounts for about one-quarter of GDP. In manufacturing, the major commodities are export oriented: citrus processing and garments. Tourism, which became a major foreign exchange earner during the 1980s, accounts for 25 percent of exports.

Recent Economic Developments

From the mid-1980s to the early 1990s Belize experienced very rapid economic growth in response to good economic management and a favorable external environment. During 1986-90, real yearly GDP growth exceeded 10 percent, with strong contributions from all sectors. Sugar export receipts grew by 80 percent, production and exports of citrus nearly doubled, and exports of bananas tripled. Tourism arrivals more than doubled and receipts tripled. Construction boomed, led by public infrastructure investments and tourism-related construction, and this, in turn, boosted trade and transport-related activities. Belize's performance since the mid-1980s contrasts with the economic difficulties the country faced earlier in the decade when sharp declines in export earnings and government efforts to stimulate the economy through expansionary demand management policies led to domestic and external imbalances.

The impressive 1986-90 economic performance stemmed mainly from the adoption of sound macroeconomic policies. After a successful stabilization program supported by an IMF standby arrangement in 1985, Belize achieved significant improvements in fiscal performance while expanding its public investment to improve basic services and infrastructure. The strong fiscal effort eliminated the need for government recourse to domestic financing and allowed a healthy expansion of credit to the private sector. As a result, private sector activity increased, the real exchange rate depreciated, and foreign exchange reserves improved steadily. Concomitantly, the government rationalized the incentive framework for private sector development, privatized the banana industry and the telecommunications company, and improved the operating efficiency of the remaining few public enterprises. A number of preferential trade arrangements, improvements in Belize's terms of trade, the depreciation of the dollar, to which its currency is linked, and access to grants and concessional financing and private capital flows also contributed to this outcome.

Following the rapid growth of the last half of the 1980s, growth slowed in the early 1990s because of deteriorating macroeconomic management, delays in trade reform, and a less favorable external environment. Over 1991-92, real GDP growth averaged close to 7 percent. However, it fell to 3.5 percent in 1993, and inflation averaged 3 percent over 1991-93. The fiscal situation deteriorated sharply as a result of large increases in spending on public investments and wages, and of reduced privatization proceeds. The overall public-sector deficit expanded substantially, reaching an average of 9 percent of GDP in 1991/92 and 17 percent of GDP in 1993. The fiscal deficits were financed by the central bank, domestic borrowing, and commercial loans (suppliers' credits). Foreign exchange reserves fell to a level equivalent to only 1.8 months of imports at the end of 1992 and to 1.0 in 1993, and slightly below 1 month of imports by the end of 1994. The erosion in the government's fiscal position contributed to the emergence of deficits in the current account estimated to be over 9 percent of GDP in 1993 and around 7 percent in 1994.

Upon taking office in July of 1993, the new government assigned priority to stabilizing the economy and initiated actions to arrest the sharp deterioration of fiscal accounts. At the June 1994 meeting of the Caribbean Group for Cooperation in Economic Development the government presented a Medium-Term Economic Strategy Paper that laid out a program of economic adjustment aimed at eliminating central government recourse to domestic financing over a two-year period. However, corrective actions have been delayed, and the public sector deficit was about 5 percent of GDP in fiscal 1995. In addition, there has been a substantial outflow of international reserves from the central bank. Tight monetary policy has kept inflation in check at 2 percent in 1994, but it is clear that unless the government adopts a much stronger fiscal stance, the macroeconomic targets of the medium-term plan will not be met. Achieving a sizable reduction in public expenditure (especially wages) is the main challenge confronted by the government. Corrective action was initiated in the fiscal 1996 budget.

Poverty and Social Indicators

Belize's population grows at about 2.7 percent a year, over 60 percent of its population is under the age of 20, and about 45 percent lives in urban centers. Income distribution and education and health indicators compare favorably with those of neighboring Central American and Caribbean countries. In 1990, the recorded infant mortality rate stood at 35 per 1,000 live births, life expectancy at birth at 65 years, and the ratio of population per physician at about 2,000. Immunization coverage and access to primary health facilities have improved in recent years. The illiteracy rate (percentage of the population 15 years and over) is about 9 percent. About 90 percent of the population aged 5 to 14 attends primary school; however, only half of all children enroll in secondary schools and two-thirds to three-quarters of these complete their studies. There are no major issues of gender, as women achieve higher educational standards than men and compete well in the labor market.

While extreme poverty is not a major issue compared to other countries in the region, 20 percent of the population is under the poverty line, youth unemployment is high in Belize City and, there are poverty pockets in the south of the country, especially among immigrant agricultural workers and the indigenous population. Improved access to social services is urgently needed, as the above indicators hide wide regional disparities. Moreover, the continuous inflow of political refugees and other migrants from neighboring countries has resulted in a migrant population of about 30,000, which contributed to the agricultural expansion of recent years but also increased pressures on the delivery of education and health services.

External Environment

As a small, open economy, Belize is vulnerable to changes in the global economy. Over the last decade, Belize has been able to reduce its excessive dependency on exports of sugar and to diversify into other agricultural commodities and tourism. By 1993 the share of sugar in total exports had fallen to 15 percent from over 40 percent in 1980. Citrus, bananas, and fish products contribute 10 percent, 4 percent, and 5 percent of exports respectively, while services including tourism and the expenditure of British troops accounted for 25 percent and 8 percent of exports.

Belize still depends, however, on preferential market access for key agricultural export commodities. About 60 percent of Belize's sugar exports benefit from preferential trade arrangements with the United States and the European Union. Citrus and bananas also benefit from preferential access to these markets. Belize is likely to face increased competition from lower-cost Latin American producers as it gradually loses preferential access to markets through the phasing out of its United States sugar quota, the duty-free entry of citrus from Mexico to the United States under the North American Free Trade Agreement (NAFTA), and the erosion of European Union preferences accorded to banana producers from the African, Caribbean, and Pacific countries. The withdrawal of British troops in 1994, whose collective expenditures were equivalent to 4 percent of GDP, has also dampened growth.

The successful completion of the Uruguay Round and the NAFTA agreements, together with the gradual demise of preference-based systems, underscore the importance, for the future of Belize and the Caribbean, of moving together with the Caribbean Common Market (CARICOM) towards further integration with the rest of the world and an eventual accession to NAFTA.

External Debt

Until recently Belize has pursued a prudent external debt strategy. It has benefited from grants and concessional loans from bilateral and multilateral sources and has maintained its debt indicators at low and manageable levels. However, during the 1980s, grant financing averaged about 4 percent of GDP. This financing is expected to decline as donors gradually reduce their aid flows to the Caribbean countries. In 1993, medium- and long-term external debt outstanding and disbursed amounted to $166 million (32 percent of GDP). Bilateral loans represented about $74 million; and multilateral loans amounted to about \$59 million. In 1992, Belize became a member of the Inter-American Development Bank. During the early 1990s Belize borrowed commercially to finance a large public sector investment program, resulting in an increase in the share of commercial debt of total medium and long term from 6 percent (\$7 million) in 1987 to 15 percent (\$24 million) in 1993. Over the medium term, the government is expected to limit its borrowing to medium- and long-term and concessional lending.

Human Resources and Poverty Alleviation

Human resource improvements will become increasingly important in years to come as Belize moves to activities requiring higher skills from the labor force and faces the need to integrate a large migrant population and address its basic needs. Moreover, the population's young age places a high burden on education services, while population shifts to rural areas has increased the cost of providing services. Belize has appropriately emphasized primary education in its development strategy and has focused its efforts on expanding school capacity to reduce overcrowding and improving teachers' training. Over 50 percent of the recurrent education budget is assigned to primary education.

Excessive emphasis on secondary health care and declining donor financing are placing increased pressure on Belize's health care system. A significant share of the health budget is absorbed by hospitals (mainly the Belize City Hospital). Since wages and salaries currently absorb 90 percent of the hospitals' budgets, very little is allocated to maintenance and to the purchase of drugs. At the same time, primary health care has been neglected, particularly in the southern rural areas, where the incidence of water-related diseases such as cholera and malaria has risen.

Belize has been able to preserve its environmental resources to a much greater extent than many other Latin American and Caribbean countries. Ecological and anthropological tourism figure prominently in its export service strategy, but deforestation has accelerated in recent years, and the rapid development of tourism activities may pose risks to the fragile coastal environment. While the government has recently enacted an Environmental Protection Act, it still lacks a regulatory framework to enforce it.

Medium-Term Prospects

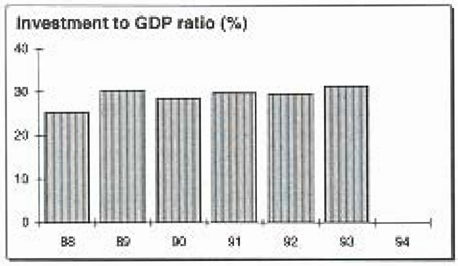
While growth prospects for the balance of the 1990s are less buoyant than in the late 1980s, as the favorable external climate and strong prices for agricultural exports that Belize enjoyed in the past are unlikely to recur, real GDP growth could average 3 percent a year. In the short run, growth should be supported by good performance in the main agricultural exports. Over the medium term, however, prices for these commodities are likely to weaken. Other rapidly expanding exports, such as fishing, aquaculture, new agricultural crops, and tourism, are expected to provide added dynamism to the economy.

Belize

Population mid-1993 *(thousands)*	**204**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**2,450**	Indebtedness level: **Less Indebted**

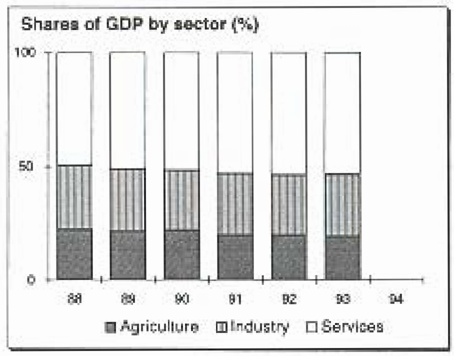
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.6	28.5	29.5	31.4	..
Exports of goods and nfs/GDP	48.5	64.8	59.2	56.7	..
Gross domestic savings/GDP	8.8	30.8	21.4	22.0	..
Gross national savings/GDP	13.2	33.2	21.6	21.5	..
Current account balance/GDP	-6.1	4.7	-8.6	-11.8	..
Interest payments/GDP	2.8	1.6	1.3	1.1	1.5
Total debt/GDP	56.5	38.4	35.5	34.9	36.9
Total debt/exports	93.3	60.9	62.7	66.6	..



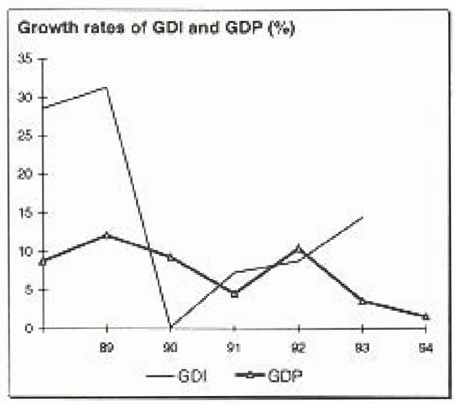
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.4	22.0	19.8	19.1	..
Industry	25.0	26.6	26.5	27.5	..
Manufacturing	16.7	15.7	14.4	13.3	..
Services	54.7	51.4	53.6	53.4	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	6.9	*7.4*	14.7	1.5	..
Industry	8.6	*8.4*	12.7	7.4	..
Manufacturing	5.5	*4.2*	12.8	-1.3	..
Services	10.0	*5.2*	9.5	1.5	..
GDP	9.7	5.4	10.4	3.6	1.6



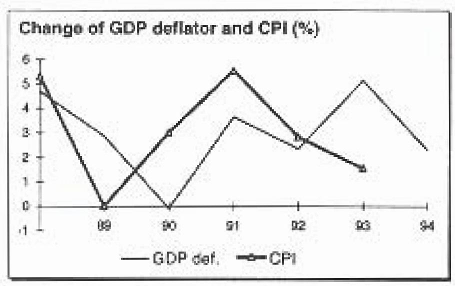
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	68.4	49.7	60.5	58.6	..
General government consumption	22.8	19.6	18.1	19.4	..
Gross domestic investment	21.6	28.5	29.5	31.4	..
Exports of goods and nfs	48.5	64.8	59.2	56.7	..
Imports of goods and nfs	61.3	62.5	67.3	66.2	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.3	*4.1*	9.1	-13.1	..
General government consumption	8.1	*6.0*	2.4	15.4	..
Gross domestic investment	20.8	*10.0*	8.8	14.4	..
Exports of goods and nfs	14.9	*8.9*	12.2	11.5	..
Imports of goods and nfs	14.2	*8.6*	8.2	5.5	..
Gross national product	9.9	4.9	8.9	3.8	1.6
Gross national income	11.1	*1.5*	7.4	-2.7	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	4.2	3.0	2.8	1.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-1.9	-0.1	2.4	5.1	2.3
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



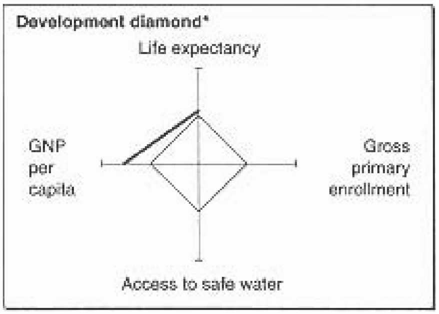
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Belize

POVERTY and SOCIAL

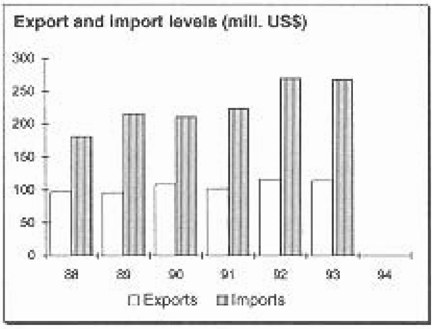
	1985-90	1990-94
(annual growth rates)		
Population	2.6	2.5
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	73.9
Infant mortality *(per 1,000 live births)*	32.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	426.5
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



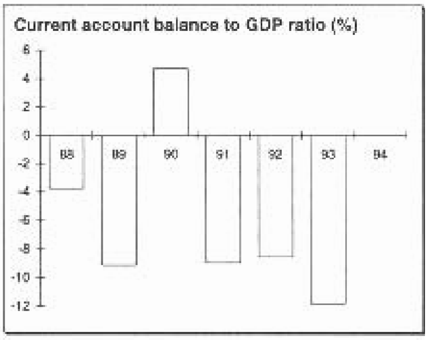
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	64	106	116	114	..
Sugar	23	43	38	42	..
Other food	24	46	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	128	211	269	267	..
Food	31	44	49	37	..
Fuel and energy	22	27	33	29	..
Capital goods	23	50	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	110	127	127	123	..



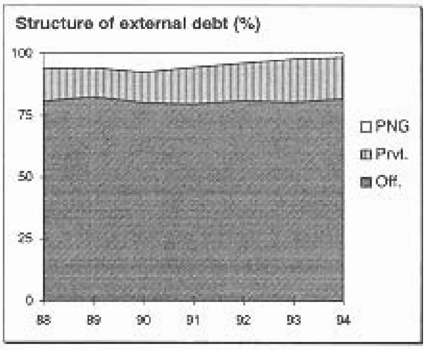
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	106	236	259	264	..
Imports of goods and nfs	126	227	301	325	..
Resource balance	-20	9	-42	-60	..
Net factor income	-11	-7	-17	-18	..
Net current transfers	19	16	18	15	..
Current account balance					
Before official transfers	-13	19	-42	-63	..
After official transfers	-3	32	-29	-49	..
Long-term capital inflow	3	17	16	16	..
Total other items (net)	7	-36	14	14	..
Changes in net reserves	-6	-13	-1	19	0
Memo:					
Reserves excluding gold *(mill. US$)*	15	70	53	39	35
Reserves including gold *(mill. US$)*	15	70	53	39	35
Conversion rate *(local/US$)*	2.0	2.0	2.0	2.0	2.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	74.7	58.4	58.9	59.8	..
IMF credit/exports	8.3	0.2	0.0	0.0	..
Short-term debt/exports	10.3	2.3	3.9	6.7	..
Total debt service/exports	13.9	8.1	7.1	7.6	..
GDP ratios					
Long-term debt/GDP	45.2	36.8	33.3	31.3	33.6
IMF credit/GDP	5.0	0.1	0.0	0.0	0.0
Short-term debt/GDP	6.3	1.5	2.2	3.5	3.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	7.6	4.0	2.2	1.6
Public and publicly guaranteed					
Private creditors/long-term	16.8	12.3	15.2	17.7	16.8
Official creditors/long-term	83.4	80.1	80.8	80.2	81.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Benin

Benin is a country of more than 5 million people with a 1993 GDP of about $2.2 billion. Its economy is highly open and strongly dependent on primary and tertiary activities. The primary sector, which accounts for 33 percent of GDP, provides Benin's largest export commodity: cotton. A large tertiary sector dominated by commerce accounts for 53 percent of GDP, and Benin's dynamic re-export activities provide about 45 percent of export revenues. A small secondary sector accounts for about 14 percent of GDP.

A new constitution was approved by referendum in December 1990 and multiparty legislative and presidential elections were held in February-March 1991. Legislative and presidential elections are scheduled for 1995 and 1996.

After nearly two decades of state-led development, Benin embarked in 1989 on an ambitious economic reform program, supported by IDA and the IMF, and the new government attempted to deepen the reforms and strengthen adjustment efforts through a second phase reform program over 1991-93.

Recent Economic Developments

Together with its partners in the CFAF zone, Benin devalued the CFA franc from CFAF 50 to CFAF 100 to the French franc in January 1994. By increasing Benin's external competitiveness this measure strengthened the ongoing adjustment program, which had already shown encouraging results over 1990-93.

In 1994 real GDP growth is estimated to have reached 3.4 percent, mainly as a result of the strong performance in the cotton subsector, a recovery of textile production supported by new export opportunities, and higher construction activity. The primary current budget surplus rose to 2.8 percent of GDP, and the overall budget deficit (on a commitment basis, excluding grants) to the equivalent of 6.6 percent of GDP. As a result of increasing export revenues and a decline of volume imports following the CFAF devaluation, the current account deficit (before grants) fell from 7.5 percent of GDP in 1993 to 3 percent of GDP in 1994. Reflecting this strong performance and an increase in private capital inflows, the overall balance of payments ended in a surplus estimated at $78 million, despite a shortfall in external disbursements from 1993 levels. Against this positive outcome, serious concern remains about inflation, which reached an annual average rate of 29 percent in 1994.

The objectives of the reinforced adjustment strategy include accelerating real GDP growth to 5 to 6 percent from 1995 onward, further reducing domestic and external imbalances to attain sustainable balance of payments and budgetary positions and enable Benin to be less dependent on foreign assistance, alleviating poverty and improving basic social services, rehabilitating social and physical infrastructure, and improving human resources. A broad tax reform is simplifying the tax system, broadening the tax base, and improving the tax administration. After the corporate profit tax rate was reduced from 48 to 38 percent, a single rate value-added tax of 18 percent covering most goods and services was introduced in 1991. In 1994 the government extended the VAT to the telecommunications sector, petroleum products, and the retail trade. A single business tax and a unified real estate tax were introduced, and the minimum turnover presumptive tax was eliminated.

External trade reform included removing quantitative restrictions and simplifying import tariffs. In 1993 remaining import licensing was removed, and in January 1994 the tariff structure was simplified from 12 rates to 4 and the system of reference values was eliminated. In fiscal 1996 the government intends to extend VAT coverage to sugar and cement, modify the graduated tax on wage income and revise the personal income tax by lowering the rates and reducing the number of brackets, reduce to a minimum the number of products subject to the zero import tariff rate, tighten the system of exemption from VAT and customs duties under the investment code, eliminate special import tariff exoneration regimes, and improve customs administration.

Deregulation measures have also progressed. Although price controls were lifted for most commodities in 1991 and the state monopoly on domestic trade was dismantled, the government introduced a list of additional temporary margin controls after the CFAF devaluation. The government plans to eliminate them; limit price controls to petroleum products and bread; and price homologation to water, electricity, schoolbooks, pharmaceuticals, and cement in 1995, before proceeding to their total elimination in a second stage. Proposed laws would also give more flexibility and incentives to private-sector activities.

Public enterprise reform was initiated in 1989, and the number of enterprises in the state portfolio was brought down from 45 in 1989 to 32 — including 20 commercial and industrial enterprises and 12 administrative agencies — in 1993. The government is committed to complete divestiture of eight more enterprises in 1995, and defining a divestiture strategy for two textile firms. Subject to agreement with the Nigerian government, two companies jointly owned with Nigeria will be also privatized. The government intends to convert the cotton processing and marketing company into a mixed-capital company by opening its capital initially to cotton farmers. The National Palm Oil Company's industrial units are to be restructured this year and divested in 1996. Finally, the government will implement a liberalization strategy for the petroleum sector by selling 75 percent of distribution outlets, transferring the management of storage installations to private companies, and privatizing transport.

Public expenditure reform aims at improving the structure of current expenditures to provide adequate allocations for essential services, particularly in primary health, education and basic infrastructure maintenance, decreasing the share of personnel expenditure relative to operating and maintenance expenditure, and eliminating domestic arrears by 1996. Monetary policy, pursued in the framework of the Western Africa Economic and Monetary Union, aims at limiting increases in domestic prices and, through a policy of tight credit to the government, providing adequate room for increasing credit to the private sector. Progress has been made in recovering liquidated bank assets and reimbursing depositors, and five private banks are now operating in Benin. The government intends to continue programs to improve the legal framework for financial activities, increase competition among financial institutions and improve financial intermediation, and improve the rural credit network and adopt regulations for mutual credit and saving institutions.

The government is overhauling the public administration by reorganizing three key ministries, streamlining personnel and strictly limiting new hiring. It has audited five other organizations and is studying reorganization of the remaining ministries as a basis for a long-term strategy for administrative reform. Action plans for the audited ministries are expected to be adopted before the end of 1995.

The government has also introduced measures to improve economic management. The budgeting process improved with the adoption of new procedures and a unified presentation for the budget. Despite improvements in programming and monitoring, project execution and implementation remain problematic.

Poverty and Social Indicators

Despite poor social indicators, the policies implemented under the adjustment program have improved living standards. Real GDP per capita increased at an average annual rate close to 1 percent over 1991-94 and is expected to grow about 2.5 percent a year from 1995. Higher cotton producer prices and production increases have raised income among the rural population, particularly after the CFAF devaluation.

The reinforced structural adjustment program, in conjunction with the policy reorientation in key sectors such as health, education, rural development, and infrastructure, will continue playing an important role in reducing poverty. Increased budget allocations for health, education, and road maintenance in 1995 will contribute to improving the living conditions of the poor by increasing access to basic social services and decreasing the cost of marketing. Other specific actions include a community-based food security project, which will contribute to reducing the vulnerability of the rural population particularly at risk, and two labor-intensive public works programs to create employment, especially in urban areas.

Medium-Term Prospects

Economic growth in Benin should reach 5 to 6 percent from 1995 onward, significantly above the population growth rate of 3 percent, assuming continued strong performance of the cotton sector and an overall increase in the gross investment rate from 13.9 percent of GDP in 1993 to 17 to 18 percent of GDP in 1999.The agricultural sector will remain the main source of growth, with the efficient cotton subsector leading the expansion. Efforts to rehabilitate and liberalize the subsector will concentrate on expanding private ginning and storage capacity, and promoting greater private-sector participation in processing and marketing activities to increase competition. Improved regional competitiveness and efficient input supply should enhance the growth prospects of food crops, fruits, and vegetables. Efforts to diversify agriculture production will also be intensified by improving extension and private sector marketing and export activities.

The secondary sector is projected to grow about 6 percent a year over 1995-99, based on substantially improved export prospects following the devaluation. Efficient production growth will be fostered by further privatization and restructuring of public-sector enterprises, fiscal reforms, and a revision of the regulatory framework. These measures, combined with increased competitiveness in the regional transit trade and implementation of a new transport strategy, should also benefit tertiary sector activities, which are projected to grow by about 5 percent annually during the period.

Achieving the projected growth rates will require increases in private investment from an average of 6 percent of GDP over 1990-93 to about 8 percent of GDP from 1995, increase in public investment from 7 percent to about 9 percent of GDP in 1995-99, and qualitative improvements in preparing and executing public investment projects. Domestic savings are estimated to have increased from 4 percent of GDP in 1993 to 9 percent of GDP in 1994, and are projected to grow to 12 percent of GDP by 1999, reflecting increases in public and private savings as a result of renewed confidence in the political and economic situation, improved fiscal management, and more opportunities for investment.

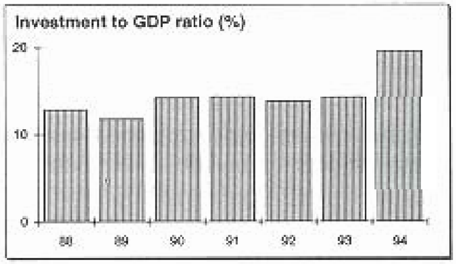
Improvements in the current account balance are expected to come from continued strong performance of cotton exports and expanding re-export activities as regional competitiveness is restored. The current account deficit, excluding official grants, is expected to remain below 5 percent from 1995. Export receipts, including re-exports, are projected to grow about 9 percent a year over 1995-99. Reflecting mainly an increase in capital goods imports consistent with the projected investment growth, the value of imports, including re-exports, is projected to grow by about 8 percent a year for the period.

Benin

Population mid-1993 *(millions)*	5.1	Income group:	**Low**
GNP per capita 1993 *(US$)*	430	Indebtedness level:	**Moderately indebted**

KEY RATIOS

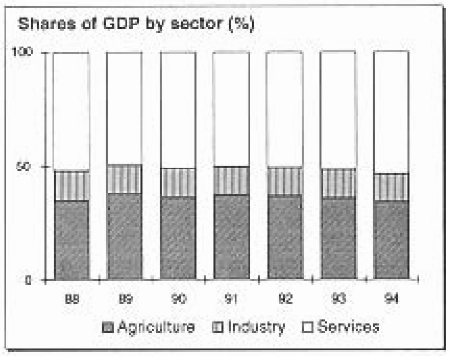
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	8.9	14.2	13.8	14.3	19.6
Exports of goods and nfs/GDP	34.4	21.8	23.3	22.1	26.9
Gross domestic savings/GDP	0.8	5.5	3.9	3.5	9.4
Gross national savings/GDP	4.7	8.0	5.0	6.0	11.0
Current account balance/GDP	-4.2	-6.2	-8.0	-7.4	-3.2
Interest payments/GDP	1.3	0.8	0.5	0.7	2.2
Total debt/GDP	78.1	66.4	63.3	70.0	101.4
Total debt/exports	203.2	245.2	218.9	256.3	381.2



GDP: PRODUCTION

(% of GDP)	1985	1990	1992	1993	1994
Agriculture	31.9	36.1	36.7	35.8	34.2
Industry	16.7	13.2	12.7	12.9	12.3
Manufacturing	7.6	7.8	7.8	7.8	7.5
Services	51.3	50.7	50.6	51.4	53.4

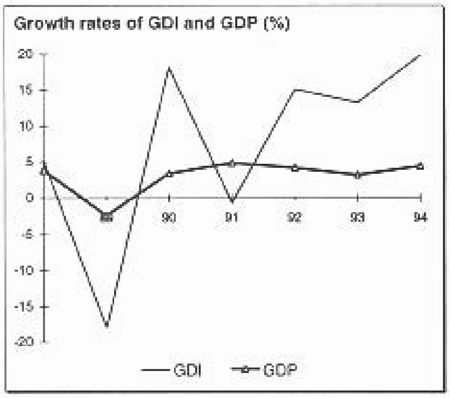
(average annual growth)	1985-90	1990-94	1992	1993	1994
Agriculture	4.0	4.9	2.9	1.8	9.7
Industry	-2.6	3.5	4.8	4.4	4.1
Manufacturing	5.0	5.3	11.6	2.4	3.9
Services	-0.5	3.5	5.0	4.1	0.3
GDP	0.8	4.1	4.2	3.2	4.4



GDP: EXPENDITURE

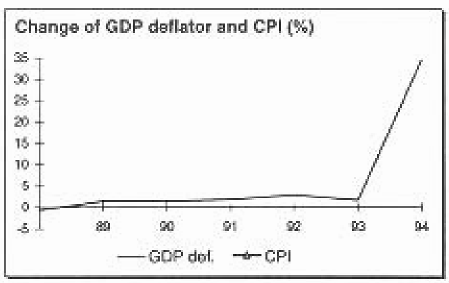
(% of GDP)	1985	1990	1992	1993	1994
Private consumption	83.8	81.3	84.2	84.9	82.0
General government consumption	15.4	13.2	11.9	11.6	8.5
Gross domestic investment	8.9	14.2	13.8	14.3	19.6
Exports of goods and nfs	34.4	21.8	23.3	22.1	26.9
Imports of goods and nfs	42.5	30.5	33.2	32.9	37.1

(average annual growth)	1985-90	1990-94	1992	1993	1994
Private consumption	0.0	3.3	1.7	3.6	0.3
General government consumption	-3.8	-1.2	-2.1	-0.8	1.0
Gross domestic investment	3.1	12.1	15.1	13.2	19.8
Exports of goods and nfs	-8.7	1.9	12.9	-2.2	-11.7
Imports of goods and nfs	-8.9	2.0	4.4	3.1	-11.7
Gross national product	0.7	3.9	2.9	4.3	3.4
Gross national income	-0.1	3.8	0.6	4.4	4.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-4.9	1.4	2.9	1.6	34.5
Government finance					
(% of GDP)					
Current budget balance	-4.7	-4.1	-2.1	-0.2	-1.6
Overall surplus/deficit	..	-10.5	-9.0	-3.1	-5.4

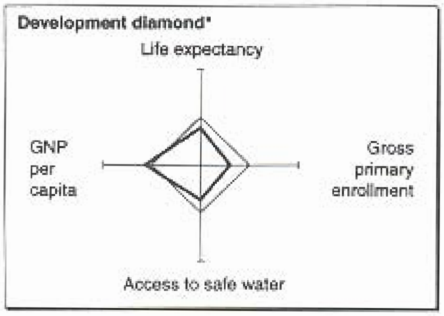


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

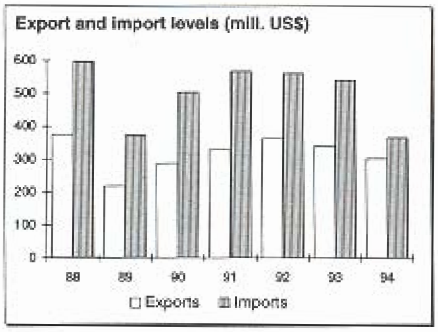
	1985-90	1990-94
(annual growth rates)		
Population	3.0	*3.1*
Labor force	2.2	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.8
Infant mortality *(per 1,000 live births)*	84.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	50.3
Energy consumption per capita *(kg oil equivalent)*	20.4
Illiteracy *(% of population age 15+)*	76.6
Gross primary enrollment *(% of school-age population)*	66.0



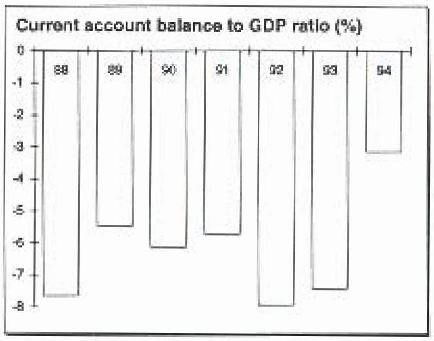
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	298	287	362	341	301
Fuel	66	73	95	73	121
Cotton	42	7	9	9	18
Manufactures	..	..	..	..	..
Total imports (cif)	384	503	561	540	366
Food	126	78	..	..	..
Fuel and energy	61	54	..	..	..
Capital goods	72	157	..	..	..
Export price index *(1987=100)*	89	79	109	101	93
Import price index *(1987=100)*	97	97	123	118	106
Terms of trade *(1987=100)*	92	81	89	85	87
Openness of economy *(trade/GDP,%)*	77	52	56	55	64



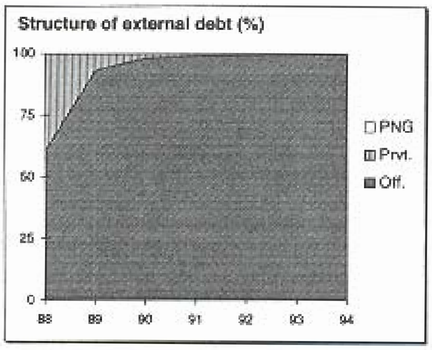
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	360	402	514	479	405
Imports of goods and nfs	444	563	719	691	477
Resource balance	-85	-161	-205	-212	-72
Net factor income	-21	-39	-62	-40	-41
Net current transfers	62	86	95	94	65
Current account balance					
Before official transfers	-44	-114	-172	-158	-48
After official transfers	-15	-56	-40	-14	36
Long-term capital inflow	32	88	48	47	146
Total other items (net)	-31	26	84	3	-67
Changes in net reserves	14	-58	-91	-36	-115
Memo:					
Reserves excluding gold *(mill. US$)*	4	65	245	244	..
Reserves including gold *(mill. US$)*	8	69	249	248	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	164.7	231.6	211.1	242.9	365.4
IMF credit/exports	2.8	3.6	3.4	7.4	10.6
Short-term debt/exports	35.7	10.0	4.4	6.0	5.2
Total debt service/exports	12.2	7.7	4.1	5.8	18.0
GDP ratios					
Long-term debt/GDP	63.3	62.7	61.0	66.3	97.2
IMF credit/GDP	1.1	1.0	1.0	2.0	2.8
Short-term debt/GDP	13.7	2.7	1.3	1.6	1.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	47.8	2.0	0.4	0.3	0.0
Official creditors/long-term	52.2	98.0	99.6	99.7	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Bolivia

Bolivia, one of the poorest countries in Latin America, began its stabilization and adjustment programs in 1985 after a period of rapidly deteriorating economic conditions. Recovering to modest rates of growth, Bolivia entered the 1990s having successfully stabilized its economy. However, per capita income remains at approximately $760 (1993), the education level of the population is limited, and health indicators are among the worst in the continent. Agriculture is the economy's most important sector in terms of contribution to GDP and employment. The manufacturing sector is small and dominated by agro-industrial enterprises, but has been growing and diversifying in recent years. Bolivia is endowed with ample mineral and hydrocarbons resources, and although exploitation of these resources has traditionally been dominated by public enterprises, private-sector participation is now encouraged and has been increasing. Given Bolivia's landlocked position and mountainous terrain, transport costs are high, access is difficult, and communications links require further development.

Economic performance since the early 1990s has been encouraging. GDP growth has averaged about 4 percent per year during the period 1990-93 and 4.2 percent in 1994, yielding increases in real per capita terms. After growing by 15 percent (although from a low base) in 1991, private investment has grown by about 9 percent per year since 1992. The current account deficit (after official transfers) deteriorated from 6.3 percent of GDP in 1991 to 7.7 percent of GDP in 1992, because of declining export revenues (primarily as a result of the drop in the natural gas price) and increasing imports of goods and services. In 1993 the current account deficit deteriorated even further (to 8.8 percent of GDP), however, improved significantly during 1994 (to about 5.8 percent of GDP) because of stronger export performance. The consolidated fiscal deficit was 4.7 percent of GDP in 1992, but deteriorated to 6.4 percent of GDP during 1993, because of an acceleration in both capital and current (mainly wages and salaries) expenditures and severance payments.

Since taking office in August 1993, the new government has taken actions to control expenditures and strengthen tax collections, and the 1994 fiscal deficit was 3.2 percent of GDP. Bolivia has been successful in maintaining price stability; inflation decreased to 10.5 percent at end-1992, to about 8.5 percent by end-1993, and to 8.3 percent by end-1994.

Structural Reform

The government has implemented reforms in the financial sector, public enterprises, trade and registration procedures, public financial and economic management, regulatory and legal systems, and social sectors. To improve resource allocation and increase competition in the financial system, four state-owned financial institutions have been closed since mid-1991. Efforts to improve supervision and regulation in the financial system have also advanced, as evidenced by the passage of a new banking law and progress towards strengthening the Superintendency of Banks. In the area of public enterprise reform, the passage of a Comprehensive Privatization Law in April 1992 allows the privatization of all public enterprises, except for those in mining and hydrocarbons. As of January 1995 about 30 small and medium public enterprises have been sold or liquidated. The government has made substantial progress toward disposing of unprofitable mines and mining operations, and the mining parastatal was transformed into a holding company. There has been some progress toward reforming and simplifying customs administration, export procedures, and the registry system. With the elimination of the sugar import licensing requirement in late 1992, all quantitative restrictions on imports have been abolished.

The macroeconomic stability has provided an adequate framework to begin the second generation of structural reforms, which include capitalization, popular participation, and education reform. The capitalization program is designed to attract private investment and management to sectors traditionally dominated by public enterprises, including the petroleum, telecommunications, electricity, rail, air, and smelting public enterprises. The March 1994 framework law for this program includes provisions for transferring up to 50 percent of ownership to strategic partners and the state's present ownership to the Bolivian people. Currently, the government is developing sector-specific details to implement the capitalization program. A necessary condition for attracting private investment is the establishment of a broad regulatory framework. To this end, the System of Sectoral Regulation Law was passed by Congress in October 1994, and separate sectoral laws are being drawn up to cover regulatory and other key issues. A law covering the electricity sector was passed by the congress in December 1994, as was an amendment that reformed the tax system to provide a uniform and stable tax environment applicable to all private enterprises.

Another key element of the government's program is popular participation. Its objective is to decentralize political and economic decisionmaking by transferring the administration of key public services and resources to indigenous, rural, and urban communities. The Popular Participation Law, passed by Congress in April 1994, provides a framework for this process. Complementing this and to accelerate the development of human capital, the program includes a comprehensive education reform designed to improve quality and coverage at the primary and secondary levels by rationalizing the institutional framework, developing new curriculum and teacher training programs, and improving access, equity, and efficiency. The framework Education Reform Law was passed in July 1994, and reform was officially inaugurated at beginning of the 1995 school year.

External Debt

The government is making progress in regularizing its relations with external creditors. In January 1992, the Paris Club creditors agreed to a fourth rescheduling, covering 100 percent of all publicly guaranteed debt service due (on debt contracted prior to 1986) from January 1992 through June 1993. The agreement covers approximately $200 million under "Trinidad" terms, and in April 1994, the consolidation period was extended through May 1994. In January 1992, Paris Club creditors also agreed to consider a stock-of-debt operation for Bolivia after three years of satisfactory performance. In the near future, the government intends to approach Paris Club creditors with a request for a further flow rescheduling or a stock-of-debt operation. Bolivia has also been active in repurchasing (or exchanging for long-term bonds) its public sector debt from the commercial banks and as of May 1993 has virtually eliminated it. Bolivia reached agreement with Brazil and Argentina on settling outstanding debts to these countries, and also reduced its debt to the United States by $372 million under the auspices of the Bush Initiative. Through these efforts, public and publicly guaranteed debt by end-1994 was $3.98 billion, down $0.8 billion from end-1987.

Poverty and Social Indicators

Social indicators have improved since the late 1980s. The stabilization program helped the relative position of the poor compared to what would have happened in the absence of stabilization. While difficult to quantify, price stability and less state intervention in the economy reduced rents available to groups with economic or political power, benefiting at least relatively those without such influence, although there are still large inequalities in the distribution of income. The government has placed more emphasis on social sector development, with current sector policy aimed at alleviating poverty by involving grassroots communities in the delivery of essential services and investing in human capital, including education reform.

Medium-Term Prospects

Bolivia still faces difficult prospects over the medium term. Despite success in reducing debt, as of December 1994 it remains burdened by a high level of external debt of about 80 percent of its GDP, and debt service amounting to about 40 percent of exports. While Bolivia retains access to official loans and received a substantial net inflow of foreign savings over the past three years, it is unlikely that Bolivia will regain creditworthiness for loans on commercial terms for years to come. The economy is dependent on a few primary commodity exports with uncertain market prospects, and the ongoing diversification of its export base will take time. Further, the weak social and physical infrastructure combined with a limited human resource base will make it more difficult for Bolivia to sustain high rates of growth in the future.

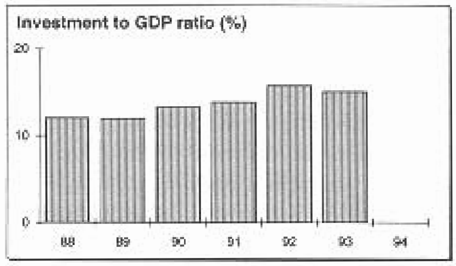
The government's medium-term strategy aims to achieve GDP growth of more than 4 percent per year, to maintain price stability, and to alleviate poverty. A major question is whether growth of more than 4 percent per year is consistent with the availability of external and internal finance, given Bolivia's large debt burden, low savings rate and worsening terms of trade. To achieve this average growth rate, private investment would have to rise from 6 percent of GDP in 1994 to 12 percent by 2000, financed by higher domestic savings, increased private capital inflows, and continued assistance from donors. Domestic savings is expected to rise sharply by 2000, encouraged by a stronger fiscal effort and increased confidence in the maintenance of appropriate macroeconomic policies. An improved incentives framework should encourage increased inflows of net private capital, which together with increased private domestic investment should result in a stronger supply response.

Bolivia

Population mid-1993 *(millions)*	7.1	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	760	Indebtedness level: **Severely Indebted**

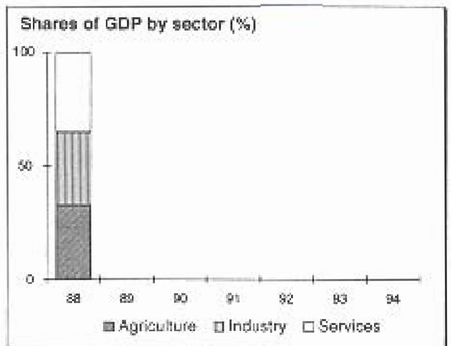
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	10.2	13.3	15.7	15.1	..
Exports of goods and nfs/GDP	14.3	21.8	15.6	16.6	..
Gross domestic savings/GDP	8.5	9.9	7.0	5.7	..
Gross national savings/GDP	0.3	5.0	3.8	2.3	..
Current account balance/GDP	-16.6	-8.3	-14.3	-12.8	-10.3
Interest payments/GDP	5.3	2.6	2.0	2.2	2.9
Total debt/GDP	161.6	95.3	80.3	78.3	77.8
Total debt/exports	651.5	429.8	533.6	464.9	386.3



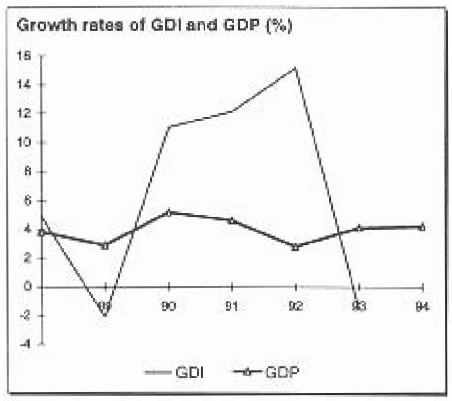
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.9	..	..	..	..
Industry	36.3	..	..	..	..
Manufacturing	15.3	..	..	..	..
Services	26.8	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*0.8*	..	..	..	..
Industry	*4.1*	..	..	..	..
Manufacturing	*3.5*	..	..	..	..
Services	*0.7*	..	..	..	..
GDP	2.5	3.8	2.8	4.1	4.2



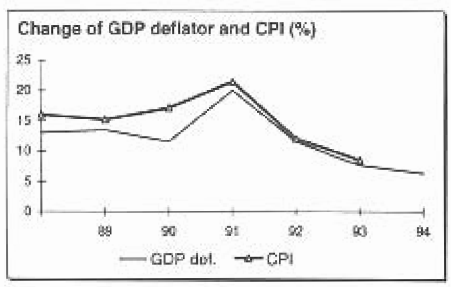
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	78.2	78.9	80.3	81.0	..
General government consumption	13.3	11.2	12.7	13.4	..
Gross domestic investment	10.2	13.3	15.7	15.1	..
Exports of goods and nfs	14.3	21.8	15.6	16.6	..
Imports of goods and nfs	16.0	25.2	24.3	26.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.6	*3.3*	1.3	5.3	..
General government consumption	3.4	*7.2*	10.1	4.6	..
Gross domestic investment	5.6	*9.0*	15.2	-1.5	..
Exports of goods and nfs	10.2	*3.5*	1.3	9.3	..
Imports of goods and nfs	2.7	*6.5*	6.3	9.8	..
Gross national product	3.4	4.3	4.0	4.0	4.6
Gross national income	2.1	*2.9*	1.5	3.7	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	11,749.6	17.1	12.1	8.5	..
Wholesale prices	10,446.9	20.0	..	..	..
Implicit GDP deflator	11,258.9	11.5	11.5	7.6	6.4
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..

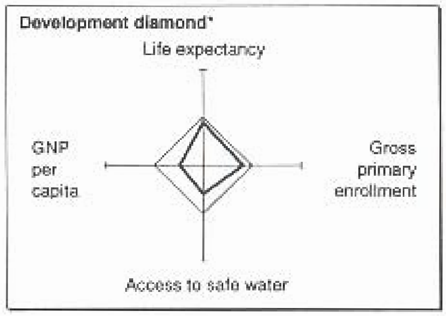


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.1	*2.1*
Labor force	2.8	2.5

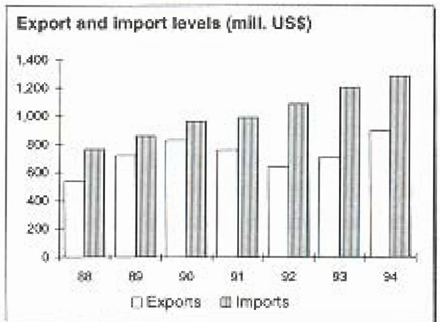
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	59.7
Infant mortality *(per 1,000 live births)*	73.2
Child malnutrition *(% of children under 5)*	11.4
Access to safe water *(% of population)*	46.3
Energy consumption per capita *(kg oil equivalent)*	309.7
Illiteracy *(% of population age 15+)*	22.5
Gross primary enrollment *(% of school-age population)*	85.0



Development diamond*

TRADE

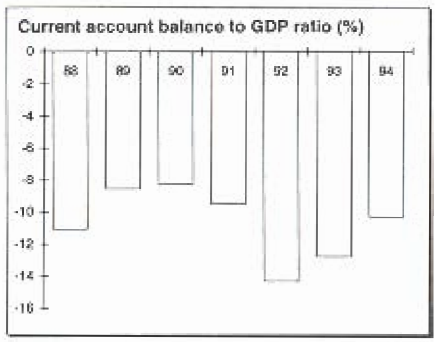
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	628	831	643	710	899
Tin	187	107	107	83	92
Fuel	376	227	125	97	100
Manufactures	..	..	..	..	..
Total imports (cif)	691	963	1,090	1,206	1,288
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	253	271	470	518	558
Export price index *(1987=100)*	135	104	89	89	93
Import price index *(1987=100)*	98	133	150	149	152
Terms of trade *(1987=100)*	138	78	60	60	61
Openness of economy *(trade/GDP,%)*	30	47	40	43	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

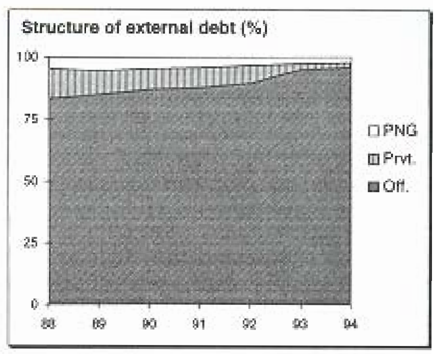
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	721	978	776	894	1,097
Imports of goods and nfs	807	1,130	1,359	1,399	1,490
Resource balance	-86	-152	-583	-505	-393
Net factor income	-423	-241	-193	-205	-199
Net current transfers	15	22	23	21	22
Current account balance					
Before official transfers	-494	-371	-753	-688	-570
After official transfers	-434	-218	-533	-472	-335
Long-term capital inflow	-27	38	177	251	348
Total other items (net)	490	279	392	359	65
Changes in net reserves	-29	-99	-37	-139	-79
Memo:					
Reserves excluding gold *(mill. US$)*	200	167	182	223	..
Reserves including gold *(mill. US$)*	492	511	480	572	..
Conversion rate *(local/US$)*	0.8	3.2	3.9	4.3	4.6



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	551.4	388.5	479.8	417.6	348.6
IMF credit/exports	11.1	25.8	31.5	24.3	19.2
Short-term debt/exports	89.0	15.5	22.3	22.9	18.5
Total debt service/exports	49.6	38.7	39.2	53.9	40.2
GDP ratios					
Long-term debt/GDP	136.8	86.2	72.3	70.3	70.2
IMF credit/GDP	2.8	5.7	4.7	4.1	3.9
Short-term debt/GDP	22.1	3.4	3.4	3.9	3.7
Long-term debt ratios					
Private nonguaranteed/long-term	13.6	4.6	3.3	2.6	2.2
Public and publicly guaranteed					
Private creditors/long-term	35.0	8.4	7.2	2.6	1.9
Official creditors/long-term	51.3	87.0	89.5	94.8	95.8



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Brazil

Brazil earned the reputation of being a "miracle economy" in the late 1960s when double-digit annual growth rates were recorded and the structure of the economy underwent rapid change. Over 1965-80 GDP growth averaged 9 percent, one of the highest rates in the world. Growth tapered off after the first oil shock of 1973 but was still very respectable until the beginning of the 1980s. It was heavily financed by foreign capital inflows.

Since 1981 Brazil's economic performance has been poor in comparison to its potential. Brazil's dramatic reduction in output growth — average annual GDP growth of 1.5 percent between 1980 and 1993 — reflects its inability to satisfactorily respond to the events of the late 1970s and 1980s: the oil shock, increases in real interest rates, the debt crisis and resulting cutoff of foreign credit and foreign direct investment, and fluctuations in exchange rates.

These shocks, in combination with poor management of public finances and heavy state intervention, resulted in large fiscal deficits at state and federal levels. Although the fiscal deficits were reduced after 1990, heterodox policies, generalized indexation and exchange rate management contributed to keeping inflation high and increasing. Monthly inflation skyrocketed from 3 percent in the late 1970s to 50 percent in mid-1994. Furthermore, Brazilian income distribution, already poor, worsened significantly in the 1980s.

Brazil is also still completing a difficult transition to democracy. The 1988 constitution decentralized government, assigning a large share of revenues (but few additional responsibilities) to states and municipalities. Additionally, the constitution provided workers with entitlements, such as social security benefits and civil service tenure, that have put severe pressure on public finances. An attempt at constitutional reform in 1994 failed in the face of a severely divided congress. With a new president in office and a new congress in 1995, prospects for constitutional reform are brighter.

Political Developments

Presidential, gubernatorial, and senatorial elections took place in the fall of 1994, and the centrist candidate — the former finance minister — was elected president in a coalition with a right-of-center party, winning easily over the left-wing candidate.

Macroeconomic Performance

In December 1993 the government launched a new stabilization plan. This is a three-step plan, starting with partial fiscal reform leading to a balanced budget for 1994, followed by the introduction of a new unit of account, and, ultimately, a new currency, the real, which is anchored by central bank intervention and backed by substantial reserves. At the same time there is a monetary anchor provided through ceilings on base money and other monetary aggregates.

In practice the real has appreciated considerably against the dollar since its introduction on July 1, 1994. In March 1995 it was devalued 7 percent and a speculative attack on the currency was contained. By February 1995 the monthly rate of inflation was below 1 percent. The growth rate in 1994 is expected to be around 5.7 percent. The trade balance was in surplus by $10 billion in 1994 but with the growth in domestic demand has become negative since December 1994. Reserves at end-January 1995 were in excess of a year's imports.

In reaching this situation, Brazil has not followed an orthodox sequence of reforms. Trade reforms, partial privatization, and deregulation had already been initiated, and commercial external debt was renegotiated before stabilization. These reforms have yielded encouraging results in terms of productivity gains. However, consolidation through sustained macroeconomic stability is essential. The real plan marks the beginning of this process, and the macroeconomic indicators are, broadly, in the right direction.

However, continued success of the plan depends on the Brazilian authorities' ability to contain the boom in consumer demand. In the longer run it will be crucial to prevent fiscal and quasi-fiscal deficits. Several major public banks have been taken over by the central bank as liquidity difficulties have surfaced, and this may provide the handle for dealing with the quasi-fiscal leakages. The government is developing proposals to present to the new congress for constitutional change to permit more extensive privatization, administrative reform, fiscal reform, and changes in the social security system.

External Debt

Since 1990 successive governments have worked to restore external confidence in the Brazilian economy through negotiated agreements with government creditors. An agreement was concluded with foreign commercial bank creditors on April 15, 1994. This agreement reduces Brazil's $49 billion external commercial debt by $3.6 billion, and interest payments (in comparison to the contractual terms of the original debt) by an annual average of $400 million over 1994-98, the equivalent of 0.1 percent of GDP or 0.5 percent of tax revenues.

Structural Reforms

In tandem with its attempt at stabilization, the government introduced significant structural reforms in March 1990, including trade liberalization, deregulation, and privatization. The trade reform abolished import prohibitions on close to 1,800 goods and most quota restrictions, and import control through foreign exchange allocation was eliminated. Average nominal tariffs were reduced to an average of 14 percent in July 1993 from 32 percent in 1990. In March 1994 the government further reduced tariffs from an average of 10 to 20 percent to 2 percent on a range of consumer and intermediate goods — including processed foods, household durables, and flat steel — where oligopoly had existed in domestic markets. Trade liberalization has forced the private sector to be more competitive and contributed to productivity gains of 18 percent in 1993. Tariffs on about 100 products, including automobiles, were raised in March 1995 as a temporary measure to deal with the widening trade gap.

Substantial progress has since been made toward free trade within MERCOSUR. Exports and imports with MERCOSUR partners grew 32 percent and 48 percent, respectively, in 1993; they now account for about 14 percent of Brazil's trade. A common external tariff in the range of 0 to 20 percent went into effect on January 1, 1995. Each country has defined a list of exemptions that can have tariffs above 20 percent, with a maximum of 35 percent, that will be in effect until the year 2001.

Domestic production and distribution quotas, licensing, prior approval of investment plans, and other economic restrictions have been eliminated as part of the deregulation program initiated in 1990. The program also simplified business and financial transactions. In general, industry entry is now much easier, and many regulations have been removed on the distribution and pricing of wheat, fuels, coal, steel, and transportation.

The privatization program, initiated in 1991, has resulted in sales of twenty-five government enterprises for $6.9 billion — $250 million in cash, $1.3 billion in privatization certificates issued by the government, and the rest paid by redemption of public debt, largely domestic, that had been trading at a discount. Privatization of the steel sector has been completed, as well as a large part of the state fertilizer and petrochemical industry. Foreign participation in privatizations has been minimal, in part because of legal restrictions and in part because Brazil's most attractive state firms have not yet been auctioned.

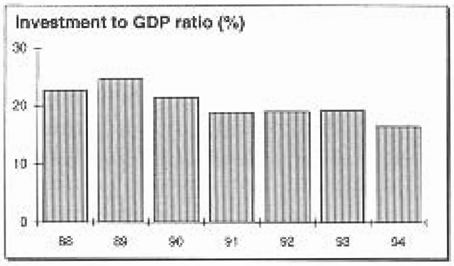
Steps have also been taken to sell off state-owned equity in private industry and minority shareholdings in state firms and enable greater private sector participation in railways and ports. Regulatory reforms have been made in ports and electricity. The ports system has been deregulated by breaking the monopoly of trade unions in providing services and by permitting private concessions in port services. In the electric sector the government increased tariffs in 1993 and now allows geographically differentiated tariffs. A law has recently been passed permitting private concessions for electric power distribution and transport of natural gas. The government has also announced that it will end the monopoly on electricity generation.

Brazil

Population mid-1993 *(millions)*	156.5	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	2,930	Indebtedness level: **Severely indebted**

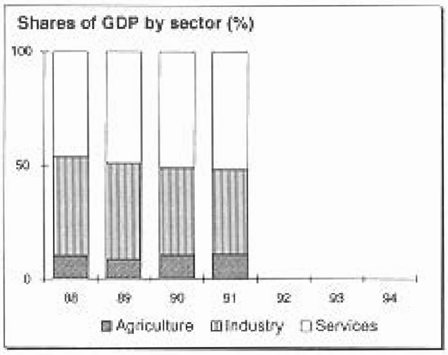
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.2	21.5	19.1	19.2	16.5
Exports of goods and nfs/GDP	12.2	7.2	9.7	8.3	6.8
Gross domestic savings/GDP	24.4	23.2	22.4	21.4	18.3
Gross national savings/GDP	19.0	20.8	20.6	19.3	..
Current account balance/GDP	-0.2	-0.6	1.6	0.0	-0.4
Interest payments/GDP	3.3	0.5	0.7	0.6	0.8
Total debt/GDP	47.6	24.3	29.6	26.2	20.7
Total debt/exports	362.1	320.6	293.7	320.2	284.6



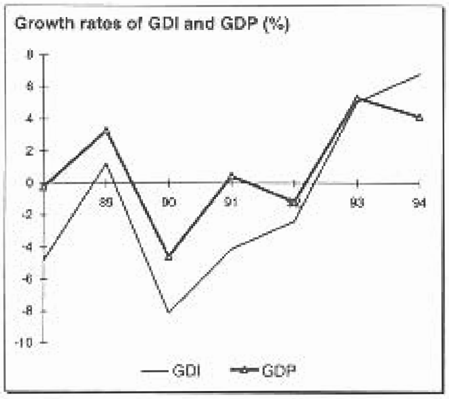
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	11.5	10.4	..	..	..
Industry	45.3	38.5	..	..	..
Manufacturing	33.7	26.3	..	..	..
Services	43.1	51.1	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.3	2.0	5.3	-1.9	2.5
Industry	0.7	0.9	-3.6	9.0	5.5
Manufacturing	0.2	0.6	-3.6	9.0	5.5
Services	3.0	3.3	-0.1	3.9	3.3
GDP	1.9	2.1	-1.2	5.3	4.1



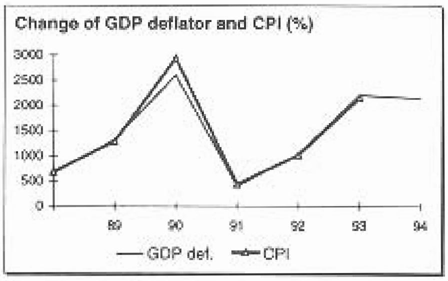
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	65.8	61.4	62.4	..	..
General government consumption	9.9	15.5	15.2	..	..
Gross domestic investment	19.2	21.5	19.1	19.2	16.5
Exports of goods and nfs	12.2	7.2	9.7	8.3	6.8
Imports of goods and nfs	7.1	5.5	6.3	6.2	5.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.9	3.1	-0.6	6.8	4.0
General government consumption	9.4	-1.3	-11.1	6.2	3.8
Gross domestic investment	0.5	1.2	-2.4	5.0	6.8
Exports of goods and nfs	6.2	7.4	8.9	9.2	3.3
Imports of goods and nfs	6.1	9.8	-1.1	23.9	7.0
Gross national product	2.5	2.2	-0.9	5.2	4.3
Gross national income	2.3	2.6	-0.3	5.3	4.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	226.9	2,937.8	1,008.7	2,148.4	..
Wholesale prices	229.0	2,703.8	987.8	2,050.1	..
Implicit GDP deflator	231.7	2,597.0	1,032.4	2,207.9	2,132.6
Government finance					
(% of GDP)					
Current budget balance	0.9	0.6	0.3	1.0	..
Overall surplus/deficit	0.3	-1.4	-0.2	0.1	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

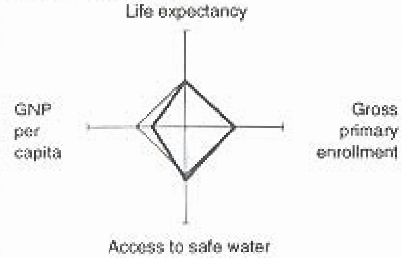
Brazil

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.9	*1.8*
Labor force	2.1	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	66.6
Infant mortality *(per 1,000 live births)*	57.0
Child malnutrition *(% of children under 5)*	7.1
Access to safe water *(% of population)*	96.1
Energy consumption per capita *(kg oil equivalent)*	666.4
Illiteracy *(% of population age 15+)*	18.9
Gross primary enrollment *(% of school-age population)*	106.0

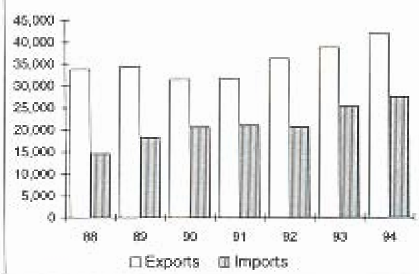
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	25,638	31,391	36,208	38,727	41,988
Coffee	2,607	1,253	971	893	1,954
Other food	2,545	2,854	2,116	1,818	1,873
Manufactures	13,356	15,106	20,615	23,714	25,273
Total imports (cif)	13,153	20,659	20,605	25,314	27,490
Food	..	2,789	3,102	3,918	4,279
Fuel and energy	6,176	5,301	3,636	4,144	4,470
Capital goods	2,480	5,932	6,099	7,243	7,458
Export price index *(1987=100)*	97	108	122	120	126
Import price index *(1987=100)*	79	114	116	112	113
Terms of trade *(1987=100)*	123	94	106	107	111
Openness of economy *(trade/GDP,%)*	19	13	16	15	12

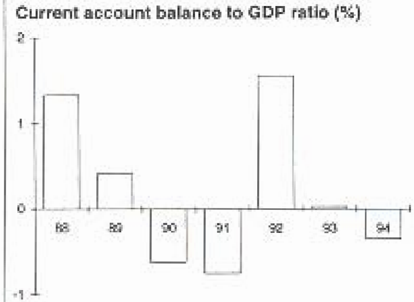
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	27,713	33,283	37,474	40,095	45,012
Imports of goods and nfs	16,928	23,808	22,602	29,614	37,905
Resource balance	10,785	9,475	14,872	10,481	7,107
Net factor income	-11,213	-13,316	-10,552	-11,989	-11,378
Net current transfers	0	834	2,056	1,653	2,000
Current account balance					
Before official transfers	-428	-3,007	6,375	145	-2,271
After official transfers	-412	-3,007	6,375	145	-2,271
Long-term capital inflow	-3,591	-4,714	20,594	7,548	5,189
Total other items (net)	5,417	8,462	-12,082	1,016	4,082
Changes in net reserves	-1,414	-741	-14,887	-8,709	-7,000
Memo:					
Reserves excluding gold *(mill. US$)*	10,605	7,441	22,521	30,604	..
Reserves including gold *(mill. US$)*	11,618	9,200	23,265	31,747	..
Conversion rate *(local/US$)*	2.3E-09	2.5E-05	1.6E-03	3.2E-02	0.6

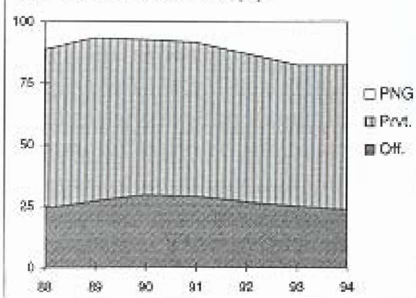
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	313.5	249.0	240.6	254.0	236.7
IMF credit/exports	15.8	5.0	1.9	0.7	0.4
Short-term debt/exports	32.8	66.5	51.1	65.5	47.5
Total debt service/exports	38.6	24.3	23.0	25.9	29.0
GDP ratios					
Long-term debt/GDP	41.2	18.9	24.2	20.8	17.2
IMF credit/GDP	2.1	0.4	0.2	0.1	0.0
Short-term debt/GDP	4.3	5.0	5.1	5.4	3.5
Long-term debt ratios					
Private nonguaranteed/long-term	18.7	7.4	13.1	17.7	17.8
Public and publicly guaranteed					
Private creditors/long-term	64.4	62.9	60.2	57.4	58.6
Official creditors/long-term	16.9	29.7	26.7	24.9	23.6

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Bulgaria

Bulgaria is a lower-middle-income country with a population of about 8.9 million. GNP per capita in 1993 is estimated at $1,140. Bulgaria began the process of political transition in late 1989. Until then the state controlled practically all segments of economic activity, with the exception of small family plots in agriculture and most private housing. Centralized economic control had been used to promote industrial expansion at the cost of Bulgaria's comparatively competitive agriculture, and the industrial sector heavily relied on Soviet bloc trade. The economy was characterized by massive price distortions and direct state control over resource allocation typical of a centrally planned economy. A complex mix of subsidies, taxes, and foreign exchange rationing insulated the economy from international competition.

International trade played a significant role in the economy, with total trade (exports plus imports) equivalent to an unusually high 80 percent of 1989 GDP (approximately two-thirds within the Council for Mutual Economic Assistance). As a result, the Bulgarian economy has been significantly affected by the tumultuous events that took place in Eastern Europe, particularly the disruption of trade flows with the former Soviet Union.

Over 1989-90 the economy's performance deteriorated rapidly in the face of external shocks, the collapse of the communist system, and delays in implementing economic reforms. The signs of trouble were already evident in 1989, when GDP declined by 0.3 percent. During 1990, the economy continued its downward spiral, as the disintegration of CMEA trade and payments arrangements, coupled with the overall contraction of all East European economies, disrupted vital imported inputs — most notably, oil from the Soviet Union — and caused a considerable decline in Bulgarian exports. This shock could not be offset by imports from convertible currency countries, because foreign capital inflows were cut following the government's unilateral suspension of debt payments by the Foreign Trade Bank, which was responsible for virtually all of Bulgaria's foreign commercial debt.

The Persian Gulf Crisis worsened the external situation through higher oil prices, the curtailment of oil supplies from Iraq, and a sharp reduction in trade with both Kuwait and Iraq. GDP declined an estimated 9 percent in 1990; investment collapsed, falling by 25 percent, while real consumption expenditures increased, partly reflecting hoarding of goods towards the end of 1990 before liberalization began. Inflation accelerated and reached 64 percent by year's end, fueled by increases in nominal wages and the large monetary overhang. The general government budget deficit also increased to about 9 percent of GDP.

Recent Economic Developments

A coalition government assumed power in late 1990 and introduced a radical and comprehensive economic reform program in February 1991, supported by the World Bank and the IMF. Most prices were liberalized, exchange rates were unified, and a market-based floating regime was adopted. To prevent price liberalization from escalating into uncontrolled inflation, restrictive monetary and fiscal policies were adopted, including sharply higher interest rates and a restrictive incomes policy. The main instrument of the stabilization program was a large reduction in the budget deficit from 9 percent of GDP in 1990 to 4 percent in 1991, achieved primarily by reducing budgetary subsidies. Important structural policy reforms included price liberalization with major consecutive adjustments in energy prices, opening the economy to external competition, legislation to return agricultural land to private owners, a program for the sale of small state-owned establishments, and the enactment of a broad-based Privatization Law in April 1992. Bulgaria also completed the process of demonopolizing industry, transport, and domestic trade; created a two-tier banking system; formulated a comprehensive restructuring of the banking sector; and began the complex process of developing a social safety net for the transition.

The stabilization program remained largely on track through mid-1992. Conservative monetary and fiscal policies contained demand pressures, incomes policy was instrumental in temporarily reducing real wages, and flexible exchange rate management moderated external trade shocks, restoring currency credibility and contributing to a buildup of international reserves. The intensity of the stabilization effort and the pace of structural reform slowed, however, in the second half of 1992. As political uncertainties intensified, macro-economic policies were relaxed, resulting in a rekindling of inflation and an increase in the budget deficit. Output continued to decline, partly as a result of the external embargo on the Federal Republic of Yugoslavia, which directly reduced Bulgaria's exports and indirectly hurt trade through the elimination of a critical route to the West.

Political and economic uncertainties culminated in a change of government in December 1992. Although this government declared itself the "government of privatization," little formal privatization took place. Moreover, initially the government's stabilization measures proved inadequate to reduce the escalating budget deficit and bolster confidence in the lev, and the budget deficit increased to 11 percent of GDP, and monetary control was loosened. The expansion in domestic demand led to a surge in imports, and the current account balance deteriorated substantially. In the last quarter of 1993, there was a loss of confidence and some capital flight; reflecting the carryover of expansionary pressures from 1993, the lev depreciated sharply in the first few months of 1994.

In response to the exchange rate crisis, the government tightened fiscal and incomes policy in 1994. The budget deficit was reduced from about 11 percent of GDP in 1993 to around 7 percent in 1994, with a substantial improvement in the primary balance. However, fiscal expansion was not completely arrested, because of off-budget expenditures, such as subsidies to the electricity company. Also, a shift away from domestic currency and a loosening of monetary policy resulted in much higher inflation, to 122 percent on a year-end basis. Furthermore, government salaries and pensions were increased substantially at the end of 1994, a change that will complicate fiscal management and could increase inflationary pressures in 1995 — making sustainability of the fiscal improvement the central macroeconomic issue for 1995.

The government's structural reforms, after encouraging progress early in the year, also slowed significantly in 1994. While amendments to the Privatization Law were made to speed market-based privatization and introduce a mass privatization program, the program had lost nearly all of its momentum by the end of 1994. There was an acceleration in the pace of market-based privatization, but the number of transactions — 185 at end-November 1994, of which 87 were whole enterprises — is a negligible fraction of the 3,500 state enterprises. The state banks were weakened by a continuation of lending to state enterprises, and a program to clean pre-1991 bad loans from the portfolios of state banks left these banks with bonds bearing below-market interest rates. The resulting need for financing from the central bank contributed significantly to the monetary expansion. Finally, a reluctance to raise energy prices, particularly the price of electricity, necessitated large transfers to the electricity company, exacerbating macroeconomic difficulties and distorting resource allocation.

Important progress was made on the external front in 1994. A comprehensive debt and debt service reduction agreement was concluded with Bulgaria's commercial bank creditors in September 1994. A third rescheduling of official obligations with the Paris Club was completed in April 1994. The external balance also improved, as the large exchange rate adjustment stimulated exports and depressed import demand. Gross official reserves were about $1.4 billion at end-1994, higher than at end-1993 despite the substantial initial costs of the debt reduction agreement. Also, the European Union Association agreement and a similar arrangement with European Free Trade Association countries came into force during 1994.

Medium-Term Prospects

The new government faces formidable challenges. There is a clear need to jump-start efforts at stabilization and structural reforms to improve the economy's medium-term prospects. With firm implementation of the stabilization and structural reform agendas, real GDP growth could turn positive in 1995 for the first time during the transition, reaching about 2 percent. It could then slowly rise to 4 percent a year by the end of the decade. Services are projected to continue to lead the output recovery, as has been the experience in the past two years. Tourism, which grew rapidly over 1993-94, will continue to play an important role. The Black Sea areas and mountain ski resorts are expected to continue to be the primary tourism growth areas. Moreover, there is solid interest among foreign investors in this subsector, and growth could be propelled by higher investment outlays. Agriculture is also expected to provide some growth momentum, especially with the completion of land restitution. Within agriculture, the greatest supply response is projected from grains (primarily wheat), vegetables, and wine. Industry is expected to lag as considerable restructuring and downsizing of state-owned industrial enterprises is likely to continue into the medium term. Therefore, the decline in public enterprise performance will more than offset private sector growth, given the small size of the private manufacturing subsector.

The key to the resumption of economic growth lies principally in a recovery of international trade. A key objective of the government's macroeconomic stabilization program is to maintain over the medium term the improvement in the trade balance achieved in 1994. In 1995 the recently concluded trade agreements with the

European Union and the European Free Trade Association are expected to allow expansion of trade into these markets, and exchange rate movements will continue to provide an incentive for exporters. Finally, the substantial fiscal adjustment required in 1995, if implemented, will contain domestic demand pressures. Imports are then expected to rise slowly over the medium term, consistent with the growth in GDP, recovery of investments, and growth in exports.

External Debt

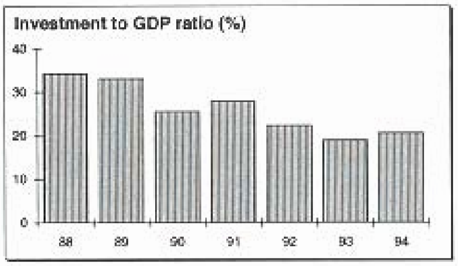
At the end of 1994, following the conclusion of the debt and debt-service reduction agreement, Bulgaria's external debt amounted to an estimated $10.8 billion (equivalent to about 116 percent of GDP and 205 percent of total exports of goods and services), which is a reduction from the pre-agreement 1993 stock of $12.5 billion. Official obligations on pre-cutoff-date debt have been rescheduled through the Paris Club until April 1995. This will help Bulgaria overcome the severe liquidity problem it confronts during 1995, but it will not reduce the medium-term debt burden sufficiently to permit sustainable long-term growth unless the authorities accelerate structural reforms, particularly privatization, banking reform, hardening the budget constraint on state enterprises, and development of an effective social safety net.

Bulgaria

Population mid-1993 *(millions)*	8.9	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	1,140	Indebtedness level:	**Severely indebted**

KEY RATIOS

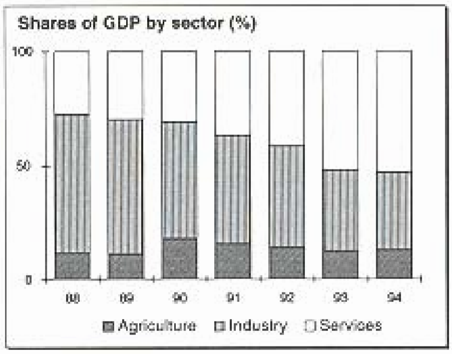
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.2	25.6	22.3	18.9	20.6
Exports of goods and nfs/GDP	42.8	33.1	57.8	46.6	53.0
Gross domestic savings/GDP	31.8	22.0	18.8	15.7	21.6
Gross national savings/GDP	31.7	14.6	17.4	14.1	18.5
Current account balance/GDP	-0.8	-5.9	-4.0	-4.7	-2.1
Interest payments/GDP	1.2	2.2	1.7	1.8	1.4
Total debt/GDP	21.9	52.5	115.0	110.8	107.2
Total debt/exports	32.3	239.3	238.8	233.4	200.3



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	11.9	17.7	13.9	12.2	12.7
Industry	62.5	51.3	44.7	35.8	34.4
Manufacturing	..	..	..	..	..
Services	25.6	31.0	41.4	52.0	53.0

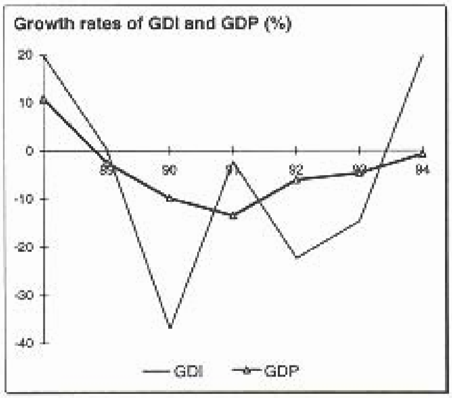
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	-0.6	-2.9	-7.7	-9.0	4.3
Industry	2.7	-9.3	-7.0	-8.5	-3.9
Manufacturing	..	..	..	..	..
Services	4.2	-1.4	-3.3	5.3	2.4
GDP	2.7	-6.2	-6.1	-4.7	-0.8



GDP: EXPENDITURE

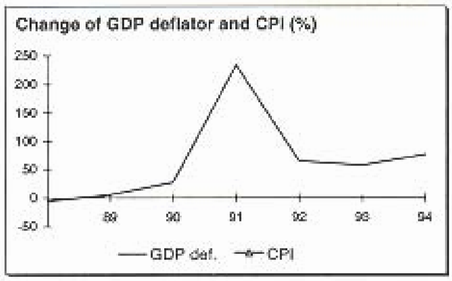
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	59.8	59.8	64.7	67.0	63.4
General government consumption	8.5	18.2	16.5	17.2	15.0
Gross domestic investment	32.2	25.6	22.3	18.9	20.6
Exports of goods and nfs	42.8	33.1	57.8	46.6	53.0
Imports of goods and nfs	43.2	36.7	61.3	49.8	51.9

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	1.6	-5.8	3.2	-1.9	-5.2
General government consumption	11.6	-7.7	-8.9	0.0	-12.9
Gross domestic investment	-0.3	-8.8	-22.3	-14.7	19.7
Exports of goods and nfs	-20.1	-7.1	5.0	-2.6	-1.5
Imports of goods and nfs	-19.4	-15.9	-0.8	-2.0	-9.0
Gross national product	1.3	-4.5	1.7	-4.8	-2.4
Gross national income	1.2	-5.2	-0.3	-4.9	-2.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-1.2	27.3	64.9	57.7	76.0
Government finance					
(% of GDP)					
Current budget balance	9.2	-6.0	-4.3	-8.8	-5.5
Overall surplus/deficit	0.0	-9.1	-7.1	-10.5	-6.8



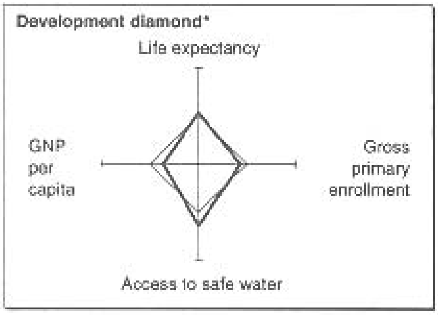
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Bulgaria

POVERTY and SOCIAL

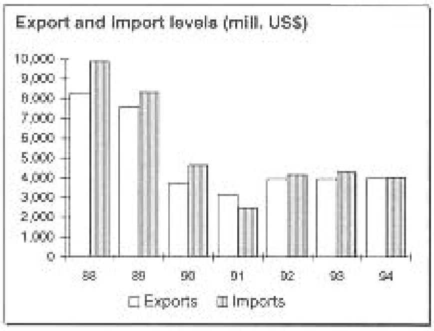
	1985-90	1990-94
(annual growth rates)		
Population	0.1	-0.5
Labor force	0.0	0.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	71.3
Infant mortality *(per 1,000 live births)*	14.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	1,954.0
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	90.0



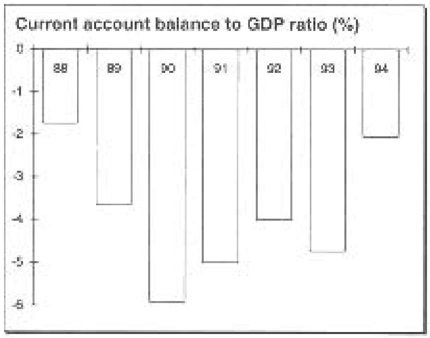
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	10,688	3,743	3,956	3,971	4,000
Other metals	2,125	1,380	978	980	1,059
Other agriculture	1,791	890	1,048	1,050	1,135
Manufactures	..	..	..	..	..
Total imports (cif)	11,199	4,660	4,169	4,301	4,050
Food	545	150	942	972	915
Fuel and energy	2,217	1,392	1,026	1,058	996
Capital goods	4,532	1,706	1,205	1,243	1,170
Export price index *(1987=100)*	112	53	50	57	109
Import price index *(1987=100)*	66	40	22	25	47
Terms of trade *(1987=100)*	169	132	232	229	229
Openness of economy *(trade/GDP,%)*	86	70	119	96	105



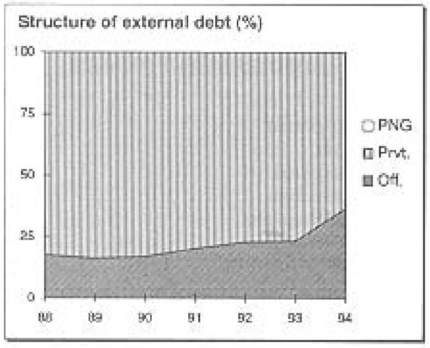
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	11,761	4,433	5,026	5,155	5,250
Imports of goods and nfs	11,872	5,165	5,334	5,505	5,150
Resource balance	-112	-731	-308	-350	100
Net factor income	-101	-613	-159	-211	-355
Net current transfers	74	113	43	37	50
Current account balance					
Before official transfers	-139	-1,231	-424	-525	-205
After official transfers	-139	-1,231	-424	-525	-205
Long-term capital inflow	961	-349	364	70	657
Total other items (net)	-399	1,169	862	228	799
Changes in net reserves	-423	411	-802	227	-1,251
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	2,817	2,376	..
Reserves including gold *(mill. US$)*	..	..	2,817	2,376	..
Conversion rate *(local/US$)*	1.9	2.2	19.2	27.6	53.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	31.9	216.1	195.7	185.7	178.0
IMF credit/exports	0.0	0.0	11.6	12.0	17.2
Short-term debt/exports	0.4	23.2	31.5	35.7	5.2
Total debt service/exports	9.9	30.4	8.2	5.6	7.4
GDP ratios					
Long-term debt/GDP	21.6	47.4	94.2	88.2	95.2
IMF credit/GDP	0.0	0.0	5.6	5.7	9.2
Short-term debt/GDP	0.3	5.1	15.2	16.9	2.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	97.5	83.1	77.3	76.8	63.5
Official creditors/long-term	2.5	16.9	22.7	23.2	36.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Burkina Faso

Burkina Faso is a resource-poor landlocked country in a transitional zone between the Sudano-Guinean regions and the Sahel. Although fragile, soils are comparatively fertile. The majority of Burkina's population of roughly 10 million (nearly 90 percent rural) depends mainly on agriculture, both crops and livestock. Annual population growth of almost 3 percent is creating severe pressure on arable land. Social indicators, such as primary school enrollment, access to health services, and life expectancy, are among the lowest in the world. Per capita GNP is estimated at $300 in 1993.

Burkina's economic performance has been limited by several serious constraints: high population growth and related environmental and socioeconomic problems, its dependence on rainfed agriculture and hence vulnerability to drought, an inadequate and fragmented economic infrastructure, and what was until four years ago a highly regulated and distortionary economic environment discouraging private investment and exports.

Most of the labor force is occupied in the primary sector, which accounts for about 40 percent of GDP. The service sector has expanded to provide about 37 percent of GDP. In the secondary sector, the contribution of mining to GDP is relatively small, but increasing rapidly with the expansion of gold mining, after cotton now the country's second biggest source of export earnings. Other mining activities, such as zinc, also have potential. Informal activities permeate Burkina's economy in all sectors.

Until recent reforms, cumbersome regulations, a restrictive trade regime, price controls, and widespread government involvement in productive sectors discouraged private investment. These factors impeded the development of the domestic banking sector and private enterprises in all formal sectors of the economy. Without the dynamism of the informal sector, the size and importance of which is inadequately estimated, economic growth would no doubt have been much slower in Burkina.

In 1991 Burkina Faso launched, with the support of donors, an adjustment program relying on internal adjustment policies and structural reforms aimed at building the foundation for sustained economic and social development. However, the external competitiveness of Burkina's production remained low. Despite the January 1994 devaluation of the CFA franc, further direct cost-reduction measures are needed if domestic producers are to contribute to a reduction of the sizable external trade deficit.

Regional market development and economic integration are of great importance for Burkina's economy. Roughly one-fourth of Burkina's recorded external trade is intraregional, the highest proportion among Sahelian countries. In addition, worker's remittances received from Burkinabè working abroad, mostly in Côte d'Ivoire, account for $150 million annually, equivalent to 5 percent of GDP.

Recent Political Developments

Burkina's present political environment may prove to have a very positive effect on development if the pragmatic, less ideological approach to economic management continues. Burkina has undergone a major political transformation in the recent past. Since October 1987 the authorities have followed a process of "rectification" of the previous regime's revolutionary socialist ideas. This move toward greater political openness and democratization of power has continued and is embodied in the new constitution. Multiparty legislative elections took place in May 1992, and the new parliament started work in October 1992. These political developments are coupled with a more pragmatic and liberal approach to economic management.

Recent Economic Performance

In spite of the handicaps constraining its economic performance, Burkina Faso recorded in the 1980s a growth rate that was sufficient to raise per capita incomes and consumption slightly, as real GDP grew by 3.5 percent a year between 1980 and 1993. Year-to-year variations in growth are large and depend mostly on the weather and related crop and livestock production developments.

Until 1988 the economy enjoyed relatively good growth. Much of the growth was, however, derived from two unsustainable sources: an expansion of public consumption and investment spending, and high agricultural growth due in part to bringing of new land, recently freed of onchocerciasis — river blindness — under cultivation. In contrast to a rapid growth of construction and an expansion of transport and other services, driven largely by the good performance of agriculture, manufacturing stagnated during the 1980s even though highly protected by import controls. The reasons were several. Structural factors such as poor technical skills, high energy and transport costs, high wages and worker benefits, and rigid price and trade controls hurt competitiveness. The policy framework was complex and sometimes contradictory, and special tax exemptions and protective measures deterred efficiency gains.

In 1989 and 1990 real GDP growth slowed to 1.7 percent on average, largely reflecting a fall in agricultural output due to a recurrence of poor rainfall and a curtailment of public investment. Because 1991 was a good agricultural year and the private sector started to respond to reforms in the incentive framework, the expansion of GDP, in real terms, reached 6.0 percent, despite a further reduction in the growth of public spending. By contrast, economic developments in 1992 and 1993 were on the whole disappointing, as low world prices combined with uneven rainfall slowed the growth of domestic output and incomes, worsened the public finance situation, and weakened the external position. According to preliminary estimates, 1994 GDP growth was only about 1 percent, as excessive rainfall caused a decline in agricultural output.

The government's cumulative overall budget deficits averaged almost 9.2 percent of GDP over 1986-90 (excluding grants). Because of administrative inefficiencies and the stagnation of the formal sector, tax revenue performance was disappointing and Burkina fell into arrears on its domestic and external debt service obligations as necessary measures on the expenditure side were not taken. At the end of 1990 external and domestic arrears were approximately equivalent to one year's fiscal revenue. With the adoption of the comprehensive adjustment program in 1991, including measures to contain the wage bill and improve revenue performance, the government was initially able to clear the programmed amount of its arrears. The accumulation of external and domestic payments arrears resumed in 1992 and accelerated in 1993, as a result of slippages in fiscal revenue. Inflation has traditionally been moderate, averaging 3.2 percent per year over 1980-93. A jump in consumer prices was to be expected following the CFA franc devaluation, but restrictive policies appear to have limited inflation to about 25 percent in 1994.

The structure of current public expenditures has also been a subject of concern. Because of the rehiring of civil servants laid off under the previous administration, the wage bill had been increasing too fast, crowding out investment and operating expenditures. The amounts allocated for maintenance of basic infrastructure were minimal. Expenditures for basic health services and primary education were inadequate, while health service coverage and primary school enrollment rates remain well below the average for similarly poor countries. Recurrent expenditures of economic or social importance were being financed by external grants or simply being eliminated. Measures to reverse trends in these areas were an integral part of the program launched in 1991, and they were fully implemented. Defense outlays, which were higher than operating expenditures for education and health combined in the mid-1980s, were cut and the savings shifted to higher allocations for materials and supplies in the priority ministries and for the recruitment of 950 primary school instructors.

Burkina's external accounts developed relatively favorably during the 1980s, thanks to rising cotton and gold export revenues. The current account deficit (excluding official transfers) improved compared with performance over 1977-82. Net capital inflows sufficed not only to cover the current account deficits over 1982-88, but also to build up gross official reserves to the equivalent of about 5.4 months of imports of goods and services at end-1988. In 1989, however, Burkina's balance-of-payments position weakened dramatically because of a deterioration in the trade balance, a larger deficit in the service account, and lower net private transfers. While the external trade balance improved in 1990 and 1991, it deteriorated in 1992 and 1993, owing to a large extent to a reduction in the volume and international price for cotton exports. Initial indications are that this trend was reversed in 1994.

Burkina's external position is still relatively comfortable, although it weakened somewhat in recent years as the impact of the slow improvement in competitiveness was offset by adverse external shocks, notably the decline in world market cotton prices, a slow recovery of gold exports, delay in developing a promising zinc deposit, and a sharp drop in worker remittances from Côte d'Ivoire. In 1991 Burkina Faso adopted a macroeconomic policy framework and a structural adjustment program supported by IDA and the IMF. The corrective measures implemented under the program, which focused on internal adjustment policies, contributed to a narrowing of the overall fiscal deficit and to the containment of the current account deficit.

While the government successfully contained growth of the wage bill, by mid-1993 a significant deterioration in public finance performance was becoming increasingly apparent. Tax revenues were far short of targets, principally because of weaknesses in customs administration, which was confronted also with growing fraud. The cotton sector deficit, resulting from a decline in world market prices, put a large claim on the government's budget. The government also failed to take several revenue-enhancing measures expected in early 1993, including variable import levies on rice and sugar, and a temporary tariff surcharge to substitute for removed quantitative import restrictions until October 1993.

In January 1994 Burkina Faso joined the other countries of the CFA zone in devaluing the CFA franc 50 percent against the French franc, and adopted an updated medium-term structural adjustment program and an economic and social program aimed mitigating the adverse social impact of the devaluation while containing aggregate demand, deepening ongoing structural and sectoral reforms to improve competitiveness conducive to private-sector growth, and strengthening the delivery of social services. Developments since the devaluation are broadly satisfactory. Inflation appears to have remained below the initial target of 30 percent for 1994, and the government has lifted the price controls that had been reimposed after the devaluation. There is also strong evidence of a rebound in exports, notably exports of livestock and agricultural products, as well as a pickup in activity in import substitution sectors, such as textile, soap, and bicycles.

The planning of public sector investments has been a continual problem in Burkina but has improved since 1990. Its public investment program for 1993-95 is free of highly visible large-scale projects that have not been seriously analyzed as to their economic merits, budgetary implications, or the country's capacity to implement them. While the government has in the past given priority to transport sector investments of limited economic value — to the detriment of maintenance and rehabilitation of existing infrastructure — it is now seeking a balance between new investment and maintenance expenditures. Rehabilitating economic and social infrastructure is another priority, and new initiatives will focus on high-return investments, land management, and the development of Burkina's human resources.

The Burkinabè people have long been known for their entrepreneurial skill and diligence, and Burkinabè migrants have made a substantial contribution to the economies of neighboring coastal countries. To stimulate formal private sector production, trade, and investment, Burkina is reducing government intervention and regulations. Price controls have been lifted, labor regulations made more flexible, the fiscal system rationalized, and the investment code updated. Policies that contain wage and price inflation and enhance competitiveness are being pursued in light of the relatively high costs of domestic production. Since 1990, the government has taken steps to loosen its tight regulatory framework by eliminating export taxes, liberalizing prices, reducing import restrictions, and allowing increased internal competition.

Population and Environment

Burkina's high population growth of almost 3 percent a year contributes to a variety of ecological and social development problems. Cultivable land, plant cover, and water resources are overexploited in populous areas, leading to rapid soil degradation, erosion, and further desertification. Emigration to neighboring coastal countries has become increasingly less attractive in recent years because of persistent economic and financial problems in the traditional host countries. Available public finances cannot keep up with the costs of basic education and the provision of health care and other basic services for the rapidly increasing population.

The government is committed to increased family planning services and will allocate more resources for these programs and better integrate them into the existing health service delivery system. The government has initiated a public information program to address the spread of sexually transmitted diseases, such as HIV. Increased awareness of environmental degradation has led to the formulation of a program to extend simple technologies that aid soil, water, and biomass conservation. A portion of the resources needed for primary education will be made available by continuing reductions of still-high expenditures on secondary and university-level stipends and reductions in nondevelopment expenditure.

Poverty and Social Indicators

Burkina's social indicators and population growth mirror the widespread poverty. The crude death rate (18 per 1,000), infant mortality rate (132 per 1,000), and combined child-infant mortality rate (195 per 1,000) are among the highest in the world. Primary school enrollment has only recently reached 31 percent. Adult literacy was estimated at about 18 percent in 1991, while life expectancy at birth is estimated at 48 years. Agriculture remains little diversified and subject to climatic vagaries. High rural-to-urban migration, combined with still-inadequate social services, and government policies, which in the past constrained opportunities for private sector activity, have also contributed to poverty in urban areas. A poverty assessment is being prepared by the government, and the results will form the basis of a strategy and program to alleviate poverty more effectively. At the same time, vulnerable groups are expected to benefit from the adjustment process, which is promoting private-sector growth and more effective, broad-based social services through more efficient public spending.

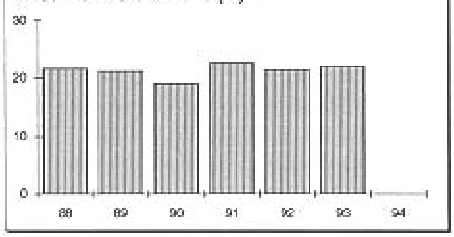
Burkina Faso

Population mid-1993 *(millions)*	**9.8**
GNP per capita 1993 *(US$)*	**300**

Income group: **Low**
Indebtedness level: **Less indebted**

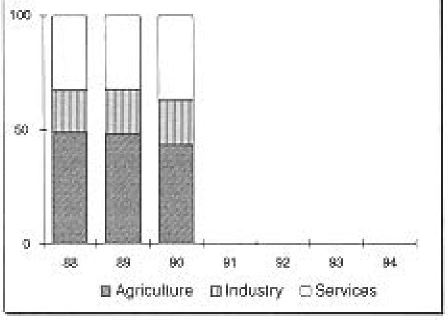
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	24.2	19.1	21.4	22.1	..
Exports of goods and nfs/GDP	13.1	13.5	11.9	11.9	..
Gross domestic savings/GDP	-2.0	3.3	2.9	2.2	..
Gross national savings/GDP	9.1	7.0	6.9	6.1	..
Current account balance/GDP	-15.1	-12.2	-14.6	-16.0	..
Interest payments/GDP	0.8	0.4	0.5	0.6	..
Total debt/GDP	41.2	32.3	35.6	40.7	..
Total debt/exports	171.3	156.7	202.0	234.8	..


Investment to GDP ratio (%)

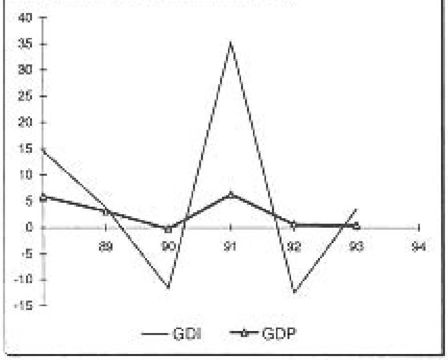
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	44.4	43.5	..	..	..
Industry	17.4	19.6	..	..	..
Manufacturing	12.0	13.2	..	..	..
Services	38.1	36.8	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.1	*2.5*	-3.7	0.0	..
Industry	4.4	*3.0*	6.7	1.3	..
Manufacturing	4.4	*4.0*	6.8	1.0	..
Services	4.4	*1.6*	2.4	1.5	..
GDP	3.3	*2.2*	0.6	0.4	..


Shares of GDP by sector (%)

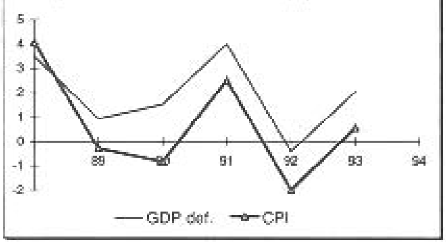
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	86.6	79.0	80.2	80.7	..
General government consumption	15.5	17.7	16.9	17.1	..
Gross domestic investment	24.2	19.1	21.4	22.1	..
Exports of goods and nfs	13.1	13.5	11.9	11.9	..
Imports of goods and nfs	39.3	29.3	30.4	31.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.9	*1.5*	3.4	-1.8	..
General government consumption	3.2	*5.1*	7.8	1.6	..
Gross domestic investment	-1.4	*4.9*	-12.5	3.5	..
Exports of goods and nfs	5.9	*0.2*	0.3	3.8	..
Imports of goods and nfs	2.8	*2.6*	1.4	-1.2	..
Gross national product	3.2	1.5	0.5	0.3	0.5
Gross national income	3.6	*1.5*	0.3	-0.8	..


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	6.9	-0.8	-2.0	0.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.6	1.5	-0.4	2.0	..
Government finance					
(% of GDP)					
Current budget balance	1.5	-1.8	-0.2	-2.2	..
Overall surplus/deficit	-6.0	-7.5	-7.1	-9.2	..

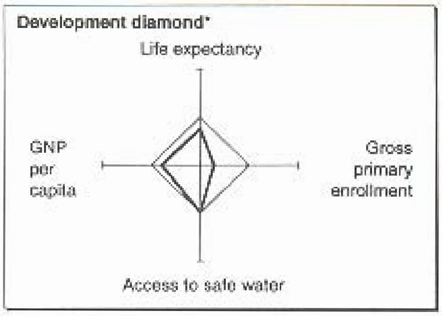

Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

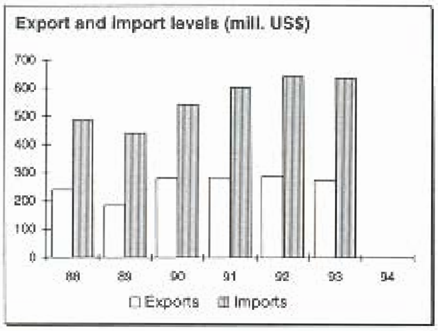
	1985-90	1990-94
(annual growth rates)		
Population	2.6	*2.8*
Labor force	2.0	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.2
Infant mortality *(per 1,000 live births)*	128.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	67.3
Energy consumption per capita *(kg oil equivalent)*	16.3
Illiteracy *(% of population age 15+)*	81.8
Gross primary enrollment *(% of school-age population)*	31.0



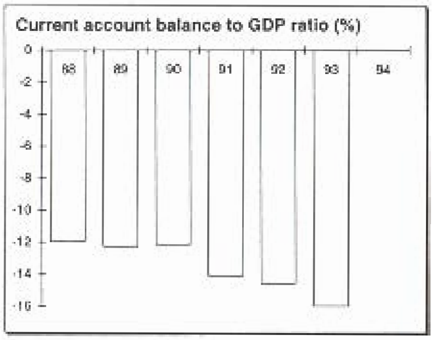
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	136	281	288	273	..
Cotton	30	97	94	64	..
Meat	14	35	33	32	..
Manufactures	..	..	..	..	..
Total imports (cif)	353	543	642	636	..
Food	59	90	87	86	..
Fuel and energy	32	83	42	37	..
Capital goods	106	105	241	240	..
Export price index *(1987=100)*	81	116	119	107	..
Import price index *(1987=100)*	90	107	115	116	..
Terms of trade *(1987=100)*	90	109	103	93	..
Openness of economy *(trade/GDP,%)*	52	43	42	44	..



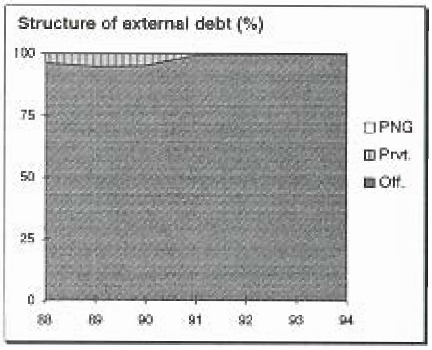
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	163	349	349	336	..
Imports of goods and nfs	488	757	894	896	..
Resource balance	-325	-408	-546	-560	..
Net factor income	-1	-12	-28	-30	..
Net current transfers	139	105	145	140	..
Current account balance					
Before official transfers	-187	-314	-429	-450	..
After official transfers	-60	-89	-97	-117	..
Long-term capital inflow	46	89	132	129	..
Total other items (net)	8	6	20	24	..
Changes in net reserves	6	-6	-55	-36	..
Memo:					
Reserves excluding gold *(mill. US$)*	140	300	341	382	..
Reserves including gold *(mill. US$)*	143	305	345	387	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	348.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	152.9	140.9	190.2	224.3	..
IMF credit/exports	3.4	0.0	1.7	4.3	..
Short-term debt/exports	15.0	15.8	10.1	6.3	..
Total debt service/exports	9.9	6.4	6.3	7.1	..
GDP ratios					
Long-term debt/GDP	36.7	29.1	33.6	38.8	..
IMF credit/GDP	0.8	0.0	0.3	0.7	..
Short-term debt/GDP	3.6	3.3	1.8	1.1	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	7.8	5.1	0.5	0.4	0.2
Official creditors/long-term	92.2	94.9	99.5	99.6	99.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Burundi

Burundi is a landlocked country of 27,834 square kilometers in Central Africa. Bujumbura, the capital, is 2,100 kilometers from the nearest port, Kenya's Mombasa. GDP per capita was one of the lowest in the world at $180 in 1993. With a population of 5.8 million growing at 3.1 percent a year, there are 208 inhabitants per square kilometer, ten times the Sub-Saharan African average. Urbanization is only 6 percent compared with a 30 percent average for the region. Burundi has limited natural resources other than relatively fertile agricultural land and a climate that allows three growing seasons a year. Mineral resources include cassiterite, nickel, phosphate, vanadium, and some alluvial gold. An exploration agreement for nickel sulfites was concluded in 1993.

Agriculture contributes about half of GDP, 90 percent of employment, and over 80 percent of export earnings. The most important export crop in this largely subsistence sector is coffee, which accounted 70 percent of merchandise exports over 1990-94. Burundi was traditionally self-sufficient in food, but food production has not kept pace with population growth and declining soil fertility. The average smallholder farm size has declined to 0.7 hectares. In 1994, following the displacement of 800,000 people, mostly farmers, in the aftermath of the political crisis and ethnic violence that erupted in October 1993, Burundi had a food deficit of about 250,000 metric tons and needed substantial food aid.

The secondary sector accounted for only 18 percent of GDP and 10 percent of exports in 1994. Despite growth averaging 5 percent since 1985, the modern sector has been unable to absorb excess rural labor. The private sector contributed only 16 percent of gross fixed investment over the last 15 years, mainly in smallholder farming and transport. The public sector dominates manufacturing, energy, infrastructure, the financial sector, and other modern-sector activities, and contributes over half of formal employment of 40,000. Some 80 percent of investment is externally financed.

Recent Political Developments

Burundi held its first democratic elections in June-July 1993, with the party representing the Hutu majority winning the presidency and a majority in the National Assembly. An attempted army coup that October resulted in the assassination of the president, the president of the National Assembly, and other top officials. Although the coup faltered in the face of international opprobrium, it destabilized Burundi's political situation and rekindled ethnic strife. An attempt to restore political legitimacy with the election by the National Assembly of a new president in February 1994 ended soon after with his death in April 1994 in an airplane crash that also took the life of his Rwandan counterpart.

New power-sharing arrangements in September 1994 curtailed the powers of the president and the National Assembly, and granted the opposition and the prime minister representing it additional powers and 45 percent of all important public appointments. The agreement paved the way for the inauguration of a new president last October and the appointment of a new government. Infighting within the opposition party led to a change of government in February 1995. Political instability has weakened the country's institutions, including public administration and project management.

The Experience with Adjustment

Burundi has pursued an adjustment program supported by IDA and the IMF since 1986, and has made significant progress in exchange, price, and trade liberalization, and fiscal management. The government implemented important regulatory reforms, including a new labor code, banking law, and central bank statutes, and is preparing a new tax code and commercial law; it promoted exports through a free trade zone created in 1992, a duty drawback scheme, transport subsidies for exporters, and the legalization of foreign exchange accounts for exporters. Burundi has taken steps to reverse the appreciation of the real effective exchange rate, which depreciated by 44 percent between 1986 and 1992; during the same period fiscal revenue increased slightly in proportion to GDP, and Burundi consistently recorded a primary fiscal surplus, no mean feat in Sub-Saharan Africa.

Despite this progress on the policy front, supply response has lagged. Growth, although positive and above the regional average, slowed; private investment barely increased; and exports neither increased nor diversified. The structure of Burundi's economy has remained largely unchanged, with a dominant subsistence sector, little diversification, low savings, low private investment, an overdimensioned public sector, and high aid dependency. During the 1986-92 period, GDP per capita grew an average of only 0.9 percent compared with 2 percent over 1980-85, private investment as a ratio to GDP remained under 4 percent, and export volume grew by less than 2 percent, compared with a 9 percent average over 1980-85. Over the adjustment period, the public deficit and the current account balance did not significantly improve, and were equivalent to 6 percent and 9 percent of GDP, respectively (including grants).

The poor supply response is mainly due to the often late and partial implementation of the reform agenda and, since 1993, disruptions associated with political transition and ethnic strife. Many of the reforms — such as the liberalization of the current account and the partial liberalization of the capital account — were implemented late in the program. Others — such as freeing up agricultural producer prices, or prices and tariffs in sectors dominated by public enterprises — were legislated but not implemented.

Reform faltered because the government was unable to reduce the state role in the economy, redirect public resources to support development, and improve the efficiency, transparency and accountability of public-sector management. Excessive nondevelopmental expenditure for the military, general administration, and subsidies to inefficient parastatals crowded out spending for human resource development and maintenance and operation of essential infrastructure. The state did not divest, and the government failed to strengthen management of public services or improve the efficiency of public investment.

Poverty and Social Indicators

Poverty is widespread in Burundi and has been rising with economic disruption of rural society and agricultural production due to ethnic strife. About 14 percent of the population is displaced, dispersed, or in refugee camps. A June 1994 household consumption survey showed the proportion of population below the poverty threshold (including the 800,000 displaced people) has increased since 1990 from 36 to 57 percent in rural areas, and from 42 to 59 percent in urban areas. The most vulnerable households are likely to be led by single women or illiterate persons, have average family sizes of over six, and no off-farm income. The poor have high rates of childhood malnutrition, low rates of primary school enrollment, substandard housing, and unsafe drinking water, and rely on scarce wood for energy.

Burundi's human resources are being rapidly eroded by the ethnic and political crisis, and the resulting economic morass. Social indicators, historically comparable with regional averages, have deteriorated since 1993. Preliminary estimates indicate a decline in immunization rates from 81 to 60 percent, and in primary school enrollment from 70 to 52 percent. The incidence of acute childhood malnutrition doubled, from 6 to 12 percent. Official statistics indicate that 15 to 20 percent of the urban population and 1 to 2 percent of the rural population tests HIV positive; the spread of AIDS is likely to accelerate with the concentration of large numbers of refugees in camps.

Donors, through large-scale humanitarian assistance, which totaled \$85 million in 1994, have attempted to arrest this deterioration. The decline in social standards will require, however, several years to reverse, even if social peace is restored.

Recent Economic Developments

Burundi's already disappointing economic performance weakened markedly over 1993-94 because of the unstable political situation and ethnic strife. Virtually all activities declined except for coffee and government services — the former because of favorable weather and higher export prices, the latter because of cover increased military and security outlays. Food production declined by 22 percent; mining, energy, and manufacturing by 25 percent; and trade by 18 percent. Government consumption increased sharply as a proportion of GDP, averaging 12.7 percent over the two years, compared with less than 10.5 percent in previous years. The investment-GDP ratio declined to 9.5 percent in 1994, per capita consumption fell markedly, and savings remained a negative 4 percent of GDP. Burundi resorted to food aid in 1994 equal to about 10 percent of its 1992 production to meet the needs of 218,000 Rwandan refugees and 460,000 internally displaced people.

Burundi's financial situation also deteriorated significantly over 1993-94, although it generally met its external obligations — external arrears of \$3.3 million were reportedly settled in January 1995 — and took strong measures to limit fiscal slippage. The overall fiscal deficit, before grants, increased from 1 percent of GDP in 1992 to 3.8 percent in 1993 and 6.3 percent in 1994. Most of this increase was due to additional military and security outlays, and included recourse to "extrabudgetary" expenditures to escape normal budgetary circuits. The fiscal deficit was financed by accumulating payment arrears, mostly to parstatals, and, for the first time in many years, recourse to monetary financing. Food shortages due to farmer displacement and security problems and a 34 percent increase in the money supply stemming from higher credit to the public sector and an inability to sterilize increased coffee revenues pushed inflation to almost 15 percent, a ten-year record. The real exchange rate appreciated 7 percent in 1994, and the gap between the official and market rates widened to over 30 percent.

The external position showed an apparent improvement in the resource and current account balances over 1993-94. The trade deficit narrowed to less than 6 percent of GDP — from 9 to 10 percent in previous years — because of an 85 percent improvement in the terms of trade and a reduction in nonfood imports due to the economic slowdown and lower investment. This helped reduce the current account deficit, before grants, from 20 to under 14 percent of GDP. Despite capital inflows that fell sharply from $100 million in 1992 to an average of about $40 million over 1993-94 due to poor public investment execution, Burundi increased its net official reserves from four to six months of import coverage.

External debt increased to 118 percent of GDP in 1994, up from 104 percent in 1992; 85 percent of the debt was owed multilaterals. Debt service obligations averaged 33 percent of exports of goods and services over 1993-94.

Medium-Term Prospects

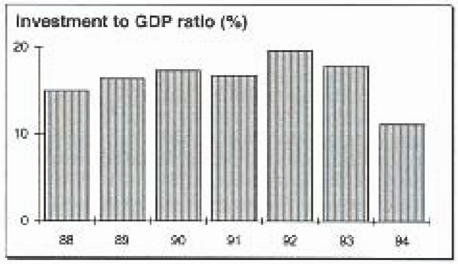
Burundi's long-term prospects for reducing poverty depend on its ability to accelerate growth. A strategy predicated on private-sector export-led initiatives, labor-intensive investment, and regional integration could bring growth from productivity improvements in traditional export crops (coffee, cotton, tea, tobacco), introduction of new export crops (flowers, fruits, vegetables, medicinal and ornamental plants), artisanal mining (cassiterite, gold, colombite-tantalite), light manufacturing, industrial mining (if the nickel exploration proves conclusive), and services for the subregion. Medium-term prospects will depend on the government's commitment and ability to restore political and social peace and resume reform, and on political progress in neighboring Rwanda.

Burundi

Population mid-1993 *(millions)*	6.0	Income group: **Low**
GNP per capita 1993 *(US$)*	180	Indebtedness level: **Severely Indebted**

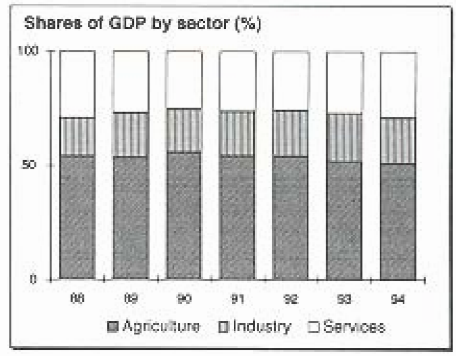
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	13.9	17.3	19.6	17.9	11.2
Exports of goods and nfs/GDP	10.8	7.9	8.9	9.4	15.3
Gross domestic savings/GDP	4.7	-2.6	-0.5	-2.8	-8.8
Gross national savings/GDP	3.9	-3.0	-0.6	-2.2	-8.6
Current account balance/GDP	-10.5	-20.3	-20.2	-20.0	-19.9
Interest payments/GDP	0.8	1.1	1.3	1.3	1.4
Total debt/GDP	39.6	80.2	94.1	112.1	124.1
Total debt/exports	354.5	932.6	924.4	1,059.4	737.7



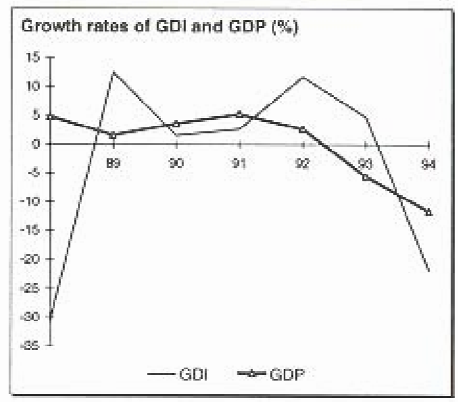
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	61.5	55.9	54.2	51.9	50.8
Industry	13.0	19.0	20.1	21.1	20.1
Manufacturing	8.1	8.8	9.4	..	..
Services	25.5	25.2	25.6	27.0	29.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.4	-4.6	3.0	-7.0	-17.5
Industry	3.2	-3.7	2.6	-4.9	-21.3
Manufacturing	-4.5	-7.5	7.8	-16.2	-25.0
Services	4.2	0.0	1.6	-2.1	-1.7
GDP	3.8	-2.4	2.7	-5.6	-11.6



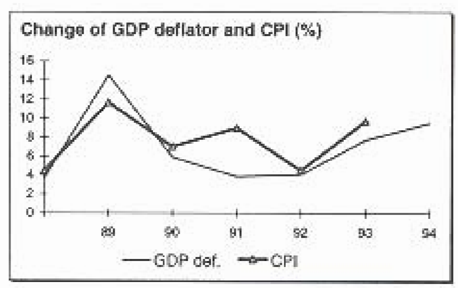
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	87.4	89.7	87.5	89.8	94.1
General government consumption	7.8	12.9	13.0	13.0	14.7
Gross domestic investment	13.9	17.3	19.6	17.9	11.2
Exports of goods and nfs	10.8	7.9	8.9	9.4	15.3
Imports of goods and nfs	20.0	27.8	29.0	30.1	35.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.6	1.6	1.1	2.6	-2.4
General government consumption	0.5	-0.6	13.1	-5.2	-12.8
Gross domestic investment	4.8	0.3	11.6	4.8	-21.7
Exports of goods and nfs	0.6	-3.9	1.1	-14.8	-11.9
Imports of goods and nfs	0.6	12.9	5.5	29.5	9.6
Gross national product	3.9	-2.3	2.8	-5.5	-11.7
Gross national income	2.6	0.1	2.1	-1.8	-5.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	3.8	7.0	4.5	9.7	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	5.2	5.9	4.1	7.7	9.5
Government finance					
(% of GDP)					
Current budget balance	6.1	8.1	10.8	9.1	3.9
Overall surplus/deficit	-6.6	-5.6	-5.6	-4.5	-3.4



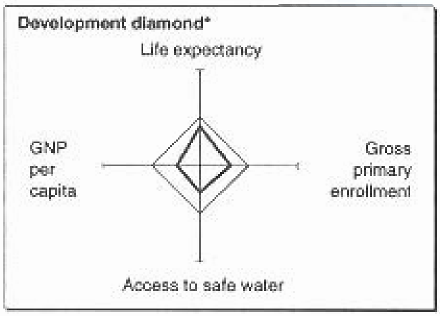
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Burundi

POVERTY and SOCIAL

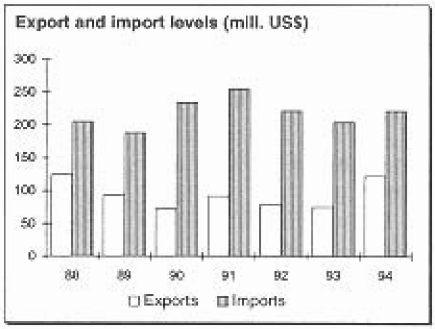
	1985-90	1990-94
(annual growth rates)		
Population	2.9	3.0
Labor force	2.3	2.4

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.3
Infant mortality *(per 1,000 live births)*	100.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	37.8
Energy consumption per capita *(kg oil equivalent)*	23.6
Illiteracy *(% of population age 15+)*	50.0
Gross primary enrollment *(% of school-age population)*	69.0



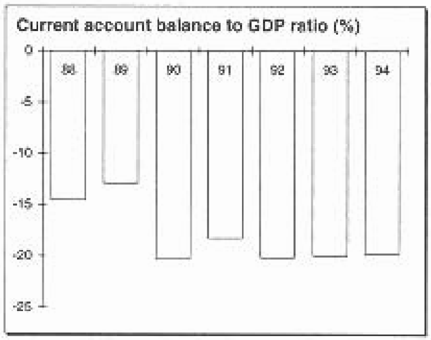
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	112	73	79	75	122
Coffee	94	52	49	47	91
Tea	6	8	11	11	13
Manufactures	6	4	11	9	5
Total imports (cif)	189	235	221	205	221
Food	17	12	11	19	50
Fuel and energy	32	30	26	24	20
Capital goods	63	80	78	57	42
Export price index *(1987=100)*	116	72	63	74	132
Import price index *(1987=100)*	87	108	98	91	96
Terms of trade *(1987=100)*	133	67	64	82	138
Openness of economy *(trade/GDP,%)*	31	36	38	39	51



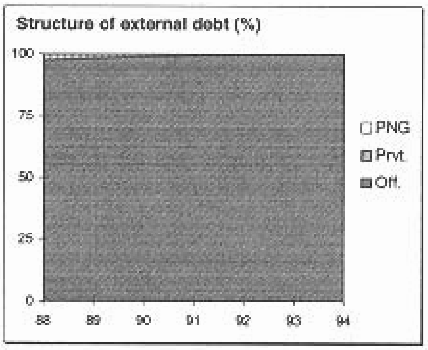
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	127	89	97	89	139
Imports of goods and nfs	239	315	315	285	321
Resource balance	-112	-225	-219	-196	-182
Net factor income	-18	-15	-14	-11	-11
Net current transfers	10	10	13	17	12
Current account balance					
Before official transfers	-121	-230	-220	-190	-181
After official transfers	-42	-67	-55	-26	-6
Long-term capital inflow	55	62	91	65	25
Total other items (net)	-1	-1	-11	-28	-13
Changes in net reserves	-13	6	-25	-10	-6
Memo:					
Reserves excluding gold *(mill. US$)*	29	105	174	163	205
Reserves including gold *(mill. US$)*	35	112	180	170	211
Conversion rate *(local/US$)*	120.7	171.3	208.3	242.8	245.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	318.6	875.0	856.2	996.2	680.2
IMF credit/exports	11.3	43.8	56.4	58.0	54.9
Short-term debt/exports	24.6	13.8	11.8	5.2	2.7
Total debt service/exports	20.5	43.6	35.9	36.0	29.4
GDP ratios					
Long-term debt/GDP	35.6	75.2	87.1	105.4	114.5
IMF credit/GDP	1.3	3.8	5.7	6.1	9.2
Short-term debt/GDP	2.7	1.2	1.2	0.5	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	6.6	1.1	0.4	0.3	0.1
Official creditors/long-term	93.4	98.9	99.6	99.7	99.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Cambodia

After nearly 20 years of war, internal strife, social upheaval, and a command economy, Cambodia has embarked on a transition to a market economy and a rehabilitation process. Until 1992 Cambodia carried out its reforms largely on its own. International support to the country resumed only after the 1991 Paris Peace Accords and in response to the UN secretary-general's appeal, that same year, to support Cambodia's rehabilitation efforts. Before the elections of May 1993 organized by the United Nations Transitional Authority in Cambodia, Cambodia's situation seemed hopeless. Since then, the political situation has stabilized and improved, although it remains fragile as a result of the delicate government coalition that has emerged from the elections and the armed conflict in the northwestern part of the country between the Khmer Rouge dissidents and the government's armed forces. That situation notwithstanding, the government has made progress in addressing the most pressing economic issues.

Poverty and Social Indicators

The Cambodian economy continues to suffer from the legacy of decades of war and internal strife. An annual per capita income of around $200 places the country among the poorest in the world and below the level of the late 1960s; its demographic profile reflects that legacy. Extremely high proportions of women and children give the population an unusual structure. Almost half of the population — over 4 million persons — are under the age of 15, contributing to a very high dependency ratio. The sex ratio of the Cambodian population has been dramatically skewed by wars and executions, which took a disproportionate toll among the male population, and by the selective emigration of men. In the late 1980s women constituted about 64 percent of the adult population (down to 56 percent in 1993). Only half the population has access to even the most rudimentary health facilities, and Cambodia's overall life expectancy is around 50 years. There is still a chronic shortage of doctors, drugs, and most other medical services. Tuberculosis and dysentery continue to be serious life-threatening diseases. AIDS has also begun to spread as the country has become more open to the outside world.

Environment

In October 1993 the government created a Secretariat of the Environment as a permanent government agency, and a royal decree has given it authority to supervise and develop a National Protected Areas System covering 3.3 million hectares designated for national parks, wildlife sanctuaries, protected areas, and multiple use management areas. Before this decree, there had been no protected areas in the country for over 20 years. The forestry and fisheries sectors face particular environmental challenges. The hydrology and fisheries of the Tonle Sap (Great Lake), for example, are threatened by siltation resulting from watershed and flooded forest clearing, and sedimentation from the Mekong River. Cambodia has a relatively large forest area by regional standards, but uncontrolled logging for export timber and fuelwood is a concern for the government. As part of its agenda for environmental protection, the government plans to prepare a national environmental action plan.

Development Agenda

The government's primary objective is to secure a lasting peace and place Cambodia on a sound development path. The government has set out to rebuild the economy by attaching priority to human resource development and infrastructure rehabilitation. By strongly promoting private enterprise, it hopes to reduce its vulnerability, sustain future development, and achieve rapid economic progress. Through this process, Cambodia plans to restore government services and embark on the difficult task of economic renewal.

Recent Economic Developments

Overall GDP expanded at an annual rate of 6 percent over 1991-94. This relatively strong economic performance might suggest that the conditions for a broad-based expansion in output are reasonably good in Cambodia.

Such a view would be mistaken; the present growth is unbalanced. Its overall economic impact remains shallow and its benefits are not spread evenly throughout the society. Much of this growth has been concentrated in Phnom Penh, which represents less than 10 percent of the total population.

Growth in the initial 1991-92 period started from a very low base and was stimulated by the new liberalization and the policies of market reform. Economic expansion was also achieved by a further significant running down of Cambodia's already severely weakened infrastructure. More recently, growth has been driven by the massive increase in consumption demand brought about by the arrival of the UN transitional authority, other related UN agencies, the bilateral donors, and nongovernmental organizations, which stimulated the demand for trade and services, particularly in the hotel, catering, and housing sectors. This led to a construction boom, mainly in Phnom Penh. Meanwhile, no meaningful growth is taking place in agriculture and manufacturing.

The restoration of financial stability has begun in the context of a policy framework paper prepared together with the World Bank and the International Monetary Fund, and a May 1994 three-year (1994-96) IMF Enhanced Structural Adjustment Facility. Overall macroeconomic performance during 1994 was good despite adverse events, including severe flooding followed by drought when the monsoon rains ended prematurely. As a result, output growth in 1994 is estimated at 4 percent (as opposed to an initial projection of 7 percent), because of slower increases in agricultural production. By contrast, strong growth in construction and services continued. Higher than expected inflation (estimated at 26 percent for the year) was in large part caused by a surge in food prices resulting from the floods. Balance-of-payments developments have been stronger than expected. Gross foreign reserves rose to the equivalent of 1.7 months of imports as increased capital inflows more than covered a wider current account deficit. Imports increased as a result of the availability of external financing. Exports also increased, as a result of the increase in log exports. However, aid flows could have been even higher and the recovery would have been even stronger had Cambodia's absorptive capacity been better.

Although the government has made considerable headway in establishing a more modern and appropriate budget and accounting system, there is much to be done to consolidate system changes, especially in the line ministries and in provinces. Planned reforms include strengthening budget preparation capacity at the center and in the provinces, strengthening budget monitoring and control mechanisms, strengthening treasury cash-management functions, and training administrators to understand and apply the new procedures and systems. The government intends to carry out this program during 1995-96 with substantial donor-financed technical assistance.

Monetary policy in 1995 will aim at curbing the acceleration of inflation that occurred during the second half of 1994. The key element of monetary control remains the maintenance of a tight fiscal position to check bank financing of the budget. The transition toward a more market-oriented monetary policy — through the use of reserve requirements, purchases and sales of foreign currency, and interest rate flexibility — is under way. Efforts to develop other instruments of monetary policy will continue, and in the interim central bank purchases and sales of foreign exchange will be conducted with a view to achieving monetary and foreign exchange objectives. Banks will be allowed to set interest rates freely. The central bank will seek to keep interest rates on riel deposits positive in real terms.

The government is planning to carry out a currency reform in 1995-96 by issuing new banknotes in larger denominations than currently available and minting coins in the same denominations as the banknotes currently in circulation. This currency reform is expected to encourage a shift from the use of foreign currency to riels, enhancing the effectiveness of monetary policy.

Following the reforms of the import tariff structure undertaken in the second half of 1993, the government continued to take measures to liberalize trade. Virtually all quantitative import restrictions have been eliminated and very few export restrictions remain; some are to be lifted in 1995 (namely, rice). This has paved the way for the government to develop a policy for industrial development and to mobilize resources for it.

Cambodia's legal environment for business and investments is deficient. Only a few relevant laws have been passed, including the investment law passed by the National Assembly in August 1994. Many other critical areas of commercial and business laws are absent. The government's medium-term program to develop a suitable enabling environment for private sector activities includes enacting economic and financial laws, including provisions for bankruptcy, and implementing regulations to the liberal investment law passed in July 1994. It plans to streamline the foreign investment regime to ensure that the twin objectives of fiscal revenue and external competitiveness are served, and adopt legislation to implement the provisions of the Multilateral Investment Guarantee Agency and International Center for the Settlement of Investment Disputes conventions to increase security for foreign investors. The government also plans a one-stop service agency to provide information, assistance, and administrative services to prospective domestic and foreign investors.

Cambodia's public administration suffers from a severe shortage of skills owing to the destruction and emigration of the educated — and a total lack of formal education — during the 1970s. In addition, the administration retains a number of organizational features inherited from a command economy's concept of the state role. These features are not consistent with Cambodia's aim of maximizing results with very limited means. The size of the administration (close to 150,000 civil servants) is much larger than public management norms recommend, which leads to duplication and conflict of assignments within the administration. The burden of government service on the country's budget is high. The government approved an ambitious and wide-ranging administrative reform program in August 1994 that will be carried out over several years in parallel with military reform.

Medium-Term Prospects

The government's strategy for 1995-96 is to maintain macroeconomic stability, push forward the process of reconstruction, and continue putting in place the building blocks for a liberal market economy. The key elements are continued fiscal restraint (particularly with regard to military expenditure) backed by transparent budget procedures and a cautious monetary policy. Its substantial public investment program is aimed at reconstruction, supported by aid financing, and the government is also targeting structural reforms in the financial sector, trade and exchange systems, and civil service and public enterprises, and normalizing relations with the international financial community.

The government's macroeconomic objectives for 1995 are to achieve output growth of 6 to 7 percent, inflation of 10 percent, and an increase in the gross reserves of the central bank to 2.4 months of imports of goods and services by the end of 1995. As a result of fiscal restraint, national saving should rise to a projected 7.2 percent of GDP in 1995. With investment projected to increase to 22 percent of GDP owing mainly to official donor support for the public investment program, the external current account deficit would rise to 14.8 percent of GDP. The bulk of the current account deficit would be financed on concessional terms.

The budget situation in 1995 will remain very tight. The budget framework rests on a stronger revenue effort and continuing restraint on spending, with strict limits on bank financing of the budget. Maintaining budgetary balance will depend on a substantial increase in customs duties on petrol, holding customs rates at the 1994 levels while strengthening the tax and customs administrations, freezing civil service numbers and civil service and military salaries, and containing defense spending.

External Debt

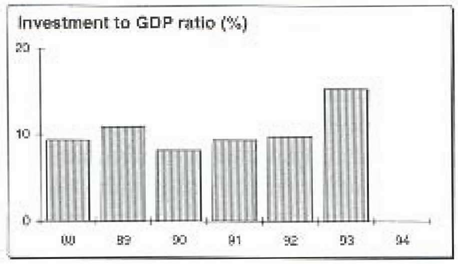
As part of the normalization of its relations with the international financial community, Cambodia has sought a Paris Club rescheduling of the pre-1975 external debt to OECD countries. In January 1995 Cambodia was offered improved debt relief terms that would allow up to a two-thirds write-off of the debt stock. This accord has yet to be confirmed. The government has also initiated discussions with former Council for Mutual Economic Assistance countries to resolve ruble claims. To safeguard its medium-term balance-of-payments position, the government intends to continue a cautious approach to new external borrowing, and nonconcessional external borrowing or guaranteeing of loans by the public sector will be kept within strict limits.

Cambodia

Population mid-1993 *(millions)*	9.7	Income group:	**Low**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Less indebted**

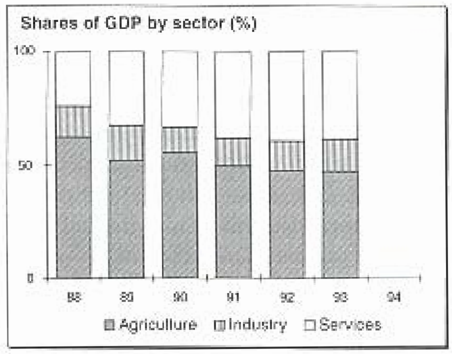
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	8.2	9.8	15.3	..
Exports of goods and nfs/GDP	..	6.1	15.7	14.2	..
Gross domestic savings/GDP	..	2.3	7.1	8.5	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	-6.4	-2.5	-6.1	..
Interest payments/GDP	..	0.0	0.0	0.0	..
Total debt/GDP	..	28.5	19.7	17.1	..
Total debt/exports	..	..	121.8	109.3	..



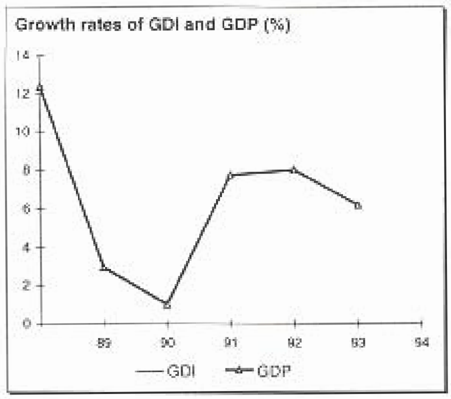
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	55.6	47.8	47.3	..
Industry	..	11.2	13.2	14.5	..
Manufacturing	..	5.2	5.1	5.1	..
Services	..	33.2	39.1	38.2	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*6.2*	*3.7*	1.9	3.2	..
Industry	*4.3*	*11.9*	15.7	10.1	..
Manufacturing	*8.6*	*5.7*	3.3	7.9	..
Services	*4.3*	*9.1*	11.1	7.2	..
GDP	*5.1*	*7.4*	8.0	6.2	..



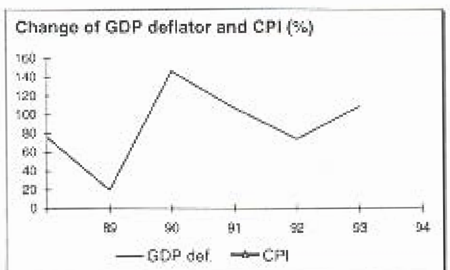
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	90.5	83.4	84.7	..
General government consumption	..	7.2	9.5	6.7	..
Gross domestic investment	..	8.2	9.8	15.3	..
Exports of goods and nfs	..	6.1	15.7	14.2	..
Imports of goods and nfs	..	12.1	18.4	21.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	*5.1*	*7.4*	8.0	6.2	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	146.0	73.8	108.3	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..

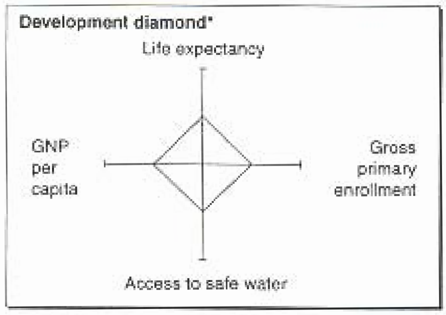


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Cambodia

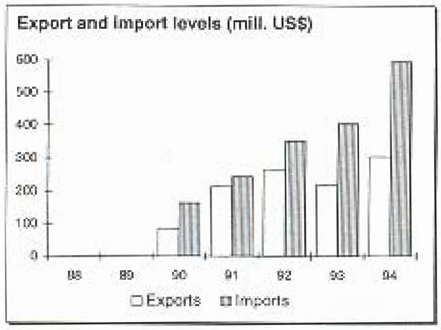
POVERTY and SOCIAL

	1985-90	1990-94	
(annual growth rates)			
Population	3.1	*3.0*	
Labor force	0.8	0.6	
			most recent estimate
Poverty level: headcount index *(% of population)*			..
Life expectancy at birth			52.0
Infant mortality *(per 1,000 live births)*			113.2
Child malnutrition *(% of children under 5)*			..
Access to safe water *(% of population)*			..
Energy consumption per capita *(kg oil equivalent)*			52.4
Illiteracy *(% of population age 15+)*			37.5
Gross primary enrollment *(% of school-age population)*			..



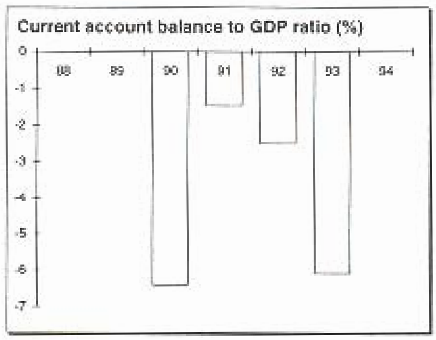
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	86	265	219	303
Rubber	..	17	13	12	..
Logs	..	8	25	25	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	164	351	404	594
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	18	34	35	..



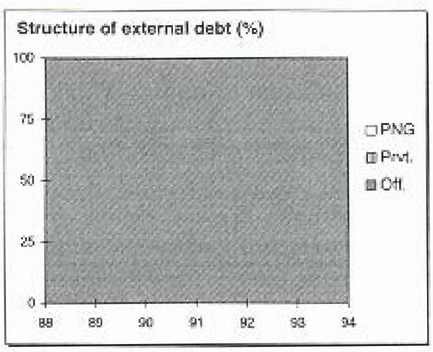
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Resource balance	..	..	..	..	..
Net factor income	..	..	..	..	..
Net current transfers	..	..	9	4	9
Current account balance					
Before official transfers	..	-92	-50	-137	-278
After official transfers	..	-50	-45	-41	-175
Long-term capital inflow	..	..	..	..	..
Total other items (net)	..	..	..	..	..
Changes in net reserves	..	..	..	..	..
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	418.0	1,253.0	2,470.0	2,563.0



EXTERNAL DEBT[a]

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	72.3	68.2	..
IMF credit/exports	..	..	4.6	2.5	..
Short-term debt/exports	..	..	44.9	38.6	..
Total debt service/exports	..	..	4.0	9.8	..
GDP ratios					
Long-term debt/GDP	..	16.9	11.7	10.7	..
IMF credit/GDP	..	1.9	0.7	0.4	..
Short-term debt/GDP	..	9.8	7.2	6.0	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.2	0.2	0.2	0.2	0.0
Official creditors/long-term	99.8	99.8	99.8	99.8	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Excludes non-convertible currency debt.

Cameroon

Cameroon is richly endowed with natural resources, a diversified production base, and well-developed infrastructure. This impressive development potential combined with appropriate policies and a favorable external environment produced real growth averaging 7 percent a year from independence in 1960 through 1985. Agriculture was the main source of growth and foreign exchange earnings until 1978, when oil production started and quickly became the cornerstone of economic growth. As in many oil-producing countries, however, the oil bonanza was not wisely invested. It led to higher expenditures on the civil service, subsidies to inefficient public enterprises, and low-return capital-intensive investments.

Three major shocks after 1986 exposed Cameroon's weaknesses in economic structure and policies. First, the external terms of trade declined by 60 percent through 1993 as the prices of coffee, cocoa, and oil fell sharply. Second, oil output began a long-term decline with the result that oil exports, at $531 million in 1994, were about one-third those in 1985. Third, the real exchange rate appreciated by about 54 percent over 1986-93, greatly reducing Cameroon's competitiveness. By 1993 the economy and its external accounts had deteriorated significantly. Continuous public finance deficits were generated as falling revenues were not matched by expenditure cuts. The burden on the public finances was exacerbated by a large and inefficient public enterprise sector. Growing public-sector deficits were internalized in the financial sector to the detriment of banks and the private sector. These deficits were largely financed by an accumulation of domestic arrears and foreign borrowings. Long-term external debt increased to more than 40 percent of GDP by 1989, while domestic debt accounted for 6 percent of GDP in fiscal 1987. Economic decline was accompanied by increased poverty as poor farmers suffered the brunt of the fall in producer prices and government cut health and education delivery systems. The middle class, which used to be one of the most developed in Sub-Saharan Africa, shrank.

In 1988 the government launched an economic reform program supported by the IMF and the World Bank designed to correct major problems across sectors. It included streamlining public finances, restructuring the public enterprise and banking sectors, and progressive export crop liberalization. Internal commerce was to be deregulated; petroleum sector incentives improved; forestry, health and, education policies reoriented; and special programs established to mitigate the cost of adjustment. The internal adjustment strategy failed, however, and little progress was made in structural reforms. The collapse in the terms of trade and the severe appreciation in the real exchange rate had adverse effects on incentives and income distribution and were not matched by corresponding policy adjustments: economic policy and management deteriorated after 1989, reflecting the lack of commitment of political leaders to economic reform and the corrosive effects of political instability fueled by the sharp decline in incomes.

Recent Political Developments

The economic crisis contributed to destabilizing an already fragile social situation. Cameroon's population is one of the most diverse in Africa, with some 200 ethnic groups with distinct languages, customs, and social structures. Cameroon is one of the few regional countries that suffered a protracted armed struggle at independence in 1960. It is also the only African country that started its independence with two parts, the larger one under French colonial rule and the smaller under British rule. During the first two decades following independence, ethnic and regional differences were contained by a strong one-party presidential regime. The outbreak of the economic crisis after 1986 was accompanied by calls for political liberalization leading to civil disobedience. The Anglophone west and Moslem north did not entirely accept the results of the allegedly fraudulent elections in 1992.

Government is increasingly sensitive to the accusations of the opposition and the free press, and pressure from major donors. In response to these pressures, and convinced that a major improvement in economic management would be an essential element in meeting internal and external criticism, the president in July 1994 appointed a strong new economic team under a powerful minister of finance.

Recent Economic Developments

In January 1994 Cameroon and the other countries in the CFA zone realigned the parity of the CFA franc from 50 to 100 CFAF to the French franc, and the government began implementing the Central African Customs Union trade and tariff reform. This reform introduced a four-rate common external tariff — 5, 10, 20, and 30 percent — and an intra-union preferential rate of 20 percent, while a two-rate turnover tax replaced a complicated system of turnover taxes. The government adopted a new macroeconomic program supported by the IMF and IDA designed to secure Cameroon's newly established international competitiveness. The program aims to bring inflation to a level below 5 percent after initial adjustments in relative prices over fiscal 1996, attain sustainable annual real GDP growth of about 5 percent primarily led by improved competitiveness and export performance, and quickly achieve primary and, eventually, overall budget surplus to enable increased domestic savings, reduce the current account deficit, and finance an increasing share of domestic investments.

Estimates for 1994 suggest that economic recovery is under way. Exports have surged 40 percent, helped by a 30 percent depreciation of the real exchange rate. Following a strong decline, imports started to pick up in December 1994. The IMF program was, however, less successful There was a serious shortfall in revenues in the first half of 1994, mainly in customs receipts, due to low imports, disruptions caused by the introduction of the tariff reform, and fraud. After a reorganization of the economic ministries and the appointment of a new minister of finance in July 1994, the budget situation improved, and in the third quarter of 1994, the primary surplus rose to CFAF 21 billion against a target of CFAF 12 billion. Similarly the overall budget deficit amounted to CFAF 12 billion versus a target of CFAF 72 billion. While domestic taxation has shown steady improvement, customs duties were some 43 percent, or CFAF 12 billion, under target. Recently, government imposed special export taxes, which adversely affect incentives, and import surtaxes, which are inconsistent with the Central African Customs Union tariff reform. The main factor in budgetary performance was a large but unsustainable cut in expenditures for subsidies and transfers, capital expenditures, and external debt service, leading to an increase in arrears to Paris Club creditors.

Poverty and Social Indicators

Cameroon's social indicators still rank favorably compared with those of surrounding Sub-Saharan countries, although years of economic crises and a worsening fiscal situation have taken their toll on the social sectors. A 1983 survey showed that poor household per capita food consumption was four times less than that of other households. Since the mid-1980s structural poverty and land impoverishment have become critical problems. In the early 1980s poverty was overwhelmingly a rural phenomenon, but in the last few years there has been a marked increase in urban poverty. In 1983 about 40 percent of the population was below the poverty line. A fourth of the urban population is currently estimated to live below the poverty line, and the situation in rural areas, although less known, is not likely to be much better.

Unemployment is high among the urban population and is particularly acute among women and youth; a survey carried out in late 1993 estimates unemployment in Yaounde, the capital, at about 25 percent. In the rural areas, poverty and unemployment have been on the rise because of the decline in agriculture output. Although health indicators are slightly better than those of the lowest-income regional countries, malnutrition is recurrent among rural women and children, especially in the arid north. This problem, in addition to widespread adult female illiteracy and poor health care delivery, is reflected in the high rates of maternal (300 per 100,000 births) and infant (65 per 1000 live births) mortality. Moreover, AIDS has become a significant health risk. While school attendance levels increased in the 1980s, public resources allocated to education since 1990 have been inadequate and school attendance is declining. High fertility rates and population growth (estimated at 3 percent a year), and continued cuts in public expenditures will put further pressure on already scarce resources allocated to health and education and worsen conditions for the poor.

Medium-Term Prospects

Successful implementation of the government's economic reform program is expected to end the recession and return Cameroon to a path of sustainable growth. Real GDP growth is projected to average about 5 percent from fiscal 1996 onward primarily as a result of improved performance in the tradables sector — such as coffee, cocoa, agroprocessing industries, and light manufacturing — sustained by increased private investment as confidence is reestablished. Gross domestic investment is expected to increase from 15.5 percent in 1994 to 23 percent in fiscal 1999. Private investment is expected to rise from 12.8 percent of GDP in 1993 to about 16 or 17 percent in fiscal 1997. Investment will have to be financed primarily by domestic savings, which will need to increase from 14.9 percent of GDP in fiscal 1993 to about 24 percent in fiscal 1997. Private savings will be stimulated by the recovery of economic growth and the improvement in the external trade position. Public savings are projected to turn around from a negative level in fiscal 1993 to at least 8 to 9 percent of GDP, mainly as a result of improved revenue performance.

The principal objective of fiscal policy is to generate primary surpluses and public sector savings sufficient to cover an increasing share of the country's debt service obligations (including servicing domestic debt) and raise public investments. It is expected that the primary fiscal balance will be reversed from a deficit of 1.6 percent of GDP in fiscal 1993 to a surplus of almost 5 percent in fiscal 1997 by increasing nonoil tax revenues from 11.6 to about 13 percent of GDP. The main sources of improvement are the turnover tax introduced in 1994 (and, eventually, a value-added tax) and the further reduction of the wage bill.

External Debt

The expansionary policies of the 1980s led to a dramatic deterioration of Cameroon's credit standing as the government accumulated domestic and foreign debt, and was increasingly unable to meet its debt service obligations. Public-sector internal debt, including arrears, was about 45 percent of GDP in fiscal 1994. Most of the public-sector debt is attributable to the government and, to a lesser extent, a small number of public enterprises, mainly in the transport and the agriculture sectors.

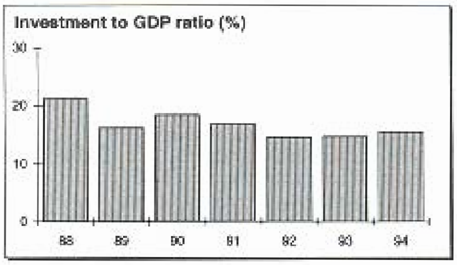
Cameroon's external debt has also increased sharply since 1985. Long-term debt amounted to 83.8 percent of GDP in 1994, and the long-term debt service-to-export ratio climbed to 17 percent. With the large declines in exports and government revenues, Cameroon has experienced a sharp deterioration in its capacity to service external debt. Since 1991, actually paid debt service has amounted to less than 30 percent of debt service due.

Cameroon

Population mid-1993 *(millions)*	**12.5**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**820**	Indebtedness level:	**Severely Indebted**

KEY RATIOS

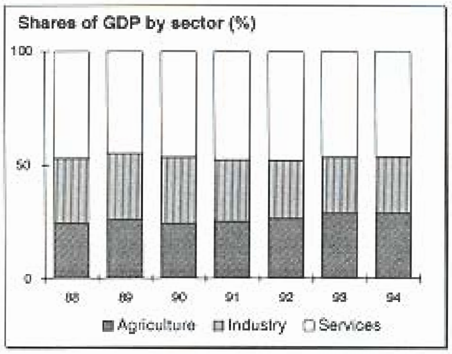
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	24.8	18.5	14.6	14.8	15.5
Exports of goods and nfs/GDP	32.7	20.6	20.9	19.4	27.8
Gross domestic savings/GDP	33.7	14.7	14.9	15.2	20.5
Gross national savings/GDP	26.9	10.8	10.6	9.0	12.4
Current account balance/GDP	3.9	-7.6	-3.9	-5.8	-3.3
Interest payments/GDP	1.6	1.4	1.3	1.3	2.0
Total debt/GDP	35.3	54.2	58.4	59.6	90.6
Total debt/exports	104.3	259.2	273.0	302.5	323.3



Investment to GDP ratio (%)

GDP: PRODUCTION

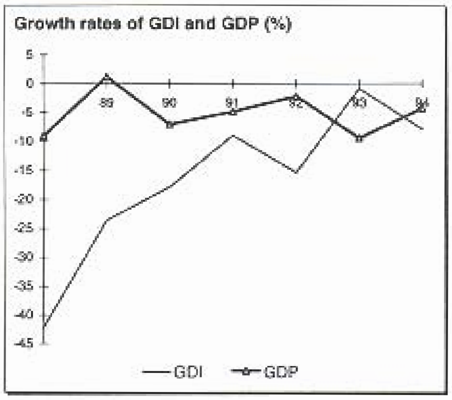
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.2	24.2	26.2	28.6	28.6
Industry	33.6	29.4	25.9	24.9	24.9
Manufacturing	10.8	13.6	12.4	11.3	11.3
Services	46.3	46.4	47.9	46.5	46.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.4	-5.4	-2.3	-9.4	-4.3
Industry	-5.0	-5.4	-2.2	-9.6	-4.3
Manufacturing	10.4	-5.4	-2.2	-9.5	-4.3
Services	-3.4	-5.3	-2.2	-9.4	-4.3
GDP	-3.2	-5.4	-2.2	-9.5	-4.3



Shares of GDP by sector (%)

GDP: EXPENDITURE

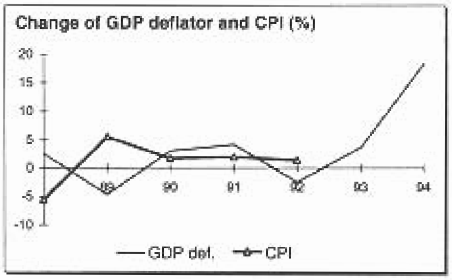
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.5	74.2	73.3	73.2	71.8
General government consumption	8.8	11.2	11.8	11.7	7.7
Gross domestic investment	24.8	18.5	14.6	14.8	15.5
Exports of goods and nfs	32.7	20.6	20.9	19.4	27.8
Imports of goods and nfs	23.8	24.4	20.6	19.0	22.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-4.9	-5.2	2.3	-12.2	-1.3
General government consumption	6.3	-10.6	-13.0	-4.0	-32.0
Gross domestic investment	-13.5	-8.4	-15.4	-0.9	-7.9
Exports of goods and nfs	6.6	-1.8	4.5	-8.5	2.5
Imports of goods and nfs	-3.6	-4.4	7.1	-10.4	-4.8
Gross national product	-2.2	-5.9	-2.0	-10.3	-4.3
Gross national income	-6.0	-5.1	-3.0	-10.8	-1.7



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	11.5	1.7	1.4	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	14.6	3.0	-2.5	3.6	18.3
Government finance					
(% of GDP)					
Current budget balance	9.3	-1.9	-3.3	-3.9	-6.1
Overall surplus/deficit	-1.5	-7.7	-6.8	-6.8	-9.5



Change of GDP deflator and CPI (%)

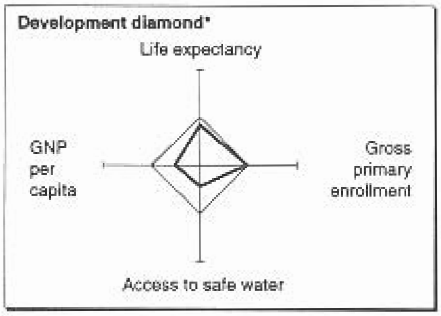
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Cameroon

POVERTY and SOCIAL

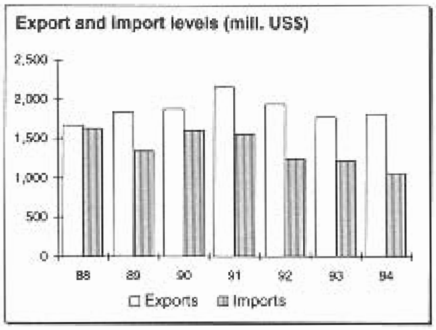
	1985-90	1990-94
(annual growth rates)		
Population	2.9	2.8
Labor force	2.0	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	56.5
Infant mortality *(per 1,000 live births)*	61.4
Child malnutrition *(% of children under 5)*	13.6
Access to safe water *(% of population)*	34.2
Energy consumption per capita *(kg oil equivalent)*	86.6
Illiteracy *(% of population age 15+)*	45.9
Gross primary enrollment *(% of school-age population)*	101.0



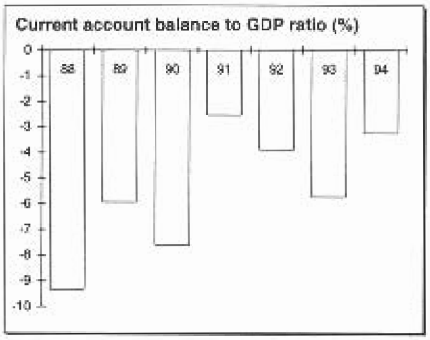
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,339	1,882	1,937	1,772	1,812
Fuel	1,535	824	868	779	531
Cocoa	226	156	132	115	177
Manufactures	198	325	241	227	207
Total imports (cif)	1,103	1,605	1,242	1,225	1,063
Food	92	134	104	102	89
Fuel and energy	8	16	8	8	7
Capital goods	382	289	208	233	190
Export price index *(1987=100)*	190	84	80	77	131
Import price index *(1987=100)*	115	112	112	107	163
Terms of trade *(1987=100)*	165	75	71	72	81
Openness of economy *(trade/GDP,%)*	57	45	42	38	51



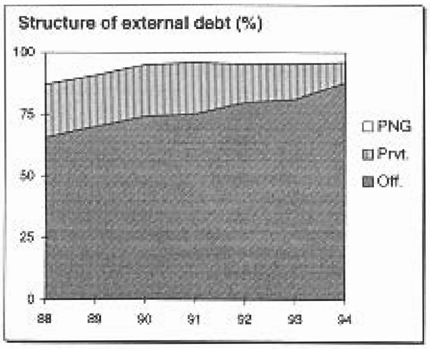
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,798	2,275	2,342	2,153	2,125
Imports of goods and nfs	1,898	2,690	2,307	2,108	1,745
Resource balance	900	-416	35	45	380
Net factor income	-539	-488	-652	-744	-659
Net current transfers	-33	64	178	62	29
Current account balance					
Before official transfers	328	-840	-439	-636	-249
After official transfers	328	-840	-437	-638	-237
Long-term capital inflow	-158	737	810	547	827
Total other items (net)	-132	36	-430	-128	-426
Changes in net reserves	-38	67	57	219	-164
Memo:					
Reserves excluding gold *(mill. US$)*	132	26	20	2	..
Reserves including gold *(mill. US$)*	142	37	30	14	..
Conversion rate *(local/US$)*	471.1	300.7	280.4	265.4	434.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	84.6	213.8	237.1	260.4	299.0
IMF credit/exports	1.0	5.2	2.6	0.7	2.0
Short-term debt/exports	18.7	40.2	33.3	41.4	22.3
Total debt service/exports	22.6	19.3	15.4	20.3	18.6
GDP ratios					
Long-term debt/GDP	28.7	44.7	50.7	51.3	83.8
IMF credit/GDP	0.3	1.1	0.6	0.1	0.5
Short-term debt/GDP	6.4	8.4	7.1	8.1	6.2
Long-term debt ratios					
Private nonguaranteed/long-term	16.0	4.7	4.5	4.3	3.7
Public and publicly guaranteed					
Private creditors/long-term	18.3	21.2	15.5	14.4	8.4
Official creditors/long-term	65.7	74.2	80.0	81.3	87.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Cape Verde

Cape Verde is a small archipelago of ten islands 650 kilometers off the coast of Senegal, with a land area of 4,036 square kilometers and an exclusive economic zone of 630,000 square kilometers. Nine islands are populated, and half of the population of less than 400,000 lives on the island of Santiago, mainly in Praia, the capital city. About one-tenth of Cape Verde's surface is arable, and prolonged cycles of drought aggravate a serious shortage of fresh water. Faced with austere living conditions and limited employment opportunities, Cape Verdeans have traditionally emigrated. Hence, twice as many Cape Verdeans live abroad as on the islands, and their close ties with the homeland are evidenced by significant worker remittances, which averaged about 12 percent of GDP between 1989 and 1992. The average annual population growth rate was 2.7 percent a year, or 1.5 percent adjusted for emigration, during the 1980s. GNP per capita was estimated at $920 in 1993.

Economic development is hindered by poor natural resources, the prolonged cycles of drought, and the small domestic market. The scattered nature of the islands gives rise to costly communications. After independence in 1975 the development of a virtually nonexistent economy into a modern one was a formidable challenge for the government, which chose to perform the role of entrepreneur in agriculture, industry, and services. Reliance on the private sector was not neglected. The economy performed well over 1980-88; real GDP growth averaged 6 percent a year. This growth stemmed predominantly from a high level of public investment in infrastructure and in the public-sector-dominated service industry. Until 1988, macroeconomic management was prudent; the overall balance of payments was in surplus, and a high level of external reserves was maintained (in 1988 it peaked at 9.4 months worth of imports). Monetary policy was cautious and resulted in moderate inflation.

Cape Verde's economy has traditionally been based on services. The service sector accounted for about 60 percent of GDP and employed about 41 percent of the active population in the 1980s. Construction and industrial production, consisting largely of light manufacturing, fish processing, and artisanal production, accounted for about 11.5 and 6.5 percent of GDP, respectively. The primary sector accounted for about 13 percent of GDP because of the low agricultural potential and inefficient exploitation of reasonably well endowed fishery resources. Agriculture employs about 24 percent of the active population.

Foreign trade is characterized by modest merchandise export earnings, a high share of services in total exports, and high merchandise imports. The merchandise export base is insignificant both in value and in diversity of exportables. Export earnings come predominantly from fish and bananas. Nontraditional merchandise exports are of marginal importance. Traditionally, Cape Verde's most substantial export earnings come from nonfactor services rendered to international maritime transport, and more recently from international air traffic services. The economy is highly dependent on imports of food (predominantly financed by food aid), capital, and intermediary goods.

Social Indicators

Compared with those of other countries in Sub-Saharan Africa, social indicators in Cape Verde are impressive. The available social indicators for 1992 show universal primary school enrollment, an adult illiteracy rate of 52 percent, a fertility rate of 6.4 per 1,000, infant mortality of 40 per 1,000, and life expectancy of 68 years. These achievements are a result of concerted efforts by national associations of women, youth and farmers, NGOs, and donors, and allocation of substantial public resources to social services. Good results notwithstanding, some problems require further attention, in particular high natural population growth, not yet mitigated by broadly accepted family planning programs, a shortage of trained teachers and health workers, a lack of some school supplies, and less than adequate primary school curricula.

Recent Economic Developments

After a period of slow growth (1.7 percent on average in real terms) over 1989-91, real GDP has significantly improved since 1992. Real GDP growth rate was estimated at about 4 percent in 1993 and 4.5 percent in 1994. Economic growth was derived mainly from higher public investment, while private investment remained modest. Inflation, which averaged 9.3 percent during fiscal 1991, dropped to 5.9 percent in fiscal 1993 and was expected to continue declining in 1994 and 1995. Liberalization of domestic prices and trade has been a key factor in keeping inflation under control. However, restoring internal and external balances has been delayed. Mobilization of domestic and external savings has been insufficient to support generally well-sequenced reform policies and sustain an enlarged public investment program without putting pressure on the banking system.

Expansionary public investment policy has led to slippages in the budget deficit and eroded the external position. Although the trend of deteriorating internal and external balances has not yet reached an alarming magnitude, the risk of further erosion remains high. The overall fiscal deficit widened to 9 percent and 12 percent of GDP in 1992 and 1993, respectively, compared with about 6 percent in 1991. Without an adequate increase in external financing and government savings to finance higher development expenditure, the government resorted to borrowing from the banking system.

In 1991 the authorities introduced measures to improve government revenue performance and curtail current expenditure. Efforts were made in 1992 to broaden the tax base, simplify the tax system, and streamline tax administration. As a result, government revenue, which stood at 14 percent of GDP in 1991, rose to 18.4 percent of GDP in 1993. The government is committed to continuing tax reforms and improvements in tax administration. Measures to control public expenditure concentrated initially on a freeze in wage rates. However, changes in civil service assignments and pay scales in 1993 made necessary a large increase in the wage bill, whose share in the total recurrent expenditure has increased to about 50 percent. The impact of this measure on the budget, however, is expected to be more than compensated for by the envisaged downsizing of the civil service. A general recruitment ban at the nonprofessional levels has been in effect since 1993. Improvements in procurement of goods and services are likely to contribute to further savings.

Credit to the government has been the most important factor in monetary growth since 1992. By contrast, credit to public enterprises dropped slightly in 1992 and 1993, reflecting both an improvement in the financial situation of a number of these enterprises and a more strict lending policy for others. Credit to the private sector grew in line with the rate of inflation, with the increasing share of housing credits.

The deterioration of the trade balance in recent years reflects, to a large extent, an increase in imports of investment and consumer goods. The resulting current account deficits are financed primarily by emigrant remittances and foreign aid. The overall external balance, which returned to a surplus of 0.7 percent of GDP in 1992, registered a deficit of 3.2 percent of GDP in 1993, primarily because of higher imports of capital goods and imports of foodstuffs in the wake of the 1994 drought. With the deterioration of the external position, gross official reserves fell to 4.7 months of imports in 1993.

Structural Reforms

The government has been pursuing in earnest policies aimed at opening its economy and greater reliance on the private sector. This shift in the strategy followed a period of declining economic performance and structural deficiencies, mainly the result of central planning and import substitution. Homegrown policy reforms are aimed at opening up the economy. The policy reforms are sound, adequately sequenced and on track.

Prices of consumer goods have been virtually fully liberalized. A large-scale liberalization of the trade system started in late 1991 and was pursued through 1993. The foreign exchange allocation system has been streamlined. Registered importers can get freely foreign exchange for some 97 percent of all customs items through the only commercial bank, Banco Comercial do Atlántico. The Cape Verde escudo has been pegged to a basket of currencies of its key trade partners and sources of emigrant remittances. The exchange rate of the escudo is determined daily on the basis of quotations for the dollar and other hard currencies in the currency basket. Some progress has been made in streamlining export and customs procedures.

Privatization and restructuring of the public enterprise sector have been one of the main thrusts of this reform. The main objective of the privatization and restructuring program is to promote the private sector as the main vehicle for economic development and to improve the financial performance of the remaining public enterprises. The thoroughness of the preparatory work, including a public awareness campaign, characterized by a highly participatory approach and lack of social unrest, should pay off soon. By 1996, some 26 public enterprises will be privatized, 8 will be liquidated, 5 restructured, and 6 will still need a strategy for restructuring.

To modernize and downsize, the government has initiated reforms aimed at improving the efficiency of the civil service, building local government capacity, strengthening economic management, modernizing the legal and judicial systems, and reducing delays in preparing and executing public investment projects through better procurement practices. The government has initiated civil service reform that includes early retirement and voluntary departure and retraining for retrenched civil servants. The civil service comprises 11,000 people, of which 400 were scheduled for early retirement and 1,400 for voluntary departure over the period of the program. The government embarked upon financial sector reform in late 1993 by reorganizing the Bank of Cape Verde as an independent central bank and creating a new bank in charge of commercial and investment banking activities.

Human Resources and Poverty

Lack of employment opportunities, rapid population increase, and a lack of the essential skills have contributed to an unemployment over 25 percent. The pressure on the labor market continues to increase with about 3,000 entrants each year, high levels of unemployment and underemployment in rural areas, and immigration restrictions in Western Europe. On the demand side, employment opportunities and new investment are still generally low. In addition to policies aimed at promoting the investment climate, the government is seeking to address the unemployment issue through improvements in population and human resource development policies.

Although poverty is not prevalent, pockets of poverty persist. The underlying causes of poverty are difficult living conditions in rural and urban areas caused by the shortage of fresh water and limited employment opportunities. Opening the economy and private sector development will be the most effective way to reduce poverty in the long run. Cape Verde has a good record on poverty alleviation; it has expanded social safety nets, building on a tradition of solidarity and good social sector policies. Positive economic growth per capita in the 1980s, generally sound social programs; concerted action by local communities, NGOs, and donors in poverty alleviation programs; significant food aid; and private transfers have increased consumption levels. Targeting, efficiency concerns, and cost recovery are moving into the government's focus, and its poverty strategy was endorsed by the donor community at the September 1994 Round Table Meeting in Praia.

Regional integration and international cooperation require development of an adequate transport and telecommunications infrastructure, and reliable air and maritime transport systems The existing infrastructure needs rehabilitation and expansion to provide better access and quality services at lower cost, which, in turn, could induce and facilitate private sector investment in productive activities, especially for exports. Infrastructure requirements include ports, airports, and roads. The development of energy, water, and sewerage facilities along with adequate pricing policies in these subsectors are also crucial.

Medium-Term Prospects

Over 1995-97 economic growth is projected to average 5.5 percent a year in real terms. Growth is expected to come from higher public investment in infrastructure, modernization of telecommunications, and water supply and sewerage systems in urban areas. Private investment in light manufacturing, tourism fisheries, and housing is expected to increase, as will commerce and services to international air and maritime transport. In response to policy changes, improvements in the economic infrastructure and development of human resources, it is expected that the private sector will broaden and diversify the limited export base.

Cape Verde's external position in the medium term will continue to reflect a significant investment-savings gap given the current negative level of gross domestic savings. Although it is expected that domestic savings will increase, reliance on foreign savings will continue. Achieving external balance will depend on containing import demand through better public expenditure management, increasing service export earnings, and maintaining the high level of private transfers. Mobilizing development assistance for public investment in infrastructure and social services, attracting direct foreign investments in productive activities and services, and managing external debt prudently will also be important factors in maintaining growth.

External Debt

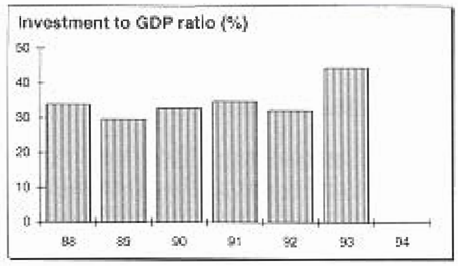
Development projects in Cape Verde have mostly been financed by development assistance, and the high share of grants in this assistance is expected to continue. The stock of external debt, which stood at about $148 million outstanding and disbursed, is projected to rise because of an expected increase in borrowing, though this has been and will mostly be on concessional terms. External debt service will rise above 10 percent of export earnings and private transfers because of still limited export earnings.

Cape Verde

Population mid-1993 *(thousands)*	370	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	920	Indebtedness level:	**Less indebted**

KEY RATIOS

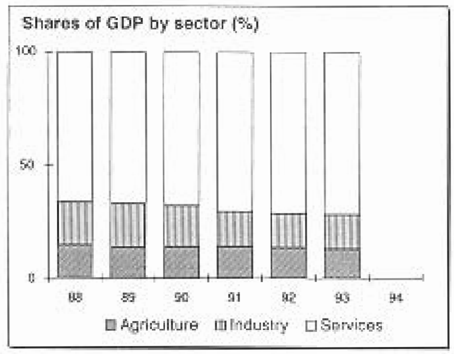
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	54.2	32.8	32.2	44.6	..
Exports of goods and nfs/GDP	29.0	22.3	14.6	15.7	..
Gross domestic savings/GDP	-5.8	-2.2	-10.3	1.2	..
Gross national savings/GDP	11.2	17.8	11.9	22.9	..
Current account balance/GDP	-43.3	-14.0	-22.1	-20.7	..
Interest payments/GDP	2.4	0.8	0.9	0.5	0.9
Total debt/GDP	91.3	54.1	45.6	50.9	51.6
Total debt/exports	185.0	133.9	121.9	297.2	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	11.6	13.7	13.4	12.9	..
Industry	17.3	18.5	15.0	15.3	..
Manufacturing	..	..	..	..	..
Services	71.1	67.9	71.5	71.9	..

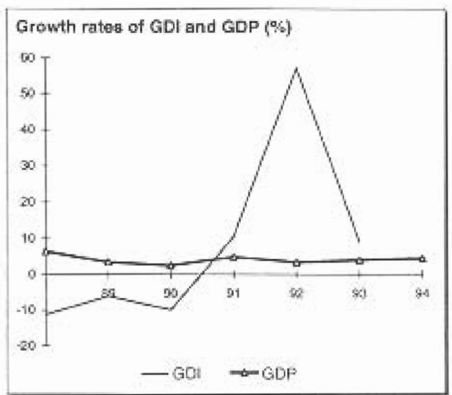
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	8.5	*-0.8*	-1.2	-2.4	..
Industry	5.5	*-2.4*	0.0	0.0	..
Manufacturing	..	..	..	..	..
Services	3.5	*6.4*	5.0	6.0	..
GDP	4.5	4.1	3.4	4.0	4.5



GDP: EXPENDITURE

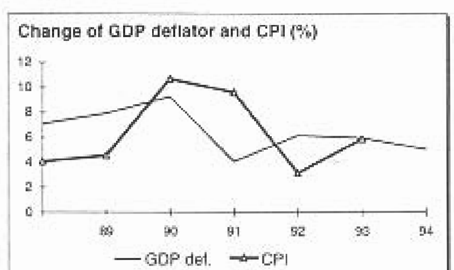
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	96.9	86.3	95.7	80.3	..
General government consumption	9.0	15.9	14.6	18.5	..
Gross domestic investment	54.2	32.8	32.2	44.6	..
Exports of goods and nfs	29.0	22.3	14.6	15.7	..
Imports of goods and nfs	89.0	57.2	57.1	59.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	5.6	*-1.6*	-6.2	-1.3	..
General government consumption	-2.8	*7.8*	8.3	15.4	..
Gross domestic investment	-9.5	*26.7*	57.1	9.1	..
Exports of goods and nfs	0.5	*-8.4*	-15.4	18.2	..
Imports of goods and nfs	-5.0	*4.3*	10.0	6.6	..
Gross national product	4.0	*6.7*	14.3	2.5	4.5
Gross national income	3.9	*7.5*	13.8	1.5	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.4	10.7	3.1	5.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.2	9.2	6.1	5.9	5.0
Government finance					
(% of GDP)					
Current budget balance	-0.5	0.0	1.1	2.1	..
Overall surplus/deficit	..	..	..	..	..

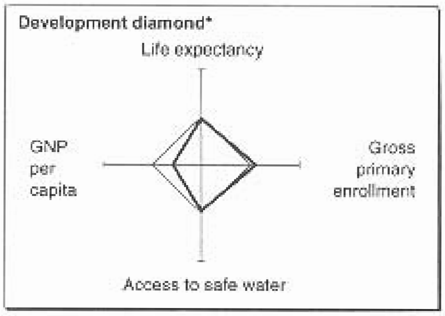


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

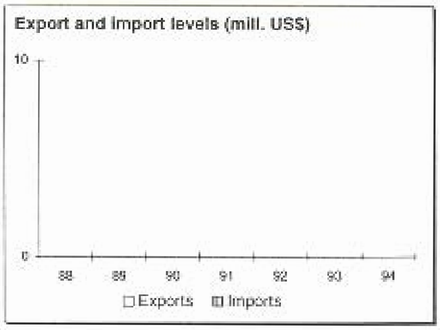
	1985-90	1990-94
(annual growth rates)		
Population	1.9	2.7
Labor force	3.0	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	64.9
Infant mortality *(per 1,000 live births)*	48.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	74.1
Energy consumption per capita *(kg oil equivalent)*	305.4
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	116.0



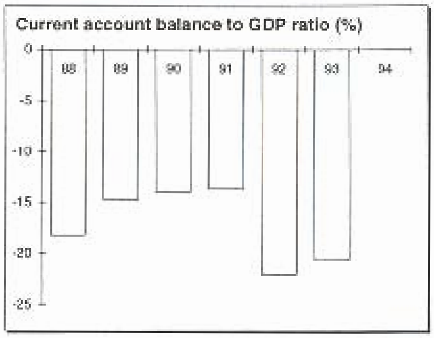
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	3	..	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	91	..	..	..	..
Food	18	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	118	79	72	75	..



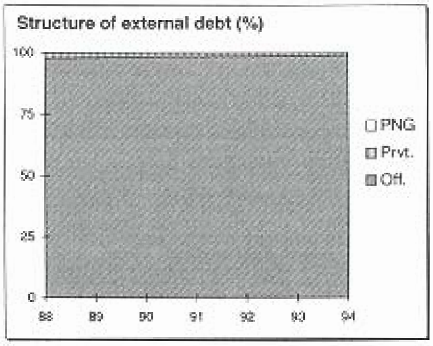
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	36	59	58	48	..
Imports of goods and nfs	95	150	204	179	..
Resource balance	-59	-91	-147	-131	..
Net factor income	2	1	1	-4	..
Net current transfers	22	52	72	71	..
Current account balance					
Before official transfers	-46	-38	-73	-64	..
After official transfers	-9	-12	-4	-10	..
Long-term capital inflow	14	4	6	10	..
Total other items (net)	9	3	12	0	..
Changes in net reserves	-14	5	-13	0	..
Memo:					
Reserves excluding gold *(mill. US$)*	55	77	76	..	..
Reserves including gold *(mill. US$)*	55	77	76	..	..
Conversion rate *(local/US$)*	91.6	70.0	68.0	80.4	81.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	183.1	128.7	115.8	280.6	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	1.9	5.2	6.0	16.6	..
Total debt service/exports	9.7	5.4	9.2	10.0	..
GDP ratios					
Long-term debt/GDP	90.3	52.0	43.3	48.0	50.4
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	0.9	2.1	2.3	2.8	1.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	2.5	1.8	1.5	1.5	1.2
Official creditors/long-term	97.5	98.2	98.5	98.6	98.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Central African Republic

With an area of 623,000 square kilometers, a population of about 3.2 million growing at 2.5 percent a year, and a per capita income estimated at $400 in 1993, the Central African Republic has large but unexploited natural resources. Only a tenth of its arable land is under cultivation and forest resources are plentiful. Diamonds extracted by artisans account for 60 percent of exports. Other minerals, including gold, are known to exist. However, high transport costs are a constraint to growth in this landlocked country. With the exception of diamonds, which are flown out of the country, its external trade is dependent on long transport routes through neighboring Congo and Cameroon. The main transport route remains the Ubangi River, which is navigable only six months a year. Deterioration in the social sectors during the past years is another constraint to growth.

The Central African Republic's economy declined steeply in the late 1970s and early 1980s, mainly as a result of inappropriate government policies and exogenous shocks. Heavy government interference in agricultural marketing and an ill-advised agricultural reform in 1970 led to a complete halt of research and rapid deterioration of extension services. Unsound and overly ambitious public investment programs and rapidly increasing budget deficits, caused by an oversized and inefficient civil service, nationalized enterprises, and short-term expensive borrowing reinforced the economic decline. These domestic problems were exacerbated by falling prices for its main export crops, coffee and cotton, a drought in 1983, and a growing disenchantment among donors that led to its isolation.

Adjustment Performance 1986-91

Since 1986 the Central African Republic has pursued a series of stabilization and structural adjustment programs supported by the IMF and World Bank and aimed at restoring the basis for medium-term growth and development. As a member of the CFA franc zone, the Central African Republic could not adjust its exchange rate to enhance competitiveness but had to rely on internal adjustment to reduce cost. This strategy was crippled by a deteriorating external environment marked by a significant drop in its terms of trade, aggravated by the appreciation of the exchange rate after 1985. These factors led to an economic contraction. From 1986 to 1993, real per capita income declined by about 20 percent. After improving between 1987 and 1989, the current account deficit (before transfers) worsened to 18.6 percent of GDP in 1991. The deficits were mainly financed through accumulation of arrears and new external debt. The stock of arrears exceeded CFAF 100 billion (or 30 percent of GDP) at end-1993, consisting of CFAF 33 billion in external arrears (before the change in parity) and CFAF 67 billion in domestic arrears — including CFAF 18 billion in salary arrears.

While the internal adjustment strategy failed to bring about growth, it resulted in some lasting changes. Most price controls and trade restrictions were removed. Food crop marketing and pricing was completely liberalized, and the first elements of civil service reform were introduced. The number of government employees was reduced by 11 percent to about 22,000 between 1986 and 1991. The public enterprise sector also underwent reform as the state's portfolio was reduced from 52 to 32 enterprises through liquidations and privatizations. All commercial functions of public enterprises in the agricultural sector, including cotton marketing, were either privatized or liquidated, and their regulatory functions taken over by government agencies. Interest rates were liberalized. The introduction of a three-year rolling investment program, which resulted in the elimination of a number of nonviable projects, marked a further important element of progress.

Political Developments

The economic crisis led to rising social and political tensions, and eventually to the demise of the one-party regime. Starting in 1991, the government was no longer able to meet its payroll obligations as tax collection collapsed. Civil service salaries were paid only intermittently, and by end-1993 were 12 months in arrears. Prolonged strikes by civil servants virtually paralyzed the economy. Expenditure on goods and services was curtailed to such an extent that government agencies no longer had the means to carry out their tasks. The situation became particularly alarming in the health and education sectors, with most public schools and hospitals virtually ceasing operations. After three years of political unrest, elections monitored by international observers took place in September 1993. The new president formed a coalition government with broad political support. The new government has affirmed its commitment to economic and social reform. Its priority task is to rebuild the country's social and infrastructure sectors.

Recent Economic Developments

In January 1994, in concert with the other members of the CFA franc zone, the Central African Republic devalued its currency by 50 percent in foreign exchange terms. The government adopted an adjustment program supported by an IMF standby in March and implemented most trade and tax policy reforms agreed as a member of the Central African States' Customs and Economic Union, including a four-tier custom tariff ranging from 5 to 30 percent.

Preliminary figures suggest that the devaluation, together with regular payment of government salaries, has triggered a significant supply response, with GDP growth approaching 7 percent in 1994, although the IMF program went off-track because of a significant shortfall in government revenue, as in most other franc zone countries. Consumption of petroleum products, a crude indicator of economic activity, was 28 percent higher in the first ten months of 1994 than in the same period in 1993. Exports of lumber and wood products have also benefited from higher international prices; two lumber companies that had abandoned their operations are back in business. Higher international prices for coffee and cotton should provide an incentive for rehabilitating long-neglected plantations. Inflation in 1994 is estimated at 28 percent, lower than the 35 percent expected.

Poverty and Social Indicators

Poverty is pervasive in the Central African Republic, which was ranked 160th out of 173 countries in the 1994 UNDP Human Development Report. Women are particularly disadvantaged as they shoulder more of the workload, are less educated, and have less access to paid work. The incidence of malaria, diarrhea, parasitism, and malnutrition is high, and AIDS has reached alarming proportions. Three out of four urban households and 85 percent of rural families lack access to safe drinking water. Eighteen percent of children suffer from malnutrition. Only 35 percent of the population over five years of age can read and write. Weak and underfunded social services deteriorated even further in the turmoil of the 1991-to-1993 period, while income and consumption levels sank.

Education services are operating again after being closed down for three years, but they are in disarray and unable to cope with the backlog of children who received no schooling at all for three years. There is a net deficit of about 1,300 primary education teachers, and the problem of overcrowding may worsen before it improves, given the time needed to train teachers. Moreover, curricula are poorly adapted to real needs. The situation in the health sector is the same: the prolonged crisis reduced already inadequate services to a bare minimum and large sections of the population have no access to health care. Where hospitals and health centers do exist, they are badly equipped and poorly maintained, and lack medical supplies. Even before the crisis, public expenditure on health was highly skewed in favor of urban areas, and this situation has not yet been reversed: Bangui, with a third of the population, absorbs 90 percent of the health sector's operating budget and has 70 percent of the country's doctors. Health indicators are well below Sub-Saharan Africa averages, especially in the rural areas.

The government is preparing a national environmental action plan that is expected to be finalized by end-1995, and for which it will seek assistance from the donor community. The Central African Republic has a satisfactory forestry code, which was enacted in 1990, and a zoning system that identifies protected areas.

Medium-Term Prospects

The Central African Republic's economy would have to grow by at least 5 percent a year to establish a minimum level of welfare and security. Even with this rate of growth, it would take at least ten years to reach the per capita income levels of the late 1970s in real terms. Significant improvement in per capita incomes and living standards over the longer term would require higher rates of growth.

The 5 percent initial growth target is feasible. Coffee and cotton production is expected to continue to react favorably to the devaluation and higher international prices. Only one-tenth of the country's 20 million hectares of arable land is under cultivation; the potential for crop diversification is good, and the potential for livestock expansion is promising; about half the area of the country is suitable for grazing, but only 15 percent is used. The mining sector could be an even more significant contributor to the economy: over 60 percent of the country's export earnings and about 12 percent of fiscal receipts are yielded by artisanal diamond exploitation. Much of the country rests on Precambrian rock formations that in other African countries host valuable mineral deposits, including gold. Over the longer term, the manufacturing and service sectors have the potential to expand 7 to 8 percent a year, and they could make an increasing contribution to economic growth if policies are pursued to foster private enterprise. Wood and agro-processing industries as well as tourism are possible sources of future growth.

A steep increase in domestic savings and investment would be needed to sustain growth of 5 percent. Between 1994 and 1997, the shares of domestic savings and investment in GDP are expected to increase from 5.2 percent to 8.7 percent, and from 14.4 percent to 17 percent, respectively, and an increasing private-sector contribution to investment is expected. Private-sector investment represents 2.5 percent of GDP at present.

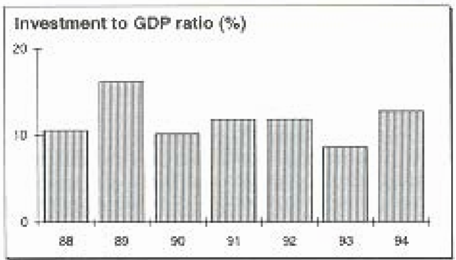
Over past years the business environment has not been conducive to private investment. A major factor was the overvaluation of the currency. Potential investors were also deterred by a complex regulatory framework and the lack of an independent judiciary. The devaluation has relaxed one major constraint, but the deficiencies in the regulatory and judicial frameworks remain to be addressed: overly protective labor legislation, cumbersome licensing procedures for new businesses, and an ineffective judicial system.

Central African Republic

Population mid-1993 *(millions)*	**3.2**	Income group: **Low**
GNP per capita 1993 *(US$)*	**400**	Indebtedness level: **Severely Indebted**

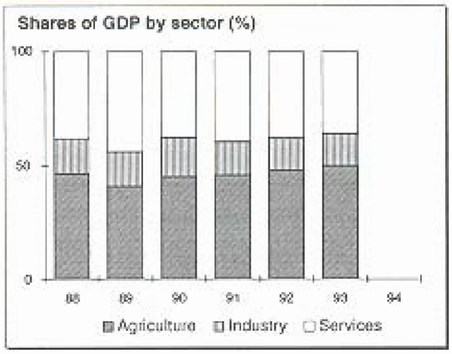
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	14.5	10.2	11.8	8.6	12.8
Exports of goods and nfs/GDP	25.2	16.3	12.5	15.3	22.4
Gross domestic savings/GDP	-0.3	-6.3	3.3	1.5	4.4
Gross national savings/GDP	-3.5	-10.7	-0.8	-2.7	..
Current account balance/GDP	-16.6	-18.8	-13.7	-11.3	..
Interest payments/GDP	1.0	0.7	0.5	0.3	0.4
Total debt/GDP	49.4	54.9	63.0	73.3	95.6
Total debt/exports	188.4	324.7	457.4	469.0	..


Investment to GDP ratio (%)

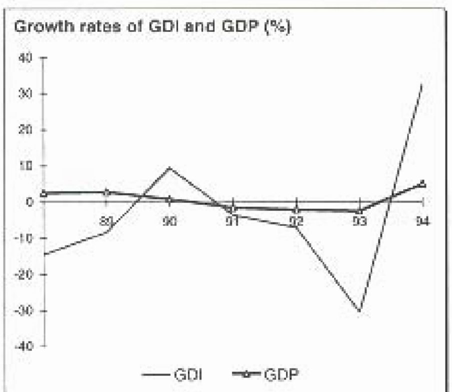
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	39.9	45.0	47.9	49.9	..
Industry	13.7	17.2	14.3	14.1	..
Manufacturing	7.3	..	..	..	..
Services	46.4	37.7	37.8	36.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.2	*0.2*	0.8	2.9	..
Industry	5.1	*-4.6*	-10.3	0.0	..
Manufacturing	..	..	..	..	..
Services	-1.7	*-2.1*	1.5	-5.7	..
GDP	0.9	-0.7	-2.1	-2.5	5.0


Shares of GDP by sector (%)

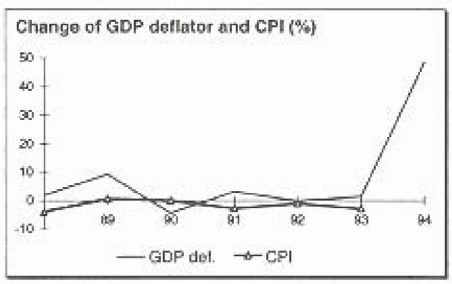
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	86.5	96.4	86.8	88.7	89.0
General government consumption	13.8	9.9	9.9	9.8	6.6
Gross domestic investment	14.5	10.2	11.8	8.6	12.8
Exports of goods and nfs	25.2	16.3	12.5	15.3	22.4
Imports of goods and nfs	39.9	32.7	21.0	22.5	30.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.6	-3.1	0.1	-9.3	2.2
General government consumption	-3.2	-6.2	-3.0	-6.2	-14.6
Gross domestic investment	-8.4	-7.9	-7.1	-30.5	32.4
Exports of goods and nfs	-3.7	4.4	-10.4	26.1	19.8
Imports of goods and nfs	-3.1	-9.8	-1.5	-22.8	6.1
Gross national product	0.3	-1.4	-2.4	-4.2	5.0
Gross national income	0.1	-2.4	-0.1	-9.6	3.4


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.4	0.0	-1.0	-2.9	..
Wholesale prices	6.7	1.6	..	..	..
Implicit GDP deflator	9.2	-4.3	0.0	1.5	48.4
Government finance					
(% of GDP)					
Current budget balance	..	-1.6	-3.6	-4.6	-2.0
Overall surplus/deficit	..	-12.0	-12.1	-11.8	..


Change of GDP deflator and CPI (%)

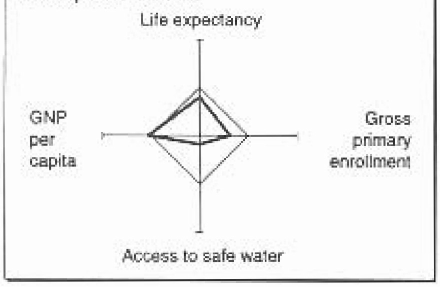
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Central African Republic

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.4	2.5
Labor force	1.5	1.8

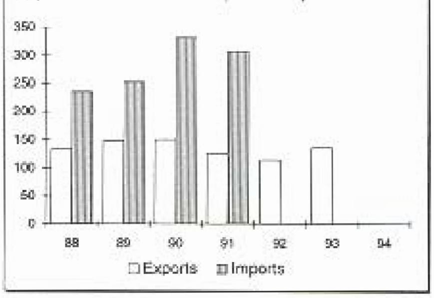
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	49.5
Infant mortality *(per 1,000 live births)*	100.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	11.9
Energy consumption per capita *(kg oil equivalent)*	29.2
Illiteracy *(% of population age 15+)*	62.3
Gross primary enrollment *(% of school-age population)*	68.0



Development diamond*

TRADE

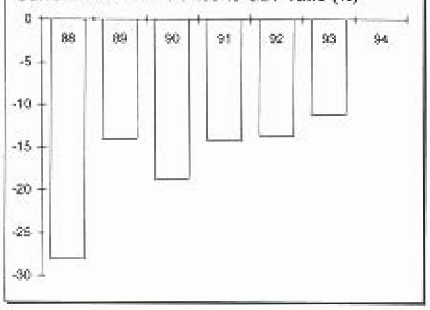
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	131	150	114	136	..
Diamonds	34	72	69	71	..
Coffee	41	10	5	8	..
Manufactures	..	..	..	..	..
Total imports (cif)	222	333	..	..	..
Food	22	34	..	..	..
Fuel and energy	23	18	17	16	..
Capital goods	80	139	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	65	49	33	38	53



Export and import levels (mill. US$)

BALANCE of PAYMENTS

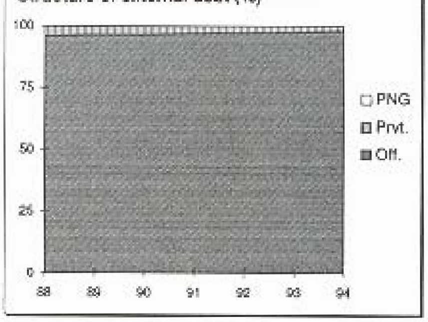
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	178	220	177	190	203
Imports of goods and nfs	276	410	309	278	279
Resource balance	-98	-191	-132	-88	-76
Net factor income	-7	-22	-19	-23	..
Net current transfers	-12	-33	-32	-28	-23
Current account balance					
Before official transfers	-117	-245	-183	-139	..
After official transfers	-49	-89	-57	-21	..
Long-term capital inflow	43	90	47	9	20
Total other items (net)	-14	-10	14	14	..
Changes in net reserves	20	9	-3	-2	-6
Memo:					
Reserves excluding gold *(mill. US$)*	50	119	100	112	..
Reserves including gold *(mill. US$)*	53	123	104	116	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	157.5	291.2	409.5	413.5	..
IMF credit/exports	21.1	16.7	16.6	14.9	..
Short-term debt/exports	9.8	16.8	31.3	40.6	..
Total debt service/exports	14.3	13.2	8.5	4.8	..
GDP ratios					
Long-term debt/GDP	41.3	49.2	56.4	64.6	87.4
IMF credit/GDP	5.5	2.8	2.3	2.3	4.5
Short-term debt/GDP	2.6	2.8	4.3	6.3	3.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	8.6	3.7	2.9	2.7	2.1
Official creditors/long-term	91.4	96.3	97.1	97.3	97.9



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Chad

Chad, a landlocked country, with a population of 6.8 million composed of many different ethnic groups, is endowed with valuable natural resources, which have not been properly exploited because of its turbulent history. Brief growth periods have been interrupted by steep declines caused by political instability and civil strife. Per capita GNP, estimated at $210 in 1993, is lower than it was at independence, and Chad is today one of the poorest and least developed countries in the world.

The level of primary health and education is lower than in most other Sahelian countries. Female adult literacy is only 18 percent, compared with an average of 38 percent for Sub-Saharan Africa. Infant mortality is estimated at 124 per 1,000 live births, compared with a regional average of 106, and life expectancy at birth is 47, five years below the regional average. Low health indicators are due to malnutrition, lack of clean water, and poor sanitation and hygiene. Since less than 2 percent of the population has access to electricity, households have to rely almost exclusively on wood to satisfy their energy needs, and this leads to a deterioration of the environment around urban centers.

Agriculture generates close to 40 percent of GDP and provides a livelihood for over 80 percent of the population. Compared with other Sahelian countries, Chad has good agricultural potential, especially in the south, where most of the population is concentrated. Food production potential is sufficient to meet domestic demand; but growth has been hindered by the lack of security and illegal taxation by paramilitary units. Food is produced mainly by smallholders for family subsistence, and the level of production fluctuates widely with rainfall. Food security raises concern particularly in the Sahelian area. Livestock, cotton, and gum arabic provide the main source of cash income for the rural population. The industrial sector contributes about 17 percent of GDP and is dominated by COTON-TCHAD, a parastatal that processes and exports cotton. The rest of the industrial sector consists of several medium-scale enterprises and a large number of microenterprises producing consumer goods for the domestic market.

Chad also has important mineral resources, in particular, sizable proven oil reserves, which, if exploited, would radically change its economic outlook.

A civil war from 1979 to 1983 was followed by a period of peace and economic rehabilitation, and in 1987 the government launched an adjustment program supported by the IMF and IDA, but progress was halted by a new round of civil war that ended in December 1990. The conflict brought structural reforms to a standstill and the situation of public finances deteriorated. Government current receipts fell to the equivalent of 6 percent of GDP in 1994 from 9 percent in 1990. With a reduction in external assistance, a decline in cotton prices, and a poor crop in 1993, the public finance situation became critical and the government accumulated domestic and external arrears.

Recent Political and Economic Developments

A national conference of 40 political parties and the civilian and military authorities reached agreement in April 1993 on the outline of a new constitution, a new electoral process, and the selection of a prime minister to head a 12-month transitional government with a mandate to prepare general elections and implement an ambitious economic rehabilitation program. However, economic issues were overshadowed by political ones and the financial situation further deteriorated.

In January 1994 Chad joined the other countries of the CFA franc zone in devaluing the CFA franc by 50 percent and implemented the West African Customs Union tax and trade reform program, establishing a four-tier tariff ranging from 5 to 30 percent. A new adjustment program supported by the IMF and IDA in March 1994 included measures designed to contain the inflationary pressures resulting from the devaluation while protecting vulnerable population groups. Fiscal performance lagged in the first half of 1994, and external payments arrears built up, but the situation improved dramatically in the third quarter of 1994 with a 125 percent increase in average monthly cash receipts.

Inflation, which increased more than 50 percent in the five months following the devaluation, started to decline in the third quarter of 1994 and is not expected to increase much over 40 percent for the full year, which is broadly in line with the original program target. The devaluation triggered a significant supply response. Some 100,000 head of cattle were exported in the first half of 1994, as compared to 30,000 for the whole of 1993. Exports of gum arabic are expected to quadruple from 1993 to 1994 and to reach some $26 million, equivalent to 17 percent of Chad's total export earnings in 1994.

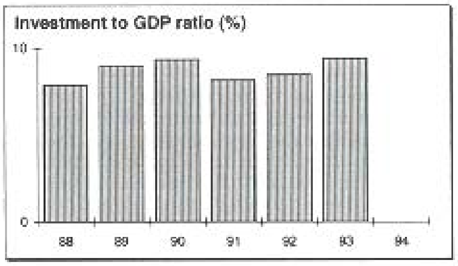
The supply response to the one-third increase in the cotton producer price announced after the devaluation has been strong and the 1994/95 harvest is expected to exceed the previous one by more than one-third. Since part of the 1993/94 crop was sold after the devaluation, while producers were paid at predevaluation prices, COTONTCHAD made a sizable profit on the 1993/94 crop, for the first time in many years. With booming exports, the external current account deficit before official transfers is expected to remain at 20 percent of GDP, compared with a 29 percent program target. The net external assets of the banking system turned from a small negative amount at the end of 1993 to a positive amount equivalent to 9 percent of GDP at the end of September 1994, which greatly improved the liquidity position of the banking system. Commercial banks had repaid credits to the central bank by June 1994 and had no need to borrow from the money market established on July 1, 1994.

Chad

Population mid-1993 *(millions)*	**6.0**	Income group: **Low**
GNP per capita 1993 *(US$)*	**210**	Indebtedness level: **Moderately indebted**

KEY RATIOS

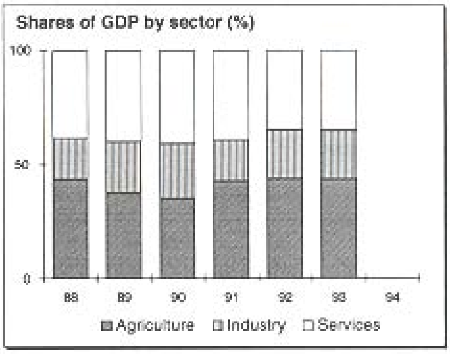
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	8.2	9.4	8.5	9.4	..
Exports of goods and nfs/GDP	16.9	19.3	17.2	13.4	..
Gross domestic savings/GDP	-19.4	-12.2	-13.6	-9.9	..
Gross national savings/GDP	-33.1	-17.0	-17.2	-14.2	..
Current account balance/GDP	-30.4	-24.3	-22.1	-23.5	-17.9
Interest payments/GDP	0.3	0.3	0.5	0.6	1.5
Total debt/GDP	26.4	41.6	54.2	63.2	91.1
Total debt/exports	192.7	212.5	321.2	371.6	458.2



Investment to GDP ratio (%)

GDP: PRODUCTION

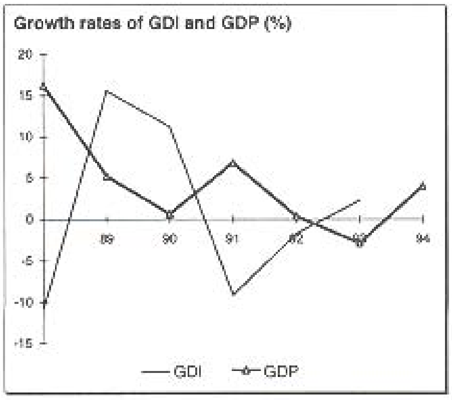
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	45.2	35.1	43.8	43.6	..
Industry	17.6	24.1	21.4	21.6	..
Manufacturing	15.9	22.1	15.9	16.1	..
Services	37.3	40.8	34.8	34.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.6	*6.9*	6.0	-3.7	..
Industry	7.1	*-9.9*	-10.6	-3.8	..
Manufacturing	7.3	*-9.2*	-6.6	-3.0	..
Services	3.2	*-0.1*	-0.9	-11.0	..
GDP	3.9	1.3	0.3	-2.9	4.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

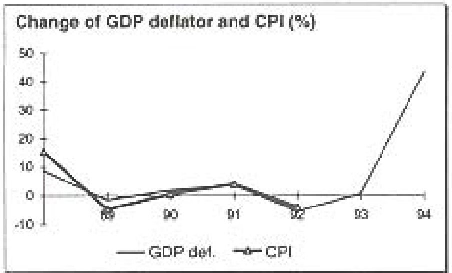
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	102.7	91.3	99.1	93.4	..
General government consumption	16.7	20.9	14.5	16.6	..
Gross domestic investment	8.2	9.4	8.5	9.4	..
Exports of goods and nfs	16.9	19.3	17.2	13.4	..
Imports of goods and nfs	44.5	40.8	39.3	32.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.1	*5.3*	2.5	-3.3	..
General government consumption	7.3	*-9.1*	-25.9	10.2	..
Gross domestic investment	5.0	*-2.9*	-1.7	2.2	..
Exports of goods and nfs	10.0	*-15.8*	-6.7	-25.8	..
Imports of goods and nfs	0.0	*-3.1*	-9.4	-7.8	..
Gross national product	3.9	2.1	2.0	-1.5	4.0
Gross national income	2.9	*3.8*	2.0	0.4	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.2	0.6	-4.1	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-4.2	1.9	-5.5	0.6	43.3
Government finance					
(% of GDP)					
Current budget balance	-1.1	-5.3	-6.1	-7.8	..
Overall surplus/deficit	-8.9	-22.5	-23.1	-16.5	..



Change of GDP deflator and CPI (%)

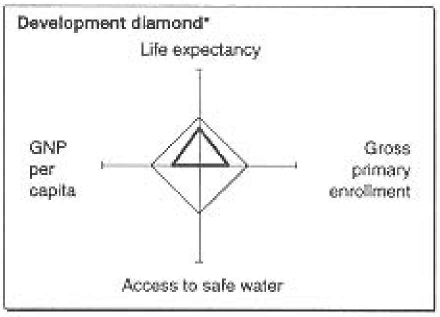
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Chad

POVERTY and SOCIAL

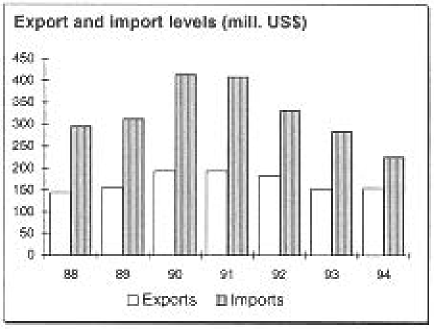
	1985-90	1990-94
(annual growth rates)		
Population	2.0	*2.6*
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.9
Infant mortality *(per 1,000 live births)*	120.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	16.5
Illiteracy *(% of population age 15+)*	70.2
Gross primary enrollment *(% of school-age population)*	65.0



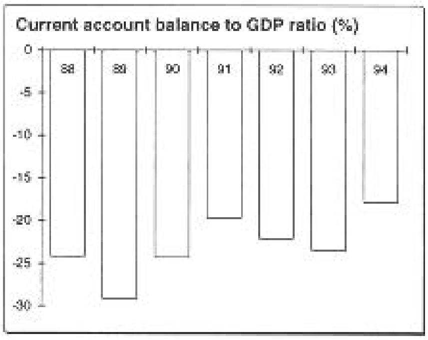
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	88	194	182	152	154
Cotton	44	96	96	57	54
Meat	26	53	50	44	50
Manufactures	5	..	..	..	..
Total imports (cif)	185	414	331	284	226
Food	..	..	..	..	..
Fuel and energy	19	..	..	..	..
Capital goods	54	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	61	60	56	46	..



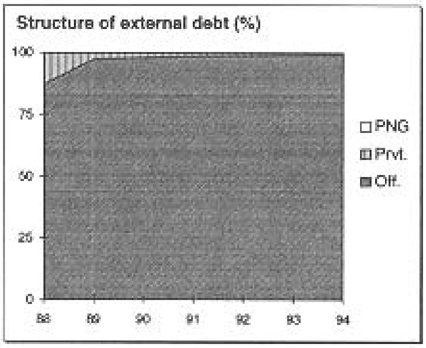
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	94	235	209	195	181
Imports of goods and nfs	320	498	467	429	328
Resource balance	-226	-264	-258	-234	-147
Net factor income	-2	-18	3	-12	-8
Net current transfers	7	-13	-35	-35	-8
Current account balance					
Before official transfers	-221	-295	-290	-281	-163
After official transfers	-87	-91	-86	-111	-39
Long-term capital inflow	68	129	74	135	71
Total other items (net)	-3	-41	-16	-59	44
Changes in net reserves	22	2	28	35	-76
Memo:					
Reserves excluding gold *(mill. US$)*	33	128	80	39	..
Reserves including gold *(mill. US$)*	37	132	84	43	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	160.4	187.6	298.2	345.9	429.8
IMF credit/exports	12.1	12.8	13.4	13.6	22.1
Short-term debt/exports	20.2	12.1	9.6	12.1	6.3
Total debt service/exports	17.6	5.1	5.2	6.1	14.4
GDP ratios					
Long-term debt/GDP	21.9	36.7	50.3	58.9	85.5
IMF credit/GDP	1.7	2.5	2.3	2.3	4.4
Short-term debt/GDP	2.8	2.4	1.6	2.1	1.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	18.5	1.9	1.1	1.0	0.8
Official creditors/long-term	81.5	98.1	98.9	99.0	99.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Chile

Chile's first democratically elected government in more than 16 years ended its four-year term in March 1994. Over the period, Chile successfully sustained economic growth with equity and stability, maintained external and internal balances, further liberalized the economy, renewed voluntary access to international capital markets, and fostered the role of the private sector as an engine of growth. The head of the new administration announced that his government would continue its predecessor's economic policies, with an emphasis on social issues, especially education. Other economic issues on the government's priority list include further inflation reduction and trade integration.

During the first year of the new government, domestic output grew by 4.5 percent, a slowdown compared with the 1989-93 average of 6.4 percent that stemmed from a restrictive monetary policy adopted to cool the economy. Annual inflation fell to 8.9 percent in 1994, but unemployment increased to 6.5 percent. The overall public sector continued to present a surplus, helped by increasing copper prices. Because of to good terms of trade and double-digit growth in exports, coupled with a slowdown in the growth of imports, the current account deficit was sharply reduced from 4.8 percent of GDP in 1993 to 0.9 percent in 1994. The balance of payments continued to register a large surplus as capital inflows remained strong. International reserves rose to 14 months of imports.

Recent Economic Developments

Consistent with the goal of maintaining fiscal responsibility, Congress passed a tax reform bill in 1990 that generated additional annual revenues of over 2 percent of GDP, principally to be used to finance expanded social programs. In 1990 Congress also approved new labor legislation to strengthen the bargaining power of previously weakened labor unions, and the president has recently sent Congress legislation to further strengthen them. In early 1994 Congress approved the capital market reform law to further liberalize the capital market.

After reaching the highest growth rate in the past 26 years in 1992 — 10.6 percent — GDP growth slowed to 6.3 percent in 1993 and 4.5 percent in 1994. Year-end inflation fell to 8.9 percent in 1994, down from 12.2 percent in 1993 as a consequence of the adjustment imposed by the central bank through a tight monetary policy. This was eased toward the end of 1994, but inflation is expected to fall further to 8 percent during 1995.

Reflecting the continued dynamism of the economy, fixed capital formation continued to be higher than GDP growth in 1994, with a real growth rate of 7 percent; overall investment reached 26.5 percent of nominal GDP. Overall consumption grew by 2 percent, with private consumption expanding by 1.1 percent and public consumption by 4.5 percent. Exports of goods and services grew by 8.3 percent in constant pesos, compared to 4.2 percent in 1993. Although growth of imports of goods and services decelerated to 5.0 percent, it remained higher than GDP growth.

Economic growth is expected to accelerate to 6.0 percent in 1995 because of the easing of monetary policy by the central bank and good external conditions for Chile's exports. Copper prices are expected to fall slightly from their current peak, but remain on average above $1 per pound compared to 87 cents in 1993 and $1.04 in 1994.

Improved public finances made an important contribution to the post-1985 recovery of the economy. The central government balance turned from a deficit of 2.4 percent of GDP in 1985 to a surplus equivalent to 3.3 percent of GDP in 1990, and 1.9 percent in 1993. The rise in copper prices contributed to this outcome, but commitment to conservative fiscal policies played a crucial role in eliminating the deficit. The unexpected strength of commodity prices, especially that of copper, and the prudent management of expenditures contributed to a surplus equivalent to 1.8 percent of GDP in 1994.

The reduction in the current account deficit to 0.9 percent of GDP in 1994 explains only about half of the increase in the balance of payments surplus of $3,194 million, compared to $578 million in 1993. The other half was explained by stronger capital inflows, especially in the form of direct investment. In 1994 the capital account surplus was practically 8 percent of GDP; and the stock of international reserves reached $13.0 billion, equivalent to about 14 months of merchandise imports. Net capital inflows including foreign direct investment and short- and long-term capital inflows in the amount of $3.7 billion contributed to that outcome. Short-term capital inflows slowed to $200 million in 1994, reflecting a lowered interest differential and a slowdown in economic activity and the adoption of specific policy measures to discourage them.

With capital inflows continuing strongly in 1994, the peso appreciated by 10 percent in nominal terms. The peso had been pegged at the lower end of the band for several months when the central bank decided in late November 1994 to appreciate the band by 10 percent. Intervening to uphold the band was creating problems in the central bank's handling of monetary policy and in the achievement of the inflation target.

The central bank projects that the current account deficit for 1995 will register 1.5 percent of GDP, above that of 1994, because of the recovery in the rate of growth of the economy. In 1995, exports are expected to grow at 15 percent in dollar terms and imports at 17 percent, compared to dollar rates of growth of 25 percent for exports and 7 percent for imports in 1994.

External Debt

Chile has made significant strides in reducing external indebtedness. Debt reduction operations — debt equity conversions and rescheduling agreements with creditor commercial banks — reduced Chile's external debt by $11.4 billion between 1985 and December 1993. At end-1994, total debt outstanding was $20.3 billion, equivalent to 41.3 percent of GDP (down from 113 percent of GDP in 1987), or 139 percent of exports. Chile became the first Latin American country to regain an investment grade rating. In mid-1992, Standard and Poor's issued a full "investment grade" BBB rating to Chile's senior long-term foreign currency debt; this was subsequently upgraded, in December 1993, to BBB+ and long-term debt in pesos was rated AA.

Poverty and Social Indicators

Social developments in Chile have been impressive. Indeed its classification among the lower end of the scale for middle-income economies, with a GNP per capita in 1993 of $3,170, belies its significant progress over the past several decades in improving social welfare. Key social indicators, including average life expectancy at birth, infant mortality rate, the prevalence of malnutrition, educational attainment, and overall adult literacy rate, are more similar to those of higher-income economies than to the developing world. The UNDP Human Development Index ranked Chile 36 among 173 developing countries. Underlying Chile's solid social development performance is a long history of sustained, substantive investments in the social sectors by successive governments.

The new government has taken decisive action to accelerate social development. It has increased public social spending, financed from revenues generated by the recent tax reform, and instituted a series of measures to improve the quality of social service delivery, strengthen the decentralization process, increase collaboration between public and private health care providers, and revise social subsidies to enhance educational opportunities for low-income children.

Since the early 1980s Chile has made substantial progress in reducing poverty. Recent estimates show that the percentage of the population classified as indigent fell from 17 percent to 9 percent from 1987 to 1992, and the proportion of total poor dropped from 45 percent to 33 percent over the same period. The challenge facing the new administration in the 1990s will be to accelerate poverty alleviation efforts through improved efficiency and thus ensure that the benefits of economic growth are more equitably distributed through its targeting policies.

Medium-Term Prospects

After a decade of successfully completed major structural reforms, Chile's medium-term economic prospects are excellent, provided the government continues to carry out its development agenda within the context of a conservative fiscal stance. In the medium term Chile is expected to reduce further its dependence on natural resource-based exports, exploit the benefits of regional trade agreements such as NAFTA and MERCOSUR, deal with environmental problems such as resource depletion and air pollution, and deal with the structural and regional aspects of poverty.

To attain government's objective of a sustained annual average GDP growth rate of over 5 percent, Chilean exports would have to grow at an annual real rate of approximately 8 percent and national investment will have to average over 26 percent of nominal GDP. This scenario, which is consistent with current expectations for the Chilean economy and the external sector, would require annual private capital inflows (anticipated primarily in the form of financing foreign investment projects) equivalent to 1 to 2 percent of GDP. Currently capital flows substantially exceed this figure. More important, Chile faces excellent prospects because of the high quality of its economic management.

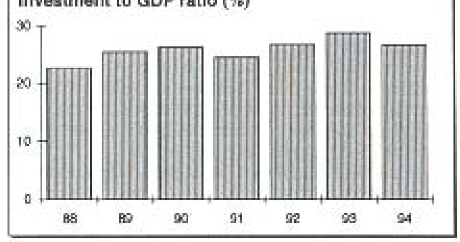
Though Chile has the potential to grow at more than 5 to 6 percent a year, it is not totally immune from some regional contagion from the Mexico crisis. However, recent growth and diversification of Chile's exports, its strong external reserve position, and prudent external debt management coupled with recent investor confidence bode well for the country's ability to deal with future uncertainties.

Chile

Population mid-1993 *(millions)*	**13.8**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**3,170**	Indebtedness level:	**Moderately Indebted**

KEY RATIOS

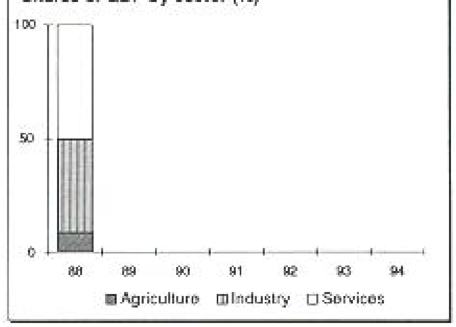
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.2	26.3	26.8	28.8	26.6
Exports of goods and nfs/GDP	28.1	34.5	29.8	26.6	28.4
Gross domestic savings/GDP	19.6	29.7	28.3	26.5	27.9
Gross national savings/GDP	7.3	23.7	24.0	23.3	25.3
Current account balance/GDP	-9.0	-3.2	-2.5	-5.2	-1.3
Interest payments/GDP	9.9	4.5	2.7	2.1	1.9
Total debt/GDP	123.8	63.3	44.8	45.2	40.2
Total debt/exports	436.6	183.0	148.9	167.4	138.2



Investment to GDP ratio (%)

GDP: PRODUCTION

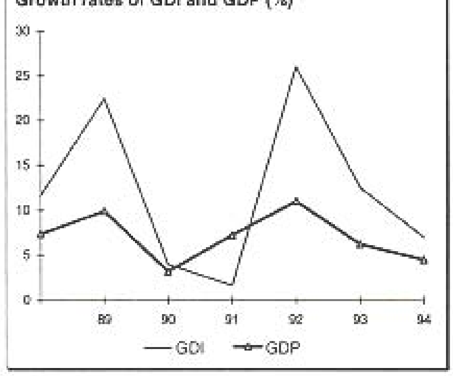
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	7.4	..	..	..	..
Industry	36.4	..	..	..	..
Manufacturing	15.7	..	..	..	..
Services	56.2	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	8.0	*3.2*	4.8	1.1	..
Industry	6.3	*7.2*	9.7	4.6	..
Manufacturing	7.1	*7.2*	11.0	3.6	..
Services	7.1	*10.0*	12.7	7.9	..
GDP	6.9	7.5	11.0	6.2	4.5



Shares of GDP by sector (%)

GDP: EXPENDITURE

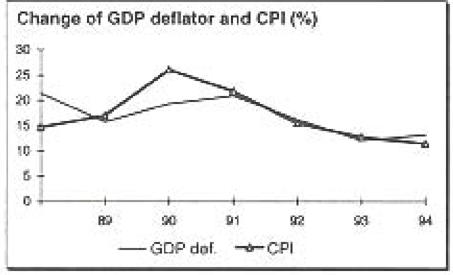
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	67.0	60.5	62.3	63.8	62.8
General government consumption	13.4	9.8	9.4	9.7	9.3
Gross domestic investment	17.2	26.3	26.8	28.8	26.6
Exports of goods and nfs	28.1	34.5	29.8	26.6	28.4
Imports of goods and nfs	25.7	31.0	28.3	28.9	27.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	6.3	7.6	11.1	8.0	1.0
General government consumption	1.4	5.1	5.3	3.3	8.1
Gross domestic investment	15.5	12.9	26.0	12.5	7.0
Exports of goods and nfs	11.0	9.0	13.5	4.2	8.3
Imports of goods and nfs	14.6	12.9	23.5	11.2	5.0
Gross national product	8.2	8.4	11.3	7.1	7.6
Gross national income	9.7	8.5	11.6	4.3	11.8



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	30.7	26.0	15.4	12.7	11.4
Wholesale prices	43.4	21.8	11.7	8.6	7.7
Implicit GDP deflator	30.8	19.3	16.2	12.1	13.2
Government finance					
(% of GDP)					
Current budget balance	..	4.8	5.5	4.3	4.2
Overall surplus/deficit	..	3.3	3.0	1.2	1.7



Change of GDP deflator and CPI (%)

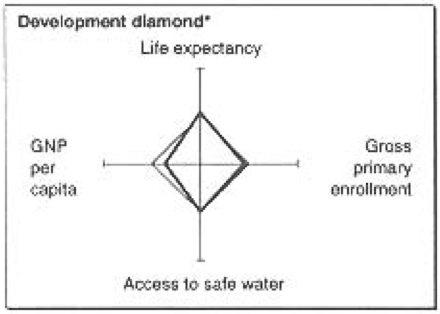
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Chile

POVERTY and SOCIAL

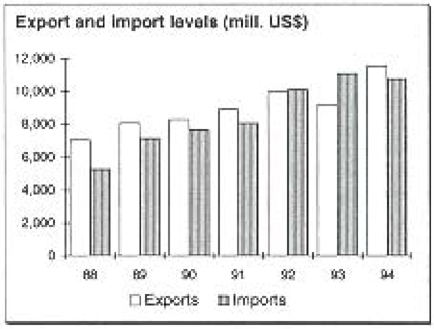
	1985-90	1990-94
(annual growth rates)		
Population	1.7	1.7
Labor force	2.1	1.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	74.0
Infant mortality *(per 1,000 live births)*	15.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	86.0
Energy consumption per capita *(kg oil equivalent)*	911.4
Illiteracy *(% of population age 15+)*	6.6
Gross primary enrollment *(% of school-age population)*	96.0



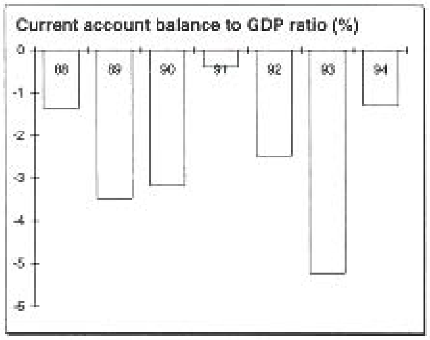
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	3,804	8,310	9,986	9,202	11,543
Copper	1,789	3,795	3,886	3,248	4,240
Meat	515	979	1,230	1,170	1,272
Manufactures	1,168	2,741	4,033	4,056	5,115
Total imports (cif)	2,955	7,678	10,129	11,125	10,758
Food	222	..	..	..	..
Fuel and energy	..	1,129	1,114	1,109	1,180
Capital goods	588	2,322	2,786	3,228	3,473
Export price index *(1987=100)*	87	134	163	170	201
Import price index *(1987=100)*	73	158	216	246	263
Terms of trade *(1987=100)*	119	85	75	69	76
Openness of economy *(trade/GDP,%)*	54	65	58	56	55



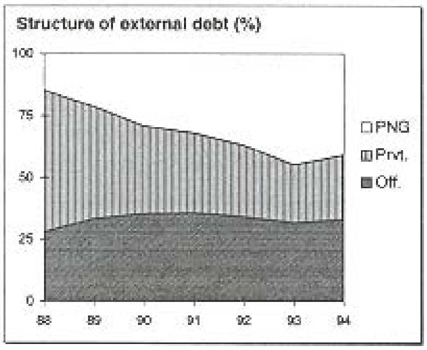
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	4,468	10,152	12,417	11,837	14,612
Imports of goods and nfs	3,921	9,364	11,732	12,810	13,822
Resource balance	547	788	686	-973	790
Net factor income	-2,079	-1,810	-1,860	-1,503	-1,530
Net current transfers	47	54	111	87	70
Current account balance					
Before official transfers	-1,485	-968	-1,063	-2,390	-670
After official transfers	-1,439	-823	-743	-2,092	-460
Long-term capital inflow	996	2,483	708	1,601	2,274
Total other items (net)	345	709	2,533	1,068	1,381
Changes in net reserves	98	-2,368	-2,498	-578	-3,194
Memo:					
Reserves excluding gold *(mill. US$)*	2,450	6,068	9,168	9,640	13,088
Reserves including gold *(mill. US$)*	2,950	6,764	9,790	10,369	13,802
Conversion rate *(local/US$)*	161.1	305.1	362.6	404.3	420.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	377.5	139.8	118.1	130.0	106.9
IMF credit/exports	23.3	11.0	5.6	3.9	1.9
Short-term debt/exports	35.7	32.2	25.1	33.5	29.5
Total debt service/exports	48.6	26.4	21.0	23.4	17.3
GDP ratios					
Long-term debt/GDP	107.1	48.3	35.5	35.1	31.1
IMF credit/GDP	6.6	3.8	1.7	1.0	0.5
Short-term debt/GDP	10.1	11.1	7.6	9.0	8.6
Long-term debt ratios					
Private nonguaranteed/long-term	26.8	29.0	36.9	44.7	40.7
Public and publicly guaranteed					
Private creditors/long-term	61.2	35.7	28.9	23.5	26.2
Official creditors/long-term	11.9	35.3	34.2	31.8	33.1



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

China

Since China's market-oriented reforms began in 1978, real GDP growth has averaged over 9 percent a year, and inflation 7.5 percent a year. Average consumption more than doubled, and over 170 million of the 270 million Chinese living in absolute poverty in 1978 were raised above the poverty threshold. The household responsibility system and partial liberalization of agricultural prices helped raise agricultural production and rural incomes, especially in the early years of reforms. Liberal policies toward nonstate enterprises and a gradual marketization and decentralization of ownership of state-owned enterprises proved a powerful catalyst for rapid growth in industrial output, export, and employment. Exchange rate policy and foreign direct investment supported brisk export growth averaging over 18 percent over 1979-94, and large foreign direct investment inflows, totaling $30 billion in 1994. The monobanking system was broken up to create a central bank separate from specialized banks, and gradually new banks and nonbank financial institutions were established.

Despite China's achievements since 1978, the government faces significant challenges over the medium term in achieving sustainable growth within a stable macroeconomic environment, and reducing poverty and maintaining a relatively egalitarian distribution of income and wealth.

China's economy has experienced repeated periods of overheating and inflation in 1985-86 and 1988-89 and is doing so at present. The fundamental cause of these cycles is the incomplete development of indirect macroeconomic policy tools and the political commitment to support ailing state-owned enterprises. Although the budget deficit is small, the government runs a consolidated government deficit — including central bank lending for policy purposes — estimated at 6 to 8 percent of GNP to support its investment plan and ailing state enterprises. The reserve money thus created builds inflationary pressures, which cannot be controlled adequately by the eroded planning system or an imperfectly developed set of macroeconomic policy instruments.

Aggregate demand growth is confronted with bottlenecks in infrastructure and energy, causing overheating and inflation. In addition, development activities increasingly strain the environment, and some of China's cities are now among the most polluted in Asia.

Despite extraordinary growth over the reform period, 80 to 100 million people remain in absolute poverty, mostly in remote rural areas, but increasingly in urban areas. Urban-rural income differences have increased since 1984, and interprovincial differences in income growth have also climbed, adding to migration problems. The population of rural migrants living in urban areas is estimated at 40 to 80 million people.

The decisions of the Third Plenum of the Central Committee of the 14th Party Congress in November 1993 represent a comprehensive response to the key challenges facing China. It was also China's first real attempt at formulating a clear, coherent, and comprehensive blueprint for making the transition to a market-based economy with Chinese characteristics. This blueprint contrasts with the former strategy of "feeling for stones to cross the river."

In response to the macroeconomic challenges, the Third Plenum adopted major fiscal and financial sector reforms. Fiscal reforms included simplifying the structure and rate of indirect taxes and making domestic enterprise income taxes uniform — in place of the enterprise-specific contracts of the past — and a move to tax-sharing between the central government and the provinces that will gradually increase the central share of revenues. The Plenum also proposed centralizing the administration of central and shared taxes by establishing a National Tax Service.

The government's ability to conduct monetary policy will be enhanced by the introduction of a central bank law, which is currently under discussion. The draft envisages a Monetary Policy Committee in charge of formulating monetary and credit policy, and specifically precludes central bank finance of government budget deficits.

Financial sector reforms include gradually introducing indirect monetary instruments, separating policy from commercial lending, developing the domestic capital markets, and developing banking and nonbanking supervision, prudential regulation, and payments systems. To separate policy lending from commercial lending, the government announced the creation of three development banks exclusively responsible for policy lending; the State Development Bank of China, the Export-Import Bank, and the Agricultural Development Bank of China.

Announced state enterprise reforms focus on corporatization and commercialization. Through gradual corporatization the Chinese authorities plan to separate government administration from enterprise management. Based upon the recently enacted Company Law, the rights of enterprises will be safeguarded while the responsibility of the state will be limited — even as the principle of public ownership is maintained. An essential element of state enterprise reform is to divest the provision of subsidized housing, social security, health care, and other social benefits.

To remove infrastructure bottlenecks, the Chinese authorities intend to expand the scope for foreign direct investment in infrastructure, as they recognize the limits of the government's resources. The new policy banks are also intended to make directed loans for strategic infrastructure projects. Further price reforms in infrastructure services will make infrastructure investment more attractive. To curb the spread of environmental problems, the government will continue to rely on a network of local and provincial environmental protection bureaus that, under the leadership of the National Environmental Protection Agency, enforce environmental laws, regulations, and standards. The government is exploring the use of environmental taxes on polluting inputs to complement the economic incentives from effluent fees and fines already in place. China's national environmental action plan and Agenda 21 program provide direction for these and other environmental improvement efforts.

The government's response to poverty is an ambitious plan's to lift China's 80 million poor out of poverty over the seven years from 1994 to 2000 and raise per capita income in 600 poor counties at least to Y500 a year (in constant 1990 prices) through a targeted intervention program. The program undertakes to create the basic conditions for subsistence, improve basic infrastructure, and expand primary education and vocational education opportunities, as well as access to family planning and health services.

Recent Economic Developments

In 1994 the Chinese economy experienced slower growth, accelerating inflation, a dramatic turnaround in the trade balance, and substantial inflows of foreign direct investment. During the course of the year the Chinese authorities implemented wide-ranging structural reforms, including exchange system and fiscal reforms, and took important steps toward improving monetary management.

Record real GDP growth in 1992 (13.6 percent) and 1993 (13.4 percent) was followed by growth of: 11.8 percent in 1994. Strong investment demand again underpinned the impressive growth performance in 1994, but to a lesser extent than in 1993. The turnaround in the trade balance accounted for 25 percent of GDP growth in 1994 (-30 percent in 1993). The external current account moved from a deficit of 2 percent of GDP in 1993 to a surplus of 0.4 percent of GDP in 1994 because of a 30 percent expansion in exports and a moderate increase in imports (10 percent). Contributing to the trade out-turn were strong external demand, slowing domestic demand, and exchange system reforms that caused an initial currency depreciation. The real effective exchange rate appreciated during the course of the year, however, eroding almost completely the initial impact of the nominal devaluation.

Industrial growth decelerated in real terms from above 20 percent in the previous two years to 18.7 percent in 1994. Agriculture grew at 3.5 percent in 1994, somewhat slower than in 1993 and below the 4.5 percent a year average of the past ten years. Natural disasters in some regions were partly to blame, with grain output falling below the record harvest of 1993.

Inflation accelerated in 1994 to over 20 percent — double the target rate set by the authorities for the year. The 12-month increase in the retail price index peaked at 25 percent in October but had declined to 23 percent by December. Despite some moderation in consumption demand, and a halving of investment growth, persistently high inflation continues to pose risks to economic stability. The government's July 1993 stabilization package — widely known as the 16-point program — was partially successful in moderating aggregate demand growth. In contrast to 1993, central bank lending to financial institutions did not contribute to monetary growth. Instead, China's sharp increase in foreign exchange reserves drove monetary expansion. Positive net exports, large net capital inflows, and liquidation of foreign exchange holdings by foreign enterprises resulted in more than doubling international reserves to $52 billion. Because the central bank was unable to sterilize these inflows and reluctant to allow the currency to appreciate, it instead tightened credit to financial institutions, but this attempt was swamped by the magnitude of the foreign reserve increase. Broad money grew by 34 percent, while currency in circulation expanded by 24 percent.

The growth in money supply accommodated increases in administered prices. Much of the 1994 increase in the retail and consumer price indices can be attributed to reforms in administered prices, especially for food grains. Upward wholesale and procurement price adjustments included food grain (40 percent), crude oil (52 percent), natural gas (114 percent), gasoline (14 percent), diesel fuel (38 percent), and cotton (59 percent). The exchange system reform and the expansion of the VAT implemented at the beginning of 1994 also contributed to the cost-push pressures on the price level.

China's bid to become a charter member of the World Trade Organization was unsuccessful, and the protocol for China's entry is still being negotiated. While membership in WTO would provide China with contractual security against arbitrary actions by trading partners, a major disruption in trade flows seems, in any event, unlikely. The recent skirmishes with the United States on intellectual property rights appear to have been settled. Given the dynamism of China's export sector and the potential for substitute markets and products, little disruption is expected from these trade disputes.

Perhaps the most striking feature of China's external capital account has been the sharp rise in foreign direct investment inflows, which grew from virtually nothing in 1980 to $30 billion in 1994 — almost half of all foreign direct flows to developing countries. However, commitments declined from $110 billion in 1993 to $63 billion in 1994, signaling a future slowdown in inflows.

Structural Reform

Substantial progress was made in structural reform during 1994. China successfully implemented extensive exchange system reforms early in the year. The dual exchange rate system, effective since 1986, was unified on January 1, 1994 at the rate of Y8.7 per dollar, implying an effective nominal devaluation of 7 percent in domestic currency terms. The exchange rate is now effectively a managed float.

In early 1994, the government introduced the fiscal reform package announced at the November 1993 Third Plenum. Implementation of fiscal reforms is off to a good start. Tax revenues were higher than budgeted in 1994 although government revenues as a percentage of GDP continued to decline. With a strong increase in budgetary expenditures (22 percent), spurred by the increase in civil service wages, the budget deficit is estimated at about 2 percent of GDP, the same as in 1993. The split of national and local tax services has started but will take several years to complete.

Financial reforms in 1994 included measures to strengthen the central bank, through constraining the ability of Peoples Bank of China branches to create credit, and strengthening and standardizing its supervision capacity. Direct government borrowing from the central bank was terminated, but the planned introduction of open market operations has slipped beyond the proposed schedule of 1994.

In early 1994 the government announced the state-owned enterprise reform experiment. This calls for 10,000 large and medium-scale state enterprises to adopt new accounting methods; for 1,000 large firms to adopt new state asset management regulations; for 100 large and medium enterprises to become corporatized; and for 10 — now 18 — cities to undergo comprehensive reform, including pension pooling, staff layoffs, and bankruptcies. Price reforms brought prices of grain and oil more in line with world market prices.

External Debt

China's import requirements will remain substantial if the economy is to sustain yearly growth of 9 percent. China's current account balance is, therefore, projected to go from a small surplus of 0.4 percent of GDP in 1994 to a deficit of 2.2 percent of GDP by the end of the century. China's net long-term external borrowing requirements are projected to remain modest at an annual average of about $5 billion, until 2000. However, since part of current foreign direct investment flows are potentially quite volatile, the possibility remains that China will need to borrow more from external markets to meet its growth targets. Given its high domestic savings rate, modest shortfalls in foreign financing should not disrupt the fundamental growth path.

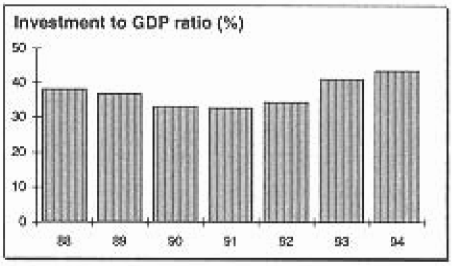
China's total external debt increased to $97 billion in 1994 from $84 billion at the end of 1993, but creditworthiness indicators improved. At end-1994, total external debt was equivalent to 83 percent of exports of goods and services (92 percent in 1993), or 19 percent of GNP, comfortably below the averages for East Asia and the Pacific. Short-term debt amounted to $15.4 billion at end-1994, or 16 percent of the total, less than in 1993. The share of external debt at variable rates has been declining steadily from 44 percent in 1990 to 39 percent in 1994, thus lowering China's vulnerability to interest rate fluctuations in international financial markets. The debt-service ratio, which stood at a low 11.1 percent in 1993, declined further to 9.7 percent in 1994. Overall, China's external debt and debt-service position remained sound. But repatriation of profits and dividends by foreign direct investors will make a rising claim on export earnings as more foreign-invested projects come on stream. Moreover, as state-owned enterprises become more autonomous, the Chinese authorities will need to guard against too rapid a buildup of their external debt obligations.

China

Population mid-1993 *(millions)*	**1,178.4**		Income group: **Low**
GNP per capita 1993 *(US$)*	**490**		Indebtedness level: **Less indebted**

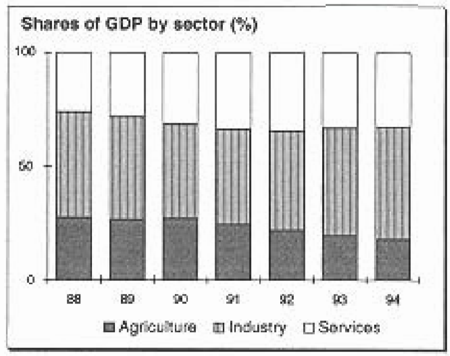
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	38.6	33.2	34.4	41.2	43.6
Exports of goods and nfs/GDP	10.5	19.1	22.5	23.9	24.9
Gross domestic savings/GDP	34.7	37.3	37.0	40.2	44.2
Gross national savings/GDP	35.1	37.4	37.2	40.3	43.6
Current account balance/GDP	-4.1	3.4	1.4	-2.8	0.4
Interest payments/GDP	0.2	0.7	0.6	0.6	0.8
Total debt/GDP	5.8	14.8	16.5	19.7	19.2
Total debt/exports	56.0	87.0	81.7	91.8	83.6



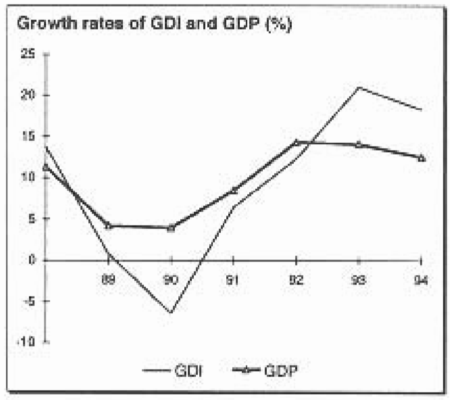
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.8	27.0	21.8	19.5	17.8
Industry	45.3	41.6	43.9	47.6	49.7
Manufacturing	37.2	33.6	35.2	37.8	39.8
Services	24.9	31.4	34.4	32.9	32.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.9	3.8	4.7	4.0	3.5
Industry	9.5	19.0	21.8	20.4	18.7
Manufacturing	9.4	18.6	21.0	19.1	19.7
Services	10.4	8.1	9.4	9.8	6.1
GDP	8.1	12.7	14.3	14.0	12.6



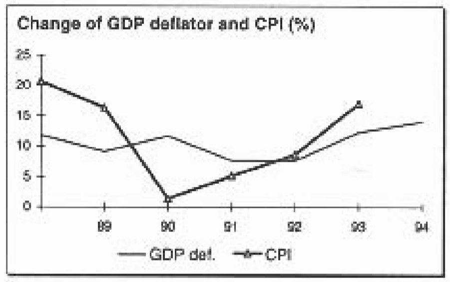
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	56.8	53.2	53.2	50.7	47.6
General government consumption	8.6	9.5	9.8	9.1	8.2
Gross domestic investment	38.6	33.2	34.4	41.2	43.6
Exports of goods and nfs	10.5	19.1	22.5	23.9	24.9
Imports of goods and nfs	14.4	15.0	19.9	24.8	24.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.6	13.7	18.5	17.0	7.3
General government consumption	8.0	12.6	16.1	12.1	8.5
Gross domestic investment	5.4	14.8	12.3	21.0	18.3
Exports of goods and nfs	13.2	15.5	16.9	10.5	20.4
Imports of goods and nfs	0.5	22.9	27.7	29.3	13.9
Gross national product	8.1	12.4	14.3	14.0	11.0
Gross national income	7.6	12.2	13.8	13.9	11.1



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	11.9	1.4	8.6	17.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	9.0	11.6	7.6	12.3	14.0
Government finance					
(% of GDP)					
Current budget balance	7.1	1.9	-0.3	0.3	1.9
Overall surplus/deficit	-0.4	-2.7	-3.6	-3.4	-2.1

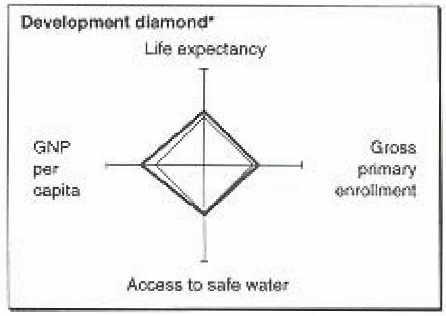


Note: The dollar estimate for China's GNP per capita is taken from the World Development Indicators and is a preliminary figure based on an ongoing World Bank study of China's GDP. It was calculated to facilitate inter-country comparisons. Official statistics are used as the basis for all other economic analysis contained in this document. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

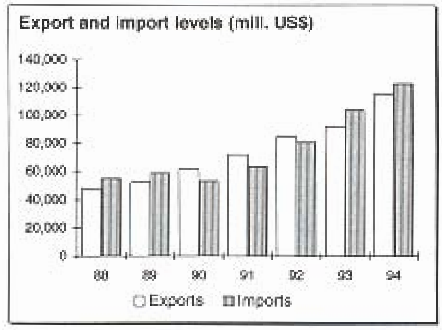
	1985-90	1990-94
(annual growth rates)		
Population	1.5	1.2
Labor force	1.9	1.3

	most recent estimate
Poverty level: headcount index *(% of population)*	10.9
Life expectancy at birth	69.2
Infant mortality *(per 1,000 live births)*	30.5
Child malnutrition *(% of children under 5)*	24.0
Access to safe water *(% of population)*	71.3
Energy consumption per capita *(kg oil equivalent)*	632.3
Illiteracy *(% of population age 15+)*	22.0
Gross primary enrollment *(% of school-age population)*	121.0



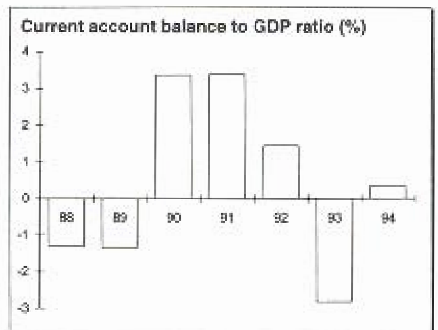
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	27,350	62,063	84,998	91,763	115,169
Food	4,043	7,094	10,550	10,761	12,479
Fuel	7,132	5,225	5,618	4,875	4,052
Manufactures	13,522	46,206	65,393	72,055	93,158
Total imports (cif)	42,252	53,350	80,610	103,950	122,591
Food	1,881	4,474	4,130	3,186	4,062
Fuel and energy	172	1,272	1,093	843	927
Capital goods	18,694	27,225	39,943	57,282	66,937
Export price index *(1987=100)*	73	110	112	110	115
Import price index *(1987=100)*	125	111	118	116	120
Terms of trade *(1987=100)*	58	99	96	95	96
Openness of economy *(trade/GDP,%)*	25	34	42	49	49



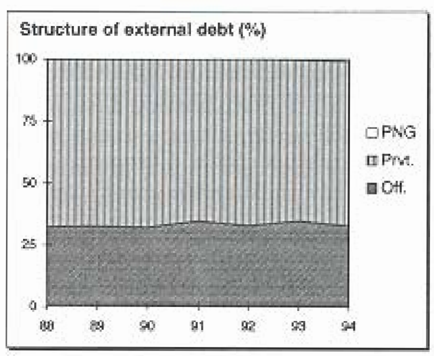
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	28,163	57,322	78,757	85,717	111,702
Imports of goods and nfs	41,149	46,706	73,799	96,671	106,801
Resource balance	-12,986	10,616	4,958	-10,954	4,901
Net factor income	932	1,107	288	-1,964	-3,980
Net current transfers	171	222	806	910	956
Current account balance					
Before official transfers	-11,883	11,945	6,052	-12,008	1,877
After official transfers	-11,810	11,997	6,403	-11,704	2,196
Long-term capital inflow	5,014	8,972	18,264	35,898	42,075
Total other items (net)	4,356	-8,922	-26,727	-22,394	-13,868
Changes in net reserves	2,440	-12,047	2,060	-1,800	-30,403
Memo:					
Reserves excluding gold *(mill. US$)*	12,728	29,586	20,620	22,387	52,914
Reserves including gold *(mill. US$)*	16,881	34,476	24,853	27,348	57,781
Conversion rate *(local/US$)*	2.9	5.2	6.4	8.0	8.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	33.3	75.0	68.9	77.0	71.3
IMF credit/exports	1.1	0.8	0.0	0.0	0.0
Short-term debt/exports	21.5	11.2	12.8	14.8	12.3
Total debt service/exports	8.3	11.5	10.2	11.1	10.9
GDP ratios					
Long-term debt/GDP	3.4	12.8	13.9	16.5	16.3
IMF credit/GDP	0.1	0.1	0.0	0.0	0.0
Short-term debt/GDP	2.2	1.9	2.6	3.2	2.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.3	0.9
Public and publicly guaranteed					
Private creditors/long-term	52.5	68.0	67.3	65.0	66.5
Official creditors/long-term	47.5	32.0	32.7	34.6	32.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Colombia

Colombia's population, 35.7 million according to the 1993 census, occupies an area of just over a million square kilometers. About one-quarter of the population lives in rural areas. Solid growth of about 4.5 percent a year for the past four decades, combined with a drop in the population growth rate to 1.8 percent per year, has facilitated substantial improvements in social conditions. Life expectancy at birth now stands at seventy years, compared with fifty-nine years in 1965. Primary school enrollment was close to 117 percent in 1990, as was the literacy rate. Nonetheless, poverty remains a critical problem. It is estimated that in 1992 almost 6 million Colombians — 19 percent of the population — had incomes below a commonly accepted subsistence level, with three out of four of these poor living in rural areas. Some 10 percent of the children under five are malnourished, and about 8 percent of the population lacks access to safe water. Sharp regional disparities in the quality of life contribute to social disintegration in large areas of the country.

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

During the 1980s Colombia achieved one of the highest and most stable growth paths in Latin America. For the so-called lost decade, Colombia maintained an average annual growth rate of 3.5 percent while adjusting to a worldwide recession and coffee and oil price swings. Its prudent and gradual approach to macroeconomic management yielded positive GDP per capita growth at a time of decline for most countries in the region. Productivity in most sectors, however, remained stagnant. Recognizing that macroeconomic measures alone would be insufficient to raise productivity in the long term, the government launched in 1990 the Economic Modernization Program — a set of structural reforms to improve efficiency of resource allocation and use. Its centerpiece was a trade reform program that envisaged the gradual elimination of quantitative restrictions on manufactured imports and scheduled reduction in the levels and dispersion of tariffs to reach an average tariff rate of 15 percent in 1994.

The new government that took office in August 1990 asserted its commitment to the modernization program, widened the scope of structural reform in Colombia, and sharply accelerated its implementation. Taking advantage of a strong balance of payments, the government advanced the timetable for implementation of the trade reform and completed it in August 1991. The average tariff decreased from 44 percent at the end of 1989 to less than 12 percent at end-1993. To enhance resource mobility and facilitate the supply response to trade liberalization, reforms in the financial sector authorized ownership of financial institutions by foreign investors and free entry into all segments of the market subject only to prudential requirements. Access to foreign exchange was improved, and the government liberalized regulations on foreign direct investment. Congress approved a new central bank law, which provides greater autonomy to the monetary authorities. The labor regime was modified to reduce labor rigidities and facilitate industrial restructuring. Public monopolies were eliminated in sectors critical to trade flows, including railways, ports shipping, and agricultural marketing. Most of the government's nonoil industrial holdings were divested, as were the five banks nationalized during the banking crisis of 1982-85, and further divestment is under way. Following a constitutional mandate, Congress passed in June 1993 the Ley de Competencias y Recursos. This law redistributed functional and fiscal responsibilities for the delivery of social services among different levels of government and set the framework for the ongoing decentralization effort in Colombia.

The government that entered office in August 1994 put forward its policy agenda in the recently completed 1994-98 national development plan now being discussed in Congress. The four-year plan, which is known as the Salto Social — the Social Leap — focused on four critical areas of action: social development; competitiveness of the economy; environment; and decentralization and institutional strengthening. The four elements of the strategy are to be pursued in tandem. Among the policy initiatives launched during the first six months of the administration, probably the most important was the negotiation of a social pact with labor unions and the business sector. The social pact, signed on December 9, 1994, was proposed to underpin the government's effort to reduce inflation, and included a slowdown in the adjustment of domestic fuel prices and the scheduled realignment of electricity tariffs toward marginal cost in exchange for voluntary moderation in private wages and the pricing of medicines, rents, school tuition, and a few other items. However, the pact will only slowly change the formal wage indexation in two-year wage contracts.

Other policy initiatives by the new administration included a series of measures to support agriculture — including increased protection through the introduction of domestic procurement agreements for key crops — and a proposal submitted to Congress to establish an oil stabilization fund to smooth the spending of oil revenues.

Recent Economic Developments

Preliminary data indicate that output expanded by 5.3 percent in 1994, led by buoyant investment expenditures and a continued strong performance in the construction, commerce, finance, and transport sectors. With the buoyancy of economic activity, the unemployment rate dropped to 7.4 percent in the third quarter of 1994, the lowest rate observed in recent years. Inflation remained at the same level of 1993, with consumer prices rising by 22.9 percent in 1994.

The strength of economic activity and sustained private capital inflows — despite increased restrictions on external borrowing — sparked a rapid increase in imports balanced about equally between capital and consumer goods. Notwithstanding a 19 percent increase in export value — reflecting the surge in coffee export prices in the second half of the year — the external current account deficit remained wide at around 5 percent of GDP in 1994. Overall, there was a small increase in net international reserves for the year as a whole of around \$30 million, bringing gross reserves to \$8.1 billion, or nearly six months of imports of goods and services.

The fiscal result in 1994 — a surplus of 0.4 percent of GDP — exceeded expectations, mainly as a result of a surge in coffee prices (which improved revenue by 1 percent of GDP), an increase in social security contributions, and the elimination of the central bank quasi-fiscal deficit after a reduction in its debt and a downsizing of personnel. On the other hand, the monetary authorities largely missed their targets for the growth of narrow money (M1) during 1994. With a target range of 20 to 28 percent, the rate of growth of M1 remained above 30 percent during the first half of the year as the central bank was reluctant to conduct more active open market operations out of concern that this would put pressure on interest rates and exacerbate capital inflows. In the second half of the year the authorities raised interest rates on open market bills by about 8 percentage points and, in an effort to limit the impact of higher domestic rates on capital inflows, intensified restrictions on external borrowing. As a result, the rate of growth of M1 slowed to 27.5 percent in December, bringing the monetary expansion back into the government's target range. Despite a sharp increase in bank lending rates, the expansion of credit to the private sector of 43.5 percent exceeded the target growth of 37.5 percent for 1994.

The government program for 1995 seeks to reduce inflation to 18 percent by year-end and envisages a small increase in net international reserves, with real GDP expected to grow above 5 percent. The fiscal stance is programmed to remain at a surplus of 0.6 percent of GDP in 1995 — with proceeds from asset sales and nonrecurrent licensing fees in the order of 0.6 percent of GDP treated as financing. Monetary policy will continue targeting the growth of M1 to 24.5 percent and credit to the private sector to no more than 35 percent in 1995. Fiscal and monetary authorities have reached an agreement to monitor the implementation of their 1995 financial program on a quarterly basis, and to curtail planned governments outlays by up to 0.5 percent of GDP in light of developments in inflation and the exchange rate.

Colombia has recently taken measures to ensure adequate exchange-rate flexibility is maintained. After hitting the floor of the foreign exchange band and making sizable foreign exchange purchases during the first half of December 1994, the central bank announced on December 13 a modification to the exchange rate band, entailing a 7.5 percent appreciation of the midpoint rate of the peso against the dollar. The width of the band was maintained at 7 percent on each side of the midpoint rate and is expected to follow a notional path in 1995 based on purchasing power parity considerations. Currently, the exchange rate is trading around the midpoint of the band without central bank intervention.

Medium-Term Outlook

Colombia is starting to face an oil boom derived from recent oil discoveries that could put the economy on a faster growth path — GDP growth of more than 5 percent per year is within reach in the medium term. While only two years ago the proven reserves of Colombia more than doubled with the discoveries of the Cusiana and Cupiagua fields, the government announced in February 1995 that ongoing seismic studies show that there could be up to 3.9 billion barrels of crude reserves (approximately the current volume of proven oil reserves in Colombia) in the Coporo block in the same foothill area 50 miles southwest of Cusiana and Cupiagua. Even without new discoveries, and only based on Cusiana and Cupiagua, overall oil production is expected to increase from approximately 480,000 barrels a day in 1993 to around 1,000,000 barrels a day in 1997. These estimated levels of production would double the participation of the oil sector in total GDP by the end of the 1990s. The present value of the net income flows to be generated by these oil fields between 1993 and 2005 amount to an equivalent of approximately 28 percent of GDP. Although Colombia is not unfamiliar with external shocks — it encountered over 1975-80 a coffee bonanza that increased international coffee prices more than fourfold in a period of two years — the risks involved in managing the expected boom should not be minimized.

Colombia is expected to consolidate the gains of the structural reforms of the past four years and accelerate the pace of economic growth. In response to the newly created incentive structure, the implementation of an appropriate regulatory framework, and the foreign exchange revenues from higher oil exports, productivity is expected to improve and per capita GDP growth to rise above 3 percent per year.

External Debt

As a result of its prudent economic and debt management, Colombia's external debt levels are low by Latin American standards. Since late 1991 the authorities have been seeking to identify and structure financially attractive operations for debt prepayment. The strategy, aimed only at sovereign debt, has as its main objective reducing the cost of outstanding debt and, when possible, extending maturities. Since 1992 the government has prepaid about $2 billion in external debt, which carried approximately $7 million in prepayment penalties.

The sources of funds for prepayments have been the placement of foreign-currency-denominated bonds abroad, as well as fiscal resources. After launching its first Eurobond issue in April 1993, marking the return of the Republic of Colombia to the international capital markets, Colombia has maintained an active presence in the markets. In addition to the Eurobond, in 1993 the government placed dollar bonds with maturities of three and ten years amounting to almost $1 billion, including both Samurai bonds in Japan and Yankee bonds in the United States. A medium-term note program for $1.3 billion was established in early 1994 for public entities to access the international capital markets. In February 1994 a $250 million bond issue with a ten-year maturity was placed under this program at 150 basis points higher than comparable United States treasury bonds.

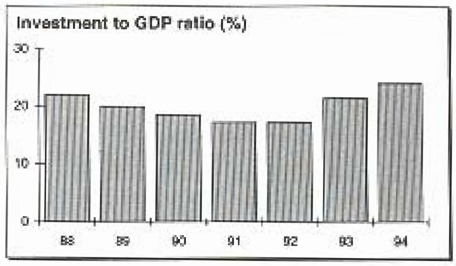
The government's medium-term debt strategy aims to diversify the public sector's sources of financing by replacing external with internal debt, and diversifying its sources of internal debt by developing local capital markets. Efforts will be made to improve the profile of public debt, seeking lower interest rates and longer maturities, and to integrate the debt strategy with other elements of macroeconomic management. Decentralized public agencies will be encouraged to contract external debt directly rather than through the central government.

Colombia

Population mid-1993 *(millions)*	35.7	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	1,400	Indebtedness level:	**Moderately indebted**

KEY RATIOS

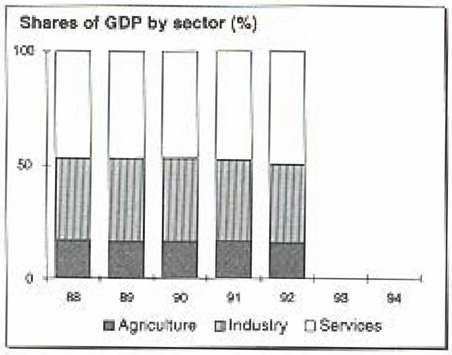
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.0	18.5	17.2	21.5	24.1
Exports of goods and nfs/GDP	13.8	20.6	17.7	17.1	17.2
Gross domestic savings/GDP	20.3	24.3	19.1	17.6	20.5
Gross national savings/GDP	16.9	21.1	19.2	14.9	19.5
Current account balance/GDP	-4.6	1.6	1.5	-4.1	-4.2
Interest payments/GDP	2.5	3.3	2.4	1.7	1.6
Total debt/GDP	40.8	42.8	35.3	31.8	29.7
Total debt/exports	287.5	181.9	167.2	159.2	154.6



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	17.0	16.2	15.6	..	..
Industry	34.6	36.7	34.8	..	..
Manufacturing	21.7	19.9	19.7	..	..
Services	48.4	47.0	49.6	..	..

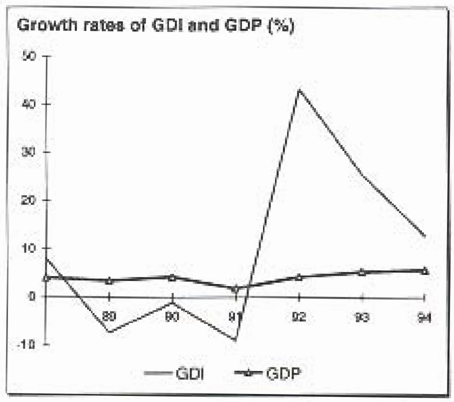
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.5	*2.0*	-1.0	2.7	..
Industry	5.2	*2.8*	4.4	2.8	..
Manufacturing	4.6	*2.7*	4.9	1.9	..
Services	4.1	*5.2*	6.2	8.0	..
GDP	4.5	4.4	4.2	5.3	5.7



GDP: EXPENDITURE

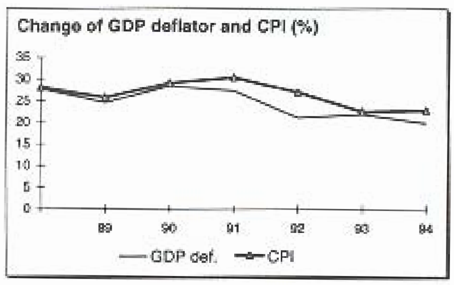
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	69.0	65.4	70.2	70.5	66.0
General government consumption	10.7	10.3	10.7	11.9	13.5
Gross domestic investment	19.0	18.5	17.2	21.5	24.1
Exports of goods and nfs	13.8	20.6	17.7	17.1	17.2
Imports of goods and nfs	12.5	14.8	15.9	20.9	20.7

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	3.6	4.0	2.1	6.7	6.8
General government consumption	5.7	12.3	10.6	17.9	16.4
Gross domestic investment	2.7	19.8	43.3	25.4	12.7
Exports of goods and nfs	9.0	5.7	5.6	5.5	0.0
Imports of goods and nfs	3.9	29.1	51.6	43.1	16.6
Gross national product	4.4	4.9	5.3	3.9	8.4
Gross national income	3.7	5.7	6.2	3.6	12.5



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	24.0	29.1	27.0	22.6	22.9
Wholesale prices	24.9	26.6	20.1	..	..
Implicit GDP deflator	24.7	28.4	21.2	21.9	19.9
Government finance					
(% of GDP)					
Current budget balance	4.3	6.8	6.9	8.4	7.9
Overall surplus/deficit	-4.6	-0.6	-1.1	-0.8	0.4



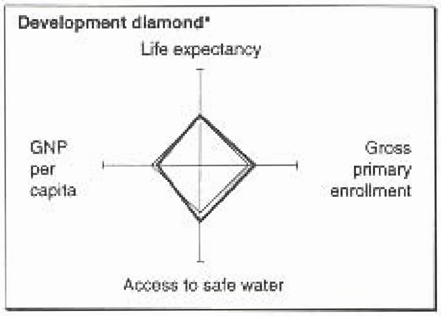
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Colombia

POVERTY and SOCIAL

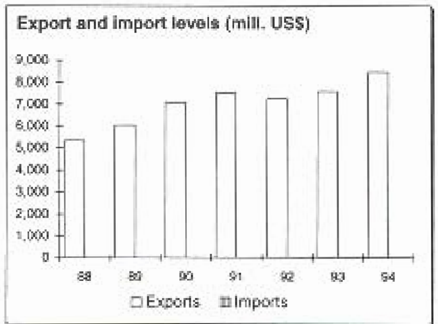
	1985-90	1990-94
(annual growth rates)		
Population	2.3	2.3
Labor force	2.4	2.3

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.5
Infant mortality *(per 1,000 live births)*	36.4
Child malnutrition *(% of children under 5)*	10.1
Access to safe water *(% of population)*	91.9
Energy consumption per capita *(kg oil equivalent)*	661.4
Illiteracy *(% of population age 15+)*	13.3
Gross primary enrollment *(% of school-age population)*	117.0



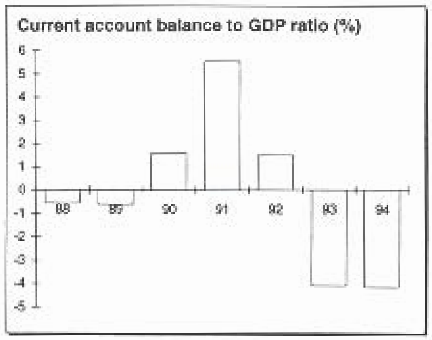
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	7,082	7,263	7,575	8,473
Coffee	1,702	1,402	1,259	1,166	2,141
Gold	365	374	364	312	1,499
Manufactures	..	1,750	2,342	2,618	2,605
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	466	316	273	354	409
Capital goods	1,165	1,881	1,945	3,301	..
Export price index *(1987=100)*	..	134	128	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	26	35	34	36	38



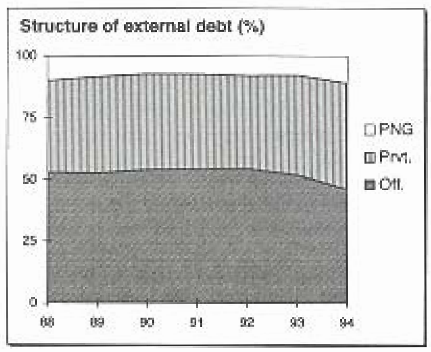
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	4,642	8,690	9,257	9,914	11,643
Imports of goods and nfs	4,989	7,089	8,265	11,618	13,420
Resource balance	-347	1,601	992	-1,704	-1,777
Net factor income	-1,710	-1,984	-1,992	-1,652	-1,751
Net current transfers	455	1,027	1,734	1,136	843
Current account balance					
Before official transfers	-1,602	644	734	-2,220	-2,685
After official transfers	-1,596	644	734	-2,220	-2,685
Long-term capital inflow	2,345	177	-124	330	4,197
Total other items (net)	-484	-186	639	2,046	-1,036
Changes in net reserves	-265	-634	-1,250	-156	-475
Memo:					
Reserves excluding gold *(mill. US$)*	1,595	4,212	7,389	7,552	7,750
Reserves including gold *(mill. US$)*	2,197	4,453	7,551	7,670	7,862
Conversion rate *(local/US$)*	142.3	502.3	680.6	786.7	837.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	224.9	166.7	139.7	129.2	127.0
IMF credit/exports	0.0	0.0	0.0	0.0	0.0
Short-term debt/exports	62.6	15.2	27.6	30.0	27.6
Total debt service/exports	40.0	38.6	36.6	29.4	25.3
GDP ratios					
Long-term debt/GDP	31.9	39.2	29.5	25.8	24.4
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	8.9	3.6	5.8	6.0	5.3
Long-term debt ratios					
Private nonguaranteed/long-term	14.1	7.1	7.8	7.7	11.0
Public and publicly guaranteed					
Private creditors/long-term	38.4	38.8	37.8	40.3	42.7
Official creditors/long-term	47.6	54.1	54.4	52.0	46.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Comoros

The Islamic Federal Republic of the Comoros became independent in 1975. The Comoros is an archipelago of three islands, inhabited by a largely homogeneous Islamic population of about 530,000 with a GNP per capita of $560 in 1993. It is predominantly rural and highly dependent on external assistance. Agriculture and services account for 89 percent of GDP, and construction and manufacturing around 11 percent. The industrial sector is limited to export crop processing and a few consumer goods supplying the domestic market. Tourism has started to develop and shows promising growth potential. The Comoros' social indicators compare favorably with the average for Sub-Saharan Africa. Life expectancy at birth is 56 years and the infant mortality rate is 89 per 1,000. Between 1975 and 1992, primary school enrollment increased from 46 percent to 75 percent of the school-age group.

In 1990 the Comoros introduced a multiparty system after more than a decade of one-party rule. Following open presidential elections in March 1990, a new constitution was approved by referendum in June 1992. Legislative elections in December 1993 gave an absolute majority to the political party supporting the president. This progress toward democratization has, however, been accompanied by political tension and frequent changes of government. The latest change took place in April 1995.

During the decade following independence real GDP per capita grew at an annual average of 3 percent, fueled by an ambitious program of infrastructure investment. This period of growth ended when these externally financed projects were completed, and financial problems emerged. Over 1987-90 real GDP per capita declined at an annual average of 2 percent, and public finance deficits (before capital grants) averaged 12 percent of GDP. External debt arrears accumulated, reaching $44 million by end-1990. This poor economic performance following the "growth bubble" of foreign-financed infrastructure projects underscored the severity of the Comoros' developmental constraints: a narrow export base concentrated on vanilla, cloves, and perfume essence facing volatile world demand, underdeveloped human resources, weak economic management, and an unfavorable private-sector environment.

Recent Economic Developments

In 1991 the government launched an adjustment program to address the macroeconomic imbalances and remove some of the structural constraints to growth. The program, supported by IDA and the IMF, focused on restoring macroeconomic stability, beginning the process of improving public-sector performance and establishing a favorable environment for private activity. After initial delays caused by an unsettled political climate in which the fiscal situation deteriorated further, the program accelerated. The authorities corrected earlier slippages, especially in public-sector performance, and implemented the rest of the program satisfactorily. In January 1994, in a bid to enhance the competitiveness of exports and improve economic performance, the authorities devalued the Comorian franc by 33 percent in foreign currency terms.

Under the program, the government cut the size of the civil service by 35 percent and the military by a third; reduced civil servants' wages by 17 percent by end-1993, and decreased civil servants' allowances for housing, transportation, and utilities. The government further reduced the scope of the public sector by withdrawing from commercial and productive activities carried out by parastatals. To stimulate private-sector development, it liberalized external trade by abolishing import monopolies on several products, including cement, tobacco, higher-grade rice, and meat, and lowering the barrier to entry into vanilla exports by reducing the minimum required quantity allowed to be exported from 15 to 5 tons. The authorities also launched a program of tax reform, beginning with simplifying the tariff structure. Finally, the government reduced price controls to a dozen essential commodities and took steps to boost private-sector know-how by creating a center to provide technical support to small businesses, and simplified administrative procedures for business creation.

Over 1991-93, the economy recovered moderately, posting real GDP growth averaging 1.9 percent, compared with an average of 1 percent over the previous three years. Agriculture accounted for most of the recovery. Domestic savings improved from negative 3.7 percent of GDP in 1991 to zero percent in 1993. The budgetary deficit (before capital grants) fell from 13.1 percent of GDP in 1991 to 7.4 percent in 1993, owing to expenditure cuts through civil service reduction. The external current account deficit (before capital grants) was marginally reduced from 11.1 percent of GDP in 1991 to 10.5 percent in 1993, as imports declined in response to the reduced aggregate demand pressure, exports began to recover, and tourism receipts started to increase.

The economy has begun to respond favorably to the devaluation. In 1994, although real GDP growth was still low at 1.4 percent, domestic savings modestly increased to a positive 0.4 percent of GDP. Exports of cloves and perfume essence rose more than 50 percent, albeit from a low base. Although this was offset partly by a 25 percent decline in vanilla exports from an exceptionally high level in 1993 (when about 20 percent were re-exports of vanilla from Madagascar), it contributed to a slight improvement in the external current account deficit to 10.3 percent of GDP. The inflation rate rose by some 20 percent during 1994 following the devaluation, but there are indications that the inflation spurt has faded in recent months.

Fiscal performance in 1994 was, however, weak owing to a major shortfall in revenues, which declined to 16.6 percent of GDP, compared with 20 percent in 1993. This was due partly to low imports and partly to weakness in tax administration. The wage bill went up 11 percent, but the increase was more than offset by savings on goods and services and transfer payments. However, because of major shortfall in revenues, the overall budgetary deficit widened to 12 percent of GDP, and salary payments were two months late by end-1994. The government has adopted corrective measures to increase fiscal revenues and control expenditure that should improve fiscal performance in 1995.

Medium-Term Prospects

The Comoros has unrealized economic potential in tropical agriculture, fishing, tourism, and labor-intensive light manufactures. Agriculture will remain the main source of growth in the foreseeable future. An Agriculture Strategy Study, completed in 1993 with World Bank and UNDP assistance, identified important opportunities to increase production and diversify export into fruits and flowers, herbs and spices, and quality perfume essence by rationalizing farming systems to increase productivity, improving agricultural marketing, reviewing land tenure policy, and preserving the fragile ecosystem. The government has started to review land-use rights and will soon initiate a consultation process with the population over legislative and administrative structures to resolve tenure issues. At the same time, environmental actions have been initiated to control soil erosion and discourage consumption of the dwindling fuelwood supply through various measures, including cross-subsidizing the price of kerosene. A national environment action plan including a long-term environment strategy was adopted in 1994 and contains integrated conservation measures to protect the fragile ecosystem and develop local capacity to manage environment issues.

A 12 percent annual increase in tourist arrivals over 1991-94 attests to the growth potential of this sector. To guide and ensure the sustainable development of tourism, the authorities plan to prepare a tourism strategy and a master plan for the sector. Development of the manufacturing sector is constrained by the small domestic market, high production costs, and a shortage of skilled labor. As external communications improve and the Comoros emerges from its relative isolation to develop closer links with the rest of the world, there is scope to enhance efficiency in existing services and move to new ones through training, market research, and promotion.

The recent devaluation of the Comorian franc, combined with policy measures to protect competitiveness gains, stimulate private sector development, and enhance labor skills, should help the Comoros achieve its development potential and accelerate sustained economic growth. The Comoros is also opening its economy more to the outside world, relying in part on its participation in the Cross Border Initiative adopted by the countries of East and Southern Africa and the Indian Ocean to stimulate trade and investment among themselves and with the outside world. The liberal trade and investment policies to be undertaken in the context of this initiative should provide increased growth opportunities for the Comoros.

The potential for accelerating long-term economic growth in the Comoros is burdened by population growth of over 3 percent a year. Although the government has taken steps to encourage birth spacing, unless population growth can be significantly reduced, the scope for increased domestic savings and higher living standards will be limited.

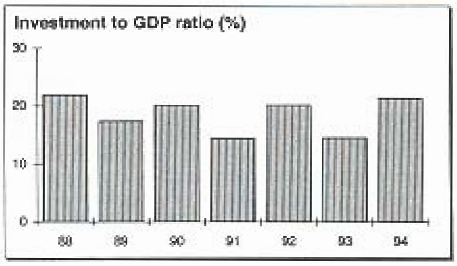
The government's medium-term objectives are to increase GDP growth from an estimated 1.4 percent in 1994 to 3.5 percent in 1997. This growth is expected to be supported by investment averaging about 19 percent of GDP. External sources will still provide the bulk of financing for investment, although domestic sources are expected to contribute an increasing share owing to expected improvements in public finance predicated on enhanced revenue performance as a result of more efficient tax administration and greater discipline in current expenditure. The consequent restraint in aggregate demand would result in the external current account deficit (before capital grants) improving from 10.3 percent of GDP in 1994 to 8.8 percent by 1997.

Comoros

Population mid-1993 *(thousands)*	**471**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**560**	Indebtedness level:	**Moderately Indebted**

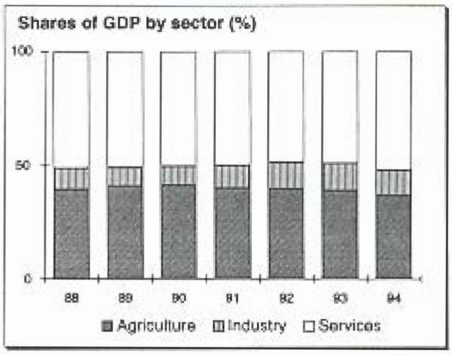
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.8	20.2	20.2	14.6	21.3
Exports of goods and nfs/GDP	17.0	11.7	16.4	19.0	17.8
Gross domestic savings/GDP	-0.3	-5.5	0.6	1.1	4.5
Gross national savings/GDP	-2.1	7.8	4.0	5.8	11.0
Current account balance/GDP	-40.4	-12.2	-16.1	-10.8	-10.4
Interest payments/GDP	1.3	0.2	0.8	0.2	0.0
Total debt/GDP	117.1	75.7	69.3	73.4	86.2
Total debt/exports	542.8	466.2	290.7	333.5	346.7



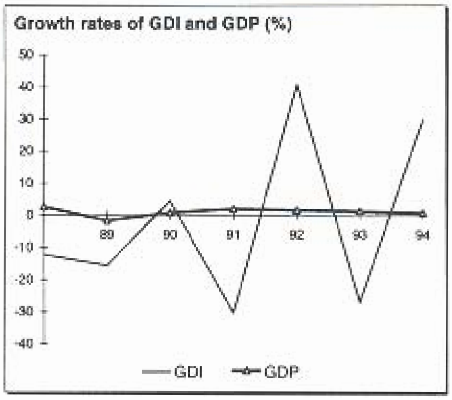
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.1	41.4	39.6	39.0	36.9
Industry	14.1	8.3	11.9	12.1	11.3
Manufacturing	3.7	4.2	4.4	4.2	3.9
Services	49.8	50.3	48.5	48.9	51.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.3	0.4	-0.8	-0.7	2.8
Industry	-9.5	12.7	21.5	10.3	1.0
Manufacturing	4.6	2.4	5.6	3.6	-3.2
Services	1.6	0.1	-0.1	0.9	-0.9
GDP	1.1	1.4	1.6	1.3	0.8



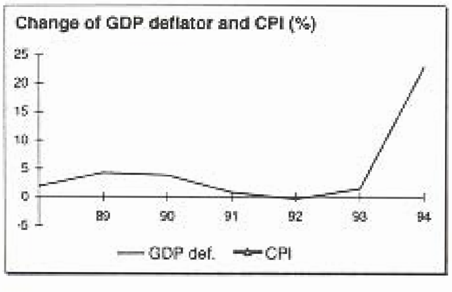
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	72.7	79.7	77.4	77.5	74.4
General government consumption	27.5	25.7	22.0	21.3	21.1
Gross domestic investment	32.8	20.2	20.2	14.6	21.3
Exports of goods and nfs	17.0	11.7	16.4	19.0	17.8
Imports of goods and nfs	50.1	37.3	36.0	32.5	34.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.7	-0.6	0.4	0.7	-4.7
General government consumption	0.4	-4.7	-7.3	0.0	-8.0
Gross domestic investment	-8.0	-1.2	40.7	-27.0	29.9
Exports of goods and nfs	-2.2	13.5	-4.0	20.6	-5.4
Imports of goods and nfs	-2.8	-3.6	4.3	-5.9	-10.3
Gross national product	1.4	1.6	3.3	0.5	0.3
Gross national income	1.1	0.8	3.4	0.4	-2.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	7.1	3.8	-0.4	1.4	22.8
Government finance					
(% of GDP)					
Current budget balance	-5.3	-2.0	-2.6	-3.1	..
Overall surplus/deficit	-19.7	-16.6	-18.9	-11.9	-21.8



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

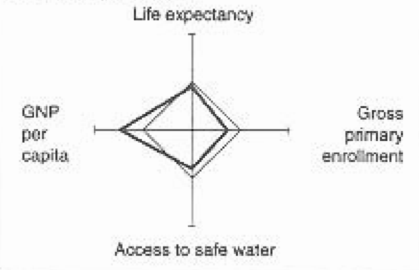
Comoros

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.6	2.8
Labor force	2.5	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	56.4
Infant mortality *(per 1,000 live births)*	92.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	55.0
Energy consumption per capita *(kg oil equivalent)*	29.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	79.0

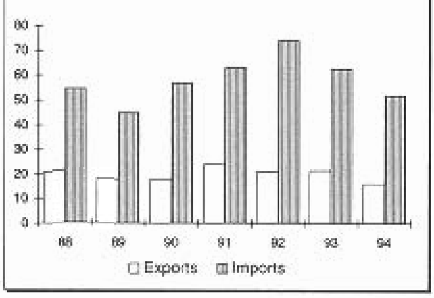
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	15	18	21	22	16
Vanilla	11	9	16	17	11
Girofle	3	1	0	1	1
Manufactures	..	..	..	..	..
Total imports (cif)	40	57	74	63	52
Food	6	10	13	10	9
Fuel and energy	4	6	7	6	6
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	67	49	52	52	52

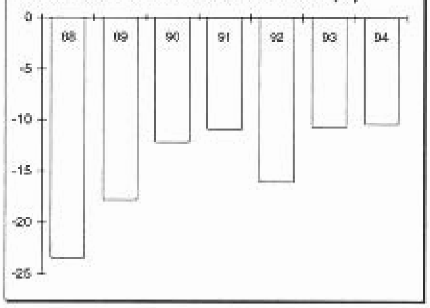
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	20	29	43	45	40
Imports of goods and nfs	64	91	94	82	76
Resource balance	-44	-62	-51	-37	-36
Net factor income	-1	-1	4	0	0
Net current transfers	0	33	5	10	14
Current account balance					
Before official transfers	-46	-30	-42	-27	-22
After official transfers	-14	-7	-15	2	-2
Long-term capital inflow	20	0	2	-1	1
Total other items (net)	0	-6	7	2	-3
Changes in net reserves	-6	12	6	-3	4
Memo:					
Reserves excluding gold *(mill. US$)*	12	30	27	..	..
Reserves including gold *(mill. US$)*	12	30	27	..	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	416.4

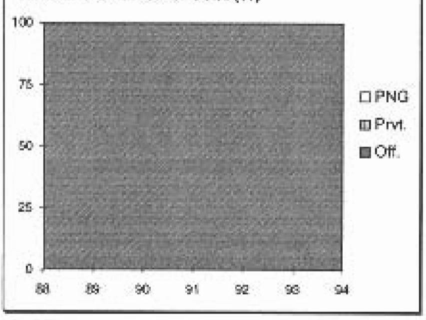
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	525.0	433.1	270.3	306.9	342.9
IMF credit/exports	0.0	0.0	1.9	2.2	1.9
Short-term debt/exports	17.8	33.1	18.5	24.5	1.9
Total debt service/exports	8.9	1.8	6.3	5.3	1.9
GDP ratios					
Long-term debt/GDP	113.3	70.4	64.5	67.6	85.3
IMF credit/GDP	0.0	0.0	0.5	0.5	0.5
Short-term debt/GDP	3.8	5.4	4.4	5.4	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.2	0.0	0.0	0.0	0.0
Official creditors/long-term	99.8	100.1	100.0	100.0	100.0

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Congo

Oil has been Congo's blessing and curse since the early 1970s, dominating the economy, finances, and the behavior of policymakers. Oil wealth accelerated Congo's annual rate of economic growth from 2.8 percent over 1970-72, to 7.8 percent during 1978/79, and to 8.4 percent over 1982/85. Oil wealth also pushed Congo's per capita income to one of the highest levels in Sub-Saharan Africa, about $1,280 in 1982. Since then, however, softening oil prices and an overvalued CFA franc combined with accumulated errors of past economic policies to trap Congo in a protracted economic and financial crisis.

Congo failed to reduce its expenditures in response to collapsing oil revenues. The government assumed that the fall in oil prices was transitory and continued to live beyond its means. The fiscal deficit grew considerably over time, from 8.2 percent of GDP in 1986 to 21.5 percent in 1993. The government financed the deficit through increased indebtedness, domestically and externally, and by accumulating arrears. Occasionally, the government resorted to mortgaging future oil royalties, aggravating debt-management problems. By 1993 Congo's external debt had reached about $5.1 billion, equivalent to 210 percent of GDP. Notwithstanding debt reductions by some key donors following the CFAF devaluation, Congo's $4.7 billion debt accounted for 317 percent of GDP at the end of 1994. The economy remained generally stationary over 1986-92, declining at 1.5 percent in 1993 and 4.6 percent in 1994. Per capita income declined from $1,040 in 1992 to $950 in 1993. Following socialist-inspired state interventionism, the state became the dominant producer of goods and services and the main employer in Congo. After indiscriminate and politically motivated recruitment over the years, the total public work force climbed to 80,000. One out of every 25 Congolese is a civil servant, one of the highest ratios in Africa. The civil service wage bill has consequently become the chief burden on the budget, absorbing 86 percent of annual revenues during fiscal 1992. With the decline in revenues, government slipped behind in paying salaries: four months in 1992, three in 1993, and another three in 1994, for a total of ten months.

The state dominated productive and commercial activities through a network of public enterprises whose management was primarily concerned with rent-seeking, patronage, and satisfying social objectives. At the heart of the public enterprise network are six large companies — petroleum refining, distribution of petroleum products, transport, electricity, telecommunications, and water — whose inefficiency not only drains the budget but severely constrains economic growth, particularly with regard to the private sector. These enterprises are close to bankruptcy because of poor management, excessive staffing, and artificially low tariffs. Petroleum led the authorities to neglect other sectors where Congo had historically had a comparative advantage. By the late 1980s the volume of timber exports had declined to 50 percent of 1970 levels, as a result of transport bottlenecks and excessive handling costs. Sea, air, and road links declined for the same reasons, and the Congo lost its position as transit center for neighboring countries. Development of agriculture, vital for the diversification of the economy, was handicapped by reliance on poorly managed state enterprises, by the rundown rural road network, and by the absence of private transport. As one of Africa's most urbanized societies (60 percent), Congo could not cope with the challenge of continued urban migration, which placed unbearable pressures on the highly subsidized social services and public utilities. Its once high indicators of achievement in health and education were progressively eroded as government failed to sustain key nonsalary expenditures.

Poverty and Social Indicators

Congo's precipitous decline in real per capita GDP since 1984 resulted in increased poverty in urban and rural areas. While labor supply expanded by about 25 percent, employment in the formal sector increased by only 15 percent, swelling the number of the unemployed. Unemployment among urban youth is estimated at 40 percent. Rural poverty increased as men continued to seek urban jobs, leaving women and children to till the land.

Health conditions are alarming: female mortality related to childbirth is high, between 600 and 900 per 100,000 live births. Child mortality is also high (124 per 1,000 live births and 96 per 1,000 for children under five). Malaria, tuberculosis, and parasitic infections are common. Malnutrition affects 20 percent of children, and 40 percent in some isolated areas. AIDS has a major impact (120,000 seropositive cases so far), with 7 to 10 percent of urban women affected. Many children are born seropositive, and the pool of orphans is growing (15,000 in 1994). The health sector work force is rarely paid, poorly motivated, often unqualified, and badly deployed. The health budget can only equip and supply a few curative facilities, neglecting primary health care. State agencies for procuring and producing medicine are inefficient, leading to prices beyond the reach of the average citizen.

Education and training mirror health in terms of budgets, personnel management, equipment and supplies, and the dilapidation of physical plant. Internal efficiency is low. In primary school 30 to 40 percent of every class has students repeating or "tripling" the school year. Only 75 percent of entering students reach the last grade of the six-year primary cycle, taking on average 11 years to do so. Secondary education is equally inefficient, as only 20 percent of entering students obtain baccalaureates. Instruction is sacrificed to meet high social costs, notably student stipends. Training has been more seriously disrupted by tight budgets, as materials are absent, and skilled trainers have left for more remunerative private employment.

Recent Political Developments

The economic crisis led to the demise of the Marxist-oriented regime. A national conference in 1991 was followed by presidential and legislative elections in July 1992 and the establishment of Congo's first democratically elected government that August. The situation remained unsettled, however, and by mid-1993 militias of the various political factions were fighting in the streets of the capital, Brazzaville, leading to the deaths of hundreds and the flight of several thousands from neighborhoods that sustained serious damage. In early 1994 political calm was reestablished through international arbitration sponsored by the European Union and the Organization of African Unity The government reform program, prepared to take advantage of the CFAF devaluation, was approved by the National Assembly early in 1994. In January 1995, following intensive talks with the opposition parties, a government of national unity was established, with a sharp reduction of cabinet members by consolidating ministries. The IMF approved a standby arrangement in May 1994, and IDA approved an economic recovery credit in June 1994 that supported public sector reforms to reduce the civil service, set the framework for privatizing public enterprises, and introduce a new petroleum law.

Medium-Term Prospects

Congo's potential in oil, forestry, agriculture, and manufacturing should permit real annual GDP growth of about 5 percent a year after 1996. In response to the envisaged reforms of the trade regime and regulatory framework and substantial new investments in oil, total private investments in the oil and nonoil sectors are expected to rise from 17 percent of GDP in 1993 to 27 percent in 1996. Public sector investments are projected to recover from less than 1 percent of GDP in 1993 to about 7 percent in 1996. These investments are expected to be concentrated in the priority sectors of health, education, rural roads, and transport. To finance this investment level, domestic savings will need to increase substantially. Private savings should be stimulated by the recovery of economic growth, the improvement in the external trade position, and the increased incomes of domestic food producers. As a result of public enterprise reforms and other fiscal measures, public sector savings are projected to turn from negative in 1993 to about 10 percent of GDP in 1997; this may be an ambitious target, but it is feasible in view of Congo's prospects for improved cash flow from the development of the Nkossa oil field.

Government strategy focuses on improving public sector efficiency through better public resource management and public enterprise reforms; strengthening production capacity through trade and regulatory reforms and removing impediments to private sector growth; and developing human resources and reducing poverty. Government options are constrained by aggressive labor unions, rigidities in spending, and large debt service obligations. Despite the erosion in their position over the last few years, labor unions still wield enough power to destabilize Congo's politics. In 1995 wages and transfers cannot be easily compressed below their 1994 levels, though they will have to be adjusted further in 1996 and beyond to help establish fiscal equilibrium. Meanwhile, settling salary arrears is at the top of the unions' agenda. Moreover, reform has its own costs, namely the separation and retraining costs related to privatization. Finally, mortgaging of future oil revenues leaves limited cash to cover other large budgetary demands.

External Debt

Poor economic and financial management has resulted in mounting external debt obligations and arrears over the last decade. This has seriously affected Congo's access to public and private financial sources. However, with the return to peace and the implementation of far-reaching economic reforms by a democratic government, donors made major concessions during 1994 to help Congo reduce the burden of its external debt through rescheduling, consolidation, or debt forgiveness. France canceled arrears of $97 million, the Paris Club rescheduled $1.3 billion, and the London Club agreed to reschedule $439 million. However, Congo did not implement the London Club accord because of the unavailability of fresh money.

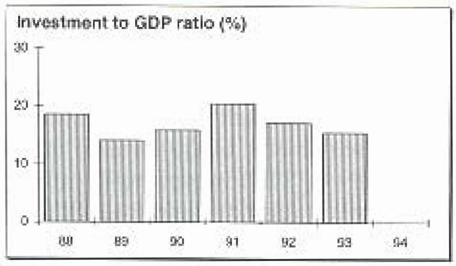
Congo

Population mid-1993 *(millions)*	2.4
GNP per capita 1993 *(US$)*	950

Income group: **Lower-middle**
Indebtedness level: **Severely indebted**

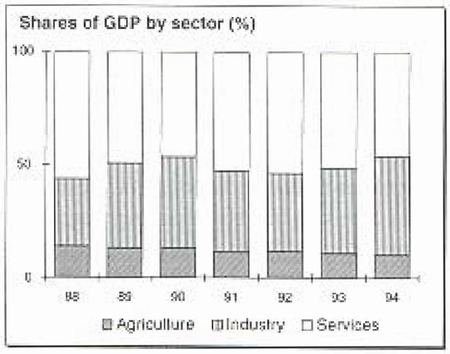
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	30.3	15.9	17.2	15.5	..
Exports of goods and nfs/GDP	56.8	50.2	41.7	43.9	..
Gross domestic savings/GDP	31.1	26.9	18.7	23.3	..
Gross national savings/GDP	18.7	11.9	10.5	6.7	..
Current account balance/GDP	-9.3	-11.3	-14.2	-9.0	-12.9
Interest payments/GDP	6.2	4.3	1.0	0.8	4.8
Total debt/GDP	141.2	176.2	158.3	203.8	313.2
Total debt/exports	248.3	328.2	375.1	425.9	..



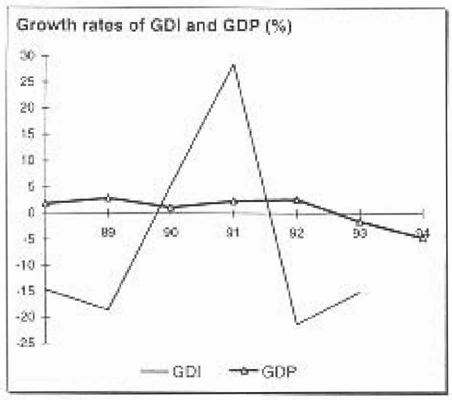
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	7.4	12.9	11.6	10.8	10.2
Industry	53.9	40.6	34.7	37.8	43.7
Manufacturing	5.6	8.3	8.9	9.0	7.3
Services	38.6	46.5	53.7	51.4	46.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.1	-2.8	3.2	-8.8	3.6
Industry	2.8	3.4	6.5	7.2	-2.7
Manufacturing	2.2	-4.7	-0.9	-3.5	-16.3
Services	-2.5	-2.6	-0.6	-7.1	-8.4
GDP	0.3	-0.1	2.7	-1.5	-4.6



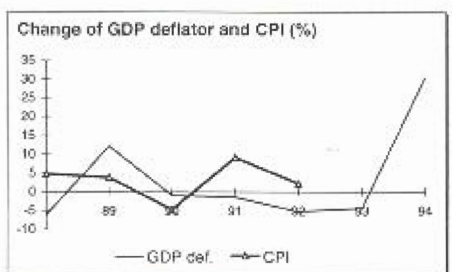
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	52.5	52.9	56.2	53.7	..
General government consumption	16.5	20.1	25.1	23.0	..
Gross domestic investment	30.3	15.9	17.2	15.5	..
Exports of goods and nfs	56.8	50.2	41.7	43.9	..
Imports of goods and nfs	56.0	39.1	40.2	36.1	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.3	*-3.2*	1.8	-16.4	..
General government consumption	-3.6	*-2.2*	-0.4	-14.8	..
Gross domestic investment	-20.4	*-6.7*	-21.2	-15.1	..
Exports of goods and nfs	4.8	*5.7*	9.0	12.6	..
Imports of goods and nfs	-9.2	*-4.1*	-3.2	-17.6	..
Gross national product	0.2	-2.8	5.2	-5.2	-17.2
Gross national income	-2.8	*-4.4*	0.0	-14.8	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.6	-4.8	2.2	..	..
Wholesale prices	6.6	1.9	1.7	..	..
Implicit GDP deflator	2.5	-0.9	-5.3	-4.3	30.3
Government finance					
(% of GDP)					
Current budget balance	12.2	-2.8	-14.4	-18.6	..
Overall surplus/deficit	-4.8	-7.1	-19.8	-21.6	..



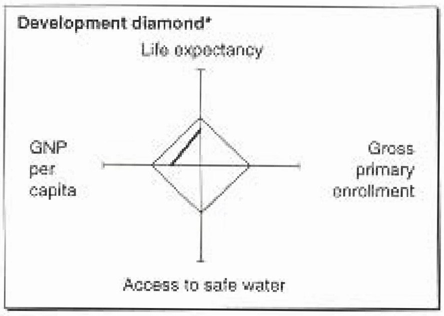
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Congo

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.0	3.0
Labor force	1.9	2.3

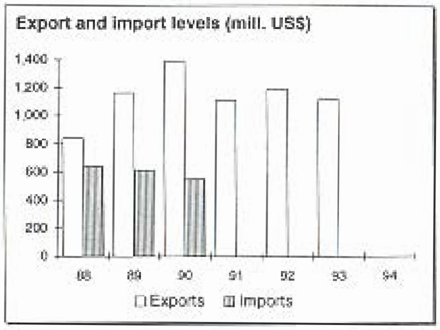
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	51.0
Infant mortality *(per 1,000 live births)*	83.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	165.4
Illiteracy *(% of population age 15+)*	43.4
Gross primary enrollment *(% of school-age population)*	..



Development diamond*

TRADE

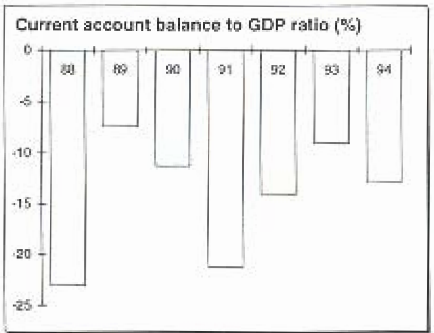
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,145	1,389	1,189	1,116	..
Fuel	952	1,076	..	..	..
Timber	60	74	..	..	..
Manufactures	47	34	..	..	..
Total imports (cif)	746	550	..	..	..
Food	30	24	..	..	..
Fuel and energy	18	10	..	..	..
Capital goods	202	197	..	..	..
Export price index *(1987=100)*	97	..	..	..	..
Import price index *(1987=100)*	154	4	..	..	..
Terms of trade *(1987=100)*	63	..	..	..	..
Openness of economy *(trade/GDP, %)*	113	89	82	80	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

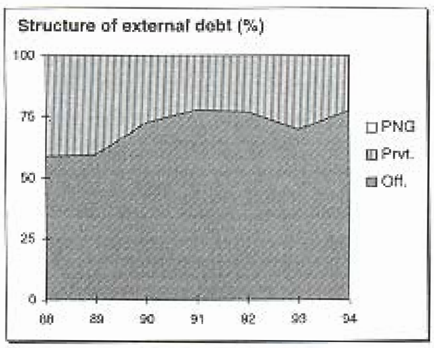
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,219	1,494	1,267	1,191	1,608
Imports of goods and nfs	1,156	1,282	1,294	1,098	1,499
Resource balance	64	212	-27	93	109
Net factor income	-228	-465	-304	-258	-303
Net current transfers	-38	-63	-69	-60	-10
Current account balance					
Before official transfers	-202	-316	-400	-225	-204
After official transfers	-161	-250	-355	-197	-204
Long-term capital inflow	207	-675	-250	-101	174
Total other items (net)	-48	1,039	594	568	219
Changes in net reserves	2	-114	1	-1	-3
Memo:					
Reserves excluding gold *(mill. US$)*	4	6	4	1	..
Reserves including gold *(mill. US$)*	8	10	8	6	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	192.3	278.4	304.5	344.1	..
IMF credit/exports	0.8	0.7	0.4	0.4	..
Short-term debt/exports	55.3	49.0	70.1	81.4	..
Total debt service/exports	34.4	35.3	12.8	10.6	..
GDP ratios					
Long-term debt/GDP	109.3	149.5	136.6	164.7	290.3
IMF credit/GDP	0.5	0.4	0.2	0.2	1.3
Short-term debt/GDP	31.4	26.3	31.5	38.9	21.6
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	59.4	27.6	23.1	30.3	22.7
Official creditors/long-term	40.6	72.4	76.9	69.7	77.3



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Costa Rica

Costa Rica is the only country in Latin America without an army, and has one of the most stable and robust democracies in the region. Costa Rica's per capita income of $2,150 in 1993 places it at the higher end of lower-middle-income countries. Its population is estimated at 3.4 million, growing at 2.4 percent annually. Its extensive social programs have placed the country's social indicators among the best in Latin America. In 1994 agriculture represented 16 percent of GDP, while industry and services represented 26 percent and 58 percent respectively. The agriculture sector has accounted for more than 63 percent of all exports in the last five years, while non-traditional exports have grown at an average of about 11 percent in the last four years. Recently, Costa Rica has also seen a sharp increase in net earnings from tourism, which for three consecutive years surpassed coffee as the largest source of foreign exchange earnings after banana exports. The services sector has been gradually expanding its share of GDP, and now it employs the largest portion of the labor force.

In the early 1980s Costa Rica's economy was weakened by expansionary domestic policies and an overvalued exchange rate, while terms of trade deteriorated and international interest rates increased. The economy plunged into the worst recession in 30 years: real GDP dropped by over 7 percent in 1982, open unemployment increased to 9.4 percent, and inflation reached 90 percent. Since the 1982 crisis, successive governments have launched a series of stabilization and adjustment efforts, supported by the IMF and the World Bank. These programs succeeded in reducing major macroeconomic imbalances and renewing growth while minimizing the costs of adjustment within the poorer areas of the country. In the period 1983-88, real GDP grew at an annual average rate of 4.8 percent (then one of the highest in Latin America), inflation came down to 15 to 20 percent, and unemployment declined to under 5 percent.

Costa Rica's external debt, however, increased rapidly throughout the 1980s, from $1.7 billion in 1980 to $ 4.3 billion by 1988. Over 1989-90, the economy faced renewed macroeconomic difficulties, largely as a result of a deterioration in the fiscal accounts, which contributed to a worsening of the external position and higher inflation. To reduce the fiscal deficit and stem the loss in official international reserves, in June 1990 the government took a number of measures that reduced the consolidated public sector deficit (including Central bank losses) from 5.4 percent of GDP to 2 percent in 1991 while building up the level of international reserves.

Recent Economic Developments

In 1991 GDP growth slowed to 3 percent, largely reflecting a sizable fiscal adjustment, while corrective price adjustments contributed to an increase in inflation to 29 percent. By 1992, however, the macroeconomic outlook improved considerably. GDP grew by 7.7 percent, fueled by a strong increase in private investment and exports, while inflation declined to 22 percent. Higher indirect taxes revenue collection and lower total interest payments contributed to the decline of the consolidated public sector deficit to 1.1 percent of GDP. Although exports showed strong growth in 1992 at 13.3 percent, imports grew even faster at 24.4 percent. As a result, the current account deficit increased from 4.1 to 8 percent of GDP and was financed mostly by large private capital inflows.

The economy continued to show a strong performance in 1993. GDP grew at 6.1 percent with private investment and exports as the main determinants of this growth. Fiscal accounts continued to improve, and the consolidated fiscal deficit declined to 0.9 percent of GDP — the lowest level in 10 years. Average inflation fell to 10 percent, stemming from improved public sector finances and a tighter monetary policy. The current account deficit, however, remained large at 6.6 percent of GDP. As in 1992, relatively large capital inflows continued in 1993. However, while in 1992 foreign reserves in the banking system increased by $160 million, in 1993 these increased by only $5 million. In 1994 macroeconomic conditions deteriorated sharply. The consolidated public sector deficit (including central bank losses) reached 8.2 percent of GDP (1.6 percent because of the closing of Banco Anglo, one of the four state banks), and inflation increased to 19.8 percent in 1994. The deterioration of public finances was mostly due to rapid increases of public expenditures — particularly the public payroll, public transfer programs, service of public domestic debt, and pension funds of public employees — and delays in tariff adjustment of some public utilities. GDP growth declined to 4 percent as private investment and exports slowed. The current account deficit, however, declined to 5 percent of GDP as a result of the slowing of the economy and a temporary improvement in the terms of trade.

Medium-Term Prospects

The sharp deterioration of macroeconomic conditions in 1994 poses a difficult stabilization agenda for 1995-97. Costa Rica's short-term outlook depends primarily on macroeconomic measures to reduce the fiscal deficit while maintaining monetary restrain. Fiscal adjustment will include tax increases but will need to rely heavily on measures to cut public payroll and public transfer programs and control the central government pension funds. The medium-term outlook depends on measures to expand the scope of the private sector in the economy that may include the privatization of some state-owned activities.

The external sector has a significant role in the economy. The terms of trade improved in 1994 and are expected to slightly improve in 1995. The performance in the external sector depends critically on exchange rate policy following closely the foreign exchange market to maintain a sustainable foreign exchange rate. As lower trade restrictions reduce the anti-export bias of the trade regime, nontraditional exports are expected to continue to grow. Provided the government carries out fiscal adjustment and monetary restraint while maintaining a realistic exchange rate in 1995, the current account deficit should remain at the 1994 level.

External Debt

In May 1990, Costa Rica agreed with its commercial creditors on a debt reduction plan under which its large outstanding arrears were regularized, 62 percent of commercial bank debt was bought back at an 80 percent discount, and the remainder was restructured with 20 years maturity. This Brady-style agreement reduced Costa Rica's external debt by about 20 percent and lowered the share of debt at floating interest to about 30 percent of the total, thereby greatly reducing its vulnerability to interest-rate volatility. Another agreement was signed with the Paris Club in June 1992, rescheduling principal and interest due as of June 30, 1993. Costa Rica's remaining debt, however, is still high and highly inflexible. The bulk of debt service to multilateral lenders is estimated to remain high, fluctuating around 50 to 60 percent of public debt service throughout the 1990s. This limits severely the scope for maneuver in the event of future payment difficulties.

Costa Rica's debt indicators may improve gradually over the next few years. The external debt-GDP ratio may fall from 50 percent in 1993 to 43 percent in 1996 and continue to decline thereafter. The ratio of medium- and long-term debt service to exports of goods and services is projected to decline from 16 percent in 1993 to about 13 percent in 1996. Given the inflexible nature of Costa Rica's debt structure, the reduction of arrears, which increased to about $80 million during 1994, will depend critically on the government's ability to adopt a prudent debt management strategy.

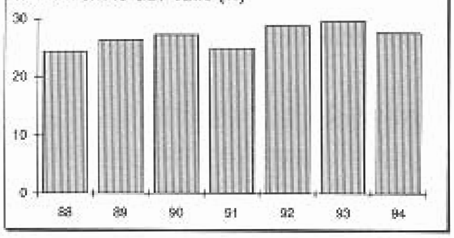
Costa Rica

Population mid-1993 *(millions)*	**3.3**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**2,150**	Indebtedness level: **Moderately indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	25.9	27.3	29.0	29.8	27.7
Exports of goods and nfs/GDP	30.7	34.6	38.6	39.5	40.0
Gross domestic savings/GDP	24.1	20.5	23.9	23.5	22.9
Gross national savings/GDP	18.1	16.7	21.0	21.1	20.4
Current account balance/GDP	-7.8	-10.2	-7.8	-8.7	-6.9
Interest payments/GDP	8.7	3.0	3.2	2.4	2.4
Total debt/GDP	112.2	66.1	59.0	51.2	45.8
Total debt/exports	345.3	181.6	147.8	126.0	112.0

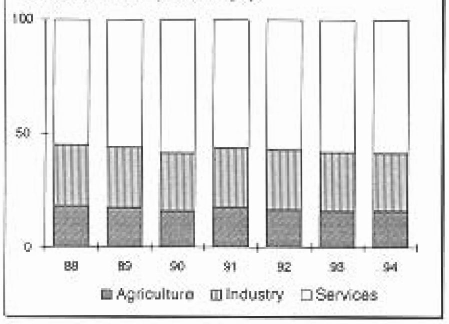
Investment to GDP ratio (%)



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.9	15.8	16.4	15.8	16.0
Industry	28.9	25.7	26.6	26.2	25.6
Manufacturing	22.1	19.4	20.5	19.7	19.2
Services	52.3	58.5	57.0	58.1	58.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.9	3.8	4.0	2.5	2.9
Industry	4.0	6.1	8.8	7.6	5.0
Manufacturing	4.0	6.3	10.3	6.4	4.7
Services	4.8	6.0	8.6	7.2	4.8
GDP	4.6	5.6	7.8	6.5	4.5

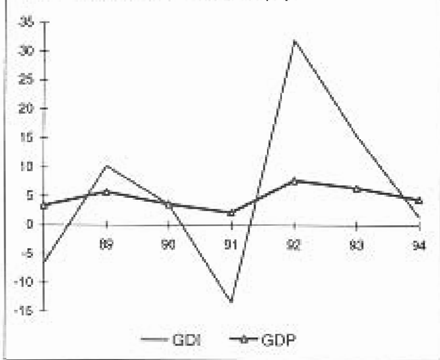
Shares of GDP by sector (%)



GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	60.1	61.3	60.1	60.2	60.0
General government consumption	15.8	18.2	16.0	16.3	17.1
Gross domestic investment	25.9	27.3	29.0	29.8	27.7
Exports of goods and nfs	30.7	34.6	38.6	39.5	40.0
Imports of goods and nfs	32.5	41.4	43.7	45.8	44.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.7	5.7	7.7	6.4	5.8
General government consumption	2.7	2.9	2.9	5.0	3.5
Gross domestic investment	5.7	10.6	31.9	15.4	1.5
Exports of goods and nfs	11.9	10.7	14.8	10.6	6.6
Imports of goods and nfs	11.5	12.6	26.9	15.1	5.9
Gross national product	4.9	5.9	7.7	6.5	4.5
Gross national income	3.8	6.6	7.4	7.1	5.8

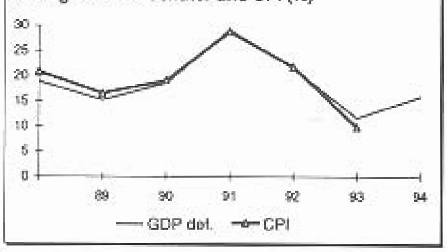
Growth rates of GDI and GDP (%)



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	15.1	19.0	21.8	9.8	..
Wholesale prices	10.4	14.9	18.2	6.4	..
Implicit GDP deflator	20.4	18.5	21.6	11.6	15.8
Government finance					
(% of GDP)					
Current budget balance	3.7	2.2	5.9	5.9	..
Overall surplus/deficit	-1.7	-2.9	0.7	0.8	..

Change of GDP deflator and CPI (%)

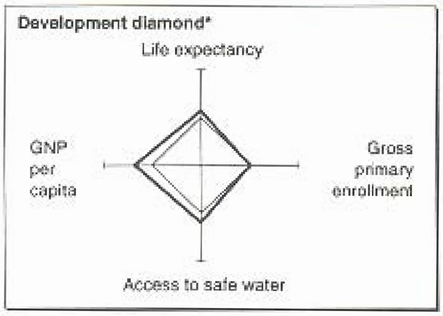


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

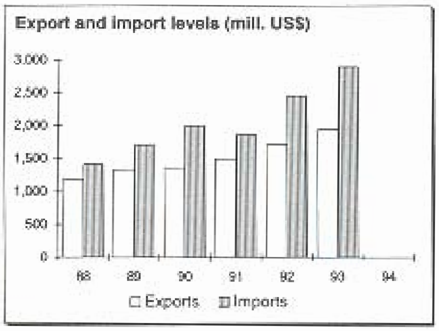
	1985-90	1990-94
(annual growth rates)		
Population	2.8	2.5
Labor force	2.5	2.4

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	76.4
Infant mortality *(per 1,000 live births)*	13.6
Child malnutrition *(% of children under 5)*	2.3
Access to safe water *(% of population)*	93.6
Energy consumption per capita *(kg oil equivalent)*	558.1
Illiteracy *(% of population age 15+)*	7.2
Gross primary enrollment *(% of school-age population)*	105.0



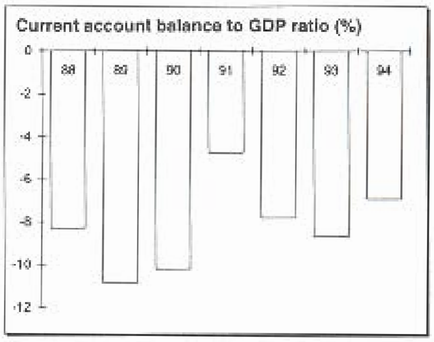
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	939	1,354	1,714	1,945	..
Coffee	316	245	203	204	..
Bananas	208	315	485	531	..
Manufactures	263	490	653	744	..
Total imports (cif)	1,111	1,996	2,456	2,901	..
Food	149	329	392	493	..
Fuel and energy	178	216	239	174	..
Capital goods	229	468	558	720	..
Export price index *(1987=100)*	70	123	148	165	..
Import price index *(1987=100)*	78	133	160	196	..
Terms of trade *(1987=100)*	89	93	92	84	..
Openness of economy *(trade/GDP,%)*	63	76	82	85	85



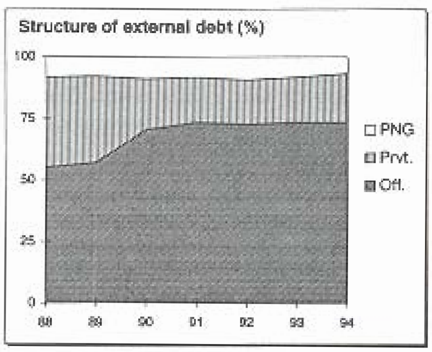
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,225	1,975	2,595	2,985	3,312
Imports of goods and nfs	1,292	2,362	2,937	3,463	3,714
Resource balance	-66	-386	-342	-478	-402
Net factor income	-282	-253	-269	-267	-261
Net current transfers	43	56	87	88	89
Current account balance					
Before official transfers	-306	-584	-524	-656	-574
After official transfers	-130	-447	-439	-589	-520
Long-term capital inflow	-57	-173	-108	-179	31
Total other items (net)	301	339	354	713	431
Changes in net reserves	-114	281	193	55	59
Memo:					
Reserves excluding gold *(mill. US$)*	506	521	1,019	1,024	893
Reserves including gold *(mill. US$)*	525	525	1,032	1,038	906
Conversion rate *(local/US$)*	50.5	91.6	134.5	142.2	157.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	300.9	162.8	132.0	111.3	99.5
IMF credit/exports	14.8	0.5	3.0	2.6	1.9
Short-term debt/exports	29.6	16.3	12.8	12.1	10.6
Total debt service/exports	41.3	24.1	20.3	18.1	17.3
GDP ratios					
Long-term debt/GDP	97.8	59.2	52.7	45.2	40.7
IMF credit/GDP	4.8	0.2	1.2	1.1	0.8
Short-term debt/GDP	9.6	6.7	5.1	4.9	4.3
Long-term debt ratios					
Private nonguaranteed/long-term	7.9	9.0	9.4	8.2	6.8
Public and publicly guaranteed					
Private creditors/long-term	46.8	20.8	18.1	18.5	20.0
Official creditors/long-term	45.3	70.2	72.5	73.4	73.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Côte d'Ivoire

The Republic of Côte d'Ivoire is a lower-middle-income country, with a 1993 GDP per capita of about $630. Its economy is predominantly agricultural, with about two-thirds of the active population engaged in farming, forestry, and fishing. The agricultural sector, including forestry and agro-industries, accounts for about 40 percent of GDP while generating 70 percent of export revenues in 1994. Exports continue to be dominated by cocoa, coffee, and timber.

Côte d'Ivoire's population has grown 3.8 percent a year since the mid-1970s, reaching about 13.5 million by end-1994. High population growth coupled with economic decline has resulted in a steady fall in living standards. GNP per capita in 1993 was estimated at about $630, compared to well over $1,000 in the early 1980s. Social indicators have also been deteriorating, reflecting the effects of economic crisis and a neglect of basic social services.

The government of Côte d'Ivoire has responded decisively to the lingering economic crisis in the country itself and in the CFA franc zone and joined with the other CFA zone member countries in devaluing the CFA franc 50 percent against the French franc in January 1994.

Economic Developments in the 1980s

Côte d'Ivoire is emerging from thirteen years of unsuccessful internal adjustment that failed to reverse economic decline and reduce growing social and poverty problems. The economic and social crisis started at the beginning of the 1980s when Côte d'Ivoire's macroeconomic imbalances had grown to unsustainable levels, with a budget deficit of about 10 percent of GDP and a current account deficit of about 17 percent of GDP. Côte d'Ivoire started to encounter serious debt-servicing problems as a result of the rapid buildup of external debt during the second half of the 1970s. Trade barriers and price interventions increasingly distorted domestic markets, contributing to inefficient resource allocation, and there was a serious deterioration in public sector management, especially among public enterprises. These problems were in essence an outgrowth of the surge in spending that followed the cocoa and coffee price booms over 1975-77.

Adjustment policies were partially successful up to 1987 in reducing the main internal and external imbalances. The government pursued contractionary fiscal and monetary policies that sharply reduced the budget deficit and inflation. Moreover, the adjustment effort benefited from the depreciation of the French franc and, hence, the CFA franc against the dollar, and from a short-lived recovery of cocoa and coffee prices in the mid-1980s. However, with the renewed decline of those prices on international commodity markets, the government delayed commensurate adjustments in producer prices, and the fiscal deficit again increased to unsustainable levels, reaching 17 percent of GDP in 1989. This sharp increase in the fiscal imbalance also reflected more fundamental problems, including downward expenditure rigidities, especially of salaries and wages, high debt-service obligations, and the real appreciation of the CFA franc as the French franc appreciated against other major currencies.

Côte d'Ivoire's renewed fiscal and balance-of-payment crisis at the end of the 1980s revealed inadequate macroeconomic policies and persisting distortions in the economy, including a trade regime characterized by relatively high tariffs and dispersion levels and a plethora of nontariff barriers. Domestic saving had declined, and there were solvency and liquidity problems in the domestic banking system. Public intervention in agricultural pricing and marketing was combined with lack of incentives to diversify and reduce dependence on a few primary commodities. A generally inefficient and bloated public sector with limited capacity to provide services was evidenced by poor health indicators and low literacy levels.

Recent Economic Developments

In the early 1990s the government undertook a last effort to restore international competitiveness and growth by exclusively relying on internal adjustment measures under a medium-term economic framework supported by the World Bank and IMF. Although the government made progress in cutting the primary deficit in the early

1990s, its failure to effect a real depreciation of the CFA franc with its internal adjustment measures and continued high outlays for public salaries, averaging 12.5 percent of GDP — 60 percent of primary expenditure — over 1990-93, resulted in the program falling short of expectations. With the deepening of the recession in 1993, the primary deficit again increased, reaching 3.5 percent of GDP. Given the government's inability to generate primary surpluses, its efforts to settle domestic and external arrears also faltered; arrears accumulated rapidly and reached the equivalent of 60 percent of GDP by end-1993.

As a result of these macroeconomic difficulties, the government and others in the CFA zone countries devalued the CFA franc 50 percent against the French franc in January 1994. Preliminary results for 1994 suggest that with this parity change and the implementation of fiscal, monetary, and structural adjustment policies, the Ivorian economy has been able to maintain and strengthen its international competitiveness and restore economic growth.

Inflation fell to predevaluation levels eight months after the parity change. During the last quarter of 1994 the monthly inflation rate was 0.3 percent. This was largely achieved by a restrictive wage policy coupled with a limited increase in the money supply. Base wages increased on average only by 10 percent, thereby reducing the government's wage bill from almost 13 percent of GDP in 1993 to 9.5 percent of GDP in 1994. The same policy stance was adopted by the private sector. The government also unblocked on schedule the three-months price freeze on three products it had enacted immediately after the devaluation and raised utility tariffs, including water (15 percent), electricity (20 percent), and public transport (40 percent).

Fiscal policy has been the cornerstone of the stabilization program. The government met its revenue and expenditure targets throughout 1994 and generated its first primary balance surplus in the 1990s. The introduction of a major tax reform (reduction of VAT, petroleum taxes, and import tariffs) in early 1994 helped dampen inflationary pressures but also reduced revenue as a share of GDP and, therefore, required compensatory measures in the form of reintroducing export taxes on coffee and cocoa. Although these export taxes are needed for fiscal reasons, the government is committed to reduce their importance within overall government revenue and pass through the positive effects of the devaluation to farmers — which has become easier in the wake of buoyant international prices for cocoa and coffee. To this end, the government has repeatedly increased the producer price for cocoa and coffee, from CFAF 200 and 180 per kilogram, respectively, before the devaluation to CFAF 315 and 530 per kg for the 1994-95 crop season. Given the continued buoyancy in coffee prices, its producer price was raised to CFAF 630 per kilogram in February 1995.

While the stabilization measures were quickly and fully implemented, the government has been more hesitant in implementing its adjustment program in trade, privatization, and human resources development. Privatization advanced slowly during the year as the privatization law was only adopted in June 1994, as reorganization of the privatization committee caused delays and there were continuing institutional weaknesses. Moreover, the government's social programs, including the many social funds created after the devaluation, were ineffective during 1994, and there is evidence that urban poverty increased. Conversely, the substantial increases in producer prices have attenuated the poverty situation in the rural areas. Progress was, however, made in some key areas, including import tariff reform, reduction of nontariff barriers, and adoption of new labor and investment codes.

Poverty and Social Indicators

The economic decline since 1987 has caused a steady decline in real per capita GDP on the order of 30 percent and a deterioration of social indicators to levels that pose a serious challenge to medium- and long-term development. Recent estimates indicate that more than 60 percent of the population falls below the poverty line, compared to about 30 percent in the mid-1980s.

Although basic services have been protected more in urban areas, the incidence of poverty increased much more rapidly in urban areas than in rural areas. The proportion of urban dwellers in the total number of poor increased from about 20 percent in 1985 to about 30 percent in 1992. This is due in part to a high urbanization rate, rising levels of unemployment, and a reduction in real wages. The extent and trends in rural poverty differ markedly according to region. The situation deteriorated most in the West Forest because of falling cocoa and coffee revenues, especially after 1989, when producer prices of these crops were cut in half. The Savannah, however, is still the poorest region, containing about one-third of all poor.

Budgetary problems before the devaluation seriously constrained efforts to implement human resources development programs. While the share of the government's budget going to education and health was maintained, the government was less successful in reorienting intrasectoral allocations toward primary education and primary health care and reducing the urban bias in social infrastructure. Moreover, prior to the parity change the rising share of salaries within the overall budget left insufficient resources for other inputs such as textbooks and pharmaceuticals, aggravating internal inefficiencies, and Côte d'Ivoire's health and education systems deteriorated.

Health care now reaches about 30 percent of the population and is clearly unsatisfactory in the face of high population pressures and new epidemiological challenges such as the rapid spread of AIDS. Infant mortality has only slowly fallen, affecting 91 out of 1,000 live births in the early 1990s. Immunization levels also compare unfavorably with those of other countries in the region or with similar per capita income.

The education system continues to suffer from low enrollment, low completion rates, high repetition, and inefficient resource allocation. Although the government has made efforts to provide primary education for its youth, it currently covers only an estimated 70 percent of school-age children. The large majority of children who go to primary school either drop out in the course of the primary cycle or end all formal schooling after primary education, and thereby risk joining the already large number of functional illiterates. Moreover, the absence of educational alternatives for those who cannot continue beyond primary education, and growing unemployment, has led many children to repeat several times their final year in primary school. A lack of programs to maintain school facilities and provide affordable textbooks has also adversely affected the education system. As a result, 46 percent of the population above the age of fifteen remains illiterate, while female illiteracy hovers around 60 percent.

The Structural Adjustment Program for 1995-97

After the CFAF devaluation the government reformulated its economic program and spelled out its new stabilization and structural adjustment program in a policy framework paper that is being updated to cover the 1995-97 period. The new program aims at increasing real GDP growth to annual rates of 6.5 percent and higher beginning in 1995; generating sustained and increasing primary budget surpluses; strengthening external competitiveness through trade, price, and regulatory reforms; intensifying human resource development and increasing efforts to alleviate poverty; and protecting Côte d'Ivoire's natural resource base.

Maintaining macroeconomic stability will be critical to attaining these objectives, and the government is exerting strict budgetary discipline to generate the sustained primary surpluses needed to cover an increasing portion of the public debt. It introduced a series of tax measures in January 1994, including a VAT reform, revision of petroleum taxation, and the reduction of import tariffs. It also increased the civil service base wage by a nominal 10 percent, which translated into a substantial decline in the real wage bill. After the initial pass-through of the devaluation, a restrictive monetary and fiscal policy reduced inflation to traditionally low levels and restored positive real interest rates. Financial sector liquidity will be strengthened by government efforts to clear its internal arrears to banks and suppliers by 1996.

The government is seeking to increase public-sector efficiency and promote private development by bringing to the point of sale the thirty-five remaining enterprises slated for privatization during 1995-97. In 1995 the government intends to privatize about ten public enterprises, and is implementing programs to strengthen the institutional capacities of the finance, health, and education ministries, and further public efficiency gains are expected to be made through a decentralization policy and an urban investment strategy.

Trade liberalization will build on the progress achieved during the last four years. The average weighted tariff on taxable imports declined from 32 percent in 1989 to about 24 percent in 1993. Concomitantly with the devaluation, the government announced a new tariff reform that cut import tariffs an average of 20 percent and created a structure in the range of 0 to 35 percent. Government will examine the possibility of further reduction in tariffs and their dispersion levels, while, at the same time, broadening the base through elimination of exonerations. Most nontariff barriers will be phased out by end-1995, with the exception of those identified in a restrictive list, and the number of products subject to price regulation will be reduced.

Côte d'Ivoire's agricultural policy aims at expanding and diversifying production through a flexible producer price policy, improvements in the incentive system, and reducing public intervention. To remove the restrictive regulatory practices in the transport sector, the government plans to deregulate domestic and maritime transport, privatize the management of the rail system, and increase private sector participation in road maintenance.

In an effort to reduce the natural growth rate of the population, which is among the highest in Africa, the government is reorganizing and strengthening its family planning services program. It also aims to increase literacy levels through increasing the net enrollment rate in basic education. Although the government has to operate within the confines of a tight budget, it intends to increase expenditures for these priority programs mainly through the reallocation of resources.

Reducing poverty will remain a severe challenge to the government. In the short term, the devaluation will have a more favorable effect on the rural than the urban poor. This has prompted a differentiated government response. While farmers suffered greatly from declining incomes prior to January 1994, the devaluation provided them with a much-needed income boost through increased producer prices, the most efficient and direct means to alleviate poverty in rural areas in the short term. As the real wage decline was more pronounced and unemployment has been increasing in urban areas, the government has been increasing resources to municipalities to start labor-intensive public works and rehabilitation programs that will stimulate employment.

Environment

Protecting the environment and managing the resource base has become a major objective for sustainable development in Côte d'Ivoire. The government is confronted with serious environmental problems, including deforestation, loss of biodiversity, soil degradation, water pollution, and management of industrial and domestic waste. The government adopted a National Environment Action Plan in December 1994 and intends to draw up an environmental code and a general forestry plan.

Medium-Term Prospects

Côte d'Ivoire's economic growth potential has not been realized because of a combination of an unsustainable macroeconomic situation emanating from large fiscal deficits, an external debt overhang depressing national savings, distortions in trade and price policies, and a human resources development program that paid insufficient attention to basic social services. The devaluation triggered a promising start to overcoming these impediments to growth, and the government's reform agenda aims at growth rates of 6.5 percent and higher over 1995-2000. Based on Côte d'Ivoire's track record on structural reform, progress will likely be more gradual, slower, and uneven despite the government's commitment to structural change. With gradual but steady structural reform, Côte d'Ivoire should be able to accelerate growth to about 5 percent rather than to the higher growth rates anticipated by the government.

Continued fiscal reform will be critical to the adjustment effort. While government revenue will remain at about 21 percent of GDP, the government will reduce its reliance on export taxation of cocoa and coffee to stimulate growth in the agricultural sector. Its share of total revenue will steadily fall over the next few years. To implement this reduction, the government hopes to benefit from additional revenue from new oil and gas production and a broader tax base, and aims to control primary expenditures, particularly the public wage bill. The economic recovery will be led by agriculture and is expected to stimulate demand for labor and reduce poverty, especially in rural areas. Nontraditional agricultural exports should be a source of dynamism, growing by about 12 percent annually during the second half of the 1990s.

External Debt

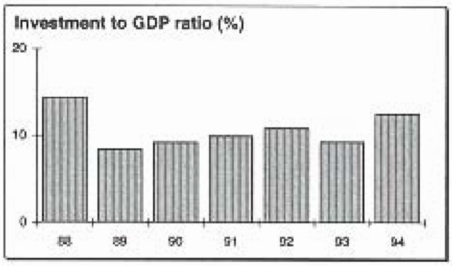
Côte d'Ivoire's financing requirements will remain substantial over the next few years. Debt service will be reduced by 50 percent through enhanced Toronto terms on Paris Club debt service and additional debt relief in the form of debt forgiveness by France, Canada, Switzerland, and Germany. The government is seeking an agreement with its commercial bank creditors, whose debt has not been serviced since May 1987, to reduce future debt service to levels consistent with the country's debt-servicing capacity. On the basis of actual and anticipated debt relief, Côte d'Ivoire's debt profile is expected to improve over the next few years.

Côte d'Ivoire

Population mid-1993 *(millions)*	13.3	Income group:	**Low**
GNP per capita 1993 *(US$)*	630	Indebtedness level:	**Severely Indebted**

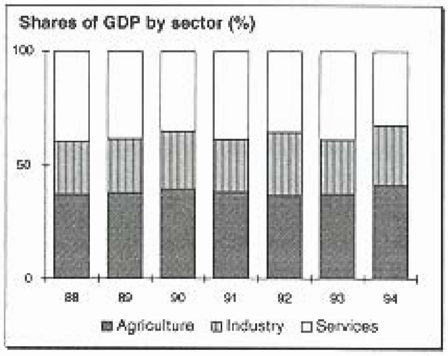
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.6	9.3	10.9	9.3	12.5
Exports of goods and nfs/GDP	45.6	34.7	33.5	34.2	47.5
Gross domestic savings/GDP	25.8	14.6	16.4	16.2	25.3
Gross national savings/GDP	12.9	-1.4	-2.2	-3.0	1.7
Current account balance/GDP	0.6	-14.0	-13.1	-12.0	-10.8
Interest payments/GDP	9.3	4.5	4.0	4.0	4.7
Total debt/GDP	138.0	167.9	177.6	205.3	283.2
Total debt/exports	301.3	461.9	526.3	596.3	598.9



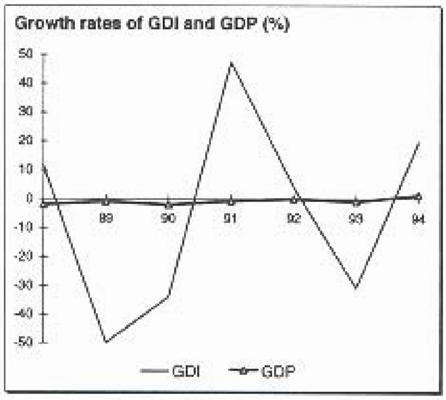
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.8	39.4	36.7	37.3	41.3
Industry	23.4	25.6	27.9	24.0	26.4
Manufacturing	15.2	..	..	21.7	25.9
Services	46.8	35.0	35.4	38.7	32.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.2	-0.9	-3.9	2.3	2.1
Industry	0.6	0.2	0.6	2.4	6.7
Manufacturing	..	..	..	..	..
Services	-5.1	0.1	4.9	-3.0	-9.0
GDP	-0.9	-0.2	0.0	-1.1	1.3



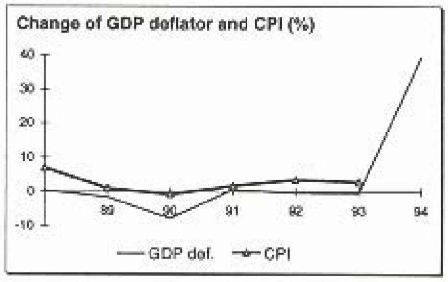
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	60.3	67.3	65.9	63.4	57.9
General government consumption	13.9	18.1	17.8	20.4	16.8
Gross domestic investment	12.6	9.3	10.9	9.3	12.5
Exports of goods and nfs	45.6	34.7	33.5	34.2	47.5
Imports of goods and nfs	32.5	29.3	28.0	27.3	34.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.3	-1.0	-0.5	-0.7	1.3
General government consumption	-0.6	-3.6	-4.3	-0.1	-10.1
Gross domestic investment	-12.6	1.4	4.0	-30.8	19.3
Exports of goods and nfs	-1.3	-1.2	3.2	-1.7	-3.1
Imports of goods and nfs	-3.1	-5.8	2.7	-9.8	-10.2
Gross national product	-1.5	-1.4	-0.1	-1.7	-3.3
Gross national income	-4.1	-1.8	1.6	-3.2	-2.9



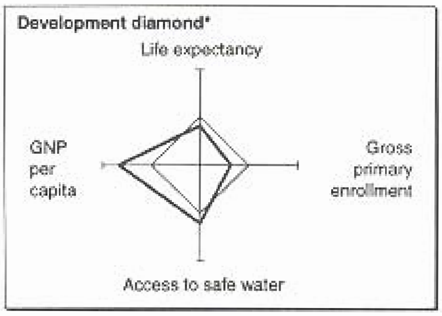
PRICES and GOVERNMENT FINANCE

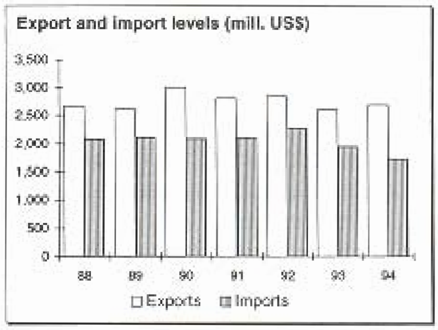
	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.8	-0.8	3.5	2.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.1	-7.9	-0.3	-0.4	39.4
Government finance					
(% of GDP)					
Current budget balance	8.9	-10.0	-9.5	-13.9	-7.4
Overall surplus/deficit	3.2	-12.8	-12.9	-16.7	-12.0

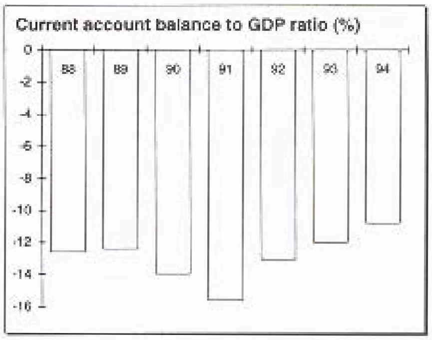


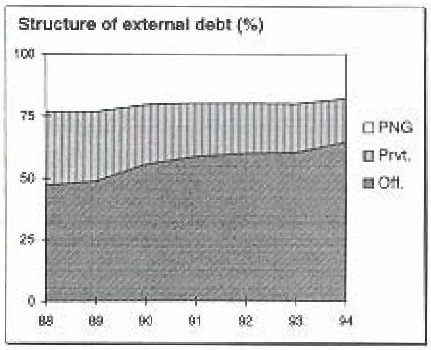
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Côte d'Ivoire









POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.7	3.5
Labor force	2.5	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.7
Infant mortality *(per 1,000 live births)*	91.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	82.8
Energy consumption per capita *(kg oil equivalent)*	109.1
Illiteracy *(% of population age 15+)*	46.2
Gross primary enrollment *(% of school-age population)*	69.0

TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,761	3,003	2,841	2,605	2,689
Cocoa	887	675	968	831	945
Coffee	618	241	373	206	250
Manufactures	728	1,204	683	573	571
Total imports (cif)	1,721	2,095	2,271	1,948	1,732
Food	273	466	377	431	338
Fuel and energy	379	569	511	430	418
Capital goods	446	419	531	332	349
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP, %)*	78	64	62	62	82

BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	3,160	3,431	3,398	3,193	3,176
Imports of goods and nfs	2,173	2,900	2,838	2,548	2,323
Resource balance	987	531	560	644	853
Net factor income	-666	-1,415	-1,504	-1,447	-1,267
Net current transfers	-279	-501	-379	-320	-312
Current account balance					
Before official transfers	42	-1,386	-1,323	-1,122	-726
After official transfers	68	-1,294	-1,162	-1,023	-674
Long-term capital inflow	242	-1,324	-154	-195	162
Total other items (net)	-276	2,514	1,408	1,234	941
Changes in net reserves	-34	105	-92	-16	-430
Memo:					
Reserves excluding gold *(mill. US$)*	5	4	7	2	..
Reserves including gold *(mill. US$)*	19	21	22	20	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	257.4	349.4	388.7	410.1	458.0
IMF credit/exports	20.8	12.0	7.8	6.8	4.7
Short-term debt/exports	23.0	100.5	129.8	179.4	136.1
Total debt service/exports	35.0	34.2	32.3	30.0	28.9
GDP ratios					
Long-term debt/GDP	118.0	127.0	131.2	141.2	216.6
IMF credit/GDP	9.5	4.4	2.6	2.3	2.2
Short-term debt/GDP	10.6	36.5	43.8	61.8	64.4
Long-term debt ratios					
Private nonguaranteed/long-term	29.9	20.3	19.7	19.9	17.9
Public and publicly guaranteed					
Private creditors/long-term	37.8	24.1	20.3	19.7	17.6
Official creditors/long-term	32.2	55.6	60.1	60.4	64.6

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Croatia

Croatia's per capita income is about $2,500, down from $3,350 in pre-independence and prewar times. The population is about 4.8 million, with a highly educated labor force of about 1.5 million. The structure of output is similar to that of an industrial market economy, with manufacturing accounting for about 30 percent of GDP, agriculture for about 10 percent, and services for 60 percent. Imports and exports of goods and services total about 80 percent of GDP, making Croatia one of the most open economies in Central Europe.

Croatia declared independence from the Socialist Federal Republic of Yugoslavia in June 1991. Hostilities erupted almost immediately over portions of Croatia that border the Republic of Bosnia and Herzegovina and the Federal Republic of Yugoslavia in the east. These areas, which include about one-fourth of Croatia's agricultural land, important gas and oil fields, and large sections of major highways and railways, have been designated as UN Protected Areas since January 1992. Limited hostilities took place around these areas until a cease-fire was concluded in March 1994, ending hostilities within Croatia itself. Also in March, the Washington Agreement effectively ended hostilities between Croatian and Bosnian forces, and provided for a federation of Croat, Muslim, and other Bosnians with the Republic of Bosnia and Herzegovina, and for a confederation agreement between Croatia and the Republic of Bosnia and Herzegovina.

Despite these improvements, serious tensions persist within Croatia and within the region. A permanent solution to territorial problems within Croatia has yet to be reached, and there is continuing political pressure within Croatia to regain territorial control and resettle residents displaced from the occupied areas during the war. Croatia has shown restraint over the protected areas issue, trying to reach a negotiated settlement. Efforts to agree on economic integration of these areas, assisted by the United States, Russia, the United Nations, and the European Union, finally met with some success in the form of a December 1994 agreement allowing the recommissioning of some major infrastructure linking them with the rest of Croatia.

The Croatian Democratic Party holds the majority of seats in both houses (75 of the 138 seats in the House of Representatives, and 35 of the 68 seats in the House of Counties). The second strongest party holds 16 seats in each house, and eight other parties and a significant number of independent candidates hold the remaining seats. The law requires that minorities be adequately represented. Political processes are evolving; however, the development of a fully stable and democratic society is made more difficult by the regional environment and the unsettled issue of Croatia's territorial integrity.

Recent Economic Developments

Croatia's legacy from the former Yugoslavia was mixed: on the positive side, its economic system was far more market-oriented than those of the planned economies of Central Europe and the former Soviet Union. The foreign trade regime was liberal, with the few quantitative restrictions occurring mainly in agriculture. On the negative side, although enterprises were free to make most pricing and investment decisions, the Yugoslav system of "social ownership" often resulted in poor investment decisions and tended to encourage chronic wage pressures. The scarcity of foreign financing during the debt crisis of the late 1980s caused investment, and therefore economic growth, to fall. Enterprises began to generate widespread losses, highlighting a major shortcoming of social ownership — the lack of the financial discipline that would have been imposed by capital markets and private owners. The losses were financed by the banks, which in turn were owned by the enterprises themselves, and monetized by the National Bank of Yugoslavia, resulting in loss of monetary control and, ultimately, the hyperinflation Croatia inherited at independence.

The dissolution of the Yugoslav federation disrupted trade and supply routes between republics; the war inflicted considerable damage in Croatia and caused tourism revenues to fall to 10 percent of their prewar levels. GDP declined by about 30 percent between 1991 and 1993, to the levels prevailing in the mid-1970s, with the industrial sector declining by over 50 percent. There were also serious macroeconomic imbalances. The 1991 deficit, although officially equivalent to 5 percent of GDP, was actually far higher when arrears and quasi-fiscal enterprise losses taken are into account. The current account deficit became alarming in the absence of foreign exchange reserves — which had been kept by the National Bank of Yugoslavia in Belgrade — and external financing, which had dried up as a result of difficulties in debt apportionment and Croatia's subsequent suspension of debt service payments. The government's initial postindependence policies increased reserves to 2.6 months of imports, while reducing the consolidated deficit to almost zero, in 1993. However, enterprise losses continued to force monetary creation; and inflationary expectations, fueled by foreign currency indexation, helped boost inflation to monthly levels of 30 percent during the second half of 1993.

Croatia embarked on a comprehensive stabilization program in October 1993. The program introduced a foreign exchange nominal anchor, supported by tight incomes and fiscal policies. The wage bill of public and socially owned enterprises was set by decree, based on targeted inflation rates, to avoid incorporating past inflation; and the zero fiscal deficit target was enforced on a monthly basis. The program was very effective: the real exchange rate appreciated to its predevaluation levels, and inflation was immediately curbed — prices actually declined over the next eleven months. The key to success was the credibility of the exchange rate anchor, backed by the tight fiscal stance, which broke inflationary expectations. The ensuing real appreciation had a major moderating impact on domestic prices, and, through income and terms of trade effects, a positive effect on real disposable household incomes.

With some of the impact of the austerity program offset in this way, the stabilization program had popular support and was perhaps the most successful anti-inflation program in central Europe. A new currency, the kuna, was introduced in May 1994. Croatia agreed with the IMF on a standby agreement and a drawing from the Structural Transformation Facility in October 1994.

Although the stabilization program has been successful, the main potential source of inflation, the structural problem of the banking and enterprise sectors, has not yet been eradicated. Large enterprises, accounting for some two-thirds of total assets and employment, are the main contributors to enterprise losses (5 percent of GDP in 1994). The losses, caused primarily by insufficient adjustment of employment levels to the decline in output, continue to be partly financed by the banking sector, where reforms have not yet begun in earnest. The sharp decline in real wages in 1991 and 1992, and the increase in real money demand helped counterbalance the inflationary potential of the lack of enterprise adjustment and made stabilization possible; and the resulting remonetization allowed the banking system to finance enterprise losses, temporarily, without jeopardizing the stabilization objective.

This situation cannot continue much longer: real wages have been increasing since the beginning of 1993, and remonetization has slowed since the end of 1994, raising the questions of competing resource needs for building up foreign exchange reserves, financing the needs of the private sector, and financing the losses in the economy, with the risk of re-igniting inflation. As part of the macroeconomic program being carried out in cooperation with the IMF, the budget deficit will be kept close to zero, or at an amount for which external financing is available. Growth must now resume rapidly if stabilization is to remain acceptable to the population. This is feasible within the next two years, provided key structural reform measures are carried out quickly and a major investment effort is undertaken.

The government has demonstrated its capacity to gather and maintain political support, even with the difficult fiscal and incomes policies needed for stabilization. It is preparing a multiyear reform and investment program for 1995 that would lay the basis for a strong and sustained recovery. The program revolves around three major themes: reforming public finance, fostering private-sector-led growth, and rebuilding and upgrading infrastructure.

Public expenditures have increased considerably since independence, reaching about 45 percent of GDP in 1994, and there has been a serious deterioration in their structure. The costs of developing government institutions for a new country — defense, and the burden of supporting refugees and displaced people — account for about half of these expenditures. Social expenditures have declined; some other expenditures, such as the cost of bank and enterprise rehabilitation, were deferred. Although part of the decline in expenditure is the result of successful reform, including reducing subsidies and streamlining benefit programs, some of these expenditure choices are not sustainable — such as investment and restructuring expenditures — because they mortgage future growth or entail social inequities. Making up for past spending shortfalls and financing reforms could cost from 5 to 8 percent of GDP, with investment increasing by 2 to 3 percent of GDP, and enterprise and bank restructuring costing about the same amount during the initial years.

On the financing side, there is no room for increasing the burden of tax rates; however, a modest revenue increase can be anticipated from a series of efficiency- and compliance-enhancing tax reforms. The government also intends to mobilize revenues from direct sales of high-value enterprises, although these revenues are not expected to be large. On the expenditures side, the fiscal strategy calls for reducing the role of government and making room for investment outlays within a reduced expenditure ceiling. Key structural reforms aim to ensure the long-term sustainability of previous expenditure reductions in such areas as health and pensions; deferred investment outlays with a strong potential for fostering economic recovery would be given special emphasis; and current expenditures would be reduced by about 3 to 4 percent of GDP. Although ambitious, the adjustment is feasible and is consistent with Croatia's IMF-supported stabilization program.

The government introduced an enterprise privatization strategy just after independence. The socially owned enterprises were targeted for privatization through a voluntary approach under the 1991 Law on Ownership Transformation. Seventy percent of the initial number — about 2,000 of 2,900 enterprises — and about 50 percent of socially owned enterprise assets, had been partly or totally privatized by end-1994, mostly through management or employee buyouts. Another 350 were commercialized, allowing the government to regain direct ownership and manage their sale. While efforts have been relatively successful for small and medium enterprises, the pace of privatization slowed recently, as most of the remaining enterprises — about 500 — are larger and more capital-intensive. They include the most troubled of the initial stock of socially owned enterprises, and are ill-suited for the decentralized privatization methods emphasized by Croatia. The government is determined to accelerate privatization: a new strategy is being developed to privatize the remaining enterprises within two years, using a multitrack approach including mass privatization, direct sales to investors, and more flexible pricing under existing sales methods. The scope of privatization would also be expanded to the ten large infrastructure and utilities accounting for about 10 percent of GDP. Divestiture of their noncore assets, including real estate, would follow their commercialization, and privatization of core activities will start once a regulatory framework has been established.

The government is preparing a comprehensive banking-sector reform to improve the incentive framework and enable new resource flows to be channeled to a wider base of sounder borrowers at lower intermediation costs. The five most troubled banks, which hold 50 percent of the system's assets, will be taken over by a government restructuring agency, which will seek their liquidation or privatization. Based on a preliminary balance-sheet clean-up, these banks will be substantially downsized, exposures to large problem borrowers will be carved out, and procedures established to work out problem loans. The reforms will effectively sever the ties between banks and their enterprise owners. They will also include strengthening the legal and regulatory framework for banks, and new bank supervision standards to eliminate related-party lending practices that have been the root of the banking system's problems.

Croatia has to catch up on years of low investment levels, repair war damage, and adapt its infrastructure to the requirements of a changed and growing economy. Transport demand patterns are changing significantly, and Croatia will become less transport-intensive in the future, with a shift away from rail and toward road transport. The government is developing an investment planning framework for transport, formulating a plan to increase port efficiency, and planning for expected increases in demand for power and more stringent environmental standards. Infrastructure requirements are large, and two areas will be given priority: reconstruction of war-damaged infrastructure and buildings, and overcoming the backlog of rehabilitation and modernization needs to increase productivity and competitiveness in Western markets. Given the magnitude of the effort required, special attention will be given to leveraging the state's contribution through private resources when conditions make it possible to attract such financing.

Medium-Term Prospects

Growth is expected to accelerate from the modest 1 percent of 1994 to about 3 percent in 1995. Investment would have to increase significantly to sustain higher growth rates, from about 14 percent to about 19 percent of GDP. In Croatia's current context, most resources must come from domestic savings, given limited external financing, which is constrained by three factors. First, lending has ceased, except from the international financial institutions, following Croatia's suspension of debt service and the protracted discussions on the allocation of former Yugoslavia's external debt. New financing from bilateral and other sources will likely resume following normalization with Paris Club creditors — expected in 1995 — and at a later stage with London Club creditors. Second, because of the regional uncertainties, direct foreign investment is not projected to resume as fast as it might otherwise. And third, Croatia needs to continue to build up its foreign exchange reserves because of the openness of its economy and the nature of its exchange rate policy. Under this scenario, Croatia could grow at about 5 percent in the medium term, allowing recovery of about 90 percent of pre-independence GDP — about $3,100 per capita — by the end of the decade, assuming rapid implementation of reforms and an absence of any major hostilities.

External Debt

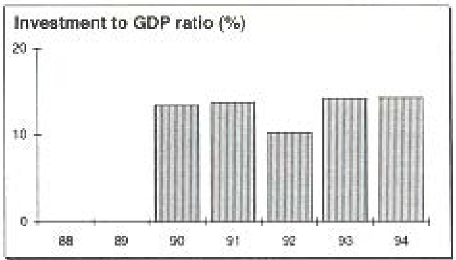
Croatia's indebtedness and debt service obligations are sustainable. The debt to GDP ratio is projected to decrease gradually from a moderate 27 to 28 percent of GDP at end-1994 to 22 percent in 1999. Debt service is projected to increase from 3 to 4 percent of GDP, and from 6 to 8 to 9 percent of exports, following agreements with the Paris and London Clubs under which servicing, which is now partly suspended, would resume.

Croatia

Population mid-1993 *(millions)*	4.5	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Less indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	13.4	10.2	14.2	14.3
Exports of goods and nfs/GDP	..	..	58.5	48.9	44.9
Gross domestic savings/GDP	..	-18.4	14.9	13.1	13.7
Gross national savings/GDP	..	..	13.2	11.9	12.4
Current account balance/GDP	..	..	8.0	1.2	-0.6
Interest payments/GDP	..	..	..	1.1	0.9
Total debt/GDP	..	..	..	25.4	20.6
Total debt/exports	..	..	..	46.6	42.8

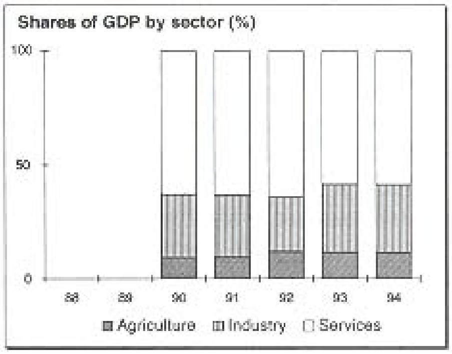


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	9.2	11.8	11.5	11.3
Industry	..	27.9	24.1	30.0	30.0
Manufacturing	..	20.8	20.2	25.3	25.3
Services	..	62.8	64.1	58.5	58.7

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	-6.0	-15.1	3.1	0.0
Industry	..	-10.0	-11.7	-4.2	1.9
Manufacturing	..	43.7	-7.8	-5.5	2.0
Services	..	-6.7	-12.9	-3.8	2.1
GDP	..	-7.7	-12.8	-3.2	1.8

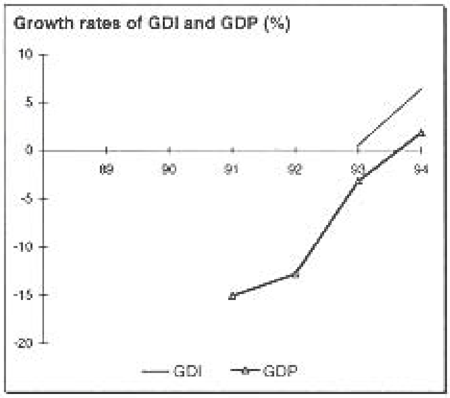


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	70.7	72.4	67.4
General government consumption	..	..	14.4	14.5	18.9
Gross domestic investment	..	13.4	10.2	14.2	14.3
Exports of goods and nfs	..	..	58.5	48.9	44.9
Imports of goods and nfs	..	..	53.8	50.0	45.5

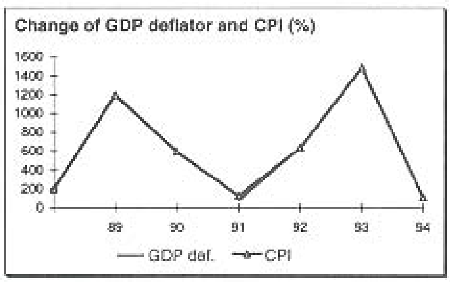
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	-1.1	-7.0
General government consumption	..	..	..	-3.2	30.5
Gross domestic investment	..	..	..	0.5	6.4
Exports of goods and nfs	..	..	..	..	3.5
Imports of goods and nfs	..	..	..	..	0.4
Gross national product	..	..	..	-2.7	1.7
Gross national income	..	..	..	..	0.6



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	594.1	634.6	1,486.3	107.1
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	634.9	1,484.6	94.0
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

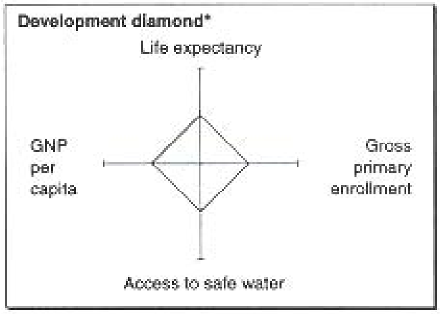
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Croatia

POVERTY and SOCIAL

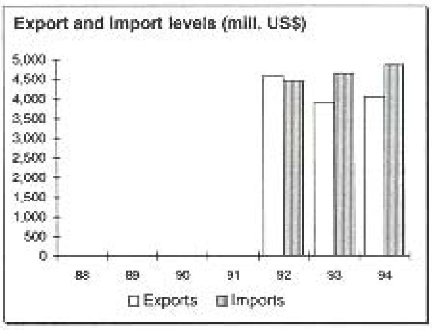
	1985-90	1990-94
(annual growth rates)		
Population	0.2	*0.0*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	71.5
Infant mortality *(per 1,000 live births)*	9.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	1,108.6
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



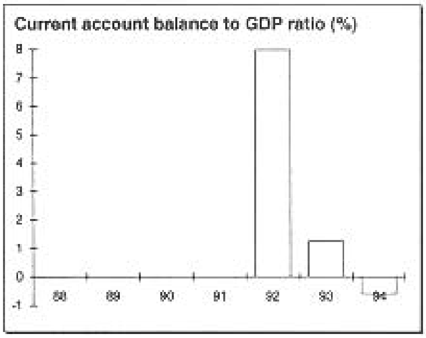
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	4,597	3,903	4,064
Capital goods	..	..	649	735	753
Chemicals	..	..	284	342	354
Manufactures	..	..	2,172	1,748	1,755
Total imports (cif)	..	..	4,461	4,666	4,875
Food	..	..	520	394	421
Fuel and energy	..	..	453	476	468
Capital goods	..	..	468	749	784
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	112	99	90



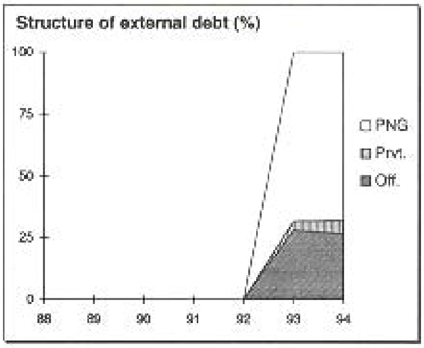
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	6,819	6,029	5,711	6,045
Imports of goods and nfs	..	7,115	5,548	5,840	6,130
Resource balance	..	-296	481	-129	-85
Net factor income	..	4	-172	-141	-174
Net current transfers	..	1,345	514	415	178
Current account balance					
Before official transfers	..	1,053	823	145	-81
After official transfers	..	1,053	823	278	76
Long-term capital inflow	..	0	13	-131	1,311
Total other items (net)	..	-1,053	-669	534	-793
Changes in net reserves	..	0	-167	-681	-595
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	..	0.3	3.6	6.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	43.1	41.9
IMF credit/exports	..	..	..	0.3	0.2
Short-term debt/exports	..	..	..	3.2	0.8
Total debt service/exports	..	..	..	5.9	6.3
GDP ratios					
Long-term debt/GDP	..	..	..	23.4	20.1
IMF credit/GDP	..	..	..	0.2	0.1
Short-term debt/GDP	..	..	..	1.8	0.4
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	68.3	68.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	3.8	5.6
Official creditors/long-term	..	..	..	27.9	26.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Djibouti

Djibouti became independent in 1977. A small country of only 23,200 square kilometers, it occupies a strategic location at the Horn of Africa. Its GNP per capita was estimated at $780 in 1993, even though living standards and social indicators were closer to lower-income Sub-Saharan African countries. Two-thirds of its 600,000 inhabitants live in the capital city; the rest are mostly nomadic herders.

Poverty and Social Indicators

The majority of Djibouti's population have poor nutritional and health standards. Life expectancy at birth is low at 49 years and infant mortality high at 115 per 1,000. Only 50 percent of urban dwellers have access to safe water, and the rural population suffers from an acute shortage of water. Primary school enrollment is 47 percent of the school-age group, well below the regional average. Recent population growth has been estimated at 5 to 6 percent a year, of which 2 to 3 percent represents an influx of immigrants and refugees from neighboring countries. Some 130,000 refugees and immigrants have arrived from Somalia and Ethiopia since the 1980s, putting heavy pressure on the economy and social institutions.

The country has a fairly liberal trade regime. Its currency, the Djibouti franc, has been pegged to the dollar since 1949 and is freely convertible. The economy is, however, fragile and highly dependent on external assistance to meet structural fiscal and external account deficits. Since independence, savings have been negative. Services account for 76 percent of the GDP at factor cost, and are dominated by activities relating to French military presence and Djibouti's role as a regional transit and business center. The traditional economy is based on subsistence nomadic herding. Agriculture and industry are little developed, owing to the harsh climate, high production costs, and limited natural resources other than fishing and, potentially, geothermal energy. Merchandise exports of local origin are insignificant. Djibouti depends heavily on imported energy, food, and other goods, with imports amounting to 98 percent of GDP. Its economy is also handicapped by a relatively large and inefficient public sector. Poorly performing public enterprises and a bloated civil service increase the cost of doing business, hinder economic development, and put a strain on scarce budgetary resources.

Recent Political Developments

After political and ethnic tensions in November 1991 the government allowed the creation of political parties. A new constitution was approved in a referendum in September 1992. Legislative elections in December 1992 and presidential elections in May 1993 were boycotted, however, by most of the opposition. These uncontested elections led to the reelection of the sitting president and his ruling party representatives. The main opposition group claiming to represent the Afar minority — an estimated 40 percent of population — resumed armed rebellion. In response, the government quadrupled its military forces, and military expenditure rose to 15 to 16 percent of GDP, compared to about 6 percent before 1991. Ethnic tensions remain high, and sporadic fighting continued until mid-1994. A negotiated settlement of the military conflict was agreed to by all parties and formalized in a peace accord signed in December 1994.

Recent Economic Developments

Djibouti's economic performance has been weak since independence. GDP barely kept pace with population growth over 1978-83 and declined by over 1 percent a year from 1984 to 1993. Per capita income has, thus, been halved since independence. The stagnant economy and the influx of refugees have led to acute unemployment. There was a short-lived spurt in military traffic during the Persian Gulf War and increased transshipment of relief aid to Ethiopia and Somalia more recently, but they have had only minimal impact on GDP and employment.

The resource gap has averaged 26 percent of GDP since 1977. After grants, the current account deficit averaged about 11 percent of GDP, most of which, as in the past, was covered by external borrowing. The overall balance of payments was generally in equilibrium until 1991; the onset of internal conflict led to a gap averaging almost 3 percent of GDP over 1991-93. Domestic savings have been consistently negative, over 10 percent of

GDP for 1992 and 1993. After exceeding 22 percent of GDP in the early years after independence, investment has gradually declined and averaged only 15 percent of GDP over 1991-93.

In the late 1980s, despite periodic but short-lived corrective measures, the budget deficit hovered around 9.5 percent of GDP. The public finance situation has deteriorated markedly since 1991 because of the increase in military expenditure. Despite higher taxes (including a 10 percent special tax on wages to finance the war effort), increased tax collection, forced levies on public enterprises, and measures to contain expenditure (including the adoption of a new pay scale and the reduction of civil servants' fringe benefits), the budget deficit on a commitment basis, excluding grants, was estimated at 15.5 percent of GDP in 1992, and 12.2 percent of GDP in 1993. The cash deficit after grants has been financed largely by domestic payment arrears, forcing local enterprises to borrow from the banking system to finance their operations, and putting pressure on the currency.

Medium-Term Prospects

Since late 1994 the government has been preparing a document outlining its proposed economic reform strategy. While the specifics of the economic reform program remain to be finalized, the government's development objectives are to reduce dependence on external budget support, diversify the economy and foster permanent employment opportunities, improve social standards and alleviate poverty, and arrest desertification. The increase in military forces has led to an additional objective of demobilizing and reintegrating military personnel into the economy.

To achieve these objectives the government plans to undertake measures aimed at stabilizing the economy and stimulating private-sector development. In addition, it intends to redefine its role in facilitating development and providing social services and infrastructure, while disengaging from productive activities.

The government's proposed program aims to stabilize the economy by reducing expenditure on emoluments and salaries, demobilization and civil service reform, protecting the social sectors, and increasing revenues through tax measures and better management of public assets; in addition, public sector arrears and other internal debts are to be consolidated and repaid over time.

The proposed program calls for increasing investment selectivity by focusing on infrastructure (port facilities, railroads, telecommunications, and roads), human resource development and social services (education, health, and urban development), and preparing a public investment program.

The draft program also calls for improving economic management by strengthening and reorganizing the Ministry of Finance and the Treasury, and pursuing prudent monetary and credit policies to avoid inflation, and enhancing efficiency and competitiveness by liberalizing trade, prices, the labor and capital markets, and transport services. It calls for a comprehensive private-sector development and export promotion strategy, and privatizing and restructuring public enterprises to minimize their cost to the budget.

The government also intends to continue ongoing initiatives. Human resources are being developed through improved education and vocational training, and the government is investing in urban sites and services to improve the living conditions for the urban poor. A comprehensive health plan has been prepared to address major sector issues, including the provision of family planning services, child immunization programs, and a communicable diseases control program. Wells have been drilled in several areas of the hinterland to provide water to nomads and their herds. Pilot projects seek to arrest desertification.

In spite of the peace accord Djibouti's short-term prospects are difficult. Production is estimated to have contracted by about 3 percent in 1994. The fiscal situation will remain fragile, and the government may further increase its domestic arrears in 1995, thus fueling the vicious circle of delayed tax payments, lower investment, and a deteriorating net credit situation of domestic enterprises. Credit to government is expected to increase. The external balances are also expected to face increased difficulties in 1995, forcing further import compression, a contraction of official reserves, and putting pressure on the currency.

Medium-term development prospects depend on the sustainability of the political settlement of ethnic strife, and the government's success in stabilizing the macroeconomic situation and implementing policies that stimulate the private sector, improve access to basic social services, and reduce demographic pressure. The immediate challenge facing Djibouti is to create a stable macroeconomic environment capable of preserving its credibility and attractiveness as a regional financial and transshipment center. These measures, as well as steps to enhance the capacity and the efficiency of the port, other transport facilities, and other business and financial services, would allow Djibouti to expand its regional role as a service center and benefit from eventual growth in the external trade of its neighbors.

In the short term, a modest economic recovery is feasible, but GDP growth is expected to remain below demographic growth in fiscal 1996. Growth will be generated mainly by the recovery of transport and trade activities. Given strong stabilization measures and external financing mobilized only on concessional terms and used productively, a viable fiscal situation, balance of payments, and adequate external reserves could be restored in the medium term.

External Debt

External medium- and long-term debt outstanding and disbursed rose from $96 million (28 percent of GDP) in 1985 to $193 million (41 percent of GDP) at the end of 1993. Most of the external borrowing has been on highly concessional terms. Debt-service payments on medium- and long-term debt represented only about 2 percent of the exports of locally produced goods and services in 1993. At end-1993, the government's short-term debt stood at $33 million, equivalent to about 7 percent of GDP.

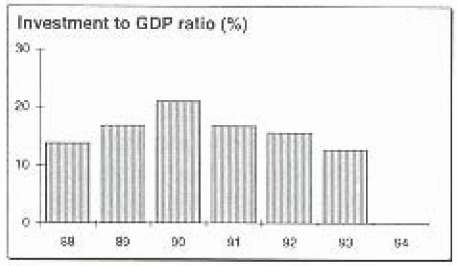
Djibouti

Population mid-1993 *(thousands)* 557
GNP per capita 1993 *(US$)* 780

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

KEY RATIOS

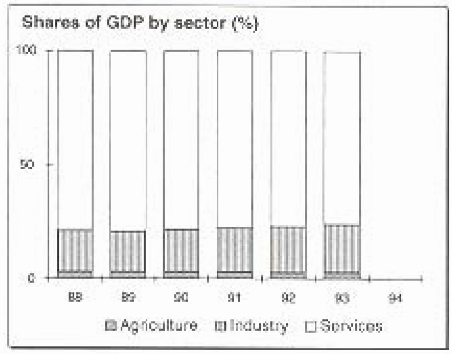
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.4	21.0	15.7	12.8	..
Exports of goods and nfs/GDP	43.9	69.7	71.2	71.4	..
Gross domestic savings/GDP	-3.9	-8.5	-10.7	-14.1	..
Gross national savings/GDP	-4.1	-4.9	-12.6	-14.3	..
Current account balance/GDP	-27.5	-25.9	-28.2	-27.0	..
Interest payments/GDP	0.6	0.5	0.5	0.4	..
Total debt/GDP	41.9	49.4	41.6	48.5	..
Total debt/exports	87.3	66.5	55.8	63.0	..


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	2.7	2.9	2.7	2.8	..
Industry	18.1	18.5	20.4	21.2	..
Manufacturing	4.0	4.8	4.4	4.5	..
Services	79.3	78.6	76.9	76.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	*-2.2*	..	..	..	..
Industry	*0.8*	..	..	..	..
Manufacturing	*2.2*	..	..	..	..
Services	*-2.0*	..	..	..	..
GDP	-1.6	*0.6*	2.4	-2.3	..

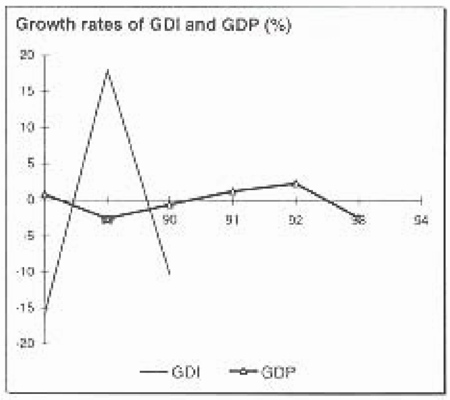


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	65.4	76.7	71.9	76.4	..
General government consumption	38.5	31.8	38.8	37.7	..
Gross domestic investment	23.4	21.0	15.7	12.8	..
Exports of goods and nfs	43.9	69.7	71.2	71.4	..
Imports of goods and nfs	71.2	99.2	97.6	98.3	..

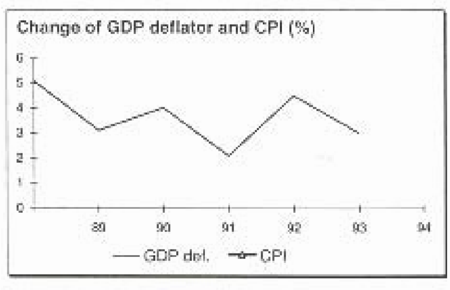
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	-4.5	..	..	..	..
Exports of goods and nfs	2.6	..	..	..	..
Imports of goods and nfs	-0.1	..	..	..	..
Gross national product	*-2.8*	..	..	..	..
Gross national income	*-3.4*	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.1	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.7	4.0	4.5	3.0	..
Government finance					
(% of GDP)					
Current budget balance	1.5	-4.5	-11.5	-8.8	..
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

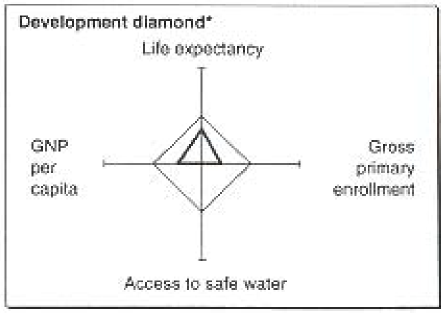
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Djibouti

POVERTY and SOCIAL

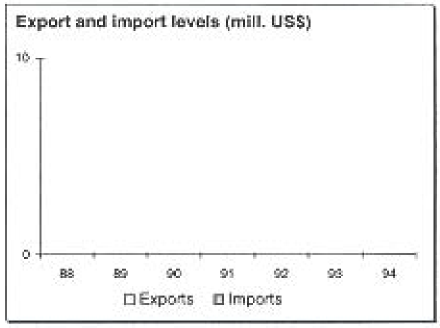
	1985-90	1990-94
(annual growth rates)		
Population	5.6	*2.5*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	48.7
Infant mortality *(per 1,000 live births)*	113.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	974.9
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	41.0



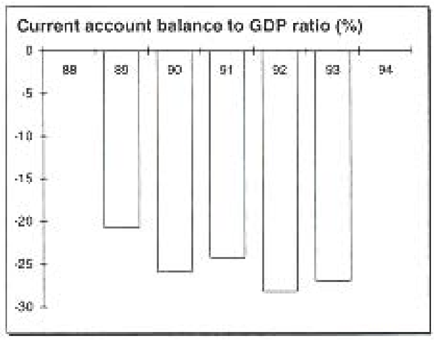
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	..	..	..
Other food	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	115	169	169	170	..



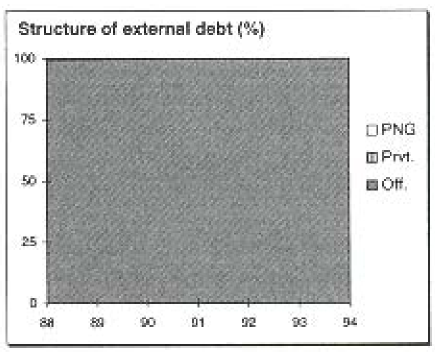
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	151	291	329	332	..
Imports of goods and nfs	245	414	451	457	..
Resource balance	-94	-123	-122	-125	..
Net factor income	12	18	-6	2	..
Net current transfers	-12	-3	-3	-2	..
Current account balance					
Before official transfers	-95	-108	-130	-126	..
After official transfers	-42	-57	-53	-53	..
Long-term capital inflow	32	61	38	45	..
Total other items (net)	16	30	-2	0	..
Changes in net reserves	-6	-35	17	8	..
Memo:					
Reserves excluding gold *(mill. US$)*	51	94	83	75	..
Reserves including gold *(mill. US$)*	51	94	83	75	..
Conversion rate *(local/US$)*	177.7	177.7	177.7	177.7	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	58.2	50.4	51.3	53.9	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	29.1	16.2	4.5	9.2	..
Total debt service/exports	4.3	4.6	3.2	2.7	..
GDP ratios					
Long-term debt/GDP	27.9	37.4	38.3	41.4	..
IMF credit/GDP	0.0	0.0	0.0	0.0	..
Short-term debt/GDP	14.0	12.0	3.4	7.1	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	6.8	0.1	0.1	0.1	0.0
Official creditors/long-term	93.2	99.9	99.9	99.9	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Dominican Republic

The Dominican Republic endured a major political crisis in 1994 as the outcome of the presidential elections remained in doubt until the eve of the inauguration. Expansionary fiscal and monetary policies, coupled with the political crisis, led to a deterioration in economic conditions. The political impasse was resolved when protracted negotiations concluded with the inauguration of a new president in August, and the subsequent passage of constitutional reforms limiting the current presidential term to two years and proscribing consecutive terms. General elections are scheduled for May 1996. The authorities also recently have moved to redress macroeconomic imbalances.

Since the late 1970s pervasive government intervention has depressed economic performance far below potential and prevented the economy from adjusting efficiently to external shocks. Indeed, the Dominican Republic is one of the few economies in the region in which per capita GDP has yet to recover the level attained prior the debt crisis. Over 1978-93, growth scarcely reached 2 percent a year. GNP per capita was $1,230 in 1993.

An attempt to reform economic policies in the mid-1980s was abandoned in the aftermath of the street riots and scores of deaths that accompanied a large devaluation and reduction of price subsidies. The government reverted to expansionary fiscal and monetary policies, repression of the foreign exchange market, accumulation of arrears, and money creation in an attempt to engineer a recovery. This approach continued with stops and starts until it culminated in a severe crisis. In 1990 capital flight reached 6.5 percent of GDP, inflation skyrocketed to 100 percent, arrears rose to $1.4 billion, and foreign creditors suspended disbursements. Scarcities of petroleum and foodstuffs reached alarming proportions, electricity production teetered on the brink of collapse, and six commercial banks and hundreds of informal financial institutions failed. GDP contracted over 5 percent and unemployment approached 25 percent.

Poverty and Social Indicators

The protracted stagnation of economic activity, coupled with a reduction in real social spending and the pronounced deterioration of basic services, exacerbated poverty and arrested a long-run trend of improving social conditions. It also led to a marked acceleration of emigration. Over 1980-90, real income per capita declined 19 percent while the average real minimum wage dropped 38.5 percent. In 1989 about one-quarter of Dominicans were living in poverty as compared to about 19 percent only three years earlier. The reported infant mortality rate of 56 per 1,000 live births is the third highest in the region. Child mortality rates also are high: 88 of 1,000 children who survive the first year of life perish before their fifth birthday. From 30 to 40 percent of children under six years of age suffer from moderate or severe malnutrition. Maternal mortality also is among the highest in the region. Moreover, during the past decade, the prevalence of waterborne disease increased markedly.

The New Economic Program

In August 1990 the government undertook a New Economic Program combining stringent stabilization measures and unification of the foreign exchange market with financial system, trade, pricing, and tax reforms. The program was a spectacular success: following an annualized inflation of 240 percent in the last quarter of 1990, the price level stabilized in January 1991 and actually fell during the second quarter. Price rationalization promptly eliminated shortages and eased the electricity crisis. This measure, together with a reduction in state investment and higher tax collections, turned the large deficit into a cash surplus, eliminating the excess supply of net domestic assets and stabilizing the exchange rate. At the same time, interest rate controls were removed, legal reserve requirements were unified, and administrative allocation of credit was discontinued. In response to these measures, capital movements dramatically reversed course as private capital inflows reached 8 percent of GDP in 1992, and output recovered 8 percent in 1992. In 1991 the Dominican Republic eliminated its arrears to the international financial institutions, and in 1992 it renegotiated its Paris Club debt and repurchased about 10 percent of its foreign debt.

Recent Economic Developments

In 1993 inflation was less than 3 percent, growth was more moderate 2.9 percent, and the current account deficit declined sharply. In the run-up to the 1994 general elections and during the transition, however, structural reform stalled and the state accelerated investment spending and adopted an accommodating monetary policy. Public-sector operations, which yielded a surplus of 1.3 percent of GDP in 1992, slipped into deficit in the last part of 1993 and deteriorated to a deficit of 2.4 percent of GDP in 1994. Meanwhile, net external financing to the public sector became negative. As a result of this deterioration, liquidity support to a large commercial bank, and payments to depositors of failed financial institutions, the net domestic assets of the central bank climbed 41 percent. The authorities intervened heavily in the foreign exchange market in an unsuccessful attempt to absorb excess money creation and prevent the fulfillment of expectations of exchange rate escalation. Net external assets plunged from $630 million at end-1993 to $140 million in September 1994; inflation accelerated to 10 percent, and a gap of 10 percent emerged between the market and official exchange rates. The government did execute a debt reduction accord with commercial banks, which lowered the external debt by $550 million, although the $172 million front-end cost of the package accounted for part of the depletion of reserves.

In September 1994, after the political crisis was resolved, the government moved to stem the deterioration in the economic situation. The exchange rate was devalued 3 percent and surrender requirements for proceeds of nontraditional exports were removed, although surrender requirements were imposed on other transactions. Freezes were placed on central bank net credit to the private and public sectors, State Reserve Bank credit to the public sector, and on the excess reserves of commercial banks. The central bank also hiked interest rates and brought out a large issue of stabilization bonds, replaced cash payments to depositors of failed financial institutions with bonds, and introduced more stringent norms on asset classification. Finally, the government slowed public investment. These measures resulted in a sharp rise in interest rates and a reduction in excess liquidity, checking the loss of reserves and stabilizing exchange rates, but they imposed large costs on the private sector. GDP growth in 1994 is estimated at 4 percent, while inflation rose to 14 percent. Despite the expansionary fiscal and monetary policies and owing to a sharp contraction in private investment, the current account deficit was less than 2 percent of GDP, while the overall deficit reached 4 percent of GDP.

The sensitivity of the Dominican economy to fluctuations in international market conditions is considerably less today than it was 15, 10, or even 5 years ago. In 1980 a 20 percent change in sugar prices was equivalent to six weeks of imports, 4 percent of GDP, and 20 percent of government revenue. Today, in contrast, such a price variation would be equivalent to less than one week of imports, about 1 percent of income, and 3 percent of government revenue. Moreover, whereas in 1990, a three point change in LIBOR was equivalent to three weeks of imports, 2 percent of income, and 12 percent of government revenue, in 1994, such a shift in interest rates would be equivalent to less than 1 percent of income or 5 percent of government revenue.

This impressive reduction in the vulnerability of the economy to external shocks is mainly attributable to the dynamic evolution of tourism and free trade zones, the burgeoning remittances of Dominican expatriates, and the large reduction in the external debt. Sugar exports plunged from a peak of 1.1 million tons to 330,000 tons in 1994, while the value of total commodity exports dropped 40 percent during the past decade. In contrast, the contribution of tourism to current account receipts climbed from 18 to 44 percent over 1984-94, that of free trade zone exports from 4 to 13 percent, and that of remittances from 9 to 16 percent. Moreover, in the past six years, external debt was reduced from 86 to 39 percent of GDP. The diversification and greater efficiency of the economy also have mitigated the variability of the terms of trade. This, in turn, should reduce the variability in, and uncertainty over, the real exchange rate, enhancing growth prospects.

Medium-Term Prospects

Over the medium term the Dominican Republic will benefit from stronger commodity prices and the spillover effects of the growth momentum of high-income countries. Investor confidence also has improved somewhat as a result of the reduction of the external debt, although foreign investors remain cautious because of political uncertainty. In addition, political stability in Haiti and the reconstruction of the Haitian economy should provide some stimulus to construction and domestic manufacturing, and assuage potential concerns of tourists. The economy does face adjustments stemming from negative net external financing and higher international interest rates, and from NAFTA and GATT. In addition, recent developments in Mexico could adversely affect the competitive position of the free trade zones, capital flows, and tourism.

Higher international interest rates imply an increase in debt service of about $20 million annually over 1995-97. Although the negative effect of these higher rates on domestic income should be more than offset by improved terms of trade, they would require an increase in the primary fiscal surplus of about 0.7 percent of GDP in 1995 to avoid accelerating inflation. In addition, the public sector is facing increased debt service payments in 1995 as a result of the 1992 Paris Club rescheduling. While these higher payments are not projected to reduce the overall availability of external financing, they imply a need to increase the primary nonfinancial public sector balance by about 1 percent of GDP to keep inflation in check. Short-term private capital flows also could be affected by the Mexican crisis.

NAFTA will eliminate trade barriers to three product groups among the United States, Canada, and Mexico that are of great importance to the Dominican economy: sugar, apparel, and textiles. Dominican exports of manufactures other than textiles and apparel generally enter the United States duty free or at reduced tariffs through the General System of Preferences or the Caribbean Basin Initiative. About 75 percent of Dominican sugar exports are sold in the U.S. market, and 95 percent of its exports of apparel and textiles are exported to the United States. These exports accounted for 5 percent and 20 percent, respectively, of current account receipts in 1993. The main impact of NAFTA will be on sugar exports to the high-price U.S. market. The Dominican Republic holds 17.6 percent of the U.S. sugar import quota — the largest share held by any of the 40 quota countries. Export volumes below this quota enter the United States duty free. Beyond this volume, exports are subject to a 16 percent tariff. Under NAFTA, the quota for Mexican sugar will be raised six-fold in 2000, and the 16 percent tariff on imports of Mexican sugar above the quota will be reduced to zero by 2008. This provision will give Mexico an unlimited quota, and Dominican sugar exports would be displaced gradually from the United States. If Mexico were to achieve the status of a net surplus producer of sugar under treaty provisions, all its sugar exports to the United States could enter duty free as early as 2000.

In addition, Dominican exports of textiles and apparel to the United States will face much stiffer competition because of the preferential access accorded to Mexican exports. In the short run, however, recent estimates suggest that less than 10 percent of the Dominican exports of these products would be placed at a significant competitive disadvantage, in large part because tariffs on Mexican exports of such goods will only be eliminated gradually and in part because Mexico does not yet export significant quantities of many of the goods on which U.S. tariffs were eliminated as of January 1, 1994. The large adjustment in relative prices in Mexico likely will accelerate these potential diversion effects.

While the GATT Uruguay Round will reduce the preferential tariffs many Dominican exports enjoy in the United States, it would appear that the Dominican Republic stands to gain more than it will lose from the GATT accord. In 1992 roughly half of those exports — about 20 percent of current account receipts — had preferential access. As a result of GATT, the preferential access received by 14 percent of Dominican exports would be phased out over five years beginning in mid-1995, and the access of another 18 percent would be partially eroded. On the other hand, the new GATT accord would lead to a reduction in tariffs for about 40 percent of Dominican exports to the United States, and GATT also will benefit the Dominican Republic by replacing nontariff barriers with tariffs, reducing tariffs by an average of 36 percent, and slashing export subsidies in developed countries, and Dominican exports account for significant shares of total U.S. imports in a number of products for which no preferential market access applies. The most important feature of the Uruguay Round, however, is the further liberalization of the trade and investment regimes it will entail in the Dominican Republic itself.

The Dominican Republic stands at an economic as well as a political crossroads. The performance of the economy during the past 15 years clearly demonstrates both its ability to compete effectively in the international market and the inability of tourism and the free trade zones alone to revive sustainable growth. Indeed, a renewal of growth in line with the economy's potential hinges on reallocating the copious resources tied down in domestic manufacturing to producing tradables. During the transition to a more open and private-sector-driven economy, however, medium-term growth prospects will continue to depend heavily on the dynamism of tourism and the free trade zones. Over 1983-93 real value added by the trade zones expanded a remarkable 25.9 percent a year, and that of tourism 16.9 percent a year. The rest of the economy grew merely 1.8 percent annually. During this same period, annual factor productivity in the trade zones rose 3.1 percent, and in tourism 1.1 percent, while that in the rest of the economy declined 2.2 percent. By 1993 both sectors had become sufficiently large to affect overall GDP growth, but even if they were to expand at rates similar to those recorded in recent years, GDP would grow only 2.5 percent. Tourism is poised to experience further high growth with the opening of the pristine Southwest Coast as a result of the completion of the Barahona International Airport, though the relative price shift in Mexico could impinge on the sector's growth.

The economy has recovered from the 1990-91 recession; as a result, capacity utilization is high, and the recent depletion of international reserves, combined with the implementation of restrictive monetary and fiscal policies, has curtailed the scope for expansion of import substitutes and nontradables. The outlook for sugar remains unfavorable, although coffee and cacao will benefit from higher external prices. During the transition to a more open private-sector economy, output in this large segment of the economy likely will not expand faster than population growth. Mining is the only traditional activity with a relatively favorable outlook. It contracted sharply over the past decade (from 4.5 to less than 2 percent of GDP), due to highly unfavorable nickel prices and depletion of high-grade gold and silver ore. In 1994, however, nickel production jumped 89 percent thanks to a turnaround in international prices and is projected to continue to grow over the medium term. In addition, newly installed technology should enable the production of gold and silver to rise toward previous peak levels.

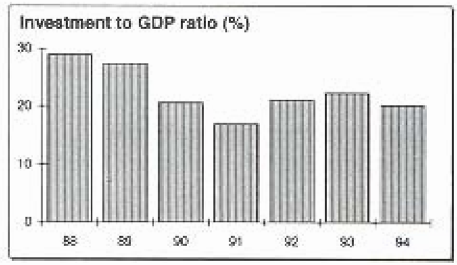
In response to the collapse of traditional export crops, considerable private investment has been made in non-traditional agricultural crops. The value of beef exports, which were prohibited until 1989, increased almost six-fold over 1988-94. Another source of growth of great potential is the tremendous entrepreneurial dynamism and the large absolute size of the informal economy. This sector has developed in isolation from and in response to the regulatory maze that constrains growth in the formal sector, and derives a good part of its dynamism from the large Dominican expatriate community. This community, which has been growing 6.5 percent a year over the past decade, will continue to be an important source of growth of tourism, remittances, and private investment.

Dominican Republic

Population mid-1993 *(millions)*	7.5	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	1,230	Indebtedness level: **Moderately indebted**

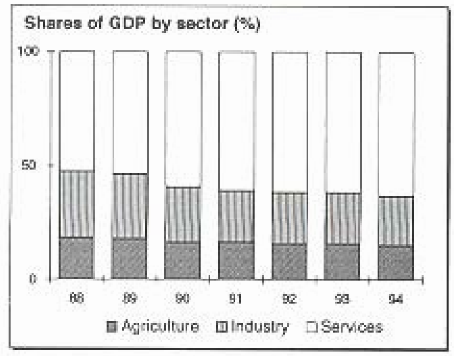
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	20.4	20.7	21.1	22.4	20.2
Exports of goods and nfs/GDP	29.5	26.1	24.1	24.1	24.1
Gross domestic savings/GDP	15.1	16.9	14.2	18.1	16.3
Gross national savings/GDP	13.4	16.5	15.7	..	18.4
Current account balance/GDP	-7.0	-2.5	-6.8	-1.4	-1.0
Interest payments/GDP	3.1	0.8	1.3	1.2	1.6
Total debt/GDP	78.0	57.7	52.4	48.7	38.7
Total debt/exports	260.5	209.8	214.7	193.8	155.0



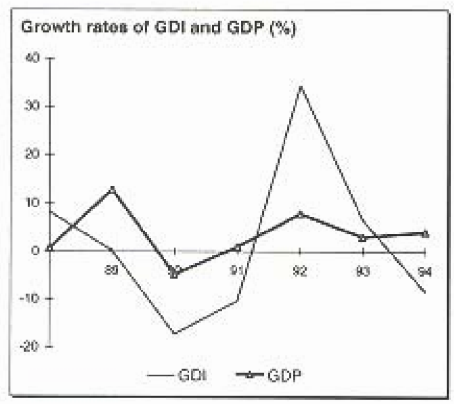
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	19.7	16.2	15.5	15.5	14.9
Industry	25.8	24.4	23.0	23.0	21.9
Manufacturing	13.6	12.5	12.4	12.4	14.7
Services	54.5	59.4	61.6	61.6	63.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.5	3.0	6.1	0.2	1.4
Industry	3.3	3.7	13.0	1.3	2.0
Manufacturing	1.9	4.2	12.7	0.6	2.1
Services	6.6	4.6	6.1	4.4	5.4
GDP	4.4	4.2	7.8	2.9	4.0



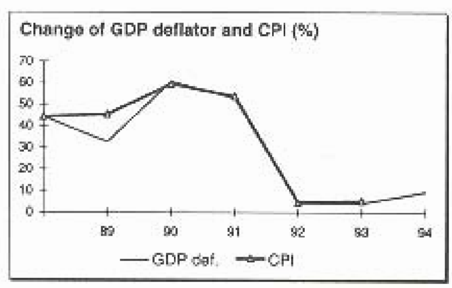
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	76.9	79.5	80.9	76.8	80.1
General government consumption	8.0	3.6	4.8	5.2	3.6
Gross domestic investment	20.4	20.7	21.1	22.4	20.2
Exports of goods and nfs	29.5	26.1	24.1	24.1	24.1
Imports of goods and nfs	34.8	29.8	31.0	28.4	28.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.8	5.6	3.5	-1.0	21.1
General government consumption	-0.6	-2.0	5.7	0.7	-24.9
Gross domestic investment	8.2	7.0	34.3	6.5	-8.4
Exports of goods and nfs	8.2	5.2	14.4	1.6	1.8
Imports of goods and nfs	2.4	8.4	23.8	-2.8	10.9
Gross national product	4.7	5.2	9.8	3.9	4.2
Gross national income	2.7	6.0	7.8	5.8	8.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	37.5	59.4	4.6	5.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	38.8	60.7	4.2	4.2	9.3
Government finance					
(% of GDP)					
Current budget balance	..	..	6.9	8.3	6.7
Overall surplus/deficit	..	..	0.4	-1.9	-2.2



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

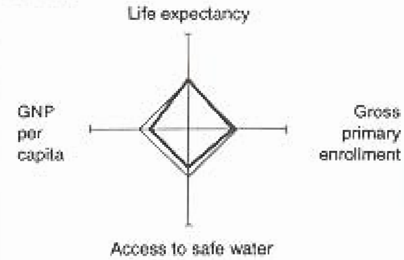
Dominican Republic

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.2	2.0
Labor force	3.2	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.9
Infant mortality *(per 1,000 live births)*	40.4
Child malnutrition *(% of children under 5)*	10.4
Access to safe water *(% of population)*	62.4
Energy consumption per capita *(kg oil equivalent)*	340.1
Illiteracy *(% of population age 15+)*	16.7
Gross primary enrollment *(% of school-age population)*	95.0

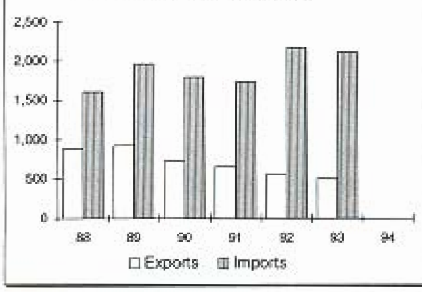
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	738	735	562	511	..
Sugar	159	143	115	112	..
Gold	104	54	24	4	..
Manufactures	..	..	..	..	..
Total imports (cif)	1,286	1,793	2,175	2,118	..
Food	48	52	11	12	..
Fuel and energy	507	507	507	488	..
Capital goods	217	389	497	481	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	64	56	55	53	52

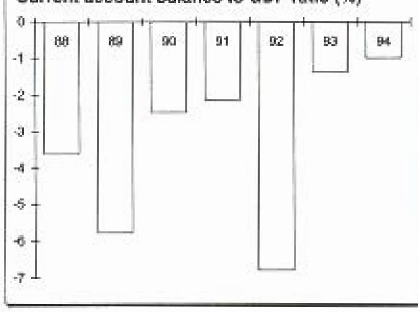
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,323	2,005	2,093	2,339	2,534
Imports of goods and nfs	1,560	2,233	2,752	2,684	2,888
Resource balance	-238	-228	-659	-345	-354
Net factor income	-319	-275	-285	-147	-122
Net current transfers	242	315	347	362	372
Current account balance					
Before official transfers	-315	-188	-597	-131	-104
After official transfers	-200	-132	-512	-51	-29
Long-term capital inflow	204	-164	86	54	-22
Total other items (net)	87	372	549	129	55
Changes in net reserves	-90	-76	-124	-132	-5
Memo:					
Reserves excluding gold *(mill. US$)*	340	62	500	651	..
Reserves including gold *(mill. US$)*	346	69	506	658	..
Conversion rate *(local/US$)*	3.1	8.5	12.8	12.7	13.2

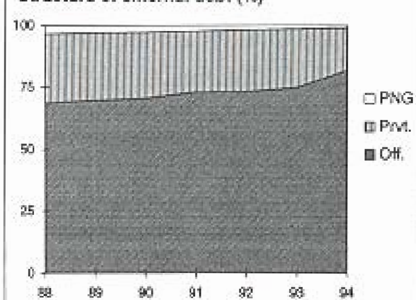
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	211.4	168.9	176.5	159.5	135.7
IMF credit/exports	22.1	3.4	5.7	7.8	7.1
Short-term debt/exports	27.1	37.4	32.5	26.5	12.2
Total debt service/exports	22.5	11.4	15.3	13.9	17.6
GDP ratios					
Long-term debt/GDP	63.3	46.4	43.1	40.1	33.9
IMF credit/GDP	6.6	0.9	1.4	2.0	1.8
Short-term debt/GDP	8.1	10.3	7.9	6.7	3.0
Long-term debt ratios					
Private nonguaranteed/long-term	5.3	2.8	1.7	1.3	1.0
Public and publicly guaranteed					
Private creditors/long-term	28.7	26.7	25.0	23.8	17.3
Official creditors/long-term	66.0	70.5	73.2	74.8	81.7

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ecuador

Ecuador is characterized by great geographical, economic, and ethnic diversity. The Andean highlands, along with the capital city of Quito, has a large population of mestizos and Indians, and its economic activity is dominated by small-scale farming and services. The coastal area, and its major port city of Guayaquil, has thrived on commerce and exports. Finally, the sparsely populated Amazon region contains most of the country's main natural resource, petroleum. Ecuador's population of 11 million is essentially divided between the coastal and highland regions.

Ecuador has a long democratic tradition, with the government dominated alternately by powerful groups from its two main regions. After a brief period of military rule, democracy was restored once again in 1979, under a constitution that severely limits the terms of elected officials. Political fragmentation and divisiveness make the pursuit of long-term policies difficult.

For more than a decade Ecuador's economic performance has been disappointing. Since the onset of the debt crisis in 1982 the economy has suffered a series of shocks, including periods of declining world oil prices. Despite several attempts at stabilization and structural reform in the 1980s, inflation rose to 85 percent in 1988, saving and investment rates declined to less than 20 percent of GDP, real per capita income fell, and Ecuador stopped servicing fully its external debt to commercial bank creditors. Failure to reestablish sustainable economic growth and the government's inability to meet the basic needs of the population have led to stagnant living standards and a deterioration in public services.

Overview of Reforms.

The government elected in July 1992 stood on a platform of reducing inflation, modernizing the economy, promoting private-sector expansion, and renegotiating Ecuador's external debt. It took office in the midst of rising inflation and interest rates, declining foreign exchange reserves, and worsening fiscal and external imbalances. Shortly after taking office, the government introduced a package of stabilization measures that included sharp increases in the domestic prices of petroleum derivatives — bringing them roughly to international levels — and electricity tariffs. Public expenditures were also cut, public employment was frozen, and several public agencies were targeted for restructuring or elimination. The sucre was devalued by over 30 percent to restore export competitiveness and replenish foreign exchange reserves.

The government also took steps to reform and modernize the economy and obtained congressional approval for important new laws. The cornerstone of the legal program is the Modernization of the State Law, which provides the legal framework for fundamental reforms of the public sector, including the reduction of personnel, decentralization of public sector activities, and private participation in sectors previously reserved for the public sector. Other legal reforms included a comprehensive budget law establishing important instruments to control expenditures, improve economic management, reduce earmarking, and restructure public sector accounting and control. The Capital Markets and Financial Institutions Laws should improve financial intermediation, while the Hydrocarbons Law promotes private-sector participation in the sector and liberalizes the trade and domestic prices of derivatives. Tax Reform and Customs Laws simplified procedures and improved enforcement.

The government also has reduced the public sector payroll by 35,000 — more than 10 percent of public employment — has begun contracting with the private sector for the delivery of previously public services, and has embarked on a program of public enterprise divestiture and deregulation.

Ecuador for several years has been steadily opening its economy to external competition, and tariffs range from 5 to 20 percent (with the exception of a 37 percent tariff for automobiles), with an average of 11 percent. Ecuador recently joined Colombia, Venezuela, and Bolivia in a free trade arrangement. The rules for foreign investment (including profit repatriation) were greatly simplified, and foreign investors now enjoy equal tax treatment with domestic investors.

The government has also introduced programs to alleviate the impact of its stabilization and reform measures on the poor. The government has maintained subsidies for small users of electricity, expanded nutrition programs, approved salary adjustments, and accelerated basic infrastructure projects. The government established a Social Emergency Investment Fund to finance community initiatives through a decentralized and participatory process.

Recent Economic Developments

The stabilization and reform programs have yielded important results. The public sector deficit (including the quasi-fiscal deficit) was reduced to 0.4 percent — essentially eliminated — in 1994, after having reached a projected level of 7 percent of GDP in 1992 prior to the introduction of the stabilization measures.

Foreign exchange reserves recovered sharply and now exceed $1,500 million, some seven months of imports. Inflation decreased from 60 percent in 1992 to 27 percent in 1994. Interest rates, which are now fully liberalized, have declined with inflation. The government also lowered reserve requirements and began using open market operations to manage the supply of money, which increased by approximately 40 percent in 1994. The authorities liberalized the official exchange rate by linking it to the market-determined financial rate. Its exchange rate policy follows a preannounced crawling peg band consistent with the government's inflation targets.

The economy has been affected by the decline in the price of oil and adverse developments in Ecuador's two other most important exports, bananas and shrimp. The current account deficit widened in 1993 and 1994 to around 3.3 percent of GDP, partly also due to increased imports. These deficits in the current account were compensated by enough financing and an accumulation of arrears, which allowed Ecuador to continue accumulating foreign exchange reserves. Despite the adverse shocks to exports and the magnitude of recent adjustment policies, preliminary data indicate that real economic growth was close to 4 percent in 1994, and the investment rate remained at its recent historical level of nearly 20 percent of GDP.

During 1994 the government also showed demonstrable results from its reform and privatization program. The government sold full control of a number of medium-sized public enterprises. It awarded the winning bids for the development of new petroleum exploration areas and granted private concessions for several public services, particularly in transport.

One of the government's most important recent accomplishments was the successful conclusion of the debt and debt service reduction agreement with its external commercial creditors. The agreement, which was signed in September 1994 and completed in February 1995, should help establish the basis for greater foreign investment and higher economic growth in the future. The agreement covered all eligible existing commercial bank debts ($4.5 billion) and past-due interest of about $2.5 billion). Fifty-two percent of the existing principal was exchanged for discount bonds (45 percent discount) paying full interest and the remaining for par bonds paying below-market interest rates. Both types of bonds have bullet principal payments due in 30 years and are backed by zero-coupon U.S. Treasury bonds. Past due interest was exchanged at par for noncollateralized 20-year bonds with 10-year grace periods, paying interest of LIBOR plus 13/16th.

Medium-Term Prospects

Ecuador's most important challenge is to achieve sustained noninflationary economic growth that will ensure rising living standards for its growing population. Achieving sustained economic growth of around 5 percent a year will require sound macroeconomic policies, concerted structural reforms, a favorable international environment, and support from the international financial community. Factors that might constrain future growth are the availability of domestic and foreign savings for productive investment, a lack of policy continuity, factor market rigidities, and failure to address deep-seated social problems.

The most critical element of macroeconomic management in the near future will be increasing public-sector savings through higher budgetary surpluses to further reduce the rate of inflation and save a larger portion of petroleum revenues than in the past. The macroeconomic program aims at generating a balanced budget in 1995 and lowering inflation to 20 percent for the year. These goals may be difficult to attain in view of the unexpected fiscal costs of close to 2 percent of GDP resulting from the border conflict with Peru.

The most promising sectors of economy in the near future are still those linked to oil production and agricultural and natural resources. Increased oil production — expected to average 7 percent over the next three years — and higher levels of foreign investment, associated with the planned expansion of the petroleum sector, should contribute significantly to economic growth. However, the requirement for imported capital during this expansion will lead to a rise in the current account deficit for the next few years before declining to a more sustainable level of 2 percent of GDP.

Ecuador still has substantial room for agricultural expansion, particularly in nontraditional products and processed foods. It has begun to tap its potentially vast mineral resources and develop its forestry sector. Tourism could grow, given Ecuador's natural attractions, but this will require careful management of the areas potentially attractive to tourists to avoid environmental degradation. Ecuador also confronts major challenges in the social sectors. Poverty remains widespread and income distribution highly skewed. Large portions of the society are still outside the economic mainstream, lacking adequate housing, water supply, health services, and basic education.

External Debt

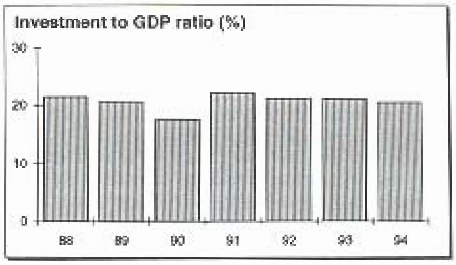
Even with the reduction of its commercial bank debt stock, Ecuador still has one of the largest per capita external debts in Latin America. At the end of 1994 its medium- and long-term debt, including arrears, stood at $13.2 billion. This stock was reduced by approximately $1 billion with the conclusion of the debt deal. Under current projections, interest payments on all long-term debt over the next few years would claim less than 4.0 percent of GDP or 16 percent of exports. In June 1994 there was a Paris Club rescheduling of precutoff debts falling due in 1993-94.

Ecuador

Population mid-1993 *(millions)*	11.0	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	1,200	Indebtedness level:	**Severely indebted**

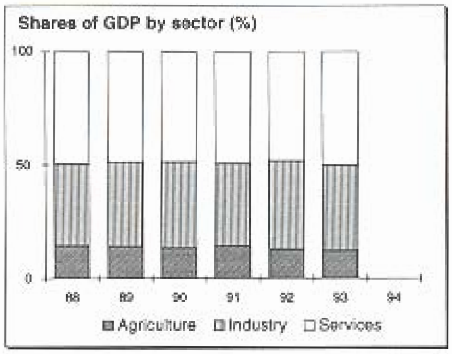
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.2	17.5	21.2	21.1	20.5
Exports of goods and nfs/GDP	26.8	32.7	31.5	26.2	26.0
Gross domestic savings/GDP	24.1	22.9	25.0	21.7	21.2
Gross national savings/GDP	16.7	15.2	19.9	17.6	16.6
Current account balance/GDP	0.0	-3.8	-1.7	-4.1	-3.7
Interest payments/GDP	6.1	3.9	3.0	2.1	2.1
Total debt/GDP	71.7	113.3	97.0	98.6	79.6
Total debt/exports	261.3	369.3	335.5	393.7	338.4



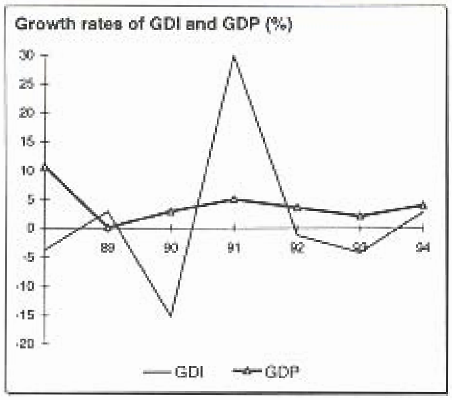
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	13.3	13.4	12.7	12.1	..
Industry	40.7	38.0	39.3	37.6	..
Manufacturing	18.9	19.4	22.0	21.7	..
Services	46.0	48.6	48.0	50.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.5	*2.6*	3.5	-1.7	..
Industry	-0.7	*4.6*	4.0	5.1	..
Manufacturing	-0.4	*3.1*	3.4	2.3	..
Services	3.0	*3.2*	3.3	1.4	..
GDP	2.0	3.5	3.6	2.1	4.0



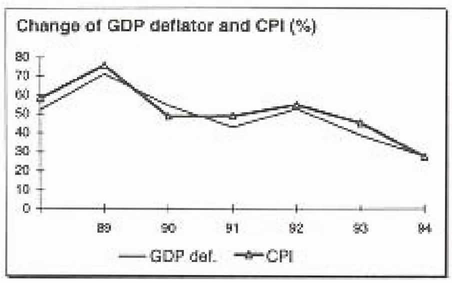
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	64.5	68.5	67.7	70.6	72.2
General government consumption	11.5	8.6	7.2	7.7	6.7
Gross domestic investment	18.2	17.5	21.2	21.1	20.5
Exports of goods and nfs	26.8	32.7	31.5	26.2	26.0
Imports of goods and nfs	20.9	27.4	27.7	25.5	25.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.2	3.3	2.2	3.0	7.1
General government consumption	0.3	-3.6	-3.2	-1.2	-8.8
Gross domestic investment	-2.9	4.2	-1.2	-4.1	2.8
Exports of goods and nfs	5.3	6.8	9.6	4.2	3.2
Imports of goods and nfs	1.1	4.6	1.0	0.8	5.1
Gross national product	2.1	4.5	4.9	3.1	3.5
Gross national income	0.6	2.6	4.5	-1.3	4.1



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	28.0	48.5	54.6	45.0	27.3
Wholesale prices	26.1	45.5	54.6	39.1	..
Implicit GDP deflator	31.0	54.2	52.4	38.4	27.4
Government finance					
(% of GDP)					
Current budget balance	6.6	5.3	3.0	3.3	3.4
Overall surplus/deficit	1.6	0.4	-1.8	-0.4	0.1



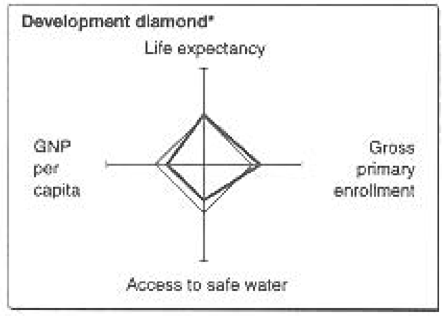
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Ecuador

POVERTY and SOCIAL

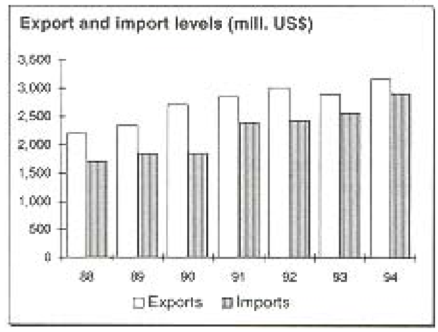
	1985-90	1990-94
(annual growth rates)		
Population	2.4	2.2
Labor force	2.9	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.0
Infant mortality *(per 1,000 live births)*	49.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	57.6
Energy consumption per capita *(kg oil equivalent)*	561.2
Illiteracy *(% of population age 15+)*	14.2
Gross primary enrollment *(% of school-age population)*	121.1



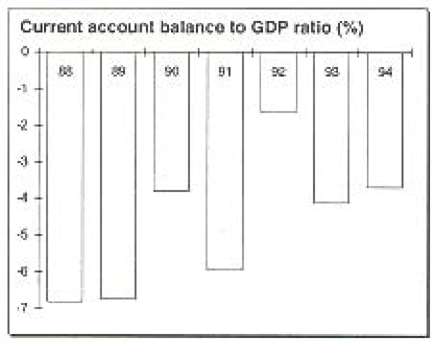
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,905	2,714	3,008	2,901	3,168
Fuel	1,927	1,407	1,337	1,253	1,317
Bananas	220	468	647	503	421
Manufactures	158	163	234	368	510
Total imports (cif)	1,766	1,862	2,430	2,562	2,912
Food	94	99	167	246	291
Fuel and energy	196	92	101	88	105
Capital goods	526	606	915	946	1,126
Export price index *(1987=100)*	113	108	100	94	99
Import price index *(1987=100)*	89	114	121	120	124
Terms of trade *(1987=100)*	128	95	83	78	80
Openness of economy *(trade/GDP,%)*	48	60	59	52	51



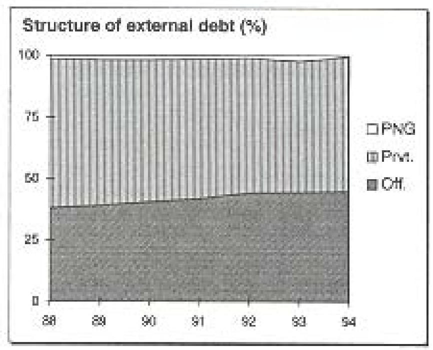
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	3,302	3,248	3,624	3,547	3,839
Imports of goods and nfs	2,247	2,326	2,747	3,067	3,320
Resource balance	1,055	922	877	480	519
Net factor income	-1,059	-1,329	-1,087	-1,070	-1,131
Net current transfers	0	0	0	0	0
Current account balance					
Before official transfers	-4	-407	-210	-590	-612
After official transfers	-4	-300	-90	-460	-481
Long-term capital inflow	447	-353	-598	-746	-542
Total other items (net)	-236	1,055	709	1,803	1,299
Changes in net reserves	-207	-402	-21	-597	-275
Memo:					
Reserves excluding gold *(mill. US$)*	716	838	868	1,380	1,841
Reserves including gold *(mill. US$)*	854	1,009	1,016	1,542	2,000
Conversion rate *(local/US$)*	91.5	767.8	1,534.0	1,919.1	2,196.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	220.8	305.9	271.3	284.0	295.3
IMF credit/exports	10.8	8.1	2.7	2.0	1.3
Short-term debt/exports	29.7	55.3	61.4	107.8	41.8
Total debt service/exports	33.0	33.1	26.8	25.7	23.7
GDP ratios					
Long-term debt/GDP	60.6	93.9	78.5	71.1	69.4
IMF credit/GDP	3.0	2.5	0.8	0.5	0.3
Short-term debt/GDP	8.2	17.0	17.8	27.0	9.8
Long-term debt ratios					
Private nonguaranteed/long-term	2.1	1.6	1.0	2.4	0.5
Public and publicly guaranteed					
Private creditors/long-term	73.4	57.8	54.7	53.1	54.6
Official creditors/long-term	24.5	40.6	44.3	44.5	44.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

The Arab Republic of Egypt

Egypt has the largest population and the second-largest economy in the Arab Middle East. Its population of 58 million is crowded into the Nile Delta and valley and growing about 2.2 percent a year. About 46 percent lives in cities, and Egypt has one of the highest population densities in the developing world. Since 1960 life expectancy at birth has increased from 41 to 61 years, reflecting a dramatic decline in child death rates from 34 to 11 per 1,000, and the average daily caloric intake has increased from 88 percent to nearly 130 percent of minimum requirements. Services, including public administration, remains the most important sector, with an estimated share of 51 percent of GDP in fiscal 1993. Next in importance is industry, including petroleum and gas (30 percent); agriculture accounts for about 18 percent. Less than 3 percent of Egypt's area is arable, but that land is exceptionally productive and has the potential for three crops a year. Per capita GNP, which more than doubled between 1975 and 1988, declined from $760 in 1987 to $660 in 1993.

Egypt has pursued a public-sector-led and inward-looking development strategy based on centralized ownership and a command economy. As a result, public enterprises and economic entities have played a dominant role and account for one of the largest shares of gross output and employment among the developing countries. Almost half of GDP and two-thirds of nonagricultural GDP are produced by the public sector; in industry and mining (including petroleum and electricity), the public sector share of GDP is more than 60 percent. The public enterprise sector alone employs some 8 percent of the labor force. Egypt's 1974 Open Door Policy partially liberalized the economy, but its development strategy continued to be based on import substitution, while exports of manufactures (excluding textile and clothing) remained virtually stagnant.

Egypt's economy did not adjust to the external shocks of declining oil prices and rising interest rates during the 1980s, and the resulting massive fiscal and current account deficits led to unsustainable debt accumulation. By the second half of the decade Egypt was no longer able to service its debt, triggering a substantial reduction in capital inflows and an accumulation of arrears. While growth was impressive at around 8.5 percent a year during most of the 1970s and the first half of the 1980s, it slowed thereafter to about 2.5 percent. Annual inflation accelerated to over 20 percent, and the open unemployment rate rose rapidly from about 5 percent in the mid-1970s to as much as 20 percent at end-1994 by some estimates.

In response to the deteriorating economic conditions, the government implemented the first phase of a comprehensive economic reform and structural adjustment program from the spring of 1990 through the winter of 1993, and began a second phase of the program in July 1993.

Egypt's short-term development agenda derives from the immediate need to restore growth and reduce unemployment. Its economic reform and structural adjustment program aims to transform a centrally planned economy with a relatively small private sector to a decentralized, market-based, and outward-oriented economy in which the private sector plays the leading role. The government undertook over the last three years to achieve macroeconomic stability while embarking on comprehensive structural reform. The initial phase involved removing many of the distortions in the price system and some key impediments to trade and investment with the support of the IMF and World Bank and a Paris Club agreement.

The government has put a large number of wide-ranging policy measures in place to underpin the second phase of the program, which focuses on macroeconomic stability and real and financial sector reforms. The main aims of the government are to consolidate the gains made during the first phase and deepen the structural reforms to induce a strong and sustainable supply-side response from the private sector.

Although the stabilization program has been successful in achieving its immediate goals, monetary, interest-rate, and exchange-rate policies remain inconsistent, and further fiscal adjustment is required to consolidate the program. Despite these reforms and the substantial external debt relief that Egypt has been granted, private sector investment, as in a number of other reforming countries, remained weak in the early part of the reform program, and the pace of economic growth has been slow. Egypt's hesitancy in implementing structural reform aggravated this problem by undermining its credibility.

A major front-loaded fiscal adjustment has been at the center of Egypt's economic reform program. The large correction reflects an increase in central government tax and nontax revenue, lower transfers to public authorities and enterprises, and reduction in government investment levels from very high levels. However, non-interest expenditures remain very high as wages, salaries, and pensions have increased over the last five years.

Tax reforms will lower dependence on international trade taxes while increasing revenues from domestic taxes and improving transparency. In December 1993 the parliament enacted the Global Income Tax Law reducing the top marginal tax from 65 to 48 percent, and applying a single rate structure to most sources of income to replace a system of four schedular taxes and the complementary general income tax. The law sets important exemptions, including corporate dividends (to avoid double taxation), and higher personal exemptions that will benefit low-income groups. The renewal of tax holidays was discontinued in July 1993, and the government is reviewing the corporate income tax and investment incentives. A draft corporate law would provide significant investment incentives to the private sector. In July 1993 the government announced it would introduce a full retail-level value-added tax by July 1995. The government has meanwhile undertaken improvements in the general sales tax.

The fiscal adjustment was accompanied by financial liberalization. At the start of the reform program, the government removed nominal ceilings on interest rates, began phasing out administrative credit allocation, and began using treasury bill auctions to manage liquidity — indirectly providing a reference interest rate to the financial markets. It also dismantled foreign exchange controls and unified the foreign exchange system, allowing unrestricted international capital mobility. While this initially resulted in a 35 percent devaluation of the Egyptian pound against the dollar, the exchange rate quickly stabilized. Financial liberalization was supported by a series of other reforms to strengthen the solvency and efficiency of the banking and securities markets, including recapitalizing public banks.

The government has limited the expenditure growth by curtailing subsidies and transfers and holding investment outlays to a targeted level of about 7 percent of GDP. It has also increased resources for operation and maintenance across sectors within its overall budgetary targets.

Government monetary policy limited domestic liquidity growth to 12 percent during fiscal 1994. The government's reduced demand for domestic borrowing, coupled with the decline in inflationary pressures, has contributed to a 400 basis point fall in interest rates to 11 percent on 3-month treasury bills.

Government investment levels and their sectoral allocations for fiscal years 1994 and 1995 (L.E. 10.5 billion and L.E. 10.8 billion, respectively, or about 7 percent of GDP) are consistent with both the macroeconomic framework and the main objectives of the public investment reform program. The investment program focuses on basic education, preventive health care, and infrastructure.

The government has freed the prices of almost all industrial products and presented legislation to parliament to completely deregulate the cotton subsector. All remaining subsidies for fertilizers and pesticides were eliminated in the fiscal 1994 budget. By July 1995 the sugar subsector will be liberalized by removing procurement provisions and subsidies to sugar mills. There will be a gradual removal of rent controls in the housing sector, and a program is in place to make agricultural land rental contracts more flexible. In addition, railway fares, electricity, petroleum-based products, and natural gas prices were raised. Egypt brought the weighted average domestic prices of petroleum products to their internationally traded equivalents in 1994, well ahead of its end-June 1995 target date. Electricity prices — now about 80 percent of long-run marginal costs — are supposed to be brought to that level this year.

The government has removed almost all nontariff barriers. It has reduced the range of import tariffs to 5 to 70 percent, while tariff preferences and exceptions to the maximum tariff have largely been eliminated. It intends to cut the maximum tariff rate to 50 percent by end-1995. Tariffs on nearly all capital goods have been reduced to 5 to 10 percent. Administrative procedures for exports are being streamlined, a step that is expected to produce export-price savings of about 10 percent. User surcharges of 2 to 5 percent on imports remain in place, though the government had agreed to remove them by June 1994.

Removing bureaucratic obstacles, which impede the entry and operation of private entrepreneurs, has been a central element of the program. Investment licensing approvals for industry and most nonindustrial companies have become automatic, except for a negative list required for security, health, and environmental considerations, and the government has removed approval requirements for business expansions, changes in product mix, and new products. Bans on private placement services and job advertising have been discontinued, overlapping regulatory jurisdictions were streamlined, and private sector participation in the distribution of certain products was allowed. Decrees issued by provinces for investment approvals and related procedures have been streamlined, and the legal requirements for establishing companies and provisions governing changing plant locations and exit have all been simplified.

The public enterprise sector was reorganized into 17 diversified financially autonomous holding companies that were cut off from investment financing and public credit guarantees from the fiscal budget. The objective is to subject the enterprises to free market conditions and privatize a large number of them. To improve efficiency, the government and the holding companies agree on profit and return targets on an annual basis. Restructuring and exit programs for nonviable public enterprises are in the early stages of implementation.

The government has established privatization targets and is committed to a timetable: by the end of 1995 holding company assets of L.E. 37.2 billion — 51 percent of total holding company assets — are to be brought to the point of sale and, assuming proper market conditions, L.E. 31.3 billion (43 percent of total holding company assets) sold. These are ambitious targets in view of progress so far. By end-June 1994 L.E. 5.1 billion had been sold, meeting the formal program target, but this was achieved by selling the bulk of the shares to employee shareholder associations that have limited scope to exercise ownership rights. Minority blocks of shares have also been sold on the stock exchange, in most cases limited to 10 percent of the share value of companies, which has helped revive the stock market. Majority ownership has been sold to the private sector in only a very few cases, however, and the government still controls two-thirds of the manufacturing sector; the gains in productivity that commercial competition and new management were expected to foster have not materialized.

Egypt is replacing regulations that controlled the business activities of financial institutions with a regime based on international standards of prudential regulation. Rules discriminating against private banks and insurance companies have been removed, and bank fees and charges liberalized. The government has recapitalized the four public-sector banks, increased minimum capital requirements based on risk-weighted assets along the lines of the Basle guidelines, and limited bank foreign exchange exposure and the ratio between assets and liabilities denominated in foreign currency. Other regulations restrict bank single-customer exposure to 30 percent of capital and tighten loan classification and provisioning criteria. Foreign bank branches are now allowed to operate in domestic currency. The government has approved the legal basis for a deposit insurance scheme, and a new securities market law passed by parliament provides the basis for more transparent and efficient stock exchanges. The parliament is also considering reforming the insurance law to improve competition and prudential regulation.

Privatization of banks and insurance companies has also begun, although it is behind schedule. All joint-venture banks and insurance companies are targeted to be privatized through the sale of publicly held shares, as are a major public-sector bank and a public-sector insurance company, and a second publicly owned insurance company is to be brought to the point of sale by the end of the program. Private insurance companies have been authorized. The government is also reforming Egypt's social security and private pension systems to ensure proper funding of the system, although this program is behind schedule.

The government is attempting to overhaul the tools with which poverty can be reduced and raise the level of human development in Egypt. To achieve these objectives by 2000 it has set three broad goals for social sector development: universal basic human services in education and health (including strong family planning programs), an education system providing students with market-relevant skills, and measures to improve labor market operations and strengthen the social safety net.

The education system is not supplying the labor market with people with good basic educations; half of the labor force is illiterate. In fiscal 1992 education and health were 16 percent of the government's recurrent budget and increases had essentially done no more than keep pace with population growth. The Third Five-Year Plan — fiscal 1993-97 — increases investments in education and health from 6.2 percent under the previous plan to 12.4 percent.

Social Safety Net

To minimize the negative impact of the reform measures on the poorer segments of the working population, the Social Fund for Development was established in March 1991. The $600 million fund supports a set of core programs and small subprojects that address the pressing needs of targeted population groups, such as displaced public enterprise workers, households headed by females, and unskilled and semiskilled unemployed workers. In the medium term, the program will strengthen government capacity to design and monitor poverty alleviation and social safety net programs. The core programs include providing essential municipal services, improving public transport for the poor, community and enterprise development activities, enhancing labor mobility, and institutional development. An estimated 6 million people have benefited directly from fund subprojects, and the program has created about 100,000 permanent and 23,000 temporary jobs. Women have benefitted significantly. The program's labor mobility facet has been delayed as it is tightly linked to the public enterprise reform and privatization program. The government has also strengthened two earlier employment-generating and income-support programs.

As it removes universal consumer subsidies, the government intends to strengthen the social safety net for the poor not able to work. In each of the last three years it has raised benefit levels under two of its cash-transfer programs. However, benefits have continued to decline in real terms and remain inadequate. In spite of this, there are long waiting lists of eligible beneficiaries, and the government is rationalizing its small assistance schemes and is planning to introduce a new assistance program targeted to the poor as part of a comprehensive reform of its social safety net.

Environment

The government has prepared an environmental action plan that served as the basis for a comprehensive Environmental Law. The action program emphasized the need to strengthen the institutional framework at the central government and provincial levels, and recommended extensive technical assistance and training to improve the capacity of the Egyptian Environmental Affairs Agency. The government has embarked on a program to strengthen its institutional framework to improve natural resource management and to combat environmental degradation.

The environmental action plan also calls for policy reforms to create a milieu within which market forces can generate incentives for efficient utilization of natural resources and protecting the environment. The plan recommends giving initial emphasis to the water and waste-water sectors, and problems of soil, land, and air pollution.

Recent Economic Developments

Since the beginning of stabilization in 1990, Egypt has witnessed very weak output growth, high and rising unemployment, and sluggish export and private investment performance. While real GDP rose an estimated 2 percent in fiscal 1994 (up from 0.3 and 0.5 percent in the two preceding years), it still remains significantly below the level — at least 5 percent — needed to reduce unemployment. Employment, by some estimates, has risen at an average annual rate of 2.4 percent since 1990, below the 3 percent estimated growth rate of the labor force.

Sluggish growth is due in part to the fiscal and monetary contraction implemented to stabilize the economy; indeed, adjustment programs often lead to an initial downturn in economic activity that is later reversed by expanding private investment and exports in response to structural reforms. However, the persistently weak performance of investment and exports in Egypt reflects less than optimal progress in structural reforms in the tax, trade, public enterprise, and regulatory areas, which continue to provide a poor incentive framework and undermine the credibility of the reform effort. Growth is projected to increase to 2.2 percent in fiscal 1995 as the boom in world trade is offset by a bad harvest.

Large fiscal adjustment has taken place in the last years, reflected in a decline of the general government deficit from 20 percent of GDP in fiscal 1991 to 2.5 percent of GDP in fiscal 1994 and to a budgeted level of 1.5 percent of GDP in fiscal 1995. The primary balance has been corrected even more strongly, from a deficit of 10 percent in 1991 to a budgeted surplus of 8.3 percent of GDP in fiscal 1995. Interest payments on domestic debt have increased substantially as a result of high domestic rates and increasing domestic debt stocks, reaching a peak of 11.3 percent of GDP in fiscal 1994.

Following the introduction of free capital mobility large inflows have increased international reserves held by the central bank to $18 billion or 12 months of imports of goods and services. To control credit expansion, the government initially sterilized money expansion by issuing treasury bills. This, together with a shift to domestic financing of budget deficits, led to an increase in treasury bill debt from 4 percent of GDP in 1991 to 24 percent in June 1994, all of it short-term. The central bank has since halted the sterilization policy, instead relying on direct policy instruments such as moral suasion, asking banks to hold higher levels of excess reserves. These bank excess reserves are partly held as deposits at the central bank at below-market interest rates. The reluctance to let market-based interest rates equilibrate the market reflects central bank anxiety that lower interest rate differentials could lead to a portfolio shift from domestic to foreign currency and a possible attack on the pound.

The stabilization effort succeeded in reducing the inflation rate from an average 20 percent over 1989-92 to 10 percent in fiscal 1994. By mid-1994, inflation seemed under control as monthly annualized rates fell to 6 percent, but inflation has since steadily increased, and by December 1994 the monthly annualized rate was 12 percent. The previous deceleration of inflation and a stable nominal exchange rate undoubtedly encouraged massive portfolio shifts from dollar-denominated assets toward domestic-currency assets.

The nominal exchange rate depreciated by 25 percent between June 1990 and March 1991, the start of the stabilization and reform program. Although formally a floating exchange rate regime is in place, since early 1991 the nominal exchange rate has been roughly constant as a result of heavy intervention by the central bank. Close targeting of the nominal exchange rate makes Egypt's experience similar to other stabilization cases (Argentina, Israel, and until recently Mexico) that used the exchange rate as a nominal anchor. However, at the same time the central bank has attempted to target monetary aggregates and interest rates, leading to policy conflicts.

The slow decline in inflation, combined with the fixed nominal exchange rate against the dollar, has led to a mounting real appreciation since the beginning of the stabilization effort in early 1991. Alternative measures of the real exchange rate all suggest a deterioration in competitiveness. The real effective exchange rate appreciated by a cumulative 35 percent between February 1991 and June 1994. Recently the real exchange rate has started to appreciate further. The relative price of tradables in terms of nontradables declined by a cumulative 24 percent over the same period, as domestic-currency prices of traded goods rose by 41 percent while those of nontraded goods increased by a staggering 74 percent. Similarly, Egypt's average wage in terms of dollars rose by about 35 percent between 1990 and 1994, while unit labor costs in industrial partner countries rose by only 5 percent. Even if Egypt's labor productivity had grown 2 percent a year (which appears quite far from being the case), the result would still be an increase of 25 percent in its relative unit labor cost, a sizable competitiveness loss.

Medium-Term Prospects

If the government deepens the implementation of the second phase of its reform program, growth in real output could rise to between 4.5 and 5 percent a year over fiscal 1995-2000, with the ratio of gross domestic investment to GDP rising from about 17 percent in recent years to above 20 percent, primarily because of to increases in private investment. The current account is expected to show a deficit in the order of 1 to 1.5 percent of GDP. In the short term this deficit is covered by aid flows. In the medium term the overall balance of payments is expected to incur deficits in the range of 1 to 2 percent of GDP as exchange rate movements lead to a stock adjustment of international reserves. These figures are contingent on net development assistance flows of about $2 billion a year. If the government does not reinvigorate macroeconomic and structural reforms, there is a substantial risk that GDP per capita will stagnate as lack of international competitiveness may lead to balance of payments constraints, which would hamper investments further.

External Debt

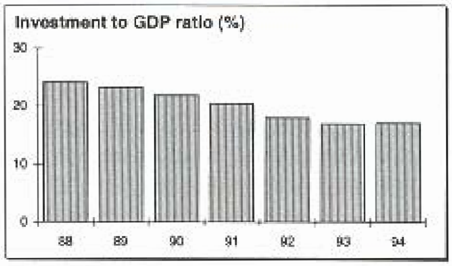
Egypt's external debt to GDP ratio is projected to continue its downward trend, which began in 1991, and decline from 106.7 percent of GDP in fiscal 1993 to 66 percent by the end of the decade, while debt itself remains relatively constant at $42 billion. The ratio of debt service to exports of goods and services (including worker remittances) is projected to decline from 18 percent in fiscal 1993 to 15 percent over the medium term.

Arab Republic of Egypt

Population mid-1993 *(millions)*	**56.4**	Income group: **Low**
GNP per capita 1993 *(US$)*	**660**	Indebtedness level: **Moderately indebted**

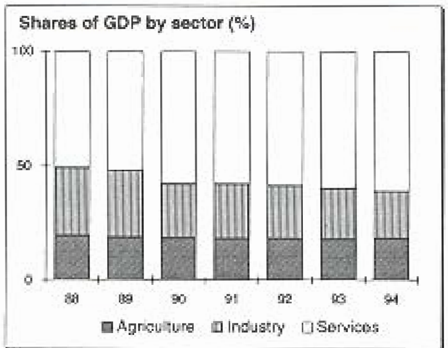
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	26.7	21.9	18.0	17.0	17.2
Exports of goods and nfs/GDP	19.9	30.2	31.4	25.3	21.4
Gross domestic savings/GDP	14.5	6.8	10.9	6.0	5.9
Gross national savings/GDP	12.5	11.2	25.6	18.2	16.2
Current account balance/GDP	-9.3	-4.9	7.6	0.5	-1.1
Interest payments/GDP	2.9	3.2	2.5	2.9	3.1
Total debt/GDP	121.5	114.3	114.0	103.2	99.7
Total debt/exports	385.6	295.9	228.4	251.3	278.6


Investment to GDP ratio (%)

GDP: PRODUCTION

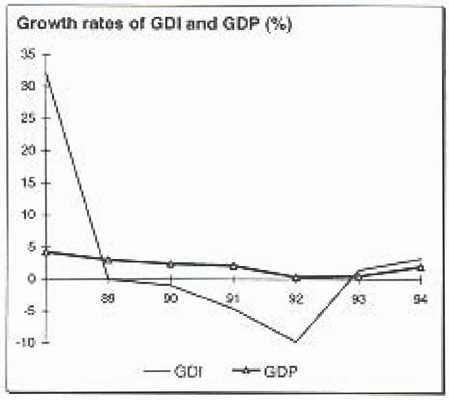
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.0	18.3	18.1	17.9	18.2
Industry	28.6	23.8	23.3	22.4	20.7
Manufacturing	13.5	18.9	17.1	15.7	14.4
Services	51.5	57.9	58.7	59.7	61.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.1	1.6	1.4	1.6	1.8
Industry	-2.0	0.3	-0.4	-0.4	0.6
Manufacturing	*7.2*	-0.2	-1.2	-1.1	0.6
Services	7.6	1.3	0.3	0.6	2.6
GDP	3.1	1.1	0.3	0.5	2.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

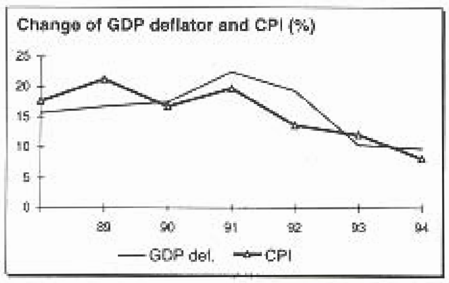
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	68.2	79.0	76.7	80.5	80.8
General government consumption	17.2	14.2	12.4	13.5	13.4
Gross domestic investment	26.7	21.9	18.0	17.0	17.2
Exports of goods and nfs	19.9	30.2	31.4	25.3	21.4
Imports of goods and nfs	32.0	45.3	38.6	36.3	32.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.1	2.4	0.8	4.2	3.1
General government consumption	2.6	0.4	-5.3	8.8	1.8
Gross domestic investment	0.6	-2.9	-9.8	1.5	3.2
Exports of goods and nfs	11.2	-1.5	5.7	-11.4	-7.6
Imports of goods and nfs	-1.1	-0.6	-2.8	2.7	-2.0
Gross national product	5.6	1.5	1.1	0.7	1.1
Gross national income	3.2	1.5	0.8	0.8	1.2



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	12.1	16.8	13.6	12.1	8.2
Wholesale prices	13.2	16.8	12.1	8.6	..
Implicit GDP deflator	9.0	17.5	19.4	10.4	9.8
Government finance					
(% of GDP)					
Current budget balance	-13.7	-6.8	1.4	2.0	2.6
Overall surplus/deficit	-21.6	-18.4	-5.2	-4.1	-2.5



Change of GDP deflator and CPI (%)

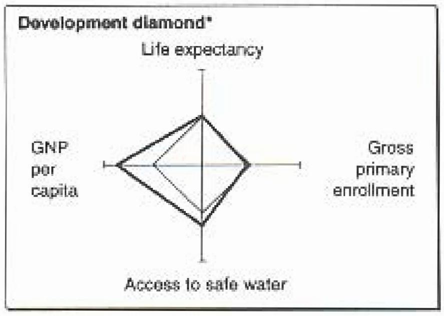
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Arab Republic of Egypt

POVERTY and SOCIAL

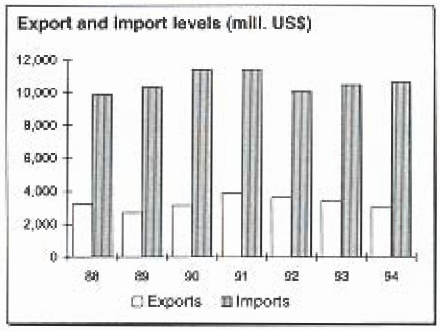
	1985-90	1990-94
(annual growth rates)		
Population	2.0	2.0
Labor force	2.5	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	64.1
Infant mortality *(per 1,000 live births)*	64.4
Child malnutrition *(% of children under 5)*	9.4
Access to safe water *(% of population)*	86.2
Energy consumption per capita *(kg oil equivalent)*	575.8
Illiteracy *(% of population age 15+)*	51.6
Gross primary enrollment *(% of school-age population)*	101.0



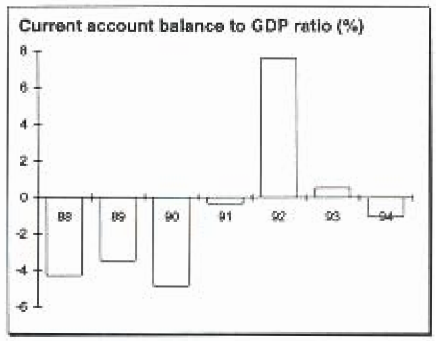
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	3,928	3,145	3,633	3,417	3,065
Fuel	2,634	1,229	1,651	1,803	1,499
Cotton	414	220	35	37	37
Manufactures	446	874	1,150	966	908
Total imports (cif)	10,516	11,441	10,054	10,495	10,667
Food	2,711	2,516	2,206	1,982	1,970
Fuel and energy	469	406	585	540	537
Capital goods	2,398	2,907	2,631	2,433	2,418
Export price index *(1987=100)*	127	154	152	147	147
Import price index *(1987=100)*	145	121	125	126	129
Terms of trade *(1987=100)*	87	126	121	117	114
Openness of economy *(trade/GDP, %)*	52	75	70	62	54



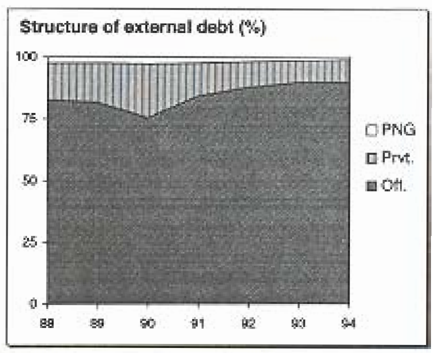
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	6,866	9,151	11,182	9,949	9,319
Imports of goods and nfs	12,606	13,710	13,722	14,504	14,255
Resource balance	-5,740	-4,559	-2,540	-4,554	-4,936
Net factor income	-991	-912	-240	-197	-595
Net current transfers	3,522	3,743	5,478	4,960	5,073
Current account balance					
Before official transfers	-3,209	-1,728	2,698	208	-458
After official transfers	-2,112	-634	3,737	1,565	371
Long-term capital inflow	2,604	454	875	802	751
Total other items (net)	-102	364	-360	1,195	753
Changes in net reserves	-390	-184	-4,252	-3,562	-1,876
Memo:					
Reserves excluding gold *(mill. US$)*	792	2,684	10,810	12,904	..
Reserves including gold *(mill. US$)*	1,587	3,620	11,620	13,854	..
Conversion rate *(local/US$)*	1.0	2.2	3.3	3.3	3.4



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	326.9	258.5	205.8	230.1	259.0
IMF credit/exports	1.7	0.9	1.1	1.3	1.2
Short-term debt/exports	57.0	36.5	21.4	19.9	18.4
Total debt service/exports	28.4	24.7	14.3	14.9	16.2
GDP ratios					
Long-term debt/GDP	103.0	99.8	102.7	94.5	92.7
IMF credit/GDP	0.5	0.4	0.6	0.5	0.4
Short-term debt/GDP	17.9	14.1	10.7	8.2	6.6
Long-term debt ratios					
Private nonguaranteed/long-term	2.1	2.8	1.9	1.6	1.2
Public and publicly guaranteed					
Private creditors/long-term	18.1	21.9	10.5	8.8	9.2
Official creditors/long-term	79.8	75.2	87.5	89.6	89.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

El Salvador

With an estimated population of 5.6 million in 1994 and a land surface of 21,000 square kilometers, El Salvador is one of the most densely populated countries in the Western Hemisphere. Agriculture is the main source of employment and exports, with coffee alone accounting for over 31 percent of merchandise exports in 1994. Per capita GDP was $1,320 in 1993.

In 1979 El Salvador's social and political tensions erupted into civil war between the armed forces and a group of insurgents united under the Farabundo Marti National Liberation Front. This political and military conflict lasted for over 12 years and caused the loss of approximately 75,000 lives, the displacement of 500,000 persons, and the exodus of another 1 million. Over 1980-90 the damage caused to physical, productive, and social infrastructure exceeded $1.5 billion. At the same time, the external economic environment deteriorated sharply with the second oil price shock, a steep decline in world coffee prices, higher international interest rates, and a contraction in regional markets. These events led to severe macroeconomic imbalances and a 26 percent decline in real per capita GDP between 1978 and 1985. In October 1986 a strong earthquake struck San Salvador, greatly damaging urban infrastructure and adding a further burden on public finances.

A massive outflow of emigrants since 1980 helped relieve domestic population pressures, and their remittances have become a major item in El Salvador's balance of payments. Private transfers, which represented less than 1 percent of GDP in 1980, have remained above 4.4 percent since 1987. Official grants also increased significantly, from less than 1 percent of GDP in 1980-81, to over 5 percent over 1987-89. These inflows made up for the decline in merchandise exports during the 1980s and helped contain El Salvador's external debt burden, which remains low compared to that of most Latin American countries. Despite these massive infusions of foreign aid, however, real GDP growth averaged less than 2 percent over 1985-89. The continuing civil strife was largely responsible for this stagnation, drawing public resources from investment and the social sectors to cover military costs, and creating a climate of insecurity that discouraged private investment. The inward-oriented interventionist policies of past administrations, including the nationalization of the financial and export marketing systems at the beginning of the decade, also contributed to the economy's stagnation.

In June 1989 a new administration assumed office and introduced a far-reaching economic stabilization and adjustment program. Just as the new economic program was being introduced, the economy was beset by two adverse developments: a sharp drop in coffee prices following the breakdown of the International Coffee Agreement in June 1989, and a major guerrilla offensive in November 1989. Despite these shocks, El Salvador's policymakers persevered with their economic reform program, with support from the IMF and World Bank.

The government and the rebels signed a peace accord in January 1992, bringing the civil conflict to an end. The accord lays the groundwork for strengthening democratic processes and institutions and establishes a series of actions to be taken on land tenure and agricultural credit, the creation of an Economic and Social Forum, and the implementation of a 1992-96 National Reconstruction Plan. The plan's short-term contingency phase designed to meet immediate postwar needs in health, education, the environment, and democratic initiatives has been completed, and is being followed by a medium-term phase. Despite progress, much remains to be done, particularly with respect to reintegrating excombatants into productive life and strengthening democratic institutions. Effective implementation of the plan is critical to national reconciliation and greater social cohesion.

In March 1994 presidential, legislative, municipal, and Central American Congress elections were held, followed by a presidential runoff election in April; a new president was sworn in on June 1. The president and his administration are actively continuing efforts to consolidate peace, keep El Salvador's macroeconomic stabilization program on track, and deepen the structural reform process initiated their predecessors.

Recent Economic Developments

In June 1989 the government initiated a comprehensive economic stabilization and adjustment program. As the adjustment program took hold — particularly financial sector reforms, foreign trade liberalization, major improvements in tax policy and tax administration, and agricultural sector reforms — and peace prospects improved, the economy began to recover. GDP grew by 3.5 percent a year over 1990-91 and by 6 percent in each of the next two years, and total investment grew by an average of over 18 percent over the period. The current account deficit, which represented over 9 percent of GDP in 1989, was reduced to a more manageable 4.9 percent of GDP by 1993. After reaching 4.2 percent of GDP in 1989, the overall deficit of the nonfinancial public sector (after grants) improved to 1.5 percent of GDP in 1993. End-year inflation, which had reached 24 percent in 1989, declined to approximately 12 percent in 1993.

In 1994 overall macroeconomic situation remained on track and economic activity continued to expand strongly. Real GDP growth was 6.2 percent, led by public utilities, construction, and manufacturing. Inflation continues to decline; the 12-month inflation rate fell to 9 percent by end-1994. The current account deficit (excluding official grants) declined to approximately 3.4 percent of GDP, down from 3.9 percent of GDP in 1993. This reflects a slightly lower merchandise trade deficit (15 percent of GDP) and higher than expected private remittances (equivalent to over 10 percent of GDP). The growth of nontraditional exports — mostly textiles and agricultural foodstuffs — fell to 12 percent of GDP in 1994, while import growth increased slightly to around 12 percent. Higher private capital inflows offset lower official grants and net external financing of the nonfinancial public sector and contributed to an increase in net international reserves. While this was a positive development, high private capital inflows over the past couple of years have also complicated macroeconomic management and put pressure on the exchange rate.

The 1994 fiscal deficit (excluding grants) is estimated at about 2 percent of GDP. Public savings more than doubled to 1.9 percent of GDP compared with 1993 as a result of higher tax revenues. Better revenue performance stemmed from higher yields from income and import taxes, reflecting an effective tax collection campaign and improved tax administration. Lower than expected expenditures on wages and salaries and goods and services were more than offset by higher than anticipated transfers to the private sector for health and education programs and the reincorporation of ex-combatants to civilian life under the peace accords.

Medium-Term Prospects

El Salvador's principal macroeconomic objectives for 1995 are to achieve economic growth of over 6 percent, while maintaining a strong balance of payments and reducing inflation to 7 percent. These objectives are to be achieved through higher public savings and a further reduction in the stock of domestic debt. In early February the government announced a package of economic reform objectives that included further trade liberalization, accelerated privatization efforts, and the preparation of legislation to establish a fixed exchange rate regime in the context of a currency-board-like system.

External Debt

El Salvador has a relatively low external debt burden with the bulk of external development financing provided by official sources on concessional terms. Little commercial debt was incurred during the wartime 1980s, and the United States was the only significant bilateral donor. In the final months of the previous administration, El Salvador experienced debt-servicing difficulties; arrears with the international financial institutions were cleared in January and February 1990. In December 1992 the United States forgave $463 million (59 percent) of its bilateral debt, bringing El Salvador's total external debt down from 34.4 percent of GDP in 1992 to 25.7 percent in 1994. Current indicators show room for gradual increases in external debt to finance peace-related expenditures and sustained economic growth.

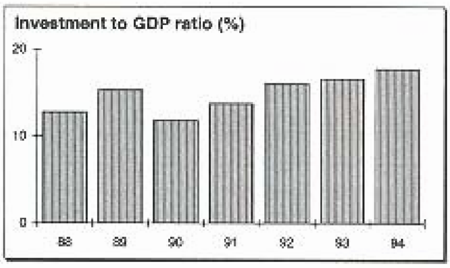
El Salvador

Population mid-1993 *(millions)* **5.5**
GNP per capita 1993 *(US$)* **1,320**

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

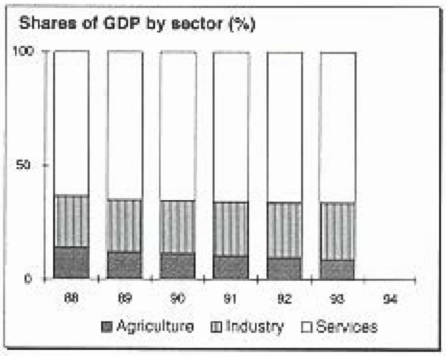
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	10.8	11.8	16.1	16.6	17.8
Exports of goods and nfs/GDP	22.3	15.9	14.2	14.0	13.4
Gross domestic savings/GDP	3.3	0.7	1.0	2.5	3.8
Gross national savings/GDP	3.2	4.7	10.9	12.7	14.6
Current account balance/GDP	-6.5	-6.6	-5.8	-3.9	-3.2
Interest payments/GDP	2.0	1.4	1.2	1.5	1.1
Total debt/GDP	45.7	39.7	34.4	26.4	25.4
Total debt/exports	176.7	174.5	136.9	102.7	102.5



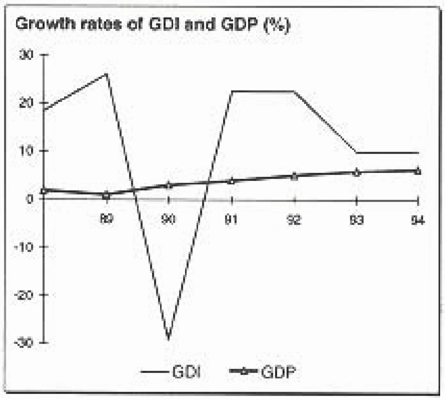
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.2	11.2	9.4	8.6	..
Industry	21.9	23.3	24.2	25.0	..
Manufacturing	16.4	18.6	18.8	19.0	..
Services	59.9	65.5	66.4	66.5	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.9	3.4	9.0	0.5	3.0
Industry	2.9	3.9	1.4	4.3	5.3
Manufacturing	2.8	*6.2*	6.0	7.8	..
Services	1.8	6.2	5.5	7.6	7.3
GDP	1.9	5.3	5.0	5.9	6.2



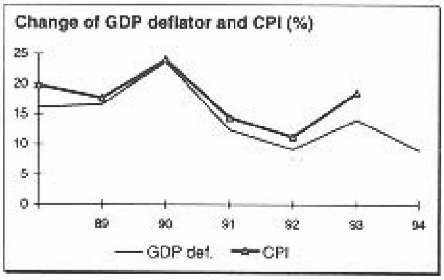
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	81.2	88.0	88.4	87.8	86.8
General government consumption	15.5	11.3	10.5	9.8	9.4
Gross domestic investment	10.8	11.8	16.1	16.6	17.8
Exports of goods and nfs	22.3	15.9	14.2	14.0	13.4
Imports of goods and nfs	29.9	27.1	29.2	28.1	27.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.2	4.7	2.6	4.7	10.6
General government consumption	1.7	-1.9	0.2	1.4	-14.9
Gross domestic investment	6.7	16.0	22.5	9.9	10.0
Exports of goods and nfs	0.1	7.6	16.2	11.8	-1.1
Imports of goods and nfs	1.0	8.0	13.1	7.4	5.4
Gross national product	2.1	5.8	5.9	6.2	6.8
Gross national income	0.9	5.0	3.0	5.5	8.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	22.3	24.0	11.2	18.6	..
Wholesale prices	13.8	18.9	2.2	7.5	..
Implicit GDP deflator	20.1	23.7	9.2	14.1	9.0
Government finance					
(% of GDP)					
Current budget balance	0.9	-0.3	0.2	0.7	1.9
Overall surplus/deficit	-4.0	-2.5	-5.9	-3.3	-2.0



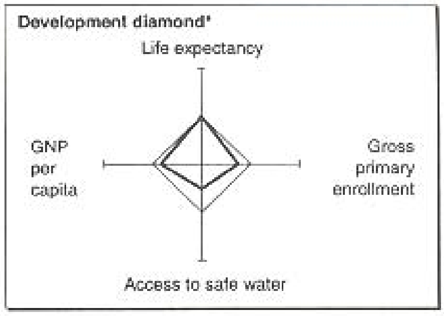
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

El Salvador

POVERTY and SOCIAL

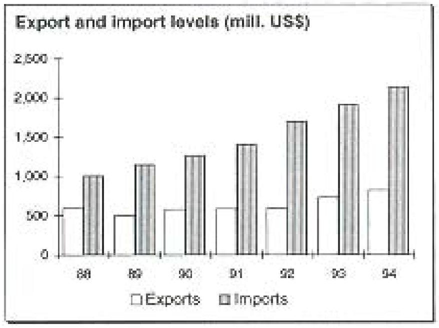
	1985-90	1990-94
(annual growth rates)		
Population	1.7	2.2
Labor force	3.3	3.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	66.7
Infant mortality *(per 1,000 live births)*	44.6
Child malnutrition *(% of children under 5)*	15.5
Access to safe water *(% of population)*	40.7
Energy consumption per capita *(kg oil equivalent)*	221.9
Illiteracy *(% of population age 15+)*	27.0
Gross primary enrollment *(% of school-age population)*	78.0



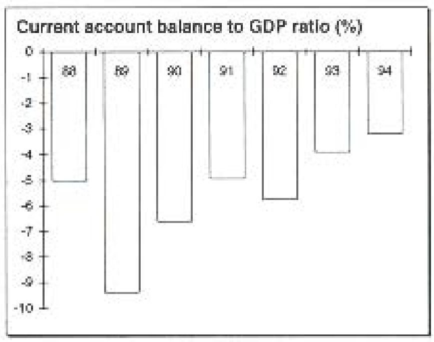
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	695	582	598	732	823
Coffee	464	260	151	225	259
Cotton	29	1	2	0	0
Manufactures	..	20	257	310	356
Total imports (cif)	961	1,263	1,698	1,912	2,143
Food	211	361	418	441	510
Fuel and energy	133	122	128	123	121
Capital goods	158	235	431	565	650
Export price index *(1987=100)*	104	89	110	..	..
Import price index *(1987=100)*	97	117	..	..	..
Terms of trade *(1987=100)*	108	76	..	..	..
Openness of economy *(trade/GDP,%)*	52	43	43	42	41



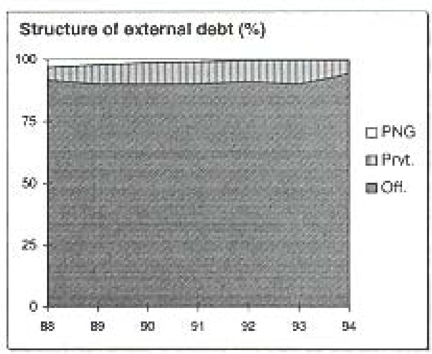
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	930	861	891	1,064	1,179
Imports of goods and nfs	1,189	1,463	1,920	2,145	2,409
Resource balance	-260	-602	-1,028	-1,081	-1,230
Net factor income	-117	-102	-57	-41	9
Net current transfers	113	345	708	823	939
Current account balance					
Before official transfers	-263	-358	-378	-299	-282
After official transfers	-57	-135	-152	-79	3
Long-term capital inflow	71	-19	137	-362	131
Total other items (net)	-56	276	75	585	1
Changes in net reserves	42	-122	-60	-144	-135
Memo:					
Reserves excluding gold *(mill. US$)*	180	415	422	536	649
Reserves including gold *(mill. US$)*	333	595	578	720	829
Conversion rate *(local/US$)*	3.5	7.6	8.4	8.7	8.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	158.2	157.5	130.7	97.3	94.6
IMF credit/exports	10.5	0.0	0.0	0.0	3.0
Short-term debt/exports	8.0	17.0	6.2	5.5	4.9
Total debt service/exports	24.7	16.9	14.1	14.9	15.8
GDP ratios					
Long-term debt/GDP	40.9	35.8	32.8	25.0	23.5
IMF credit/GDP	2.7	0.0	0.0	0.0	0.7
Short-term debt/GDP	2.1	3.9	1.6	1.4	1.2
Long-term debt ratios					
Private nonguaranteed/long-term	6.3	1.3	0.5	0.4	0.4
Public and publicly guaranteed					
Private creditors/long-term	9.7	8.7	8.4	9.7	5.4
Official creditors/long-term	84.1	90.0	91.1	89.9	94.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Equatorial Guinea

Equatorial Guinea's land area is 28,000 square kilometers and its population about 400,000. It comprises Rio Muni on mainland Africa, with about 80 percent of the population, and the island of Bioko — with the national capital, Malabo — and other small islands in the Gulf of Guinea. Communications and administration are difficult. The 1993 GDP per capita is estimated at $420.

The period from independence in 1968 to 1979 was one of disastrous mismanagement and brutal repression in Equatorial Guinea. It is not known how many people perished but it is clear that thousands were killed and many thousands more fled. The health and education services closed down and physical infrastructure deteriorated badly. By the time the government was overthrown, almost all economic activity other than subsistence cropping had come to a halt. The present regime has made progress on human rights issues, but poor governance remains a serious obstacle to economic and social development.

In 1985 Equatorial Guinea joined the Franc Zone, adopted the CFA franc as its currency, and took significant stabilization measures as the price of membership. It became a member of the Bank of Central African States and joined the Central African States Customs Union. The results were short-lived. Deteriorating terms of trade for its exports widened fiscal and external imbalances and two commercial banks failed, causing a liquidity crisis.

Agriculture, including fishing and forestry, accounts for over 50 percent of GDP and 60 percent of exports. Subsistence agriculture predominates, but cocoa production on Bioko and timber extraction in Rio Muni provide monetary income, foreign exchange, and government revenues. Construction, industry, and manufacturing account for about 30 percent of GDP, services for 20 percent. The offshore Alba oil field came on line in January 1992 and exports began in April 1992. Further oil exploration is going on and there may be other offshore reserves.

The 1988 Reform Program

In 1988 the government adopted its first medium-term structural adjustment program, supported by the IMF. This included measures to strengthen budgetary management and domestic resource mobilization, rationalize the public investment program, and restructure public enterprises and the banking system. The program soon went off track because of excessive extrabudgetary expenditure.

During 1990 and 1991, the government took steps to bring the program back on track: public utilities management and performance were improved, and progress was made in eliminating price controls. In 1993 the medium-term structural adjustment program was extended through 1995 with support from an IMF structural adjustment facility. It called for strengthening the budgetary position, continuing tight monetary and credit policies, accelerating financial sector reform, and removing economic constraints and distortions.

Recent Economic Developments

Overall growth has been disappointing. The annual average rate of growth of nonoil real GDP was only 1.5 percent between 1985 and 1993, well below population growth of 2.4 percent. The overall fiscal deficit (on a commitment basis and excluding foreign-financed investment) increased from 3.2 percent of GDP in 1992 to 8.2 percent in 1993, although it has since been somewhat reduced. Government expenditure and net lending increased from 24 percent of GDP in 1992 to 29 percent in 1993, exceeding the program target by 10 percentage points. The resulting balance of payments deficit was financed through an accumulation of external arrears.

After the January 1994 CFA franc devaluation the IMF approved a second structural adjustment arrangement for Equatorial Guinea. Performance for the first half of 1994 was mixed: quantitative benchmarks on the overall fiscal balance and nonaccumulation of external payments arrears were not observed, and budgetary problems were expected to persist into the third quarter. Customs receipts were off target, in part because of continued granting of ad hoc exemptions. However, progress was made in implementing the customs union's tariff and tax reform, establishing a new price structure for petroleum products, and other structural reforms required under the program. Substantial internal and external arrears had accumulated by September, and total outstanding medium- and long-term debt was over 150 percent of GDP; of this about \$215 million (or 139 percent of GDP) was external debt, owed mostly to the Paris Club. The overall 1994 balance of payments deficit on a commitment basis is estimated at 1.8 percent of GDP, and the current account deficit (excluding official transfers) over 10 percent.

Despite its poor economic performance, Equatorial Guinea has considerable potential. The country is well endowed with arable land. Bioko, about 7 percent of its land area, has fertile volcanic soils and a climate that suits it for most tropical crops. Enough fruit and vegetables are already produced to meet domestic consumption, and there is potential for exports of tropical fruits and horticultural crops. There is also potential for ecotourism. Bioko and Annobon have many rare species and rare forms of certain species. These resources are, however, under severe pressure; several unique subspecies of primates are threatened and others have already disappeared.

Oil was discovered in 1984 and production started in January 1992. Proven reserves are estimated at 535 billion cubic feet of gas and 28 million barrels of condensate. Current production is about 6,500 barrels of oil a day, and about 80 million cubic feet of gas is flared but could be tapped for power generation. Production from the Alba field is expected to peak at about 8,000 barrels a day in 1995, at which time oil revenue will begin to accrue to the government. Cumulative government receipts from 1995 to 2000 are expected to be between \$60 and \$90 million. There is evidence of further significant offshore deposits of oil in an area disputed by Nigeria.

Equatorial Guinea's main constraints to growth are a lack of human capital (illiteracy is 50 percent for men and 60 percent for women) eroded by neglect and abuse, and poor governance, which has been a problem since independence, and which creates an environment unfavorable to private sector development. There is still pervasive political interference in productive and commercial activities. The courts do not function. The power of the executive, in practice the president, is unchecked, and a small circle of powerful individuals have full discretion in managing the country. The population, knowing it has no recourse, is cautious and acquiescent. Farmers and other economic operators have no incentive to diversify or expand beyond subsistence needs.

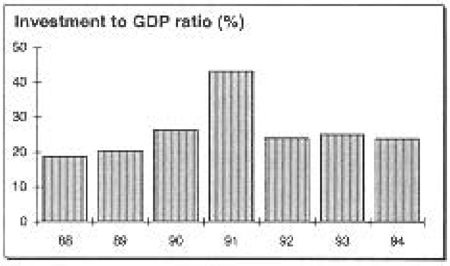
Foreign investment could play a key role in development. Its 1994-96 plan calls for private-sector incentives, including changes in the Investment Law of 1992, and for new land tenure legislation to clarify private property rights, but these measures were never implemented and major impediments to private sector development remain. Since land tenure rights remain poorly defined and private contracts are unenforceable, the financial sector remains undeveloped. The single commercial bank now operating in Equatorial Guinea has little incentive to lend; those with access to credit tend to relend it to small farmers at high interest that reflects the default risk. Wide-scale introduction of modern techniques through credit financing is thus effectively precluded. Attempts to establish agricultural credit agencies in 1985 and 1994 failed.

Equatorial Guinea

Population mid-1993 *(thousands)*	379	Income group:	**Low**
GNP per capita 1993 *(US$)*	420	Indebtedness level:	**Severely Indebted**

KEY RATIOS

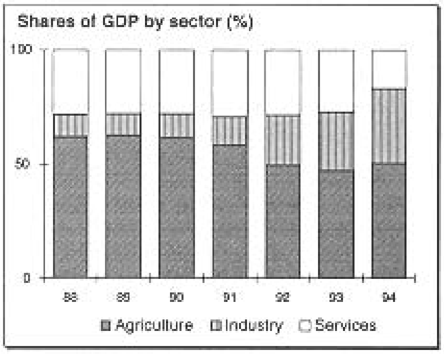
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	6.2	26.6	24.2	25.1	24.0
Exports of goods and nfs/GDP	30.2	32.1	36.6	39.8	55.1
Gross domestic savings/GDP	-3.2	-10.9	2.8	7.5	17.1
Gross national savings/GDP	-7.5	-9.6	-6.0	0.3	6.4
Current account balance/GDP	-13.9	-36.0	-34.2	-26.8	-11.9
Interest payments/GDP	0.6	0.4	0.6	0.4	0.6
Total debt/GDP	166.2	182.4	160.8	171.2	139.2
Total debt/exports	551.3	530.8	435.7	435.5	375.4



Investment to GDP ratio (%)

GDP: PRODUCTION

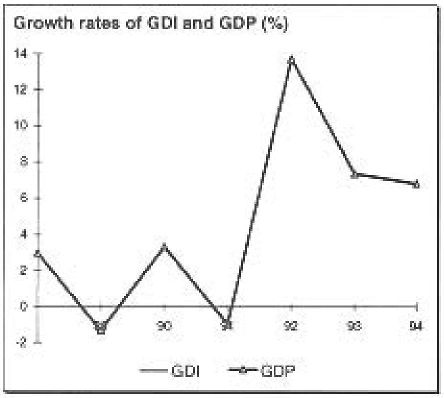
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	68.9	61.5	49.6	47.2	50.4
Industry	8.7	10.6	21.9	25.8	32.7
Manufacturing	8.7	10.6	11.4	11.3	14.1
Services	22.5	27.8	28.5	27.0	16.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*0.8*	-1.5	-3.9	0.1	5.3
Industry	*9.9*	10.2	-0.2	11.3	21.1
Manufacturing	*9.9*	10.2	-0.2	11.3	21.1
Services	*6.1*	10.9	12.5	7.2	18.1
GDP	*2.4*	7.4	13.7	7.3	6.8



Shares of GDP by sector (%)

GDP: EXPENDITURE

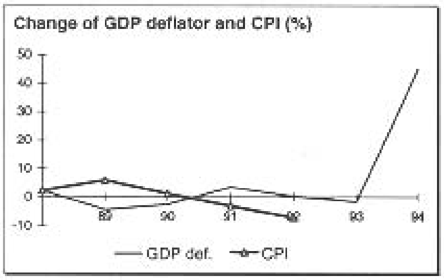
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	75.5	71.3	62.0	51.1	72.6
General government consumption	27.7	39.6	35.2	41.4	10.3
Gross domestic investment	6.2	26.6	24.2	25.1	24.0
Exports of goods and nfs	30.2	32.1	36.6	39.8	55.1
Imports of goods and nfs	39.6	69.5	58.0	57.4	62.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	*2.5*	6.9	12.7	7.8	5.0
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	1.1	-7.2	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	-2.6	0.3	-1.7	45.0
Government finance					
(% of GDP)					
Current budget balance	3.5	0.8	-1.2	-3.3	-1.9
Overall surplus/deficit	-2.5	-2.6	-3.2	-8.2	-3.6



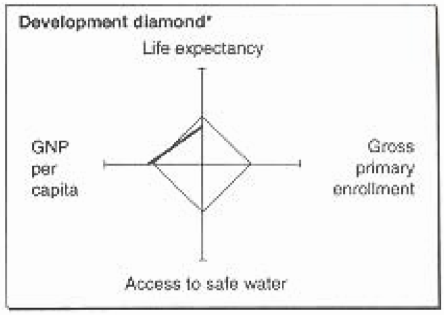
Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

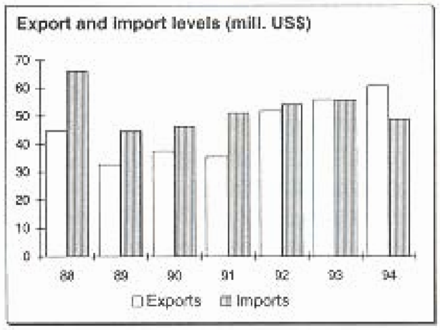
	1985-90	1990-94
(annual growth rates)		
Population	2.4	2.5
Labor force	1.4	1.8

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	48.4
Infant mortality *(per 1,000 live births)*	115.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	81.8
Illiteracy *(% of population age 15+)*	49.8
Gross primary enrollment *(% of school-age population)*	..



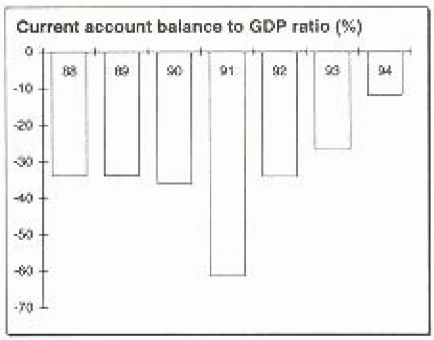
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	24	38	52	56	61
Cocoa	15	6	5	3	4
Timber	6	1	0	0	0
Manufactures	..	..	..	..	..
Total imports (cif)	31	46	54	56	49
Food	4	..	..	..	..
Fuel and energy	4	7	7	5	4
Capital goods	12	14	16	..	..
Export price index *(1987=100)*	71	94	173	186	172
Import price index *(1987=100)*	76	113	156	161	..
Terms of trade *(1987=100)*	93	82	111	116	..
Openness of economy *(trade/GDP,%)*	70	102	95	97	117



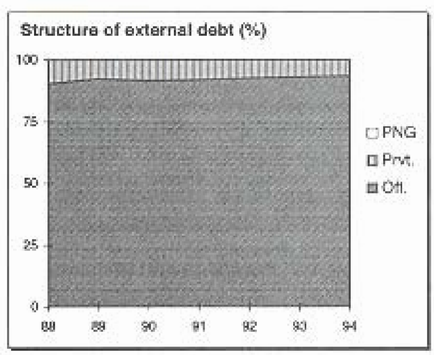
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	24	43	59	62	66
Imports of goods and nfs	32	92	98	89	74
Resource balance	-8	-49	-40	-27	-8
Net factor income	-4	-6	-11	-12	-11
Net current transfers	1	8	-4	-3	-2
Current account balance					
Before official transfers	-11	-48	-54	-42	-21
After official transfers	-4	-12	1	-7	3
Long-term capital inflow	8	12	0	-5	-23
Total other items (net)	-9	1	-9	9	21
Changes in net reserves	4	-1	7	2	-1
Memo:					
Reserves excluding gold *(mill. US$)*	3	1	13	0	..
Reserves including gold *(mill. US$)*	3	1	13	0	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	385.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	470.4	460.8	365.9	355.4	351.2
IMF credit/exports	53.3	12.8	21.5	26.6	24.2
Short-term debt/exports	27.5	57.3	48.3	53.5	0.0
Total debt service/exports	42.5	11.2	5.3	1.9	7.6
GDP ratios					
Long-term debt/GDP	141.9	158.3	135.1	139.7	130.2
IMF credit/GDP	16.1	4.4	7.9	10.5	9.0
Short-term debt/GDP	8.3	19.7	17.8	21.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	14.3	8.5	7.5	6.9	6.5
Official creditors/long-term	85.6	91.5	92.5	93.1	93.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Eritrea

Eritrea's struggle for independence, one of the longest in Africa's history, lasted for three decades. It began in earnest in 1962 following the annexation of Eritrea by Ethiopia, and intensified after the military coup in Ethiopia in 1974. The Eritrean Peoples' Liberation Front liberated Eritrea in May 1991. This coincided with the Ethiopian People's Revolutionary Democratic Front's victory over the military regime in Ethiopia. Following an internationally supervised referendum, Eritrea formally gained its independence in May 1993. Ethiopia was among the first nations to recognize Eritrea's independence.

Eritrea is strategically located in the northeastern part of Africa with two major ports — Massawa and Asseb — on the Red Sea. For centuries, Massawa has been a center of trade between Africa and the Middle East. Because of its location and its openness to trade, Eritrea has a wealth of experience in entrepreneurship and commerce. In this sense, human resources are probably Eritrea's greatest asset. Eritrea is a land of varied topography, climate and rainfall, and it lies in the Sahelian rainfall zone. Its natural resources are considered to be meager. There is potential to extract petroleum from the Red Sea, and the economic viability of these reserves is being examined. The country's coastal waters are believed to be potentially among the most productive fishing grounds in the Red Sea. Eritrea's population is estimated to be in the range of 3 to 3.5 million, including nearly half a million refugees in Sudan.

Eritrea's long struggle for independence has left a deep impact in terms of building a strong sense of nation and community structure, a strong sense of ownership of national development programs and eagerness to build its capacity to manage policies, and a pragmatic and flexible approach toward economic development based on building solutions that take advantage of its well-educated and successful diaspora and openness to ideas from outside.

The long struggle for independence has also helped to create attachment to democratic and participatory processes. After the war ended in 1991, elections were held at village, district, and provincial levels throughout the country. A national referendum on independence took place in April 1993. In March 1994 the National Assembly established a constitutional commission, which is responsible for seeking the views of the Eritrean population, at home and abroad, on the future structure of the government. The commission will prepare a draft constitution in two years for ratification. This will be followed by multiparty national elections.

Recent Economic Developments

In the 1930s Eritrea was a successful exporting nation. During World War II, when imports from Europe to the East African markets were disrupted, Eritrean industries stepped in to supply these markets. However, the economy began deteriorating in the 1950s owing to lack of investment. This was compounded further in 1974, when the military regime in Ethiopia adopted a command economy and nationalized most private assets, including those in Eritrea. The adverse impact of centrally planned policies was further worsened in the last two decades by the intensification of war, recurrent droughts and famines, and lack of access to foreign exchange to import essential inputs.

At the time of its liberation in 1991, Eritrea inherited an economy that was neglected, isolated, and severely damaged by war. Enterprises were nonoperational or working at extremely low capacity, food production had declined, and infrastructure including roads, ports, and power supply — well developed by African standards in the 1940s — had been badly damaged. In addition, Eritrea inherited institutions and policies that were either not appropriate for running a peacetime liberal economy or inadequate. Economic and social data on Eritrea are weak and scanty; preliminary data show that real GDP contracted by nearly 1 percent a year over fiscal years 1985-90; it shrank further by some 7 percent in fiscal 1991, the final year of the conflict.

Since winning its freedom, Eritrea has demonstrated a strong dedication to the goals of nation building, economic reconstruction and recovery, and support for introducing a pragmatic and liberal market economy. In a relatively short period it has made significant progress in restructuring institutions, establishing key elements of a functioning government, and eliminating a number of restrictive policies. In May 1991 the government, with its own meager resources, launched a Recovery and Rehabilitation Program aimed at jump-starting the economy. The program includes an Economic and Financial Management Program aimed at supporting the government's program on capacity building.

The government's Recovery and Rehabilitation Program and the return to peace have helped to improve Eritrea's economic performance. After contracting by 1.5 percent in 1993, largely because of a drought that reduced agricultural output, the economy rebounded strongly in 1994 and is estimated to have grown by 9.4 percent in real terms. Industrial production and service activities have continued to expand primarily because of an increase in exports, a growing private small-scale sector, the partial rehabilitation of a few large-scale industrial enterprises, a strong rebound in construction activity, and a good harvest. Initial progress has also been made in rehabilitating parts of the infrastructure, although the requirements for ports, roads, and power generation continue to be substantial.

The Eritrean authorities recently defined their vision of macroeconomic policy reforms and sectoral strategies to facilitate economic recovery. The reforms include measures aimed at facilitating the transition to a market-based economy. To translate their vision into reality, the government recognizes the need for increased analytical work and improvements in institution building and implementing capacity.

Eritrea has followed prudent financial policies. A sharp rise in government revenue, reflecting improvements in customs and tax administration and the resurgence in economic activity, helped contain the fiscal deficit (after grants) at 3 percent of GDP in 1992. Despite a further large increase in revenue in 1993, the overall fiscal deficit (after grants) rose to about 6 percent of GDP. Even though there were significant efforts to limit expenditure overruns, the large deficit reflected an increase in expenditure, which was related to the demobilization of 25,000 ex-combatants, higher rehabilitation and maintenance costs, and a significant rise in capital outlays. The overall fiscal deficit (after grants) is estimated to have risen to about 13 percent of GDP in 1994, as a result of a deceleration in revenue growth and a further sharp increase in government expenditure. The fiscal deficit has been financed largely by a drawdown of government deposits with the banking system, and to a lesser extent by the disbursement of external loans. The annual inflation rate has been kept low at around 7 to 9 percent. This has been, in part, achieved because of the rapid supply response of the economy to the government's recovery and reform program.

As part of reforming and strengthening of the fiscal system, the government has eliminated a number of restrictive tax features. Tax rates have been lowered, and this, accompanied by increased compliance, helped to raise tax revenue collected from around 15 percent of GDP in 1992 to an estimated 23 percent of GDP in 1994. A start has also been made toward restructuring public expenditure. Recurrent expenditures on social services — including education, health, labor, and social welfare, and relief and rehabilitation — are estimated to have increased from 3 percent of GDP in 1992 to more than 4 percent of GDP in 1994. Public investment is estimated to have increased from 5 percent of GDP in 1992 to over 19 percent in 1994.

Since Eritrea uses the Ethiopian birr as its legal tender, it does not have an independent monetary policy. Although Eritrea inherited an obsolete monetary and financial system, it has made progress in reviving this sector. Confidence in Eritrea's domestic banking sector is reflected by the high level of liquidity of the Commercial Bank of Eritrea. A new Central Bank Act and financial sector legislation are at an advanced stage of preparation. The government has clarified that private banks, both domestic and foreign, are permitted to operate in Eritrea. Given Eritrea's location, the long-run objective of the government is to make Asmara into a regional financial and services center.

The government has pursued a pragmatic exchange rate policy. Since August 1993 official buying and selling exchange rates have been based on the marginal auction rate established in the biweekly foreign exchange auctions in Addis Ababa in Ethiopia. Eritrea does not have access to these auctions. Eritrea buys foreign exchange remitted by its nonresident citizens at Br 7.05 to the dollar, compared to a rate of Br 7.2-7.4 in the parallel market, which, while illegal, is not actively repressed by the authorities. Apart from their tolerant attitude toward the parallel market, the Eritrean authorities are also liberal with respect to the import and export of domestic currency notes, foreign currency declaration requirements for travelers, and foreign investment approvals.

Eritrea's trade balance with Ethiopia and the rest of the world was in deficit through the first half of 1994. While exports increased sharply from an extremely narrow base, import demand related mainly to relief and reconstruction was high. However, the external current account deficit was contained, because of inflows of private remittances.

Institutional strengthening and streamlining have advanced rapidly. At independence, Eritrea inherited institutions geared for managing a command economy. In addition, the country had little experience in administering or governing a nation, since as a province of Ethiopia it had little autonomy or policymaking authority. These problems were further compounded by the fact that many educated and skilled Eritreans had left the country under the previous regimes. The government has taken a large number of measures to rationalize institutions, including merging the Departments of Economic Development and Cooperation and Finance into a Ministry of Finance and Development. Streamlining of the civil service — comprising some 15,000 employees — has begun, and the shortage of skilled staff in key positions is also being addressed.

Eritrea has begun to introduce sectoral policy reforms. Trade policies are being revised, and a new and simplified import licensing procedure is being introduced. Export taxes have been abolished. In opening up its economy, the government has emphasized that protectionism does not work and that success thrives on risk taking. A new Investment Law has been prepared and will open all sectors to private investment; it allows 100 percent foreign ownership — the old code required 51 percent local ownership in certain sectors — and guarantees investments against nationalization, confiscation, or other noncommercial risks. Many special tax holidays would be eliminated or simplified and made more transparent, and approval time from the receipt of applications has been reduced to a maximum of 10 days from 90 days under the old code. The former labor code, which prohibited hiring of labor by the private sector, is now being revised and private hiring of labor is permitted. Centralized marketing and planning systems have been disbanded, so that most public and private enterprises do not face price and marketing restrictions. Substantial progress has also been made in addressing the land issue. Land tenure in Eritrea has been complex in the past, with different types of tenure in highland and lowland areas. The government has announced that every farmer will now have a lifetime user right, women will have equal access to land, and farmers can officially rent or mortgage their land and enter into sharecropping arrangements. Land will be under government ownership. The government recognizes that user rights to inherit will be critical for sustaining the incentive to invest in land, and mechanisms are being identified to facilitate inheritance of improvements in land productivity.

Poverty and Social Indicators

Decades of lost growth, war damage, and restrictive policies have contributed to a serious deterioration in social and human capital and the quality of life in Eritrea. Although actual GNP per capita figures are not available, it is estimated to be at the lower end of the low-income category. Eritrea's low per capita income is reflected in its poor human capital and social indicators. Life expectancy at birth is estimated to be low at about 46 years compared to 50 years for Sub-Saharan Africa, and the under-five child mortality rate is high at 203 per 1,000 live births, compared to 196 for Sub-Saharan Africa. Immunization is accessible to only 27 percent of the population. In 1993, individual daily caloric intake was estimated at 1,750 kilocalories, equivalent to about 93 percent of minimum requirements; the average for Sub-Saharan Africa is 2,100 kilocalories. Major causes of ill health include preventable diseases such as malaria, diarrhea, and acute respiratory infections. Access to safe drinking water and sanitation is low in most provinces of Eritrea. In rural areas, approximately half of the population obtains water from shallow wells. Poor health and nutrition levels are accompanied by high fertility rates (about 6.8) and an annual population growth rate between 2.7 and 3.0 percent.

The current average adult illiteracy rate is estimated to be 80 percent, with a slightly higher figure for women. There is a large backlog of people, at all ages, with little or no exposure to formal or informal schooling. A large number of schools were damaged during the war. The limited number of schools that survived the war now run several shifts to accommodate the increasing demand for educational services. Significant disparities in social indicators exist across regions. In addition to inheriting a depreciated human capital base, the government also faces the challenging task of reintegrating nearly half a million refugees, demobilizing some 60,000 soldiers, and addressing the needs of nearly 100,000 internally displaced persons.

Eritrea, supported by an increasing group of aid agencies and NGOs, has begun rehabilitating its social infrastructure and providing basic social services. The government has established a Community Rehabilitation Fund — supported by IDA and other donors — to deliver basic social services at the local level to the most needy. The government has developed a policy framework for demobilizing soldiers.

The government's initiatives in the social sectors have been largely built on its success with social programs during the liberation struggle, when the Eritrean Peoples' Liberation Front practiced progressive policies. About a third of the front's fighting forces were female. Attention was paid to reducing the traditional forms of discrimination against women, emphasis was placed on primary education and health care, and reliance was placed on community support systems to protect vulnerable groups from the effects of poverty, war, and natural disasters. The Planned Parenthood Association of Eritrea is supporting family planning activities by organizing training programs and running a family planning clinic. The National Union of Eritrean Women is managing several programs targeting women in general and disadvantaged women in particular. Among these, there are literacy programs in Barka and Gash, and special programs for demobilized women fighters, including vocational training, income-generating activities, and microcredit schemes. In addition to further strengthening social programs, the government hopes to reduce poverty on a larger scale through its recovery and reform efforts aimed at increasing investment and accelerating broad-based growth to expand employment opportunities.

Challenges Ahead

Although considerable achievements have been made since independence, the government continues to face massive challenges, particularly in rehabilitation, rebuilding institutions, and reintegrating returnees and demobilized ex-combatants into the civilian economy.

A principal challenge is to revive productive investment and employment. The domestic production base is weak and the country is heavily dependent on food assistance. The costs of reconstruction and the need for social safety net expenditures are likely to impose a serious burden on the fiscal accounts. In light of these and other ongoing significant fiscal pressures, one of the immediate concerns is the need to contain expenditure within the available resources. Eritrea's monetary and exchange policies are designed in the context of its reliance on the Ethiopian birr as its currency. The government has declared its intention to introduce a national currency only after its institutional capacity to conduct a national monetary policy is in place.

The government has announced a program for strengthening basic education by improving efficiency of delivery systems and raising educational outcomes. Other objectives include reducing regional and urban-rural imbalances in primary education, increasing female participation in primary education, and increasing the influence of communities over the educational process. Emphasis will be placed on long-term educational financing by encouraging communities to continue to contribute to educational costs.

Eritrea's once well-developed infrastructure is severely damaged, and constitutes a major constraint on recovery and the sustainability of subsequent growth. The government has set alleviating infrastructure bottlenecks as a priority. Roads are in a dilapidated state and the road network requires extensive rehabilitation. Eritrea suffers from chronic electricity shortages, and it is estimated that 30 to 50 percent of output in commercial and industrial sectors is potentially lost owing to electricity shortages. Eritrea's two ports, Massawa and Asseb, along with the road infrastructure, were damaged by the war and have suffered from a lack of maintenance. The port of Massawa, which serves as the major port for import-export of Eritrean cargo, as well as for an increasing volume of traffic for Ethiopia and Sudan, has suffered substantial damage. Asseb's port is operating at its capacity. A port master plan is under preparation. The government's strategy for ports is to improve their capacity and performance through a combination of rehabilitation, provision of equipment, and institutional reforms and improvements in management efficiency through increased autonomy and accountability.

Agriculture is critical to the livelihood of the 70 to 80 percent of the population that depends on the production of crops, livestock, and fisheries for income and employment. Given the present low agricultural productivity, there is good potential for expanding agricultural production in the short run through a combination of intensified agriculture and extending the amount of land under cultivation. The government has completed a review of the agricultural sector and related environmental issues and drawn up an action plan for developing the sector that advocates strengthening the institutional and technical base for agricultural development, improving the information base on the availability of water and other natural resources, and continuing pre-investment studies, while forging ahead with directly productive investments. In the livestock and animal sector, increased returns could be obtained from improving animal health, introducing intensive production systems for milk and poultry production, and developing new markets for sheep, goats, camels, and cattle in the Middle East.

Environment and Natural Resources

The main environmental issues in Eritrea relate to the degradation of its land, forestry, and water resources. In rural areas, loss of vegetative cover, (particularly in the highlands), an exceptionally high rate of deforestation — the percentage of land covered by forests in Eritrea is thought to have dropped from about 30 percent in the 1920s to 2 percent today — soil erosion, and loss of soil fertility have led to declining agricultural productivity, the drying up of springs, abandonment of farm lands, and serious shortages of fuelwood and animal fodder. Eritrea also possesses extraordinary marine resources that need to be managed in a way that complements the sustainable development objectives of the government.

The government has drawn up a national environment management plan for Eritrea that has been endorsed by a ministerial council on the environment. The plan was an outcome of extensive discussions with a wide group of people at the national, regional, and local levels. Twenty-one regional workshops provided a forum for consulting people at the community level on their most pressing environmental issues, identifying locally derived means of addressing these issues, and actively engaging communities in formulating local and regional action programs. The plan proposes to continue this process of dialogue at the local level in regular consultations through the "Eritrea People's Forum on the Environment."

Medium-Term Prospects

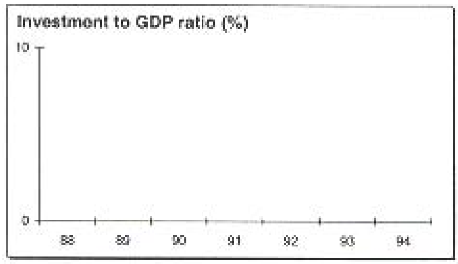
Eritrea's external position will continue to be extremely weak over the medium term. A large trading account deficit is expected to persist; export earnings should expand considerably, but imports are also expected to increase sharply in line with investment and reconstruction requirements. In view of the projected large trade deficit and uncertainties relating to private remittances, the overall balance of payments position is likely to remain precarious. Consequently, Eritrea's immense relief and reconstruction imports will need to be financed largely on concessional terms.

Eritrea

Population mid-1993 *(millions)*	..	Income group:	**Low**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Not classified**

KEY RATIOS

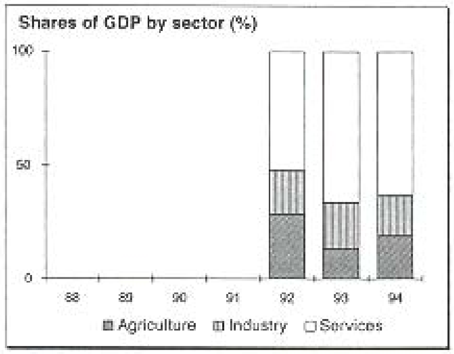
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	..	..	..	..
Exports of goods and nfs/GDP	..	..	..	..	..
Gross domestic savings/GDP	..	..	..	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-8.7	5.8	..
Interest payments/GDP	..	..	..	..	..
Total debt/GDP	..	..	..	..	..
Total debt/exports	..	..	..	..	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	28.5	13.1	19.0
Industry	..	..	19.3	20.7	18.0
Manufacturing	..	..	8.7	9.5	8.4
Services	..	..	52.2	66.2	63.0

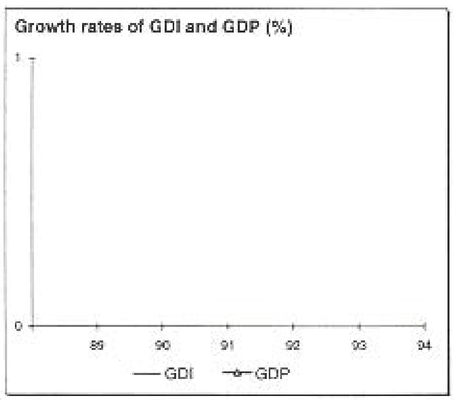
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	..	..	..	..	..



GDP: EXPENDITURE

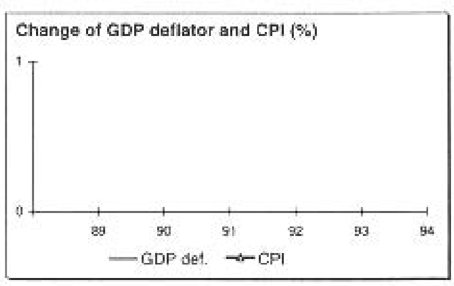
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	..	..	..	..	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	..	..	..
Government finance					
(% of GDP)					
Current budget balance	..	..	-4.1	-6.0	..
Overall surplus/deficit	..	..	-8.7	-24.0	..



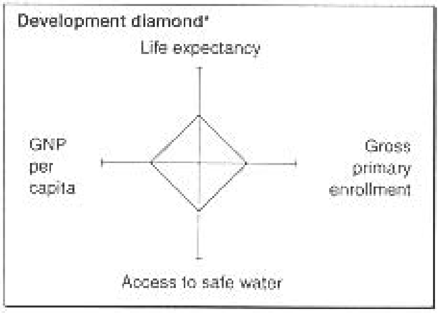
Note: Estimates for Eritrea are subject to more than the usual range of uncertainty and should be regarded as very preliminary.

Eritrea

POVERTY and SOCIAL

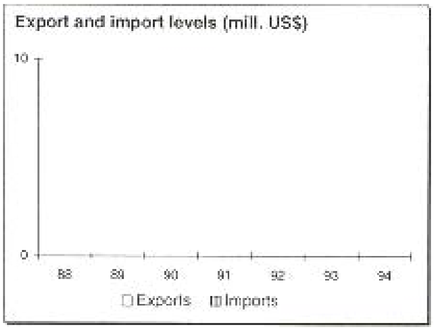
	1985-90	1990-94
(annual growth rates)		
Population	..	..
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



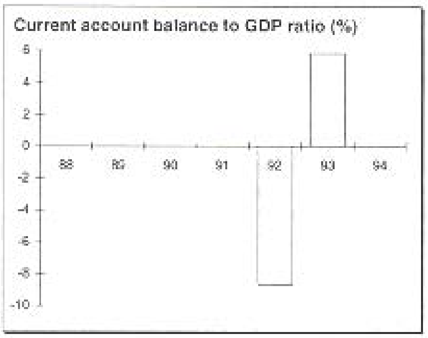
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	..	..



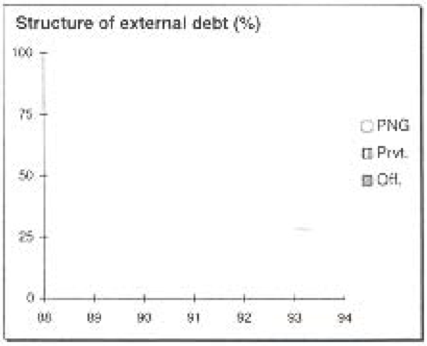
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	88	139	..
Imports of goods and nfs	..	..	331	313	..
Resource balance	..	..	-243	-174	..
Net factor income	..	..	0	0	..
Net current transfers	..	..	181	203	262
Current account balance					
Before official transfers	..	..	-62	28	-12
After official transfers	..	..	105	98	91
Long-term capital inflow	..	..	0	0	21
Total other items (net)	..	..	92	37	0
Changes in net reserves	..	..	-197	-135	-112
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	..	2.8	5.2	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	..	..
IMF credit/exports	..	..	..	..	..
Short-term debt/exports	..	..	..	..	..
Total debt service/exports	..	..	..	..	..
GDP ratios					
Long-term debt/GDP	..	..	..	..	..
IMF credit/GDP	..	..	..	..	..
Short-term debt/GDP	..	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	..	..
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	..	..
Official creditors/long-term	..	..	..	..	..



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Estonia

Estonia has a territory of 45,215 square kilometers and a population of about 1.6 million. Forests cover about 40 percent of its territory; the most important mineral resources are oil shale, phosphorate, and limestone. Estonia's GNP per capita in 1993 was $2,970.

Since reestablishing its independence in August 1991 Estonia has achieved remarkable progress in transforming its economy into a market-based system. Although its economy had been severely distorted by a half century of central planning and constrained by heavy trade dependence on the former Soviet Union, Estonia entered the current period of transition with some distinct advantages. Estonia had the highest per capita income level in the Soviet Union, among the highest levels of education and infrastructure, basic institutional infrastructure, and some continuing contact with Western market-oriented institutions.

Changes within and among the countries of the former Soviet Union over the last three years resulted in a drop of about 50 percent in the real level of Estonia's imports and exports with the region, which accounted for around 90 percent of its GDP in the late 1980s.

After declining in 1992 and 1993, real output in Estonia began to recover in late 1993, and growth in the range of 5 to 6 percent is estimated for 1994. Official unemployment decreased slightly from 2 to 3 percent in mid-1993 to about 1.5 percent by late 1994. Adjusted for recorded job seekers, the unemployment rate fell from between 8 to 9 percent to around 7 percent in the fourth quarter of 1994. Real wages, after a sharp decline in 1992, have increased broadly in line with productivity.

Estonia's ongoing strong economic recovery can be attributed to two factors. First, the country has made remarkable progress in macroeconomic stabilization and structural adjustment since early 1992. Estonia began price liberalization and related economic reforms in 1989-90, somewhat earlier than the other republics, and the pace of reform has been stepped up significantly during the last four years. The government implemented a tight fiscal policy, registering surpluses in the general government's budgetary operations in both 1992 and 1993, with a further surplus envisioned for 1994. Fiscal discipline helped ensure the success of the currency board scheme under which the kroon was introduced, and contributed to the reduction in average monthly inflation from more than 20 percent in 1992 to 2½-3 percent in both 1993 and 1994.

Second, Estonia has been quite successful in gaining increased access to Western markets, as indicated by a more than four-fold increase in exports to these markets over 1991-92. This increase continued in 1993 and 1994 with a three-fold growth in dollar terms over the 1992 level. In 1994 exports to the West constituted 55 percent of Estonia's exports, compared to less than 5 percent at independence. Furthermore, trade with the Commonwealth of Independent States has also shown signs of recovery.

The kroon's stability has been facilitated by fiscal and monetary policies consistent with the operation of the currency board. Aside from limited housing, heating, and transport subsidies at the local level, there are no significant explicit or implicit subsidies in Estonia. Furthermore, under the currency board arrangement, the government cannot borrow from the central bank.

Estonia's monthly rate of inflation has kept an overall downward trend, despite continued increases in administered prices for key services. While slower productivity gains in the nontradables sector has held consumer price inflation at a level higher than in Western Europe, productivity growth in tradables has allowed Estonia to maintain competitiveness on world markets and sustain the fixed exchange rate of the kroon. Although the current account slipped into a deficit in 1994, this was largely financed by inflows of private foreign direct investment. Gross international reserves declined somewhat in 1994 but remained at around three months of imports.

Despite progress on stabilization and structural adjustment, Estonia faces a complex reform agenda to complete the transition to a market-based economy and attain a stable and sustainable growth path. As a small open economy, Estonia must rely on exports for its growth and will remain heavily dependent on imported energy. While Estonia's access to world capital markets remains restricted, and its capacity to prepare and implement sectoral investments is still being built up, it will require financial and technical assistance to support reforms and investments conducive to export-led growth.

Estonia has been highly successful in eliminating both tariff and nontariff barriers, and enjoys one of the most liberal external trade regimes in the world. With these policies and a competitive exchange rate, Estonia's exports to the West have increased sharply. However, large imports, especially of investment goods, have led the initial balance of payments surpluses to give way to deficits. The current account moved from a surplus of about $13 million in the first quarter of 1993 to a deficit of about $170 million in 1994.

Estonia's government faces strong pressures to increase expenditures for a wide variety of purposes, including heating and other energy-related subsidies, grants and subsidies for agricultural producers, social safety net outlays and expenditures for health and other social services, and maintenance expenditures to prevent the deterioration of infrastructure. These competing claims on a very limited budget require careful assessment of public expenditure tradeoffs. Balancing fiscal relations with local governments, which are taking increasing responsibility for programs, will also be difficult.

Privatization has progressed swiftly; the Estonians have adopted a multitrack approach to privatization that includes evaluated bids, best-price auctions, public offerings, direct trade sales, turnaround management, and bankruptcy. However, agroprocessing enterprises have followed a separate track and have lagged behind. Supervision of banking regulations is also not yet adequate to ensure that the financing needs of the private enterprise sector are adequately met.

Estonia imports energy products at world market prices, and most domestic energy prices reflect these costs. The main exceptions are in district heating and municipal transport, where prices remain low. Major expenditures on maintenance and rehabilitation are required in transport and other infrastructure sectors to increase energy efficiency, prevent further deterioration of the capital stock, and avoid the need for costly reconstruction later. The need for coordination is particularly great in areas such as port facilities and international highways. In some cases, improved administrative procedures, such as streamlined customs clearance at the borders, are more important than new physical investments.

The key social protection challenges for Estonia are to introduce an affordable social safety net to protect vulnerable groups from undue hardship during this transition period, and to maintain basic health and education services despite budget constraints. Spending on the social safety net currently represents almost 30 percent of the government's general expenditure and provides benefits to over 50 percent of the population. Although Estonia's social safety net is reasonably effective, there are still problems with the pension system and social assistance targeting, and Estonia has not yet developed unemployment insurance and labor market services to improve the matching process and enhance geographical and occupational mobility.

Medium-Term Prospects

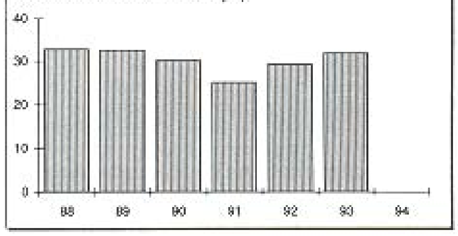
The most likely scenario in Estonia is the continuation of present policy performance, with rapid progress in economic stabilization and continued steady progress in structural adjustment. Under this scenario, GDP would rise by 5 percent per year on average through the remainder of the decade. An initial surge of imported investment goods would be needed to modernize Estonia's extensive but dated industrial infrastructure. This would result in an annual current account deficit of about $150 to $160 million until 1997, a level that would be difficult to sustain for an extended period. However, Estonia's debt service ratio is about 1 percent today, and is likely to remain well below 5 percent over the next three years. In addition, investment efficiency is expected to improve rapidly because of imported equipment, access to foreign technology and markets, and improved capacity utilization. Combined with an open trade policy and conservative fiscal and monetary policies, export growth should pick up, thus reducing the current deficit.

Estonia

Population mid-1993 *(millions)*	**1.6**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**3,080**	Indebtedness level:	**Less indebted**

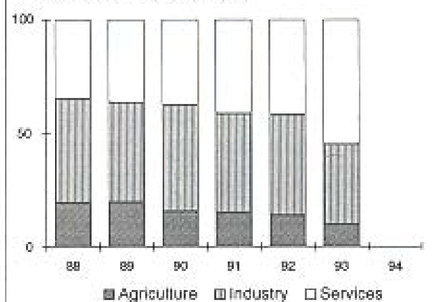
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.9	30.2	29.3	31.9	..
Exports of goods and nfs/GDP	..	..	55.9	69.9	..
Gross domestic savings/GDP	20.1	22.3	27.9	28.3	..
Gross national savings/GDP	..	..	..	28.3	..
Current account balance/GDP	..	..	-0.3	-1.5	..
Interest payments/GDP	..	..	0.0	0.1	0.2
Total debt/GDP	..	..	1.5	3.8	5.6
Total debt/exports	..	..	9.6	13.3	..


Investment to GDP ratio (%)

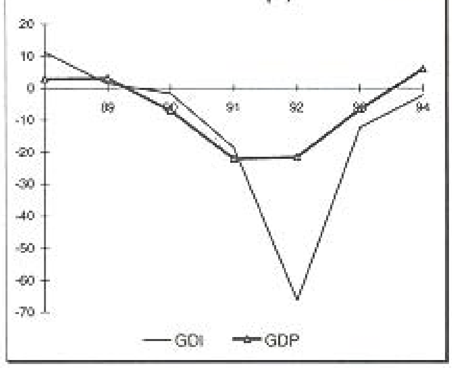
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.7	15.6	14.0	9.8	..
Industry	47.0	46.8	44.2	35.5	..
Manufacturing	39.0	39.6	31.5	23.0	..
Services	32.4	37.6	41.8	54.6	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.2	..	-12.0	..	..
Industry	1.0	..	-30.9	..	..
Manufacturing	..	..	..	..	..
Services	2.0	..	-12.3	..	..
GDP	1.3	-12.3	-21.6	-6.6	6.0


Shares of GDP by sector (%)

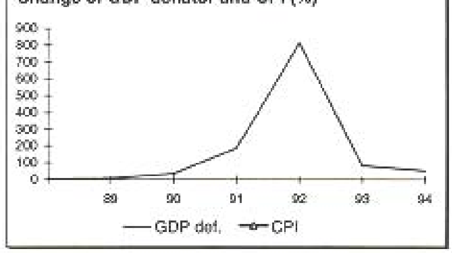
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	63.7	64.4	58.2	48.1	..
General government consumption	16.2	13.2	13.9	23.6	..
Gross domestic investment	32.9	30.2	29.3	31.9	..
Exports of goods and nfs	..	..	55.9	69.9	..
Imports of goods and nfs	..	..	57.3	73.6	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.3	*18.0*	113.8	0.5	..
General government consumption	2.6	*3.1*	3.8	12.0	..
Gross domestic investment	1.9	-33.8	-66.3	-12.3	-2.2
Exports of goods and nfs	..	..	..	38.2	16.0
Imports of goods and nfs	..	..	..	45.8	8.5
Gross national product	1.3	-12.3	-21.6	-6.6	6.0
Gross national income	..	..	..	-4.4	..


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.6	33.7	812.6	81.2	50.8
Government finance					
(% of GDP)					
Current budget balance	..	..	1.9	0.7	..
Overall surplus/deficit	..	..	0.5	-1.8	..


Change of GDP deflator and CPI (%)

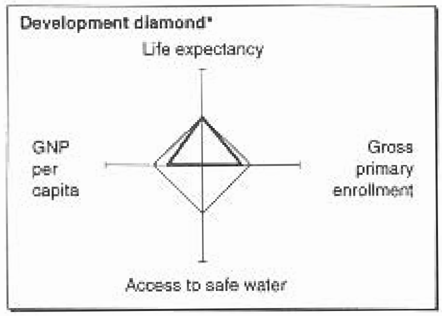
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Estonia

POVERTY and SOCIAL

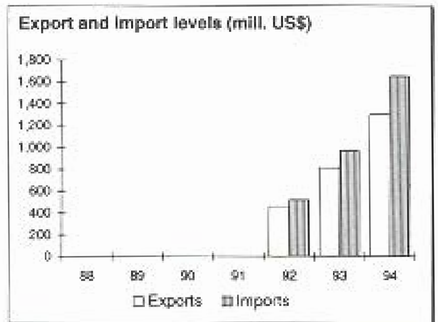
	1985-90	1990-94
(annual growth rates)		
Population	0.5	-0.5
Labor force	-0.4	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.2
Infant mortality *(per 1,000 live births)*	16.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	85.0



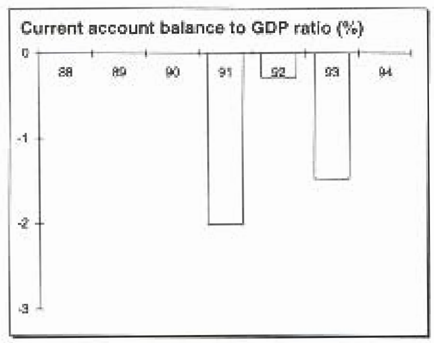
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	457	812	1,305
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	520	968	1,650
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	113	143	..



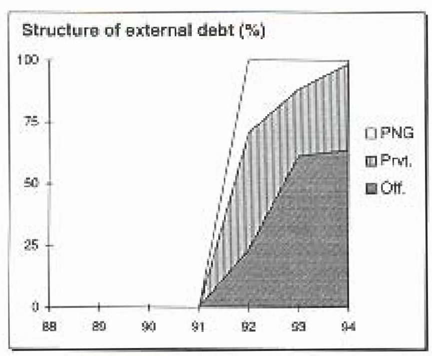
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	594	1,142	..
Imports of goods and nfs	..	..	609	1,200	..
Resource balance	..	..	-15	-59	..
Net factor income	..	..	4	-1	..
Net current transfers	..	..	0	0	..
Current account balance					
Before official transfers	..	..	-11	-60	..
After official transfers	..	..	-11	-62	..
Long-term capital inflow	..	..	103	158	..
Total other items (net)	..	..	-306	-525	..
Changes in net reserves	..	..	214	429	..
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	170	386	..
Reserves including gold *(mill. US$)*	..	..	198	389	..
Conversion rate *(local/US$)*	..	0.1	3.3	5.3	7.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	7.9	8.4	..
IMF credit/exports	..	..	1.8	5.0	..
Short-term debt/exports	..	..	0.0	0.0	..
Total debt service/exports	..	..	0.6	1.6	..
GDP ratios					
Long-term debt/GDP	..	..	1.3	2.4	4.3
IMF credit/GDP	..	..	0.3	1.4	1.3
Short-term debt/GDP	..	..	0.0	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	29.3	11.5	1.5
Public and publicly guaranteed					
Private creditors/long-term	..	..	47.5	27.3	35.0
Official creditors/long-term	..	..	23.2	61.1	63.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ethiopia

In May 1991, after a long and devastating civil war, the military regime was ousted by a coalition led by the Ethiopian People's Revolutionary Democratic Front, and the transitional government of Ethiopia started the process of restoring peace and stability for the first time in nearly two decades. A referendum in Eritrea voted overwhelmingly for independence, declared in May 1993.

A Constituent Assembly, elected through popular vote in the spring of 1994, approved the Constitution of the Federal Democratic Republic of Ethiopia in December 1994. The new constitution has three important features. First, it provides a framework for establishing a decentralized democratic federal system with a bicameral legislature. Both houses jointly elect the president, who is the head of state, while the lower house elects the prime minister, who is the head of government. Second, it provides for the right of self-determination and even secession by any region. Third, it guarantees equal political, economic, and social rights for all, with specific reference to women. National elections are scheduled in May 1995.

Recent Economic and Social Developments

The military dictatorship that ruled Ethiopia for nearly two decades dismantled most of the private sector and imposed a centrally planned economy. These policies, exacerbated by the siphoning of resources for the war effort, left the Ethiopian economy in a shambles. The main economic objectives of the transitional government when it came to power in 1991 were to stabilize and jump-start the economy. Good progress has been made in stabilization, particularly in lowering the rate of inflation through prudent monetary policy. The economy has responded favorably to the change in policy direction, and to the injection of resources provided by donors. GDP bounced back after a sharp drop in the last two years of the civil war, growing by 12.3 percent in fiscal 1993. In fiscal 1994, agriculture production declined by 5.3 percent, because of droughts, erratic rains, and pest infestations, but this decline was more than offset by strong performance in the industrial and services sectors, which grew by 7.6 and 9.6 percent, respectively, and GDP grew by 1.3 percent.

Macroeconomic management was mixed in fiscal 1994. The overall fiscal deficit (including grants) increased from 7.1 percent of GDP in fiscal 1993 to 10.2 percent of GDP in fiscal 1994 because of a sharp increase in expenditures, from 23.2 to 30.8 percent of GDP. Revenues (excluding grants) also rose, from 11.9 to 13.7 percent of GDP. While part of the increased deficit was financed externally, domestic bank financing reached 2.6 percent of GDP, compared to a target of less than 1 percent.

The structure of expenditures and taxation has improved substantially in recent years. Public expenditures have been sharply reoriented from military spending to the social sectors and infrastructure. In addition, budgetary allocations for operations and maintenance have been increased. The government introduced income and sales tax reforms, improved the management of counterpart funds, and completed its first public expenditure review.

The foreign exchange auction system, established in May 1993, has functioned effectively and grown significantly in volume. Following the 140 percent devaluation of the birr in October 1992, the gap between the auction has been and parallel rates has been narrowed to less than 10 percent and the negative import list for the auction gradually reduced. The exchange rate, based on the auction rate, depreciated by over 30 percent in real terms during fiscal 1994. The trade deficit narrowed somewhat, but the current account deficit remained fairly constant at 3.4 percent of GDP including official transfers (10.2 percent excluding official transfers). Gross official reserves had risen to about seven months of imports by December 1994.

Macroeconomic management is made more difficult by the surge in international coffee prices. It is now projected that coffee revenues will more than double this fiscal year. If measures are not taken to prevent these foreign exchange inflows from being translated into rapid monetary expansion, they could exacerbate inflationary pressures and result in a real appreciation of the exchange rate. This may have already started to happen, as the annual average inflation rate reached 7.6 percent in 1994 (17.1 percent on an end-period basis), compared with an average of below 3 percent in fiscal 1994. The government is considering policy measures to prevent these negative trends, in particular tightening fiscal and monetary policies.

The government has implemented several important economic measures over the past two years. All export taxes, except on coffee, have been eliminated, and license fees have been reduced for coffee exporters. All retail prices, except petroleum and pharmaceuticals, have been decontrolled. Maximum import duties were lowered from 200 to 80 percent. One-stop investment offices were opened in the past year at the central government level and in some regions. Domestic private participation in freight forwarding and clearing has been allowed, and the domestic private sector can now engage in banking activities. The availability of foreign exchange for business, education, and medical travelers has been increased and the need for clearance from the tax authorities for foreign travel eliminated. The coffee marketing parastatal's monopoly status has been abolished by allowing private-sector coffee marketing. Implementation of the new land leasing policy has started, with the first urban land auction conducted in January 1995. While the transitional government has made important strides in reversing the negative policies of the past, constraints to future growth remain. In the productive sectors, a key goal is the creation of competitive markets.

Poverty and Social Indicators

With an estimated GDP per capita of $100 a year, Ethiopia is one of the poorest countries in the world. Over half the population, which is growing at over 3 percent a year, suffers from chronic food insecurity. Ethiopia has some of the worst social indicators in Africa, with an infant mortality rate of 122 per 1,000 live births, maternal mortality of 700 per 100,000 live births, and a mortality rate of over 20 percent for children under five. Primary school enrollment is only 25 percent, and even lower for girls. More than half the population has no health facilities within ten kilometers. Only about 17 percent of the total population, and less than 12 percent of the rural population, has access to safe potable water. Almost 40 percent of urban dwellers and most of the rural population have no sanitation facilities.

While reducing this massive structural poverty is a long-term endeavor, the transitional government has already taken important steps to ameliorate many of the more urgent problems. The government has established social safety nets to reintegrate displaced people and demobilized soldiers into their communities, and provide training and employment for the disabled and orphans. A social rehabilitation fund has been launched to support income generation and community efforts to improve essential infrastructure and social assets. In addition, following recently formulated sector strategies, resources have been shifted substantially toward providing basic social and economic services, and away from military uses. Budget allocations for education increased from 7 percent in fiscal 1989 to 13 percent in fiscal 1994, allocations for health increased from 3 percent to 7 percent, and allocations for roads increased from 3 percent to 11 percent during the same period. The government has also developed detailed strategies for overall poverty reduction, population management, women, education, health, and environment. The new constitution guarantees the rights of women to own, manage, transfer, and inherit properties, including access to, and transfer of, land. Moreover, the constitution protects women from customs that have damaged women mentally and physically over generations.

The government has launched an important move toward regionalization, which is transferring significant autonomy and responsibility to regional administrations. This is a major departure from the highly centralistic regimes that ruled Ethiopia for generations, and is designed to respond to the aspirations of various ethnic groups for a larger degree of control over their own affairs.

Continuing Reform

The transitional government set out its priorities for the next phase of reforms in the October 1994 third policy framework paper. In the fiscal area, measures to be taken to increase revenues include reducing tax rates, broadening the tax base, simplifying tax brackets, and increasing taxpayer compliance. In the area of monetary and financial policy, positive real interest rates are to be maintained and the central bank is expected to increase the range of minimum deposit and maximum lending rates. The trade regime is to be further liberalized, with lower tariff rates and fewer import duty exemptions. The government also plans to review and amend the legal and regulatory framework to remove impediments to private-sector activities, and the recently established privatization agency will develop a plan and timetable for public enterprises to be divested and define the modalities of privatization (sales, leases, and management contracts). Emphasis will also be placed on selling government-owned houses to the private sector and compensating the previous owners of nationalized houses.

Key policy reforms in agriculture are expected to include liquidating or divesting state farms and phasing out the subsidy on fertilizer prices, with a view to eventual full deregulation. The government is seeking financing to implement a recently completed national conservation strategy, and has drafted a national energy policy and strategy. The government is preparing a road sector plan that includes expanding the rural road network and ensuring adequate maintenance and upgrading of existing roads.

Expenditures on basic education and health are expected to increase further. Legal restrictions on family planning will be removed, and actions are to be taken to remove legal and administrative constraints on women's access to credit, land-use rights, inputs, and services.

Key Sectoral Issues and Policies

Agriculture accounts for about 55 percent of GDP (at factor cost), 60 percent of merchandise exports, and 80 percent of employment, and will remain the major contributor to economic growth in the medium term. The potential for expanding output is large if actions are taken to expand irrigation, improve inputs supply, correct price incentives, strengthen research and extension systems, and rehabilitate infrastructure. Higher output can help reduce the chronic food deficit, boost exports, and stimulate growth in the agroprocessing industry and related services. Agriculture growth stagnated at 0.6 percent in the 1970s and 1980s, mainly because of devastating droughts and pest infestations, land loss due to environmental degradation, poor infrastructure, a legacy of disrupted agricultural production caused by civil conflict, and inappropriate policies. The sector has responded positively to reforms, which include the freedom to hire farm labor and decontrol of agricultural marketing. The government's long-term development strategy is based on agriculture-led industrialization that predicates using agriculture as a primary stimulus to generate employment and income for the poor, and as the springboard for developing other sectors. Agricultural production is to be increased by improving productivity on smallholder farms and encouraging large-scale private commercial farms, especially in the lowlands.

Despite considerable progress in liberalizing agriculture and taking measures to mitigate the impact of drought, a structural food deficit is projected to last into the next century. The need to ensure adequate food supplies is a heavy burden on the central and regional authorities and highlights the urgency of accelerated agriculture development and food-security planning. A key concern of the Ethiopian authorities is to reduce the rural population's vulnerability to famine. Food security is to be pursued through a concentrated effort to increase the productivity of smallholder agriculture.

Industry accounts for only 10 percent of GDP, and exports of manufactured products are only about one-fourth of merchandise exports. The main factor contributing to the past poor performance in the sector was excessive regulation, including severe restrictions on domestic and foreign private investment and a policy environment biased against exports that isolated Ethiopian industry from international competition. Good initial progress has been made in encouraging private sector development.

Ethiopia's road transport system cannot support an efficient and market-based production and distribution system. Its road density is one of the lowest in Africa. Nearly three-quarters of farms are more than half-a-day's walk from all-weather roads. About 65 percent of the road network is in poor condition, largely as a result of inadequate maintenance, the effects of war, and heavy vehicle overloading. Deregulation of the transportation system and liberalization of freight tariff rates has begun, and the government is preparing a road sector strategy aimed at institutional strengthening, priority road rehabilitation and maintenance, new investment in all classes of roads — including rural access roads — and improving village travel and transport. Ethiopia is one of the countries most poorly supplied with modern energy and is highly dependent on woodfuels. In 1989 its per capita consumption of petroleum and electricity was about one-fourth of that in Kenya. In recent years, the demand for energy, especially electricity, has increased rapidly.

Ethiopia is undertaking a water resource management plan, with assistance from bilateral donors. Provision of water supply and sanitation services is severely deficient. Institutions, both at the center and the regions, lack capacity to plan, operate, and maintain the services. The government's main sector objectives are to rehabilitate and improve the physical infrastructure and operations of the sector, and to build management capacity.

Although Ethiopia has improved its export diversity since 1989, it still relies heavily on coffee exports, which amounted to more than one-half of total commodity exports in fiscal 1994. On the services account, Ethiopian Airlines continues to be an important source of foreign exchange. Recently, merchandise exports have recovered substantially in response to devaluation of the exchange rate and more liberalized incentives. Moreover, the recent sharp increase in world coffee prices holds good prospects for significantly increased export earnings this coming year; exports will be further enhanced by recent signs of export diversification in horticultural products, sesame, and haricot beans.

Environment

Land degradation caused by inappropriate forest clearance, soil surface exposure, and overgrazing stands out as the most severe environmental problem in Ethiopia today. It is estimated that nutrient loss and soil erosion result in forgone agricultural production of close to 600,000 tons of grain per year, equivalent to 90 percent of Ethiopia's structural food deficit in 1993. Degradation and lack of adequate water resources have also severely affected crop and livestock production, human health, and industrial and commercial processes. Urban degradation in the form of poor sanitation, inadequate solid waste management and drainage, and to a lesser extent industrial pollution is also becoming increasingly problematic. The government has recently completed a forestry action plan, which together with the national conservation strategy completed earlier constitutes the national environmental action plan. This plan sets out a comprehensive framework for addressing environmental problems across every sector and lays the basis for sustainable economic growth in the future. The newly established National Environmental Protection Agency will have primary responsibility for setting standards and enforcing environmental legislation, while national and regional program coordination committees are expected to be the main vehicles for ensuring overall coordination, policy direction, and monitoring. The government is also preparing a biodiversity strategy, which will enable Ethiopia to meet its commitments under the terms of the UN Convention on Biological Diversity.

External Debt

Ethiopia's stock of external debt more than tripled over 1982-92. A rapidly widening current account deficit during this period was financed largely through official transfers (mostly from relief assistance) and external loans (mostly multilateral and former Eastern Bloc countries). By June 1992 arrears to creditors reached $716 million — including commercial defense credits but excluding official defense credits by the former Soviet Union. Since then, Ethiopia has made significant progress in improving its external debt situation and creditworthiness by obtaining debt relief of at least $673 million as a result of negotiations with the Paris Club in December 1992. This reduced Ethiopia's debt service ratio from 82 percent in fiscal 1992 to 49 percent in fiscal 1994. The government is trying to secure comparable debt relief from other bilateral official creditors, and a debt buy-back operation, scheduled for completion in fiscal 1995, is expected to retire a large portion of Ethiopia's commercial debt. Public external borrowing on nonconcessional terms is now limited to trade-related credits of less than one year.

Medium-Term Prospects

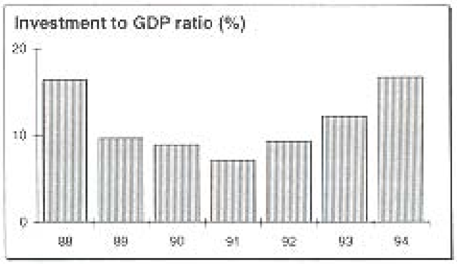
Given continuing reforms, Ethiopia's real GDP is expected to grow about 6 percent for fiscal years 1995-97. The annual budget deficit before grants is projected to be about 13 percent of GDP over this period. This is largely due to the need to increase operations and maintenance spending and to rehabilitate (and selectively expand) infrastructure. Part of imports will continue to support reconstruction of the war-torn economy. Growth prospects for exports are optimistic in the next few years, because of expected increases in coffee export receipts.

Ethiopia

Population mid-1993 *(millions)*	**51.9**	Income group: **Low**
GNP per capita 1993 *(US$)*	**100**	Indebtedness level: **Severely indebted**

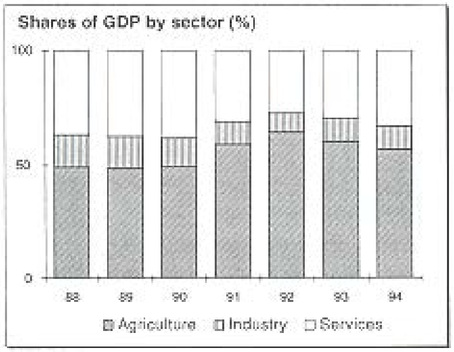
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.0	8.9	9.3	12.2	16.7
Exports of goods and nfs/GDP	8.2	7.8	4.6	..	12.3
Gross domestic savings/GDP	1.0	4.3	3.0	3.5	4.4
Gross national savings/GDP	3.4	6.1	9.4	9.9	10.8
Current account balance/GDP	..	..	..	..	..
Interest payments/GDP	..	..	..	..	..
Total debt/GDP	..	..	..	..	..
Total debt/exports	285.4	444.6	562.7	621.3	896.5



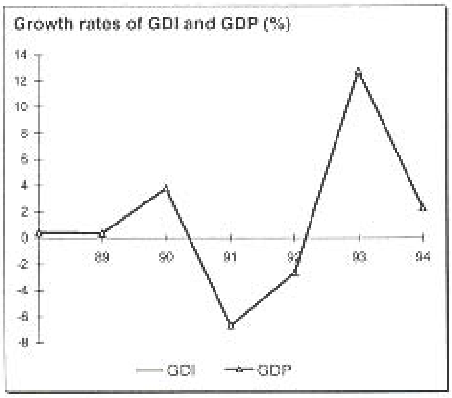
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	53.3	49.3	64.4	60.5	57.0
Industry	12.8	12.7	8.4	10.3	10.1
Manufacturing	4.9	4.9	2.2	3.8	3.3
Services	33.9	38.0	27.1	29.2	32.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	6.3	-0.4	-4.6	6.4	-6.5
Industry	0.2	-3.2	-17.5	27.1	1.7
Manufacturing	4.1	1.1	-9.6	51.9	7.1
Services	5.7	6.6	4.9	18.1	13.4
GDP	5.0	1.9	-2.7	12.8	2.3



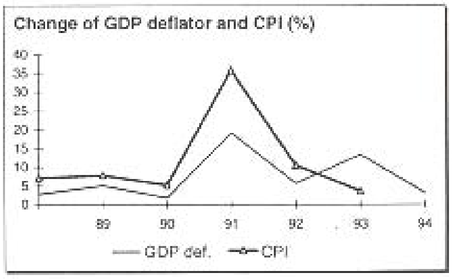
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	84.6	77.2	86.7	85.7	83.2
General government consumption	14.4	18.5	10.3	10.8	12.4
Gross domestic investment	9.0	8.9	9.3	12.2	16.7
Exports of goods and nfs	8.2	7.8	4.6	..	12.3
Imports of goods and nfs	16.2	12.4	10.9	..	24.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	4.9	1.6	-2.8	12.4	1.8
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	19.1	5.2	10.5	3.5	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	28.1	1.7	5.7	13.3	3.1
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



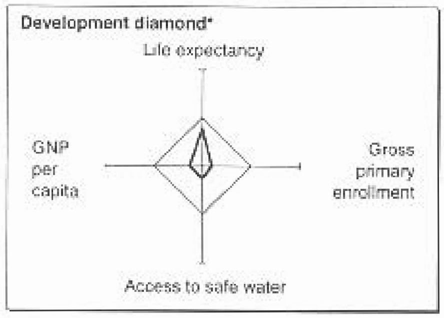
Note: Social indicators (except for population data), as well as data on trade, balance of payments, and debt, include Eritrea. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Ethiopia

POVERTY and SOCIAL

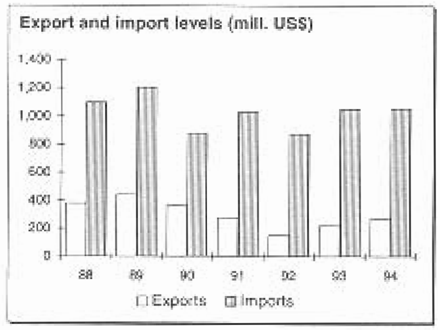
(annual growth rates)	1985-90	1990-94
Population	2.8	3.0
Labor force	2.0	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	48.0
Infant mortality *(per 1,000 live births)*	116.6
Child malnutrition *(% of children under 5)*	46.9
Access to safe water *(% of population)*	17.5
Energy consumption per capita *(kg oil equivalent)*	23.1
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	22.0



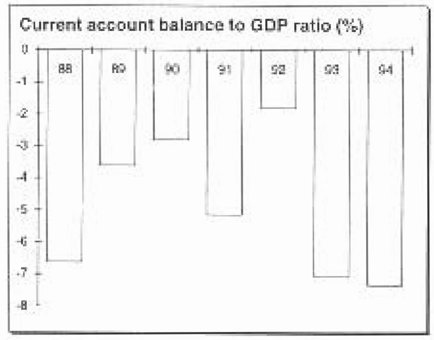
TRADE

(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	359	366	154	222	270
Coffee	225	196	81	126	149
Hides	46	64	28	32	..
Manufactures	..	..	..	..	..
Total imports (cif)	975	881	875	1,051	1,055
Food	283	74	132	166	..
Fuel and energy	186	109	120	240	..
Capital goods	249	340	320	327	..
Export price index *(1987=100)*	96	101	40	40	..
Import price index *(1987=100)*	101	77	60	59	..
Terms of trade *(1987=100)*	95	130	67	68	..
Openness of economy *(trade/GDP,%)*	24	20	16	..	37



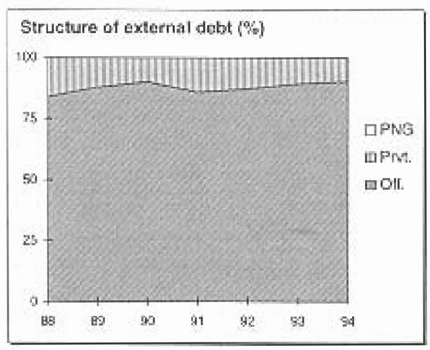
BALANCE of PAYMENTS

(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	549	672	453	507	529
Imports of goods and nfs	1,082	1,069	1,074	1,263	1,235
Resource balance	-533	-397	-622	-756	-706
Net factor income	-33	-67	-85	-75	-97
Net current transfers	193	221	526	398	408
Current account balance					
Before official transfers	-373	-243	-180	-433	-395
After official transfers	-123	-131	41	-183	-180
Long-term capital inflow	333	99	48	56	115
Total other items (net)	-163	-42	-23	231	293
Changes in net reserves	-48	73	-66	-104	-228
Memo:					
Reserves excluding gold *(mill. US$)*	148	20	232	456	544
Reserves including gold *(mill. US$)*	216	65	270	500	588
Conversion rate *(local/US$)*	2.1	2.1	2.1	4.3	5.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	264.4	426.7	540.1	595.2	881.0
IMF credit/exports	10.1	0.8	2.5	6.4	9.3
Short-term debt/exports	11.0	17.2	20.1	19.7	6.2
Total debt service/exports	22.5	28.0	13.5	9.0	16.6
GDP ratios					
Long-term debt/GDP	..	..	..	..	..
IMF credit/GDP	..	..	..	..	..
Short-term debt/GDP	..	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	15.5	9.9	12.8	10.7	9.7
Official creditors/long-term	84.5	90.1	87.2	89.3	90.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Fiji

With a population of 759,000 and a 1993 GNP per capita of $2,130, Fiji is the largest and most developed of the Pacific Island countries. Fertile soils and an abundant stock of forestry, minerals, and fisheries resources provide the natural wealth required to support growth and economic development. While Fiji is constrained by geographic remoteness, small domestic markets, and vulnerability to adverse weather, these constraints are not as severe as in the case of the smaller Pacific Island nations. Due to its central location and its relatively well developed social and economic infrastructure, particularly in transport, education, and communications, Fiji serves as a regional center or hub for the smaller Pacific economies. A number of important regional organizations such as the South Pacific Forum and University of the South Pacific are located in the capital, Suva.

Recent Economic Performance

The economic recession that followed the political turmoil in 1987 quickly erased the limited gains in income that had been achieved over the previous decade, and much of Fiji's growth since 1987 has served primarily to recover the ground lost in that short period. The government confronted the economic crisis with an economic reform program aimed at restoring stability through prudent fiscal, monetary, and exchange rate policies. While the initial economic response to the program was favorable — GDP grew by over 8 percent per year over 1989-90 — the recovery was short-lived.

GDP grew by only 1.9 percent over 1991-93, marginally higher than the rate of population growth. The slowdown in economic expansion in 1993 to 2 percent (from 3 percent in 1992) was in part due to Cyclone Kina early in the year and industrial disputes in the sugar sector that depressed agricultural production. Nonsugar crops suffered a steep fall in value added, and subsistence agriculture registered a 3 percent decline. With the completion of the construction phase of major public investment projects, construction activity also declined sharply after rapid expansion in the previous two years, an adverse movement that was more than offset by strong growth in services, particularly tourist activity.

Growth performance was stronger in 1994; real GDP growth is estimated at 3.2 percent, led by a record sugar production of 480,000 tons and an increase in tourism arrivals to 310,000. Growth was fairly broad-based, with all sectors gaining except wholesale and retail trade.

Formal sector employment growth averaged 2 percent over 1991-93, indicating the modest pace of economic activity. Manufacturing employment has been erratic, with a sharp drop in 1992, and an equally sharp increase in 1993 as new investment, particularly in garments, took place. For 1994, despite the expected moderate expansion in real income, total formal sector employment growth was limited to around 1 percent, representing the creation of only around 1,000 additional formal sector jobs in the Fijian economy.

Investment activity has remained depressed since the 1987 disturbances. Private investment fell from a level of around 12 percent of GDP over 1980-86 to 6 percent in 1989 and has remained stagnant at under 5 percent since 1992, reflecting primarily a loss of confidence among the Indo-Fijian investors in an uncertain political and labor relations environment. Public investment has also been very low, at around 7 percent of GDP in recent years, compared to much higher ratios in the 1970s generated by large infrastructure projects. At 12 to 13 percent of GDP in 1993, total fixed investment in Fiji is among the lowest in the Pacific Island economies. Lack of financing has not traditionally constrained investment: the national savings rate averaged 18 percent in the 1980s, but this dropped to around 14 percent over 1990-93.

After averaging around 1 percent of GDP from 1989 to 1991, the fiscal deficit widened to 3.3 percent in 1992. This deterioration stemmed partly from delayed implementation of the VAT, which had an adverse impact on revenues. Expenditures, on the other hand, grew more rapidly owing in part to generous public-sector wage settlements. The deficit reached 4 percent of GDP in 1993, due to further revenue shortfalls attributable to weather-related economic slowdowns and a decline in customs and excise receipts as a result of tariff reductions associated with trade liberalization. On the expenditure side, outlays on wages and salaries increased 5 percent, as did allocations for rehabilitation and relief operations following the cyclone. Sizable reallocations were made to the operating budget to finance cyclone relief operations, resulting in a drop in capital expenditures. Increased military spending and additional on-lending to public enterprises also contributed to expenditure pressures.

Current estimates suggest that the government achieved its 1994 budget deficit target of 2.9 percent of GDP. The 1995 budget projects a further modest reduction in the deficit to 2.5 percent. However, these figures were based on government plans to restrict wage pressures by placing public-service wage settlements under the Counter-Inflation Act, rather than allow for arbitration. Since this proposal has since been rejected by cabinet, and the wage order rescinded, it is not clear whether the target of reducing the deficit to 2.5 percent for 1995 is still feasible.

During the past several years the deficit has been financed from domestic sources, leading to a rise in domestic public debt outstanding. At the end of 1994 it is estimated that total outstanding government debt reached the equivalent of 42 percent of GDP, down slightly from 45 percent in 1992; but the composition has changed, with domestic debt now amounting to 34 percent of GDP, as compared to only 31 percent in 1992.

Monetary policy in recent years has focused on price stability and on managing the buildup of liquidity in the banking system brought on in part by the low private-sector demand for credit. The rapid growth in total liquidity during the past several years slowed to 6 percent at end-1994, down slightly from 7 percent in 1993 and 25 percent in 1990. Reduction in excess liquidity was achieved primarily through substantial declines in net foreign assets. Domestic credit expansion has decelerated slowly since the rapid growth in 1990-91, dropping to only 10 percent for 1994. Public credit demand grew more rapidly than private credit for 1994; the lackluster private performance reflects the continued absence of private investment activity throughout the economy.

Interest rates have generally been on a declining trend despite reduction in excess liquidity. At the end of June 1994 the weighted average lending rate of commercial banks stood at 11.5 percent, down from 12.4 percent in January 1993. The weighted average deposit rate on outstanding savings deposits showed a similar decline from 4.1 percent to 3.2 percent during the same period, leaving the intermediation spread virtually unchanged. Low inflationary pressures as well as the Reserve Bank's low minimum lending rate (currently 6 percent, down from 8 percent in November 1992) have also contributed to declining interest rates.

Inflation in Fiji has been moderate. Consumer inflation fell from 8 percent in 1990 to around 5 percent during 1992-93, reflecting in part low imported inflation from major trading partners. The 1993 rate would have been lower except for special factors, including the introduction of the value-added tax in July 1992, weather-related shortages of some locally grown foodstuffs, and substantial increases in public housing rental rates in early 1993. Inflationary pressures have since abated, and the annual average inflation rate has eased to 1.5 percent for 1994.

After recording a surplus of 1.3 percent of GDP in 1992, the current account registered a deficit of 2.0 percent of GDP in 1993, as food imports rose in response to domestic production shortfalls, and higher demand for investment and other consumer goods followed the overall credit expansion in the latter half of the year. In 1994 exports expanded fairly rapidly, reflecting moderate increases in the traditional exports of sugar, gold, timber, and fish, continued growth in tourism arrivals, and the re-export of an aircraft leased in 1990. Imports are expected to remain strong, again due in part to the import of an aircraft, but lag behind export growth. An improving merchandise trade deficit, coupled with strong tourism earnings, should shift the 1994 current account into a small surplus. The 1994 capital account should register a substantial surplus because of direct investment inflows to finance aircraft and a reduction in commercial banks' net holdings of foreign assets that together offset net outflows on long-term capital. Reserves are equivalent to 4.9 months of import payments.

Development Objectives and Policies

In the early 1990s real per capita income in Fiji was virtually the same as it had been ten years earlier. The elected government that took office in May 1992 expressed a commitment to continue with the reform program begun in 1987. Since 1992, various measures have targeted the need to maintain macroeconomic stability, enhance Fiji's competitiveness, and redefine the role of the government. They include the gradual replacement of import licensing with tariffs; steady reduction of the maximum general tariff; abolition of four separate indirect taxes and implementation of a uniform value-added tax set at 10 percent; attempts to improve competition in the labor market; and intentions to reduce the Defense Force to the pre-1987 level over the next three years.

Medium-Term Prospects

Given Fiji's relatively favorable resource endowment and growth potential in a wide range of sectors — agriculture, fisheries, manufacturing, tourism, mining — and the demonstrated ability of its entrepreneurs to move quickly when the incentives are appropriate, its development policy agenda stands a good chance of being successful. Government actions that demonstrate commitment to development that is based on outward-looking market-oriented policies will restore business confidence and create the conditions under which sustained growth can be achieved.

If Fiji is able to move forward with its agenda of structural reform and public sector restructuring, real GDP growth is projected to rise from an average of 3.7 percent over 1995-97 to 4.9 percent over 1998-2002. In this scenario, the restoration of private sector confidence results in an increase in the private investment rate to over 8 percent during the latter period, and government investment in social and physical infrastructure increases. Agricultural restructuring raises agricultural growth and nonsugar exports, while progress on trade deregulation permits Fiji to expand its manufacturing export markets. An 18 percent rate of fixed investment over 1998-2002 would represent a return to the investment levels before 1987. While the external current account deficit rises modestly to 1.8 percent of GDP, the overall debt picture remains favorable, as faster export and GDP growth results in a decline in the debt service and debt to GDP ratios.

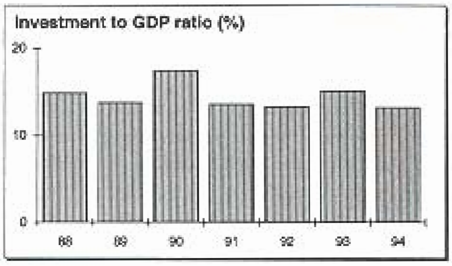
If, however, Fiji makes little progress on its ambitious restructuring agenda, expectations are that the economic performance will continue to stagnate and GDP growth will average only slightly above the 2.2 percent figure for 1990-94, and further deceleration will occur between 1995-97 and 1998-2002.

Fiji

Population mid-1993 *(thousands)*	**762**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**2,130**	Indebtedness level:	**Less indebted**

KEY RATIOS

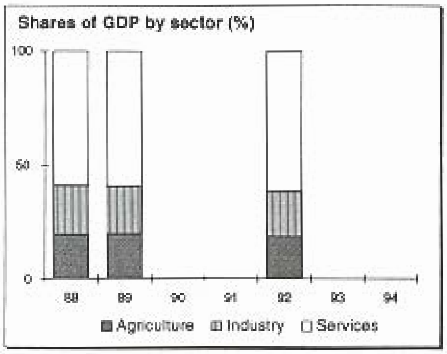
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.1	17.5	13.3	15.1	13.2
Exports of goods and nfs/GDP	44.4	63.6	55.3	55.6	56.9
Gross domestic savings/GDP	18.7	15.1	14.0	13.9	12.5
Gross national savings/GDP	14.0	10.9	14.4	11.0	8.8
Current account balance/GDP	-2.1	-3.7	-0.3	-3.6	2.4
Interest payments/GDP	2.2	2.3	1.5	0.9	1.0
Total debt/GDP	38.9	29.9	21.7	19.6	16.1
Total debt/exports	81.5	44.0	37.7	34.7	27.2



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.3	..	18.5	..	..
Industry	19.5	..	20.0	..	..
Manufacturing	9.5	..	9.9	..	..
Services	62.2	..	61.5	..	..

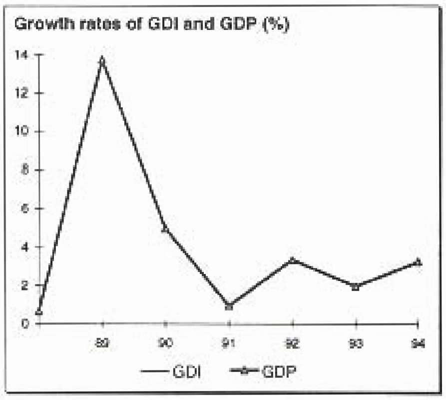
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	2.4	*1.0*	3.1	-0.2	..
Industry	1.4	*3.8*	7.4	-5.2	..
Manufacturing	3.0	*2.5*	-0.8	5.0	..
Services	4.4	*1.7*	1.7	4.6	..
GDP	3.3	2.4	3.3	2.0	3.2



GDP: EXPENDITURE

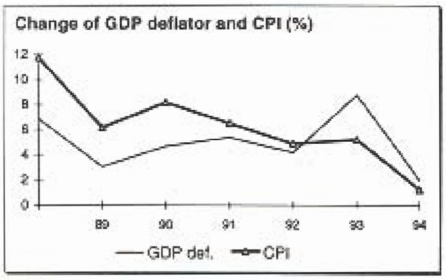
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	62.2	68.3	67.7	65.9	67.4
General government consumption	19.1	16.6	18.3	20.2	20.1
Gross domestic investment	19.1	17.5	13.3	15.1	13.2
Exports of goods and nfs	44.4	63.6	55.3	55.6	56.9
Imports of goods and nfs	44.8	66.0	54.5	56.8	57.6

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	3.2	2.3	2.9	1.7	3.2
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	4.4	8.2	4.9	5.2	1.2
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	6.8	4.7	4.2	8.8	2.0
Government finance					
(% of GDP)					
Current budget balance	1.5	4.9	1.5	0.3	..
Overall surplus/deficit	..	..	..	..	..

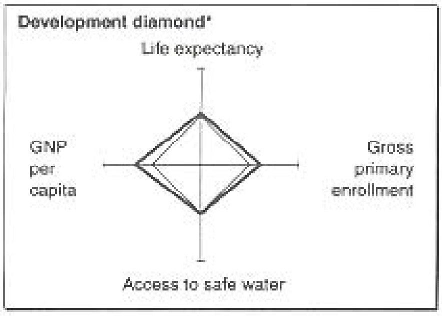


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

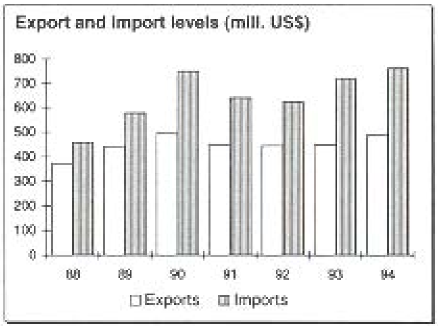
	1985-90	1990-94
(annual growth rates)		
Population	1.4	1.4
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	71.8
Infant mortality *(per 1,000 live births)*	22.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	79.3
Energy consumption per capita *(kg oil equivalent)*	524.9
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	128.0



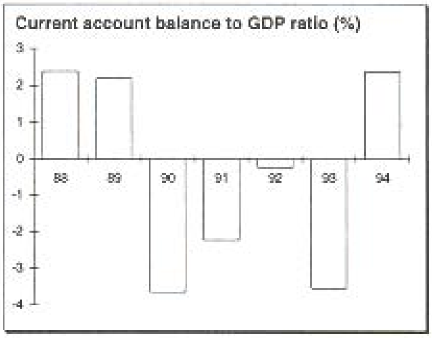
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	237	494	446	449	490
Sugar	97	155	147	150	164
Gold	19	51	40	43	47
Manufactures	..	..	..	..	..
Total imports (cif)	441	752	624	720	763
Food	73	102	96	115	108
Fuel and energy	100	106	89	86	94
Capital goods	80	231	154	199	246
Export price index *(1987=100)*	116	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	89	130	110	112	114



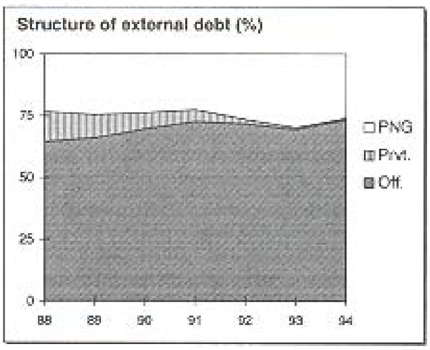
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	509	874	899	951	1,101
Imports of goods and nfs	514	903	838	965	987
Resource balance	-4	-29	61	-14	114
Net factor income	-10	1	-49	-35	-50
Net current transfers	-9	-22	-16	-11	-20
Current account balance					
Before official transfers	-24	-51	-4	-60	44
After official transfers	9	-34	22	-33	57
Long-term capital inflow	9	40	27	9	36
Total other items (net)	-23	30	4	-19	-101
Changes in net reserves	5	-36	-53	43	8
Memo:					
Reserves excluding gold *(mill. US$)*	131	261	317	269	273
Reserves including gold *(mill. US$)*	134	261	317	270	273
Conversion rate *(local/US$)*	1.2	1.5	1.5	1.5	1.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	75.3	42.8	34.3	29.8	22.8
IMF credit/exports	2.7	0.0	0.0	0.0	0.0
Short-term debt/exports	3.5	1.3	3.4	4.9	4.5
Total debt service/exports	11.7	11.3	9.3	5.8	6.2
GDP ratios					
Long-term debt/GDP	36.0	29.0	19.8	16.8	13.4
IMF credit/GDP	1.3	0.0	0.0	0.0	0.0
Short-term debt/GDP	1.7	0.9	2.0	2.8	2.6
Long-term debt ratios					
Private nonguaranteed/long-term	26.3	23.6	26.4	29.6	25.9
Public and publicly guaranteed					
Private creditors/long-term	20.0	6.7	1.9	1.0	0.8
Official creditors/long-term	53.7	69.7	71.8	69.4	73.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Gabon

Gabon is rich in oil, manganese, uranium, and forests, and has one of the highest per capita incomes in Sub-Saharan Africa, with a postdevaluation GDP per capita for 1994 estimated at \$3,808. In terms of social indicators, however, Gabon has achieved far less than comparable countries — there is a 72-place gap between Gabon's ranking based on the UN Human Development Index, at 114 out of 173, and its ranking based on GDP per capita, 42 out of 173. In 1993, 37 percent of adults and 44 percent of females were illiterate, infant mortality was 92.2 per 1,000 live births, and life expectancy at birth was 54 years. With just over 1 million inhabitants and an area of 268,000 square kilometers, Gabon is sparsely populated, but the population is growing at 2.8 percent per year. It is the most urbanized country in Africa (73 percent), with almost half of the population — just under 419,000 — concentrated in the capital, Libreville. There is also a significant foreign presence, and the 18 percent of the adult population that is non-Gabonese substitutes for Gabonese labor at all levels. While basic infrastructure exists in telecommunications, transportation, and energy, it requires maintenance and upgrading. Finally, Gabon offers one of the largest remaining pristine ecosystems in the world. Two-thirds of its forests are either untouched or relatively undisturbed; it is estimated that they harbor over 8,000 plant and 600 bird species, contain Africa's largest population of forest elephants, and provide sanctuary for at least 20 primate species.

Gabon's economy is characterized by the distortions that affect many resource-rich countries in which excessive demand for nontradable goods raises factor costs, impeding diversification into less resource-intensive tradable products. As a result, the basis for diversified growth in Gabon has yet to be built. The economy is dominated by the oil sector; it accounts for one-third of GDP, close to half of government revenue, 50 to 60 percent of gross investment, and over three-quarters of merchandise exports. The country relied in the past on spending oil revenue on public investment projects with poor rates of return and on a scale that exceeded the absorptive capacity of the economy, which undermined Gabon's competitiveness and exacerbated its dependence on oil. The modern sector is dominated by inefficient public enterprises and the private sector is stifled. A strong Gabonese entrepreneurial class has yet to emerge. The development of agriculture and small and medium enterprises, which ought to provide employment and income opportunities for the bulk of the labor force, has been hindered by a loss of competitiveness. The underdevelopment and inadequate maintenance of the transport sector, combined with excessive pump prices for gasoline, imply a significant bottleneck to developing other sectors, particularly agriculture and forestry.

Gabon's economy has been in decline since 1986, when the price of crude oil fell 50 percent. Public investment fell as government revenues declined; real nonoil GDP shrank 1.8 percent a year from 1985 to 1994. The crisis significantly curtailed employment in the formal sector: the public and parapublic modern sector contracted by 25 percent from 1985 to 1992; the number of jobs in the modern private sector fell by over 50 percent, and oil employment declined 18 percent. The nonoil private sector accounted in 1992 for only 28 percent of total employment. The loss-making parapublic sector accounts for 35 percent of value added and over 40 percent of employment of the nonoil corporate sector. In 1993, the last year for which comprehensive data are available, subsidies to the public enterprise sector were equivalent to 2 percent of GDP.

The government resorted to accumulating arrears to finance its budget deficits, and by December 1993 external arrears had swollen to \$1.1 billion, about one-third of external public debt. The current account of the balance of payments was in deficit because of the disequilibrium of public finances. The government's financial difficulties also threatened to paralyze the domestic financial system.

Recent economic and political developments

In January 1994 the CFA franc was devalued 50 percent against the French franc and the real effective exchange rate improved by some 40 to 45 percent. The devaluation created new possibilities for stabilization and adjustment in Gabon, which negotiated a new program with the IMF. In April a rescheduling agreement was concluded with the Paris Club and in May with the London Club. These agreements also covered most outstanding arrears on the external debt.

After the devaluation, the government took several measures to maintain the real exchange rate depreciation, including capping public sector wage increases at 10 percent in 1994 and giving appropriate signals to guide wage negotiations in the private sector. It also took a regional lead in reducing average customs duties and simplifying the tariff structure to a four-rate system of 5, 10, 20, and 30 percent, and lifted all quantitative restrictions on imports, except sugar, and replaced them with a three-year surtax to be reduced progressively from 30 percent to zero. It reduced indirect taxes on petroleum products sold on the domestic market to maintain pump prices unchanged until a new system with value-added taxes is instituted in April 1995, and implemented a new electricity tariff structure.

The IMF program is broadly on track. The primary surplus amounted to $205 million, or 5 percent of GDP, twice the program's target, and domestic arrears were reduced by $109 million, almost one-third of the outstanding amount. A shortfall in nonoil revenue was compensated by oil revenue greater than expected and by lower public investment expenditures than programmed. Inflation for 1994 was 35 percent, and private sector wage increases did not exceed 20 percent. Import volume dropped 16 percent while export volume grew by over 7 percent.

The 1994 devaluation had the anticipated contractionary effect on private demand. GDP growth was sluggish at 0.3 percent, while nonoil GDP fell by 6.2 percent. Agriculture, services, and manufacturing contracted, while other industrial sectors grew, buoyed by improved exports of oil, timber, and uranium. An 8.5 percent rise in investment expenditures and a 3 percent increase in government spending partially alleviated the impact of a 18 percent drop in consumption. Domestic savings reached a post-1986 high of almost 50 percent of GDP. The current account surplus continued to climb from 1.5 percent in 1993 to 8.1 percent in 1994. Government expenditures exceeded revenue by $78.5 million in 1994, corresponding to a budget deficit of 2 percent of GDP. Overall government indebtedness remains a serious problem, with $3.5 billion in public and publicly guaranteed external debt outstanding at the end of 1994, the equivalent of 95 percent of GDP.

The December 1993 presidential election was an important stage in Gabon's transition toward multiparty democracy, which began with a national conference in March 1990 and was followed by multiparty legislative elections in September 1990. The main mandate of the new government is to change the electoral code to increase transparency and credibility before the next legislative elections, slated for April 1996. A campaign to regularize or repatriate illegal immigrants by February 15, 1995, has been essentially completed without major incident.

Medium-Term Outlook

The government is laying the foundation of a strategy based on redefining the roles of the state and the private sector in the economy, including disengaging from direct involvement in productive sectors while increasing its role in providing public goods, including protecting the environment and biodiversity, and ensuring adequate and efficient services in health and education. The strategy also calls for reinforcing Gabon's institutional framework to be more conducive to the development of efficient markets; and giving competition and market mechanisms a greater role as the main regulators of private-sector activity.

The government is committed to restructuring the state sector, and has created a privatization unit within the Ministry of Commerce to oversee the withdrawal of the state from productive activities. A privatization law and decree to apply the 1989 competition law have been drafted. Plans for restructuring the largest public enterprises — electricity and water, post and telecommunications, the refinery, the railroad, and the airline — have been submitted. The electricity firm is already under private management.

The government's program of economic reforms is forecast to generate nonoil GDP growth of 3.5 percent a year over the medium term. In the longer run, as structural reforms bear fruit and increase the aggregate productivity of investment, nonoil GDP growth is predicted to accelerate to about 6 percent a year. The incremental capital-output ratio is expected to decline from a historical level in excess of 10 to about 6 within the next decade. Nontraditional exports are projected to increase at about 10 percent a year, in contrast to total exports, which will remain dominated by petroleum (which is expected to stagnate) and are thus forecast to grow at less than 1 percent per year.

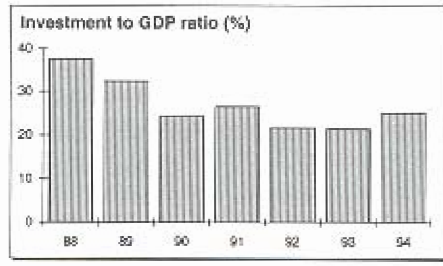
Gabon

Population mid-1993 *(millions)* **1.0**
GNP per capita 1993 *(US$)* **4,960**

Income group: **Upper-middle**
Indebtedness level: **Moderately indebted**

KEY RATIOS

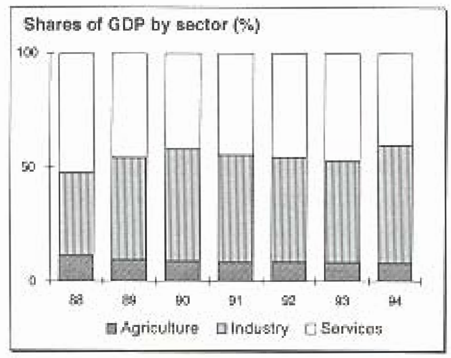
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	38.3	24.4	21.8	21.5	25.3
Exports of goods and nfs/GDP	56.9	50.2	46.8	46.4	62.4
Gross domestic savings/GDP	51.9	41.2	36.0	36.1	47.0
Gross national savings/GDP	42.3	27.7	20.6	20.9	27.3
Current account balance/GDP	-4.8	3.3	-1.1	-0.7	1.8
Interest payments/GDP	1.6	1.4	4.2	0.6	2.4
Total debt/GDP	32.9	72.7	68.3	69.7	102.8
Total debt/exports	56.9	144.2	143.3	148.4	167.7



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	6.2	8.6	8.4	8.2	7.9
Industry	59.5	49.6	46.1	44.5	52.0
Manufacturing	5.2	11.6	11.7	11.4	11.0
Services	34.3	41.8	45.5	47.4	40.1

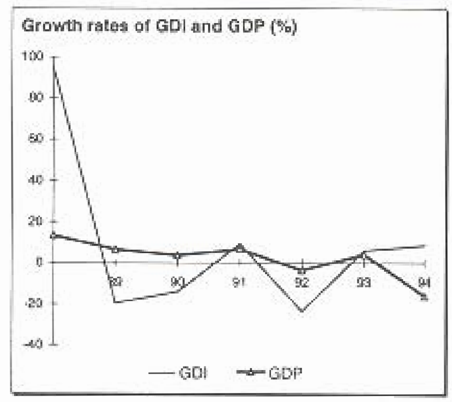
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	1.1	-0.3	-2.2	1.1	-3.4
Industry	1.4	2.8	-2.5	4.0	2.2
Manufacturing	16.4	-0.3	-2.2	1.1	-3.4
Services	0.0	-9.2	-5.0	4.8	-39.9
GDP	0.8	-2.1	-3.6	4.1	-16.1



GDP: EXPENDITURE

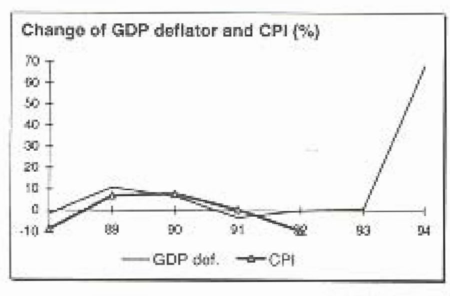
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	29.5	41.9	44.2	48.2	40.5
General government consumption	18.6	16.9	19.8	15.7	12.6
Gross domestic investment	38.3	24.4	21.8	21.5	25.3
Exports of goods and nfs	56.9	50.2	46.8	46.4	62.4
Imports of goods and nfs	43.2	33.4	32.5	31.8	40.7

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	-0.5	-15.0	5.8	0.8	-59.8
General government consumption	-6.4	1.2	1.8	-1.3	2.9
Gross domestic investment	-9.4	-2.8	-23.4	6.0	8.5
Exports of goods and nfs	6.4	4.5	3.7	6.1	4.9
Imports of goods and nfs	-7.7	-1.6	4.2	1.5	-9.7
Gross national product	0.0	-5.0	-7.0	3.2	-23.8
Gross national income	-3.9	-8.8	-7.8	1.2	-30.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	-12.9	7.7	-9.6	..	..
Wholesale prices	11.8	..	..	..	..
Implicit GDP deflator	8.4	6.5	0.0	1.0	68.4
Government finance					
(% of GDP)					
Current budget balance	22.5	0.2	0.2	-0.2	3.2
Overall surplus/deficit	-5.0	-4.4	-5.2	-5.8	-4.1



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

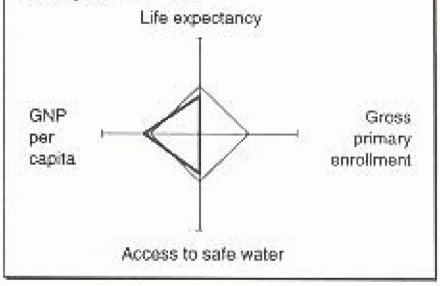
Gabon

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.7	1.7
Labor force	0.7	0.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	53.9
Infant mortality *(per 1,000 live births)*	92.2
Child malnutrition *(% of children under 5)*	25.0
Access to safe water *(% of population)*	72.0
Energy consumption per capita *(kg oil equivalent)*	953.3
Illiteracy *(% of population age 15+)*	39.3
Gross primary enrollment *(% of school-age population)*	..

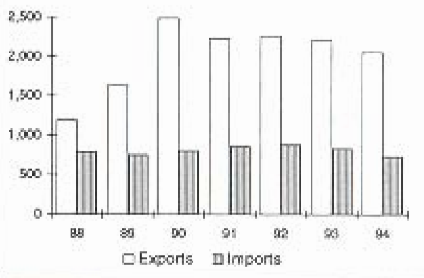
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,951	2,489	2,259	2,209	2,056
Fuel	1,629	1,994	1,844	1,772	1,681
Timber	122	225	199	227	209
Manufactures	..	..	..	506	540
Total imports (cif)	977	805	886	835	735
Food	161	143	174	166	146
Fuel and energy	50	11	12	11	10
Capital goods	215	354	335	320	281
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	100	84	79	78	103

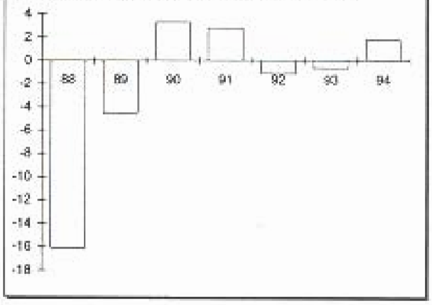
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,090	2,730	2,607	2,542	2,403
Imports of goods and nfs	1,913	1,812	1,811	1,743	1,570
Resource balance	177	919	796	798	833
Net factor income	-244	-602	-714	-696	-690
Net current transfers	-109	-136	-144	-139	-72
Current account balance					
Before official transfers	-176	181	-63	-37	71
After official transfers	-163	203	-52	144	264
Long-term capital inflow	213	-260	-217	-148	179
Total other items (net)	-111	314	84	-55	-326
Changes in net reserves	61	-256	186	59	-117
Memo:					
Reserves excluding gold *(mill. US$)*	193	274	71	1	..
Reserves including gold *(mill. US$)*	197	279	75	6	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2

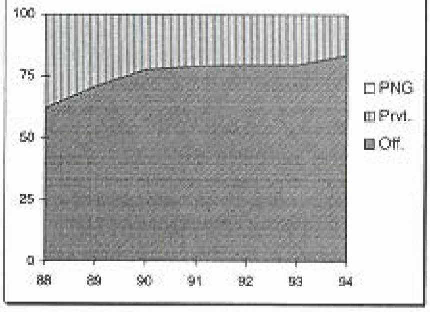
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	44.5	114.0	113.1	112.3	146.0
IMF credit/exports	0.0	5.1	3.0	1.8	2.6
Short-term debt/exports	12.4	25.2	27.2	34.3	19.0
Total debt service/exports	11.6	6.3	16.2	5.7	9.1
GDP ratios					
Long-term debt/GDP	25.8	57.5	53.9	52.8	89.5
IMF credit/GDP	0.0	2.6	1.4	0.8	1.6
Short-term debt/GDP	7.2	12.7	12.9	16.1	11.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	64.0	22.6	20.5	20.4	16.6
Official creditors/long-term	36.0	77.4	79.5	79.6	83.4

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

The Gambia

The Republic of The Gambia is a narrow strip of 10,700 square kilometers on the west coast of Africa surrounded on three sides by Senegal. Limited natural resources and an underdeveloped human capital base have constrained economic diversification and growth. High population density on agricultural land — 207 inhabitants per square kilometer in 1991 — and very high rates of urban population growth are generating mounting concern about environmental issues. The Gambia's open undiversified economy is highly vulnerable to changes in the external environment: adverse weather, fluctuations in the world price of the main export commodity (groundnuts), a changing aid climate, economic conditions in neighboring countries, and shifting demand in Western Europe for tourist services.

The Gambia is one of the least developed countries in Sub-Saharan Africa, with a 1993 per capita GNP of $350. The mainstay of the economy has traditionally been rainfed cultivation of cereals, groundnuts, and other agricultural products, which have been adversely affected by irregular and inadequate rainfall in the past decade. Groundnuts provide about 70 percent of export earnings, and past economic policies did little to broaden export-earning capacity. Potential sources for diversifying growth in The Gambia's economy lie with agriculture, mainly horticultural and livestock products, agricultural and livestock product processing, and light manufacturing, fisheries, tourism, and other services. About one-third of food requirements, all fuel, intermediary and capital goods requirements, and most manufactured goods are imported. Although recent efforts to diversify exports through tourism and re-exports have somewhat improved earnings and broadened the export base, this has not been sufficient to sustain expanding import requirements

Recent Political Developments

From independence in 1965 until July 1994 The Gambia had a democratic multiparty parliamentary system. The last presidential election was held in April 1992. Political stability and a good record on issues such as respect for human rights won The Gambia prestige in the international community, which generated generous aid and technical assistance. However, on July 22, 1994, the government was overthrown in a bloodless coup by junior officers that charged it with widespread corruption and abuse of power. The new government of the Armed Forces Provisional Ruling Council expressed its intention to persevere with the economic policies of the past and honor all external obligations. After foiled coup attempts in November 1994 and January 1995 the provisional council accepted a civilian National Consultative Committee's February 1995 recommendations to return the country to constitutional rule in July 1996.

The military takeover led to an almost complete halt in external support for The Gambia. Except for humanitarian aid, key donors have suspended all program aid including balance of payments support. The withdrawal of donors and the subsequent decline in private sector confidence have had devastating effects on the economy.

In 1985 The Gambia adopted a comprehensive macroeconomic stabilization and adjustment program aimed at liberalizing trade and price policies, establishing a flexible exchange rate and liberalizing interest rate policies, streamlining credit and fiscal policies, and privatizing public enterprises. Implementation of reforms was generally satisfactory, and macroeconomic targets were mostly met. A successor Program for Sustained Development launched in 1990 aims at consolidating past policy reforms and promote private-sector-led growth.

Recent Economic Developments

For the second consecutive year, the Gambian economy has had to withstand severe unanticipated shocks. Over the past 18 months its vulnerable economic base has been affected by three major shocks in addition to political unrest. Senegal effectively closed its border in August 1993 to stop the re-export and transit trade. The Central Bank of the West African States suspended the external convertibility of the CFAF in August 1993, making re-export and cash crop transactions in CFAF less attractive for The Gambia, and in January 1994 the CFAF devalued and accompanying structural reforms were introduced in Senegal and other CFA countries. Its tourism industry also collapsed after an attempted countercoup in November 1994. These shocks slowed economic activities, which adversely affected employment, investment and income levels, government revenues, and the external position. While the developments in the CFA Zone affected re-exports and related transport, the military coup and subsequent related events shattered fledgling tourism, construction, horticulture, and communications industries. The reform-induced supply response and investor confidence in service-related activities have been significantly reduced, and as in the prereform years, the thin economic base is once again virtually dependent on good agricultural production, particularly groundnuts.

Despite external shocks, fiscal 1994 macroeconomic performance was satisfactory, and the reform program remained on track. Although there was a reduction in re-export trade of about 30 percent, it is estimated that GDP grew by about 1.5 percent in real terms as a result of above-average performance in agriculture, tourism, construction, and communications during the period. The government emergency policy measures, first put in place in September 1993, and further strengthened in March 1994, were key in effectively preserving the fiscal and monetary position. Government revenue collection was broadly on target, reflecting improvements in customs and income tax administration. Inflation was kept in check at 5 percent on an annual basis. External reserves remained at a comfortable five month's worth of imports.

The outlook for fiscal 1995 is less promising. With the exception of agriculture (led by a good harvest of groundnuts), with an estimated real growth rate of about 11 percent in fiscal 1995, all other sectors are registering a significant decline. Preliminary estimates suggest that the economy may decline as much as 4 percent in real terms. Tourism — following November 1994 travel restriction by the British and Scandinavian authorities — horticulture, and construction have been hardest hit. The government has been able so far to maintain a prudent fiscal and restrictive monetary stance. On the fiscal side, although revenue levels declined, the government has been effective in curtailing public spending in line with revenue collection. Improved tax administration has been a key in mitigating a more severe revenue loss, and the restrictive monetary stance has been instrumental in maintaining macroeconomic stability. Money supply grew moderately, about 3 percent in the first six months, reflecting government's policy of keeping it in line with nominal GDP growth and anticipated inflation. As a result of sound policies and good agricultural production, inflation has been maintained at about 7 percent. Despite the decline in foreign exchange earnings, the level of external reserves is still healthy, providing a safe cushion against declining imports. The dalasi maintained its value.

While the government's response to the external shocks has been timely and appropriate, it is too soon to assess with any certainty the magnitude of the combined effects of political uncertainty and the CFAF devaluation and Senegal's accompanying adjustment measures that have affected The Gambia's re-export trade. Private traders in The Gambia consider the border issue the key hindrance to the re-export trade and have already diversified their re-export markets in the region.

Reform programs have been broadly on track since 1991. In particular, progress has been made in public enterprise reform as the government privatized core assets of the Gambia Produce and Marketing Board in July 1993, leased the Gambia Utility Company to a foreign private managing company in July 1993, signed a performance contract with the Civil Aviation Authorities, and granted autonomy to the Post Office in early 1993. Ghana's Customs Department began operating a computerized system to improve import duty collection in late 1993, and reorganization of the department is under way after the July 1993 removal of a number of corrupt customs officials. In January 1994 the government initiated measures to broaden the income tax base and its administration. Results thus far have been satisfactory.

After the first six months of military rule the overall macroeconomic framework is relatively intact, although there is evidence of attempts and actual instances of unjustified government interventions in market-based policies, including interference in the importation and distribution of rice and some privatized enterprises, and the lack of an effective collection mechanism for corporate taxes owed by public enterprises.

Progress has been made in revising and expanding the tax base and improving tax collection efficiency and reducing budgetary expenditures while allowing for higher recurrent expenditures on education and health and higher capital expenditure for priority sectors. The budget process and the allocation system, however, are yet to be improved. A three-year rolling public investment program introduced in 1989, is focused on rehabilitation and maintenance in the infrastructure and social sectors and is an integral part of the budget process. Public expenditure reviews are yet to be systematically undertaken in The Gambia, and only the Ministry of Agriculture has made good progress in developing a program budgeting system.

The tax base has shrunk since the July 1994 coup, particularly sales taxes and import duties, owing primarily to the decline in tourism and overall low level of economic activities. However, the level of recovery has improved as a result of enhanced tax administration. Collection of outstanding debts to the now-privatized Gambia Commercial and Development Bank by the

Asset Management Recovery Company has accelerated and doubled since the coup. The settlement of long-pending cases has significantly increased. The recovery firm is in the possession of assets and collateral, whose liquidation has been deferred because of the saturated and depressed real estate market.

Poverty and Social Indicators

The Gambia's poverty is reflected in its low level of human resource development, with social indicators that are among the lowest in the region. Illiteracy is estimated at 73 percent. Official figures put primary school enrollment at about 60 percent, although recent household survey data suggest a level of 40 to 45 percent. Secondary-school enrollment is very low. Infant and child mortality rates are very high (the under-five mortality rate is 242 per 1,000), and there is a high incidence of chronic infectious diseases and seasonal malnutrition. Recent census data suggest a population growth rate of about 4 percent, although heavy in-migration may account for 0.5 to 0.6 percent of this.

The development implications of a rapidly growing population and the gap in human resource development have been recognized by both the previous government and the Provisional Ruling Council. This awareness has changed the stated policy, which now calls for raising the long-term productive potential of the economy and improving the welfare of the population through improved allocation and efficiency in the use of public resources, especially in education, health including family planning and HIV-AIDS control, and poverty alleviation. Access to primary education and health services has been considerably expanded in recent years with donor assistance, and the challenge now is to consolidate on gains made over the past five years and improve the quality of social services. The government adopted a National Population Policy in June 1992, and family planning services, including HIV-AIDS prevention programs are being extended to health centers throughout the country. The government's objectives are to reduce maternal and infant deaths, increase the contraceptive prevalence rate (estimated at 10 percent), and encourage safe sex behavior to help mitigate the spread of HIV-AIDS. Progress in implementing these efforts has, however, stalled in the wake of the July 1994 coup.

Environment

Environmental deterioration is a critical long-term development constraint. In rural areas, natural resources are threatened by increasing population pressures, overgrazing, salinity intrusion along the Gambia River, and inadequate groundwater management. There is also a potential threat to clean groundwater supply in the Greater Banjul area as a result of its proximity to the ocean and a shallow water table. The government has initiated a comprehensive effort to arrest the deterioration of the environment through more careful use of existing resources based on improved resource management practices, and has prepared The Gambia Environmental Action Plan.

Medium-Term Outlook

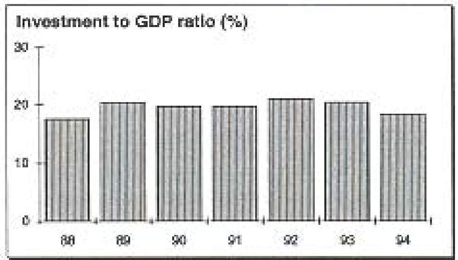
The Gambia's strategy for the medium term focuses on stimulating private-sector development, maintaining macroeconomic stability, and improving incentives as the best means to adjust to a changing external environment. However, recent political events could seriously undermine its development objectives, and medium-term targets established before July 1994 should be reexamined in light of the deteriorating economic base and business confidence. If, however, The Gambia returns to constitutional rule as planned in July 1996, political stability and a reestablishment of private-sector confidence could spur growth in the medium term. Expansion is anticipated in the agricultural sector, export-oriented small-scale manufacturing, fisheries, tourism, and other services. As in the recent past, growth in the agricultural sector will continue to reflect good harvests due to favorable weather conditions, while the service and industrial sectors would respond more slowly because of recent events.

The Gambia

Population mid-1993 *(millions)*	**1.0**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**350**	Indebtedness level:	**Moderately indebted**

KEY RATIOS

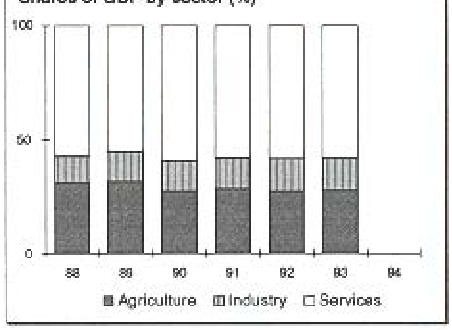
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.5	19.7	21.1	20.5	18.4
Exports of goods and nfs/GDP	40.8	62.2	61.0	53.2	54.3
Gross domestic savings/GDP	5.1	8.8	6.8	8.5	..
Gross national savings/GDP	-4.5	7.7	9.8	10.8	..
Current account balance/GDP	-16.3	-14.3	-1.8	-13.5	..
Interest payments/GDP	0.2	3.1	1.8	1.6	1.6
Total debt/GDP	112.6	108.0	105.8	107.2	109.6
Total debt/exports	278.7	214.6	166.0	187.9	..


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.7	27.3	27.2	27.5	..
Industry	11.4	13.5	14.7	14.6	..
Manufacturing	6.3	7.0	7.2	7.3	..
Services	58.9	59.3	58.1	57.8	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	0.2	*5.0*	-2.3	3.9	..
Industry	4.4	*3.1*	6.2	1.4	..
Manufacturing	5.7	..	..	..	..
Services	3.5	*-1.1*	1.9	1.5	..
GDP	3.5	1.9	-5.8	7.4	-0.2

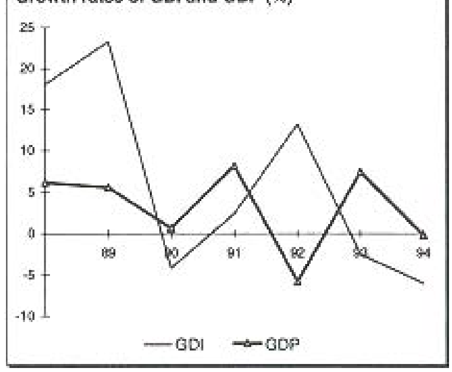


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	81.9	72.3	75.2	73.7	..
General government consumption	13.0	18.9	18.0	17.8	..
Gross domestic investment	12.5	19.7	21.1	20.5	18.4
Exports of goods and nfs	40.8	62.2	61.0	53.2	54.3
Imports of goods and nfs	48.3	73.1	75.2	65.2	60.7

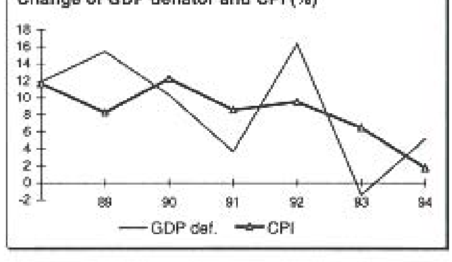
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.2	*37.5*	98.4	4.0	..
General government consumption	5.7	*1.4*	5.2	0.0	..
Gross domestic investment	10.9	2.2	13.2	-2.5	-6.0
Exports of goods and nfs	11.1	2.2	23.8	-12.9	-4.6
Imports of goods and nfs	10.5	27.5	133.8	-7.0	1.2
Gross national product	5.1	2.8	-4.8	6.6	-0.2
Gross national income	4.7	21.7	58.6	5.0	10.6



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	18.3	12.2	9.5	6.5	1.7
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	54.9	10.3	16.3	-1.5	5.2
Government finance					
(% of GDP)					
Current budget balance	1.4	3.1	6.0	4.5	..
Overall surplus/deficit	-6.9	-4.2	-2.1	-2.7	..



Change of GDP deflator and CPI (%)

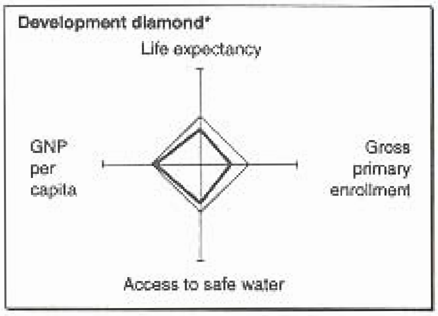
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

The Gambia

POVERTY and SOCIAL

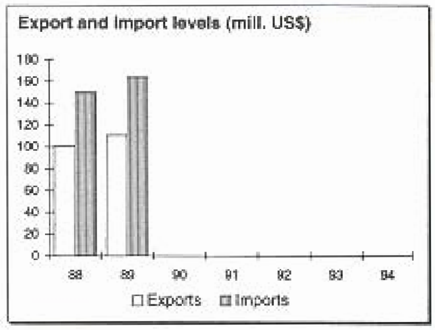
	1985-90	1990-94
(annual growth rates)		
Population	4.3	*4.0*
Labor force	1.4	1.5

	most recent estimate
Poverty level: headcount index *(% of population)*	64.0
Life expectancy at birth	45.4
Infant mortality *(per 1,000 live births)*	130.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	55.0
Energy consumption per capita *(kg oil equivalent)*	56.6
Illiteracy *(% of population age 15+)*	72.8
Gross primary enrollment *(% of school-age population)*	69.0



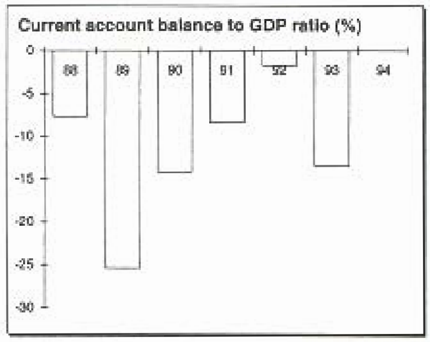
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	66	..	..	..	..
Groundnuts	10	..	..	..	..
Fish	3	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	96	..	..	..	..
Food	34	..	..	..	..
Fuel and energy	12	..	..	..	..
Capital goods	18	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	89	135	136	118	115



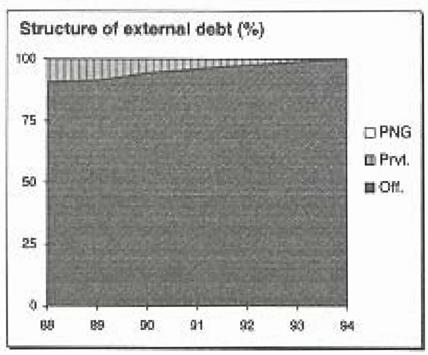
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	88	164	228	200	..
Imports of goods and nfs	104	197	245	258	..
Resource balance	-16	-33	-17	-58	..
Net factor income	-24	-23	-3	-5	..
Net current transfers	5	9	13	14	..
Current account balance					
Before official transfers	-35	-47	-6	-49	..
After official transfers	-1	-2	38	-7	..
Long-term capital inflow	20	26	37	14	..
Total other items (net)	-9	-17	-36	-13	..
Changes in net reserves	-10	-7	-40	7	..
Memo:					
Reserves excluding gold *(mill. US$)*	2	55	94	..	98
Reserves including gold *(mill. US$)*	2	55	94	..	98
Conversion rate *(local/US$)*	5.0	7.9	8.8	9.5	9.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	200.9	185.4	149.0	169.6	..
IMF credit/exports	37.5	26.9	15.3	16.1	..
Short-term debt/exports	40.3	2.2	1.7	2.1	..
Total debt service/exports	10.4	22.3	12.6	13.5	..
GDP ratios					
Long-term debt/GDP	81.2	93.3	94.9	96.8	100.9
IMF credit/GDP	15.2	13.6	9.8	9.2	7.9
Short-term debt/GDP	16.3	1.1	1.1	1.2	0.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	21.6	5.9	2.6	1.3	0.0
Official creditors/long-term	78.4	94.1	97.4	98.7	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Georgia

Georgia was among the first republics of the former Soviet Union to declare independence, in April 1991. It has a population of 5.4 million in a geographical area of 70,000 square kilometers, bounded by the Black Sea, Russia, Azerbaijan, Armenia, and Turkey. Georgia's per capita income was estimated at $580 for 1993.

Over 1989-91 agricultural production accounted for about 33 percent of NMP, which was relatively more important than in most other Soviet countries. Industry, of which agro-industry is an important part, accounted for 37 percent and included high technology and light industrial goods. The remaining value added was distributed among transport (5 percent), construction (11 percent), trade and catering (6 percent), and others (8 percent). Georgia produced almost the entire citrus and tea crop of the former Soviet Union and was responsible for a large share of the grape crop. In addition, with its access to the Black Sea and semitropical weather along the coast, Georgia was a major tourist destination for vacationers within the Soviet bloc. Its location also made it a primary transit conduit for goods shipped elsewhere in the Caucasus. Private-sector activities were emerging in Georgia even before independence: almost one-third of agriculture labor was working on private plots; about 95 percent of rural housing was private, and privatization of residential housing had begun in urban areas. Georgia has a long history of nonofficial market transactions, and there is substantial evidence of a significant informal economy.

Trade, largely with the other Soviet states, played a major role in the economy. External trade amounted to almost 43 percent of GDP over the 1988-90 period, with inter-republican trade accounting for 85 percent of the total. Georgia relied heavily on imports of energy, most notably from Russia (for electricity and crude oil) and Turkmenistan (natural gas). Imported energy amounted to about 80 percent of total energy supply in 1990. By far the largest trading partner for all products was Russia.

Georgia suffered intense civil conflict after its independence. Throughout 1992 and 1993 government forces fought in Ossetia, in Abkhazia, and against supporters of the former president. The conflicts resulted in a large influx of refugees (about 270,000) mostly from Abkhazia to other parts of Georgia, worsening the economic plight of the country. By end-1993 the fighting ceased and the government achieved greater political control. A cease-fire is now in effect, and an agreement involving Russia and the United Nations has been signed to work out a peaceful resolution of the conflict. Georgia joined the Commonwealth of Independent States, and Russian peacekeeping forces are now in Abkhazia to work out the return of refugees to the province and reopening the route to Russia.

The war had a devastating effect on the Georgian economy. In addition, recession in the former Soviet Union, adverse terms of trade movements, the breakdown of marketing channels and trade, an earthquake, and a self-imposed embargo following the declaration of independence accelerated the economic decline.

Recent Economic Developments

Production has been declining since 1989; the contraction has, however, been particularly sharp in recent years and has affected all sectors. Between 1989 and 1991 net material product fell an estimated cumulative total of 30 percent, and further declines of about 40 percent and 30 percent are estimated for 1992 and 1993. Output continued to fall by as much as 20 to 30 percent in 1994. For the whole period, the cumulative decline is between 70 and 80 percent, one of the sharpest declines observed among former Soviet countries. As a result, the total number of people employed (about 2.7 million in 1990) has declined by almost 30 percent since 1990, and open unemployment rose to 8.4 percent in December 1993.

The official data do not, however, provide a complete picture of the economic situation. The informal economy has developed considerably, especially in the trade sector, though its activities remain largely unrecorded in the national accounts. While the magnitude of economic decline may be overestimated, indirect indicators such as energy consumption suggest that the overall decline in the economy has been substantial since 1990, and most likely exceeds 50 percent.

Inflation was low in Georgia until 1991, but has since surged. In the early period, this largely reflected price liberalization, while the more recent acceleration can be directly associated with deterioration in the government's fiscal position and domestic credit expansion. Prices rose, on average, by 80 percent in 1991 and by more than 900 percent in 1992. During the second half of 1993 the inflationary process accelerated sharply following the introduction of the new currency. By the end of 1993, annual inflation had reached 8,400 percent and was ten times that of Russia. Monthly inflation during the first months of 1994 was about 60 percent. Observations toward the end of 1994 suggest that the overall pace of inflation may have slowed substantially as a result of the stabilization measures.

With the continuous deterioration of the economic situation over the last five years, living standards have declined sharply for most of the population. Real wages have declined by about 90 percent over the last two years. Families now spend on average about 80 percent of their reported income on food and must rely to a large extent on informal sector activities, sales of personal effects and assets, or remittances from abroad to cover their basic expenditures. In addition, rationing of electricity, lack of heating during the winter, and cuts in public transportation impose considerable hardship on the population. The government's capacity to finance social programs and guarantee an adequate safety net has also declined sharply.

With progress achieved toward political stability, the government has, since the beginning of 1994, focused its attention on economic issues. Recognizing the urgent need to stem the decline in production and living standards, and to accelerate the transition to a market economy, it has designed a comprehensive and ambitious reform program whose success will require sustained commitment on the part of government and strong support from the international community.

The government agreed with the IMF on a Structural Transformation Facility in December 1994. To bring about rapid stabilization, leading to a low monthly inflation rate by the end of 1995, the government is undertaking a drastic fiscal adjustment, and is committed to maintaining tight fiscal and monetary policies thereafter. The overall fiscal deficit of the general government is targeted to be no more than 6 to 7 percent in 1995, down from 26 percent in 1993, with the main elements being reduction and elimination of remaining subsidies on energy and transport, and to enterprises, and increasing budgetary revenues by selling off donated food at market prices, tax increases, and strengthening tax administration. In the area of monetary and credit policies, the program relies on the control of domestic credit expansion and more efficient allocation of credit.

In addition to macroeconomic stabilization, the government's reform program focuses on three key structural interconnected and mutually reinforcing reform areas: reducing and redefining the role of the public sector; promoting development of markets and increasing their efficiency, and ensuring a minimum level of social protection.

Reducing the public sector is to be achieved through rapid transfer of ownership rights to the private sector, including small, medium, and large enterprises; agricultural land; and housing. The government will impose hard-budget constraints on the remaining state-owned enterprises — and close loss-making ones. It plans to restructure the government sector through reorganization, downsizing, and reforming the health and education sectors to ensure access to basic services by the poor. The government has already made substantial progress: more than 40 percent of small enterprises have now been privatized, and the process is expected to be completed by the end of 1995. About 75 percent of medium and large enterprises have been corporatized, and preparation for a mass privatization program is nearing completion, including the legal framework, completion of the list of voucher recipients, and selection of the first enterprises to be auctioned. The government plans to hold pilot mass privatization auctions in May 1995. It has also taken steps to reduce public employment by at least 25 percent, while strengthening its tax and customs administrations to increase revenues. It has also begun reforming the health sector.

Georgia has ceased subsidies and transfers to enterprises and intends to enforce financial discipline and improve operational accountability of management.

The development and more efficient functioning of markets will be fostered by promoting competition, and private sector development through price liberalization, demonopolization, establishing the needed legal framework, fostering export growth by removing export restrictions, and strengthening the financial sector. Regulated prices remain only for bread, public transportation, energy, and municipal services. In September 1994 the government raised gas and electricity tariffs to cost-recovery levels. Bread prices were raised 400 times and are slated to be fully liberalized by mid-1995; sales of donated wheat and flour are now at market prices. Transportation subsidies have been reduced and are scheduled for elimination by mid-1995.

Substantial trade liberalization has also taken place: only seven products used for energy barter deals remain subject to state orders; the government intends to abolish the remaining restrictions gradually. To strengthen the financial sector, the government has eliminated directed credits to state enterprises and state bank access to refinance credits and overdrafts at the central bank. It has also eliminated restrictions on the use of bank accounts. Steps are being taken to strengthen institutional capacity to supervise banks and enforce regulations through new legislation and prudential regulations. The government is also preparing a plan to privatize state-owned banks.

The third component of the structural reform program aims at maintaining a minimum level of social protection for the poorest segments of the population. Given the tight financial constraint, the government is aware of the difficulties of offering an adequate assistance program. Its strategy has been to increase cash transfers to the most vulnerable groups — pensioners, children, the unemployed, refugees — by redirecting resources saved by eliminating generalized subsidies, and improved targeting. It has eliminated pensions to those who continue to work and special pension supplements. It also eliminated some other cash benefits.

Medium-Term Prospects

The government's stabilization and structural reform program is expected to enable Georgia to stem declines in production and living standards and set the stage for the resumption of growth. However, the continuing contraction of neighboring economies and instability in the region, in addition to the impact of reduction in public expenditures and employment, will most likely prevent any significant reversal of the economic downturn in the near term. Real GDP is expected to decline by a small amount in 1995 before showing some positive growth in 1996. Improvement in living standards will be gradual, and only after the end of the decade is the level of private consumption likely to recover to that of 1993.

Over the longer term, as the stabilization and structural reform programs take hold, the Georgian tradition of entrepreneurship and the highly educated labor force represent distinctive assets private sector activities and the resumption of growth. Also, acceleration of enterprise privatization and the privatization of agricultural land and marketing and distribution infrastructure will significantly increase productivity in these sectors. The service sector can also be expected to respond strongly to economic liberalization; in particular, the transport sector could contribute to growth as Georgian ports and other transport facilities are used for transit to Armenia and Azerbaijan and other countries in the region. Export recovery, fostered by the removal of restrictions, is also expected to make substantive contribution to economic growth.

External Debt

Over the short run, Georgia will need substantial external flows to finance its import needs, build foreign exchange reserves, and meet its debt service obligations. Although Georgia agreed to the zero option with the Russian Federation and has no responsibility for the external debt of the former Soviet Union, it has accumulated significant external obligations over the past few years, mostly on commercial terms and with short maturities. Excluding arrears, the total stock of debt amounted to about $600 million at the end of 1994, about half of which was bilateral debt due mostly to Russia and Turkmenistan. Including arrears, mostly for gas imports, the total stock of external debt was estimated at about $975 million at the end of 1994.

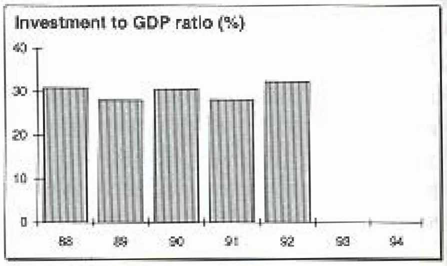
It is expected that the burden of payment on external arrears and debt servicing will be alleviated by debt relief or restructuring; significant negotiations are under way with Turkmenistan. Over the medium term, the extent to which Georgia can undertake and service hard currency borrowing will depend very much on the macroeconomic management of the economy, the ability to redevelop an export base, the capacity of the country to fulfill the role of a transit country, and its ability to obtain critical inputs.

Georgia

Population mid-1993 *(millions)*	**5.4**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**580**	Indebtedness level:	**Less indebted**

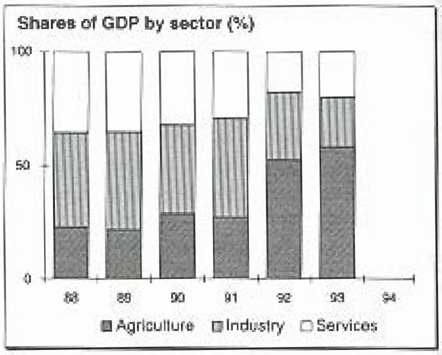
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	34.3	30.6	32.3	..	..
Exports of goods and nfs/GDP	..	40.0	35.7	19.0	..
Gross domestic savings/GDP	31.1	24.9	1.7	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	..	-9.3	-21.1
Interest payments/GDP	..	..	0.0	0.3	1.3
Total debt/GDP	..	..	2.2	17.2	28.7
Total debt/exports	..	..	..	99.5	137.3



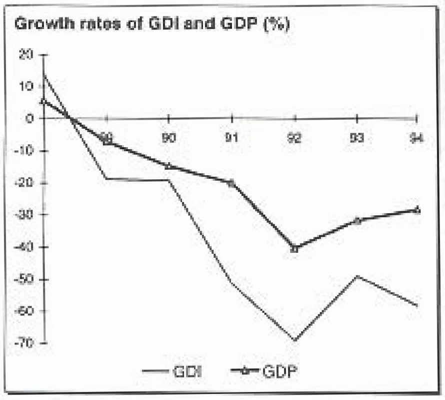
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	23.8	28.8	52.4	58.0	..
Industry	43.7	38.9	29.7	21.8	..
Manufacturing	34.9	29.8	22.6	21.3	..
Services	32.5	32.2	17.9	20.2	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.8	..	..	..	..
Industry	-5.0	..	..	..	..
Manufacturing	-5.8	..	..	..	..
Services	-5.7	..	..	..	..
GDP	-3.5	-31.6	-40.3	-31.6	-28.2



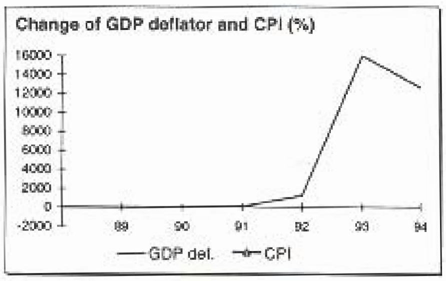
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	55.8	64.8	88.9	..	..
General government consumption	13.0	10.2	9.4	..	..
Gross domestic investment	34.3	30.6	32.3	..	..
Exports of goods and nfs	..	40.0	35.7	19.0	..
Imports of goods and nfs	..	45.7	66.3	19.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.9	..	..	..	..
General government consumption	-4.8	..	..	..	..
Gross domestic investment	-7.1	-58.2	-69.1	-49.0	-58.1
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	-3.5	-31.6	-40.3	-31.6	-28.2
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-4.5	22.4	1,205.4	15,970.2	12,620.5
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..

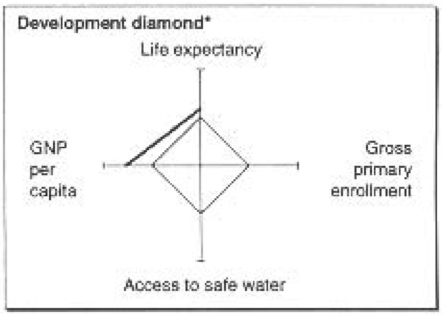


Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

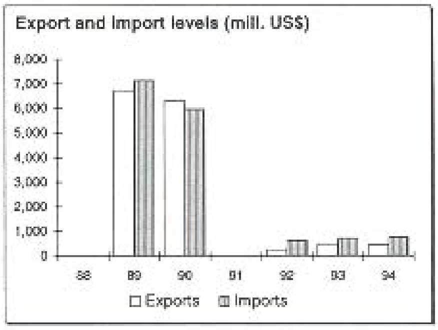
	1985-90	1990-94
(annual growth rates)		
Population	0.6	*0.2*
Labor force	0.7	..

	most recent estimate
Poverty level: headcount index *(% of population)*	30.0
Life expectancy at birth	72.7
Infant mortality *(per 1,000 live births)*	18.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	890.9
Illiteracy *(% of population age 15+)*	1.0
Gross primary enrollment *(% of school-age population)*	..



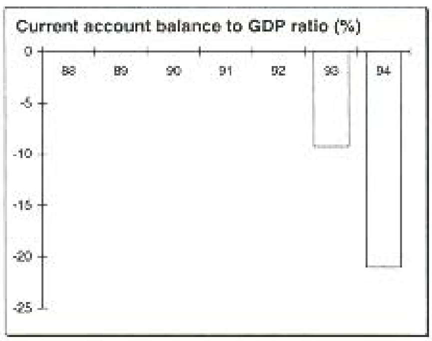
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	6,304	267	497	464
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	5,961	645	740	798
Food	..	899	..	..	..
Fuel and energy	..	396	..	..	..
Capital goods	..	254	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	86	102	38	..



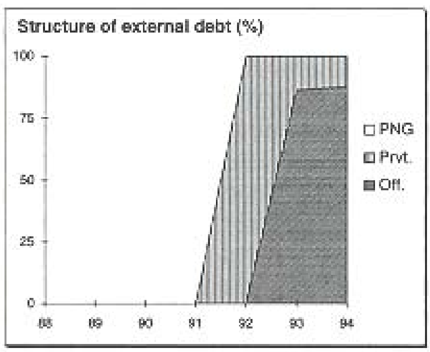
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	..	571	488
Imports of goods and nfs	..	..	..	873	948
Resource balance	..	..	..	-302	-460
Net factor income	..	..	..	-4	-32
Net current transfers	..	..	..	0	0
Current account balance					
Before official transfers	..	..	..	-306	-492
After official transfers	..	..	..	-175	-330
Long-term capital inflow	..	..	35	506	22
Total other items (net)	..	..	207	-331	305
Changes in net reserves	..	..	0	0	3
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	1.2	42.0	4,969.5	6.4E+05



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	99.5	137.3
IMF credit/exports	..	..	..	0.0	0.0
Short-term debt/exports	..	..	..	0.0	0.0
Total debt service/exports	..	..	..	2.3	17.2
GDP ratios					
Long-term debt/GDP	..	..	2.2	17.2	28.7
IMF credit/GDP	..	..	0.0	0.0	0.0
Short-term debt/GDP	..	..	0.0	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	100.0	13.7	12.4
Official creditors/long-term	..	..	0.0	86.3	87.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ghana

Ghana is endowed with a broad range of natural resources, including arable land; forests; sizable deposits of gold, diamonds, bauxite, and manganese; and considerable potential for hydroelectric power. The economy has traditionally depended on primary production and exports. Most of the Ghanaian labor force is employed in agriculture. Agricultural production — primarily small-scale — is concentrated in staple food crops and cocoa; Ghana ranks among the world's largest producers and exporters of cocoa. The service sector is the second-largest employer — over 25 percent of the labor force — and accounts for over 40 percent of real GDP, largely trade and public-sector services. The industrial sector accounts for about 16 percent of GDP and employment; it is relatively diverse and well developed by Sub-Saharan African standards.

Although Ghana once enjoyed a relatively high living standard compared with most other West African nations, poor economic policies and deteriorating external terms of trade in the 1970s led to substantial declines in income in the 1970s and early 1980s. Between 1970 and 1982 import volumes fell by a third, real export earnings by 52 percent, and domestic savings and investment from 12 percent of GDP to almost insignificant levels. The return of over 1 million Ghanaians from Nigeria in 1982/83 on top of a prolonged drought severely strained the food and employment situation.

The government introduced its Economic Recovery Program in 1983 to restore and sustain macroeconomic stability, maintain an incentive framework to enhance efficiency, encourage savings and investment, provide an enabling environment for the private sector, and improve the efficiency of public sector resource management. The program was supported by financial and technical assistance from the World Bank, the IMF, and other multilateral and bilateral donors.

Real GDP growth averaged 5 percent a year (2 percent a year on a per capita basis) over the next decade, compared with negative growth recorded in the preceding decade. The benefits of growth have been widely distributed. Farmers and rural workers have gained from improved producer prices for cocoa and liberalization in trading of other cash crops. Real food prices for cereals and roots have fallen gradually. Government expenditures on social programs rose significantly in the initial years of the program, and most social indicators and living standards improved. Value added in mining rose by about 9 percent in 1992, and a further 9 percent in 1993, reflecting investment in the rehabilitation of existing mines, in new joint ventures, and in increased small-scale mining activity. Based on the national accounts statistics, gross national savings, after rising consistently to reach 9.9 percent of GDP in 1991, fell to 1.2 percent in 1993 but rose to 6.6 percent in 1994. Total investment, after peaking at 16.5 percent of GDP in 1991, fell to 12.8 percent in 1992 but recovered to 16.3 percent in 1994.

Exchange rate and trade reforms have been the centerpieces of Ghana's reform program. As a result, import protection is low and relatively less dispersed, and based on two tax instruments: the import duty and the uniform special tax. The government abolished the import licensing system in January 1989, and since then importers submit only import declaration forms. In March 1992 the auction market that had been set up to sell foreign currency was replaced by the interbank foreign exchange market. Price and distribution controls were also dismantled.

The cocoa sector is central to Ghana's economy both for its contribution to export performance and tax revenues, and for its generation of rural income and employment. The Economic Recovery Program aims to increase competition, reduce transaction costs, and increase the share of the world price going to farmers. Overall progress has been slow but steady. The farmers' share of the export price increased from 25 percent in the 1984/85 crop year to around 50 percent in 1993/94. The Cocoa Board trimmed its operational expenses by retrenching about 30,000 workers. In the 1992/93 season, the government introduced a new cocoa policy by allowing private traders to compete with the Cocoa Board in domestic cocoa trading. Six companies were licensed to trade and purchased close to 20 percent of the crop. The government has also recently agreed to study options for liberalizing cocoa exports.

Ghana's fiscal situation improved substantially under the recovery program through better mobilization of revenue, tax reform, improved tax collection, and rationalization of consumption taxes and user charges. The program also improved the efficiency of public resource management, but much more remains to be done to ensure efficient expenditure management and project implementation. In budget formulation, recurrent expenditures were given higher priority in an effort to restore the efficiency of the health and education services. Public investment grew from negligible levels at the beginning of the program to 9.9 percent of GDP in 1993, emphasizing rehabilitation of the country's economic and social infrastructure. About 75 percent of the public investment program in 1993 was accounted for by investment in infrastructure, especially roads. To improve investment allocations, sector ministries strengthened their planning units, and the Ministry of Finance and Economic Planning established a committee to ensure that investments meet established criteria and support sector strategies, within a three-year time horizon.

The government has also undertaken wide-ranging financial reforms. It has abolished interest rate controls and sectoral credit ceilings. With the promulgation of a new banking law in 1989, an improved legal framework governing banking activities was introduced, including uniform accounting and auditing standards for all banks, and better supervision by the Bank of Ghana, and the finances and management of distressed banks have been restructured. The second stage of the financial adjustment program was to reduce government ownership in all state-controlled banks to a minority position of 40 percent. This program is now under implementation and the three largest banks — Ghana Commercial Bank, Social Security Bank, and National Investment Bank — are being prepared for divestiture by private international financial advisers. This divestiture process will continue over the next few years. The main issue in the financial sector is that its depth is very low. With competition, intermediation should improve. A more competitive financial system should also pursue deposit mobilization more vigorously. Ghana has a small stock exchange listing 18 companies. With an ongoing divestiture program, it is anticipated that the stock exchange will be a vehicle for share flotation, broadening the ownership of these companies among the Ghanaian public. The government's sale of shares in Ashanti Goldfields in 1994 provided a strong impetus to the stock exchange, doubling its capitalization.

Recent Economic Developments

After a decade of sustained adjustment, there remain concerns about maintaining macroeconomic stability in Ghana. Macroeconomic imbalances re-emerged in late 1992 when civil servants obtained large wage increases shortly before the elections. Strong corrective measures were adopted in the 1993 and 1994 budgets, and the narrow budget moved from a deficit of 4.8 percent of GDP in 1992 to a deficit of 2.5 percent in 1993 and 1.1 percent in 1994. If excess divestiture receipts are included, then fiscal balance was in surplus by 2.2 percent in 1994. Divestiture receipts, which exceeded original projections by 3.2 percent of GDP, also cushioned the large shortfall in program aid. Money supply grew by around 42 percent in 1994. A lower real GDP growth for 1994 is now estimated at 3.8 percent instead of the originally projected 5 percent, largely because of untimely rains and ethnic conflict in the north. Inflation rose to over 30 percent by the end of the year.

Macroeconomic stability is programmed to be restored over the course of 1995. At the core of the 1995 budget are measures, including introduction of a value-added tax, designed to secure a fiscal surplus of 1.2 percent of GDP. Credit policy aims at an 8 percent growth in money supply, and the rate of inflation is targeted to slow down to 18 percent on an annual basis by the end of the year. Real GDP growth is projected to be 5 percent, and the balance-of-payments current account deficit (including official transfers) is expected to fall from 6 percent of GDP in 1994 to 3.4 percent in 1995.

Progress in the divestiture program was slow until 1993. As of the end of 1993 only 64 state-owned enterprises had been privatized or liquidated, with another 196 with majority state ownership. A significant step forward in the divestiture program took place with the sale of government shares in Ashanti Goldfields and seven minority-held companies in 1994. The government plans to enhance the transparency of divestiture and contract private firms to speed privatization All methods of sale would seek a core private investor with a controlling share and ensure that at least 51 percent of the shares of privatized firms are held by the private sector.

Poverty and Social Indicators

Ghana's economic growth under the recovery program has produced major improvements in poverty trends. An extended poverty study has shown that between 1988 and 1992, the incidence of poverty dropped from just under 36 percent to 31 percent. This is clearly a major achievement. Almost all of the improvement comes from economic growth and the resultant increase in average incomes and expenditures. Income distribution has remained relatively stable over the period. Other indicators (such as the depth of poverty, the food expenditure ratio, and school enrollments) also show marked improvement. The gains appear to have benefited most regions, and especially rural areas. In the rural Savannah region, for example, the incidence of poverty fell from 50 percent in 1988 to 39 percent in 1992. Even urban areas other than Accra have benefited from the economic recovery. It appears that the reduction in poverty that has occurred in rural areas may be due to increased reliance on off-farm income. The gender incidence of poverty also seems to have improved. Poverty in Accra has, however, increased markedly (from just 7 percent in 1988 to 21 percent in 1992).

Poverty is still predominantly a rural phenomenon, and rural areas account for more than 70 percent of national poverty. The northern Savannah region is significantly poorer than the national average. The Northern, Upper East, and Upper West regions are the poorest regions, followed by the Volta region. Despite increasing poverty, the Greater Accra region is the least poor in the country. The majority of the poor are food crop and export crop farmers with average per capita income below 128,404 cedis, or one-third of the national average. Informal sector wage employees have gained most from the economic recovery, but export crop and food crop farmers in spite of their relative poverty have also seen an improvement in welfare in recent years. The Participatory Poverty Assessment done in conjunction with the extended survey suggests that living standards among Ghana's poorest groups remain seriously low. The incidence of government expenditures suggests that the poor gain very little from social spending. The estimates show that targeting has not improved. In short, while the poverty study suggests that the poor did benefit from the economic recovery in Ghana, it counsels caution about their participation in future growth without increased investment in human capital.

Since the 1992 election-related fiscal shock, Ghana's macroeconomic performance has been an issue. Though the government has made considerable progress in restoring fiscal balance and reducing the external deficit, inflation remains relatively high. The corrective measures announced in the 1995 budget, and the value-added tax being introduced, are likely to restore macroeconomic balance in 1995. There is a considerable need for balance-of-payment financing over the 1996-98 period. In addition, given the size of the wage bill and lower divestiture receipts, there remains a threat of macroeconomic instability from another public-service wage shock, and restructuring and downsizing the public service are critical for sustained macroeconomic stability. Accelerated growth can only be achieved after macroeconomic stability becomes a reality and domestic savings and investment begin to rise.

Recent developments in the government's approach to the private sector have been very positive. After exhibiting an upward trend in the period 1983-91, private investment fell in 1992 fell to potential macroeconomic uncertainty and fell again in 1993. Private sector investment in 1993 was only 4.9 percent of GDP, down from 9.3 percent in 1991. In 1994 it is estimated not to have increased. These weak investment results were due mostly to macroeconomic instability. While the government has repealed most of the old controls and regulations and a new Investment Act has been passed, its continuing ownership of a wide range of productive activities and of most of the commercial banks has given conflicting signals to the private sector. However, the government's recent effort to improve its image through a number of initiatives, including a very constructive dialogue with the private sector, is clearly making a sea change. A challenge now facing the government is to nurture Ghana's emerging positive image in the business community and to draw wider investment — beyond the mining sector and the Ghana Stock Exchange companies — from foreign and domestic sources. One of the government's objectives for achieving rapid export growth is to promote nontraditional exports, increasing their contribution from 7 to 15 percent of exports by 2000, and the Export Promotion Council has begun a medium-term plan for nontraditional exports.

A lack of adequate human and institutional capacity and inefficient utilization of existing capacity are major bottlenecks to Ghana's development efforts. Although the government responded to these capacity constraints over the first decade of reforms, Ghana continues to face serious human resource problems. The government established a National Capacity Building Steering Committee in 1993 to prepare for a sensitizing and consensus-formulating national workshop. The workshop established a plan of action to improve public sector policy and management, and the policy environment for the private sector, including general education, vocational training, and management training of business people. The president recently launched a National Institutional Renewal Program aimed at achieving, among other things, a leaner and more effective public service.

Environment

The major environmental issues in Ghana are soil degradation, deforestation, and the health impact of mining activities, water contamination, and inadequate sanitation. In the 1980s, 25,000 hectares of forest were lost each year, and indications are that the rate is accelerating. In rural areas, less than 40 percent of the population has access to safe drinking water and only 15 percent have adequate sanitation. The discharge of heavy metals and cyanide in mineral-producing areas is polluting water with a potentially serious impact on human health.

External Debt

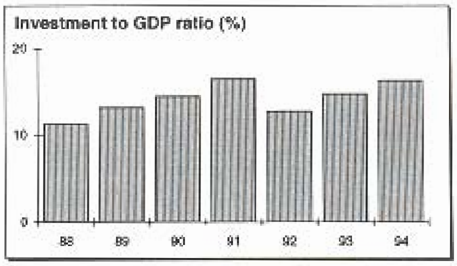
Ghana has not rescheduled its debt service obligations since the start of the economic recovery program. Its total debt outstanding and disbursed (including IMF debt) as of December 31, 1993, was $4.9 billion, close to 81 percent of GDP. Both the current and the projected ratios are well within the satisfactory range of debt ratios.

Ghana

Population mid-1993 *(millions)*	16.4	Income group: **Low**
GNP per capita 1993 *(US$)*	430	Indebtedness level: **Severely Indebted**

KEY RATIOS

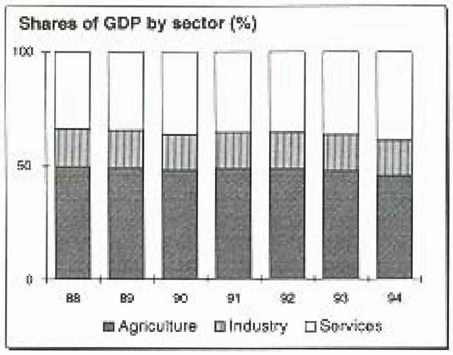
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.6	14.5	12.8	14.8	16.3
Exports of goods and nfs/GDP	9.7	16.0	16.0	19.7	25.2
Gross domestic savings/GDP	7.6	6.0	2.0	-1.4	3.5
Gross national savings/GDP	6.5	7.4	4.2	1.2	6.6
Current account balance/GDP	-5.4	-6.9	-8.6	-13.6	-6.6
Interest payments/GDP	0.7	0.9	1.1	1.2	1.0
Total debt/GDP	49.7	61.0	62.6	75.4	59.5
Total debt/exports	330.9	383.8	381.7	375.2	342.6



Investment to GDP ratio (%)

GDP: PRODUCTION

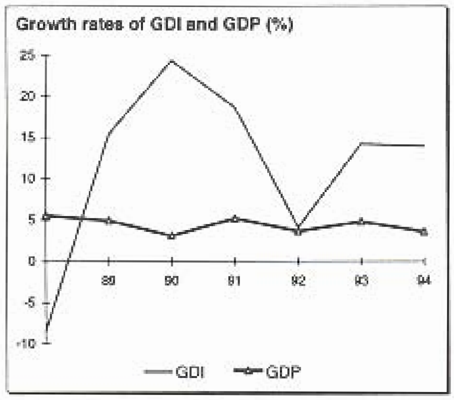
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	44.9	47.9	48.6	47.6	45.5
Industry	16.7	15.9	16.2	16.1	15.7
Manufacturing	11.5	9.2	8.7	8.5	8.1
Services	38.4	36.3	35.3	36.4	38.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.1	1.8	-0.6	2.8	1.0
Industry	7.1	4.3	5.7	4.3	2.8
Manufacturing	6.1	2.0	2.7	2.2	1.5
Services	7.9	7.3	8.1	7.3	6.8
GDP	4.8	4.3	3.6	4.8	3.6



Shares of GDP by sector (%)

GDP: EXPENDITURE

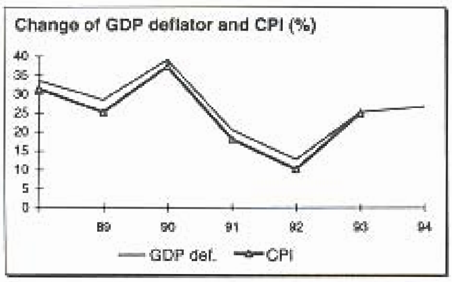
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.0	85.6	87.6	89.7	84.8
General government consumption	9.4	8.4	10.3	11.7	11.7
Gross domestic investment	9.6	14.5	12.8	14.8	16.3
Exports of goods and nfs	9.7	16.0	16.0	19.7	25.2
Imports of goods and nfs	11.6	24.4	26.8	35.9	38.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.9	0.8	0.9	1.9	-3.0
General government consumption	1.6	16.1	24.8	19.1	6.0
Gross domestic investment	12.2	11.8	4.1	14.2	13.9
Exports of goods and nfs	10.4	7.7	1.8	17.0	1.2
Imports of goods and nfs	8.8	6.6	1.7	19.0	-7.2
Gross national product	4.8	4.3	3.9	4.7	3.4
Gross national income	3.4	3.6	2.1	2.6	5.4



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.3	37.3	10.1	25.0	..
Wholesale prices	53.9	22.7	..	..	..
Implicit GDP deflator	20.7	39.1	12.8	25.2	26.8
Government finance					
(% of GDP)					
Current budget balance	0.1	1.6	-2.2	-0.9	4.7
Overall surplus/deficit	..	-4.8	-10.7	-10.8	-6.8



Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

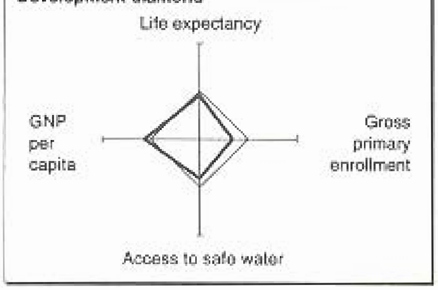
Ghana

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.1	*3.0*
Labor force	2.7	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	35.9
Life expectancy at birth	56.4
Infant mortality *(per 1,000 live births)*	79.4
Child malnutrition *(% of children under 5)*	35.5
Access to safe water *(% of population)*	55.7
Energy consumption per capita *(kg oil equivalent)*	96.1
Illiteracy *(% of population age 15+)*	39.7
Gross primary enrollment *(% of school-age population)*	74.0

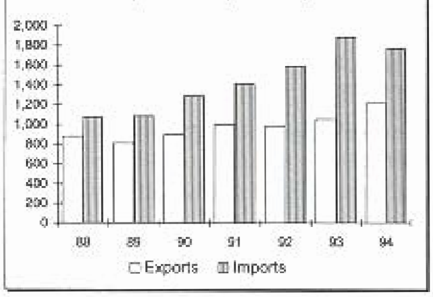
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	632	897	986	1,052	1,215
Cocoa	412	361	329	280	305
Timber	28	119	123	143	166
Manufactures	..	..	..	..	..
Total imports (cif)	729	1,290	1,589	1,885	1,771
Food	40	38	36	41	42
Fuel and energy	200	204	181	171	175
Capital goods	185	494	699	1,038	969
Export price index *(1987=100)*	84	84	84	76	87
Import price index *(1987=100)*	95	111	113	118	120
Terms of trade *(1987=100)*	88	75	74	64	72
Openness of economy *(trade/GDP,%)*	21	40	43	56	63

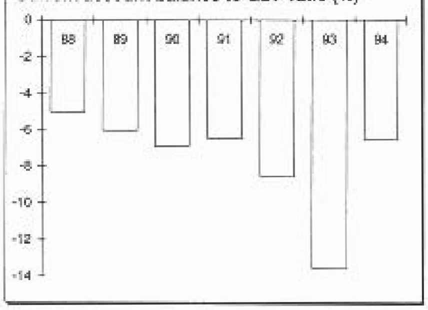
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	670	982	1,104	1,197	1,364
Imports of goods and nfs	836	1,505	1,844	2,183	2,058
Resource balance	-166	-523	-740	-986	-694
Net factor income	-111	-111	-106	-102	-102
Net current transfers	33	202	255	261	271
Current account balance					
Before official transfers	-244	-432	-592	-828	-525
After official transfers	-134	-218	-376	-572	-325
Long-term capital inflow	127	309	409	395	325
Total other items (net)	67	27	-157	218	181
Changes in net reserves	-60	-118	124	-41	-181
Memo:					
Reserves excluding gold *(mill. US$)*	479	219	320	410	..
Reserves including gold *(mill. US$)*	552	309	412	517	..
Conversion rate *(local/US$)*	76.2	326.3	437.1	649.1	647.9

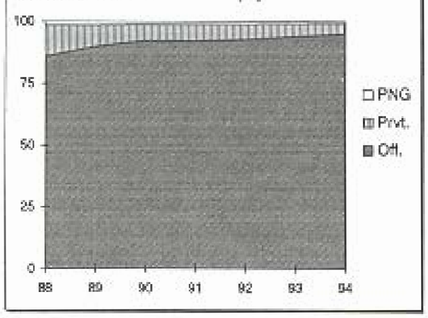
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	199.1	276.2	279.6	276.1	261.6
IMF credit/exports	103.6	75.2	65.5	60.3	48.9
Short-term debt/exports	28.1	32.4	36.6	38.8	32.1
Total debt service/exports	23.4	35.9	26.6	22.7	23.2
GDP ratios					
Long-term debt/GDP	29.9	43.9	45.9	55.5	45.4
IMF credit/GDP	15.6	12.0	10.7	12.1	8.5
Short-term debt/GDP	4.2	5.1	6.0	7.8	5.6
Long-term debt ratios					
Private nonguaranteed/long-term	3.0	1.2	1.1	1.1	0.9
Public and publicly guaranteed					
Private creditors/long-term	12.1	6.8	6.3	5.0	4.2
Official creditors/long-term	85.0	92.0	92.6	93.9	94.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Guatemala

Guatemala has the largest economy in Central America, with a 1993 GDP of $11.0 billion, equal to about 37 percent of regional GDP. Its economy is predominantly agricultural, with more than half of the working population engaged in farming, forestry, and fishing. The agriculture sector contributed more than one-fourth of GDP and generated about 75 percent of export revenues during the 1980s. Nontraditional exports have surpassed primary exports in importance since 1991 and grew to 60 percent of merchandise exports in 1994 — twice the level of 1986. Services account for about 19 percent of GDP.

Guatemala's population is estimated at 10.3 million in 1994, growing at 2.9 percent a year. Per capita GNP for that year is estimated at $1,242. The country is characterized by a very uneven distribution of land and income. About two-thirds of the population are thought to be of Mayan origin and live in extreme poverty at the margin of the modern economy. Social indicators are poor, reflecting persistent underinvestment in social services and basic rural infrastructure.

During the 1960s and the 1970s Guatemala enjoyed steady growth, averaging 6 percent a year. Fiscal deficits averaged 1.3 percent of GDP and monetary policies were consistent with low inflation rates. The economy stalled in the early 1980s due to external economic factors, civil conflict, and increased distortions from an import-substitution industrialization strategy. In the first half of the 1980s loose fiscal and monetary policies led to sharp increases in fiscal and current account deficits. The need for fiscal restraint and alleviation of pressures on the balance of payments required sharp cutbacks in economic activity, especially in public investment. Per capita GDP fell by about 20 percent between 1980 and 1985.

After 30 years of military rule a civilian government was democratically elected in 1985 and began redressing some major economic distortions by reducing price controls, simplifying and unifying the exchange rate system, and rationalizing import tariff levels. As private sector investment started to recuperate, GDP and nontraditional exports grew at annual average rates of 3 and 30 percent respectively over 1986-89. Fiscal policy loosened, however, when the tax reform of 1987 failed to increase revenues beyond 1988, and expenditures continued expanding until 1990.

Pervasive macroeconomic imbalances developed in 1990. The nonfinancial public sector deficit rose to 2.9 percent of GDP, financed mainly by central bank credit and arrears to external creditors. Inflation was not countered by a tightening of monetary policy and increased to 41 percent. As a result, slowly rising nominal interest rates became increasingly negative in real terms during the course of the year, putting pressure on the exchange rate and stimulating capital flight. Exchange-rate management became erratic with the adoption of different exchange rate systems. Insufficient fiscal revenue and foreign exchange in 1990 led to a rapid accumulation of external arrears.

Recent Economic Developments

A new government was inaugurated in 1991 and quickly embarked on a comprehensive program of economic stabilization and adjustment. The government moved to strengthen fiscal performance and implemented a tax reform and cut expenditures, which led the nonfinancial public sector to reach an operating surplus equivalent to 1 percent of GDP during 1991 and 1992. Monetary and credit policies were tightened, helping to restore international reserves and reduce inflation to 10 percent in 1992. Stabilization measures did not affect economic growth, as GDP reached 3.7 percent in 1991 and 4.8 percent in 1992. A loosening of credit policy in midyear, however, in conjunction with an appreciating exchange rate, allowed a substantial widening of the current account deficit equivalent to 7.6 percent of GDP in 1992, compared to 2.7 percent in 1991.

The government also regularized relations with international creditors by clearing arrears to multilateral institutions and reaching an agreement with the Paris Club in March 1993. To address short-term structural economic problems, the government signed an IMF standby arrangement in December 1992 and committed to implement a broad-based, medium-term economic modernization and social program.

In mid-1993 the president was forced from office, and a new interim government was elected after he attempted to suspend the constitution and dissolve the congress. Prompted by political uncertainties, inflation rose 5 percent and net international reserves fell $80 million in June, reflecting interrupted capital inflows and reduced tourism revenues. In spite of this abrupt event, economic activity remained strong. Structural reforms were resumed under the new administration. Inflation reached 13.4 percent, international reserves increased by $180 million, and GDP grew at 3.9 percent in 1993. As a result of tight monetary policies, growth of import of goods and nonfactor services slowed down from 40.5 percent in 1992 to 3.8 percent in 1993, bringing the current account deficit down to 6.6 percent of GDP.

However, in contrast with 1991-92, public finances deteriorated significantly. The non-financial public deficit reached 1.5 percent of GDP. Poor fiscal performance and reduced domestic savings led the financial system to raise substantially interest rates to attract foreign capital and restore the level of official reserves.

Guatemala's macroeconomic situation deteriorated in 1994. Inflation reached 12 percent, and GDP growth is estimated at 4 percent. In spite of booming coffee export earnings and the support of an IMF-based shadow program, net private capital fell significantly, and fiscal imbalances continued, eroding the financial capacity and medium-term economic growth prospects. Structural adjustment reforms progressed slowly, the overall nonfinancial public deficit reached 1.7 percent of GDP, and domestic savings fell to a six-year low of 8.1 percent of GDP. Poor fiscal collection and relaxation of credit conditions led to negative interest rates during the second half of 1994. Short-term net private capital inflows fell from $872 million in 1993 to $558 million in 1994.

Medium-Term Prospects

Guatemala's economic growth and poverty alleviation measures depend critically on peace prospects and the government's ability to continue implementing crucial macroeconomic reforms while drastically reducing public dissaving. Its terms of trade are expected to improve significantly during 1995 and 1996, and the coffee windfall is estimated to raise 2 percentage points of national income in 1995. GDP is projected to increase modestly at 3 and 4 percent in 1995 and 1996, in part due to the political cycle, the Mexican crisis, and dwindling amounts of additional financing to support the peace plan. Prospects would improve considerably if peace is achieved and structural reforms are consolidated under the next administration.

Macroeconomic weaknesses are expected to be addressed in 1995 by fiscal and monetary measures and the completion of structural reforms. Declining current account deficits should reduce external financing requirements and prevent further increases in the external debt to GDP ratio, which is projected to decline to around 22 percent through 1995 and 1996, compared to 26 percent in 1993.

Guatemala

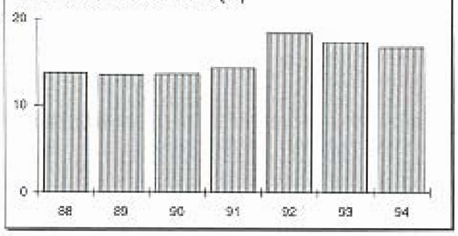
Population mid-1993 *(millions)* **10.0**
GNP per capita 1993 *(US$)* **1,100**

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	11.5	13.6	18.3	17.4	16.7
Exports of goods and nfs/GDP	11.9	21.2	18.5	17.9	19.3
Gross domestic savings/GDP	10.5	9.9	9.4	9.0	8.1
Gross national savings/GDP	8.9	9.7	10.6	10.4	8.7
Current account balance/GDP	-2.5	-3.9	-7.6	-6.5	-6.0
Interest payments/GDP	1.2	1.1	1.5	0.8	0.9
Total debt/GDP	27.3	37.1	26.3	26.1	24.0
Total debt/exports	221.4	164.3	140.8	142.1	134.8

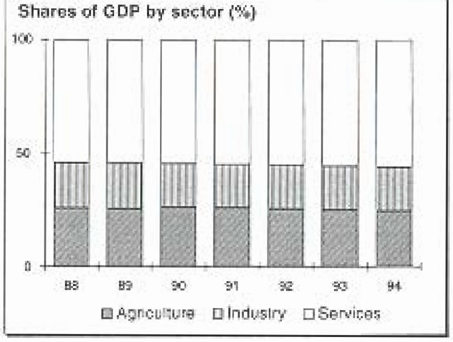
Investment to GDP ratio (%)



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	26.1	25.6	25.2	24.6
Industry	..	19.5	19.6	19.4	19.2
Manufacturing	..	..	..	..	..
Services	..	54.4	54.8	55.4	56.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.2	2.8	3.0	2.1	3.0
Industry	3.2	4.2	7.2	3.2	2.8
Manufacturing	..	..	..	..	..
Services	3.1	5.2	5.6	4.6	6.5
GDP	3.2	4.4	5.2	3.7	4.9

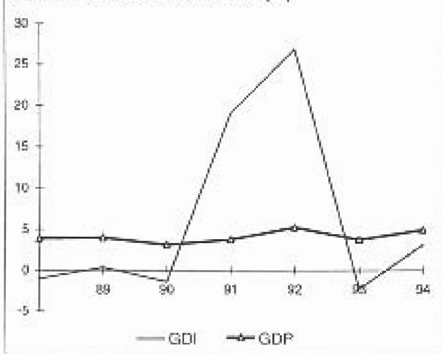
Shares of GDP by sector (%)



GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	82.6	83.5	84.1	84.8	86.2
General government consumption	7.0	6.6	6.4	6.1	5.7
Gross domestic investment	11.5	13.6	18.3	17.4	16.7
Exports of goods and nfs	11.9	21.2	18.5	17.9	19.3
Imports of goods and nfs	13.0	24.9	27.4	26.2	28.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.7	*6.5*	9.1	4.9	..
General government consumption	5.0	*6.4*	9.6	5.4	..
Gross domestic investment	6.3	11.1	26.8	-2.3	3.1
Exports of goods and nfs	4.5	4.1	8.3	8.6	0.5
Imports of goods and nfs	9.2	15.6	36.4	7.2	7.6
Gross national product	3.1	4.6	5.2	3.7	4.9
Gross national income	3.2	5.4	5.3	3.8	6.6

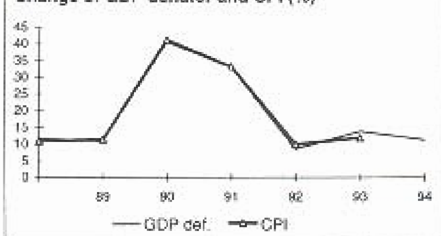
Growth rates of GDI and GDP (%)



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	18.7	41.2	10.0	11.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	18.8	40.5	8.5	13.8	11.1
Government finance					
(% of GDP)					
Current budget balance	..	0.0	3.5	1.7	1.4
Overall surplus/deficit	..	-3.4	2.8	1.4	-1.6

Change of GDP deflator and CPI (%)



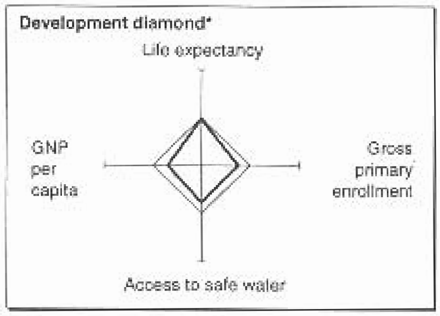
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Guatemala

POVERTY and SOCIAL

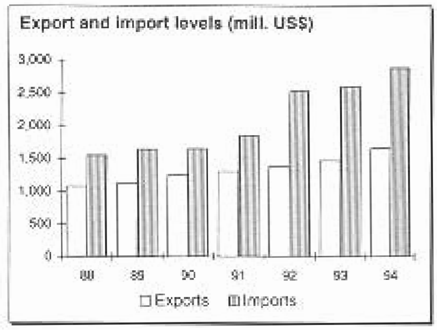
	1985-90	1990-94
(annual growth rates)		
Population	2.9	2.9
Labor force	3.0	3.3

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	65.3
Infant mortality *(per 1,000 live births)*	46.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	60.2
Energy consumption per capita *(kg oil equivalent)*	158.7
Illiteracy *(% of population age 15+)*	44.9
Gross primary enrollment *(% of school-age population)*	79.0



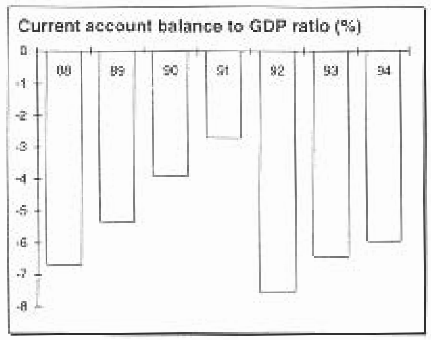
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,060	1,248	1,380	1,462	1,655
Coffee	452	316	253	276	357
Sugar	44	153	137	153	169
Manufactures	..	..	..	..	..
Total imports (cif)	1,175	1,649	2,532	2,598	2,883
Food	85	210	342	452	563
Fuel and energy	262	280	342	315	316
Capital goods	197	406	738	759	774
Export price index *(1987=100)*	115	100	95	92	103
Import price index *(1987=100)*	87	100	101	97	99
Terms of trade *(1987=100)*	132	100	94	95	103
Openness of economy *(trade/GDP,%)*	25	46	46	44	47



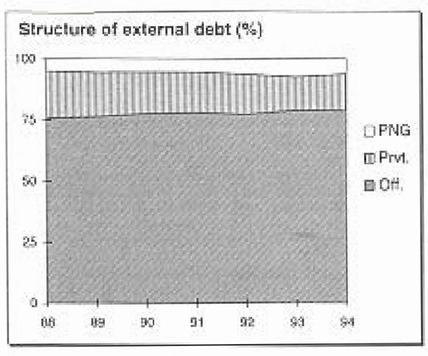
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,161	1,612	1,927	2,054	2,265
Imports of goods and nfs	1,257	1,892	2,852	2,961	3,247
Resource balance	-96	-280	-925	-907	-982
Net factor income	-170	-195	-155	-139	-115
Net current transfers	19	176	290	315	331
Current account balance					
Before official transfers	-247	-299	-790	-731	-766
After official transfers	-247	-247	-739	-683	-712
Long-term capital inflow	345	27	112	-8	126
Total other items (net)	9	315	600	875	621
Changes in net reserves	-107	-95	27	-184	-35
Memo:					
Reserves excluding gold *(mill. US$)*	301	282	765	868	863
Reserves including gold *(mill. US$)*	472	362	806	950	943
Conversion rate *(local/US$)*	1.1	4.5	5.2	5.6	5.8



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	189.6	137.0	115.0	119.4	114.3
IMF credit/exports	9.6	3.9	1.6	0.0	0.0
Short-term debt/exports	22.1	23.5	24.2	22.6	20.5
Total debt service/exports	27.9	12.3	26.5	14.5	16.7
GDP ratios					
Long-term debt/GDP	23.4	30.9	21.5	22.0	20.3
IMF credit/GDP	1.2	0.9	0.3	0.0	0.0
Short-term debt/GDP	2.7	5.3	4.5	4.2	3.6
Long-term debt ratios					
Private nonguaranteed/long-term	4.7	5.4	6.3	7.4	6.2
Public and publicly guaranteed					
Private creditors/long-term	36.1	17.0	16.5	13.6	15.1
Official creditors/long-term	59.3	77.6	77.2	79.0	78.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Guinea

Guinea is richly endowed with agricultural, mineral, and energy resources but is one of Africa's poorer countries, with a per capita income estimated at $500 in 1993. About a quarter of the children born die before the age of five, and average life expectancy barely reaches 40 years. Only 39 percent of school-age children have access to primary education, and 76 percent of the adult population is illiterate. An estimated 50 percent of Conakry's population lives in poverty.

In September 1958 Guinea became the first independent nation of former French West Africa. Shortly thereafter economic policy shifted toward state-led development with the objective of modernizing and industrializing the country. Increasingly, private-sector activities were forced underground as an overstaffed public administration absorbed most of the surplus generated by the mining companies and impeded the development of private initiatives. The once dynamic agricultural sector returned to subsistence production, and Guinea transformed itself from a major exporter of agricultural products into a major bauxite exporter and a net food importer.

The state-led development approach failed, and modernization and industrialization were never achieved. Economic growth remained below the 2.8 percent yearly estimated demographic growth rate. The economy became increasingly dualistic: the official sector depended on bauxite exports for its income and functioned through an extensive system of administered prices linked to a highly overvalued currency, while the gradually expanding informal sector obtained its foreign exchange through clandestine exports and private transfers from abroad. By the early 1980s the informal sector satisfied about 80 percent of urban consumer demand and virtually all demand for marketed consumer goods outside Conakry. Urbanization accelerated as productive activities and incomes were increasingly shifted from the rural to the urban sector.

The government's financial position deteriorated severely mainly because of the poor performance of the state enterprise sector. Tax receipts and transfers from state-owned enterprises declined as parallel markets grew to dominate consumer trade, while budgetary subsidies to public companies expanded. As a result, the government was increasingly unable to provide services in health and education and the country's infrastructure deteriorated. External imbalances became unsustainable, chiefly as a result of poorly conceived investments that failed to generate returns adequate to service the associated external debt. Mounting debt service obligations and private capital flight resulted in a continual rise in foreign liabilities of the central bank and a massive accumulation of payments arrears, amounting to over $300 million at end-1985.

Economic and Financial Reform

The Military Committee for National Recovery, which took power in April 1984, initiated a dramatic change in Guinea's political and economic policies. In an effort to reverse the deterioration of the economy and redress financial imbalances, the new leaders embarked in late 1985 on a series of ambitious economic and financial reforms to establish a market-oriented economic system, supported by IDA, the IMF, and bilateral donors. The government moved to correct the serious overvaluation of the currency by an initial fifteen-fold devaluation. It also took steps to decontrol prices and liberalize internal and external trade, and introduced institutional reforms to promote private savings and investment. The measures reoriented public investment toward infrastructure for the productive sectors, privatized commercial and industrial activities, replaced defunct state banks by privately owned banks, and reduced the size of the civil service. These initial reforms yielded encouraging results. The economy grew at 4.5 percent in real terms between 1986 and 1989, almost 2 percent a year on a per capita basis. The economy adjusted quickly to the effects of devaluation, and inflation declined from 72 percent in 1986 to 28 percent in 1989. However, the response from modern sector investors was disappointing, for growth was concentrated in smallholder farming, small-scale enterprises, and the services sector.

During the second phase of adjustment, begun in 1988, progress was slower, partly because government needed to do more than simply dismantle inappropriate policies and practices. New reform policies and institutions capable of sustaining the market-oriented economy were required, and their design and implementation was more difficult. Resistance was encountered in further restructuring public enterprises, and the pace of privatization slowed. The civil service reform proved to be difficult to implement, particularly the establishment of a mechanism to monitor and control personnel rolls and the wage bill and the set-up of permanent appropriate management procedures.

The second phase of the economic reform program was also accompanied by political reforms as progress was made toward greater democracy. Since the promulgation of a constitution in 1991 the press has been freed and political parties are allowed. Strikes and demonstrations are no longer prohibited. Free municipal elections took place in 1992. In December 1993 a president was elected in Guinea's first multiparty presidential elections; the vote indicated the existence of an active opposition albeit very much along ethnic lines. Legislative elections are scheduled in June 1995. These positive political developments have, however, introduced greater uncertainty into the conduct of economic policy and hindered the pace of reforms.

Guinea has made progress in disengaging the state from a direct role in managing public enterprises. The public monopoly for petroleum product imports and commercialization has been eliminated, and private distributors are operating in the country. The status of a number of public agencies has been changed to transform them into autonomous public enterprises as a first step toward privatization. In the key water and electricity utilities sector, management of production, distribution, and fee collection has been granted to private operators under performance-based contracts. Half the shares of the publicly owned telephone company have been offered for sale, and the government is actively considering reducing its participation in the capital of existing and future mining companies.

Nonmining revenues grew from 4.6 percent of GDP in 1988 to an estimated 7.4 percent in 1994. However, this improvement was not sufficient to compensate for a decrease in mining revenues due to the large fall in the price of aluminum after 1990, which led to a 19.7 percent drop in mining sector export receipts in 1992 and, after a year of stabilization in 1993, an estimated further drop of 13.3 percent in 1994. As a result, total government revenues fell from 14.4 percent of GDP in 1988 to an estimated 10.4 percent in 1994. Under these conditions, fiscal balance could only be achieved through drastic cuts in expenditures: current expenditures fell from 13.5 percent of GDP in 1988 to 9.4 percent in 1994, while capital expenditures decreased from 10.9 percent of GDP to 8.1 percent. The fiscal difficulties are straining the capacity of the state to increase the domestic financing share of public investments, which fell from 17.5 percent of total programmed amounts in 1993 to 16.4 percent in 1994. Under these difficult circumstances, Guinean authorities have by and large maintained the share of funds allocated to the social sectors.

As private investors worried by increased political uncertainty did not increase their share of investments in GDP, economic growth weakened from an average of 4 percent per year in the second half of the 1980s to 2.4 percent in 1991, and 3.0 percent in 1992, before increasing again to 4.7 percent in 1993 and an estimated 4 percent in 1994. Improved control over the budgetary deficit and monetary policy implementation helped reduce the inflation rate from 19.4 percent in 1990 to 7.1 percent in 1993 and an estimated 4.1 percent in 1994, contributing to a stabilization of the exchange rate.

Progress toward closing the current account deficit has been impaired by the drop in export revenues caused by a fall in the price of bauxite; the current account deficit (excluding public transfers) worsened from 8.9 percent of GDP in 1989 to 12.3 percent in 1992 before falling to 10.7 percent in 1993. Built-in lags in the price adjustment formula for bauxite initially cushioned the impact of the fall in the price of aluminum but will delay the positive effect of the recent strengthening in the aluminum market.

Poverty and Social Indicators

One of the major constraints to economic growth in Guinea is its weak human resource base. Lack of access to basic social services is reflected in low literacy rates, and high morbidity and mortality levels. These issues are particularly acute for women and children. Government policies under the current reform program aim at adjustment with social equity. Policy changes during the first phase of the adjustment process have shifted the terms of trade in favor of rural producers, the poorest segment of the population. With a view to cushioning the adverse effects of adjustment on vulnerable groups in urban areas, the government adopted a number of transitional measures during the first phase of the adjustment program. Authorities are currently taking steps to reorient budget and staff resources in the health and education sectors toward primary health care and education. These improvements in efficiency in the use of resources and larger budgetary allocations have resulted in improvements in social indicators, particularly in gross enrollment rates. However, sustained progress is hindered by the weak mobilization of fiscal revenues.

Medium-Term Prospects

The economic outlook for Guinea continues to be highly volatile as the economy continues to be heavily dependent on one commodity, bauxite. The economic diversification and the acceleration of growth necessary to alter its poverty profile significantly can only be achieved through sustained economic management reforms. At the core of this adjustment effort are improvements in revenue mobilization and management of public resources. The achievement of the fundamental redefinition of the role of the state, which was started in 1985, will require significant qualitative and quantitative changes in the civil service to allow an active partnership in promoting private sector activity.

The expected increase in private investment resulting from these policies, along with enhanced efficiency in public investment, should result in real annual growth averaging about 4 to 5 percent beginning in 1995, leading to 2 percent yearly increases in per capita income. The revitalization of the agricultural sector over the last few years is expected to be sustained through a gradual shift toward the export market. Output growth in the industrial sector should average 3 to 4 percent annually, with continuing growth in small-enterprise activities, the expansion of mining activity outside the bauxite subsectors, such as diamonds and gold, rehabilitation of viable industrial enterprises, and increased construction activity. These developments, combined with reforms aimed at eliminating remaining constraints — particularly in transport — should help sustain the fast growth in the tertiary sector.

The bauxite and alumina sectors continue to account for close to 80 percent of Guinea's merchandise export receipts and 29 percent of the government's fiscal receipts in 1994, down from an average of 70 percent over 1987-90. Despite a relatively good performance of non-mining exports over 1990-94, the current account balance (excluding official grants) worsened in 1992 to 12.3 percent of GDP before lower capital imports by mining companies helped improve it to 10.7 percent in 1993 and an estimated 9.4 percent in 1994. While bauxite and alumina production and exports are expected to remain stable over the next several years, considerable growth can be expected in the volume of other exports, notably agricultural products and gold and diamonds if the economic reform program is sustained.

External Debt

External debt at end-1994 was equivalent to 84.7 percent of GDP and consisted almost entirely of public debt. Relations with most creditors are considered good, although an unresolved problem remains with Russia about the valuation of the debt denominated in rubles contracted under the First Republic. Debt service was equivalent to 18 percent of export earnings in 1994. In January 1995, Guinea reached an agreement with the Paris Club for a rescheduling of arrears accumulated until the end of 1994.

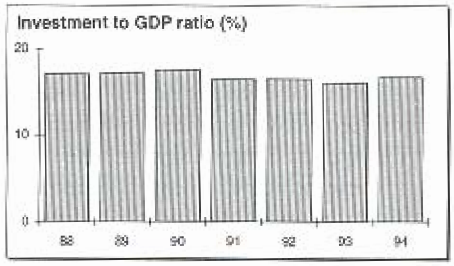
Guinea

Population mid-1993 *(millions)* **6.3**
GNP per capita 1993 *(US$)* **500**

Income group: **Low**
Indebtedness level: **Severely Indebted**

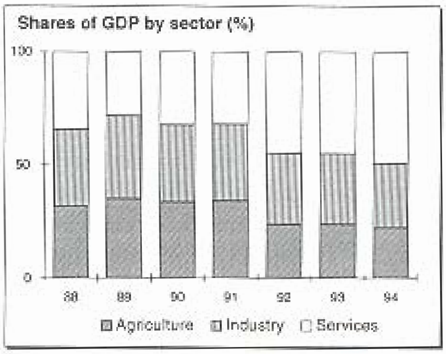
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	17.5	16.5	16.1	16.7
Exports of goods and nfs/GDP	..	29.9	23.0	20.6	19.7
Gross domestic savings/GDP	..	16.8	10.0	9.0	9.3
Gross national savings/GDP	..	7.8	3.0	6.4	..
Current account balance/GDP	..	-6.5	-9.3	-8.8	-7.2
Interest payments/GDP	..	1.9	1.1	1.2	1.7
Total debt/GDP	..	87.6	89.3	90.3	86.5
Total debt/exports	..	292.2	387.6	435.3	421.5



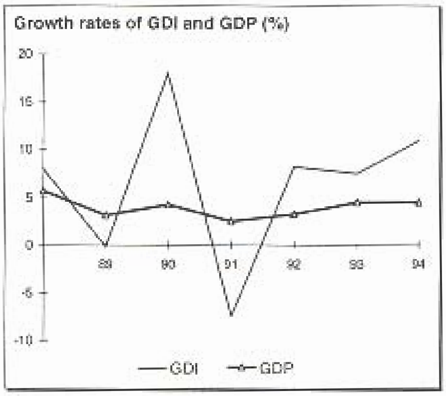
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	33.6	23.8	23.9	22.3
Industry	..	34.2	31.6	31.1	28.5
Manufacturing	..	3.5	4.5	4.6	4.3
Services	..	32.2	44.6	44.9	49.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*2.2*	4.5	4.7	5.0	5.1
Industry	*5.3*	2.9	2.6	3.1	3.1
Manufacturing	*5.6*	*4.0*	3.8	5.0	..
Services	*4.8*	3.8	2.6	5.3	5.1
GDP	*4.1*	3.7	3.3	4.5	4.5



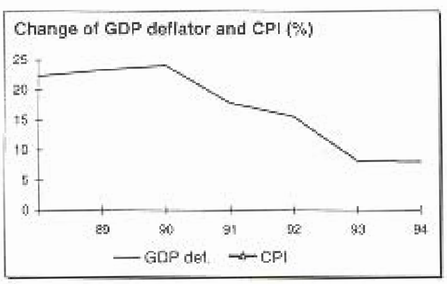
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	71.3	79.3	83.8	81.3
General government consumption	..	11.9	10.7	7.3	9.4
Gross domestic investment	..	17.5	16.5	16.1	16.7
Exports of goods and nfs	..	29.9	23.0	20.6	19.7
Imports of goods and nfs	..	30.6	29.5	27.7	27.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	*3.5*	5.2	3.7	8.8	2.3
General government consumption	*-0.6*	-1.4	18.9	-35.4	36.4
Gross domestic investment	*8.5*	5.2	8.2	7.5	10.9
Exports of goods and nfs	*5.7*	1.1	-7.2	9.2	2.4
Imports of goods and nfs	*5.1*	4.1	1.2	6.2	8.1
Gross national product	*4.0*	4.7	4.2	5.9	4.3
Gross national income	*2.9*	3.3	2.1	3.7	5.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	24.0	15.6	8.1	8.0
Government finance					
(% of GDP)					
Current budget balance	..	3.4	2.2	5.7	2.8
Overall surplus/deficit	..	98.6	66.7	-3.8	-6.1



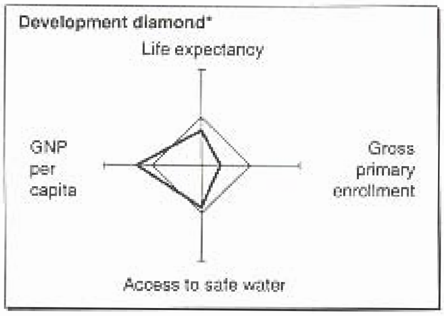
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Guinea

POVERTY and SOCIAL

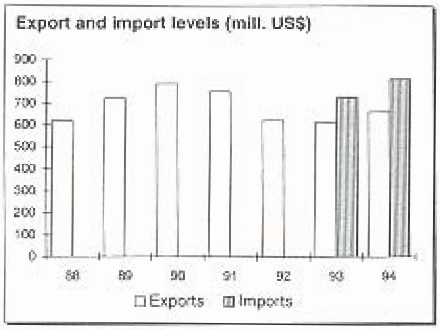
	1985-90	1990-94
(annual growth rates)		
Population	2.9	3.0
Labor force	1.7	1.8

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	44.9
Infant mortality *(per 1,000 live births)*	132.0
Child malnutrition *(% of children under 5)*	18.0
Access to safe water *(% of population)*	60.0
Energy consumption per capita *(kg oil equivalent)*	65.7
Illiteracy *(% of population age 15+)*	76.0
Gross primary enrollment *(% of school-age population)*	42.0



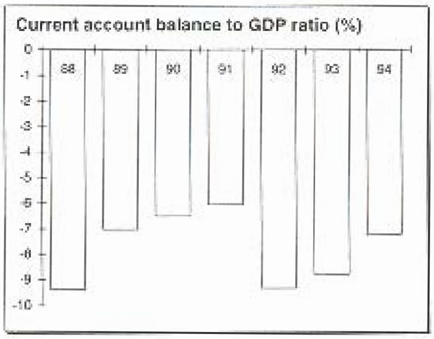
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	789	621	614	662
Other metals	..	447	343	332	350
Aluminum	..	166	107	106	105
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	730	813
Food	..	..	..	54	42
Fuel and energy	..	..	..	72	57
Capital goods	..	..	..	110	196
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP, %)*	..	61	53	48	47



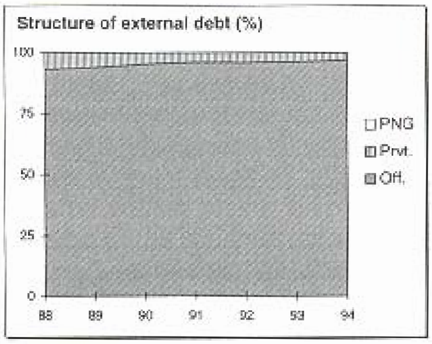
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	842	684	655	705
Imports of goods and nfs	..	758	752	879	968
Resource balance	..	85	-68	-224	-264
Net factor income	..	-228	-146	-90	-103
Net current transfers	..	-40	-64	35	113
Current account balance					
Before official transfers	..	-184	-278	-279	-253
After official transfers	..	-83	-144	-279	-253
Long-term capital inflow	..	-73	239	26	48
Total other items (net)	..	118	-63	302	201
Changes in net reserves	-2	38	-32	-49	4
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	87	132	..
Reserves including gold *(mill. US$)*	..	..	87	132	..
Conversion rate *(local/US$)*	24.3	660.2	902.0	955.5	976.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	265.5	360.5	406.6	396.6
IMF credit/exports	..	6.1	9.3	9.2	15.9
Short-term debt/exports	..	20.6	17.8	19.5	9.0
Total debt service/exports	..	19.9	12.4	12.7	18.0
GDP ratios					
Long-term debt/GDP	..	79.6	83.1	84.4	81.4
IMF credit/GDP	..	1.8	2.1	1.9	3.3
Short-term debt/GDP	..	6.2	4.1	4.0	1.9
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	15.8	4.8	4.2	3.9	3.2
Official creditors/long-term	84.2	95.2	95.8	96.1	96.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Guinea-Bissau

Guinea-Bissau is a small country on the West African coast with about 1 million inhabitants. With an estimated 1993 per capita income of about $240, it is among the poorest in the world. Annual population growth is about 2.0 percent, and the economy is characterized by a large traditional rural sector, producing primarily for subsistence. Agriculture, fisheries, and forestry account for about 90 percent of employment and almost 45 percent of GDP. While urban informal activity is strong, it has not been captured in statistics. Marketed output is largely confined to export crops, primarily cashews, groundnuts, palm kernels, and wood; in 1993 cashews, groundnuts, and fish accounted for about 87 percent of total exports of goods. Rice is the main food crop. In the 1950s Guinea-Bissau was a net exporter of rice (around 40,000 tons annually); however, since 1962 it has been a net importer. Although local production has increased, rice imports still remain high. As of late 1994, Guinea-Bissau has, for the first time since independence, a democratically elected government.

In 1974 Guinea-Bissau faced the task of rebuilding its economy after a protracted liberation war dislocated about a fifth of the population, destroyed an important part of the economic infrastructure, and reduced output of the main crops by over one-third. An ambitious public investment program financed mainly by external borrowing focused on the manufacturing sector and neglected agriculture. Inappropriate pricing policies, an increasingly overvalued exchange rate, and an inefficient marketing system prevented recovery of agricultural production, depressed official exports, and stimulated the parallel market. Severe fiscal imbalances resulting from a rapid rise in government expenditures and limited growth in revenues were increasingly financed by central bank credit, fueling inflation. Over 1980-82, the external situation was further aggravated by exogenous factors such as drought and depressed world market prices for the country's main exports. The balance of payments deteriorated rapidly, exacerbated by external debt service payments and accumulated external arrears.

Structural Adjustment Program

In 1983 the government broke with the policies of the postindependence decade and initiated an economic recovery program supported by IDA and the IMF. Despite some initial success, however, the program lost momentum in 1985, largely because of the government's inability to control the fiscal deficit and credit expansion. In 1987 the government renewed efforts to revitalize the deteriorating economy and launched a far-reaching structural adjustment program designed to maintain fiscal and monetary discipline, achieve positive real interest rates, liberalize prices, remove trade distortions, reduce export taxes, improve public resource management, promote public sector reform, and move toward a flexible and market-oriented exchange rate.

After a promising start, macroeconomic performance over 1989-93 was mixed. Some progress was made in 1990 in controlling the fiscal deficit, but in 1991 there were revenue shortfalls and large expenditure overruns. The adverse trends continued in the first half of 1992, but expenditure cutbacks introduced in the second half of the year helped to reduce the fiscal imbalance. Monetary and credit policies were also expansionary throughout 1991 and much of 1992. The result was that after declining in 1990, the inflation rate increased throughout 1991, reaching an annual rate of 70 percent in 1992. Beginning in November 1992, the government, which had been using the Portuguese escudo to anchor the its currency, began to use the dollar as the standard; this remains the currency against which the crawling peg is anchored.

Since late 1992 the authorities have shown a strengthened commitment to redress the country's declining economic and financial situation. In late February 1993 the authorities agreed with the IMF on a demanding shadow program whose overall aim was to boost budgetary revenues while cutting current outlays. Estimates for 1993 indicate that even though some of the targets were not fully met, actions taken over the year have started to show results. From 1992 to 1993, the annual average rate of inflation was reduced from 70 to 48 percent, and the overall fiscal deficit (excluding grants) came down from 38 to 28 percent of GDP. Meanwhile, the government managed the exchange rate flexibly, which allowed the spread between the official and parallel market rates to be reduced from 5 percent at end-1992 to 3.7 percent at end-1993. Real GDP growth rate for 1993 reached about 2.7 percent.

Preliminary indications show that in 1994 there was a further moderation in the annual average rate of inflation to about 15 percent against a programmed target of 17 percent. The primary fiscal surplus is estimated to have been lower than programmed, representing about 1.6 percent of GDP against a target of 5.5 percent. Lower than projected capital expenditures, helped to reduce the overall fiscal deficit (excluding grants) to about 23.6 percent of GDP, about 1.3 percentage points higher than programmed. The shortfall in reaching the agreed fiscal targets was mostly due to the fact that revenues from selling fishing licenses were 34 percent lower than projected and current spending was about 19 percent higher than programmed.

During the period 1987-93 Guinea-Bissau evolved from a rigidly controlled central command economy into a largely free market economy. The price and exchange rate system has been liberalized. The public sector, which had been overextended and highly inefficient, has undergone major transformations, although progress has been slower than initially anticipated. Key enterprises have been privatized and others rehabilitated, some of which are now under private management. The civil service was scaled back by about 2.5 percent in fiscal 1993 through a voluntary departure scheme. The financial sector has emerged from being dominated by a single state-owned bank, which performed central and commercial bank functions, to having a central bank and two competing banks — one the branch of a private foreign bank and the other a privately administered joint venture between local and foreign private investors and the government.

Trade distortions have been virtually eliminated. Export taxes have been reduced. The liberalization of prices has been one of the most successful areas of the program. Prices have been liberalized, with the exception of petroleum products and public utilities, which are adjusted regularly to reflect changes in costs. During 1994 progress on the structural front fell short of expectations, especially in the areas of tax and public enterprise reforms. Nevertheless, the government has implemented some important measures. The civil service was retrenched by a further 5 percent. The port service charge on imports of rice was increased by 10 percent to enhance budgetary revenues, and export taxes were further reduced. Liquidation of the state petroleum distribution company has been initiated.

Progress on privatization and rehabilitation has been uneven. At the beginning of the adjustment program, the public enterprise sector comprised 39 enterprises, generating about 9 percent of GDP. The electricity and water utility is now operated under a management contract, and one of the two previously government-owned hotels has been privatized and the other put under private management. Four manufacturing and commerce enterprises have been privatized and two leased to private entrepreneurs; and two tourist resorts put under private management. Following the decision to liberalize imports of petroleum products, the authorities are committed to liquidating the state-owned petroleum importing and distribution company, and the port authority and the telecommunications company have been privatized. A technical unit to coordinate the reform has been established to ensure a transparent and objective process.

At the start of the program, Guinea-Bissau's only bank performed the functions of central, commercial, and development banking. During most of the 1987-92 period a combination of lax credit policies and negative real interest rates resulted in a credit explosion to the private sector and public enterprises. In March 1990 the central bank was established as the monetary authority. Since then, two commercial banks have been created. To reverse the deterioration of the monetary situation, the monetary authorities limited the growth of broad money, which slowed to 40 percent in 1993, from 111 in 1992, with the help of a boost in interest rates to positive real levels. In view of the rapid deceleration in inflation during 1994, the nominal interest rate structure was adjusted downward, but was still kept positive in real terms. Monetary developments in 1994 were less than satisfactory, given 49.5 percent broad money growth, well above the programmed 21.5, due to a significant increase in credit to the economy, particularly toward the end of the year. The central bank has decided not to grant any more guarantees on behalf of the private sector and has discontinued the practice of obtaining loans on behalf of the government.

The adjustment program has led to profound changes in the economy and had a strong positive impact. GDP grew steadily in real terms at an annual average rate of about 4.5 percent between 1987 and 1993. In 1994 real economic growth was higher than expected, with preliminary estimates pointing to a rate higher than 6 percent. Private-sector investment has been growing since the reform program was launched, albeit from a very small base. Domestic savings, however, continue to be negative.

The current account deficit, excluding official transfers, widened from 26 percent of GDP in 1990 to about 48 percent in 1992, falling back to 28 percent in 1993, despite a downturn in the terms of trade, as imports were compressed sharply. In 1994 a good cashew harvest plus a significant reduction of excessively high stocks allowed Guinea-Bissau to reach record exports. Exports of about $33 million, almost 23 percent higher than projected, combined with imports about 20 percent lower than programmed, reduced the current account deficit, excluding official transfers, to an estimated 19.5 percent of GDP, about 8 percentage points below the programmed target. The current account deficit has been financed by higher than projected grants, slightly lower than programmed concessional loans, and an accumulation of debt-service arrears.

Medium-Term Prospects

The recently elected government reaffirmed its commitment to the 1994-97 reform program emphasizing restrictive fiscal and monetary policies, coupled with bold structural measures so that Guinea-Bissau can achieve sustained, broad-based, and private-sector-led growth. Agriculture will continue to be the main engine of growth, given the potential for increasing production, processing, and marketing of rice and other cereal grains, cashews, fruits, vegetables, and forestry resources. Barring unexpected exogenous shocks, this sector is expected to grow at about 6 percent a year over the next five years. Fisheries, commerce, and services represent additional potential sources of growth. Domestic resource mobilization will be strengthened and public enterprise reforms stepped up. Increased efficiency in government development expenditures will allow them to be reduced to about 21 percent of GDP in coming years, so that expenditures can be reoriented toward human capital and infrastructure development. Expanding rural extension services and applied research, providing better primary education and health care services, improving infrastructure, ensuring reliable energy supplies, and establishing an enabling environment for private sector development will be priorities.

Private investments are expected to play an increasingly larger role in the development process. The government is committed to addressing the needs of the most vulnerable groups by giving priority to employment creation, improving the quality of social services and providing some direct safety nets. Nevertheless, given the starting point and the price prospects for exports, the Guinea-Bissau will continue to be one of the poorest countries in the world well into the next century.

External Debt

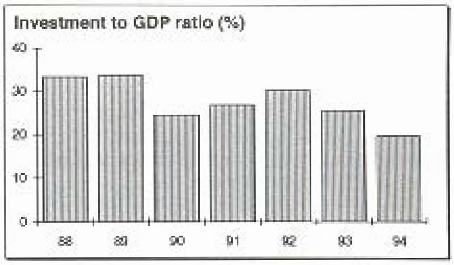
Guinea-Bissau's debt is extremely high. At end-1993 its debt service ratio was about 194 percent, while medium- and long-term external public debt remained in excess of 260 percent of GDP. The government obtained debt relief from Paris Club members in 1987 and 1989. However, as postrescheduling debt service remained high, new arrears have accumulated, and a Paris Club meeting in February 1995 granted "Naples" terms to handle the unusually large debt service.

Guinea-Bissau

Population mid-1993 *(millions)*	**1.0**	Income group: **Low**
GNP per capita 1993 *(US$)*	**240**	Indebtedness level: **Severely Indebted**

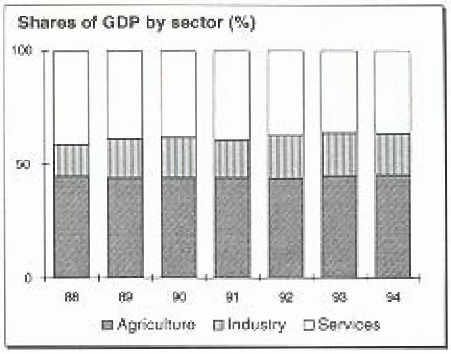
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	40.8	24.5	30.3	25.6	19.7
Exports of goods and nfs/GDP	8.9	11.0	8.1	10.6	18.7
Gross domestic savings/GDP	-2.9	-6.6	-18.0	-0.3	1.9
Gross national savings/GDP	-3.9	-1.0	-18.1	0.2	3.1
Current account balance/GDP	-44.5	-25.6	-48.5	-25.4	-16.6
Interest payments/GDP	1.4	1.4	1.3	0.8	0.8
Total debt/GDP	193.4	256.1	296.6	286.5	314.6
Total debt/exports	1,517.4	1,235.5	2,087.7	1,895.1	1,378.3



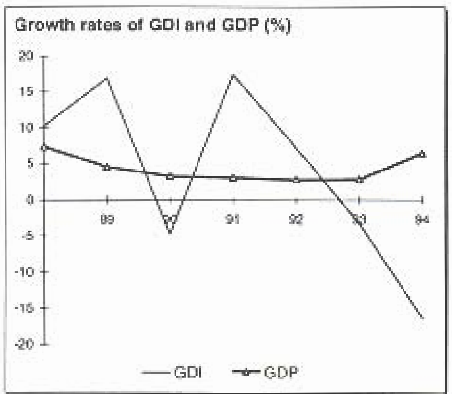
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	42.4	44.0	43.8	44.8	45.0
Industry	14.3	18.0	19.1	19.0	18.5
Manufacturing	..	8.1	8.4	8.0	7.5
Services	43.3	38.0	37.1	36.2	36.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	7.3	4.7	3.6	5.3	7.3
Industry	-5.1	2.3	5.2	1.3	1.9
Manufacturing	*-4.7*	0.0	-1.4	1.2	1.5
Services	5.3	2.3	1.0	-0.2	6.4
GDP	4.8	3.6	2.8	2.8	6.4



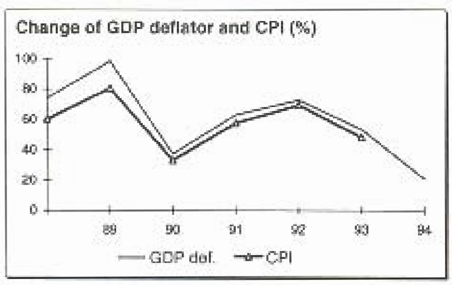
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	86.6	96.0	108.8	93.3	90.2
General government consumption	16.4	10.6	9.1	6.9	7.9
Gross domestic investment	40.8	24.5	30.3	25.6	19.7
Exports of goods and nfs	8.9	11.0	8.1	10.6	18.7
Imports of goods and nfs	52.6	42.2	56.4	36.5	36.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.8	1.1	26.8	-17.2	3.2
General government consumption	5.1	5.3	8.0	-5.0	20.2
Gross domestic investment	6.2	0.7	7.2	-3.3	-16.3
Exports of goods and nfs	14.0	-6.2	-70.2	63.8	101.7
Imports of goods and nfs	2.7	-5.7	21.3	-32.6	0.3
Gross national product	5.1	2.2	4.4	0.7	7.1
Gross national income	4.5	4.2	10.8	0.5	7.0



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	33.0	69.6	48.1	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	44.9	37.3	72.8	53.5	20.7
Government finance					
(% of GDP)					
Current budget balance	-14.5	2.8	-4.1	-2.7	0.0
Overall surplus/deficit	..	..	..	..	-21.9



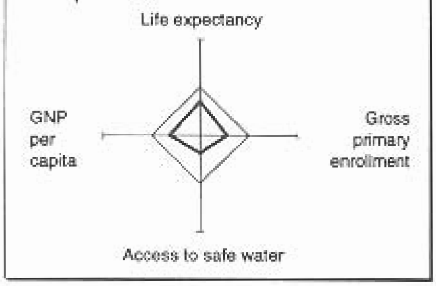
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Guinea-Bissau

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.0	2.1
Labor force	1.4	1.6

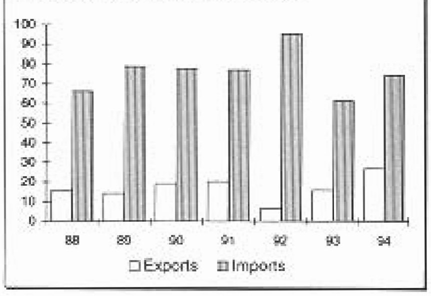
	most recent estimate
Poverty level: headcount index *(% of population)*	49.0
Life expectancy at birth	43.9
Infant mortality *(per 1,000 live births)*	137.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	24.9
Energy consumption per capita *(kg oil equivalent)*	37.0
Illiteracy *(% of population age 15+)*	63.5
Gross primary enrollment *(% of school-age population)*	60.0



Development diamond*

TRADE

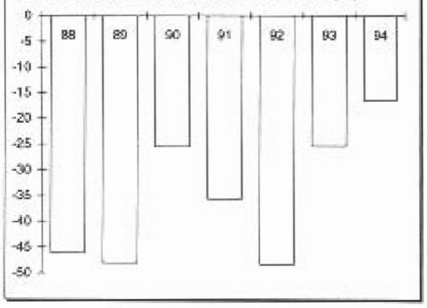
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	12	19	6	16	27
Groundnuts	5	12	3	13	23
Other food	3	3	1	1	1
Manufactures	..	..	..	..	..
Total imports (cif)	69	78	95	62	74
Food	17	15	32	25	27
Fuel and energy	9	8	5	3	3
Capital goods	13	26	34	14	21
Export price index *(1987=100)*	..	80	86	130	121
Import price index *(1987=100)*	..	122	123	117	126
Terms of trade *(1987=100)*	..	66	70	110	96
Openness of economy *(trade/GDP, %)*	62	53	64	47	55



Export and import levels (mill. US$)

BALANCE of PAYMENTS

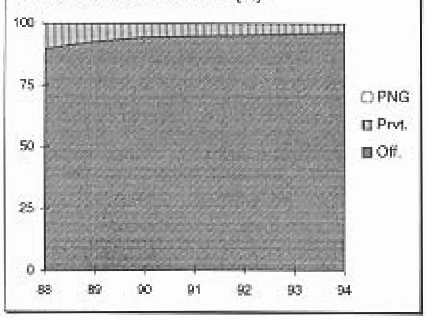
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	20	26	18	26	45
Imports of goods and nfs	82	100	125	88	89
Resource balance	-62	-74	-107	-62	-43
Net factor income	-5	12	0	-5	-3
Net current transfers	-3	1	-1	6	6
Current account balance					
Before official transfers	-70	-60	-108	-61	-40
After official transfers	-40	-16	-68	-25	7
Long-term capital inflow	38	13	13	-13	-11
Total other items (net)	18	21	60	29	-2
Changes in net reserves	-17	-18	-5	9	6
Memo:					
Reserves excluding gold *(mill. US$)*	..	18	18	14	..
Reserves including gold *(mill. US$)*	..	18	18	14	..
Conversion rate *(local/US$)*	160.0	2,185.5	6,933.9	10,081.9	12,892.1



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	1,301.5	1,137.1	1,923.4	1,735.9	1,360.2
IMF credit/exports	15.4	10.8	16.5	12.9	9.0
Short-term debt/exports	200.5	87.6	147.8	146.3	9.0
Total debt service/exports	46.3	16.9	22.8	9.9	5.4
GDP ratios					
Long-term debt/GDP	165.8	235.7	273.2	262.4	310.4
IMF credit/GDP	2.0	2.2	2.3	1.9	2.1
Short-term debt/GDP	25.5	18.1	21.0	22.1	2.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	15.3	5.7	4.8	4.3	3.6
Official creditors/long-term	84.7	94.3	95.2	95.7	96.4



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Guyana

Guyana's economy is based on producing and exporting bauxite, sugar, rice, and, more recently, gold and forestry products. Agricultural activity is concentrated along the coastal belt, where most of the population resides, while extensive timber resources in the tropical hinterland remain largely unexploited. Guyana's population, estimated at about 800,000 in 1992, has grown only marginally over the past decade as a result of a low birth rate and continuous emigration. GNP per capita in 1993 is estimated at $350, one of the lowest in the Western Hemisphere.

After independence in 1966 Guyana pursued a policy of "cooperative socialism," with increasing state intervention in the economy. The results were dismal. Real GDP grew at only 0.4 percent a year over 1966-88, less than population growth. Following their nationalization, the sugar and bauxite industries, the two pillars of the economy, collapsed.

Production of sugar fell from 350,000 tons to 130,000, and that of calcined bauxite from over 800,000 tons to less than 200,000 tons. The key determinants constraining growth were economic mismanagement and the overextended role of the state. In the 1970s Guyana wasted most of the bonanza in sugar prices and failed to adjust to the two petroleum shocks. Economic performance deteriorated further in the next decade. Demand policies were expansionary, the real exchange rate appreciated, and the government relied increasingly on price controls and quantitative restrictions on trade. These policies resulted in a yearly GDP decline of 2.8 percent over 1980-88, a dramatic increase in debt to about $1.9 billion (or about six times GDP), and a large parallel economy.

In the wake of this decline, the economic and social infrastructure fell into disrepair, Guyana's education and health indicators fell from the highest to among the lowest in the Caribbean, and poverty became pervasive.

With the economy in perilous straits, the government fully reversed course in mid-1988 and embarked on an economic recovery program supported by IDA and the IMF. The economic program consisted of broad adjustment measures and structural reforms to realign relative prices, dismantle state controls, and establish a market-oriented economy. The government improved fiscal performance through expenditure restraint and tax reforms, abolished price controls and liberalized interest rates, established a market-determined exchange rate regime, reduced tariffs and eliminated most import prohibitions, embarked on a privatization program, divesting 14 out of the over 40 public enterprises, introducing private management in the sugar and bauxite industries, and eliminated its arrears to the official lending agencies. The recovery program was carried out at a pace matched by few other nations, despite limited external assistance.

Recent Economic Developments

The economic recovery program has improved Guyana's economic performance considerably. In 1991, economic activity began to recover and real GDP increased by 6.0 percent, as the program solicited a strong supply response and weather conditions were favorable. Price and exchange rate liberalization and improved incentives for private sector development had a significant impact on increasing production in all sectors and on integrating the parallel economy into the official economy. Economic recovery continued over 1992-94, as real GDP growth averaged about 7.5 percent. Inflation declined significantly, from 83 percent in 1991 to 16 percent in 1994, and the nominal exchange rate, which initially had depreciated considerably, remained fairly stable during 1994.

Guyana's external financial position, however, remains precarious because of the heavy debt service for the large public debt of $1.9 billion. Strong growth in sugar, rice, gold, and forestry product exports and restrained imports led to a positive resource balance in 1992. In 1993/94, however, mainly as a result of lower export prices, the resource balance turned negative. The accrued current account of the balance of payments continued to record large deficits, amounting to 32 percent and 22 percent of GDP in 1993 and 1994. Large debt relief and balance-of-payment support coming from bilateral and multilateral donors, together with the resumption of capital inflows, more than adequately financed these large deficits. As a result, the Bank of

Guyana was able to accumulate gross foreign reserves equivalent to about nine months' imports by end-1994. This cushion of reserves will help to ensure repayment of Guyana's debt-service obligations over the coming years.

Control of noninterest expenditures and increases in revenues in the course of the adjustment process substantially improved the primary account balance (excluding interest on debt) from -15 percent of GDP in 1990 to an surplus of 8 percent in 1994. During the same period, the public sector current account deficit declined from 21 percent of GDP to almost zero. The overall public sector deficit, however, remained large, about 11 percent of GDP during 1994, owing to the high level of capital expenditures urgently needed to rehabilitate and rebuild dilapidated economic and social infrastructure and replace machinery and equipment. As a result of continued aid flows, domestic financing in 1994 fell to 5 percent of GDP, compared to 12 percent in 1993.

Poverty and Social Indicators

Social conditions continued to deteriorate in the initial phase of the recovery program. The reorientation of incentives caused dislocations, and was especially harsh on such groups as civil servants, who experienced a 40 percent decline in real wages that were already low. The adjustment also involved considerable cuts in recurrent social sector expenditures, which decreased from 10 percent of GDP in 1988 to 5 percent in 1991. These cuts were partially compensated for by a Social Impact Amelioration Program. However, recent progress under the recovery program has benefited all segments of society. In particular, it has reversed past disincentives to agriculture, which employs most of the population. Nevertheless, poverty remains pervasive, with about 40 percent of the population below the poverty line according to recent estimates. The incidence of poverty does not differ significantly between men and women, nor between the Indo- and Afro-Guyanese population. However, there is a higher incidence of poverty among the rural population, in particular among Amerindians.

Development Issues and Prospects

The development agenda in Guyana remains formidable. Poverty is prevalent, infrastructure inadequate and dilapidated, the public service inefficient, and the debt overhang onerous. Moreover, Guyana is a recent democracy, with a tenuous ethnic balance. While adjustment has been successful, it is still fragile and needs to be consolidated and strengthened. The private sector has responded favorably, but is small and nascent, and most economic resources are still under state control. Achieving the objectives of sustained growth to improve living standards and poverty alleviation will be an arduous task.

The government's major challenge is to complete the ongoing preparation of a long-term development strategy as a framework to guide development policies for the next two decades. The government's expressed intentions — to adhere to the recovery program's principles, further reduce its role in economic activities, and direct its resources toward basic infrastructure and social sector development — are an appropriate starting point for such a development strategy. These intentions, provided that they are backed up by appropriate policies and resources, would move Guyana closer to the policies pursued by the rapidly growing economies: macroeconomic stability and a nondistorted incentive framework; emphasis on human resource development and export orientation.

Possibilities for increased exports include further processing of gold into finished products such as jewelry, timber into furniture, and rice into packaged foodstuffs. Nontraditional agriculture, such as fruits, vegetables, and livestock, also offer potential for export.

Guyana's development strategy calls for substantially greater private sector participation to meet its enormous investment bill. The government has recently set up a privatization board and set out transparent privatization procedures. Public financial institutions face a variety of problems, including weak management, undercapitalization, and nonperforming loans, and there is scope for further improvements in the incentive regime.

Despite recent progress, the public sector is still overextended and poorly organized, and is not geared toward operating in a market economy. After divestment of many enterprises, the public sector still owns most utilities, the key bauxite and sugar industries, most financial institutions, manufacturing enterprises, and some retail outlets. Guyana's dilapidated infrastructure severely constrains productive activities. Worn-out power facilities have not been fully replaced and still cause blackouts. The road network has not been fully rehabilitated. Also, the sea defenses, protecting the economic activities of about 90 percent of the population, will require a minimum of $300 million over the next decade for rehabilitation.

While there are ongoing efforts to rehabilitate sea defenses, main roads, and water supply, operations and maintenance expenditures declined by 30 percent over 1987-92. The main gaps over the next few years relate to the social sectors; drainage and irrigation and municipal services, in particular waste management.

Guyana faces two sets of environmental issues. Most land in the small coastal zone area, including the capital city of Georgetown, where about 90 percent of the population lives and most of the country's physical assets are located, lies below sea level at high tides and is protected by a system of sea walls. The land is criss-crossed by irrigation and drainage networks that support agricultural activities. Due partly to the economic decline of the past decade, maintenance of these assets has not been adequate, leading to frequent breakdowns and floods that aggravate the pollution and public health problems that result from inadequate waste disposal systems created by shortage of funds, poverty, and a lack of environmental awareness.

Development of Guyana's hinterland, where mineral and forestry resources are abundant, raises additional environmental issues. Where large-scale extraction of bauxite is located in well-defined areas, safeguarding the environment has not been difficult to organize. Extraction of gold and diamonds, however, has been more dispersed, making it difficult to safeguard the environment from adverse effects, such as degraded land, polluted rivers, and destroyed flora and fauna. The government intends to develop its extensive rain forests as a source of economic growth, but lacks the institutional and technical expertise to adequately regulate and monitor the exploitation of these important resources, and has given concessions to exploit part of these forests largely with insufficient scientific basis for their sustainability.

The government is aware of these issues and has initiated measures to address them through its National Forestry Action Plan, which identifies policy development, institutional strengthening, land-use planning, and conservation as key areas for immediate action in the forestry sector. The government has also prepared a National Environmental Action Plan that identifies the major environmental problems facing Guyana and recommends policies to ensure that development is sustainable and undertaken in ways least damaging to the environment.

Medium-Term Prospects

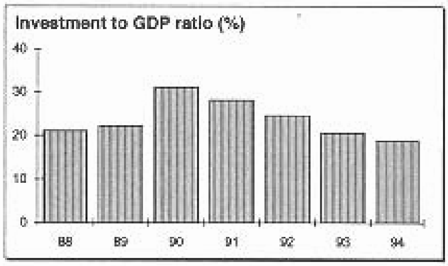
Despite the many development issues facing Guyana, its medium- and long-term growth potential is promising. Guyana has vast resources and a competitive labor force. Real GDP growth could average 4 to 5 percent per year until the end of the decade if the government is able to deepen market-oriented reforms, address its severe infrastructure constraints, and pursue a development strategy that focuses on export orientation. Guyana's debt service burden remains large. Rescheduling has shifted the burden beyond the next few years, but this is only a temporary measure. If exports grow rapidly, the relative burden will be much reduced when the debt falls due.

Guyana

Population mid-1993 *(thousands)*	816	Income group: **Low**
GNP per capita 1993 *(US$)*	350	Indebtedness level: **Severely Indebted**

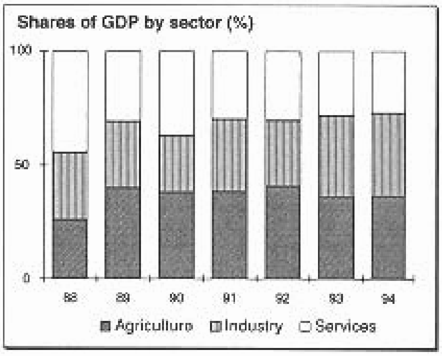
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	35.8	31.1	24.6	20.6	18.8
Exports of goods and nfs/GDP	48.1	62.7	98.6	85.3	76.9
Gross domestic savings/GDP	22.0	14.0	25.5	12.6	14.1
Gross national savings/GDP	9.3	-13.4	-0.3	-4.3	1.7
Current account balance/GDP	-28.4	-46.0	-19.7	-22.1	-14.9
Interest payments/GDP	2.5	18.7	11.4	7.7	7.0
Total debt/GDP	324.0	483.2	502.3	415.3	361.9
Total debt/exports	607.2	760.1	497.1	479.7	..



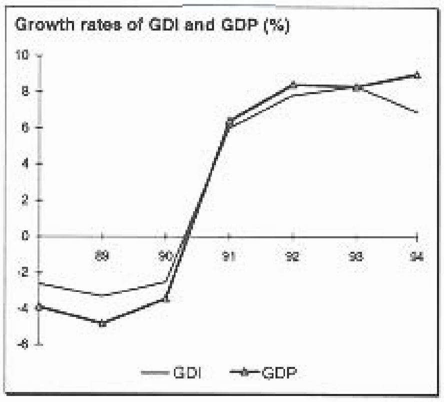
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	26.8	38.1	40.8	36.2	36.4
Industry	24.6	24.9	29.0	35.7	36.7
Manufacturing	13.9	10.3	14.3	11.6	11.4
Services	48.5	37.0	30.2	28.1	26.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-2.1	14.6	27.5	5.4	11.2
Industry	-7.0	9.3	-2.9	21.3	11.2
Manufacturing	-11.8	4.4	5.0	4.0	5.9
Services	0.3	2.3	1.2	3.4	5.3
GDP	-2.6	8.1	8.4	8.3	9.0



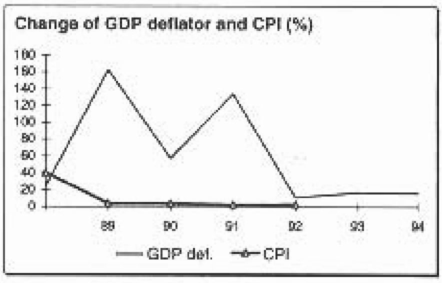
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	59.9	72.4	59.0	73.2	73.5
General government consumption	18.1	13.6	15.5	14.2	12.4
Gross domestic investment	35.8	31.1	24.6	20.6	18.8
Exports of goods and nfs	48.1	62.7	98.6	85.3	76.9
Imports of goods and nfs	61.9	79.9	97.7	93.3	81.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	*-33.8*	..	..	..	..
General government consumption	*44.7*	..	..	..	..
Gross domestic investment	-1.7	7.4	7.8	8.3	6.9
Exports of goods and nfs	-7.3	16.3	23.8	16.0	5.1
Imports of goods and nfs	-9.4	9.9	13.2	19.0	5.3
Gross national product	-6.9	15.6	25.0	22.7	15.7
Gross national income	-8.2	13.3	29.4	13.7	23.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	15.0	3.7	2.6	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	14.6	57.0	10.6	16.8	15.9
Government finance					
(% of GDP)					
Current budget balance	-36.6	-26.0	-5.6	2.1	..
Overall surplus/deficit	-54.4	-34.5	-10.3	-5.4	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

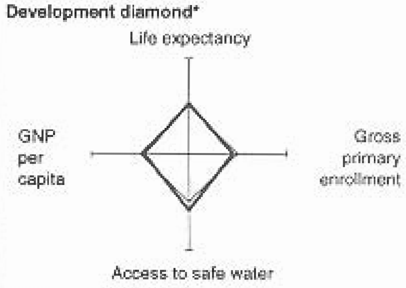
Guyana

POVERTY and SOCIAL

(annual growth rates)	1985-90	1990-94
Population	0.2	*0.8*
Labor force	2.5	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	43.0
Life expectancy at birth	65.5
Infant mortality *(per 1,000 live births)*	46.8
Child malnutrition *(% of children under 5)*	3.0
Access to safe water *(% of population)*	80.6
Energy consumption per capita *(kg oil equivalent)*	349.3
Illiteracy *(% of population age 15+)*	3.6
Gross primary enrollment *(% of school-age population)*	98.0

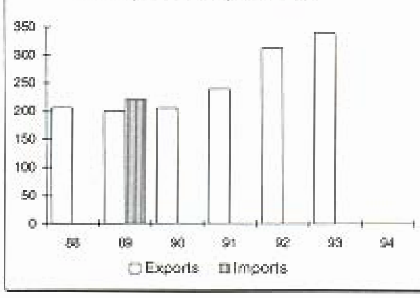
Development diamond*



TRADE

(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	214	205	313	340	..
Other metals	73	48	36	43	..
Sugar	66	75	135	117	..
Manufactures	21	5	6	6	..
Total imports (cif)	..	..	..	..	..
Food	5	..	..	..	..
Fuel and energy	..	87	72	71	..
Capital goods	66	..	..	..	..
Export price index *(1987=100)*	82	99	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	110	143	196	179	158

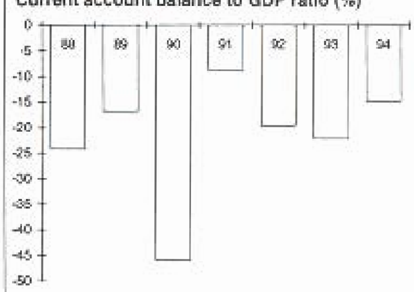
Export and import levels (mill. US$)



BALANCE of PAYMENTS

(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	245	231	368	398	447
Imports of goods and nfs	315	290	365	436	474
Resource balance	-70	-59	4	-37	-27
Net factor income	-71	-136	-91	-81	-68
Net current transfers	11	13	14	15	15
Current account balance					
Before official transfers	-130	-182	-74	-103	-80
After official transfers	-130	-175	-61	-103	-70
Long-term capital inflow	2	0	41	16	120
Total other items (net)	-61	193	66	143	-82
Changes in net reserves	189	-18	-46	-56	32
Memo:					
Reserves excluding gold *(mill. US$)*	6	29	188	247	247
Reserves including gold *(mill. US$)*	6	29	188	247	247
Conversion rate *(local/US$)*	4.3	39.5	125.0	126.7	138.3

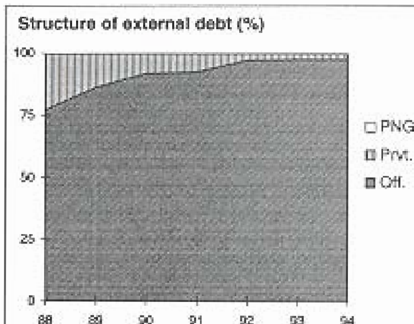
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	319.0	691.3	441.0	427.6	..
IMF credit/exports	37.3	44.8	44.5	43.7	..
Short-term debt/exports	251.0	24.0	11.6	8.5	..
Total debt service/exports	27.1	117.6	26.1	22.4	..
GDP ratios					
Long-term debt/GDP	170.2	439.4	445.6	370.2	328.0
IMF credit/GDP	19.9	28.5	44.9	37.9	32.0
Short-term debt/GDP	133.9	15.2	11.8	7.3	1.9
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	22.5	8.2	2.9	2.4	2.5
Official creditors/long-term	77.5	91.8	97.1	97.6	97.5

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Haiti

Haiti is a small, densely populated, predominately rural, and open economy. Its 7 million inhabitants occupy 28,000 square kilometers on the western end of the island of Hispaniola. Haiti is one of the poorest nations in the Western Hemisphere. Social indicators are alarming. In 1994, an estimated 50 percent of the population had a caloric intake below 75 percent of requirements, and over 25 percent of Haiti's children suffered from malnutrition. The infant mortality rate is estimated to exceed 84 per 1,000 live births. Some 50 percent of adult Haitians are illiterate. Net of emigration of 0.5 percent, population growth was estimated at 1.8 percent per year in the 1980s.

Over 1980-91 Haiti's population suffered a continuing decline in its standard of living, with real GNP per capita falling by about 2 percent a year. Over decades, population pressure and poor public policies forced cultivation of increasingly marginal lands and in turn accelerated deforestation and soil erosion. As a result, agricultural production, the main source of income of the 70 percent of the population who live in rural areas, has fallen steadily on a per capita basis since the 1970s. Initially, industrial expansion compensated for the decline in agriculture. In the second half of the 1970s a major expansion in export industry together with increasing public investment allowed the country to grow at a rate of about 3 percent per capita. However, political instability during most of the 1980s put a stop to industrial expansion, external assistance, and, consequently, growth.

The elected government that took office in February 1991 undertook some measures to improve fiscal revenues, liberalize trade, and improve infrastructure services and initiated discussions on an IMF standby agreement. That September, however, the government was overthrown in a coup that forced the president into exile. In the three years following the coup military rule led to increased economic mismanagement and an international embargo, resulting in a dramatic decline in living standards. During this period, Haiti did not service its external debt. In October 1994 the president was able to return to Haiti, and in November a new constitutional government was appointed.

Recent Economic Developments

Over 1992-94 Haiti's economic performance deteriorated at an accelerated pace. Preliminary data indicate that real GDP fell by almost 20 percent in fiscal 1993, and by a further 10 percent in 1994. All sectors were affected, and the situation was further aggravated by Tropical Storm Gordon, which hit Haiti on November 12, 1994. Agricultural production and exports decreased considerably. Export-oriented industries were devastated by the embargo. Value-added in the services sector decreased in line with GDP, and construction activities came to a virtual standstill.

Inflation increased rapidly, from 10 percent during 1991 to an estimated 36 percent by 1994. Inflation has been fueled by the embargo, together with rapid growth in the money supply (M2) of about 30 percent per year. In this environment, real interest rates, which historically have been positive, turned highly negative. Against this background, the nominal exchange rate depreciated by about 50 percent over 1991-94.

Fiscal performance also deteriorated, mainly because of a sharp fall in tax revenues, combined with some increases in the wage bill caused by increased public employment. The overall deficit of the central government increased from about 1 percent of GDP in 1991 to almost 5 percent in 1994. Over the entire period the deficit was financed by credit from the central bank and by accumulating domestic and external arrears. Total central government revenue declined from some 8 percent of GDP in 1991 to about 3 percent in 1994, on account of the decline in economic activity, lower taxable imports, and a further weakening of tax administration. Total central government expenditure increased from about 8 percent of GDP in 1991 to almost 10 percent in 1993, mainly because of increases in the wage bill and accrued interest payments. In 1994 total expenditure declined somewhat to 9 percent of GDP as the growth in public employment slowed, and as operating, maintenance, and capital expenditures remained depressed. By end-September 1994, the public sector had domestic arrears of about $11 million equivalent and external arrears of $126 million.

International trade was severely affected by the international embargo mounted during the period of military rule. Haiti's external current account deficit decreased from 11 percent of GDP in 1991 to about 6 percent of GDP in 1994 reflecting the tightening of the trade embargo. With usable foreign exchange reserves virtually depleted since 1992, the deficit has been financed largely by humanitarian assistance and the accumulation of external arrears. Estimated exports of goods declined from $202 million in 1991 to an estimated $57 million in 1994, and imports from $449 million to $141 million during the same period. The main sources of export revenues were light manufacturing goods and coffee. To a large extent, imports reflected humanitarian assistance, which amounted to about $113 million in 1994.

Medium-Term Prospects

Haiti's development objectives are sustained growth and employment creation, poverty alleviation and broad access to social services, and environmental rehabilitation. The government wants to achieve these objectives in a framework of national reconciliation and respect for democratic rule. It also has committed itself to a comprehensive privatization program and policy reforms to support private-sector development. The government further intends to strengthen the ability of the state to deliver basic services through public service reform and decentralization. It also aims to cooperate with nongovernmental organizations in the provision of services. Finally, the government has expressed great concern over Haiti's poor environmental conditions.

To address the current economic crisis and move toward its development objectives, the government proposed an emergency assistance program to provide for basic needs through import finance, civil works, and technical assistance and agreed with the IMF on a standby arrangement. The assistance program was prepared in close collaboration with a multi-agency task force; it covers the areas of governance, economic assistance, and humanitarian aid and is estimated to cost $586 million. To a significant extent, these needs could be covered by the pledges at the recent consultative group meeting, which amounted to over $1 billion.

The government program envisages real GDP growth of 4.5 percent in 1995, the reduction of inflation to 15 percent, and an increase in central government revenues to 6 percent of GDP, an overall public deficit after grants of over 3 percent of GDP, an external current account deficit of 21 percent of GDP, and sufficient external finance to retire 2 percent of domestic debt and increase reserves by $45 million. If the government succeeds in implementing its reform agenda and the pledged assistance is absorbed in a timely manner, Haiti's economic outlook growth rates of over 5 percent a year can be expected over 1995-99.

External Debt

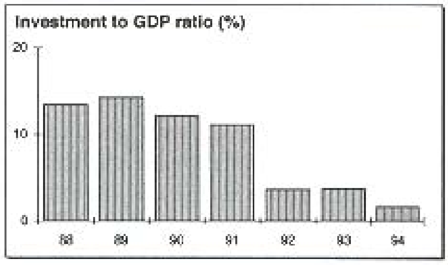
At the end of 1994 Haiti's outstanding and disbursed external debt amounted to $745 million or 47 percent of GDP. Total scheduled debt service as a ratio of merchandise exports amounted to almost 40 percent. This ratio, however, reflects the strong decline in exports during the embargo: in 1991, it amounted to only 13 percent of GDP.

Haiti

Population mid-1993 *(millions)*	6.9	Income group: **Low**
GNP per capita 1993 *(US$)*	..	Indebtedness level: **Less indebted**

KEY RATIOS

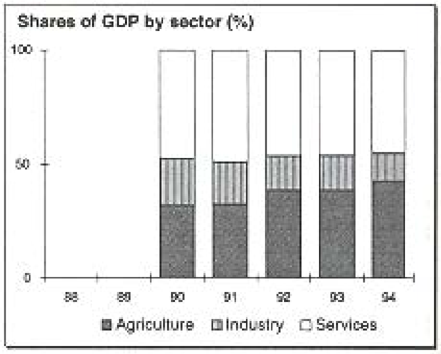
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	16.7	12.1	3.7	3.7	1.7
Exports of goods and nfs/GDP	15.9	10.0	6.0	7.4	3.9
Gross domestic savings/GDP	3.2	4.0	-6.4	-11.5	-7.2
Gross national savings/GDP	4.6	5.4	..	..	..
Current account balance/GDP	-9.5	-8.2	-8.4	-12.9	-5.2
Interest payments/GDP	0.3	0.2	0.0	0.0	0.2
Total debt/GDP	35.7	29.4	42.2	53.1	49.1
Total debt/exports	163.8	170.2	329.3	298.7	374.7



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	31.8	38.6	38.6	42.5
Industry	..	20.8	15.3	15.5	12.6
Manufacturing	..	15.0	11.9	10.4	9.7
Services	..	47.4	46.1	45.9	44.9

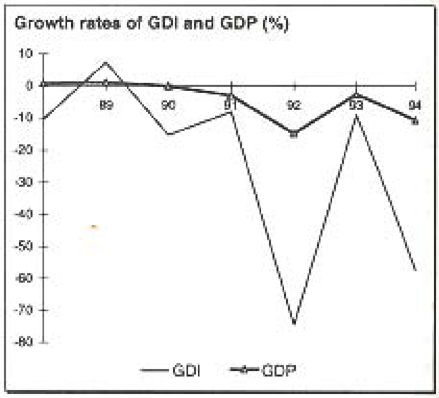
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	0.6	-1.5	-1.2	-2.6	-1.7
Industry	-1.2	-19.8	-31.6	-1.5	-31.5
Manufacturing	-0.1	-17.7	-21.4	-0.8	-33.3
Services	0.6	-8.8	-17.7	-3.1	-11.0
GDP	0.2	-8.1	-14.8	-2.6	-10.6



GDP: EXPENDITURE

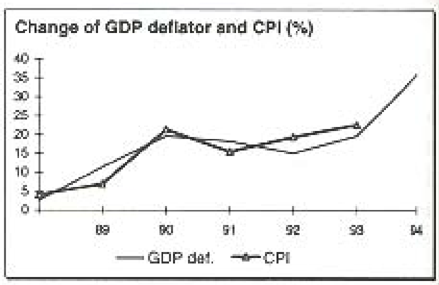
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	85.3	87.9	99.4	104.2	100.8
General government consumption	11.5	8.0	7.0	7.3	6.4
Gross domestic investment	16.7	12.1	3.7	3.7	1.7
Exports of goods and nfs	15.9	10.0	6.0	7.4	3.9
Imports of goods and nfs	29.4	18.0	16.1	22.6	12.8

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.7	-2.1	-14.9	9.8	-12.9
General government consumption	-16.0	3.2	11.7	23.2	-27.0
Gross domestic investment	-4.5	-46.5	-74.5	-8.9	-57.2
Exports of goods and nfs	-1.4	-12.6	-47.6	35.7	-34.8
Imports of goods and nfs	-1.7	-1.0	-45.6	61.0	-31.6
Gross national product	0.2	-8.1	-14.7	-2.8	-10.7
Gross national income	0.2	-8.3	-15.0	-3.2	-10.1



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.6	21.3	19.4	22.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	10.4	19.5	15.0	19.6	35.8
Government finance					
(% of GDP)					
Current budget balance	..	-3.5	-4.5	-5.3	-4.3
Overall surplus/deficit	..	..	-5.1	-5.5	-4.4

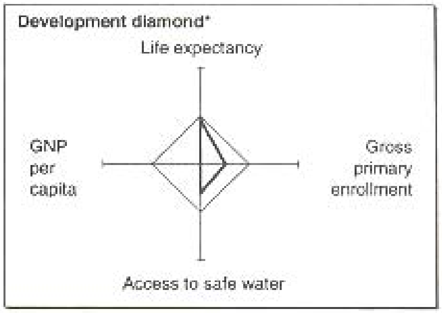


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

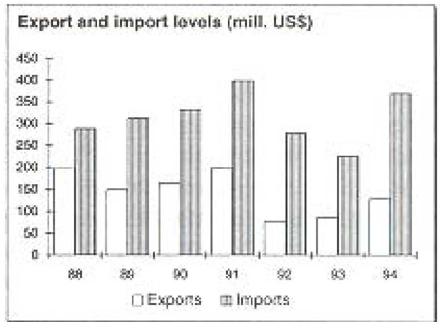
	1985-90	1990-94
(annual growth rates)		
Population	2.0	2.0
Labor force	2.1	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	56.9
Infant mortality *(per 1,000 live births)*	84.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	41.8
Energy consumption per capita *(kg oil equivalent)*	46.9
Illiteracy *(% of population age 15+)*	47.0
Gross primary enrollment *(% of school-age population)*	56.0



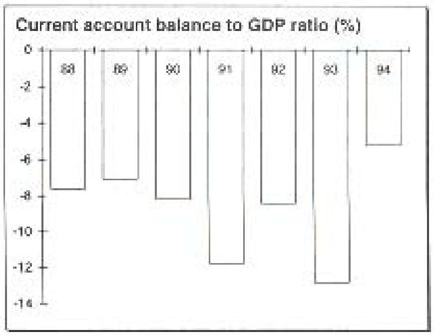
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	217	164	78	85	128
Coffee	49	..	9	8	7
Other agriculture	7	..	..	..	..
Manufactures	127	..	59	66	100
Total imports (cif)	334	332	278	226	370
Food	86	..	84	83	85
Fuel and energy	64	..	131	99	86
Capital goods	83	..	25	17	89
Export price index *(1987=100)*	112	113	121	121	125
Import price index *(1987=100)*	85	229	433	321	361
Terms of trade *(1987=100)*	132	49	28	38	35
Openness of economy *(trade/GDP,%)*	45	28	22	30	17



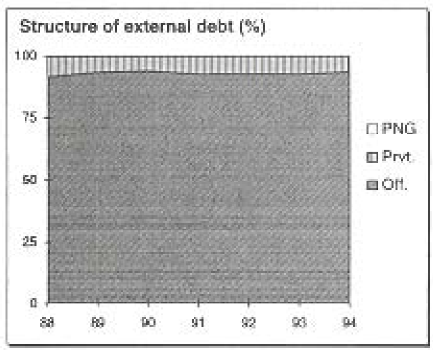
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	337	266	76	82	57
Imports of goods and nfs	557	547	296	336	178
Resource balance	-220	-281	-220	-254	-121
Net factor income	-20	-25	-5	-6	-8
Net current transfers	49	61	70	73	43
Current account balance					
Before official transfers	-191	-245	-155	-187	-86
After official transfers	-95	-197	-165	-202	-98
Long-term capital inflow	5	-25	-5	-6	0
Total other items (net)	92	196	183	240	124
Changes in net reserves	-3	25	-13	-31	-26
Memo:					
Reserves excluding gold *(mill. US$)*	6	3	..	..	..
Reserves including gold *(mill. US$)*	12	10	..	..	..
Conversion rate *(local/US$)*	5.0	5.0	9.2	13.5	14.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	119.2	143.6	266.7	238.6	322.2
IMF credit/exports	21.9	7.2	15.0	13.1	9.7
Short-term debt/exports	22.7	19.4	47.6	47.0	42.7
Total debt service/exports	10.1	6.3	2.1	1.7	10.2
GDP ratios					
Long-term debt/GDP	26.0	24.8	34.2	42.5	42.2
IMF credit/GDP	4.8	1.3	1.9	2.3	1.3
Short-term debt/GDP	4.9	3.4	6.1	8.4	5.6
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	12.9	6.1	7.3	7.4	6.5
Official creditors/long-term	87.2	93.9	92.7	92.6	93.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Honduras

Honduras ranks among the least-developed countries in the Western Hemisphere. Although economic progress has been made over the last two decades, per capita GNP in 1993 remained low at an estimated $600. Thirty-two percent of the adult population is illiterate, almost 40 percent of children under 5 years suffer from moderate to severe undernutrition, and an estimated 60 percent of the population is inadequately housed.

Honduras and the other Central American countries experienced a severe decline in economic activity during the early 1980s, followed by stagnation in the latter part of the decade. While real GDP growth had averaged 5 percent during the 1960s and 1970s, it averaged only 2.5 percent in the 1980s, below annual population growth. Fiscal policy during the early 1980s was particularly expansive, due mainly to high levels of public investment. Large current account deficits, which trebled between the mid-1970s and the mid-1980s, were the mirror image of large fiscal gaps, which reached over 10 percent of GDP in the early 1980s.

Access to abundant bilateral and multilateral credit allowed the government to stave off a major balance of payments crisis, and hold off, for several years, the painful adjustment measures needed to address the economy's structural problems. As a consequence, external debt grew sharply during the 1980s, almost tripling to over $3.6 billion by 1990. Since much of the assistance was linked to the Contra War being fought along the Honduras-Nicaragua border and did not address the country's structural constraints, it did little to contribute to an expansion of productive capacity. When political circumstances in the region changed in the late 1980s transfers and concessional external finance became scarce, but the government did not recognize the need to cut its fiscal deficit, resorting instead to external arrears and inflation to finance the deficit. In 1989 Honduras went into arrears with the multilateral institutions and was isolated from the international financial community.

The Reform Program

Some policy changes were introduced in the late 1980s, including a de facto devaluation of the lempira in 1988. But it was not until 1990 that a more comprehensive reform program was adopted. In 1990 a new administration initiated an ambitious program of stabilization, structural adjustment, and a social safety net. The structural adjustment aimed at reactivating growth and increasing productivity. The specific objectives of the overall program were to: reestablish macroeconomic stability; improve public-sector efficiency; provide incentives for the private sector by correcting relative prices, deregulation, and trade and financial liberalization; eliminate property rights insecurity in rural areas; and establish a program of interventions directed to the poor.

Much of the progress achieved between 1990 and 1992 was lost as the government dramatically reversed the course of economic policy in the runoff to the presidential elections of November 1993. As the elections approached, government economic policy first faltered and then collapsed. Public savings declined by over 2 percent of GDP relative to 1992 as expenditures in goods and services, particularly transfers and subsidies to the private sector, increased sharply and public sector tariffs declined in real terms. Capital expenditures rose to 14 percent of GDP. The fiscal deficit, which was targeted to fall to 3.8 percent of GDP, reached 11 percent. Buoyed by strong import demand and sluggish export growth, the current account deficit reached 14.4 percent of GDP; over $100 million of reserves were lost. The large fiscal deficit led to unsustainable GDP growth of 6 percent and accelerated inflation to 13 percent in 1993.

Recent Economic Developments

After initial hesitation, the new government inaugurated in January 1994 took important fiscal measures that improved the prospects for macroeconomic stability. The fiscal deficit, projected in January 1994 to reach over 12 percent of GDP during 1994, was brought down to around 7.5 percent of GDP. The fiscal package was completed by the passage in October 1994 of a law that introduced measures to raise revenues and reduce expenditures. Economic activity in 1994 was affected adversely by the need to stabilize demand and by major electricity shortages, and real GDP growth declined to 1.5 percent. At the same time, inflation accelerated to

28 percent as prices and public utility tariffs reacted to the stabilization measures and depreciation of the currency. Gross international reserves of the central bank fell further to less than one month of imports by end-1994.

Medium-Term Prospects

The government's macroeconomic program is directed toward reducing the fiscal deficit to sustainable levels and strengthening domestic savings. It plans to increase the efficiency of the public sector and privatize certain public utilities. It is envisaged that the successful implementation of the program will help to achieve export-oriented economic growth of around 4.5 percent a year during 1995-97, reduce inflation to close to international levels by 1996-97, bring gross international reserves to 3 to 3.5 months of imports; and reduce the external public debt to around 100 per cent of GDP by 1997. Due to the fiscal effort and the positive impact of better terms of trade on private savings, national savings would increase to around 20 percent of GDP in 1996, while domestic investment would decline to around 23 percent. On this basis, the external current account deficit would decline substantially by 1996.

External Debt

Honduras' total external debt more than doubled between 1980 and 1989, from $1.5 billion to about $3.4 billion. The vast majority of multilateral arrears created in 1989 were paid off in mid-1990, and the bulk of bilateral arrears were handled in the context of a Paris Club rescheduling agreement in September 1990. The Paris Club rescheduled debt service falling due during 1992-95 on enhanced "Trinidad" terms. The government also retired some of its external commercial debt via debt conversions.

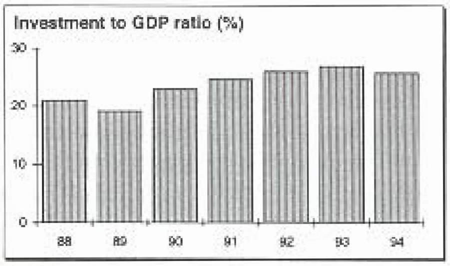
In 1993 Honduras' total external debt was $3.6 billion. The ratio of total external debt to GDP increased from 58 percent in 1980 to 108 percent in 1993, and represented about 318 percent of 1993 export earnings. About 93 percent of the total stock of debt in 1993 was long-term, of which 97 percent was public or publicly guaranteed. Roughly 94 percent of Honduras' public-publicly guaranteed long-term debt was owed to official creditors. By the end of 1993, total debt service to export earnings had increased to about 33 percent, of which 14 percent was for interest payments.

Honduras

Population mid-1993 *(millions)*	**5.3**	Income group: **Low**
GNP per capita 1993 *(US$)*	**600**	Indebtedness level: **Severely indebted**

KEY RATIOS

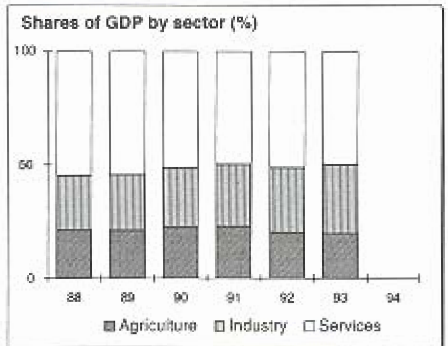
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.3	23.0	26.0	27.0	25.8
Exports of goods and nfs/GDP	24.3	35.2	29.0	32.3	40.9
Gross domestic savings/GDP	11.7	18.1	18.7	18.7	22.1
Gross national savings/GDP	7.6	12.8	12.2	11.3	15.2
Current account balance/GDP	-9.7	-9.6	-12.3	-11.0	-9.1
Interest payments/GDP	2.8	5.3	4.8	4.2	4.1
Total debt/GDP	75.0	126.2	108.0	115.1	129.2
Total debt/exports	295.3	352.6	325.0	339.0	328.9



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	21.9	22.4	20.2	19.7	..
Industry	24.0	26.4	28.5	30.4	..
Manufacturing	14.5	16.3	17.9	17.8	..
Services	54.2	51.2	51.2	49.9	..

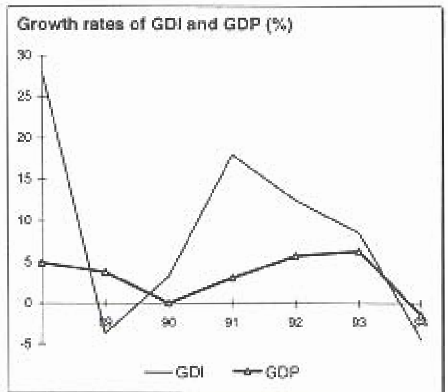
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.0	4.5	3.6	4.8	3.8
Industry	4.0	5.1	10.7	3.5	3.5
Manufacturing	4.3	*4.0*	6.1	3.7	..
Services	3.5	3.0	5.2	11.2	-9.4
GDP	3.6	3.9	5.7	6.3	-1.5



GDP: EXPENDITURE

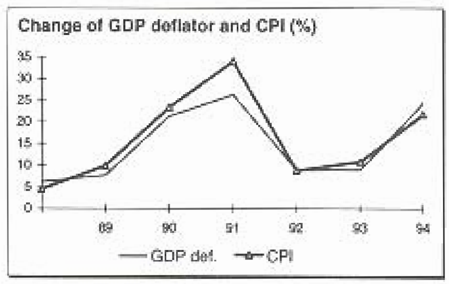
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	75.2	69.0	69.7	69.7	64.5
General government consumption	13.1	12.9	11.6	11.6	13.4
Gross domestic investment	17.3	23.0	26.0	27.0	25.8
Exports of goods and nfs	24.3	35.2	29.0	32.3	40.9
Imports of goods and nfs	29.9	40.1	36.3	40.6	44.6

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.6	1.9	0.1	5.8	-2.9
General government consumption	3.5	7.4	12.8	20.6	0.4
Gross domestic investment	9.3	8.7	12.4	8.5	-4.4
Exports of goods and nfs	1.8	3.5	8.0	0.9	6.3
Imports of goods and nfs	3.1	4.1	1.1	9.7	-1.2
Gross national product	3.6	3.0	6.0	4.2	0.1
Gross national income	4.0	3.1	1.8	6.1	1.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	3.4	23.3	8.8	10.7	21.7
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.9	21.3	8.9	8.9	24.3
Government finance					
(% of GDP)					
Current budget balance	1.3	2.8	4.4	0.6	..
Overall surplus/deficit	-6.9	-4.1	-4.5	..	..

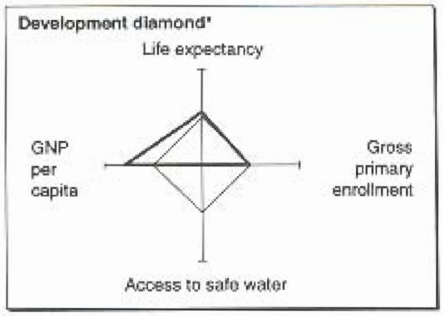


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

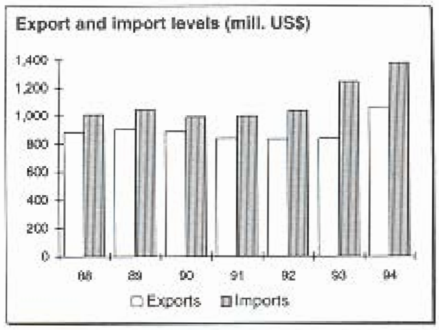
	1985-90	1990-94
(annual growth rates)		
Population	3.1	3.0
Labor force	3.8	3.8

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	68.1
Infant mortality *(per 1,000 live births)*	41.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	179.9
Illiteracy *(% of population age 15+)*	26.9
Gross primary enrollment *(% of school-age population)*	105.0



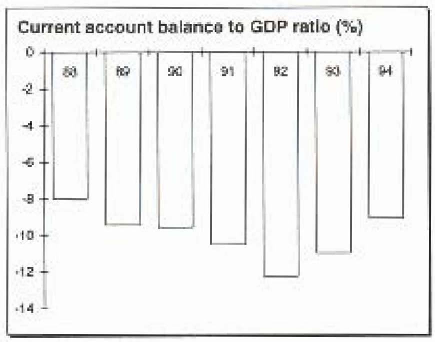
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	796	887	833	839	1,060
Bananas	274	358	256	232	203
Coffee	185	181	148	170	305
Manufactures	..	..	..	..	..
Total imports (cif)	976	993	1,037	1,243	1,378
Food	141	145	155	330	381
Fuel and energy	159	168	161	193	166
Capital goods	182	200	242	281	286
Export price index *(1987=100)*	93	109	90	91	..
Import price index *(1987=100)*	89	111	108	106	..
Terms of trade *(1987=100)*	104	98	83	86	..
Openness of economy *(trade/GDP,%)*	54	75	65	73	86



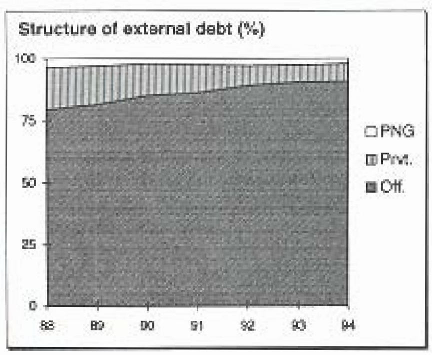
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	909	1,032	1,040	1,067	1,158
Imports of goods and nfs	1,085	1,124	1,233	1,283	1,294
Resource balance	-175	-91	-194	-216	-136
Net factor income	-190	-240	-276	-184	-180
Net current transfers	12	49	61	31	29
Current account balance					
Before official transfers	-353	-282	-409	-369	-287
After official transfers	-220	-46	-254	-266	-185
Long-term capital inflow	220	110	160	201	242
Total other items (net)	-17	-33	98	-25	-82
Changes in net reserves	17	-32	-4	90	25
Memo:					
Reserves excluding gold *(mill. US$)*	106	40	197	97	171
Reserves including gold *(mill. US$)*	111	47	205	106	179
Conversion rate *(local/US$)*	2.0	4.3	5.6	6.5	8.4



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	246.6	330.7	298.5	313.0	309.5
IMF credit/exports	15.9	3.1	10.1	10.4	8.5
Short-term debt/exports	32.8	18.9	16.3	15.7	10.9
Total debt service/exports	24.7	36.9	34.1	31.6	31.5
GDP ratios					
Long-term debt/GDP	62.6	118.3	99.2	106.3	121.5
IMF credit/GDP	4.0	1.1	3.4	3.5	3.4
Short-term debt/GDP	8.3	6.8	5.4	5.3	4.3
Long-term debt ratios					
Private nonguaranteed/long-term	6.2	1.9	2.7	2.5	1.9
Public and publicly guaranteed					
Private creditors/long-term	20.7	13.0	8.2	7.1	7.4
Official creditors/long-term	73.1	85.1	89.1	90.5	90.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Hungary

The long-awaited economic growth that began in Hungary toward the end of 1993 has been accompanied by major fiscal and current account deficits; Hungary has been the only country in Central Europe to suffer from this dilemma. These fiscal and external imbalances threaten to deprive the population of the gains achieved through hard work and painful sacrifices; unless they are reduced through decisive action, and without delay, they will tie up resources needed for investment and prevent robust and sustainable growth.

The government that came to power through free parliamentary elections in the spring of 1990 was committed to far-reaching systemic, albeit gradual, reforms. Its program, supported by a three-year IMF extended facility in early 1991, called for accelerating privatization, reducing the role of the state in the economy, and strengthening market mechanisms. Access to private capital markets improved significantly, and with direct foreign investment averaging well over $1 billion a year, Hungary far outpaced the other transforming economies in Central Europe. At the same time, Hungary made a major step toward realizing its vision of becoming integrated with Europe by entering into an association agreement with the European Union at the end of 1991.

But reform efforts were not comprehensive, and their implementation was not decisive enough to overcome old habits of relying too much on the state and too little on individual initiative. The authorities failed to enforce hard budget constraints, and consumption levels kept rising. Repeated bailouts of enterprises and recapitalizations of banks, untargeted and overly generous social welfare spending, and a lack of determined leadership in key reform areas led to disillusion with the reform process itself. The coalition government voted into office in mid-1994 enjoys strong support in parliament. It announced an important emergency privatization package in March 1995 and is in the process of preparing a medium-term reform program.

Recent Economic Developments

After declining by 21 percent over the past four years, and bringing real national income to its 1976 level, Hungary's economy began to grow in late 1993 and 1994. The recovery was led by domestic absorption — consumption and investment — rather than exports, which would have been more appropriate for a small, heavily indebted economy. The construction sector grew by 13 percent in 1994, and industry and agriculture at a healthy 9 percent. On the demand side, private consumption, after declining in real terms five years in a row, began to rise due mainly to wage increases in the public sector, income gains from small business activities, and a slowdown in savings. Consumption has risen from 65 percent of GDP on average over 1989-90 to 74 percent over 1993-94. Investment, after declining in the early 1990s due to falling enterprise profits, has picked up considerably as a result of a strong increase in demand for private housing and capital, equipment and goods for manufacturing, and infrastructure investment. As a result of the large output decline in 1991 and transition-related restructuring, unemployment rose to 11 to 12 percent, although labor hoarding in state enterprises and misuse of disability pensions and maternity leave are disguising the true extent of structural unemployment.

The economic recovery in 1994 is based to a larger extent than in other Central European countries on expansionary fiscal policies and is, therefore, more fragile. The rapid deterioration of the current account primarily results from a loss of export competitiveness and rapid consumption-driven increase in imports since 1990. While export growth averaged 5 percent in dollar terms over 1991-92, imports grew more than 8 percent. In 1993 exports collapsed by 20 percent, while imports continued to grow at a rate of 13 percent, still fueled by household consumption. In 1994 imports were virtually stagnant, but exports continued to decline in value terms.

The decline in export competitiveness stems from inflation, and high and rising wage costs: between 1990 and mid-1994, average wages rose at annual rates of over 25 percent; the average rate of nominal depreciation has been less than half that amount. Hungary's labor costs are estimated to be well above those in neighboring transforming economies. Interest payments on the external debt, averaging 4.7 percent of GDP over 1990-94, have also been an important factor. The collapse of

Soviet bloc markets, recession in Western Europe, prolonged droughts, and the war in the former Yugoslavia also had a negative impact on the current account.

Although there has been an expansion of the private sector, Hungary's public sector continues to absorb extraordinarily and excessively high amounts of resources. Generous and largely untargeted transfer payments under benefit schemes inherited from socialism, and an oversized public administration, have kept public expenditures at much higher levels than in other transforming countries. These in turn have required very high tax rates on a narrow base, distorting incentives to save, invest, and work, and leading to costly and widespread tax avoidance. In spite of high tax pressure, general government budget deficits have steadily risen, and averaged almost 7 percent of GDP over 1992-94.

Financing of the increasing budget deficit did not initially seem to pose a major problem because net household savings jumped to nearly 10 percent of GDP in 1991 and 1992, compared to 5 percent in the second half of the 1980s. When household savings returned to more normal levels in 1993 and 1994, the authorities, rather than taking compensatory fiscal stabilization measures and preventing the current account from worsening, resorted to additional foreign financing. The deficits and ensuing high interest rates have also severely constrained private-sector development.

Hungary's initial reform drive has not yet laid the basis for lasting equilibrium. The size of the state has remained much too large, leaving insufficient room for private-sector development. Consumption levels are much too high and investment has become overly dependent on foreign savings. Crucial second-stage reform measures have been formalistic and half-hearted at best — as is most clearly seen in the failure to apply a hard budget constraint. Large and inefficient public enterprises absorb public resources, equivalent to some 5 percent of GDP, in the form of lost budgetary revenues and arrearages, and direct subsidies. Banks have been repeatedly recapitalized, at interest payment costs to the budget of over 1 percent of GDP a year. Similarly, households receive transfer payments at levels seen only in the most redistributive advanced market economies — which have considerably higher income levels. Increasingly large public-sector deficits have led to an explosion in interest payments on domestic debt.

The government considers the chances for political consensus on difficult public finance reforms are slim unless they take place in an environment of economic growth. However, faster growth can take place only through a release of public resources for private and public investments. Strong political leadership will be required to reduce and restructure social welfare expenditures to release resources for investments and improve incentives to work and save. Better targeting will help ensure that sufficient funds are available to protect the weakest segments of the society. The government intends to continue its efforts to reduce tax pressure by broadening the tax base, lowering tax rates, and improving tax administration to bring Hungary's large informal economy into the formal sector and encourage more dynamic private-sector growth.

After a promising start, progress in privatizing and restructuring enterprises has been slow; after four years of transition state enterprises still produce about 40 percent of total output. Even more troubling, while many small and medium enterprises have been restructured through regular bankruptcy and liquidation procedures, most large loss-making state enterprises have avoided restructuring because they were allowed to roll over credits from state-owned banks and accumulate tax and social security arrears. Enterprise cash losses averaged about 10 percent of GDP in the early 1990s but have been on a declining trend since then. While new credit flows from state banks to state enterprises appear to have ended, there is evidence that tax and social security arrears continue to be a major economy-wide problem. Frequent institutional and procedural changes, and direct state interventions in the normal bankruptcy process, left enterprise and bank managers with the impression that the state and its agencies, rather than they themselves, continued to be responsible for turning enterprises around or liquidating them. The government intends to restart the privatization process and complete the sale of the remaining state enterprises within the next two to three years. A privatization bill, submitted to parliament in November 1994, envisages accelerating privatization of enterprises, primarily through cash sales to domestic and foreign investors.

Hungary has concentrated on providing capital infusions to ailing banks without insisting on a fundamentally changed incentive framework for enterprises and banks, or improving bank supervision and prudential regulation. None of the state banks have been privatized, though two of the five large state banks have taken steps toward becoming private institutions. In spite of massive capital infusions, Hungary's banking sector remains impaired and still requires state support. Interest rate spreads continue to be high, and financing for new clients remains limited. The underlying problems that give rise to continued bank losses are still awaiting a lasting solution. The government has developed a new strategy for bank reform and appointed a commissioner to implement it over the next few years. The program includes privatizing state banks, preferably with participation by foreign strategic investors; improving bank governance through enforcement of business plans in preparation for active enterprise restructuring and privatization; a strengthened supervisory and regulatory framework; and legislation to support these changes.

Medium-Term Prospects

Hungary's economy needs to grow at annual average rates of 4 to 5 percent in the closing years of this century and at the beginning of the next to satisfy the demands of its society as it moves toward integration with the European Union. Moving to such a growth path will require higher rates of domestic savings and investment, and significant improvements in overall productivity. The core of a high-growth strategy is to achieve a turnaround in public finance quickly enough to produce a positive impact on debt and growth dynamics by the year 2000 by quickly reducing the deficit and tax pressure via drastic reductions in expenditures relative to GDP. Such an up-front fiscal adjustment would allow a significant improvement in the current account and have smaller costs in terms of forgone output than a more delayed adjustment.

External Debt

Given Hungary's high debt and debt service ratios — even by the standards of heavily indebted countries — and reliance on international capital markets for its financing needs, the government realizes that avoiding a further buildup in net external debt is a central macroeconomic objective. The large current account deficits of 1993 and 1994 have, however, led to a further rapid deterioration in Hungary's external debt indicators. Gross external debt rose from 60 percent of GDP at the end of 1992 to 70 percent at the end of 1994, and debt service accounts for 58 percent of exports of goods and services.

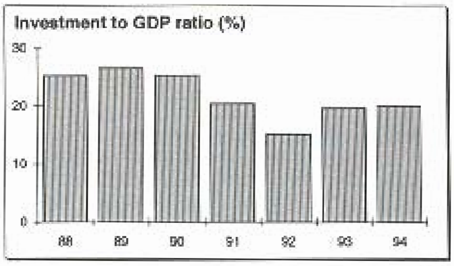
Hungary has maintained access to international capital markets, thanks to both an impeccable record of debt servicing and its political stability. The central bank has tapped the international bond markets, issuing bonds in 11 different currencies with increasingly longer maturities and grace periods. Over the last few years, the composition of external debt has shifted from syndicated loans toward bonds, which accounted for over 70 percent of public and publicly guaranteed medium- and long-term debt to private creditors at the end of 1994. Short-term debt remains relatively low, at less than $2.5 billion — 13 percent of total net external debt — at end-1994 .

Hungary

Population mid-1993 *(millions)*	10.2	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	3,350	Indebtedness level: **Moderately indebted**

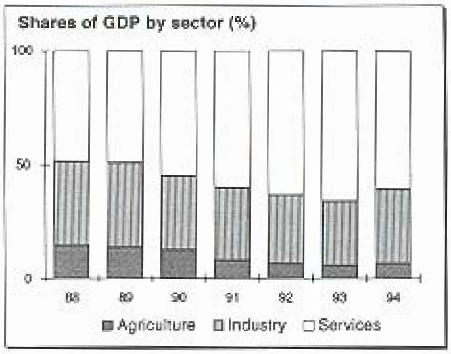
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	25.0	25.4	15.2	19.7	20.0
Exports of goods and nfs/GDP	42.2	31.1	37.4	29.9	25.1
Gross domestic savings/GDP	27.1	28.0	15.7	10.7	13.1
Gross national savings/GDP	23.2	26.1	14.6	9.5	..
Current account balance/GDP	-2.2	0.8	0.8	-9.1	..
Interest payments/GDP	4.0	4.6	4.4	3.5	3.7
Total debt/GDP	67.7	64.4	60.2	65.0	67.3
Total debt/exports	139.4	186.3	170.9	235.1	..



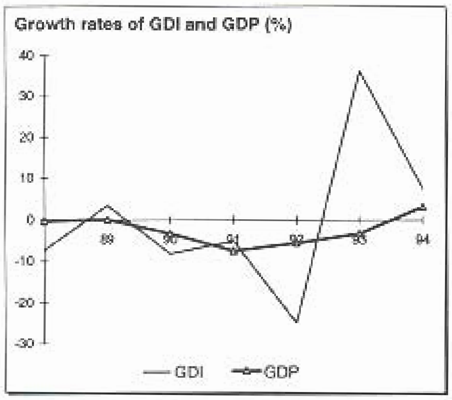
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	16.1	12.5	6.6	5.6	6.5
Industry	41.2	32.7	30.2	28.4	32.7
Manufacturing	34.0	26.7	20.2	19.2	..
Services	42.7	54.8	63.3	66.0	60.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.1	-9.3	-13.9	-14.7	6.0
Industry	-2.7	-2.2	-6.7	-0.9	6.0
Manufacturing	..	..	..	..	..
Services	3.4	-2.8	-1.7	-1.6	0.4
GDP	0.6	-3.6	-5.5	-3.3	3.2



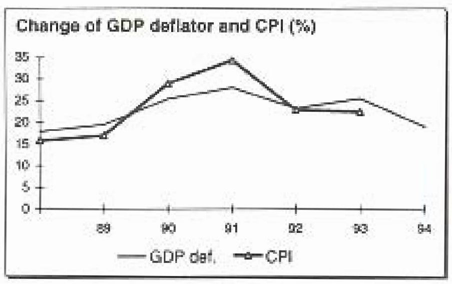
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	62.8	61.4	60.2	62.2	67.9
General government consumption	10.1	10.6	24.1	27.1	19.0
Gross domestic investment	25.0	25.4	15.2	19.7	20.0
Exports of goods and nfs	42.2	31.1	37.4	29.9	25.1
Imports of goods and nfs	40.1	28.5	36.9	38.9	32.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.5	-0.4	-1.3	0.8	3.8
General government consumption	1.7	-4.6	-2.5	13.0	-29.6
Gross domestic investment	0.6	1.1	-24.9	36.3	7.6
Exports of goods and nfs	2.4	-7.8	5.4	-11.9	-12.2
Imports of goods and nfs	0.9	0.2	0.5	18.6	-14.8
Gross national product	1.3	-2.4	-6.4	-3.6	3.8
Gross national income	1.5	-2.6	-6.7	-2.7	3.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	7.0	29.0	22.9	22.5	..
Wholesale prices	5.3	22.0	12.3	12.0	..
Implicit GDP deflator	6.2	25.5	23.3	25.5	19.1
Government finance					
(% of GDP)					
Current budget balance	6.5	5.1	1.5	-1.1	-3.2
Overall surplus/deficit	-1.1	0.5	-5.5	-6.0	-7.2



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

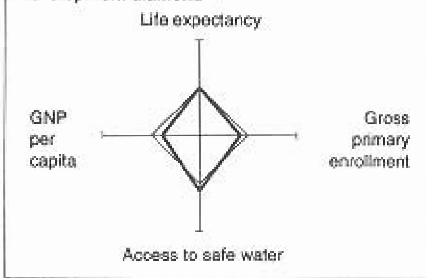
Hungary

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	-0.4	-0.5
Labor force	0.2	0.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.0
Infant mortality *(per 1,000 live births)*	15.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	2,384.8
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	89.0

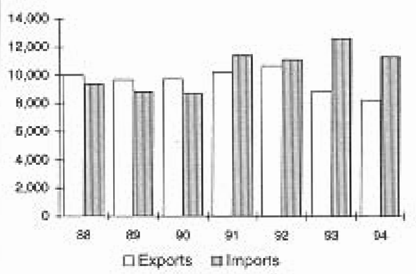
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	8,472	9,732	10,678	8,909	8,240
Other manufactures	2,443	1,794	1,277	1,241	1,149
Food	1,804	2,226	2,561	1,902	1,771
Manufactures	..	..	..	..	..
Total imports (cif)	8,184	8,734	11,120	12,630	11,342
Food	583	672	654	745	674
Fuel and energy	1,707	1,191	1,619	1,594	1,361
Capital goods	1,365	1,574	2,285	3,400	3,088
Export price index *(1987=100)*	97	100	96	80	75
Import price index *(1987=100)*	95	91	89	101	93
Terms of trade *(1987=100)*	103	110	108	79	81
Openness of economy *(trade/GDP,%)*	82	60	74	69	57

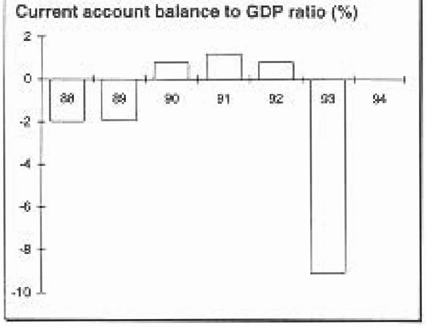
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	9,807	11,155	12,436	10,081	..
Imports of goods and nfs	9,460	10,217	11,675	13,084	..
Resource balance	347	938	761	-3,003	..
Net factor income	-867	-1,455	-1,324	-1,187	..
Net current transfers	65	779	859	732	..
Current account balance					
Before official transfers	-455	262	296	-3,458	..
After official transfers	-455	262	296	-3,458	..
Long-term capital inflow	2,390	300	1,237	5,347	..
Total other items (net)	-1,419	-756	-773	717	..
Changes in net reserves	-516	194	-760	-2,606	..
Memo:					
Reserves excluding gold *(mill. US$)*	2,153	1,070	4,428	6,771	..
Reserves including gold *(mill. US$)*	2,914	1,186	4,462	6,816	..
Conversion rate *(local/US$)*	50.1	63.2	79.0	91.9	105.0

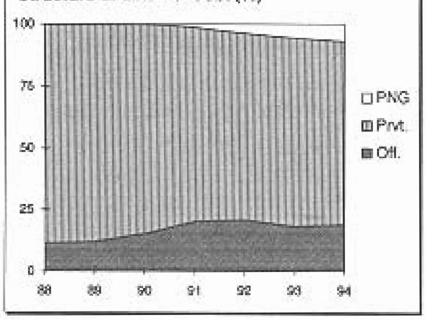
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	99.5	157.7	143.8	204.4	..
IMF credit/exports	9.7	2.9	9.4	11.7	..
Short-term debt/exports	30.2	25.8	17.8	19.0	..
Total debt service/exports	36.8	37.0	38.6	42.1	..
GDP ratios					
Long-term debt/GDP	48.3	54.5	50.6	56.5	58.5
IMF credit/GDP	4.7	1.0	3.3	3.2	3.7
Short-term debt/GDP	14.6	8.9	6.3	5.3	5.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	3.5	5.5	7.0
Public and publicly guaranteed					
Private creditors/long-term	86.7	84.9	75.8	76.4	74.2
Official creditors/long-term	13.3	15.1	20.7	18.1	18.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

India

With 902 million inhabitants in mid-1993, India has the world's second-largest population. With a 1993 per capita income of $300, it is also one of the world's poorest countries. From independence until recently, India pursued a planned approach to development that combined prudent macroeconomic management; an active state role in key sectors such as banking, basic industries, utilities, and infrastructure; and extensive regulation of the economy. However, although highly regulated, the private sector was important and was present in most sectors of the economy.

This development strategy produced mixed results. It succeeded in transforming a secularly stagnant economy into one growing at persistently positive rates — on average, GDP per capita grew at 1.4 percent per year through the 1970s. It eradicated famines and reduced the incidence of poverty from over 50 percent in the 1960s to less than 30 percent in the late 1980s. It also developed a diversified industrial base, and a relatively large and sophisticated financial sector. Conservative macroeconomic management held inflation low, and fiscal and balance of payments imbalances seldom persisted. These successes were achieved in a very complex society divided along ethnic, linguistic, and religious lines, and always with democratically elected governments. But this development strategy also had serious shortcomings. Growth rates were much lower than could have been expected in a country saving and investing over one-fifth of its GDP. At over 2 percent a year, population growth remained high. Health and education indicators, while showing some progress, also remained among the world's lowest, for women. Moreover, India continues to have one of the highest incidences of poverty in the developing world and accounts for about one-fourth of the world's absolute poor.

Throughout the 1980s important policy changes liberalized trade, industry, and the financial sector, while subsidies, tax concessions, and the depreciation of the currency improved export incentives. These measures helped GDP growth to accelerate to over 5 percent a year during the 1980s and reduced poverty more rapidly. But India's most fundamental structural problems were addressed only very partially. Tariffs continued to be extremely high and quantitative restrictions remained pervasive. Controls on capacity utilization and borrowing were lifted, but the pervasive investment licensing regime made firm investment decisions conditional on cumbersome government approvals. State-owned banks continued to dominate the banking system and serve mainly as instruments for financing economic activities selected by the government. And with few exceptions, the inefficiency of public enterprises (which generate 17 percent of GDP) continued to be a serious issue.

In the late 1980s these problems were compounded by political uncertainty. There were two general elections and four changes of government between end-1989 and July 1991. The August 1990 developments in the Persian Gulf put additional pressure on the balance of payments and eroded the confidence of foreign lenders. Capital outflows accelerated and commercial banks reduced their exposure in India. The Indian government responded by compressing imports drastically and mobilizing part of India's gold stock. Multilaterals and bilaterals, particularly Japan, provided significant assistance in the first half of 1991. These efforts notwithstanding, foreign exchange reserves declined to about $1 billion — two weeks of imports — in June 1991, putting India on the verge of defaulting on its external debt.

Stabilization and Structural Reforms

In June 1991 a new government launched a comprehensive economic stabilization program and a major transformation of India's development strategy. A new industrial policy announced in late July, together with the revised budget, liberalized one of the most controlled investment regimes in the world. Further investment liberalization steps include the January 1993 amendment of the Foreign Exchange Regulation Act of 1973 to eliminate discriminatory treatment of enterprises with more than 40 percent foreign equity, and decisions to open to domestic and foreign private investors the power (March 1992), mining (March 1993), coal (March 1994), telecommunications (May 1994), and pharmaceuticals (September 1994) sectors. The reforms also eliminated the need for prior government approval of decisions to expand, diversify, or merge.

A first set of trade reforms over July-December 1991 eliminated a costly subsidy scheme for exports, devalued the rupee 22 percent in dollar terms, and reduced import licensing restrictions. Sweeping additional measures were taken in March-April 1992 to eliminate virtually all licensing restrictions on imports of capital goods and intermediates, and introduce a dual exchange rate system establishing a foreign exchange market. In February 1993 the government reunified the exchange rate, and the rupee has since remained stable. Indeed, reflecting large capital inflows, the central bank has had to intervene to prevent its appreciation. In March 1994 near full current account convertibility was established, and convertibility became complete in August. The maximum import tariff has been reduced from 350 percent in 1990 to 65 percent since March 1994, with significant declines also for tariffs below the maximum. These changes have lowered the import-weighted average tariff from 87 percent in 1990 to 33 percent in March 1994. The government has also significantly reduced the dispersion of tariff rates. However, import tariffs continue to be among the highest in the world and consumer goods imports are still restricted.

In the financial sector capital and money markets have been liberalized since 1991, and prudential regulations that meet international standards introduced. Controls on the expansion of domestic banks have been scaled back, the share of deposits to be invested in the Reserve Bank of India or government debt instruments has been lowered, and barriers to private-sector entry into the banking system removed. Interest rates on deposits (subject to a ceiling) and loans (subject to a minimum) have been partially deregulated. The government has also taken steps over the last two years to recapitalize banks and enable them to meet the more stringent capital adequacy standards set by the new prudential regulations. In September 1994 an agreement was reached between the treasury and the central bank to phase out over three years automatic Reserve Bank financing of the budgetary deficit. In October 1994 the minimum lending rate was removed for all loans larger than Rs 200,000 and nonpriority sectoral loans of any amount.

Tax reforms have been seeking to transform India's tax system from one with high (and highly differentiated) tax rates falling on a narrow base into one with tax rates at moderate levels falling on a broad base. The fiscal 1995 budget reduced taxes on corporate income and a major reform of excises was implemented to make them more closely resemble a value-added tax. The government has extended the coverage of MODVAT (a version of a value-added tax) to include manufacturing sectors thus far excluded, and, for the first time, some services. Of particular importance also are the decisions to shift most excise rates from specific to ad valorem to increase buoyancy, reduce the number of rates, and simplify the system by relying on invoices for value determination. These reforms have considerably simplified and modernized India's tax system and make it possible for the central government now to focus its efforts on improving tax administration.

The government has been pursuing a three-pronged public-enterprise strategy. Reductions in budgetary support, elimination of barriers to entry and monopoly privileges in sectors traditionally dominated by public enterprises, and tariff reductions have created a competitive environment for public firms producing tradables. Second, mechanisms have been created to facilitate the exit of state enterprises that cannot withstand domestic or external competition. Legislation was amended to enable the government to restructure or close down chronically loss-making enterprises, and a National Renewal Fund established to mitigate the social cost of retrenchment. Since these changes were implemented, restructuring exercises (some involving the retrenchment of several thousand workers) have been initiated. Third, over Rs 50 billion of equity holdings in state enterprises have been disinvested in several rounds of offerings. Overall, however, this approach to public enterprise reform has not been very successful. As of fiscal 1993, the last year for which consolidated data are available, the profits of profit-making state enterprises in relation to GDP had not improved and their losses had not declined.

Social Sector Policies

Over the last three years government social sector initiatives have included substantially increasing expenditure for primary education, endemic disease control, and maternal and child health programs, and additional increases for these programs in fiscal 1995 in high-poverty areas. It has raised spending on rural employment and related programs by over 50 percent. In the near term, reforms in the social sectors are expected to focus on restructuring poverty alleviation programs to increase their cost-effectiveness and enable existing programs to meet the challenges created by the adjustment program. In the more medium term, the government is seeking to increase the efficiency, cost-effectiveness, and coverage of public health and primary education, and to ensure that these programs reach the poor.

Environment

The Ministry of Environment and Forests has wide-ranging, rapidly expanding environmental responsibilities. However, it concentrates only on the conservation of forests, wildlife and biodiversity (which accounts for about 70 percent of its spending), and environmental pollution control (which accounts for most of the rest). Its spending increased from Rs 1.3 billion in fiscal 1987 to Rs 3.7 billion in fiscal 1994. India has made solid progress in dealing with a broad range of difficult environmental problems. It has developed a legal framework and a set of institutions and programs dealing with many of the problems it confronts. While these efforts are yielding results, resources fall short of the needs. The recently enacted Environmental Action Program represents an important step toward setting clear priorities to maximize the sustainable development impact of available resources.

Recent Economic Developments

The response of the economy to the stabilization and reform measures implemented since July 1991 generally has been positive. Growth recovered from 2 percent in fiscal 1992 to around 4 percent in the last two years. Industrial production and investment were slower to recover from the deflationary effects of the initial stabilization measures. After declining to negative 2 percent in fiscal 1992, manufacturing growth recovered to a modest 2 percent in the next year, and 4.1 percent in fiscal 1994. Early estimates place GDP growth at around 5 percent for fiscal 1995. During the first six months of that year (April-October 1994) the industrial sector expanded by 8.0 percent. Growth was 8.3 percent in the manufacturing subsector and 21.7 percent in the capital goods subsector in contrast to a decline of 8.7 percent during the same period a year ago. Thus, in fiscal 1995 the economy is set to turn in its strongest growth and investment performance since the 1991 program began.

The Government succeeded in reducing the central government's fiscal deficit in the first two years of the program, from 8.4 percent of GDP in fiscal 1991 to 6.0 percent of GDP the next year, and 5.7 percent of GDP in fiscal 1993. Much of this progress, however, was lost in fiscal 1994. The fiscal deficit escalated to an estimated 7.3 percent of GDP, against a target of 4.7 percent of GDP, as a result of both revenue shortfalls (40 percent of the deviation) and expenditure overruns (60 percent of the deviation). Unless future fiscal performance shows it to have been an aberration, the worsened fiscal performance in fiscal 1994 could undermine the credibility of the fiscal adjustment process. It is possible that the target for fiscal 1995 (6 percent of GDP) will be missed by less than one percentage point because of overruns on items such as subsidies and transfers to states.

The improvement in India's external accounts, both current and capital, has exceeded the most optimistic forecasts. With merchandise exports growing at 20 percent in dollar terms in fiscal 1994, and stagnant imports (partly the result of slow growth in manufacturing), the current account deficit declined to \$0.3 billion in fiscal 1994 (0.1 percent of GDP), from \$10 billion in fiscal 1991 (3.5 percent of GDP). Over April-December 1994-95, exports grew by 16.9 percent in dollar terms from the high base one year earlier. As the industrial recovery gathered momentum, imports grew by 23.9 percent, as opposed to a fall of 1.3 percent during the same period in 1993.

Meanwhile, the invisibles account improved as tourism receipts recovered, with the result that the current account is expected to widen only marginally in fiscal 1995. At \$4.1 billion, foreign investment (largely portfolio investment) surged to unprecedented high levels in fiscal 1994. During the first nine months of the 1994-95 fiscal year these inflows (also largely direct and portfolio investments) amounted to \$4.1 billion despite measures taken in May and October 1994 to manage some of these inflows more actively. As a result, reserves increased from less than \$1 billion in June 1991 to \$15 billion by end-March 1994 and \$19.7 billion at end-January 1995.

The monetization of reserves has led to a sharp expansion in base money — 23 percent in March 1994 compared to March 1993. Similar figures were reported for the rest of 1994, and this has contributed substantially to higher inflation. After declining from a peak of 17 percent in August 1991 to around 7 percent in mid-1993, annual inflation has increased again and now stands at around 11.5 percent.

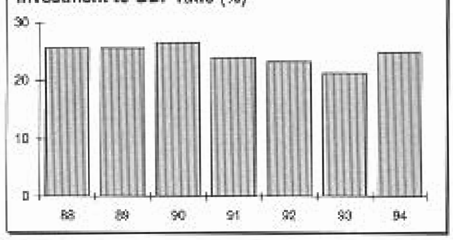
On the fiscal front, the government faces the serious challenge of reducing imbalances and improving the share of growth-inducing expenditures. In the external sector, large capital inflows may continue to place upward pressure on monetary aggregates, inflation, and the real effective exchange rate. Sustained appreciation of the real exchange rate could have a negative impact on export performance. The government acknowledges the need for sound macroeconomic management, including careful management of the external account, to complement the ongoing structural reform efforts.

India

Population mid-1993 *(millions)*	**898.2**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**300**	Indebtedness level:	**Moderately indebted**

KEY RATIOS

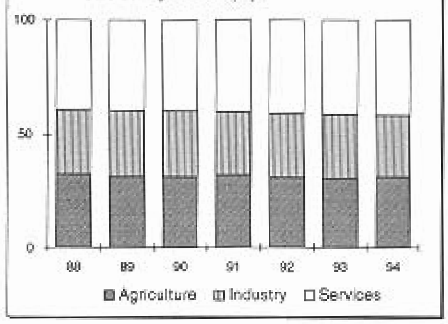
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.9	26.6	23.3	21.3	24.8
Exports of goods and nfs/GDP	6.0	7.9	10.1	11.4	11.9
Gross domestic savings/GDP	20.8	23.7	22.0	21.1	24.1
Gross national savings/GDP	21.1	22.9	21.5	21.1	26.8
Current account balance/GDP	-2.8	-3.7	-1.7	-0.3	-0.7
Interest payments/GDP	0.6	1.3	1.6	1.6	1.4
Total debt/GDP	19.1	27.6	37.2	36.6	34.2
Total debt/exports	263.7	314.7	329.1	287.8	268.2



Investment to GDP ratio (%)

GDP: PRODUCTION

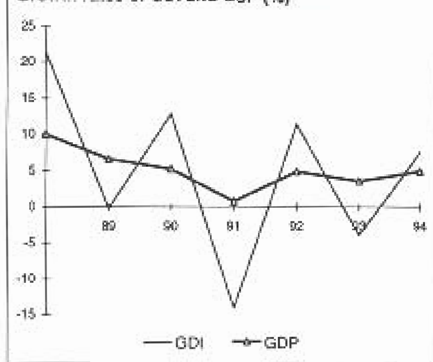
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	33.0	31.1	30.8	30.3	30.9
Industry	28.1	29.1	28.2	28.2	27.4
Manufacturing	17.9	18.7	17.7	17.3	17.3
Services	38.8	39.7	41.0	41.5	41.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.7	2.6	5.3	2.9	3.4
Industry	8.1	2.9	3.5	3.5	4.9
Manufacturing	8.5	2.3	3.1	3.6	5.0
Services	7.0	5.4	4.9	5.9	5.7
GDP	6.6	3.6	4.8	3.5	4.9



Shares of GDP by sector (%)

GDP: EXPENDITURE

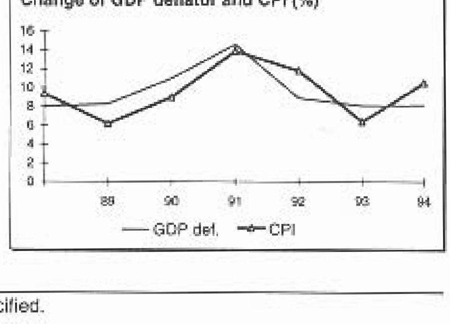
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	68.1	64.7	66.8	67.3	..
General government consumption	11.1	11.6	11.2	11.6	9.8
Gross domestic investment	23.9	26.6	23.3	21.3	24.8
Exports of goods and nfs	6.0	7.9	10.1	11.4	11.9
Imports of goods and nfs	9.1	10.8	11.4	11.6	12.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.4	4.5	3.8	4.3	6.4
General government consumption	6.6	2.7	3.1	7.7	-2.1
Gross domestic investment	8.3	0.4	11.3	-3.9	7.5
Exports of goods and nfs	9.6	11.1	8.8	17.6	5.6
Imports of goods and nfs	5.2	6.6	16.8	6.7	14.9
Gross national product	6.5	3.7	5.0	3.5	5.1
Gross national income	6.4	3.8	5.1	3.5	5.5



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.6	9.0	11.8	6.4	10.5
Wholesale prices	4.6	9.0	11.9	7.5	10.5
Implicit GDP deflator	7.6	11.0	8.9	8.1	8.1
Government finance					
(% of GDP)					
Current budget balance	2.2	-0.2	0.3	0.3	1.4
Overall surplus/deficit	..	..	..	..	..



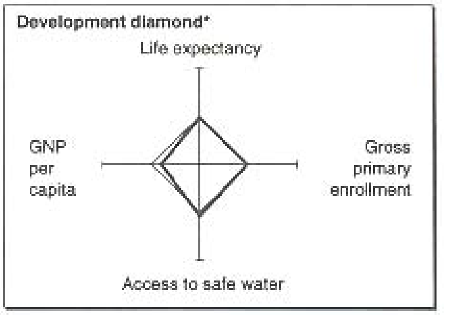
Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

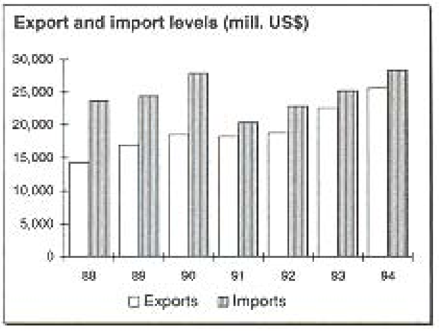
	1985-90	1990-94
(annual growth rates)		
Population	2.0	2.0
Labor force	1.9	1.9

	most recent estimate
Poverty level: headcount index *(% of population)*	25.4
Life expectancy at birth	60.8
Infant mortality *(per 1,000 live births)*	80.0
Child malnutrition *(% of children under 5)*	63.0
Access to safe water *(% of population)*	74.5
Energy consumption per capita *(kg oil equivalent)*	242.7
Illiteracy *(% of population age 15+)*	51.8
Gross primary enrollment *(% of school-age population)*	106.0



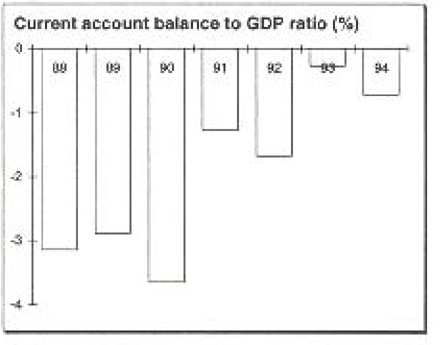
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	9,463	18,477	18,789	22,560	25,605
Tea	511	596	337	330	351
Iron	473	584	381	371	359
Manufactures	5,639	13,781	14,333	17,550	18,636
Total imports (cif)	17,298	27,914	22,895	25,249	28,431
Food	1,321	690	702	787	1,016
Fuel and energy	4,054	6,026	5,919	5,762	5,261
Capital goods	3,503	5,833	4,531	5,044	5,270
Export price index *(1987=100)*	80	134	157	184	197
Import price index *(1987=100)*	96	121	116	129	137
Terms of trade *(1987=100)*	83	110	135	143	143
Openness of economy *(trade/GDP,%)*	15	19	21	23	25



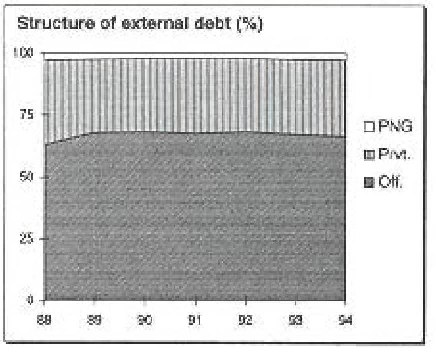
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	12,773	23,606	24,478	28,659	32,137
Imports of goods and nfs	19,422	32,063	27,618	29,167	34,093
Resource balance	-6,649	-8,457	-3,140	-508	-1,956
Net factor income	-1,553	-4,473	-3,740	-4,002	-3,954
Net current transfers	2,207	2,069	2,795	3,825	3,852
Current account balance					
Before official transfers	-5,995	-10,861	-4,085	-685	-2,058
After official transfers	-5,636	-10,400	-3,729	-315	-1,558
Long-term capital inflow	2,280	4,521	3,049	8,004	9,029
Total other items (net)	4,168	3,079	418	849	58
Changes in net reserves	-812	2,800	262	-8,538	-7,529
Memo:					
Reserves excluding gold *(mill. US$)*	6,657	1,521	5,757	10,199	19,698
Reserves including gold *(mill. US$)*	9,730	5,637	9,539	14,675	24,221
Conversion rate *(local/US$)*	12.2	17.9	29.0	31.4	31.4



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	204.5	271.9	288.4	261.1	245.7
IMF credit/exports	31.1	10.1	17.5	15.4	11.8
Short-term debt/exports	28.0	32.8	23.1	11.4	10.7
Total debt service/exports	22.7	30.7	28.2	28.0	26.2
GDP ratios					
Long-term debt/GDP	14.8	23.8	32.6	33.2	31.3
IMF credit/GDP	2.3	0.9	2.0	2.0	1.5
Short-term debt/GDP	2.0	2.9	2.6	1.4	1.4
Long-term debt ratios					
Private nonguaranteed/long-term	4.7	2.1	1.9	2.7	3.0
Public and publicly guaranteed					
Private creditors/long-term	23.8	29.5	29.7	30.2	30.8
Official creditors/long-term	71.5	68.4	68.4	67.1	66.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Indonesia

The Republic of Indonesia is an archipelago of more than 13,000 islands, with a land area of about 2 million square kilometers. With a population of 190 million, Indonesia is the world's fourth most populous nation. Indonesia has a diversified resource base, with plentiful primary energy resources and significant mineral deposits and timber potential. A high proportion of these primary resources are located in the relatively less populated islands of Sumatra and Kalimantan. Two-thirds of the population lives in Java, which has one of the highest rural population densities in the world. About a quarter of the population lives in urban areas, and urban population growth is over 5 percent a year. Over 1965-93, the economy grew at an average rate of 6.5 percent. The 1993 estimate of GNP per capita was $740.

After a quarter century of steadily rising incomes, Indonesia has become more diversified, less dependent on oil, more industrialized, more urbanized, increasingly driven by private initiative, and more integrated into the global economy. Its policymakers are committed to deregulation, outward orientation, and economic efficiency. With rising incomes have come new challenges requiring greater attention to human resource development, environmental concerns, regional issues, and institutional performance. A growing middle class wants better health and education, better municipal services, higher quality products, and more responsive government institutions.

Poverty and Social Indicators

Indonesia's poor have benefited from a growing economy. By any international measure, Indonesia's record on poverty reduction is impressive. Poverty incidence has declined from around 60 percent — 70 million people — at the beginning of the 1970s to around 15 percent — 27 million — today. Universal primary education has been achieved, secondary and tertiary enrollment has risen sharply, and the adult illiteracy rate has fallen almost two-thirds. Nevertheless, a large fraction of the population still lives just barely above poverty levels and remains vulnerable to minor shifts in overall economic performance. Some social indicators, such as infant and maternal mortality, have not improved proportionately to real income gains.

Indonesia's achievements are no miracle. They reflect careful macromanagement, and a conscious development strategy that focused on enhancing rural incomes through infrastructure and other services to farmers, subsidies — for instance, for fertilizers — and social sector interventions, diversification from oil into nonoil exports — especially in manufacturing — and human resource development, especially basic education, health, and population control.

As a result, Indonesia's economy has become more diversified: nonoil products now account for 75 percent of exports, up from only 25 percent a decade ago; manufacturing now accounts for around 21 percent of GDP, up from 12 percent in the early 1980s; the budgetary reliance on oil has declined sharply, with oil revenues now comprising less than 20 percent of revenue.

Past sources of growth have varied considerably across different regions. In Java-Bali, rice-based agriculture was the initial engine of growth, followed by manufacturing and tourism. In resource-rich provinces, such as Kalimantan and Sumatra, natural resources (forestry, oil, gas, mining) have been critical to growth. Some resource-poor outer islands have depended greatly from fiscal transfers and may suffer if future budgetary constraints limit such transfers.

Recent Economic Developments

The economy continued to grow rapidly during 1994, with real GDP growth of 6.7 percent, higher than in 1993. Nonoil GDP increased at nearly 8 percent led by double-digit growth in the manufacturing sector, despite a severe drought that depressed agricultural growth. This expansion was broad-based, with all other major sectors expanding strongly, particularly manufacturing and construction. Buoyancy was also reflected in a surge in investment during the year as fixed investment rose by 7.2 percent. Inflation was close to 10 percent for the second consecutive year, partly due to higher rice prices caused by a 4 percent decline in rice output and higher aggregate demand.

Strong growth was accompanied by an increase in imports. Nonoil exports declined earlier in the year but began to recover in the second half, helped by higher commodity prices. Consequently the current account deficit widened slightly to about 2.3 percent of GNP. However, the import surge is associated largely with intermediate and capital goods and is increasing productive capacity; this should lead to increased export and output growth over the medium term, narrowing the current account deficit.

Capital account developments featured rising direct foreign investment and marked volatility in short-term flows. Foreign investment inflows amounted to about $2.5 billion in 1994, and it is possible that these inflows will rise sharply over the next few years if the record level of investment approvals is a guide. Monetary policy during the year followed and responded appropriately to international developments — rising international interest rates and the Mexican currency crisis.

Early in 1994 significant outflows of short-term capital took place as world interest rates rose but domestic interest rates did not keep pace. Contributing factors included a slow response by monetary authorities and negative investor reactions to revelations of malfeasance at the state development bank, BAPINDO. As reserves declined, however, monetary policy was used to raise interest rates toward world levels, moderating the outward flow. Later in the year, in the wake of the currency crisis in Mexico, renewed outflows were reported, precipitating pressure on the currency. Stability was restored quickly by further raising domestic interest rates and taking measures to maintain reserves. Greater exchange rate flexibility, introduced earlier through the widening of the bid-offer spread on the exchange rate, helped absorb some of the volatility exhibited by short-term capital flows during the year.

Fiscal developments were marked by a modest widening of the overall public sector deficit to 0.6 percent of GDP. Of greater interest, perhaps, was the announcement of significant changes to the tax system to be introduced in 1995. The main changes include reductions in corporate and personal income tax rates and the re-introduction of tax incentives for special purposes. It is expected that these measures, while improving competitiveness and investment in certain respects, will make it more difficult to reach revenue targets stipulated under the Repelita VI development plan. Nontax charges, especially those related to forestry, were raised in 1994 and may have to be raised again in the future to meet overall revenue needs.

The government initiated a privatization program with the partial privatization of PT Indosat, the international telecommunications parastatal. About $800 million of the proceeds were used to prepay high interest rate debt. The government also announced its intention to partially privatize other state-owned companies — including the state electricity, domestic telephones, and toll road firms, and PT Garuda Indonesia Airways, the national airline.

Indonesia's economic performance over the last 25 years places it firmly in the ranks of the most successful developing countries. It has achieved substantial progress in all important dimensions of economic development: economic growth has been strong, and the benefits have been spread widely, resulting in significant reductions in poverty even during periods requiring difficult economic adjustments. Indonesia has implemented structural reforms that have encouraged transformation from a protected, primary-product-based economy to a more open, diversified manufacturing economy that competes successfully in world markets.

The longer-run development challenges facing Indonesia are being shaped by fundamental structural transformations under way in the country and the coexistence of very different development dynamics in various regions. At a broad level, three transitions are under way as Indonesia shifts from a primarily natural resource-based economy — oil-gas, minerals, forestry, agriculture — to a more human capital and productivity based economy. At the same time, it is changing from a largely rural economy to a more urban society, primarily in Java, with consequent environmental management, social, and infrastructure challenges, and undergoing a political transition featuring more open debate of public policy issues and a rethinking of the role of government, the private sector, and community organizations.

The pace of transition differs from region to region, reflecting differences in endowments and comparative advantages. In the more industrialized, urbanized, densely populated Java-Bali regions, issues of industrial-urban pollution, quality of health and education, private provision of infrastructure and services, and access to urban land dominate the agenda. In resource-rich Kalimantan, Sumatra, and Irian Jaya, the major development issues are sustainable exploitation of natural resources and greater participation by indigenous groups in managing these resources. The resource-poor eastern islands pose yet a different type of challenge: these remain heavily dependent on agriculture but cannot benefit from agricultural technology improvements that have been successful in Java-Bali; at the same time, they lag behind the rest of the country in basic education, health, and infrastructure. These differences argue for more differentiated, region-specific development strategies in the future.

These challenges are reflected in Indonesia's second 25-year long-term development program and the Sixth Five-Year Plan (Repelita VI). The plan is keyed on maintaining growth with macroeconomic stability through fiscal and monetary policy, careful debt management, and a stronger domestic savings effort. Over 1995-98 real GDP is expected to grow at around 6.8 percent, based on continued strong growth of nonoil exports and maintaining a high rate of fixed investment, especially from private sources. Indonesia's optimism on rising private investment share is justified by several indicators, including the government's renewed emphasis on trade and investment deregulation, its very receptive attitude towards private investment in infrastructure, especially in telecommunications and power, and the tremendous increase — to $23 billion, or almost triple the 1993 level — in foreign investment approvals in 1994. In the past, private investment has responded well to incentives created by deregulation: the private investment rate rose from about 16 percent to 20 percent during 1985-90 in response to the burst of trade and investment deregulation measures that occurred then, then slowed as the momentum of deregulation slackened after 1990.

The government also plans to enhance competitiveness by increasing deregulation, reducing financing costs, and improving infrastructure services. Indonesia has recently demonstrated its commitment to further deregulation by announcing a major liberalization of its foreign investment regime in June 1994, and guiding the November 1994 Asia-Pacific Economic Cooperation meeting — which it chaired — toward adopting the goal of region-wide free trade by 2020. Indonesia now has foreign investment regulations that are among the most attractive in the region. Further financial reforms and prudential regulation aimed at reducing the cost of intermediation should help cut the relatively high cost of capital in Indonesia. These should collectively encourage effective resource allocation and allow business to tap more directly into domestic savings, while providing security for savers. The government is also committed to reducing infrastructure bottlenecks, relying on both private and public investment. Repelita VI targets large increases in road transport and energy investments.

A third facet of Indonesia's strategy focuses on reducing poverty by increasing the poor's access to basic urban, education and health services, targeted programs for the hard-core poor, raising agricultural productivity in the eastern islands, and greater involvement of the poor in program design and implementation. Indonesia's impressive record on poverty reduction is attributable to sustained employment-intensive growth in agriculture and industry as well as expansion of basic infrastructure, and health and education services. Repelita VI has introduced a special program, the INPRES Desa Tertinggal to channel $600 million in grants to communities with a high incidence of poverty. Notable features include beneficiary participation in program design and the use of streamlined mechanisms to channel funds directly to targeted communities without going through traditional government layers and budget processes.

Repelita VI calls for increases in expenditures for human resource development in real per capita terms. It calls for increasing compulsory education from 6 to 9 years over a 15-year span, enhancing quality at all levels, and expanding education to poorer groups and remote regions. Meeting these targets will require policy interventions to ensure maximum enrollment and adequate quality in a cost-effective way. An important dimension of Indonesia's human resource development strategy is recognition of the need to upgrade labor quality and provide sufficient skilled labor to meet the needs of a more complex economy. The emphasis is now on improving efficiency of public institutions through increased autonomy, upgrading the quality and relevance of educational and training institutions through accreditation and performance-based funding, and increasing access to higher education.

Environmental quality and sustainability are an integral part of the Indonesian government's stated development concerns. The growing attention to these issues in the government's development strategy reflects an increased awareness of the costs and risks of the worsening environmental conditions due to past growth, and the potential for continued environmental degradation. Three areas of concern have been identified for urgent attention: water supply, environmental sanitation, and solid waste management; vehicle emission and industrial pollution control (mainly on Java); and sustainable management of forests, fisheries, and coastal zones.

Medium-Term Prospects

Economic growth is expected to remain at around 6.8 percent over the next few years in spite of a declining contribution from the oil sector. This level is consistent with external and internal balance. Ongoing trade and industrial sector reforms should continue to open profitable areas for relatively labor-intensive export industries. Nonoil exports are projected to grow by about 11 percent a year in real terms, while nonoil import growth is projected to average about 9 percent. This is expected to lead to a steady reduction in the current account deficit to under 2 percent of GNP by the end of the decade.

External Debt

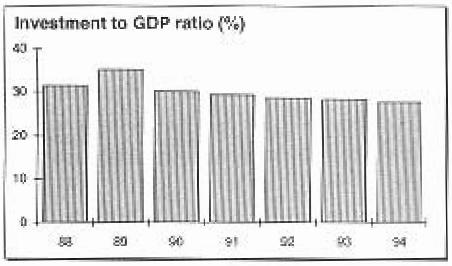
In spite of the projected narrowing of the current account deficit, Indonesia will need continued substantial capital inflows, especially in the form of private non-guaranteed loans and direct foreign investment. Indonesia's need for development assistance remains substantial, in the neighborhood of $17 billion or so per year (gross). The required levels of concessional and commercial finance are likely to be available, provided sound economic policies are maintained. The debt service ratio for medium- and long-term debt is expected to decline from about 33 percent in 1995 to below 27 percent by 1998. Similar declines are projected in the ratio of debt to exports and debt to GNP.

Indonesia

Population mid-1993 *(millions)*	187.2	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	740	Indebtedness level:	**Moderately indebted**

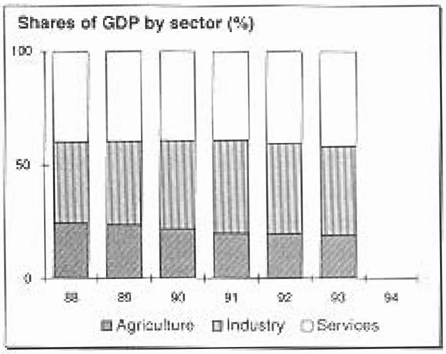
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	28.0	30.1	28.7	28.3	27.6
Exports of goods and nfs/GDP	22.2	27.4	28.9	27.6	28.4
Gross domestic savings/GDP	29.8	32.1	31.0	30.5	29.7
Gross national savings/GDP	25.8	27.5	26.9	27.0	25.9
Current account balance/GDP	-2.2	-3.1	-2.4	-1.6	-2.6
Interest payments/GDP	2.3	3.0	2.7	2.6	2.5
Total debt/GDP	42.0	63.0	65.4	61.9	62.2
Total debt/exports	181.7	223.8	219.1	213.8	204.1



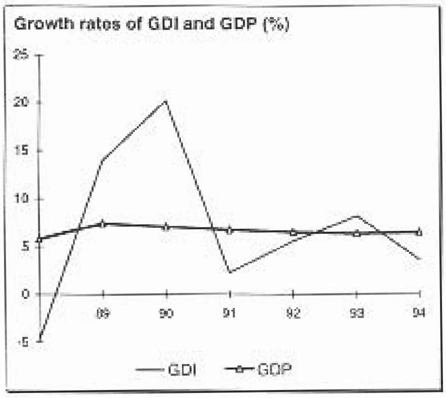
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	23.2	21.5	19.5	18.8	..
Industry	35.8	39.4	40.0	39.4	..
Manufacturing	16.0	19.9	21.8	22.3	..
Services	40.9	39.1	40.5	41.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.2	2.9	6.7	1.4	1.0
Industry	6.7	7.4	5.6	7.0	7.7
Manufacturing	10.7	9.5	9.7	8.8	9.8
Services	7.4	7.4	7.2	8.1	7.9
GDP	6.1	6.5	6.5	6.3	6.5



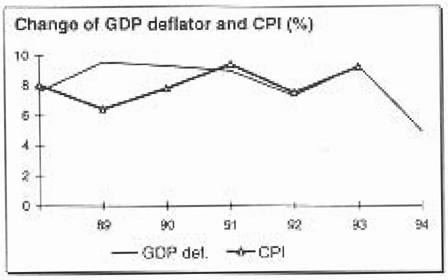
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	59.0	58.9	59.4	59.6	60.9
General government consumption	11.2	9.0	9.5	9.9	9.4
Gross domestic investment	28.0	30.1	28.7	28.3	27.6
Exports of goods and nfs	22.2	27.4	28.9	27.6	28.4
Imports of goods and nfs	20.4	25.5	26.5	25.4	26.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.6	7.0	5.0	6.1	10.5
General government consumption	5.1	3.3	5.8	0.1	1.0
Gross domestic investment	5.2	5.3	5.6	8.2	3.6
Exports of goods and nfs	7.1	10.3	12.7	8.9	6.2
Imports of goods and nfs	-1.6	9.0	7.7	9.0	10.2
Gross national product	6.2	6.8	7.0	7.0	6.2
Gross national income	4.5	6.4	5.9	6.8	6.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	4.7	7.8	7.5	9.2	..
Wholesale prices	5.0	10.0	5.2	3.7	..
Implicit GDP deflator	5.1	9.3	7.3	9.3	4.9
Government finance[a]					
(% of GDP)					
Current budget balance	6.0	8.6	6.4	6.4	7.6
Overall surplus/deficit	-3.2	1.7	-1.7	-1.1	-0.3

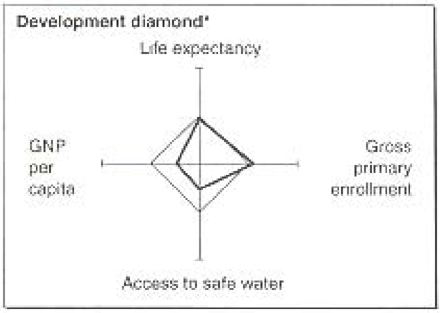


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

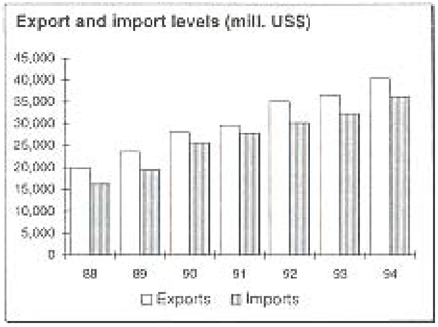
	1985-90	1990-94
(annual growth rates)		
Population	1.7	1.7
Labor force	2.3	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	16.7
Life expectancy at birth	63.2
Infant mortality *(per 1,000 live births)*	56.0
Child malnutrition *(% of children under 5)*	46.0
Access to safe water *(% of population)*	41.6
Energy consumption per capita *(kg oil equivalent)*	330.3
Illiteracy *(% of population age 15+)*	23.0
Gross primary enrollment *(% of school-age population)*	115.0



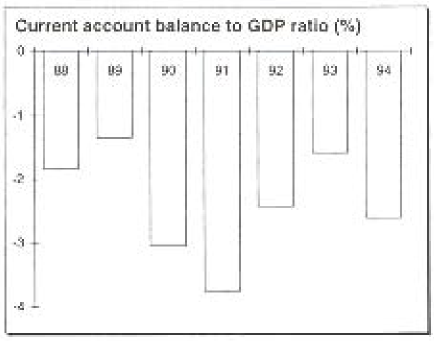
TRADE[a]

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	18,823	28,016	35,110	36,520	40,376
Fuel	12,804	12,636	10,286	9,356	9,287
Rubber	714	902	1,072	1,003	1,316
Manufactures	2,287	9,472	17,544	17,421	19,627
Total imports (cif)	14,056	25,671	30,200	32,303	36,088
Food	812	940	1,097	652	750
Fuel and energy	2,870	4,062	3,768	4,180	3,510
Capital goods	5,394	11,685	13,947	12,552	14,560
Export price index *(1987=100)*	117	124	120	117	125
Import price index *(1987=100)*	85	116	124	121	125
Terms of trade *(1987=100)*	138	107	97	96	100
Openness of economy *(trade/GDP, %)*	43	53	55	53	55



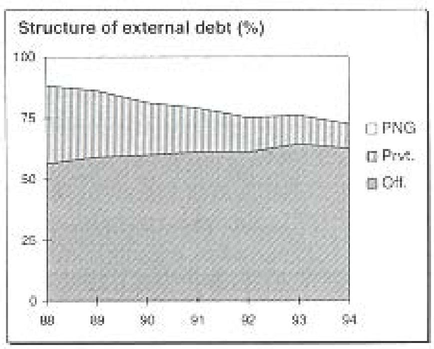
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	19,371	29,295	37,187	40,647	45,800
Imports of goods and nfs	17,840	27,511	34,874	37,310	42,700
Resource balance	1,531	1,784	2,313	3,337	3,100
Net factor income	-3,542	-5,190	-5,664	-5,981	-7,700
Net current transfers	0	166	229	346	500
Current account balance					
Before official transfers	-1,950	-3,240	-3,122	-2,298	-4,100
After official transfers	-1,923	-2,988	-2,780	-2,016	-3,800
Long-term capital inflow	1,880	4,724	5,992	5,458	3,900
Total other items (net)	553	515	-1,142	-2,855	1,300
Changes in net reserves	-510	-2,251	-2,070	-587	-1,400
Memo:					
Reserves excluding gold *(mill. US$)*	4,974	7,459	10,449	11,263	12,133
Reserves including gold *(mill. US$)*	5,989	8,657	11,482	12,474	13,321
Conversion rate *(local/US$)*	1,110.6	1,842.8	2,029.9	2,087.1	2,153.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	151.6	184.9	171.8	164.4	158.9
IMF credit/exports	0.2	1.7	0.0	0.0	0.0
Short-term debt/exports	29.9	37.3	47.2	49.4	45.2
Total debt service/exports	28.8	30.9	30.6	31.8	30.8
GDP ratios					
Long-term debt/GDP	35.1	52.0	51.3	47.6	48.5
IMF credit/GDP	0.1	0.5	0.0	0.0	0.0
Short-term debt/GDP	6.9	10.5	14.1	14.3	13.8
Long-term debt ratios					
Private nonguaranteed/long-term	12.5	18.6	24.8	23.8	27.4
Public and publicly guaranteed					
Private creditors/long-term	38.5	21.4	14.2	11.8	10.1
Official creditors/long-term	48.9	60.0	61.0	64.4	62.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Fiscal year (April to March).

Jamaica

Jamaica is a Caribbean island country of 11,000 square kilometers, 45 percent under agriculture. Its population of 2.4 million is growing at about 1 percent per year; 55 percent of Jamaicans live in urban areas. With a 1993 GNP per capita of $1,440, Jamaica is well endowed with natural resources, has a relatively educated and skilled labor force, and possesses a well-developed financial system. The economy is sensitive to international price and demand changes. Its principal economic activities are tourism, bauxite and alumina mining and processing, manufacturing, and, in terms of employment, agriculture. Together, these sectors account for over half Jamaica's GDP and employment and over three-fourths of its foreign exchange earnings.

From independence in 1962 up to 1973 Jamaica enjoyed strong growth, with GDP expanding at 5 percent a year on average. From 1973 through 1980, the economy experienced a severe contraction due to negative external shocks and inappropriate domestic policies. In the first half of the 1980s reforms began slowly and were delayed by excessive opportunities for external borrowing. Reform efforts were inadequate to restore sustained growth. The overall public sector deficit remained excessively high at 16 percent of GDP, inflation ran at 15 percent, and the external current deficit also remained high at 14 percent of GDP. External debt rose from $1,421 million in 1980 to $3,728 million in 1987. In the late 1980s, aided by improved economic management and terms of trade, the economy began to turn around. Over 1987-90, economic growth averaged 4 percent, but the overall public sector deficit equaled about 7 percent of GDP, inflation averaged 17 percent, and the external current account deficit (excluding grants) equaled 8 percent of GDP.

Recent Economic Developments

Real growth averaged about 6 percent over 1988-90, but since then it has been below 2 percent as the government tightened fiscal and monetary policies to complete the economic stabilization. Jamaica has achieved overall fiscal surpluses of about 3 percent of GDP since 1991. This has been difficult to achieve, as public sector employees strongly sought high wage increases to make up for inflationary erosion of real incomes. Declining external current account deficits (less than 1 percent of GDP by end-1994), increased direct foreign investment flows, and increased grant receipts helped bring total external debt down from a high of $4.7 billion in 1987 to $4.1 billion (or 105 percent of GDP) at the end of 1994. The total debt-service ratio after rescheduling was 22 percent of exports by end-1994.

From the point of view of the private sector, opening the exchange rate regime has been the most important recent macroeconomic policy reform. In September 1991 the government removed the last significant exchange controls and let the rate fluctuate. Since then firms and individuals can legally hold as much foreign exchange as they want, parallel market transaction are allowed, and banks offer foreign exchange accounts. These changes have allowed a large dollar-based financial market to develop, with foreign exchange-denominated bank deposits now above $800 million. The exchange rate has been managed to be stable since the end of 1993, after two episodes of rapid depreciation. Net official international reserves grew from almost zero at end-1993 to about $400 million (or over 4 months of imports) now. The recent Mexican financial crisis has not adversely affected the Jamaican economy, but over the medium term, Jamaica's relative competitiveness in tourism, export services, and small manufacturing could be eroded.

External Environment

With exports and imports each about three-fourths of GDP, which is appropriate for an economy of its size and location, Jamaica's economy is unavoidably sensitive to changes in the external economic environment. Nevertheless, the structural adjustment of recent years has made the economy better able to ride out storms. Restrained borrowing and export growth have brought public and publicly guaranteed debt service down from 46 percent of exports in 1986 to 22 percent in 1994, but the burden still remains high. Dependence on bauxite and alumina has declined from 54 percent of exports to 22 percent in 1994. Tourism and other services have grown to account for 53 percent of total exports of goods and nonfactor services, up from 30 percent in 1980. Jamaica depends entirely on imported oil for commercial energy consumption; fuel imports other than for bauxite and alumina production equal 16 percent of the non-bauxite imports. Therefore, the economy remains sensitive to oil price increases, as well as to natural disasters such as Hurricane Gilbert in 1988.

Poverty and Social Indicators

About one-third of Jamaica's households fall below the poverty line. After a decline in the late 1980s, poverty increased sharply in 1991 because of macroeconomic instability and inflation. Poverty declined again in 1992 and 1993 as stability and growth were restored. The highest incidence of poverty is in rural areas, but incidence there has declined sharply, while urban poverty has stayed near the elevated levels reached in 1991. While public employment has shrunk over the past decade, private-sector employment has grown rapidly enough to reduce unemployment. While unemployment contributes to poverty, most of the poor are employed, usually in the informal sector. Despite macroeconomic instability, unemployment fell from 25 percent in the early 1980s to 16 percent in 1992, or 6 percent for job-seekers. More than 30,000 new jobs per year were created in 1990-92.

Most of the poor work in the private sector, but their productivity and earnings are low. A sharp contrast remains between the low-wage, capital-starved, largely informal or rural sectors and the capital-intensive, high-wage sectors. Nevertheless, there are linkages between them, and both groups are modern in the sense of interacting with the world market — small farmers growing bananas and coffee for export, small shops selling to tourists, low-wage labor finding employment in the free trade zones, and informal commercial importers bringing in goods from Miami and Panama.

In the 1970s Jamaica's social indicators compared favorably with those of other middle-income countries in Latin America. Reductions of government expenditures over the past 15 years have, however, led to major declines in social services and supporting infrastructure. Real spending on education and health fell by about 30 percent over 1980-86 but is recovering. Women have a relatively good position in Jamaican society and the economy.

The government removed inefficient general food subsidies in 1990-91 and replaced them with more targeted programs, such as the externally supported food stamp and school feeding programs. Longer-term investments are supported by the Human Resources Development Program, which is designed to restore the flow of funds to the social sectors, redirect investments toward services most likely to reach the poor, rationalize allocation of services, and increase cost recovery.

Recent Economic Developments

Three problems stand out in Jamaica's growth experience since independence. First, growth has been too slow on average and too frequently interrupted by stop-go policy cycles and external shocks. Second, this slow growth was achieved very inefficiently in the sense that Jamaica has borrowed and invested a lot — forgoing welfare in the past and the future — without a commensurate result. Third, growth has only recently started to break down the economic dualism that Jamaica shares with many other developing countries. Growth in the enclaves of the formal sector still does not draw enough labor and material inputs from the traditional sectors.

Since 1989 the government has pursued a bold program of reforms, including a stepped-up privatization program, tax reform, liberalization of the trade and exchange rate regimes, and elimination of the fiscal deficit. It eliminated interest-rate subsidies, strengthened the financial sector regulatory framework, deregulated most prices and distribution-marketing channels, discontinued general food subsidies, eliminated most quantitative restrictions and trade monopolies, and lowered external tariffs. It adopted a more flexible exchange regime based on commercial bank transactions and discontinued exchange controls. The government that came into office in 1989 was reelected by a large margin in March 1993, and the challenge now is to sustain and accelerate the reform effort to move the economy to growth rates of around 5 percent a year over the medium term while improving social conditions.

Despite tightened fiscal and monetary policies during the past 18 months, inflation averaged over 2 percent a month until August 1994. Since September inflation has averaged 1 percent a month. During 1994 the acceleration of capital inflows and a buildup of official reserves required sterilization, which led to a rapid increase in domestic debt. Growth in money supply and currency issue slowed but continued to be high in 1994. The nominal deposit and lending interest rates have declined in recent months but the rates remain positive in real terms. The government is now building up its reserves more slowly than last year. In January 1995, after some tough negotiations, the government reached a civil service wage settlement of 20 percent for fiscal 1995 and 17 percent for fiscal 1996. Jamaica is committed to continuing tight demand management policies so as not to fuel inflation once again.

The government has begun tax administration reform and rationalization of the public sector by privatizing public enterprises, especially in directly productive sectors but also elsewhere as in the power sector. It also plans to cut back the overall number of personnel, pay higher real salaries to essential workers, and rationalize the structure of ministries and statutory agencies.

In 1992, and again in 1994, Jamaica led in urging the CARICOM regional trade organization to move the common external tariff progressively to a 5 to 20 percent band and move toward NAFTA. Jamaica introduced the first step in 1993 and plans to complete it on a fast-track schedule. It is also streamlining procedures for exporting and importing.

Privatization is crucial to Jamaica's dual objectives of encouraging private-sector-led growth and focusing the government's energy and financial resources on tasks in which the public sector has a comparative advantage, such as basic education and health care, protection of persons and property, and water and transportation infrastructure. Privatization will include both management contracts and outright sales. Several major enterprises have been sold, including the publicly owned sugar estates and Air Jamaica, and others have been offered for sale with tenders now being evaluated, and the government is committed to divest other public entities.

The government is well aware of the most important environmental issues — erosion of hillsides, and pollution of coastal and underground waters from untreated or inadequately treated sewerage. It is strengthening the Natural Resources Conservation Agency and has drafted a National Environmental Action Plan, but it has not yet implemented adequate programs to address the main problems. Pollution from the bauxite industry is also a long-standing environmental issue, which regulation and private-sector measures are beginning to address.

Medium-Term Prospects

Jamaica's policy path should allow a sustained improvement in economic performance. Real GDP growth projections for 1995-97 begin at 2 percent and rise gradually to 5 percent over the medium term, because the government's immediate focus is on completion of the stabilization. The challenges facing the government remain great in view of its large debt obligations but should allow for significant growth in incomes and consumption per capita. The private sector will do virtually all the investment in directly productive sectors and in some infrastructure areas such as telecommunications and power generation.

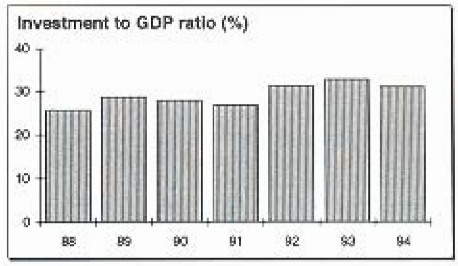
Private capital inflows, while they are not likely to remain as large as in 1994, can be sustained as the continuation of the adjustment program increases the willingness of private investors to make their assets in Jamaica more permanent. Because of high debt service on external and domestic debt — over 40 percent of the budget — Jamaica's external financing needs will remain substantial. If external official support can be obtained primarily in grants and concessional loans, if the government can implement a sound borrowing strategy, and if private capital comes mainly as direct foreign investment or repatriated capital owned by Jamaicans, the debt-service ratios will decline substantially by the late 1990s.

Jamaica

Population mid-1993 *(millions)*	**2.4**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,440**	Indebtedness level:	**Severely indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	25.3	27.9	31.4	32.9	31.2
Exports of goods and nfs/GDP	61.0	52.0	65.6	55.1	58.4
Gross domestic savings/GDP	14.8	23.8	30.4	23.3	23.8
Gross national savings/GDP	7.3	16.6	19.7	16.1	27.7
Current account balance/GDP	-17.5	-8.3	-6.3	-3.8	-0.9
Interest payments/GDP	10.5	5.3	5.0	4.1	4.2
Total debt/GDP	202.6	109.9	131.0	102.1	97.7
Total debt/exports	300.9	188.1	167.0	174.5	160.5

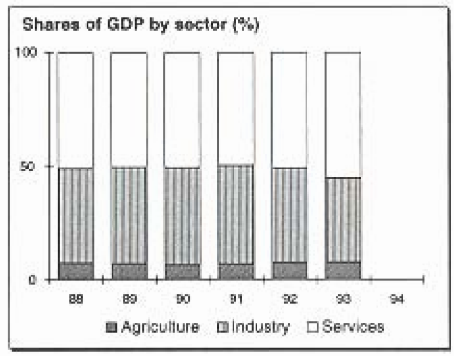


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	6.0	6.5	7.5	7.7	..
Industry	37.3	43.1	41.9	37.3	..
Manufacturing	20.0	19.4	18.5	16.8	..
Services	56.7	50.4	50.6	55.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	-0.7	*7.6*	12.9	8.8	..
Industry	7.8	*-0.8*	0.4	-0.9	..
Manufacturing	5.2	*-2.9*	0.9	-2.9	..
Services	3.7	*1.8*	0.8	1.9	..
GDP	5.1	*2.7*	1.4	1.2	..

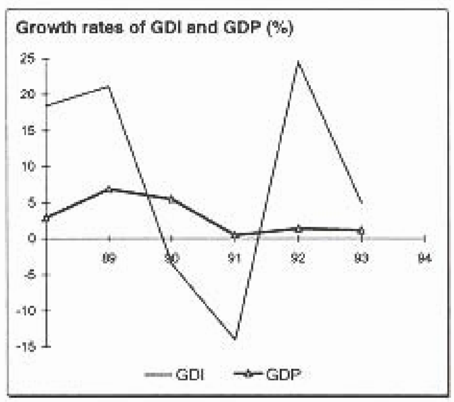


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	69.6	62.1	59.7	63.7	63.7
General government consumption	15.5	14.1	10.0	13.0	12.5
Gross domestic investment	25.3	27.9	31.4	32.9	31.2
Exports of goods and nfs	61.0	52.0	65.6	55.1	58.4
Imports of goods and nfs	71.5	56.2	66.6	64.7	65.8

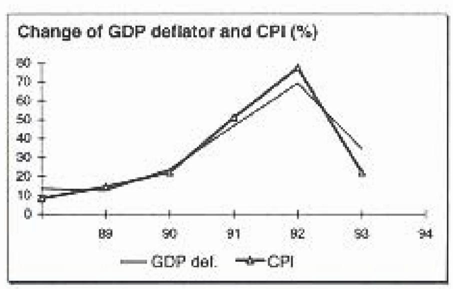
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	9.5	*4.2*	9.9	7.7	..
General government consumption	14.2	*-0.9*	12.3	0.0	..
Gross domestic investment	3.2	*5.8*	24.5	5.0	..
Exports of goods and nfs	4.1	*-1.0*	2.6	-4.3	..
Imports of goods and nfs	10.2	*4.7*	28.9	5.0	..
Gross national product	1.8	*2.0*	3.9	4.3	..
Gross national income	4.1	*4.7*	17.9	1.1	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	25.7	22.0	77.3	22.1	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	25.7	23.8	69.2	34.6	..
Government finance					
(% of GDP)					
Current budget balance	..	5.3	7.2	6.7	5.9
Overall surplus/deficit	..	2.0	2.9	3.2	0.3



Change of GDP deflator and CPI (%)

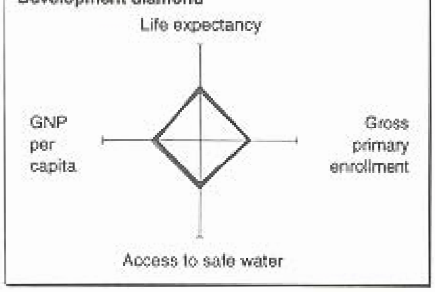
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Jamaica

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	0.5	*0.6*
Labor force	2.6	2.3

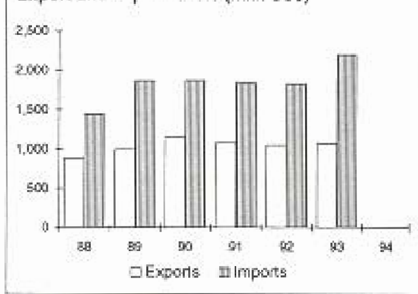
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	73.7
Infant mortality *(per 1,000 live births)*	13.6
Child malnutrition *(% of children under 5)*	7.2
Access to safe water *(% of population)*	71.9
Energy consumption per capita *(kg oil equivalent)*	1,096.2
Illiteracy *(% of population age 15+)*	1.6
Gross primary enrollment *(% of school-age population)*	106.0



Development diamond*

TRADE

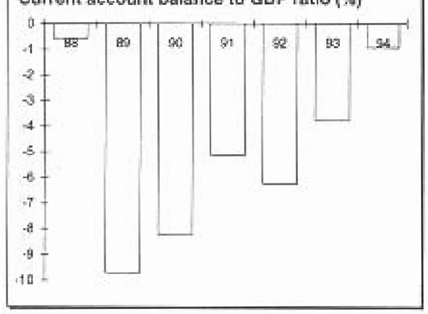
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	569	1,157	1,051	1,071	..
Aluminum	212	625	462	444	..
Other metals	78	103	89	82	..
Manufactures	..	230	250	284	..
Total imports (cif)	1,144	1,877	1,832	2,203	..
Food	82	126	117	138	..
Fuel and energy	368	401	329	321	..
Capital goods	283	580	317	451	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	101	129	135	163	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	133	108	132	120	124



Export and import levels (mill. US$)

BALANCE of PAYMENTS

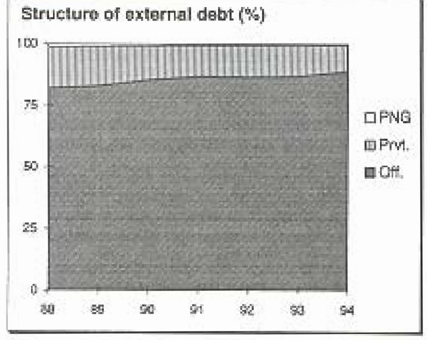
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,231	2,322	2,453	2,452	2,576
Imports of goods and nfs	1,454	2,322	2,380	2,794	2,823
Resource balance	-223	0	74	-342	-247
Net factor income	-284	-478	-418	-137	-178
Net current transfers	153	128	134	320	385
Current account balance					
Before official transfers	-353	-350	-210	-159	-40
After official transfers	-285	-235	-135	-81	1
Long-term capital inflow	250	16	-31	108	61
Total other items (net)	-31	299	434	109	282
Changes in net reserves	66	-80	-268	-136	-344
Memo:					
Reserves excluding gold *(mill. US$)*	161	168	324	..	..
Reserves including gold *(mill. US$)*	161	168	324	..	..
Conversion rate *(local/US$)*	5.6	7.2	23.0	25.0	33.2



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	236.0	159.9	141.1	148.1	143.0
IMF credit/exports	51.0	14.4	13.6	13.7	11.2
Short-term debt/exports	13.9	13.8	12.3	12.7	6.3
Total debt service/exports	37.6	27.3	26.4	20.2	20.0
GDP ratios					
Long-term debt/GDP	158.9	93.4	110.7	86.6	87.1
IMF credit/GDP	34.4	8.4	10.6	8.0	6.8
Short-term debt/GDP	9.3	8.1	9.6	7.4	3.9
Long-term debt ratios					
Private nonguaranteed/long-term	2.1	0.8	0.7	0.8	0.6
Public and publicly guaranteed					
Private creditors/long-term	20.0	13.9	12.9	12.5	10.6
Official creditors/long-term	78.0	85.3	86.4	86.7	88.8



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Jordan

Jordan's relatively small economy reflects its poor natural-resource base and proximity to high-income oil-exporting countries. Water resources are scarce, less than 5 percent of its land is arable, and virtually all its energy has to be imported. Its only major natural resources are phosphate, potash, and limestone. However, Jordan has a strong human resource base and a highly accessible public health service; it has compensated for its poor natural endowments by exporting its surplus skills to the oil-exporting countries in the region.

Jordan enjoyed unprecedented growth over 1973-84, boosted by foreign assistance, worker remittances, and exports to mainly regional markets. That growth was not sustainable, however, as productivity stagnated and wages were increased by the large foreign transfers to levels that reduced competitiveness. A substantial portion of exports were negotiated under state-to-state protocols and aimed at the limited regional market, and remittances from skilled workers mainly in the Gulf states proved to have limited growth potential and were vulnerable to external shocks. The boom ended in the mid-1980s as a result of the decline in the price of oil and the subsequent slowdown in regional economies. Foreign assistance, exports, and remittances all declined, and severe deficits in fiscal and external accounts ensued. The government adopted a program of stabilization and adjustment in 1989 supported by the Bank and IMF.

Jordan's adjustment efforts have focused on restoring financial stability with particular attention to resolving the external debt problem and mobilizing domestic resources to redress long-standing imbalances in internal and external accounts. They also aimed to accelerate efficiency-improving reforms by adopting a more open trade regime, improving financial intermediation and the regulatory framework, and restructuring and reforming the public sector so that economic agents in the public and private sectors compete on a level playing field and respond efficiently to market signals.

The stabilization and adjustment measures adopted by the government since 1989 include a series of fiscal adjustments to reduce budget deficits, including tariff and tax reforms, and a large devaluation of the Jordanian dinar in 1989 followed by a flexible exchange rate policy in line with market forces. Jordan also reduced tariff protection and improved its trade incentive regime, decontrolled interest rates and nearly all prices, initiated comprehensive structural reforms in the energy and agriculture sectors, and strengthened institutional support for export development.

The stabilization measures were effectively implemented and the results are encouraging. The government also implemented a first phase of trade liberalization that lifted import bans, substantially reduced average tariff protection, simplified trade procedures, and improved export capability. Other sectoral and structural reform measures were not as successful. While the government has substantially adjusted electricity tariffs, institutional reform and establishing an independent regulatory regime for the power sector have been delayed, as have agricultural trade and marketing liberalization measures. These delays were due to the recent change of cabinet, slow decisionmaking, and lack of coordination among government agencies.

These adjustment efforts were been supported by debt rescheduling in March 1992 and July 1994 through the Paris Club, a debt and debt-service reduction operation with the London Club, and a debt buy-back arrangement with the republics of the former Soviet Union. More recently, official bilateral debt reductions were granted by several creditor countries.

Recent Economic Performance

These adjustment measures were effectively implemented despite the disruptions caused by the Persian Gulf crisis. The fiscal imbalance has been reduced consistently since 1991. The current account deficit has also steadily declined, with exports of goods and services showing broad-based growth. The trade liberalization, implemented during 1990-91 to complement the macroeconomic adjustment program, spurred nontraditional exports. Credit and monetary targets have been effectively maintained. These adjustments helped lower domestic inflation from 16 percent in 1990 to 6 percent in 1991, and to 4 percent in 1992, and with the resettlement of refugees following the Gulf crisis and increased capital inflows, GDP growth rebounded in 1992 to 11 percent from stagnation during 1990-91.

The growth momentum continued in 1993 and 1994, though at a slower pace. Strong revenue performance together with continued strict control over expenditures in 1993 and 1994, led to a decline in the budget deficit to 5 percent of GDP in 1994, compared to 7 percent in 1992 and 5.8 percent in 1993. A large share of the fiscal adjustment was accomplished by reducing consumer subsidies. The lower budget deficit and a cautious credit policy have contained the growth in net domestic assets of the banking system. Domestic inflation was reduced further from 5 percent in 1993 to 4.5 percent in 1994. Reflecting the buoyant domestic economy, imports remained high at an estimated $3.5 billion in 1993 and in 1994. With continued growth in exports and stable remittance inflows, the current account deficit excluding grants declined from 23 percent in 1992 to 14.6 percent of GDP in 1993 and 12.7 percent in 1994. Private transfers, official grants and loans, and debt rescheduling were sufficient to finance the remaining balance of payments gaps in 1993 and 1994. With the debt and debt service relief, the debt service ratio fell from 34 percent in 1991 to 20 percent in 1994, and the external debt-to-GDP ratio fell from 180 percent to about 120 percent. Unemployment, while down from its 1991 peak of 25 percent, remained a still-serious 15 to 18 percent in 1994, and the incidence of poverty was about 15 percent, up from about 3 percent in 1986-87.

Notwithstanding the progress described above, Jordan still faces major challenges. In the short term, the persistent current account deficit, the debt burden, uncertain private capital inflows, and the lower level of international reserves held against the possibility of redemption of Jordanian dinars in circulation in the West Bank and Gaza make Jordan's economic and financial stability uncertain. The recent recovery is impressive, but it was partly triggered by the population and capital inflows and the associated increase in consumption and housing demand. Moreover, the recovery has been accompanied by increased trade deficits, which may prolong the period during which Jordan must depend on external transfers. In the medium term, the main challenge is to overcome constraints on growth posed by increasing infrastructure constraints, and the public management problems of an overstaffed and poorly motivated civil service and inefficient public enterprises.

Medium-Term Prospects

Jordan's medium-term adjustment program envisages inflation remaining below 5 percent and GDP growth at 6.0 percent in 1994 and remaining at 5 to 6 percent a year over 1995-98, while the current account deficit falls to about 5.4 percent of GDP — and the fiscal deficit to about 2.7 percent — by 1998.

These growth and stabilization objectives would be achieved by steadily reducing the fiscal deficit through containing recurrent expenditures, improving the financial position of public enterprises, and improving revenue performance. Jordan is expected to improve domestic credit management and maintain a moderate pace of credit expansion in line with GDP growth and stable and consistent interest and exchange rate policies. It should also accelerate structural reforms to spur private-sector-based growth and investment.

Projected GDP growth requires an investment level of 27.4 percent of GDP in 1995, declining to about 24.6 percent in 1998. The implicit improvement in investment efficiency reflects gains from policy reforms and increased capacity utilization. At the same time, an increasing share of investment must be financed by domestic savings, which are projected to increase to 8.8 percent of GDP in 1998, reflecting increases in savings by both the public and private sectors; personal savings should become more available as the Gulf returnees complete their settling-in phase of high expenditures.

Over 1995-97 the current account deficit (excluding grants) is estimated at an average of about $370 million, or 7.6 percent of GDP.

External Debt

Jordan has managed its external debt with a view to restoring its access to world financial markets. By limiting new borrowing and pursuing debt buy-backs at substantial discounts, the government reduced its debt-GDP ratio from 180 percent in 1991 to 116 percent in 1994. Successive rescheduling of Paris Club debt has lowered debt service as a share of exports of goods and services. However, even after incorporating the debt reductions of $800 million extended to date, the debt-GDP ratio will remain high: at over 86.0 percent through 1998.

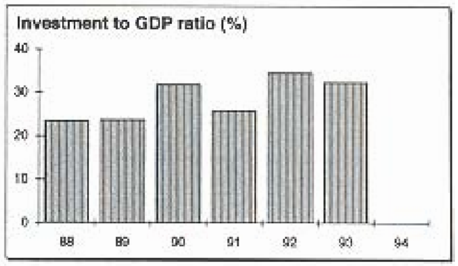
Jordan

Population mid-1993 *(millions)* **4.1**
GNP per capita 1993 *(US$)* **1,190**

Income group: **Lower-middle**
Indebtedness level: **Severely Indebted**

KEY RATIOS

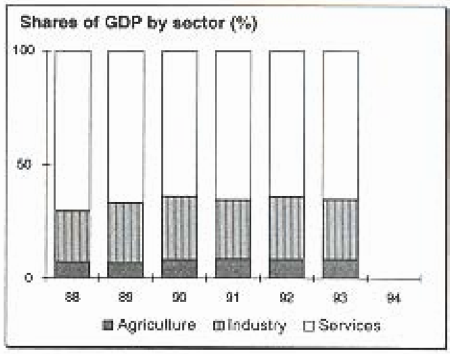
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.7	31.9	34.6	32.4	..
Exports of goods and nfs/GDP	37.2	61.9	52.1	50.5	..
Gross domestic savings/GDP	-17.4	1.0	1.5	2.1	..
Gross national savings/GDP	-2.2	2.4	12.0	14.3	..
Current account balance/GDP	-19.9	-28.5	-19.1	-14.5	..
Interest payments/GDP	3.8	7.5	5.4	3.7	..
Total debt/GDP	80.4	181.0	139.8	124.4	..
Total debt/exports	129.5	236.3	200.7	176.0	171.6



Investment to GDP ratio (%)

GDP: PRODUCTION

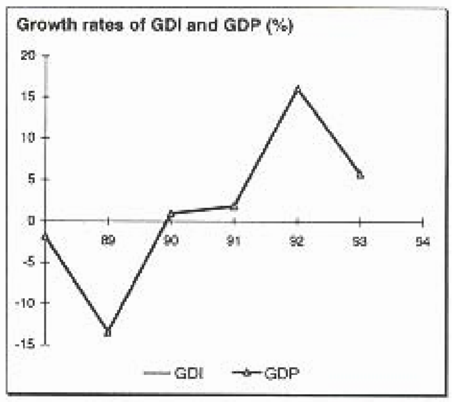
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	4.9	8.1	8.3	8.3	..
Industry	26.9	28.1	27.7	26.8	..
Manufacturing	11.9	14.9	13.7	13.7	..
Services	68.2	63.8	64.0	64.9	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	-1.3	*8.5*	16.1	5.8	..



Shares of GDP by sector (%)

GDP: EXPENDITURE

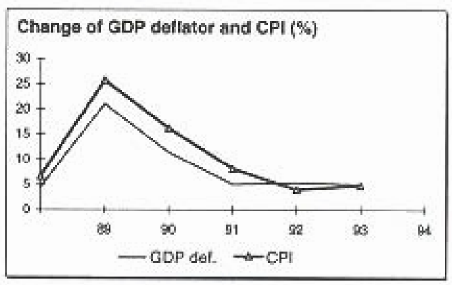
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	90.6	74.1	75.8	75.4	..
General government consumption	26.8	24.9	22.6	22.5	..
Gross domestic investment	21.7	31.9	34.6	32.4	..
Exports of goods and nfs	37.2	61.9	52.1	50.5	..
Imports of goods and nfs	76.3	92.7	85.2	80.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	-3.1	9.5	18.8	6.9	6.5
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	3.0	16.2	4.0	4.7	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-0.3	11.4	5.4	5.1	..
Government finance					
(% of GDP)					
Current budget balance	-11.6	-12.3	2.1	0.3	..
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

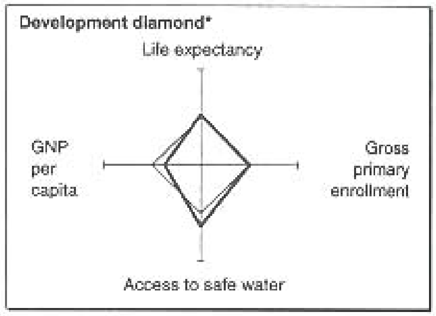
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Jordan

POVERTY and SOCIAL

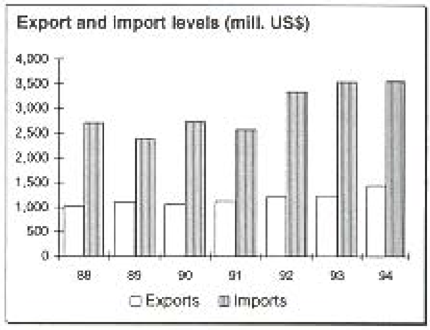
	1985-90	1990-94
(annual growth rates)		
Population	4.3	7.5
Labor force	4.3	4.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	70.1
Infant mortality *(per 1,000 live births)*	26.0
Child malnutrition *(% of children under 5)*	6.4
Access to safe water *(% of population)*	99.3
Energy consumption per capita *(kg oil equivalent)*	921.5
Illiteracy *(% of population age 15+)*	19.9
Gross primary enrollment *(% of school-age population)*	105.0



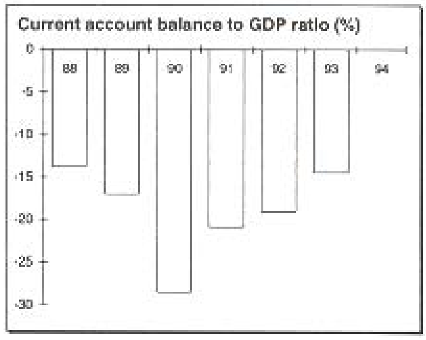
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	789	1,064	1,220	1,248	1,442
Phosphorus	168	209	180	135	167
Other metals	79	133	127	116	124
Manufactures	263	394	445	482	579
Total imports (cif)	2,723	2,732	3,339	3,541	3,556
Food	481	657	612	628	633
Fuel and energy	566	470	446	454	418
Capital goods	1,393	1,519	2,198	2,333	2,363
Export price index *(1987=100)*	94	116	86	82	87
Import price index *(1987=100)*	94	112	112	107	116
Terms of trade *(1987=100)*	100	103	77	77	76
Openness of economy *(trade/GDP,%)*	114	155	137	131	..



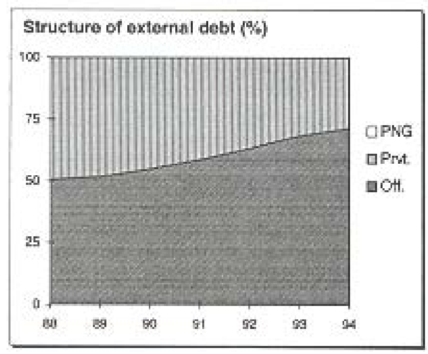
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,976	2,512	2,667	2,822	3,084
Imports of goods and nfs	3,723	3,715	4,293	4,499	4,594
Resource balance	-1,747	-1,203	-1,626	-1,677	-1,510
Net factor income	-89	-403	-229	-132	-139
Net current transfers	845	458	872	997	948
Current account balance					
Before official transfers	-991	-1,148	-983	-812	-701
After official transfers	-252	-755	-635	-472	-367
Long-term capital inflow	390	-363	89	-128	-21
Total other items (net)	16	1,471	575	553	290
Changes in net reserves	-154	-353	-29	47	98
Memo:					
Reserves excluding gold *(mill. US$)*	423	849	767	1,637	1,693
Reserves including gold *(mill. US$)*	770	1,139	1,030	1,946	1,997
Conversion rate *(local/US$)*	0.4	0.7	0.7	0.7	0.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	105.2	228.1	193.2	172.3	169.5
IMF credit/exports	2.0	3.1	3.1	2.1	1.1
Short-term debt/exports	22.4	5.1	4.4	1.7	1.1
Total debt service/exports	17.1	18.2	18.5	14.4	14.6
GDP ratios					
Long-term debt/GDP	65.2	174.7	134.6	121.8	..
IMF credit/GDP	1.3	2.3	2.2	1.5	..
Short-term debt/GDP	13.9	3.9	3.1	1.2	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	31.1	45.2	36.7	31.5	28.5
Official creditors/long-term	68.9	54.8	63.3	68.5	71.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Kazakhstan

Kazakhstan has the second-largest land mass in the former Soviet Union and borders Turkmenistan, Uzbekistan, and the Kyrgyz Republic in the south, and the Volga River, the Ural Mountains, and the west Siberian regions of Russia in the north, China's Xinjiang Province in the east, and the Caspian Sea in the west. Its 1994 population of 17 million, or 6.2 per square kilometer, makes it one of the most sparsely populated regions in the world. More than 100 nationalities live in Kazakhstan. Kazakhs and Slavs (about 40 percent of the population each) constitute the two most important ethnic groups. Significant German and Korean communities are also settled in the republic.

Kazakhstan had an estimated per capita income of $1,560 in 1993. It is richly endowed with oil, gas and mineral resources, including gold, iron ore, coal, copper, chrome, wolfram, and zinc. It also has a vast area of arable land. Industry, which accounts for about 40 percent of GDP, is dominated by mining and processing activities, largely geared to exploiting the rich natural resource base. Agriculture production, primarily wheat, maize for fodder, livestock products, cotton, and wool, constitutes about 34 percent of GDP. The economy is closely linked with others in the former Soviet Union, especially Russia's. In the late 1980s exports to Russia represented about 60 percent of total exports, while imports from Russia accounted for a slightly larger share of total imports. Since independence in 1991, trade is rapidly being redirected toward markets outside the former union, notably China and Germany.

Social Indicators

Social indicators are high by both Western and Central Asian standards, though slightly lower than the averages for the former Soviet states. Infant mortality is about 26 per 1,000, lower than in Europe (30 per 1,000), but higher than that of Russia and other bloc countries. Life expectancy is 69 years, which is similar to the average in upper-middle-income countries and higher than East Asia. Adult literacy is comparable to that of economies with GDP per capita above $6,000.

Recent Economic Developments

Kazakhstan began a comprehensive structural reform program aimed at moving toward a market economy in 1993. This program has been supported by a range of international assistance from bilateral and multilateral donors, and the World Bank and IMF. Reforms have been implemented against a background of rapid inflation and sharply declining GDP.

Key macroeconomic developments include a sharp reduction in inflation, which had largely been driven by the growth in credit to the enterprise sector, from 35 percent monthly during the second quarter of 1994 to 10 percent at the end of 1994 in response to monetary tightening. Output, on the other hand, suffered from a steep fall in investment expenditures, depressed consumption, and cutbacks in defense outlays, and declined by 15 percent in 1993 and 25 percent in 1994.

Public finances came under considerable strain in 1994 with revenues dropping abruptly to 16.9 percent of GDP (from 23.2 percent of GDP in 1993), as liquidity-strapped enterprises found it increasingly difficult to pay taxes. Despite this, the budget deficit was contained to 6.7 percent of GDP (on a cash basis) through drastic expenditure cuts across the board. Budgetary expenditures (on a cash basis) contracted to 16.6 percent of GDP over the period (compared to 24.7 percent of GDP in 1993), mainly through an accumulation of payment arrears.

Monetary policy has been loose, and broad money grew at an annual rate of about 500 percent from 1992 into the second quarter of 1994, when the authorities succeeded in containing its expansion to an annualized 60 percent in the third quarter of 1994.

Trade volumes, both imports and exports, declined by about 30 percent in 1993, and by a similar amount in 1994. The trade balance deteriorated to a $658 million deficit in 1993 and remained around that level in 1994, as the country's access to export pipelines through Russia was restricted.

In response to these difficult economic conditions, the government has been accelerating reforms. A tightening of financial policies begun in the second quarter of 1994 is already showing signs of success: inflation dropped from around 35 percent a month in the second quarter of the year to 10 percent at the end of 1994. An Anti-Crisis Program adopted in July 1994 lays out a revised package of structural reform measures to be implemented over the following 15 months. A new government team was appointed in October 1994 to provide a fresh impetus to the program.

In spite of the difficult macroeconomic background, there has been satisfactory progress in implementing price, privatization, and financial-sector reforms. Given the difficult initial conditions and the scale of the challenge involved, however, much remains to be done for the ultimate objectives of these policies to be attained.

By October 1994 the authorities had virtually eliminated direct administrative pricing and related consumer subsidies with the liberalization of bread, semolina, and animal feed prices. Only the tariffs charged by public utilities were still fixed; with other prices subject only to antimonopoly regulations. Under these reforms, the price of domestic crude oil has been brought broadly into line with import parity. Despite this encouraging progress, in practice, numerous obstacles still remain to competitive pricing. Some external trade liberalization has taken place, particularly supported by the unification of the official exchange rate with the currency market rate when the tenge was introduced in November 1993. Export reforms are incomplete, however, as Kazakhstan's major exports remain subject to quotas and licenses. Government control of domestic trade has been relaxed, but the role of other monopolistic structures has expanded. In 1994 the government refrained from establishing state purchases outside the agriculture sector; and even in this sector, its purchases were limited to procuring grain in reduced quantities compared to the previous year. Domestic markets remain, nevertheless, plagued by commercial monopolistic structures, protected from foreign competition by the high transport and entry costs generated by Kazakhstan's geography. Between June 1993 and June 1994 the government created 82 holding companies to control the state's share in 1,564 subsidiary enterprises. Many of these holding companies constitute local or national monopolies, molded along the lines of the former sector ministries. They engage in cartel activities, cross-subsidization, market segmentation, and vertical integration.

The government has begun implementing a three-pronged approach to privatization, embodied in its National Privatization Program for 1993-95. Small-scale privatization involves the rapid sale of the assets of small establishments, such as shops, restaurants, and trucks, in municipal auctions or tenders against cash and unutilized housing vouchers, while a mass privatization program covers divestiture of medium to large enterprises (as going concerns) through voucher auctions to investment privatization funds in which citizens invest their allocated privatization investment coupons. Very large, or strategic, enterprises are being tendered to strategic (foreign) investors on a case-by-case basis. The program has made a good start, selling approximately 2,900 small establishments and 4,500 trucks in auctions by the end of 1994. Mass privatization became operational in 1994; over 97 percent of citizens received their coupons and some 80 percent of them have already invested a total of 25 percent of their coupons in 169 funds. In nine auctions since April 1994, investment funds acquired state shares in over 550 enterprises. Three large transactions have been completed with international firms, and tenders for consultants have been issued for 38 further enterprises.

Distinctive problems have emerged in the agricultural sector, where, in comparison with the rest of the economy, initiatives to privatize activities continue to be tentative. Government policy, adopted in March 1993, was to give each state-farm worker the right to an identifiable piece of land on the basis of a lifetime, inheritable lease. These land-use rights were made transferable in April 1994, setting the stage for the development of a land market. The process of privatization involved 853 state farms in 1994, bringing the aggregate number of state farms that are undergoing or have completed the privatization process to 1,455, two-thirds of the total. However, this policy has led to little farm restructuring, due apparently to delays in titling: certificates of ownership had only been distributed for 65 farms.

Substantial progress was made in 1994 in strengthening the banking sector. New prudential standards were introduced in April 1994, which although they fall short of international standard banking requirements, will still submit banks to considerably stricter rules. The National Bank of Kazakhstan is stepping up enforcement of prudential rules. It closed 14 banks in 1993, and a further 22 in 1994. The central bank is also limiting access to credit auctions to banks in good prudential standing. After a period of inordinate licensing in 1992-93 (which increased the number of banks to 205 in early 1994), it licensed only a handful of new banks in 1994. Notwithstanding a fear that foreign banks might undercut local ones, five joint-venture banks and three wholly foreign-owned banks have been authorized. Several initiatives have been also taken to restructure the specialized banks.

Until recently, little enterprise restructuring had taken place in Kazakhstan. By mid-1994 an estimated 130 firms were idle, and another 163 were operating only intermittently, but almost no formal closures or liquidations had taken place. Firms have put an estimated 550,000 people (7.4 percent of the labor force) out of work, but only 78,000 unemployed (1.0 percent of the labor force) were actually registered by end-1994 and an even smaller number received unemployment compensations. Bankruptcy procedures have also proven ineffective.

Kazakhstan's social situation has become fragile, even before any major industrial restructuring. Given the fiscal pressures, minimum benefits are being adjusted only sporadically for the increasing cost of living. As a result, average pensions and other social benefits declined 27 percent in real terms in 1994 over the previous year, after a 26 percent cut in 1993, and an even larger one in 1992. A January 1994 reduction in social insurance contributions from 37 to 30 percent of wages casts doubt on the financial viability of the pension system. Furthermore, by the end of 1994, the government had accumulated large arrears in the payment of pensions and other benefits.

Medium-Term Prospects

Kazakhstan's long-term economic prospects continue to be promising, given its vast hydrocarbon and mineral resources, low external debt obligations, and well-trained work force. The country has also benefited from significant investor interest in agriculture, minerals, and hydrocarbons. However, many deals (including the oft-cited Tenghiz oil development and Karachaganak oil and gas field) have bogged down in complex negotiations, with the result that few investments have actually been implemented outside the service and light manufacturing sectors. Ongoing efforts to streamline legislation regarding foreign investments, taxation, and oil and petroleum should improve the environment for foreign investment in the near future.

In the interim, Kazakhstan will need an average of $1,300 million annually in foreign borrowing (on a net disbursements basis) over 1995-97, in addition to an average inflow from direct foreign investment of $300 to $400 million. Borrowing will be above average in the first part of the period; as principal repayment obligation increase, the decline in net loan disbursements should be replaced by growth of direct foreign investments. Long-term capital inflows should be sufficient to finance a current account deficit averaging 5.0 percent of GDP annually over 1995-97 and maintain a relatively comfortable international reserve position.

The government's reform strategy is based on first developing a macroeconomic framework to stabilize the economy, reduce inflation, and renew growth, then implementing structural and sectoral reforms designed to promote an early supply response. Core elements of the structural reforms include setting the framework for firms to restructure efficiently by developing and deepening competitive markets and encouraging firm entry and exit and strengthening the instruments of restructuring by enhancing the privatization program, imposing financial discipline on banks and enterprises, and improving governance of enterprises expected to remain in state ownership. The government is also attempting to create an incentive framework that fosters private-sector development, including promoting foreign direct investment and dismantling monopolistic markets through increased competition, and adopting affordable social safety net measures to protect the vulnerable during the transition.

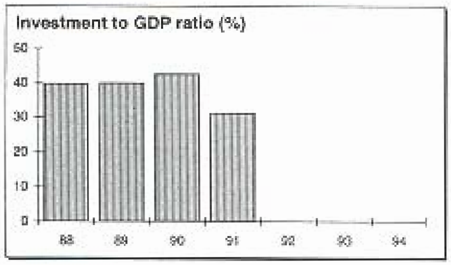
The government's sectoral policies aim at developing the energy, mining, and metallurgy sectors to promote a rapid supply response and generate critical export earnings during the early stages of the transition. The government is also emphasizing development of agriculture and infrastructure (mainly transportation and telecommunications) to support export expansion and speedy integration into the world economy.

Kazakhstan

Population mid-1993 *(millions)*	**17.0**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,560**	Indebtedness level:	**Less indebted**

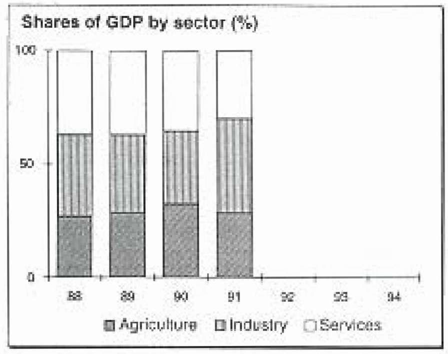
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	47.5	42.6	..	..	..
Exports of goods and nfs/GDP	..	..	..	..	..
Gross domestic savings/GDP	21.0	25.9	..	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-0.5	-3.0	-4.1
Interest payments/GDP	..	..	0.0	0.0	0.5
Total debt/GDP	..	..	0.1	6.6	12.3
Total debt/exports	..	..	0.8	47.5	70.1


Investment to GDP ratio (%)

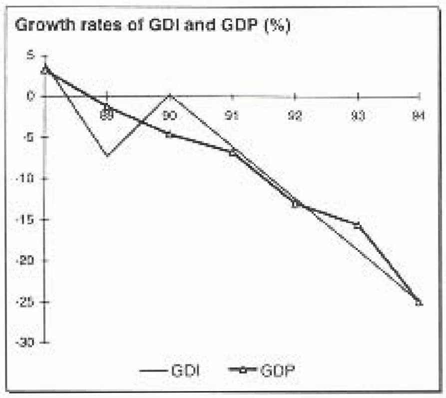
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	24.1	32.4	..	..	..
Industry	40.1	32.3	..	..	..
Manufacturing	28.4	20.4	..	..	..
Services	35.8	35.4	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.1	..	..	..	-20.1
Industry	-0.3	..	..	..	-30.0
Manufacturing	-3.2	..	..	..	..
Services	1.1	..	..	..	-25.5
GDP	0.6	-15.1	-13.0	-15.6	-25.0


Shares of GDP by sector (%)

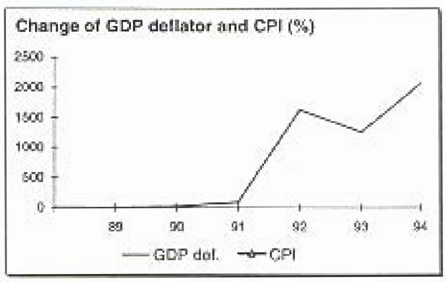
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.6	55.4	..	..	..
General government consumption	21.4	18.7	..	..	..
Gross domestic investment	47.5	42.6	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.6	..	..	..	-31.3
General government consumption	-0.1	..	..	..	-18.9
Gross domestic investment	-1.2	..	..	..	-25.0
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	0.6	-15.1	-13.0	-15.6	-25.0
Gross national income	..	..	..	..	..


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-5.7	18.9	1,622.6	1,255.5	2,061.2
Government finance[a]					
(% of GDP)					
Current budget balance	..	-4.9	-0.2	-2.0	-7.0
Overall surplus/deficit	..	..	-6.8	-1.4	-6.7


Change of GDP deflator and CPI (%)

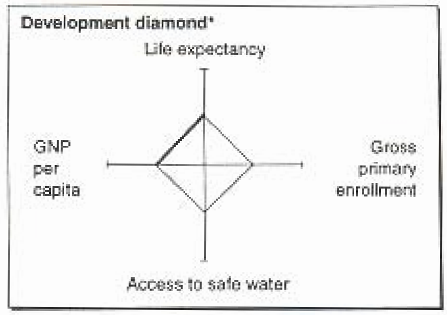
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Kazakhstan

POVERTY and SOCIAL

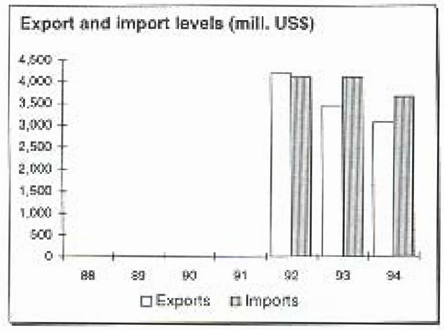
	1985-90	1990-94
(annual growth rates)		
Population	1.1	*0.6*
Labor force	1.2	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.6
Infant mortality *(per 1,000 live births)*	29.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	4,434.6
Illiteracy *(% of population age 15+)*	2.5
Gross primary enrollment *(% of school-age population)*	..



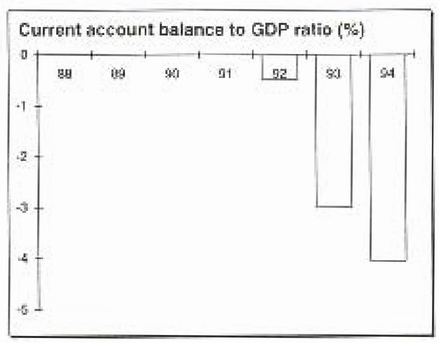
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	4,197	3,449	3,070
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	4,100	4,107	3,662
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	..	..



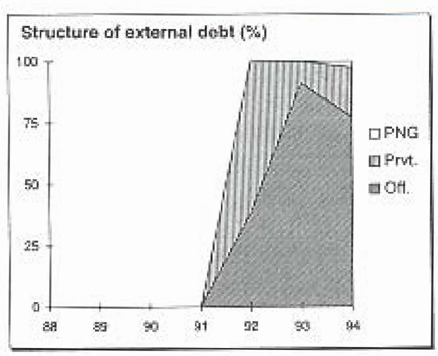
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	4,197	3,449	3,070
Imports of goods and nfs	..	..	4,100	4,224	3,776
Resource balance	..	..	97	-775	-706
Net factor income	..	..	-410	-20	-96
Net current transfers	..	..	168	55	80
Current account balance					
Before official transfers	..	..	-145	-740	-722
After official transfers	..	..	-145	-740	-722
Long-term capital inflow	..	..	-105	834	1,032
Total other items (net)	..	..	-339	-137	-645
Changes in net reserves	..	..	589	43	335
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	2.3E-03	8.3E-02	1.1	25.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	0.6	45.0	64.0
IMF credit/exports	..	..	0.0	2.5	6.1
Short-term debt/exports	..	..	0.2	0.1	0.0
Total debt service/exports	..	..	0.0	0.3	7.2
GDP ratios					
Long-term debt/GDP	..	..	0.1	6.3	11.2
IMF credit/GDP	..	..	0.0	0.3	1.1
Short-term debt/GDP	..	..	0.0	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	2.4
Public and publicly guaranteed					
Private creditors/long-term	..	..	61.9	8.9	20.3
Official creditors/long-term	..	..	38.5	91.1	77.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. General government accounts until 1991.

Kenya

Kenya is a low-income country with a per capita income that declined from $340 in 1991 to $270 in 1993. The decline reflects stagnant income, population growth, and exchange rate depreciation over the period. The population growth rate fell from 3.6 percent in 1984 to about 3 percent in 1993, reflecting a sharp decline in fertility rates. About three-quarters of Kenya's land area is classified as arid or semi-arid. Its economy is heavily dependent on agriculture, which employs about 70 percent of the labor force and contributes about 29 percent of GDP. Coffee and tea account for over 40 percent of merchandise exports. The service sector, including tourism, accounts for about 54 percent of GDP and is an important source of employment. Tourism is Kenya's leading foreign exchange earner. The industrial sector is relatively developed and diversified, contributes about 17 percent of GDP, and employs close to 8 percent of the labor force. Kenya is not an oil-producing country, but it has a refinery in Mombasa that supplies the domestic and regional export markets.

Trends in the 1960s and 1970s

Kenya's first decade after independence in 1963 was one of remarkable growth and structural change, with real GDP growth averaging more than 8 percent a year. Agricultural expansion was stimulated by converting high-potential land to extensive smallholder cultivation, introducing high-value production activities, and adopting high-yielding maize varieties. Manufacturing growth was largely due to expanding domestic demand supported by rising agricultural incomes, the encouragement of investment through high levels of protection, a liberal attitude toward foreign investment, and an active government role in industrial promotion and investment.

GDP growth decelerated after the 1973 oil crisis, averaging 5.4 percent over 1973-80. In addition to the effects of rising oil prices, this slowdown reflected the emergence of structural constraints. Agricultural growth slowed as the margin of untapped potential narrowed, but also because of inappropriate government policies such as extensive and inefficient public sector involvement in marketing. Industrial growth slowed because the incentive structure favored the domestic market over exports and led to an increasingly inward-looking sector with declining opportunities for efficient import substitution. These factors were exacerbated by the collapse of the East African Community. There were also negative developments on the stabilization front, with the erosion of fiscal discipline after the coffee boom of the late 1970s and subsequent deterioration in the external terms of trade due to the second oil shock.

Developments in the 1980s

Annual GDP growth slowed to 3 percent over 1980-85 in response to these stabilization problems and political uncertainty resulting from an attempted coup in 1982 and a severe drought in 1984. By the mid-1980s stabilization efforts had begun to bear fruit and economic growth started to recover. Growth in the 1986-90 period was impressive, at 5.6 percent on average. However, the improvement in macroeconomic stability was short-lived, as fiscal discipline weakened once again in the wake of a modest 1986 coffee boom, and Kenya began to face renewed macroeconomic imbalances. Increases in public sector employment pushed up the budget deficit and monetary expansion fueled inflation. Largely because of this expansion, adverse terms of trade, and slow growth in nontraditional exports, the current account deficit remained high.

Macroeconomic Performance Since 1990

The 1991-92 period was marked by a sharp decline in all major macroeconomic performance indicators. Real GDP growth fell to 1.4 percent in 1991 — and -0.8 percent in 1992. Agricultural production was adversely affected by unfavorable weather. Investment, which averaged 24 percent of GDP over 1986-90, dropped to 21.3 percent in 1991 and 17.5 percent in 1992. External imbalances worsened as a consequence of the Persian Gulf crisis during 1990-91, and arrears began to accumulate on external debt.

At the November 1991 consultative group meeting bilateral donors announced that they were postponing aid pledges, citing a variety of concerns, including poor macroeconomic and structural policy performance, and issues of governance, human rights, and corruption. A subsequent decision by multilateral donors to withhold balance of payments support was, however, largely driven by concerns about economic policy failure.

In April 1992 the government agreed with the IMF on a program of actions necessary to reestablish a sound macroeconomic framework. IMF and IDA review missions in September 1992 and March 1993 found that monetary targets for 1992 had been substantially exceeded because of abuse of the preshipment export financing scheme, and central bank provision of large overdrafts and rediscounts to some commercial banks. The excessive growth in monetary aggregates fueled inflation, which accelerated sharply from about 20 percent in 1991 to around 100 percent (on an annualized basis) in the second quarter of 1993. On the fiscal side, election-related expenses and larger than anticipated export compensation payments caused the 1992/93 deficit (excluding grants) to quickly exceed the 3.6 percent of GDP target. These imbalances undermined the external reforms, including the 50 percent exchange retention extended to traditional exporters, implemented under the program. The spread between the official rate and the interbank market rate widened, and Kenya accumulated further external payments arrears.

With the macroeconomic program off track and some IDA sector-specific conditions unfulfilled, Kenya's IDA and IMF programs came to a halt. Their programs were restarted after an April 1993 agreement on an action program.

On the external front, several devaluations of the Kenyan shilling in the spring of 1993 raised the official nominal exchange rate from KSh36 to KSh64 to the dollar, narrowing the interbank premium to about 10 percent. At the same time, export retention at a flat rate of 50 percent was reintroduced for all exporters and all import controls (other than a short negative list) were lifted.

Concurrently, the central bank began to mop up excess liquidity by issuing treasury bills at high nominal rates, raising statutory cash ratios, and reducing access to its rediscount and overdraft facilities. The effectiveness of the measures to absorb excess liquidity was compromised, however, by continued irregularities in interbank and foreign exchange transactions, which continued to add to liquidity even as open-market operations attempted to mop it up. The budgetary cost of this policy failure was eventually reflected in large interest payments due to T-bill holders, which increased the budget deficit for 1992/93 (excluding grants) to 10.4 percent of GDP. The failure to enforce monetary policy was ultimately addressed in July by a change in the management of the central bank, and by the subsequent closure of four commercial banks and a number of nonbank financial institutions. In July 1993 monetary policy was effectively tightened, and the economy began to stabilize. Annualized inflation fell to 55 percent in the third quarter of 1993 from the 100 percent level in the previous quarter, and nominal treasury bill rates declined. The market-determined interbank exchange rate appreciated from around KSh82 to the dollar at end-June 1993 to about KSh70 in late September 1993. This paved the way for the unification of the official and market exchange rates in October 1993.

These improvements in the policy environment facilitated negotiation, in November 1993, of a one-year Extended Structural Adjustment Facility with the IMF and an ambitious reform agenda under for 1994-96. The reform agenda included a target fiscal deficit of 6.1 percent of GDP (excluding grants) in 1993/94 and, on the structural side, liberalizing the maize market, deregulating the petroleum sector, eliminating all remaining price controls, and reducing import tariffs and eliminating export taxes. The government program also called for performance contracts with key parastatals, divestiture of 25 non-strategic parastatals including specific entities in 1994, and reducing the civil service. Based on these policy reforms, a consultative group meeting was held in late November 1993, and donors indicated new commitments for 1994 totaling $850 million. In January 1994 the government was also able to reschedule payment of its arrears on external debt with the Paris Club group of creditors.

Government achievements in the macroeconomic area have been close to program targets. There was some slippage in fiscal performance as the 1993/94 deficit target of 6.1 percent was exceeded by 1.3 percentage points of GDP, largely due to debt service payments on behalf of parastatals and unauthorized budgetary expenditures. However, real GDP growth in 1994 was estimated at about 3 percent, reversing the decline over 1991-93, and inflation was sharply contained, with end-1994 inflation lower than projected under the IMF program. The most notable improvement was in Kenya's external accounts, with official reserves reaching 3.6 months of imports, nearly double the program target of 1.9 months.

Implementation of structural reforms was more mixed. Exchange controls were removed, including restrictions on inward portfolio investment, and Kenya accepted the obligations of Article VIII of the IMF Articles of Agreement. Liberalization of the petroleum market was accomplished in October 1994, and civil service reform is generally on track, with retrenchments at the rate of 16,000 staff and positions per year. Removal of price and movement controls on maize, the staple crop, was accomplished ahead of schedule, but the government's commitment to maintaining a liberalized market for international trade in maize was brought into question in August 1994 when maize imports were temporarily suspended before being replaced by a variable levy. While the licensing requirement for exporting maize has been removed, effective authority to export maize remains subject to approval by the National Cereals and Produce Board. That board's role remains a major source of concern, as it has continued to intervene in the domestic market in a manner that imposes large budgetary costs while undermining private-sector trade in maize. Privatization of small nonstrategic parastatals has been ongoing, although the process has not met expectations of transparency, and Kenya's commitment to carry out privatization of the more significant entities remains to be tested. Progress in the management of the major parastatals — such as telecommunications and the port authority — has been disappointing, particularly in restructuring, and implementing performance contracts. Legislation to amend the State Corporation Act, to put in place some aspects of an arms-length relationship between the government and parastatal management, remains to be considered by the next session of parliament.

Recent Political Developments

Kenya has been engaged in the transition to a multiparty democracy since December 1991, when opposition parties were legalized and the electoral process was reformed. Multiparty elections were held in December 1992, and the results, in the opinion of most foreign observers, broadly represented the will of the electorate. Benefiting from a divided opposition, the ruling Kenya African National Union party returned to power, along with its candidate for president. In the post-election period, the opposition has had some success in holding the government to parliamentary accountability, but has been subjected to intermittent harassment and intimidation by the government. Press reporting on government policy failures and cases of corruption has been relatively unrestricted, although there have been instances of harassment and censorship of publications sympathetic to the opposition. Clashes between Kenyan tribal groups since 1991 that caused a loss of lives, destruction of property, and the internal displacement of an estimated 250,000 people have reduced in frequency in the past year, but the underlying tension remains high and the possibility of new clashes cannot be ruled out.

Historically, economic reforms in Kenya have advanced in fits and starts. Reforms to date have put in place a system in which administrative discretion in resource allocation has been substantially diminished. Given the newness of these reforms, it is too early to be confident as to their permanence and the sustainability of the reform process itself. -

Poverty and Social Indicators

The real prospect of rising unemployment and increasing poverty is the crucial medium- and long-term development issue confronting Kenya; a recent poverty assessment has concluded that the incidence of poverty did not improve in the 1980s and early 1990s. The percent of population in poverty was estimated to be around 45 percent in rural areas and about 30 percent in urban areas. However, the period saw an increase in the depth of poverty, measured by the difference between the actual consumption of the poor and the minimum requirement of 2,250 calories per adult equivalent and some essential nonfood expenditures. The lack of sustained economic growth is the primary cause of income poverty in Kenya.

Kenya has experienced a dramatic drop in the fertility rate — from 7.7 in 1984 to 6.7 in 1989, and 5.4 in 1992 — suggesting that a demographic transition is under way. Underlying the decline in fertility is an increase in contraceptive prevalence, from 7 percent in 1977 to 33 percent in 1993. Despite this fertility decline Kenya's population will continue to grow rapidly because there are large numbers of women entering their childbearing years.

The Environment

Poverty and population pressures on limited land resources are the main contributors to environmental degradation in Kenya. Environmental problems are particularly severe in arid and semi-arid regions, which are more susceptible to ecological damage resulting from population pressures. The government adopted a national environmental action plan in June 1994 and is expected to focus on implementation modalities over the coming year.

Progress in Reform

In August 1993 the government formally adopted a comprehensive civil service reform program and established a secretariat to manage the program's implementation. The major objective is to enhance the efficiency and improve the client focus of a streamlined civil service. The program aims to retrench about 74,000 staff (out of a total complement of about 270,000) and positions by 1996/97 while strengthening the policymaking and implementation capacity of key ministries and the central bank. Six of the 23 ministries have been selected for restructuring during 1995-96 in the first phase of the reform, with a further six to be identified by mid-1996 for similar restructuring.

In 1991 the government announced its intention to carry out a comprehensive parastatal privatization and restructuring program, but progress on achieving parastatal reform has fallen well short of target, and the transparency of the approximately 50 privatizations that have been conducted (either fully or partially divested) has been unsatisfactory.

A 1990 World Bank study suggested that agriculture could grow at 4 percent a year through 2000 if the policy environment was improved and technological support provided. Recent developments are encouraging: markets for all agricultural commodities have been liberalized and the role of marketing parastatals — except for the cereals board — is being restricted. In parallel to attempts to increase the scope for private activity, the Ministry of Agriculture, Livestock Development and Marketing is being restructured to make it more responsive to a sector increasingly dominated by the private sector. The government has indicated its intention to rationalize the role and structure of the Kenya Agricultural Research Institute to improve technology generation and dissemination.

Years of neglecting maintenance has exacted a toll on public infrastructure in Kenya. Sections of the highway system and urban and peri-urban roads need complete reconstruction, and much of the rural road network requires major rehabilitation. Water supply schemes that have deteriorated in the past decade need to be rehabilitated and expanded, especially in the coastal region. Adequate funding of maintenance, particularly road maintenance, is a priority area for claim on government expenditure. Inefficiencies in the infrastructure parastatals has also contributed to declining quality of services. The movement capacity of Kenya Railways has declined significantly, and this has contributed to the decreasing level of service provided by Mombasa port. In energy, the problem is also one of inadequate investment, which is likely to become a severe constraint to national development if not undertaken quickly. The government has liberalized the petroleum market and plans to address other constraints on the sector by restructuring the power subsector, encouraging private-sector participation, and ensuring appropriate pricing.

Regional Economic Integration

Over the past two years, Kenya has resumed active discussions with Uganda and Tanzania toward reviving East African cooperation in trade, transport and communications, finance, and investment, as well as regional immigration and security. In November 1994 the three heads of state issued a communiqué indicating the establishment of a secretariat in Arusha to facilitate East African cooperation and formulate steps toward strengthening regional institutions. The communiqué also indicated the intention of the three governments to implement the provisions of the 13-country Cross Border Initiative, including steps to harmonize tariff rates and simplify customs procedures and consider the possibility of forming a customs union.

Medium-Term Prospects

The prospects for achieving the growth scenario envisaged for 1995-97 will depend on the effective implementation of structural adjustment measures to address the key development issues identified above. If macroeconomic stability is maintained and reforms are pursued vigorously, GDP growth could reach 5 to 6 percent in 1995-97, allowing per capita income growth of over 2 percent a year.

External Debt

Over the period 1994-96, Kenya's current account balance (excluding official transfers) is projected to decline slightly, moving from a small surplus in 1994 to a deficit of less than 1 percent of GDP in 1997. As noted earlier, accumulated external debt arrears as of end-1993 have been rescheduled over the period 1995-2001. Due to the refinancing of arrears, amortization of existing debt is projected to increase in dollar terms by 1996. However, the overall scheduled debt service ratio is expected to drop from about 28 percent in 1994 to about 23 percent in 1997.

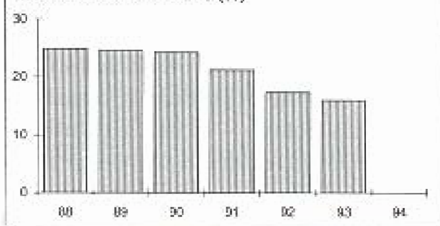
Kenya

Population mid-1993 *(millions)*	**25.3**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**270**	Indebtedness level:	**Severely indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	26.0	24.3	17.5	16.1	..
Exports of goods and nfs/GDP	25.3	26.2	27.1	42.0	..
Gross domestic savings/GDP	24.9	19.1	17.6	21.1	..
Gross national savings/GDP	22.6	15.8	13.5	17.0	..
Current account balance/GDP	-7.0	-7.5	-4.1	0.9	..
Interest payments/GDP	2.7	2.8	2.6	3.7	..
Total debt/GDP	68.5	83.5	84.3	126.3	..
Total debt/exports	265.1	319.8	310.3	299.4	..

Investment to GDP ratio (%)

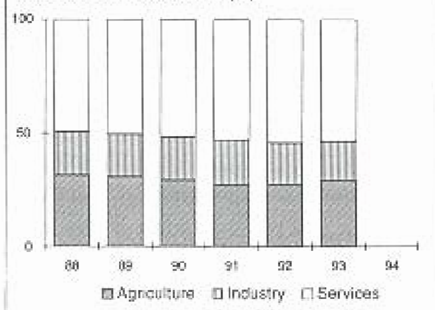


GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	32.5	29.1	27.1	28.9	..
Industry	19.1	19.1	18.7	17.6	..
Manufacturing	11.7	11.8	11.2	10.4	..
Services	48.4	51.7	54.2	53.5	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.3	*-2.7*	-3.3	-3.8	..
Industry	5.2	*0.9*	0.0	0.4	..
Manufacturing	5.8	*2.2*	1.2	1.8	..
Services	5.4	*3.0*	2.9	2.3	..
GDP	5.6	*0.5*	-0.7	1.1	..

Shares of GDP by sector (%)

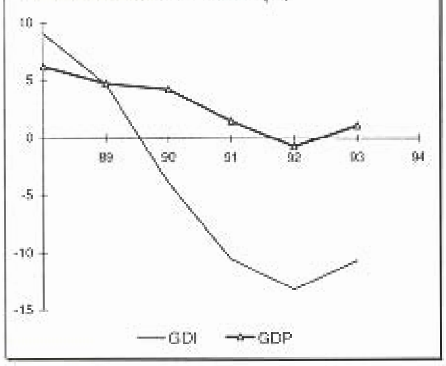


GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.6	62.2	66.2	65.8	..
General government consumption	17.5	18.7	16.2	13.1	..
Gross domestic investment	26.0	24.3	17.5	16.1	..
Exports of goods and nfs	25.3	26.2	27.1	42.0	..
Imports of goods and nfs	26.4	31.4	27.0	37.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	8.5	*0.9*	-0.2	0.4	..
General government consumption	3.2	*7.6*	9.1	7.3	..
Gross domestic investment	4.0	*-11.6*	-13.2	-10.7	..
Exports of goods and nfs	7.3	*0.5*	-0.9	3.8	..
Imports of goods and nfs	10.4	*-2.7*	-2.3	-1.3	..
Gross national product	5.3	*0.0*	0.1	-0.9	..
Gross national income	4.9	*1.8*	1.0	1.3	..

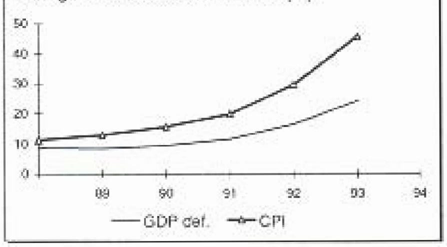
Growth rates of GDI and GDP (%)



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices[a]	13.0	15.6	29.5	45.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	8.2	9.4	16.5	24.3	..
Government finance[a]					
(% of GDP)					
Current budget balance	-0.7	0.6	0.6	-4.6	..
Overall surplus/deficit	-7.0	-6.7	-4.8	-10.4	..

Change of GDP deflator and CPI (%)



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

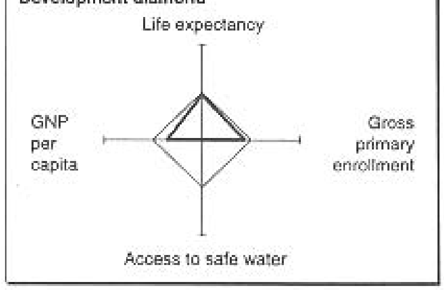
Kenya

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.1	2.7
Labor force	3.5	3.6

	most recent estimate
Poverty level: headcount index *(% of population)*	37.0
Life expectancy at birth	58.5
Infant mortality *(per 1,000 live births)*	61.0
Child malnutrition *(% of children under 5)*	22.3
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	99.2
Illiteracy *(% of population age 15+)*	31.0
Gross primary enrollment *(% of school-age population)*	95.0

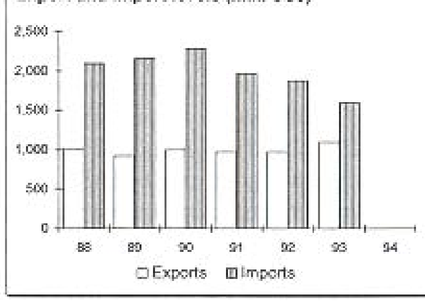
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	940	1,001	973	1,096	..
Fuel	118	58	70	67	..
Coffee	281	192	129	191	..
Manufactures	117	140	136	150	..
Total imports (cif)	1,486	2,288	1,880	1,605	..
Food	112	119	158	152	..
Fuel and energy	461	462	396	439	..
Capital goods	340	669	414	312	..
Export price index *(1987=100)*	90	111	104	..	..
Import price index *(1987=100)*	81	111	86	..	..
Terms of trade *(1987=100)*	111	99	121	..	..
Openness of economy *(trade/GDP,%)*	52	58	54	79	..

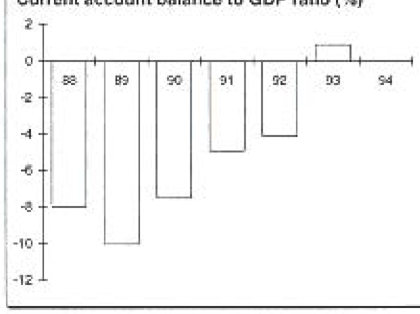
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,552	2,217	2,151	2,326	..
Imports of goods and nfs	1,849	2,659	2,283	2,170	..
Resource balance	-297	-442	-132	156	..
Net factor income	-213	-367	-263	-243	..
Net current transfers	81	167	68	136	..
Current account balance					
Before official transfers	-429	-642	-327	49	..
After official transfers	-319	-437	-102	143	..
Long-term capital inflow	119	393	259	166	..
Total other items (net)	168	-68	-141	137	..
Changes in net reserves	33	113	-16	-446	..
Memo:					
Reserves excluding gold *(mill. US$)*	391	205	53	406	558
Reserves including gold *(mill. US$)*	417	236	80	437	588
Conversion rate *(local/US$)*	16.4	22.9	32.2	58.0	..

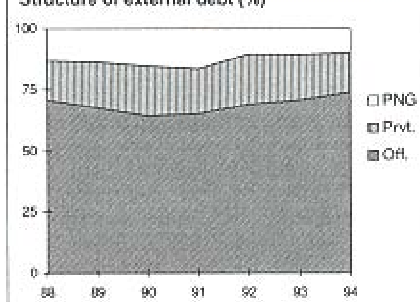
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	202.5	257.0	257.6	244.9	..
IMF credit/exports	32.9	21.6	18.2	15.5	..
Short-term debt/exports	29.7	41.0	34.4	38.9	..
Total debt service/exports	39.2	36.4	33.1	27.9	..
GDP ratios					
Long-term debt/GDP	52.3	67.1	70.0	103.3	..
IMF credit/GDP	8.5	5.6	5.0	6.6	..
Short-term debt/GDP	7.7	10.7	9.3	16.4	..
Long-term debt ratios					
Private nonguaranteed/long-term	16.2	15.4	10.4	10.5	9.9
Public and publicly guaranteed					
Private creditors/long-term	13.2	20.3	20.6	18.6	16.2
Official creditors/long-term	70.6	64.4	69.0	70.9	73.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Average Nairobi lower income price indices (1987 to 1993)

b. Fiscal year (July to June)

Republic of Korea

Korea has been among the most successful developing countries in the postwar period. A little more than 30 years ago it was among the poorest countries, heavily dependent on agriculture and facing perennial balance of payments deficits financed almost entirely through foreign grants. Since 1962, however, real GNP has grown over thirty-fold, and per capita income is now more than 15 times higher. This remarkable performance has been underpinned by annual export growth of about 20 percent (in real terms), and Korea today is the world's 11th largest trading nation, with exports that span a wide range of sophisticated industrial products. These income gains have been accompanied by improvements in a range of social indicators. Life expectancy has risen almost to the levels of industrial countries, and infant mortality is now less than a quarter the rate in 1965. Adult illiteracy is almost nonexistent, and secondary education enrollment rates have more than doubled since 1965. Moreover, these improvements in living standards have been shared widely. Absolute poverty is now less than 5 percent — from about 40 percent in 1965 — in part because the share of income received by the poorest groups did not fall even when economic growth was most rapid.

Korea's remarkable success can be attributed to several factors. Important elements include its strong outward orientation and its willingness to allow economic incentives, as determined by the exchange rate, interest rates, and domestic prices, to be broadly in line with market-based outcomes. In addition, its macroeconomic management has been generally conservative and flexible, with policymakers adjusting rapidly and decisively to external shocks, as was demonstrated after the second oil price shock in the late 1970s. Finally, medium-term structural adjustment issues have been tackled forthrightly through a series of preannounced reform programs in the trade, industry, and energy sectors.

After a major economic boom over 1986-88, during which GNP growth averaged over 12 percent, exports fell in 1989. As export growth remained sluggish, yearly GNP growth fell to about 8 percent for 1989-91, with domestic demand being the primary source of growth. By 1991, with the current account deficit at almost 3 percent of GNP, and consumer price inflation almost at double-digit levels, it was evident that overheated domestic demand was resulting in serious external and domestic imbalances. The policy response to these imbalances in late 1991 and 1992 took the form of administrative measures to curb construction investment, limits on foreign borrowing by commercial banks, a slight tightening of monetary and fiscal policies, and a reduction in the official wage guideline for large companies.

Recent Economic Developments

These measures were successful in stabilizing Korea's economy. Consumer price inflation slowed in 1993 to less than 5 percent. With weak domestic demand slowing import growth, continued buoyancy in exports narrowed the current account deficit in 1992 to almost half its 1991 level, and a surplus emerged on the current account in 1993. However, economic growth fell sharply as a result, with real GNP growth in 1992 of only 5 percent — the slowest since 1980. A gradual recovery occurred in 1993 with real GNP growth of 5.6 percent. Growth was particularly strong in the second half of the year, led by fixed investment (equipment and construction), which rose at an annualized rate of over 10 percent after declining in 1992 and the first half of 1993.

Strong economic growth has now resumed with over 8 percent GNP growth in 1994. This surge in economic activity continues to be underpinned by the expansion of fixed investment, which maintained its double-digit growth rate, and merchandise export growth of over 15 percent, which was twice as rapid as in 1993. The strength of the economic recovery meant that merchandise imports in 1994 rose over 22 percent, leading to a current account deficit of almost $5 billion — about 1.4 percent of GNP. There are also signs that inflationary pressures are increasing, with consumer price inflation in 1994 rising to over 6 percent.

The government's development objectives are outlined in its New Five-Year Economic Plan of 1993-1997, which reflects the administration's revision of the previous Seventh Plan. The new plan aims at establishing the foundation for Korea to become an industrialized economy by the end of the century. The plan includes a comprehensive and detailed blueprint for financial sector reforms and emphasize income distribution and equity goals.

As Korea makes this transition to an industrialized country it faces two main policy challenges. During the 1980s Korea made substantial progress in trade liberalization — with the exception of agricultural products and services. These are areas where import restrictions are now being relaxed. For agricultural imports, the ratio of restricted items was reduced from about 20 percent in 1990 to 8 percent at end-1994, and the ban on rice imports is to be lifted in 1995. While the continued liberalization of agricultural imports will be difficult because of the historical importance accorded to food self-sufficiency, recent policy measures, such as the commitment to permit rice imports, are encouraging. Further liberalization of the services sector is also planned. With the relaxation of restrictions in 1993 on foreign direct investment, the ratio of liberalized services sectors is to rise from 63 percent to 87 percent over 1993-97.

The financial sector is the other area in which further liberalization is important. Korea's financial sector has historically been used as an instrument of industrial policy through the use of directed credits and controlled interest rates. However, with the growing complexity of the Korean economy and the need to restructure the industrial sector, continuing reliance on administrative measures — such as window guidance in setting interest rates and credit allocation through policy loans — imposed significant efficiency costs. The government announced a gradual program of interest rate deregulation in 1991, of which the first phase, covering about 10 percent of lending and deposit rates, was completed in June 1992. By this time, the need for a comprehensive financial sector reform program was evident, and a blueprint for financial sector liberalization was announced in June-July 1993. Implementation of this reform program has begun and is on track. Completion of the second phase of interest rate liberalization on schedule in November 1993 means that most lending and deposit rates in the Korean financial sector are now market determined. In August 1993 the authorities introduced the real-name system, which prohibits the hitherto widespread practice of using false names in financial transactions, and despite fears of dislocation, these reforms have been smoothly implemented. Finally, the liberalization of the Korean capital market and its integration with global markets is to begin in 1995 with the progressive elimination of barriers to foreign portfolio investment and foreign borrowing by Korean businesses.

As democratization has progressed, the government has focused increasingly on addressing a widespread perception that the distribution of wealth, if not income, became considerably more skewed during the recent economic boom. This process is attributed mainly to "unearned" capital gains that have accompanied recent increases in land prices and the lack of an efficient tax system to capture the surplus.

Environmental issues, particularly air and water pollution and land degradation, also became more prominent during the 1980s. The government has responded by expanding the scope of environmental legislation and strengthening implementation. Although this has improved the framework for environmental management, there remain constraints in the areas of technical personnel, research and monitoring equipment, and policy-making expertise. Moreover, despite substantial investment in a well-maintained infrastructure network, economic growth has outstripped capacity in several areas — particularly in the transport sector and in water supply and sanitation.

Medium-Term Prospects

The medium-term prospects for the Korean economy are that the expansion of the economy will moderate somewhat from its current pace in response to concerns about overheating. GNP growth over 1995-97 is projected at 7 percent a year, underpinned by export growth of about 8 percent annually, and investment growth of about 6.5 percent, both substantially slower than in 1994. The share of investment to GDP — which peaked at over 40 percent in 1991 — is expected to remain at about 36 percent for 1995-97, only slightly higher than the national savings rate. The current account deficit, which has been shrinking in absolute terms and as a share of GDP since 1991, is expected to remain small over 1995-97. With the success of the recent stabilization efforts, consumer price inflation is anticipated to remain below 6 percent during this period.

External Debt

As a result of large current account surpluses in the late 1980s, Korea's external debt position improved substantially during the past decade. Between 1985 and 1993, the ratio of debt to GDP fell from 50 percent to less than 14 percent, and the share of debt service in exports fell from 27 percent to 8 percent. It is anticipated that these trends will continue, with the debt to GDP ratio falling to less than 9 percent, and the share of debt service in exports decreasing to about 5 percent, by 1997.

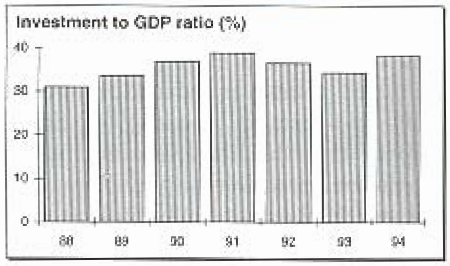
Republic of Korea

Population mid-1993 *(millions)* **44.1**
GNP per capita 1993 *(US$)* **7,660**

Income group: **Upper-middle**
Indebtedness level: **Less indebted**

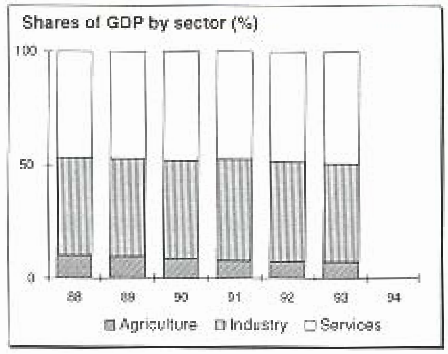
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	29.6	36.9	36.6	34.3	38.4
Exports of goods and nfs/GDP	34.1	29.8	28.9	29.4	27.9
Gross domestic savings/GDP	30.9	36.4	35.6	34.7	39.2
Gross national savings/GDP	27.5	35.8	35.0	34.3	33.7
Current account balance/GDP	-1.0	-0.9	-1.5	0.2	0.4
Interest payments/GDP	2.9	0.7	0.6	0.6	0.6
Total debt/GDP	50.0	13.8	14.3	14.3	14.2
Total debt/exports	142.4	45.2	48.4	47.6	49.2



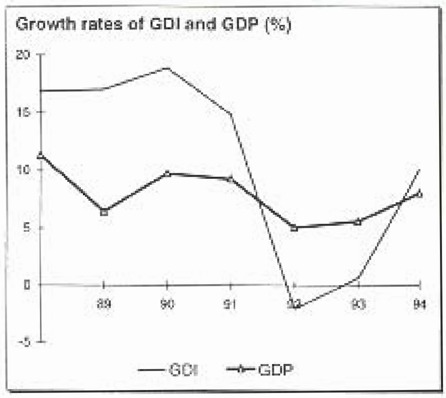
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	12.5	8.7	7.4	7.1	..
Industry	41.0	43.4	44.0	43.4	..
Manufacturing	29.3	29.2	27.8	26.9	..
Services	46.5	47.9	48.6	49.5	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.5	*1.8*	6.0	-2.4	..
Industry	12.6	*6.1*	3.4	5.4	..
Manufacturing	13.0	..	5.1	..	..
Services	10.1	*7.5*	6.4	7.0	..
GDP	10.1	6.6	5.0	5.6	8.0



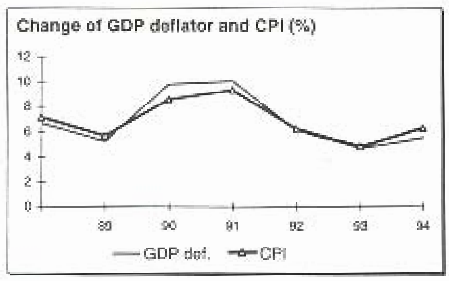
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	59.0	53.5	53.6	54.5	..
General government consumption	10.1	10.1	10.9	10.8	..
Gross domestic investment	29.6	36.9	36.6	34.3	38.4
Exports of goods and nfs	34.1	29.8	28.9	29.4	27.9
Imports of goods and nfs	32.8	30.3	29.9	29.0	27.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	10.1	*7.4*	5.8	6.3	..
General government consumption	7.6	*6.4*	7.6	2.9	..
Gross domestic investment	15.9	4.3	-2.1	0.6	10.0
Exports of goods and nfs	11.1	10.6	11.0	11.2	8.0
Imports of goods and nfs	16.1	8.6	5.1	6.7	6.5
Gross national product	10.7	6.7	5.0	5.6	8.3
Gross national income	11.9	6.8	4.9	6.0	8.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.5	8.6	6.2	4.8	6.3
Wholesale prices	0.9	4.2	2.2	1.5	2.7
Implicit GDP deflator	5.4	9.8	6.1	4.6	5.5
Government finance					
(% of GDP)					
Current budget balance	5.9	8.7	..	..	..
Overall surplus/deficit	0.7	3.1	..	..	..



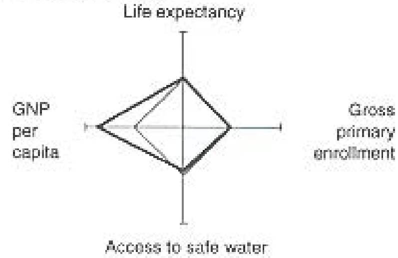
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.0	1.0
Labor force	2.1	1.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	71.3
Infant mortality *(per 1,000 live births)*	10.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	78.4
Energy consumption per capita *(kg oil equivalent)*	2,863.3
Illiteracy *(% of population age 15+)*	3.7
Gross primary enrollment *(% of school-age population)*	102.0

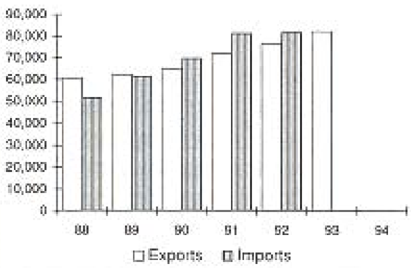
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	30,283	65,016	76,632	82,236	..
Clothing	..	7,879	6,770	6,166	..
Footwear	..	4,307	3,184	2,309	..
Manufactures	28,681	61,728	73,034	..	..
Total imports (cif)	31,136	69,844	81,775	..	..
Food	1,795	..	..	..	..
Fuel and energy	7,333	..	..	..	..
Capital goods	11,081	..	..	..	..
Export price index *(1987=100)*	72	111	126	132	..
Import price index *(1987=100)*	77	150	174	119	..
Terms of trade *(1987=100)*	94	74	72	111	..
Openness of economy *(trade/GDP,%)*	67	60	59	58	55

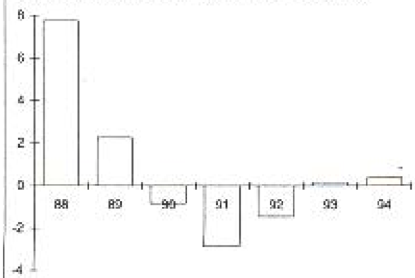
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	32,035	74,294	87,814	96,366	105,700
Imports of goods and nfs	30,555	76,278	92,010	95,733	103,600
Resource balance	1,480	-1,984	-4,196	633	2,100
Net factor income	-2,945	-463	-565	-740	-900
Net current transfers	0	266	257	633	200
Current account balance					
Before official transfers	-910	-2,181	-4,504	526	1,400
After official transfers	-887	-2,172	-4,529	384	1,400
Long-term capital inflow	3,831	2,172	8,169	12,167	12,640
Total other items (net)	-2,752	-1,208	84	-9,542	-13,908
Changes in net reserves	-192	1,208	-3,724	-3,009	-132
Memo:					
Reserves excluding gold *(mill. US$)*	2,869	14,793	17,121	21,328	23,695
Reserves including gold *(mill. US$)*	2,972	14,916	17,228	21,455	23,820
Conversion rate *(local/US$)*	870.0	707.8	780.7	802.7	803.4

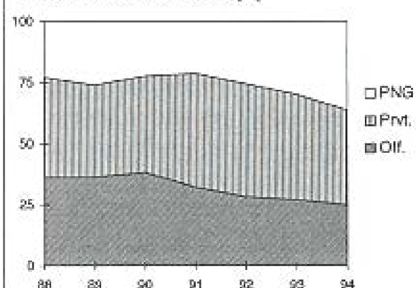
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	105.4	31.3	35.4	35.3	36.4
IMF credit/exports	4.6	0.0	0.0	0.0	0.0
Short-term debt/exports	32.4	14.0	13.1	12.3	12.8
Total debt service/exports	27.3	10.7	7.6	9.2	8.2
GDP ratios					
Long-term debt/GDP	37.0	9.5	10.5	10.6	10.5
IMF credit/GDP	1.6	0.0	0.0	0.0	0.0
Short-term debt/GDP	11.4	4.3	3.9	3.7	3.7
Long-term debt ratios					
Private nonguaranteed/long-term	19.0	22.3	25.4	29.8	36.2
Public and publicly guaranteed					
Private creditors/long-term	52.1	39.3	46.4	43.2	39.0
Official creditors/long-term	28.9	38.3	28.2	26.9	24.8

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Kyrgyz Republic

The Kyrgyz Republic is a small, mountainous, landlocked Central Asian country of 200,000 square kilometers that was among the first former Soviet countries to embark on stabilization and structural reform programs. It has a population of 4.3 million and is among the poorest states of the former Soviet Union, with an estimated 1993 per capita income of $850. The country, bounded by two mountain ranges, has limited natural resources, largely gold and some base minerals. There is also considerable hydroelectric potential, and the country has become a net exporter of peak electrical energy, despite its almost complete dependence on imported petroleum. About 7 percent of its land is arable, and about 40 percent of the mountainous terrain is used as pasture for sheep and cattle ranches, the primary traditional economic activity. The Kyrgyz Republic's comparative advantage over the medium term is likely to lie in developing its agricultural sector and related agroprocessing activities, which account for more than 40 percent of GDP and employment.

The Kyrgyz Republic has faced highly adverse circumstances since its independence. The dissolution of the Soviet Union resulted in the termination of fiscal transfers from Moscow, which until 1991 accounted for about 11 percent of GDP. In addition, the Kyrgyz Republic's terms of trade deteriorated by about 40 percent over the past two years, primarily because of large increases in import prices of oil and natural gas. This, in addition to the disruption of the inter-republican trade and payments system, led to a drastic decline in the volume of trade to about 40 percent of its level in 1990 and contributed to major declines in output. Since 1990 real output has declined by 45 percent in agriculture and by more than 60 percent in industry.

The government has focused since independence on eliminating the distortions of the command economy and reducing the role of the state. Considerable progress has been made. Directly administered prices have largely been liberalized. External trade is now free of major restrictions, except for export taxes on four major commodities, which the government is planning to remove. The foreign exchange regime is now fully liberalized, with no restrictions on current and capital account transactions. Interest rates have also been liberalized. Privatization was initiated early in the reform process, and enterprise restructuring is under way. The state is reducing direct involvement in economic activity, particularly trade, domestic procurement, and distribution. Stabilization efforts have curbed inflation, strengthened the currency, and imposed some financial discipline on banks and enterprises.

Although policy-induced distortions and barriers to private-sector activity have been essentially eliminated, economic activity has continued to decline. Output fell 26.5 percent in 1994, and the private sector has been slow to emerge, even in areas where the state has withdrawn. Although substantial poverty existed under the Soviet system, recent data suggest that the distribution of incomes and expenditures has widened significantly. A 1993 survey found that 40 percent of households lived in poverty, with 19 percent classified as very poor. The sharp output decline in 1994 suggests a further deterioration of living standards. This precipitous decline in living standards resulted in some social discontent and put the government under increasing political pressure. In September 1994 the parliament was dissolved and the cabinet resigned. The government functioned in a caretaker capacity until after the February and March 1995 parliamentary elections and runoffs; parliament convened in late March. The new parliament is bicameral, with one chamber of professional parliamentarians in permanent session.

Recent Economic Developments

In early 1993 the government left the ruble zone and introduced its own national currency, the som. This enabled the republic to proceed with an ambitious stabilization program. In May 1993 it became the first former Soviet country to negotiate a standby arrangement with access to the Systemic Transformation Facility with the IMF. Implementation of the program through November 1994 had mixed results; however, by the end of 1993 the central bank had regained monetary control and the authorities began a stringent monetary program. In May

1994 the government's renewed stabilization efforts were formalized under a three-year Extended Structural Adjustment Facility with the IMF.

The government's program is premised on financial stabilization led by tight money but supported by a strong revenue enhancement effort. Developments since the adoption of the program suggest that financial stabilization is taking hold, with inflation declining more rapidly than envisaged in the program. Underlying inflation now appears to be around 2 to 3 percent a month, down from 15 percent a month in the first quarter of 1994. The som has stabilized, and real interest rates, which initially surged to around 200 percent over June-September 1994, appear to be sticking around 50 percent.

The central bank has increased its monetary and supervisory control over the financial system. A few good, albeit small, banks are emerging to lend to the new private sector and viable state enterprises, but a comprehensive financial-sector adjustment is not yet in place to strengthen the infrastructure for banking, deal with nonperforming loans, and restructure and privatize the financially troubled state-owned banks.

Despite the rapid pace of the privatization program in 1992, the process focused primarily on privatization through collectivization, and failed to fully spur effective private ownership and governance. In early 1994 the government substantially revised its privatization strategy to provide for divestiture of shares in previously privatized enterprises through cash and coupon auctions, and privatization of medium and large enterprises through competing privatization proposals. It has improved privatization methods by mandating that at least 25 percent of enterprise shares be auctioned against privatization coupons and no more than 5 percent be transferred free of charge to workers.

In 1994 the government also adopted a more active approach to dealing with nonviable enterprises. An insolvency law seeks to impose financial discipline on state debts, improve corporate governance of state enterprises that temporarily remain in the state sector, and restructure and liquidate large loss-making enterprises to reduce their burden on the economy and the threat they pose to stabilization. The Enterprise Restructuring and Resolution Agency was established in May 1994 and has isolated 29 loss-making enterprises from the banking system until it can liquidate or restructure them, based on diagnostic studies. Most of the enterprises have been put under a care and maintenance program pending viability assessments. In most cases, workers have been placed on leave and production has stopped. As a temporary measure, pending decisions on restructuring and liquidations, the agency receives budgetary funds to finance the wage bill, employee social services, and care and maintenance costs.

The government renewed its effort in the agriculture sector in early 1994 with a presidential decree providing for leasing agricultural lands for 49 years, the right to sell and inherit land leases, and provisions to use leases as collateral. Nevertheless, the overall reform program has not yet addressed adjustment of agricultural production and marketing policies. The program is afflicted by lack of transparency in distributing assets, unclear leasehold rights, lack of support services, and the continued role of state conglomerates in inputs, procurement, and distribution channels.

The fiscal stringency required for stabilization has had a severe effect on the availability of cash benefits and social services, compounded by the devolution of responsibilities for and divestiture of social assets to local levels. The government has established separate social assistance and social insurance programs and moved toward better benefit provision. It has also attempted to improve targeting to vulnerable groups by eliminating the universal subsidy, introducing cash compensation payments to groups such as pensioners, and establishing a system to support the unemployed through rationalization and simplification of benefits and increased employer contributions.

Medium-Term Prospects

The primary objectives of the government's medium-term program are to consolidate gains under the stabilization and adjustment program; lay the legal, institutional, and regulatory framework for renewed growth; maintain an adequate social safety net; and alleviate rural poverty. Despite substantial progress in the reform effort, economic activity has continued to decline, and Kyrgyz policymakers are now faced with the challenge of stimulating a sustainable output recovery without compromising achievements on the stabilization front.

The medium-term framework for 1995-98 envisages a gradual path of output recovery. Robust growth is not likely to be attained before 1997. The recovery, led by the agricultural sector, would restore yields to pre-1994 levels by improving marketing and input channels and effective crop-financing schemes. Output recovery also implies orderly implementation of the land reform and farm restructuring program. As the recently introduced liberalization measures are diffused throughout the economy, new private firms should expand and fill the vacuum created by the collapse of the state-dominated marketing system. This process should be bolstered by dismantling and demonopolizing the procurement, distribution, and agroprocessing parastatals. The enterprise restructuring exercise, now under way, should also lead to some recovery in industrial output, particularly in agroprocessing. As nonviable enterprises are phased out of the system, more resources should be freed for entrepreneurs, and restructured and privatized enterprises.

The Kyrgyz Republic will continue to require external financing. Preliminary projections indicate that the trade deficit will increase from about $120 million in 1994 to about $135 million in 1995, and remain at about $160 to $180 million over 1996-98. The expansion in the trade deficit in 1995 reflects a projected large increase in imports needed for economic recovery, which would still only partly reverse the drastic compression of imports in 1994. The rapid tightening of domestic credit in 1994 sharply reduced the economy's import absorption capacity. Absorptive capacity is expected to be partly restored in 1995 through gradual relaxation of domestic credit made possible by a further increase in demand for money. Export projections are conservative for 1995, but in subsequent years the growth in export volume is expected to be higher than the projected growth in real GDP.

The noninterest current account deficit (excluding official transfers) for 1995 is projected at about $180 million and is expected to decline to $170 million by 1998. External financing requirements on a disbursement basis, on the other hand, are estimated at $270 to $290 million during 1995-98. These requirements accommodated an anticipated sharp increase in external debt service from $17 million to around $80 to $90 million per year during the 1995-98 period.

External Debt

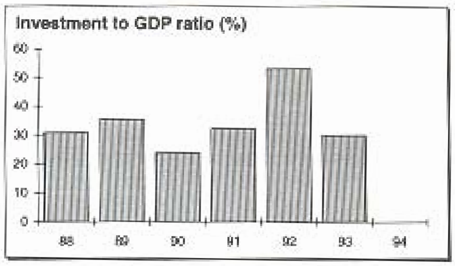
The Kyrgyz Republic's debt-service burden will increase more rapidly over the next two years than originally projected because of the conversion of about $170 million equivalent of ruble credits to nonconcessional dollar-denominated debt of relatively short maturities. The debt-service ratio will increase to 25 percent in 1995 and remain at around 20 percent over 1996-98.

Kyrgyz Republic

Population mid-1993 *(millions)*	**4.6**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**850**	Indebtedness level: **Less indebted**

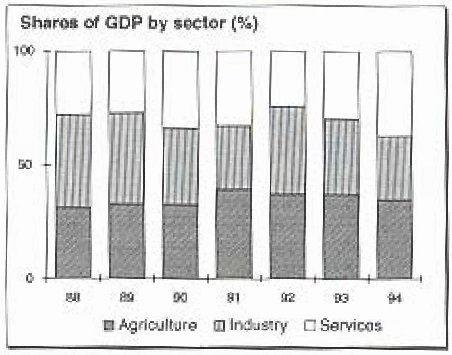
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	30.5	23.8	53.4	30.1	..
Exports of goods and nfs/GDP	..	31.0	34.5	31.4	..
Gross domestic savings/GDP	13.8	4.8	41.8	22.9	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-2.8	-4.0	-1.7
Interest payments/GDP	..	..	..	0.0	0.4
Total debt/GDP	..	..	..	8.1	14.3
Total debt/exports	..	..	..	92.0	120.0



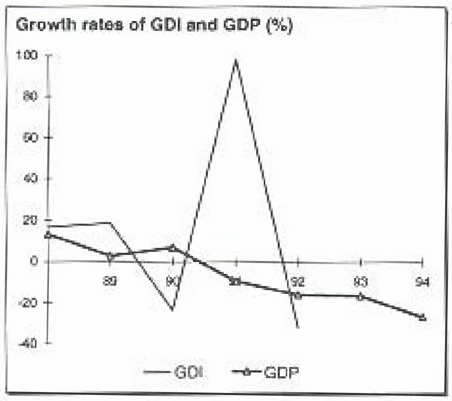
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.9	32.6	37.3	37.0	34.7
Industry	41.5	33.3	38.5	33.1	28.0
Manufacturing	..	26.2	34.7	27.6	23.8
Services	28.6	34.1	24.2	29.9	37.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.5	-10.9	-5.5	-8.7	-17.0
Industry	6.4	-22.0	-26.1	-25.0	-25.0
Manufacturing	..	..	..	..	..
Services	4.0	-16.9	-10.7	-13.6	-38.2
GDP	5.4	-16.9	-15.8	-16.3	-26.5



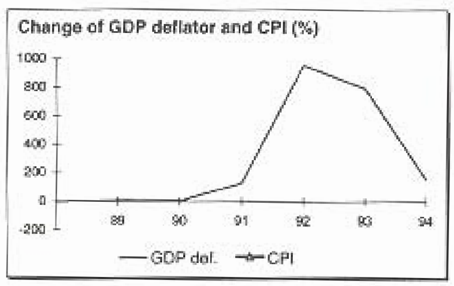
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	64.1	71.4	47.4	65.8	..
General government consumption	22.1	23.8	10.8	11.3	..
Gross domestic investment	30.5	23.8	53.4	30.1	..
Exports of goods and nfs	..	31.0	34.5	31.4	..
Imports of goods and nfs	..	50.0	46.1	38.5	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.0	..	-5.9	..	..
General government consumption	2.9	..	-31.8	..	..
Gross domestic investment	4.2	..	-32.1	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	5.4	-16.9	-15.8	-16.3	-26.5
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-10.3	4.8	951.7	792.2	155.5
Government finance					
(% of GDP)					
Current budget balance	..	0.1	-3.5	-14.6	-9.8
Overall surplus/deficit	..	..	..	..	..



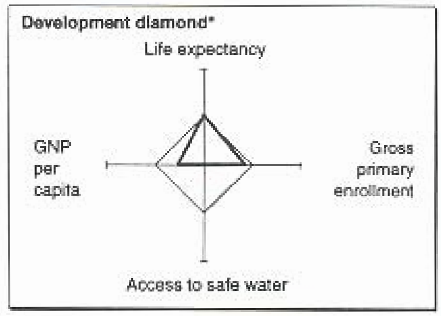
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Kyrgyz Republic

POVERTY and SOCIAL

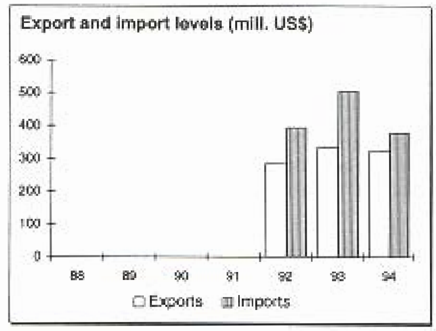
	1985-90	1990-94
(annual growth rates)		
Population	1.8	1.7
Labor force	1.6	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.1
Infant mortality *(per 1,000 live births)*	34.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	965.4
Illiteracy *(% of population age 15+)*	3.0
Gross primary enrollment *(% of school-age population)*	89.0



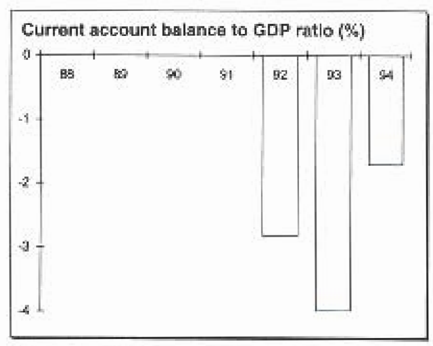
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	285	335	325
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	396	505	379
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	81	81	70	..



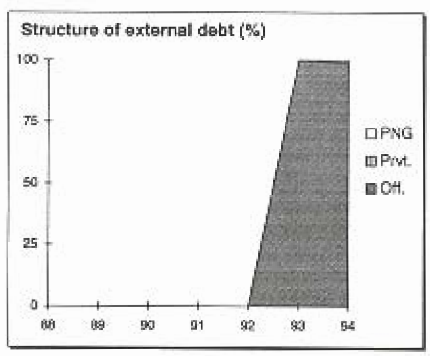
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	285	335	325
Imports of goods and nfs	..	..	400	505	379
Resource balance	..	..	-115	-170	-54
Net factor income	..	..	0	-7	-18
Net current transfers	..	..	-7	25	25
Current account balance					
Before official transfers	..	..	-123	-152	-47
After official transfers	..	..	-101	-152	-47
Long-term capital inflow	..	..	5	92	123
Total other items (net)	..	..	-32	33	-67
Changes in net reserves	..	..	127	27	-9
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	9.7E-03	7.5E-03	0.2	1.5	3.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	74.1	96.9
IMF credit/exports	..	..	..	18.0	23.1
Short-term debt/exports	..	..	..	0.0	0.0
Total debt service/exports	..	..	..	0.4	6.2
GDP ratios					
Long-term debt/GDP	..	..	..	6.5	11.6
IMF credit/GDP	..	..	..	1.6	2.8
Short-term debt/GDP	..	..	..	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	0.0	1.3
Official creditors/long-term	..	..	..	100.0	98.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Lao People's Democratic Republic

Since the New Economic Mechanism was initiated in 1986, the Lao People's Democratic Republic has achieved remarkable success in reorienting its economy away from central planning toward a market economy. The government initially freed virtually all prices, eliminated subsidies and protection of the state-owned sector, unified the exchange rate in close alignment with the market rate, and encouraged private domestic and foreign commercial activities in most spheres of the economy.

Smooth transformation has, however, been made difficult by the structural constraints imposed by the nature of the Lao economy. The country is landlocked, and its economy is characterized by subsistence agriculture, a weak human resource base, and a small exporting sector consisting mainly of natural products. The economy is still predominantly rural and agrarian, with over half of production and four-fifths of employment in agriculture, much of it at subsistence levels. Agricultural production remains vulnerable to adverse weather conditions.

The Laotian industrial sector is characterized by small-scale manufacturing, processing, construction, and assembly plants, producing mainly for local consumption. Heavy industry is virtually nonexistent. The industrial sector contributed an estimated 17.4 percent of GDP in 1993, a significant increase from 1988, when industry accounted for 11.2 percent. The manufacturing subsector remains small and not well diversified. Manufacturing accounted for 12.8 percent of GDP in 1993. With an output of around 919 million kilowatt hours in 1993, hydropower contributed 8 percent of Lao exports. This share is likely to increase substantially as planned power-generating facilities come on line over the next few years.

The Laotian services sector has undergone a significant transformation. Although its share of output in GDP has been fairly constant, the composition of services has shifted away from public services toward commercial services, largely privately provided. Value added in financial services has increased six-fold since 1988, and income generated in the hotel and restaurant sector has increased 23 times. Despite the gains in the economy, per capita income remains low at $280 in 1993, and the distribution of social services is further limited by weak national infrastructure. Over half of the national population lives in small and scattered villages without regular road transport, electricity, or health facilities.

Recent Economic Performance

The Lao economy has grown robustly and with remarkable macroeconomic stability since 1989. Although national income remains vulnerable to external shocks, real annual growth of the Lao economy between 1988 and 1993 averaged 7.5 percent. In 1994 real output growth accelerated to about 8.5 percent, led by a strong recovery in agricultural performance and continued buoyancy in manufacturing, construction, and services. Favorable weather conditions, strengthening public and private investment, and improved economic incentives contributed to sustained GDP growth.

During the adjustment following price liberalization in 1987, inflation peaked at 60 percent in 1989, fell to 13.4 percent in 1991, and gradually stabilized at 6.3 percent in 1993 and 6.7 percent in 1994. This success is due largely to better monetary controls and exchange rate policies that have helped restore confidence in the currency and the banking system. The establishment of a two-tier banking system and a high real interest policy attracted savings and fostered a rapidly expanding market for banking services. Reserve requirements were introduced in September 1990, foreign reserves were transferred to the central bank, and the Bank of Lao began issuing interest-bearing securities for open market operations. In 1994 the Bank of Lao commenced treasury bill auctions on a regular basis and introduced a discount facility that should contribute to liquidity management through open market operations and the development of an interbank money market.

Since the unification of the previous system of multiple exchange rates in 1988, the authorities have adjusted the official rate to move closely in line with the officially tolerated parallel market. Over this period, the nominal exchange rate of the kip against the dollar has depreciated by about 90 percent but has been remarkably stable since 1990. Following declines in the inflation of major trading partners, the Lao kip has continued to appreciate in real terms (by about 53 percent since

1988), reflecting increased foreign exchange inflows resulting from foreign investment, aid, and repatriated capital as confidence in government policies has grown. This appreciation has not adversely affected external competitiveness, mainly because of productivity gains associated with past trade and payments liberalization efforts.

Prudent fiscal policies have also been critical to the stabilization program. While the government remains dependent on foreign assistance to finance the fiscal deficit, the tax base has been both broadened and deepened, and nonessential government expenditures have been pared down. Between 1990 and fiscal 1993 the overall fiscal deficit (excluding foreign grants) was reduced from 14.4 percent to 7.4 percent of GDP, with revenue enhancement accounting for about one-third of this improvement. In 1993 the government began a program of tariff rationalization, restructured timber royalties, implemented a minimum corporate income tax, and passed property and land tax legislation to further strengthen revenue mobilization. However, increases in capital expenditure, together with shortfalls in receipts from timber royalties and lapses in tax administration, contributed to a significant increase in the overall deficit to 11 percent of GDP in fiscal 1994.

Government efforts to attract foreign investment have proven successful. Since the Foreign Investment Law was implemented in 1989, the government has issued about $500 million in investment licenses, of which an estimated $130 million has been realized. In 1993 alone, new licenses representing $126 million of investment were issued. The industries attracting the largest share of foreign investment licenses in 1993 were hotels and tourism (19 percent), mining and petroleum (14 percent), and manufacturing (15 percent). Thai investment represents the largest share (40 percent), followed by the United States (17 percent), Australia (6 percent), and China (5 percent).

Between 1988 and fiscal 1993 merchandise exports increased by 53 percent, while imports grew 44 percent, resulting in a reduction in the trade deficit from 18 percent to 12 percent of GDP and in the external current account deficit from 17 percent of GDP to 9.7 percent. In 1994 the balance of payments weakened due to excess demand pressures. A marked increase in imports was brought about mainly by strong investment demand fueled by official financing and foreign direct investment. Although exports continued to grow vigorously, the current account deficit significantly widened to 12.5 percent of GDP. In 1993 the contribution of traditional exports of wood and hydroelectric power to overall exports was 31 percent (from 57 percent in 1990), whereas garments and motorbike assembly contributed 30 percent in 1993 (from 12 percent in 1990). However, the country faces garment export quotas imposed by the United States and Canada that are constraining exports, and this is an issue of growing concern for exporters.

While the Lao trade regime is generally outward oriented and shows a high ratio of imports to GDP, trade policy has been characterized by a lack of transparency and significant government intervention. Nontariff barriers have been widespread in the form of quantitative restrictions, duty payment "conventions" between the government and private importers, and a transport monopoly governing transit trade through Thailand. However, the government showed its commitment to significant liberalization of the trade regime in early 1995 by approving a reduction in the number of tariff bands, lowering the maximum tariff rate, terminating the practice of special conventions, and improving overall customs administration.

While the government has remained fully committed to extending and implementing its reform program, the nature of required reforms has shifted. From the early efforts to rectify government intervention through price liberalization and freeing markets to permit wider competition, the thrust of current adjustment measures — rebuilding the financial system, developing a professional civil service, completing privatization of public enterprises, and constructing a modern legal system — requires basic institutional capacity and skills development. This latter stage of adjustment by its nature requires more time, particularly in light of prevailing human resource constraints. The principal economic policy challenge facing the government is to improve domestic resource mobilization and strengthen the institutional basis for sound public administration and market functioning.

The gradual transfer of state-owned enterprises to the private sector has been one of the cornerstones of economic reforms. Since 1990 the authorities have divested a substantial share of state-owned enterprises, mostly through leasing but increasingly through outright sales, joint ventures, and liquidation. It has not yet, however, established clear and transparent procedures for privatizing the remaining state-owned assets, developing a list of strategic enterprises to be retained under public control, and phasing out leases in favor of full private ownership.

A slowdown in the pace of economic reform has revealed the strains on public sector management posed by reorientation towards a market economy. The scarcity of trained personnel constitutes a major bottleneck inhibiting the capacity for clear policy planning and efficient government services.

Poverty and the Environment

Poverty is widespread and chronic, particularly in rural areas. Literacy rates are still low and life expectancy is about 50 years; the availability of social and economic infrastructure is thin. A poverty assessment in early 1995 showed comparatively equal distribution of per capita income, but pointed to a possibility of rising income disparities as the growth process becomes less balanced. Public-sector reform adversely affected mostly urban groups. An estimated 20 percent of civil servants and 10 percent of state enterprise employees have been retrenched since the adjustment program began, although the impact of this retrenchment on the urban unemployment rate of around 3 percent has been modest.

In addition to stressing poverty alleviation, there is mounting government concern over environmental issues, particularly deforestation and the consequences it has for soil erosion, rainfall patterns, and agricultural productivity. Clearing of forest lands is mainly for timber export, although shifting cultivation practices contribute to the problem. Since the mid-1980s the rate of deforestation has become unsustainable as local governments relied on timber sales to raise revenues and the ban on logging in Thailand created more lucrative export opportunities for timber. A program for forestry conservation and management resources stressing local community rights was launched in 1994 to address these concerns. Ecological problems are further compounded by the absence of an adequate, or enforced, land-use policy, and the growing population pressure driving expansion of cultivated land area. The government issued a national environmental action plan in 1994.

Medium-Term Prospects

Laotian economic policy aims at building the foundations of broad-based and sustainable economic growth while promoting human resource development. The government's objectives are to position the private sector to be a stronger driving force in the economy and to promote exports vigorously, strengthen domestic resource mobilization efforts through tax and financial reforms, create improved macroeconomic management instruments and strengthen policy planning and implementation capacity, and coordinate and improve the efficiency of foreign aid inflows.

The government aims to achieve an ambitious 7 percent real annual average growth rate over fiscal 1995-97. Reducing the fiscal deficit, primarily through resource mobilization efforts and maintaining price stability are the two key components of the government's macroeconomic policy. To maintain the current account budget surplus will call for fiscal consolidation to enhance the certainty of revenue performance and adjustment of public employment and pay scales in the light of fiscal realities. Revising fiscal practices and the strengthening of the Treasury are receiving additional emphasis through IMF technical assistance.

The government aims to limit consumer price inflation to 5 percent in 1995 and reduce it to 4 percent by 1997, which would be in line with inflation in its major trading partners. Control of domestic credit will be pursued largely through indirect policy instruments rather than quantitative ceilings. Interest rates are to be completely liberalized in 1995. Treasury bill auctions and the fledgling secondary market will pave the way for eventual open market operations. These policies, together with cautious demand management, will also help maintain a stable nominal exchange rate in line with market developments.

Achieving the planned 1995-97 growth rates will require a high level of capital goods imports. Foreign lending and assistance will continue to finance a large share of this, but export earnings will need to provide an increasing share of import financing to sustain external viability. Exports are expected to grow by a more modest 8 percent a year over the next three years as wood and electricity exports stagnate, but to increase by over 10 percent annually for the rest of the decade as nontraditional exports assume greater importance. Hydropower is also expected to contribute to this growth, as output is expected to triple as new projects come on line after 1998. The government aims to reduce its external current account deficit to about 11.5 percent of GDP by 1997.

External Debt

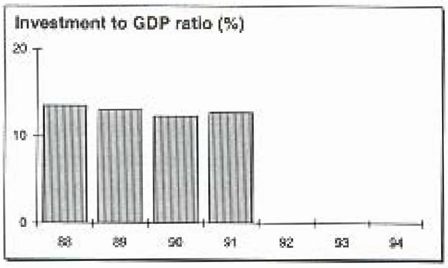
The Lao government finances a significant share of investment out of foreign assistance and borrowing. Debt service requirements were quite modest in 1994 at 4 percent of export earnings, as its debt is on highly concessional terms. The debt service ratio is projected to remain in the range of 8 to 10 percent over the next several years. In recent years, total debt rose relative to GDP, as net official borrowing averaged 5 percent of GDP over 1989-92. Debt to the nonconvertible area (of which 90 percent is owed to the former Soviet Union) stood at 880 million rubles at end-1993 and has been rescheduled to 2000.

Lao People's Democratic Republic

Population mid-1993 *(millions)*	**4.6**	Income group: **Low**
GNP per capita 1993 *(US$)*	**280**	Indebtedness level: **Severely indebted**

KEY RATIOS

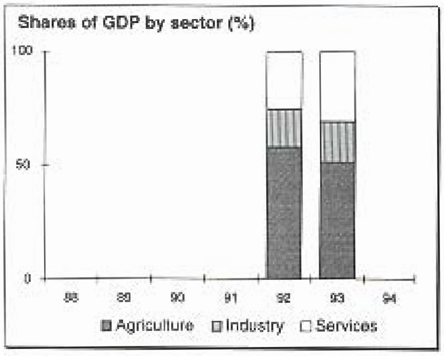
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	7.0	12.3	..	..	..
Exports of goods and nfs/GDP	4.1	11.3	16.2	21.4	..
Gross domestic savings/GDP	1.3	-0.8	..	..	..
Gross national savings/GDP	..	0.4	..	..	..
Current account balance/GDP	-4.1	-11.7	-8.8	-8.8	-8.5
Interest payments/GDP	0.0	0.3	0.3	0.3	0.3
Total debt/GDP	26.1	203.7	161.8	148.9	133.7
Total debt/exports	1,073.4	1,690.5	978.1	679.7	792.3



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	58.1	51.3	..
Industry	..	..	16.7	18.2	..
Manufacturing	..	..	12.6	13.4	..
Services	..	..	25.2	30.5	..

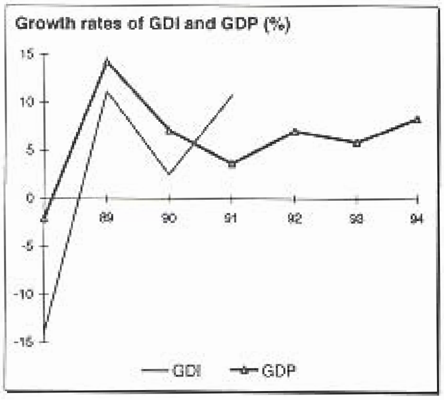
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	3.9	6.2	7.0	5.9	8.3



GDP: EXPENDITURE

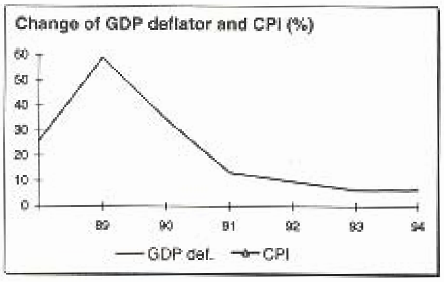
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	89.9	90.8	..	..	..
General government consumption	8.8	10.0	..	..	..
Gross domestic investment	7.0	12.3	..	..	..
Exports of goods and nfs	4.1	11.3	16.2	21.4	..
Imports of goods and nfs	9.7	24.4	25.8	31.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	5.6	..	..	..	..
General government consumption	-9.1	..	..	..	..
Gross domestic investment	-2.0	..	..	..	..
Exports of goods and nfs	9.3	8.3	34.3	12.4	-19.3
Imports of goods and nfs	6.1	7.2	8.6	10.0	11.7
Gross national product	3.9	6.2	7.0	5.9	8.3
Gross national income	3.6	*5.9*	6.7	6.5	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	65.0	34.6	9.8	6.3	6.7
Government finance					
(% of GDP)					
Current budget balance	-0.2	-1.4	-0.2	0.9	
Overall surplus/deficit	-6.7	-13.4	-9.9	..	



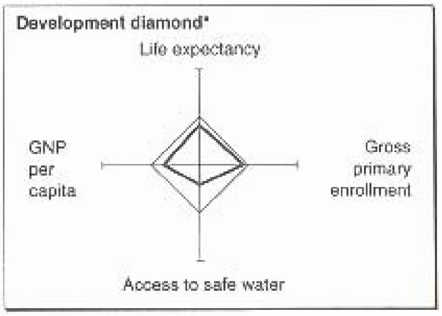
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Lao People's Democratic Republic

POVERTY and SOCIAL

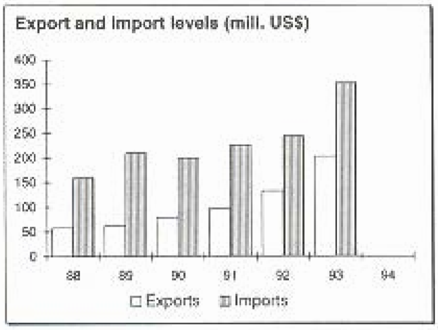
	1985-90	1990-94
(annual growth rates)		
Population	3.1	3.1
Labor force	2.1	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	46.1
Life expectancy at birth	51.5
Infant mortality *(per 1,000 live births)*	94.8
Child malnutrition *(% of children under 5)*	40.6
Access to safe water *(% of population)*	28.3
Energy consumption per capita *(kg oil equivalent)*	39.1
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	98.0



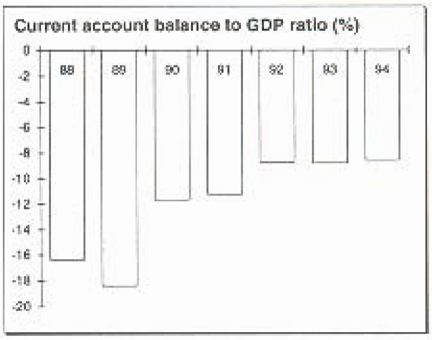
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	79	133	203	..
Timber	..	26	43	47	..
Other fuel	..	19	17	17	..
Manufactures	..	7	27	37	..
Total imports (cif)	..	200	244	353	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	14	36	42	52	..



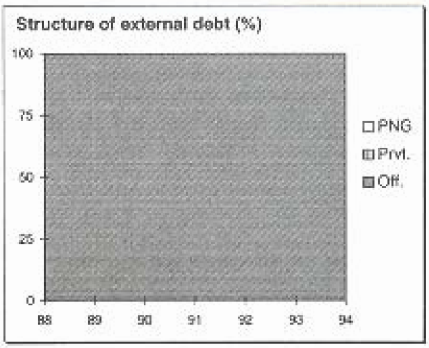
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	58	102	192	289	259
Imports of goods and nfs	138	214	304	420	400
Resource balance	-80	-111	-112	-130	-141
Net factor income	-18	-1	0	3	0
Net current transfers	0	11	9	10	10
Current account balance					
Before official transfers	-98	-102	-104	-117	-131
After official transfers	-51	-78	-41	-55	-68
Long-term capital inflow	45	97	72	97	-18
Total other items (net)	26	15	-16	-62	83
Changes in net reserves	-21	-34	-16	20	3
Memo:					
Reserves excluding gold *(mill. US$)*	25	61	86	154	..
Reserves including gold *(mill. US$)*	25	61	86	154	..
Conversion rate *(local/US$)*	45.0	708.6	716.0	716.0	719.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	1,051.9	1,680.4	962.7	667.0	777.6
IMF credit/exports	18.1	8.0	14.4	12.4	14.3
Short-term debt/exports	3.5	2.1	1.1	0.3	0.4
Total debt service/exports	12.2	8.6	4.9	9.8	8.9
GDP ratios					
Long-term debt/GDP	25.6	202.5	159.3	146.1	131.3
IMF credit/GDP	0.4	1.0	2.4	2.7	2.4
Short-term debt/GDP	0.1	0.3	0.2	0.1	0.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.6	0.0	0.0	0.0	0.0
Official creditors/long-term	99.4	100.0	100.0	100.0	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Latvia

The Republic of Latvia lies on the eastern coast of the Baltic Sea. It has a 500-kilometer coastline, along which lie the ice-free seaports of Ventspils, Liepaja, and Riga. Latvia has an area of about 64,600 square kilometers. A little less than half the country is arable. Woodlands cover almost 40 percent of its territory and are an important source of timber. Latvia has few other natural resources and imports all of its natural gas and oil and half its electricity needs. Latvia has a population of 2.6 million people, of whom nearly a third live in Riga. Per capita GNP was estimated at $2,030 in 1993.

Latvia's aspiration to re-integrate into Europe has driven its economic reform program. This aspiration has provided a large degree of consensus and has allowed Latvia to move ahead on stabilization and the transition to a market economy. Inflation has declined steadily, and there have been significant achievements in key areas of structural adjustment. The fall in real GDP in 1992 and 1993 was arrested in 1994, and the economy is expected to experience positive growth in 1995.

Recent Economic Developments

Latvia launched a stabilization program in 1992 with support from the IMF and introduced its new currency, the lat, in 1993. This allowed the country to pursue an independent monetary policy and reap the benefits of a prudent fiscal policy. Under a floating exchange rate regime, an open trade regime also contributed to stabilization. As a result, annual inflation dropped from 950 percent in 1992 to 36 percent in 1994.

The current account of the balance of payments has strengthened due to the performance of service exports, most notably shipping. The exchange rate is market determined, and the lat has been pegged to the SDR since February 1994 to limit short-term fluctuations against convertible currencies. In response to continued foreign exchange inflows, the Bank of Latvia has pursued a tight credit policy to minimize liquidity growth in the economy.

Progress in key areas of structural adjustment has been significant. Prices have been liberalized, the trade regime has been opened, and privatization of small businesses, agricultural land, and banking institutions is well advanced. The government aims to reform the social safety net, focusing on social benefits aimed at lower-income groups through better means testing.

Latvia initially introduced a liberal trade regime with low and uniform tariffs and almost no nontariff barriers. With the exchange rate appreciation that followed stabilization, and a sharp increase in imports of food products, high tariffs were imposed on imports of agricultural products to protect domestic producers. However, in the new tariff law presented to parliament in October 1994, most specific rates were converted to ad valorem rates. Although political pressure to protect producers of agricultural commodities persists, reformers in the government continue to argue that, as a small open economy, Latvia stands to gain from a liberal trade system.

The privatization process is well advanced in the agriculture sector. By early 1994 more than half of Latvia's agricultural land had been privatized, and laws passed governing privatization of agroprocessing industries such as milk, meat, and grain. The privatization of municipality-owned small enterprises, mainly in the service and trade sectors, has also progressed significantly. As with industrial enterprises, privatization of large scale agroprocessing enterprises has been rather sluggish. However, with the establishment of the Privatization Agency, privatization of large enterprises has accelerated recently.

Until recently, efforts at promoting the private sector had progressed at a slow pace. In mid-1993 a business support center to train businessmen and provide information on financing and marketing was opened in Riga. The government has established the Latvian Development Agency as a one-stop shop that provides foreign private investors easy access to advisory services on laws, regulations, local business conditions, and investment opportunities. Recent progress has also been observed in demonopolization. Price and tariff boards have been created to control natural monopolies, particularly in energy and telecommunications. With the legal framework in place, private-sector involvement in the economy is expected to increase substantially in the near future.

The Bank of Latvia has established a record of independence and has substantially expanded its supervisory capabilities. In parallel, privatization of the second tier of the banking system has progressed rapidly. Interest rates have fallen sharply over the last six months, partly due to the ending of opportunities for traders to buy metals and commodities in the East and selling them in the West at high profit margins.

Latvia's official unemployment rate was 6.5 percent in 1994 and is likely to increase as large state-owned enterprises are privatized or restructured. The government is developing unemployment insurance and labor market services to support the necessary reallocation of labor. Latvia has a comprehensive set of transfer mechanisms to protect the most vulnerable groups. The main area in which progress has been slower than anticipated is the development of means testing in social assistance programs.

A new pension law is being drafted to separate pension accounts from the central government budget, and gradually introduce a multitier pension system. The new system envisages the separation of basic provisions from earnings-related provisions, the introduction of funded benefits, and a gradual increase in the retirement age.

Medium-Term Prospects

The most likely scenario is the continuation of the present policy performance, with a commitment to economic stabilization, as demonstrated by a solid track record of fiscal moderation and independent monetary policy, and a coherent structural reform program with visible progress in privatization. Under this scenario, GDP could rise by about 4.5 percent a year for the remainder of the decade. In the short run, the increase in investment necessary to sustain growth entails a surge in the import of capital goods, raising import growth above the rate of expansion of exports. As a result, the current account is projected to show a deficit of about 4.3 percent of GDP in 1995-96 and to gradually decline thereafter.

External Debt

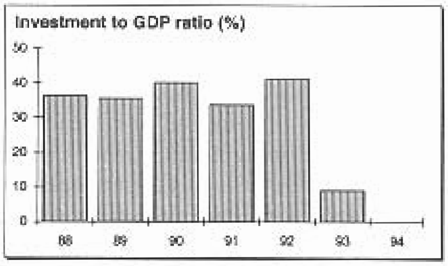
Latvia's external debt, currently around 14 percent of GDP, is expected to peak at 25 percent in the year 2000 and gradually decline thereafter. Debt service payments in terms of merchandise exports are expected to increase from 2.4 percent in 1994 to 6.1 percent by 1999 but should increase thereafter. Under this scenario, external financing requirements would amount to about $320 million annually on a disbursement basis over 1995-99. Assuming that bilateral credits remain at or about the current nominal levels, foreign direct investment and commercial credits are projected to account for over two-thirds of Latvia's external financing. The resulting $50 million average financing gap would need to be bridged by multilateral institutions.

Latvia

Population mid-1993 *(millions)*	**2.6**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**2,010**	Indebtedness level:	**Less indebted**

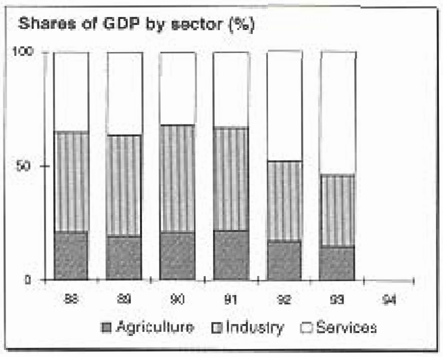
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	35.4	40.1	41.2	9.0	..
Exports of goods and nfs/GDP	..	47.7	79.9	72.1	..
Gross domestic savings/GDP	35.3	38.8	48.1	25.0	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-0.7	1.8	-2.7
Interest payments/GDP	..	..	0.0	0.1	0.1
Total debt/GDP	..	..	0.9	4.1	7.1
Total debt/exports	..	..	5.8	18.1	32.6



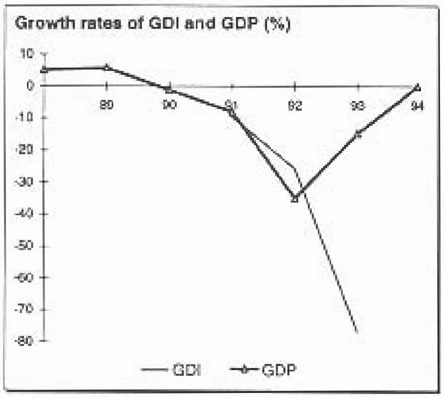
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.8	21.1	17.2	14.9	..
Industry	43.9	47.0	35.3	31.5	..
Manufacturing	37.1	34.5	28.2	21.8	..
Services	35.3	32.0	47.5	53.6	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.4	*-19.1*	-30.1	-18.8	..
Industry	5.7	*-35.7*	-50.1	-36.8	..
Manufacturing	3.2	*-33.4*	-49.5	-36.3	..
Services	3.0	*-8.0*	-15.4	7.2	..
GDP	3.6	-17.7	-35.0	-14.9	0.0



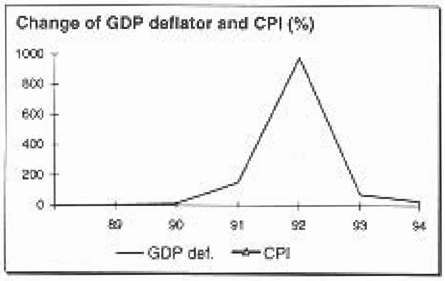
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	53.3	52.7	39.4	53.2	..
General government consumption	11.4	8.6	12.5	21.8	..
Gross domestic investment	35.4	40.1	41.2	9.0	..
Exports of goods and nfs	..	47.7	79.9	72.1	..
Imports of goods and nfs	..	49.0	73.1	56.1	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	*-27.2*	-60.5	48.1	..
General government consumption	..	*1.2*	5.6	1.6	..
Gross domestic investment	..	*-44.4*	-25.7	-76.7	..
Exports of goods and nfs	..	*-12.8*	14.9	-22.4	..
Imports of goods and nfs	..	*-25.6*	8.0	-39.8	..
Gross national product	3.6	-17.7	-35.0	-14.9	0.0
Gross national income	..	*-25.7*	-43.5	-18.3	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-2.3	15.6	977.8	74.2	30.0
Government finance					
(% of GDP)					
Current budget balance	..	..	1.5	2.1	-0.6
Overall surplus/deficit	..	..	0.0	1.0	-1.7

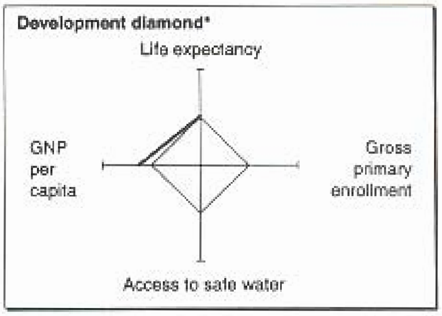


Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

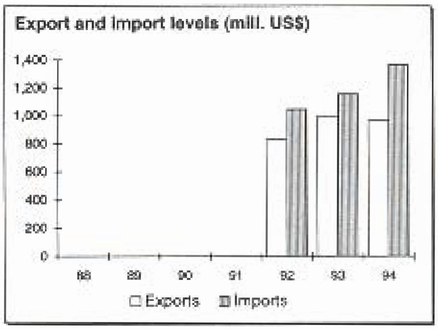
	1985-90	1990-94
(annual growth rates)		
Population	0.4	-0.8
Labor force	0.2	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.0
Infant mortality *(per 1,000 live births)*	14.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	1,717.3
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



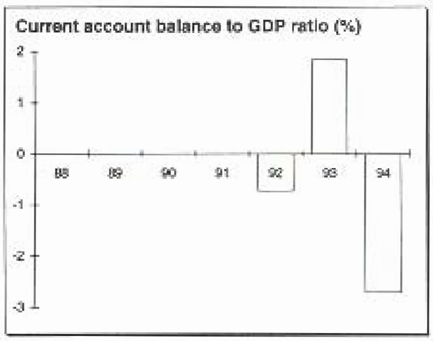
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	831	998	967
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	1,046	1,159	1,367
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	97	153	128	..



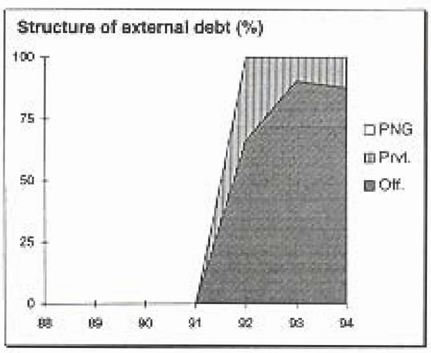
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	1,019	1,236	1,263
Imports of goods and nfs	..	..	1,088	1,201	1,416
Resource balance	..	..	-69	35	-153
Net factor income	..	..	20	37	-30
Net current transfers	..	..	0	31	25
Current account balance					
Before official transfers	..	..	-49	103	-158
After official transfers	..	..	24	150	-119
Long-term capital inflow	..	..	76	187	273
Total other items (net)	..	..	-22	-14	-15
Changes in net reserves	..	..	-78	-323	-139
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	..	0.1	0.3	0.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	2.5	9.3	20.0
IMF credit/exports	..	..	3.3	8.4	12.2
Short-term debt/exports	..	..	0.0	0.4	0.4
Total debt service/exports	..	..	0.0	0.8	1.7
GDP ratios					
Long-term debt/GDP	..	..	0.4	2.1	4.3
IMF credit/GDP	..	..	0.5	1.9	2.6
Short-term debt/GDP	..	..	0.0	0.1	0.1
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	33.8	9.9	12.7
Official creditors/long-term	..	..	66.2	90.1	87.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Lebanon

Lebanon, a prosperous upper-middle-income country in the mid-1970s, has been devastated by 15 years of violent civil strife and military occupation that destroyed much of its infrastructure and productive assets and dislocated its human capital. The reconstruction of the Lebanese economy is a daunting task, and is expected to take massive resource mobilization, capital investment, development of human resources, and rebuilding of institutions over a protracted period of time.

Endowed with an enterprising population and located on the trade route between Europe and the Middle East, but with no mineral resource base and land that is difficult to cultivate, the Lebanese economy had been oriented to services and light industry. Between 1950 and 1975 Lebanon's free-market economy expanded by about 6 percent a year, largely driven by the service sectors, which attracted business from neighboring oil-based economies. Traditionally an open economy characterized by a large external sector and unrestricted capital mobility, Lebanon had achieved export-oriented and private-sector-led growth by developing international banking, transit trade, and tourism, and, to a lesser extent, through exporting manufactured and agricultural products.

The civil war had a severe impact on Lebanon's socioeconomic conditions; total damage to physical assets was estimated by the United Nations at $25 billion. All principal sectors of the Lebanese economy — physical and social infrastructure, office and factory buildings, and housing — were affected. Damage is both a direct result of the war and of the accumulated effects of a near-total disruption in capital investment and maintenance. Lebanon's per capita GNP, about $820 in 1990, was only about one-third of the 1975 level in real terms, and income inequalities have been accentuated.

The impact of the civil war on social conditions has been equally grave. The loss in human resources has been considerable; apart from the tragic loss of life and the disabling of hundreds of thousands of people, about 200,000 professional and skilled Lebanese have sought employment in other countries. While this has resulted in major shortages of skilled workers in various sectors of the economy, unemployment nevertheless is believed to be high, particularly among urban youth. Nearly one-quarter of Lebanon's population of 3.6 million was displaced and now lives in unhealthy shanty towns and semidestroyed and vacated buildings, with severe overcrowding. Urban poverty problems are especially pressing in Beirut. Public and social services are either nonexistent or of poor quality, with only about one-third of power capacity operating, water treatment and sewerage virtually nonexistent, and most schools and hospitals damaged.

Recent Economic Developments

Since the cessation of violent conflict in 1990, the government has attempted to normalize economic conditions and restart the economy by arresting the vicious circle of high inflation and rapid currency depreciation. Government policies geared towards this goal met varying degrees of success over 1990-92, but developments since a new government took office in late 1992 are encouraging.

Following the end of hostilities subsequent to the 1989 Ta'if Accord for National Reconciliation, the economy began to recover. During 1991 activity took off in virtually every sector of the Lebanese economy, spurred by large inflows of private capital, and real GDP grew by about 40 percent, following sharp declines during 1989-90. At the same time inflation moderated and exchange rate stability was reestablished. These conditions were not sustainable beyond the short term without fiscal correction. Economic recovery and a real appreciation of the Lebanese pound resulting from large inflows of private capital led to a sharp surge in imports, which left the current account deficit at an unsustainably high level. The economic situation worsened in early 1992 as the fiscal deficit widened significantly after the government awarded a large retroactive increase in public-sector salaries. This triggered a large outflow of capital, including a switch from pound- to dollar-denominated assets, and put pressure on the exchange rate.

Despite the Banque du Liban's attempts to defend the pound, exchange rate depreciation and inflation accelerated throughout the first three quarters of 1992, affecting particularly the poorer segments of the population and contributing to a deceleration of real GDP growth.

The confidence inspired by the appointment of a new government in October 1992 triggered a significant inflow of capital, which reversed the depreciation of the pound and substantially reduced inflation. In addition, it enabled the central bank to replenish its reserves, and the government to switch from central bank credit to treasury bills to finance its large deficit. The current monetary and exchange rate policies, geared towards stabilizing the exchange rate through sterilized foreign exchange market intervention, have significant fiscal costs. The authorities consider this an unavoidable price for exchange rate stability, which is a prime policy objective. Interest payments on domestic debt, which stood at about 64 percent of GDP at the end of 1994, absorbed about 60 percent of total revenues in 1994. Nevertheless, the speculative nature of capital inflows suggests that stability will continue to be tenuous and underlines the importance of continuing the fiscal adjustment.

In 1993 the government took a number of revenue measures, including a new valuation method for real estate taxes and doubling power tariffs. In 1994 fees and charges were raised substantially and tax administration and revenue collection improved. Government revenues rose from 10 percent of GDP in 1992 to an estimated 15 percent in 1994. Expenditures were strictly controlled in 1993, but rose sharply in 1994 on account of the startup of reconstruction activity as well as wages and interest payments, reaching an estimated 34 percent of GDP. The overall fiscal deficit declined from an average of 17 percent over 1990-92 to an estimated 8 percent in 1993; it rose sharply again in 1994 to an estimated 19 percent of GDP. The deficits were mostly financed with treasury bills in the last two years. Narrow money declined by 5 percent in 1993, reflecting a cautious monetary policy, but rose by 35 percent as did broad money, including foreign currency deposits, in the 12 months to October 1994.

Investor confidence has continued in the last two years, evidenced by large capital inflows and appreciation of the exchange rate. Interest rates and the dollarization ratio — the ratio of foreign currency deposits to total deposits — declined significantly in 1994. Official reserves rose sharply in 1994, reaching the equivalent of about 9 months of imports in October. Inflation was stable at about 10 percent during much of 1993 and 1994 after declining from triple-digit levels in 1992.

Lebanon's external current account deficit is structurally very high, estimated at over 40 percent of GDP in recent years, financed in large part with capital inflows that are heavily concentrated in short-term domestic and foreign-currency liabilities. Given a low private saving rate, a large fiscal deficit due to expansion of current, as well as capital, expenditures, and a continuing real exchange rate appreciation resulting from the government's exchange-rate-based stabilization policy, and a monetary policy that is turning expansionary, Lebanon is very vulnerable to a sudden reversal of capital inflows. In addition, Lebanon's political situation remains fragile, and fiscal adjustment efforts this year will be made within the constraints set by an upcoming election. All these conditions indicate that unless Lebanon quickly and decisively reverses the fiscal trend, notwithstanding the election year, and sends clear signals to the markets of its firm commitment to fiscal adjustment, Lebanon will be susceptible to instability.

The government has initiated an ambitious National Emergency Recovery Program that envisages investments of $2.3 billion over 1993-96 aimed mainly at rehabilitating infrastructure. During 1993 significant initial progress was made in launching the reconstruction program and improving public services. At the same time, the confidence that was created with the appointment of a new government and the measures it took to reestablish economic stability triggered an initial recovery in private investment. In addition to the recovery program the government has prepared an expanded public investment program for 1993-2002 that aims at expanding capacity in infrastructure and social programs with greater participation of the private sector. The government has begun major initiatives to expand physical infrastructure through build-operate-transfer and other arrangements involving private capital.

With the destruction of much of the nation's infrastructure and productive assets and dislocation of the human capital after an extended civil war, the reconstruction of the Lebanese economy is a daunting task, and is expected to take massive resource mobilization, capital investment, and development of human resources, and rebuilding of institutions over a protracted period. The government's overall objective is to rebuild Lebanon's infrastructure from the devastation of war and bring about rapid economic recovery, relying heavily on private sector initiative, and reestablishing sustainable economic stability and a well-functioning administration, improve social conditions, and develop its human resource base. The government is committed to overcoming the dual, potentially conflicting, challenges of reconstruction and stabilization, and it envisages that this will bring about a rapid recovery of the economy while reducing poverty and unemployment.

The government envisages that reconstruction and development should be guided by private-sector initiatives as Lebanon's vigorous and dynamic private sector continues to be the country's main asset. However, in the initial stage of reconstruction, government involvement is considered crucial to its priority of restoring basic physical and social infrastructure. At the same time the government envisages that a major expansion of physical infrastructure will be undertaken jointly by the public and private sectors. The role of the private sector is important in view of the short-term fiscal fragility and the limited institutional capacity of the government. Lebanon's traditional liberal and investor-friendly policies provide a solid base for expanding private-sector activity, and the Lebanese diaspora represents an important source of entrepreneurial skills and capital resources. The government is aware that the regulatory framework will need to be updated, in part to facilitate private investment in infrastructure services, and capital market development to transform resources to long-term investments.

The government is aware that above all, it is imperative to sustain the confidence that has been placed in it and the Lebanese economy by vigorously pursuing macroeconomic stabilization measures. Moreover, government realizes that there is an urgent need to strengthen public administration and macroeconomic management, and provide clear signals that Lebanon's traditional policies of noninterference with private-sector activities will be maintained. The government faces the need to undertake stabilization measures simultaneously with its reconstruction program to attract private and official financing for reconstruction. The restoration of fiscal balance — announced by the government as one of its key objectives — will require drastic action through measures that both raise revenues and contain the growth of current expenditures. Since reconstruction will lead to a sharp increase in the present low level of capital expenditures (a projected average of 10 percent of GDP during 1995-97), the government is aware that a sharp further reduction in the current deficit is required to keep the fiscal deficit in check.

The recovery plan was designed as a multisectoral operation, focused on removing critical infrastructure bottlenecks, alleviating pressing social problems, and strengthening the institutions in charge of planning, financing, and implementing it. The investment plan involves longer-term development strategies beyond emergency needs. Given limited public-sector capacity and the immensity of Lebanon's reconstruction needs, private-sector participation holds the key to reconstruction.

All principal physical infrastructure sectors of Lebanon's economy are characterized by widespread damage to physical assets and the obsolescence of remaining facilities. The serious damage sustained to basic infrastructure in virtually all sectors presents the most immediate obstacle to economic revival. Substantial investments will be needed in transport, power, and telecommunications. The state-owned utilities are weak and face an acute shortage of qualified staff. The Electricité du Liban has serious financial difficulties, mainly due to low tariffs (despite a recent doubling), illegal connections, and poor billing and collections, and has depended on government transfers. Because of the breakdown in public power supply, most commercial and industrial customers have installed small high-cost private diesel generating stations, and private entrepreneurs have installed and operate unlicensed telecommunication systems. Beyond the rehabilitation and reconstruction of damaged assets, the government intends to encourage private-sector involvement in upgrading and expanding the physical infrastructure sectors.

There are no functioning sewage treatment facilities in the country, and all water treatment plants have been damaged and are operated at reduced capacity. A 1990 study indicated unsatisfactory water quality on a widespread scale, which could have serious health implications. Operation and maintenance suffer from inadequate organizational structures and a lack of skilled staff.

The inadequacies of the housing supply mechanism have been exacerbated by the war but in themselves are more deeply rooted. Lebanon's small size, dense patterns of settlement, and high construction costs place housing at a great premium. Furthermore, there has been no urban growth strategy or land-use plans to anticipate and cope with population movements. Substantial capital inflows for real estate speculation led to further distortions in the market system. Because of the different effects generated by internal and external emigration during the war, a surplus of high-quality housing coexists with severe pressures in the mid- and lower-quality market. The relocation of displaced persons is considered Lebanon's most pressing social problem.

Before the protracted civil strife, Lebanon had a well-trained population and labor force, with adequate health facilities, despite a general neglect of social concerns during the period of rapid economic growth preceding the war; at present the needs in health and education are massive. A considerable number of social services, especially in the health sector, being provided by nongovernmental organizations and are linked to the war situation. Social-sector ministries are inadequately staffed and are particularly weak.

The Ministry of Health plays a relatively minor role in the actual provision of services. With the reduced capacity of public hospitals due to war damage and insufficient funds for the rehabilitation and operation of facilities, the ministry ends up directing most of its budget to uncontrolled reimbursement of private-sector hospital services — including voluntary agencies. The subsidy program is poorly targeted and inadequately monitored and controlled. The provision of primary health care services is inadequate, and their delivery currently consists of small dispensaries operated by a myriad of institutions and organizations. Overall, the government has little ability to control quality and to enforce standards in the health sector.

Total enrollments in general education declined during the latter part of the civil war, with an increasing share in enrollments for the private sector, which historically has played a significant role in education at all levels. Private schools include exclusively fee-paying institutions and schools that are state-subsidized but privately run by welfare institutions. The public sector's share of enrollments ranges from about a quarter in vocational and technical schools to close to half in higher education. In the absence of reliable population data, it is difficult to assess enrollment as a percentage of relevant age cohorts. Teacher training activities were essentially suspended in 1987, and in-service training has been conducted irregularly since that date; thus, while the overall pupil-teacher ratio in the public sector is apparently extremely favorable, teachers tend to be poorly trained and localized shortages exist, mostly in rural areas. Enrollments in vocational and technical institutions have been very sensitive to prevailing security and economic conditions. Technical curricula are not relevant to the needs for trained labor, and there is a lack of suitable instructors. The provision of higher education by the public sector at the Lebanese University expanded rapidly during the war, with an expansion of campuses in various parts of the country, but quality declined.

Activities in the productive sectors in Lebanon have traditionally been undertaken almost exclusively by a strong private sector, and it is on private initiative that future growth will depend. The industrial sector contributes about 20 percent to GDP and accounts for the bulk of merchandise exports. Except for oil refining, industry is entirely within the private sector. The sector faced not only considerable war damage — close to 200 plants were destroyed in the heavy 1989-90 hostilities — but, more important, a loss of its skilled work force. The lack of skilled workers and managers, poor physical infrastructure, and the virtual absence of medium- and long-term financing for working capital and investment stand in the way of a sustained recovery of the sector. Agriculture contributes about 10 percent of GDP and accounts for about 20 percent of merchandise exports. Much of Lebanon's arable land (an estimated one-third of its territory) is marginal, and the country is a net importer of agricultural and food commodities. The dislocation of production and marketing facilities during the war resulted in a sharp decline in agricultural exports (mainly fruits and vegetables).

After 15 years of war real incomes have sharply declined, social conditions have worsened significantly, and the displacement of up to a quarter of the population from their homes represents a pressing social issue. The government lacks information about the incidence and concentration of poverty. The elimination of the inflationary spiral through the government's stabilization program has benefited the poor in particular. Social assistance is being provided by a large number of non-government organizations, many of which concentrate their efforts on specific denominational groups. Moreover, the large flow of remittances has mitigated poverty conditions. The government's initial efforts have concentrated on improving basic services as part of the reconstruction program.

Medium-Term Prospects

Sustained economic stability, together with political and social stability, will be a prerequisite for economic recovery and sustained growth. Lebanon's government faces an ambitious task of reconstruction and maintaining stability, while laying the basis for private-sector-led recovery. The projected medium-term scenario envisages major investments for reconstruction and significant external official and private capital inflows. Debt and debt-service levels would initially rise rapidly but remain at manageable levels. This scenario revolves around successful stabilization of the economy through continued fiscal adjustment, implementing the reconstruction program with large increases in public and private investment, and the availability of external financing. Clearly, successful reconstruction will require very sizable amounts of both official and private capital from abroad. Only with stabilization and fiscal adjustment is there a chance that both will materialize.

If further important fiscal adjustment takes place over 1995-97 government revenues are projected to increase from 14 percent of GDP in 1993 to 21 percent in 1997, while current expenditures are projected to decline to 18 percent of GDP by the same year. As the public investment program takes off, public capital expenditures would rise from 4 percent of GDP in 1993 to and an average of 10 percent over 1995-97. Real GDP growth is projected at an average of up to 8 percent during 1995-97. Imports should increase substantially as reconstruction takes off, and exports should rise steadily as overall economic activity picks up. The current account deficit should remain large during the reconstruction period, and Lebanon's total capital requirements in the medium term would amount to around $6 billion a year. The bulk of this is expected to be available from private capital inflows, including return of the flight capital and direct foreign investment. Despite the projected improvement in fiscal performance, relatively sizable amounts of external loans and grants would be required to finance the reconstruction of infrastructure.

External Debt

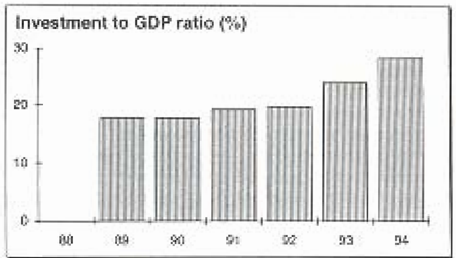
Lebanon's external public debt was estimated at about \$744 million (8 percent of GDP) at the end of 1994, which is low by any standard. The level of public debt is projected to increase five-fold to about \$3.5 billion over the next three years because of the external financing required for the public investment program. The public external debt to GDP ratio will rise to around 26 percent and a public debt service to exports ratio to about 13 percent by 1997. Although these indicators alone appear manageable, the fiscal capacity to service the external debt needs to be assessed in conjunction with domestic public debt. Domestic public debt has risen rapidly in recent years to LL9,833 billion, equivalent to 64 percent of GDP, at end-1994. Total public debt is equivalent to 72 percent of GDP and is expected to rise even further in the next few years.

Lebanon

Population mid-1993 *(millions)*	3.9	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Less indebted**

KEY RATIOS

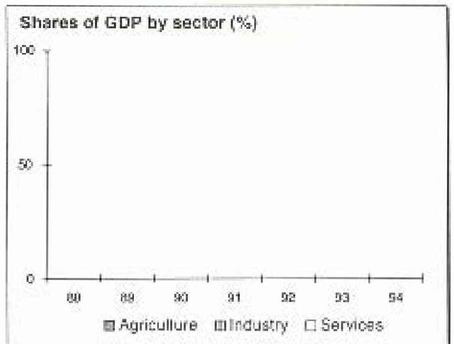
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	17.8	19.7	24.0	28.3
Exports of goods and nfs/GDP	..	18.0	11.4	9.7	9.6
Gross domestic savings/GDP	..	-64.1	-43.7	-27.9	-21.5
Gross national savings/GDP	..	-29.8	-35.3	-21.3	-14.8
Current account balance/GDP	..	-47.6	-55.0	-45.3	-42.7
Interest payments/GDP	..	0.4	0.4	0.3	0.3
Total debt/GDP	..	62.8	32.7	18.0	14.9
Total debt/exports	..	114.3	150.4	102.4	89.8



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..

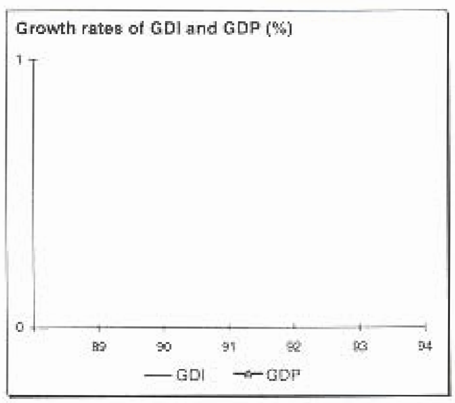
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	..	..	..	..	..



GDP: EXPENDITURE

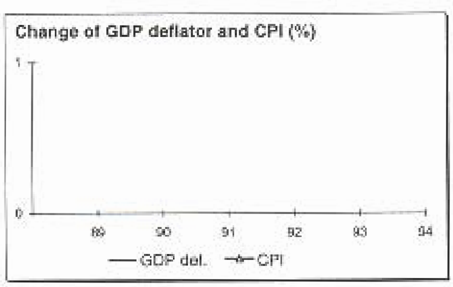
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	151.2	133.7	118.3	109.9
General government consumption	..	13.0	9.9	9.6	11.6
Gross domestic investment	..	17.8	19.7	24.0	28.3
Exports of goods and nfs	..	18.0	11.4	9.7	9.6
Imports of goods and nfs	..	99.9	74.8	61.6	59.4

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	..	..	..	..	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	..	..	..
Government finance					
(% of GDP)					
Current budget balance	..	-31.4	-10.7	-6.9	-7.6
Overall surplus/deficit	..	..	..	..	-17.8



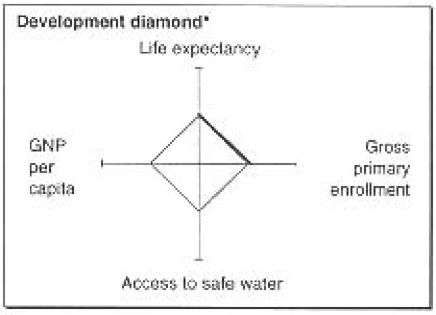
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Lebanon

POVERTY and SOCIAL

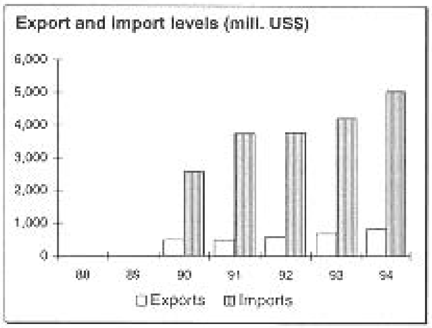
	1985-90	1990-94
(annual growth rates)		
Population	2.8	2.8
Labor force	3.5	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	68.8
Infant mortality *(per 1,000 live births)*	33.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	726.8
Illiteracy *(% of population age 15+)*	19.9
Gross primary enrollment *(% of school-age population)*	111.0



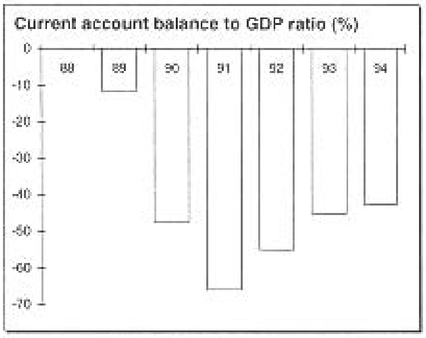
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	496	601	686	825
Other agriculture	..	..	..	..	..
Fuel	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	2,578	3,770	4,222	5,039
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	118	86	71	69



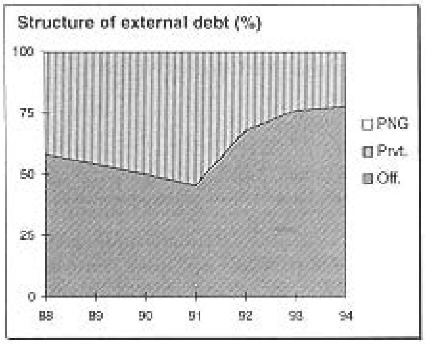
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	511	631	731	880
Imports of goods and nfs	..	2,836	4,147	4,644	5,442
Resource balance	..	-2,325	-3,516	-3,913	-4,562
Net factor income	..	694	263	196	298
Net current transfers	..	280	200	300	320
Current account balance					
Before official transfers	..	-1,351	-3,053	-3,417	-3,944
After official transfers	..	-1,351	-3,053	-3,387	-3,701
Long-term capital inflow	..	0	0	981	1,677
Total other items (net)	..	1,054	3,284	2,862	3,014
Changes in net reserves	..	297	-231	-456	-990
Memo:					
Reserves excluding gold *(mill. US$)*	1,074	660	1,496	2,260	3,884
Reserves including gold *(mill. US$)*	4,089	4,210	4,570	5,863	7,419
Conversion rate *(local/US$)*	..	695.1	1,712.8	1,741.4	1,680.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	23.1	25.2	28.3	27.0
IMF credit/exports	..	0.0	0.0	0.0	0.0
Short-term debt/exports	..	91.1	125.2	74.1	62.7
Total debt service/exports	..	6.3	11.4	10.2	10.9
GDP ratios					
Long-term debt/GDP	..	12.7	5.5	5.0	4.5
IMF credit/GDP	..	0.0	0.0	0.0	0.0
Short-term debt/GDP	..	50.1	27.2	13.0	10.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	28.3	49.8	32.1	23.9	22.2
Official creditors/long-term	71.7	50.2	67.9	76.1	77.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Lesotho

Lesotho is at a crucial juncture of its political and economic development. With the return to democracy in 1993 after 23 years of authoritarian rule, and rapid change in South Africa, Lesotho has an opportunity to re-evaluate the perspectives of the past and to reorient its development toward greater economic integration with South Africa and the region. In terms of macroeconomic management, Lesotho has been an above-average performer in Sub-Saharan Africa and has successfully corrected the fiscal imbalances of the 1980s. It can look forward to substantial financial flows from the sale of water resources to South Africa under the Lesotho Highlands Water Project and has made important progress in delivering social services to its population. However, these advances have been marred in the past few years by declining government performance in implementing structural reforms. On the political front, the new democratic government has had problems with insubordination in the ranks of the defense force over pay and political disaffection, and has had to request international mediation to deal with two short-lived mutinies and a palace coup.

Lesotho's emergence as a labor reserve for South Africa closely followed the general pattern of the creation of native reserves in the Southern African region. In the mid-19th century European settler regimes effectively lowered the potential profits in a free African farming sector to force peasants into farm or industrial labor. In the case of the Basotho, measures included seizing most of its arable land, confining independent Basotho farming to a remote and mountainous area that was to become the independent state of Lesotho, and adopting protectionist measures against agricultural exports from Lesotho.

During the 20th century, Lesotho's dependence on the South African economy cast it in the role of exporter of labor and exposed it to the long-term consequences of South Africa's economic policies. The failure of the inward-looking and capital-intensive South African economy to use its plentiful factor — labor — efficiently has meant a general decline in employment opportunities, with negative consequences for Lesotho, given its historic dependence on labor migration. Second, the high degree of protection granted parastatal and private white-owned industry against international and domestic competition stifled the development of a diversified productive base in Lesotho oriented toward supplying the South African markets. Third, the inefficiencies associated with the overly capital-intensive and uncompetitive production of basic consumer goods and services in South Africa have hurt Basotho consumers in general and the poor in particular. Fourth, the labor recruitment policies followed by the South African mines have had devastating effects on family structure in the recruitment areas, including Lesotho.

Lesotho responded to these policies by adopting an import-substitution strategy for basic consumer goods and services after independence from Britain in 1966. A key element of that strategy was the creation of parastatals and public companies in those areas where the government's perception was that a domestic private sector was virtually nonexistent, or that emerging private entrepreneurs would not be able to compete against large-scale South African enterprises. Hence, public investment in the parastatal sector, strongly supported by donors, dominated economic activity through much of the 1970s and 1980s. However, by the mid-1980s it became clear that parastatal and public company investments had been unable to generate sustained economic growth or increase the labor-absorptive capacity of the economy. Parastatal losses became a drain on the government's resources, while crowding out private investment and raising consumer prices for the goods and services produced. By fiscal 1988, the deficit reached 20 percent of GDP, or 10 percent of GNP—Lesotho's GNP is about twice the size of its GDP due to the migrant workers' remittances, which are included in the GNP estimate, but excluded from GDP. An imprudent rise in military expenditures caused a further deterioration of the fiscal balance. In 1988 Lesotho adopted a structural adjustment program supported by the IMF.

Recent Economic Performance

The adjustment program was triggered by the fiscal imbalance, but was also designed to find ways of reducing Lesotho's macroeconomic vulnerability to exogenous shocks and to set up a macroeconomic and policy framework that would enable private sector development and the productive use of Lesotho's substantial revenues from the Highlands Water Project. While the external balance was threatened by a structural decline of migrant workers' remittances and Southern Africa Customs Union revenues, the scope for corrective exchange rate and monetary policies was limited, given Lesotho's membership in the customs and monetary unions. The only significant short-term means for correcting the imbalance required reducing public expenditures and increasing revenues, and Lesotho has taken this route through successive structural adjustment programs.

The stabilization measures proved extremely successful. The fiscal deficit, after grants, of 10.3 percent of GNP in fiscal 1988 was reversed into a surplus of 3.6 percent of GNP by fiscal 1994. The rate of inflation, currently estimated at less than 9.5 percent, is decelerating, mirroring the trend in South Africa. Finally, the external current account deficit was reduced from 7 percent of GNP to 2.0 percent, and foreign exchange reserves were built up from less than 6 weeks to over 16 weeks of imports. Overall balance of payments went from a deficit of SDR 3.9 million in fiscal 1988 to a surplus of SDR 101 million in fiscal 1994.

Other positive developments included impressive improvement of manufacturing export performance, caused by the inflows of foreign private investment of East Asian or South African origin attracted by the improvement in the macroeconomic framework, intensive investment promotion efforts in the early 1990s, Lesotho's attractive labor wage rates and productivity, and preferential access to export markets through the Lomé Convention and the General System of Preferences applicable to low-income countries. In 1992 total exports increased by 67 percent in nominal terms, caused by a sharp rise in textiles, garments, footwear, and light manufactures, which now account for over 80 percent of total exports and provide employment for about 11,000 people. This strengthened a trend established in the 1980s, when exports — mainly driven by textiles and footwear — increased 30 percent a year, although from a very small base. In 1993 exports slowed because of quotas imposed on Lesotho's garment industry. In 1994 despite an increase in export volume, the total value of exports in dollar terms showed no significant increase from fiscal 1993's $112 million because more than 40 percent of Lesotho's exports were to South Africa, whose rand depreciated by 12.7 percent in fiscal 1994.

However, during the period of stabilization, economic growth was uneven and management of structural reforms slipped considerably, following a general trend of declining civil service performance. Severe drought conditions also contributed to a fall in real GDP growth from 12.6 percent in fiscal 1989 to 2.4 percent in fiscal 1993. Real GNP growth fared even worse, falling from 8.8 percent in fiscal 1989 to 0.3 in fiscal 1993. Real GDP and GNP growth recovered in fiscal 1994 to 7.7 and 8.8 percent, respectively.

The reforms envisaged in the adjustment program were intended to promote growth and expand employment opportunities while continuing to strengthen the fiscal and balance of payments positions. Reforms included privatization and parastatal reform, and improving land management and tenure systems to raise agricultural productivity. Supporting structural measures sought to increase outlays and improve efficiency in the use of funds for social services, encourage capacity building in the civil service — with special emphasis on financial management and personnel training — and promote sound environmental management practices. Implementation of these structural reforms was slow and deteriorated during the final two years of the military regime. Nonetheless, some progress in structural reform was witnessed over 1988-94. The environment for private investment improved through changes in the tax law and streamlining of licensing and work permit procedures, and the government formulated a phased medium-term comprehensive parastatal reform program. Progress, albeit slow, was made in education and health programs.

Poverty and Social Indicators

Lesotho has made substantial progress in the last decade in human resource development. Mortality rates are falling and some 75 percent of all six- to twelve-year-olds are enrolled in primary school. There is a solid core of social infrastructure, exemplified by a wide network of schools and clinics. However, the impressive advances made by Lesotho in human resource development are threatened by management and manpower deficiencies, population pressure, and the future cost of epidemic diseases. In education, quality is declining when Lesotho is in greatest need of an expansion of skills, and needs to be responsive to the demands of economic diversification and emerging employment opportunities in the region. Notable advances in the expansion and quality of primary health care services are constrained by bottlenecks in planning, finance, and training. Lesotho's already high dependency ratio is in danger of worsening even more if fertility does not fall rapidly and measures to prevent sexually transmitted diseases are not expanded.

Despite Lesotho's achievements in providing social services, poverty continues to be serious and is characterized by the high proportion of people classified as poor — 50 percent — and very poor — 25 percent — in 1993. The incidence of poverty is most severe in the rural areas: according to one estimate it is twice as high as in Maseru, the capital. The continued high rates of poverty find their root in still insignificant progress made in developing an indigenous private sector in key sectors such as handicrafts, textiles, and agricultural processing and marketing. Furthermore, an import ban on wheat and maize flour to protect domestic processing and production of basic food grains may also hurt the poor. The food price-raising effect functions as a regressive tax, while inhibiting diversification of agriculture.

Structural reform has been hampered by entrenched interests in current economic structures, which have inhibited genuine empowerment of local communities and indigenous entrepreneurs. The pace of agricultural and land reform has been disappointing, as little was done following amendment to the Land Act and the gazetting of the grazing fees, which were suspended by the new government in 1993. Protection of parastatal industries against South African firms has distorted domestic competition in favor of capital-intensive parastatals at the expense of more employment-intensive, small and medium-scale indigenous businesses. The success of Lesotho's small but thriving industrial sector based on foreign direct investment, of which around two-thirds is of South African and one-third of East Asian origin, is double edged. Employment has increased substantially as the sector has sustained 20 percent real annual growth over the past 20 years, but substantial resentment leading to civil unrest was fueled by a perceived dominance of foreign investors at the expense of local entrepreneurs. The sustainability of reforms is most threatened, however, by lack of progress in civil service reform, which stalled after a promising start with Swedish, British, UNDP, and World Bank assistance. The loss of momentum coincided with a growing lack of political direction in government and gradual politicization of the civil service.

Challenges to Lesotho's economy include the transformation of the South African economy, changes in the international trade regime, and the regular occurrence of drought. With a 1993 GNP per capita estimated at $650, Lesotho is encircled by South Africa with a GNP per capita of $2,980. Over 80 percent of Lesotho's trade takes place with South Africa. Customs Union revenues, collected as duties on imports by the South African government, constitute around 50 percent of Lesotho's government revenues. In any given year about 140,000 men, 40 percent of Lesotho's male labor force, are employed in the Republic of South Africa. Migrant earnings constitute about 50 percent of Lesotho's GNP and allow imports worth more than 1.5 times the value of domestic production. Over 80 percent of adult men living in Lesotho have been migrant workers in South Africa at some point in their lives. Around 80 percent of Lesotho's households live in the rural areas, and even in the rural areas remittances make up more than 50 percent of average household incomes.

A continued peaceful transition in South Africa should lead to an economic resurgence. A dynamic South Africa will stimulate the development of Lesotho's domestic productive base, since it is likely that the new South African economy will liberalize its markets and generate many opportunities for black, small-scale entrepreneurial activity that can take advantage of Lesotho's labor cost competitiveness.

Developments in international trade, particularly the impact of the new GATT, will also challenge Lesotho. South Africa may be able to negotiate special trade status with the United States and the European Union, which, in combination with the lifting of international sanctions on South Africa, may prompt some industries to relocate within South Africa's borders. Moreover, trade restrictions on Lesotho's garment industry may continue to stifle export growth. For instance, in fiscal 1994 Lesotho's textile exports to have slowed considerably because of recent export quotas imposed on Lesotho's garment exports by the United States because of disagreement over origin.

Severe drought hit Lesotho in 1992-93 and resulted in high food expenditures and imports. Another major drought is unfolding in the 1994/95 season. Improved water resource management is an important element of a strategy aimed at drought-proofing the economy. Additionally, carefully managed financial reserves that can be quickly mobilized to protect vulnerable groups from the effects of such shocks will go a long way to minimize the risks of natural disasters. Continued liberalization of South African agricultural markets will improve food security in the region through lower consumer prices and increased reliance on international grain trade, in particular during periods of drought.

Recent Political Developments

In March 1993 the Basotho Congress Party won all 65 seats in the lower house of Parliament, making Lesotho effectively a one-party democracy. The fragility of the democratic process — accentuated by mutinies in the ranks of the defense force in 1993 and 1994, a thwarted palace coup in August/September 1994, and the inexperience of the new government and parliament in policy-making and implementation, resulted in an extended breathing space that allowed the government to focus on issues of strategy and capacity. The new government came to power with a strong political and social vision deeply rooted in the principles of participatory democracy. While it subscribes to some of the basic principles of the structural reform agenda introduced by the previous authoritarian regime, it is conscious of the need for a fundamental change in strategy, given the fast-moving political and economic context that has just been described.

While the government's policy framework is still emerging, the Congress Party's election program points to a number of strategic themes underlying the government's development objectives and policies. Democratic decentralization and civil service reform are high on the government's agenda. The Congress Party's strong democratic and populist political orientation holds considerable promise in the areas of local participation in the development process and poverty alleviation. Democratic decentralization is to be achieved through the establishment of democratic structures at the district and village council levels. It is envisaged that chiefs will continue to play a role, provided they act through democratically elected village councils and are held accountable for their activities. Civil service reform is seen as necessary for improving the working conditions, career outlook, and remuneration packages of public employees.

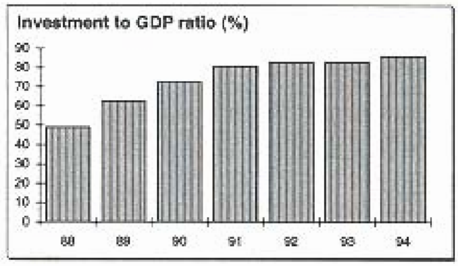
The party envisions a mixed economy characterized by government participation in essential services and minimum intervention in priority sectors of the economy. There is a strong commitment to maintain macroeconomic stability, create employment, encourage private-sector development, offer strong support to Basotho entrepreneurs in all sectors of the economy, and continue privatizing government activities that can be done more efficiently by the private sector.

Lesotho

Population mid-1993 *(millions)*	1.9	Income group: **Low**
GNP per capita 1993 *(US$)*	650	Indebtedness level: **Less Indebted**

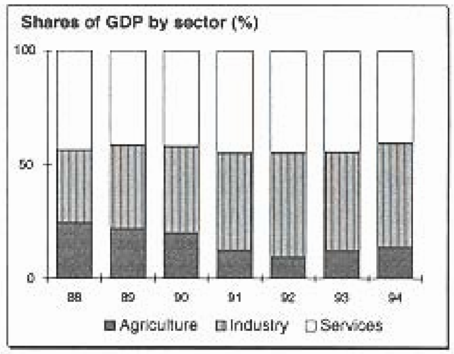
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	49.4	72.7	82.9	82.9	85.8
Exports of goods and nfs/GDP	12.7	9.5	14.1	15.8	15.3
Gross domestic savings/GDP	-77.5	-46.1	-30.2	-23.1	-13.7
Gross national savings/GDP	40.8	27.2	32.9	86.9	..
Current account balance/GDP	2.7	-47.5	-45.0	-23.2	..
Interest payments/GDP	1.7	1.3	1.9	1.5	1.6
Total debt/GDP	70.9	65.0	63.7	67.5	68.8
Total debt/exports	48.4	70.2	77.1	88.5	..



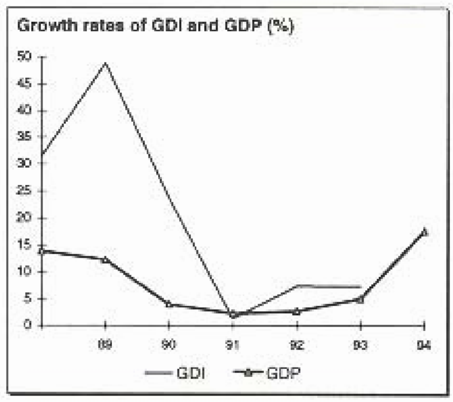
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	21.5	20.0	9.3	12.0	13.7
Industry	29.6	38.2	45.9	43.7	45.8
Manufacturing	11.1	13.2	17.0	17.1	16.6
Services	48.9	41.9	44.7	44.3	40.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	8.1	-2.3	-23.3	18.3	46.0
Industry	15.5	11.4	10.8	5.8	22.0
Manufacturing	13.6	10.4	15.1	5.0	12.9
Services	5.1	5.0	3.5	5.1	6.7
GDP	8.2	6.1	2.6	5.0	17.5



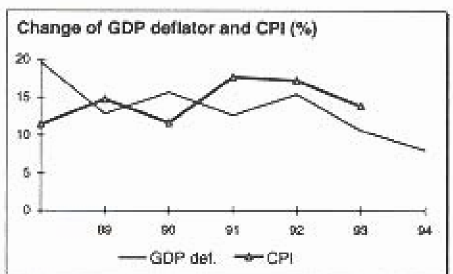
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	144.5	123.0	100.4	93.0	85.6
General government consumption	33.0	23.1	29.8	30.2	28.1
Gross domestic investment	49.4	72.7	82.9	82.9	85.8
Exports of goods and nfs	12.7	9.5	14.1	15.8	15.3
Imports of goods and nfs	139.7	128.3	127.3	121.8	114.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.5	..	-7.0	..	..
General government consumption	1.6	..	4.8	..	..
Gross domestic investment	18.6	*5.5*	7.3	7.3	..
Exports of goods and nfs	14.6	*9.0*	3.0	11.6	..
Imports of goods and nfs	5.0	*3.1*	-1.7	5.2	..
Gross national product	3.8	2.7	-1.4	6.2	7.0
Gross national income	3.0	*1.9*	0.2	7.0	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	13.3	11.6	17.2	13.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	16.9	15.7	15.4	10.6	8.1
Government finance					
(% of GDP)					
Current budget balance	..	11.0	13.9	16.5	..
Overall surplus/deficit	..	..	..	..	..



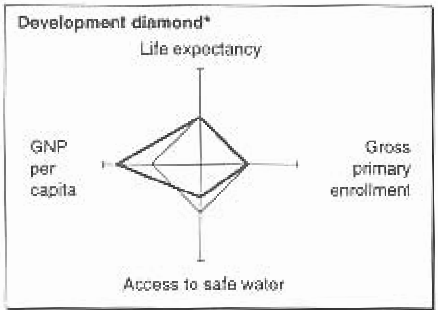
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Lesotho

POVERTY and SOCIAL

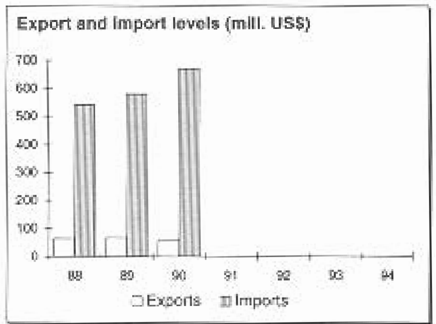
	1985-90	1990-94
(annual growth rates)		
Population	2.7	2.7
Labor force	2.0	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	60.9
Infant mortality *(per 1,000 live births)*	77.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	46.4
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	106.0



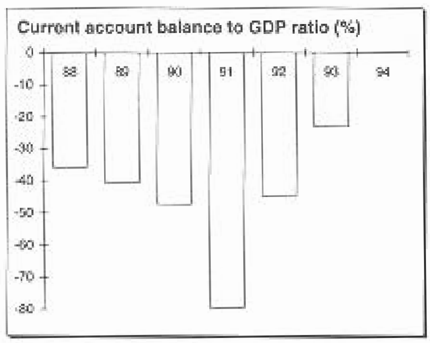
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	22	59	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	2	..	..	..	..
Total imports (cif)	335	670	..	..	..
Food	66	..	..	..	..
Fuel and energy	32	..	..	..	..
Capital goods	56	..	..	..	..
Export price index *(1987=100)*	69	93	..	..	..
Import price index *(1987=100)*	72	137	..	..	..
Terms of trade *(1987=100)*	95	68	..	..	..
Openness of economy *(trade/GDP,%)*	152	138	141	138	130



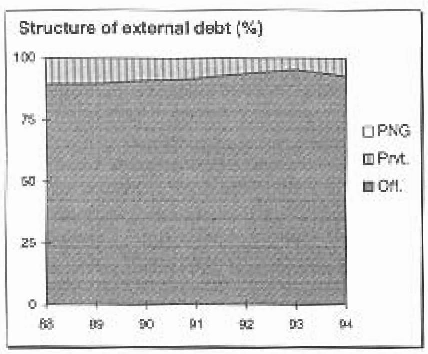
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	39	106	127	114	..
Imports of goods and nfs	343	825	929	919	..
Resource balance	-304	-719	-802	-805	..
Net factor income	249	427	463	625	..
Net current transfers	62	5	3	4	..
Current account balance					
Before official transfers	7	-287	-337	-176	..
After official transfers	7	-131	-70	-135	..
Long-term capital inflow	16	129	179	54	..
Total other items (net)	-2	27	-17	81	..
Changes in net reserves	-21	-25	-92	0	..
Memo:					
Reserves excluding gold *(mill. US$)*	44	72	157	253	..
Reserves including gold *(mill. US$)*	44	72	157	253	..
Conversion rate *(local/US$)*	2.2	2.6	2.9	3.3	3.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	46.2	67.0	72.3	81.5	..
IMF credit/exports	1.1	2.7	4.0	5.9	..
Short-term debt/exports	1.1	0.5	0.8	1.0	..
Total debt service/exports	5.2	4.1	5.5	5.6	..
GDP ratios					
Long-term debt/GDP	67.7	62.0	59.7	62.2	64.5
IMF credit/GDP	1.6	2.5	3.3	4.5	3.8
Short-term debt/GDP	1.6	0.5	0.7	0.8	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	4.7	9.3	6.4	4.7	7.5
Official creditors/long-term	95.3	90.7	93.6	95.4	92.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Lithuania

Lithuania was left at independence with diverse remnants from 50 years of central planning and integration with the countries of the former Soviet Union and the Baltics. During this period Lithuania experienced rapid industrialization, developing major export industries in machine building, metal working, textile, leather and wood processing, and agro-processing. Facilities built to meet the larger Soviet bloc demand are now characterized by overcapacity. While Lithuania does not have abundant natural resources, it has a highly skilled work force and relatively well developed infrastructure. In 1993 Lithuania's population was estimated at about 3.75 million and per capita GNP at about $1,320.

Lithuania has embarked on a reform program aimed at reorienting its economy from a centrally planned to a market system. Progress toward this goal has been substantial, if not always smooth. Reforms began in 1990 in an environment of declining output and deteriorating terms of trade, imposing severe hardships on the population. Lithuania had one of the highest living standards in the former Soviet Union and the Baltics; GDP fell by more than half after independence. Average annual inflation compared to the previous year was estimated at about 1,020 percent in 1992, 410 percent in 1993, and about 65 percent in 1994. The government is broadly committed to moving to a full market economy, while it aims to soften the social impact of adjustment during the transition process. Lithuania's overall achievements so far are noteworthy. Significant progress has been made in price and trade liberalization, currency and tax reform, privatization, and developing a social safety net. Inflation has been subsiding, and in 1994 real GDP began to stabilize and show signs of returning to growth. New private sector activity is gradually growing and is absorbing a considerable amount of the workforce. At the same time, key reform measures faced some resistance, leading to delays and some policy inconsistencies and reversals along the way. Continued market-oriented reforms are needed to secure and deepen the progress made so far.

Stabilization Efforts

Lithuania has adhered to sound macroeconomic policies, and the cumulative achievements of the stabilization program to date are commendable. Stabilization proceeded in steps during the initial period of transition. The general government budget was balanced in 1992 and most of 1993. Despite rising fiscal pressures — a trend that is expected to continue due to growing social and bank restructuring expenditures — strict fiscal discipline has been maintained. Combined with tight credit and income policies this brought monthly inflation down to low single-digit figures by mid-1993. Except for some brief, and temporary, price hikes related largely to energy price increases and the introduction of a VAT, inflation has remained in the range of 1 to 3 percent a month.

Lithuania's permanent national currency, the litas, was introduced in June-July 1993, and monetary policy since then has been tight. A currency board arrangement has been in place since April 1, 1994. The litas is pegged to the dollar at $0.25 per litas. The implications of the gradual real appreciation caused by the fixed nominal exchange rate and continuing but decelerating local inflation will need to be closely monitored. Overall, the currency board eliminates discretionary monetary policy, creates a supportive environment for fiscal measures to be effective, and should help consolidate and build on the stabilization achievements. The current account (excluding official transfers) has shifted from a surplus in 1992 of about $60 million, to a deficit of about $180 million in 1993, and an estimated $280 million in 1994 as external resources became available to finance imports, partly for investment. A continuous shift toward trade with the West has been occurring.

Structural Reform Efforts

Progress in the key areas of structural reform — price and trade liberalization, privatization, establishing a legal framework for private sector activities, financial sector reform, and development of the social safety net — has been mixed. Reforms have proceeded rapidly in certain areas, such as mass privatization of housing and industrial enterprises, and slowly in others, such as state-owned bank restructuring. These reforms need to be consistently pursued to avoid reversals.

Pricing and trade regimes have been liberalized over the past two years. Nearly all prices reached world market levels early in the transition, and the government has declared its intention to phase out all remaining price subsidies. A new trade regime was adopted in July 1993. Export licensing was abolished and replaced with temporary export taxes for a limited number of items, and import tariffs were, in general, substantially reduced. Agriculture import tariffs remain subject to frequent changes, but the overall trend toward lower and broadly uniform tariffs is expected to continue, including in agriculture.

Enterprise reform and private-sector development in Lithuania have been models of reform in some respects, but have lagged in others. The privatization program, initiated soon after independence, has been quite successful in transferring assets into private hands. Nearly all small businesses and some 60 percent of industrial enterprises have been privatized through a voucher program. In addition, a program of sales for cash has started and bankruptcy procedures have been initiated. Amendments to the bankruptcy law and new legislation for a second phase of privatization are expected to accelerate progress in these areas. Housing privatization is virtually complete, although the formation of condominium associations to assume maintenance responsibilities has not yet occurred. Land and farm privatization has had significant results, with almost 40 percent of arable land being privately cultivated today. Despite this overall success of privatization in transferring ownership, however, continuing efforts will be needed to make the overall legal regulatory and institutional environment more favorable to private sector activity. This will include simplifying legislation, changing it less frequently, and implementing it more transparently and consistently by, among other methods, building up institutional capacity. Also the commercialization of the remaining public and quasi-public enterprises and services has progressed relatively slowly, and further improvements in enterprise governance and financial discipline and independence remain a challenge. Despite an impressive number of joint ventures, the actual capital inflow from abroad has been moderate compared to that of some of Lithuania's neighbors.

Restructuring of the financial sector had been progressing slowly but has recently gained some momentum. The separation of commercial activities from the central bank occurred early in the reform process, and efforts have begun to restructure and privatize the three large state-owned banks. Supervision capabilities at the central bank are gradually being strengthened, and capital requirements raised in steps to approach acceptable levels. New central bank and commercial bank laws have been introduced, and the Bank of Lithuania's prudential regulations are being reviewed. Further regulation still needs to be introduced, and ongoing efforts to strengthen the commercial banking sector in areas such as credit assessment need to be expanded.

The government plans to develop a market-consistent social safety net. Poverty is increasing particularly among the rural population, in a country that had been accustomed to one of the higher living standards in the Soviet bloc. The government intends to separate social assistance and social insurance programs, and is designing a fiscally affordable pension system aimed at providing retirees with pensions sufficient to keep them out of poverty, while discouraging early retirement and the abuse of disability provisions. Progress is being made in drawing up a new consumption basket to be used as the basis for targeting social assistance. Unemployment insurance is being restructured to cope more effectively with the expected rise in open unemployment.

Medium-Term Prospects

Based on its reform achievements so far and the long-term objective of integration into the European Union, Lithuania's overall growth and development prospects are good. Despite a risk that the stabilization process could be derailed, or that popular pressures could lead to backtracking on structural reforms on a broader and more permanent scale than has so far been the case, the most likely scenario is the continuation of present policy performance. There will likely be a continuation of consistent macroeconomic stabilization, gradual, though more mixed, progress with structural reforms, and a gradual strengthening of implementation capacity. Real GDP is expected to grow by around 5 percent in 1995 and by an average of about 4.5 percent a year through 2000.

External Debt

On the ground that it does not consider itself a successor state of the Soviet Union, Lithuania has rejected any responsibility for Soviet debts outstanding at the time of reestablishing its independence; this amounts to a cancellation of all claims on, and obligations to, Russia. In the most likely scenario, Lithuania's external debt will grow over the medium and long term, but remain overall moderate and manageable. Assuming that official grants and other concessional financing fall to negligible levels by 1996 and to zero thereafter, Lithuania's financing requirements, net of foreign investment, would have to be met by foreign borrowing on commercial terms.

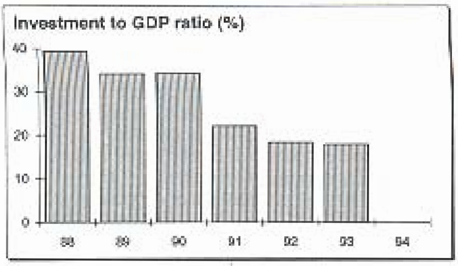
Lithuania's debt-service ratio should peak below 10 percent early in the next decade, decline thereafter, and stabilize around 8 percent. The debt-service ratio is expected to stay below 12 percent for the next decade.

Lithuania

Population mid-1993 *(millions)*	**3.7**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**1,320**	Indebtedness level: **Less indebted**

KEY RATIOS

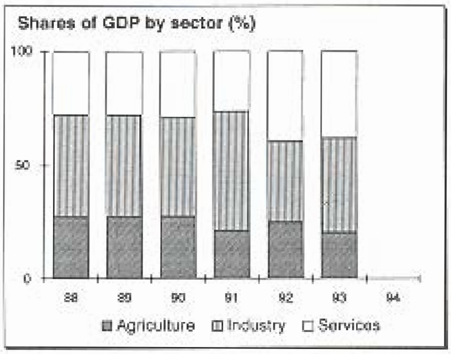
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	34.3	34.3	18.5	18.1	..
Exports of goods and nfs/GDP	..	..	69.1	71.1	..
Gross domestic savings/GDP	20.7	25.5	20.8	11.4	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	3.0	-1.5	-4.2
Interest payments/GDP	..	..	0.0	0.0	0.2
Total debt/GDP	..	..	0.7	6.4	9.6
Total debt/exports	..	..	2.9	13.7	23.4



Investment to GDP ratio (%)

GDP: PRODUCTION

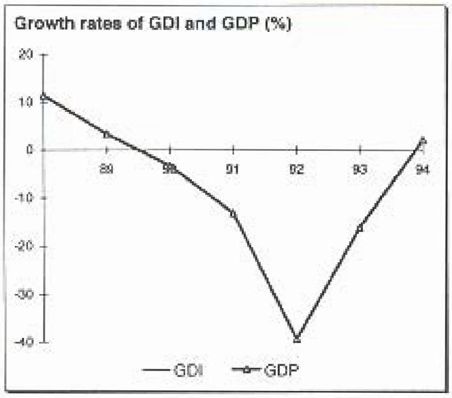
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	27.7	27.6	25.1	20.5	..
Industry	43.6	43.3	35.5	41.5	..
Manufacturing	..	..	..	..	..
Services	28.8	29.1	39.4	38.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	5.6	-20.3	-39.3	-16.2	2.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

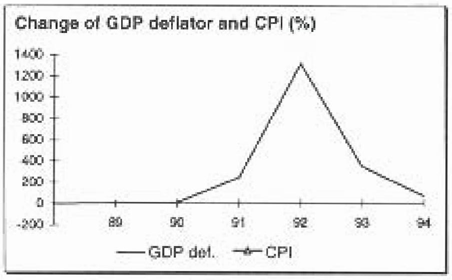
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	56.9	54.9	65.7	75.7	..
General government consumption	22.4	19.6	13.5	12.9	..
Gross domestic investment	34.3	34.3	18.5	18.1	..
Exports of goods and nfs	..	..	69.1	71.1	..
Imports of goods and nfs	..	..	66.8	77.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	5.6	-20.3	-39.3	-16.2	2.0
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	27.0	6.7	1,311.2	342.7	69.0
Government finance					
(% of GDP)					
Current budget balance	..	..	3.4	-2.0	..
Overall surplus/deficit	..	..	0.5	-5.1	..



Change of GDP deflator and CPI (%)

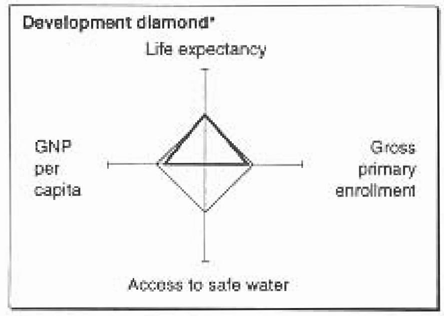
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Lithuania

POVERTY and SOCIAL

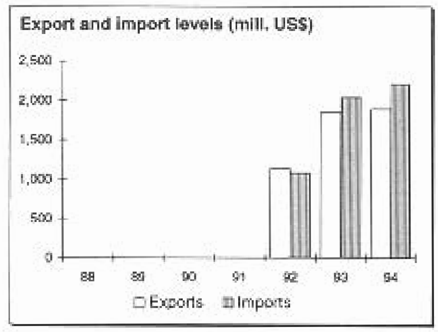
	1985-90	1990-94
(annual growth rates)		
Population	0.7	*0.0*
Labor force	-0.1	*-0.8*

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	70.3
Infant mortality *(per 1,000 live births)*	13.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	2,595.9
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	92.0



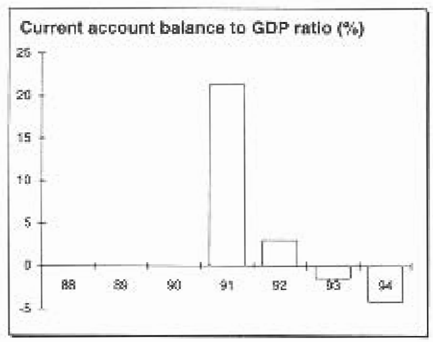
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	1,145	1,846	1,892
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	1,086	2,045	2,210
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	136	149	..



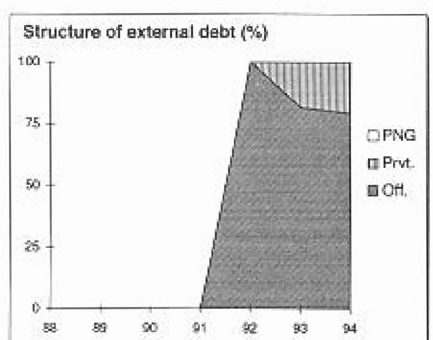
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	1,275	2,102	2,153
Imports of goods and nfs	..	..	1,232	2,301	2,461
Resource balance	..	..	43	-199	-308
Net factor income	..	..	16	22	-2
Net current transfers	..	..	0	0	31
Current account balance					
Before official transfers	..	..	160	-69	-219
After official transfers	..	..	160	-69	-219
Long-term capital inflow	..	..	-35	272	283
Total other items (net)	..	..	0	-15	70
Changes in net reserves	..	..	-125	-188	-134
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	1.0E-02	0.6	2.7	4.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	0.7	7.7	15.6
IMF credit/exports	..	..	1.8	5.7	7.5
Short-term debt/exports	..	..	0.3	0.3	0.3
Total debt service/exports	..	..	0.0	0.2	1.7
GDP ratios					
Long-term debt/GDP	..	..	0.2	3.6	6.4
IMF credit/GDP	..	..	0.4	2.6	3.1
Short-term debt/GDP	..	..	0.1	0.1	0.1
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	0.0	18.4	20.9
Official creditors/long-term	..	..	100.0	81.6	79.1



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Former Yugoslav Republic of Macedonia

A member of the Yugoslav Federation until September 1991, the former Yugoslav Republic of Macedonia is a landlocked country of 26,000 square kilometers in the heart of the Balkans, bordering Albania to the west, Bulgaria to the east, Greece to the south, and the Federal Republic of Yugoslavia to the north. The country's new constitution, adopted in November 1991, provides for an elected president and a 120-member, multiparty legislative assembly. Presidential and parliamentary elections in October 1994 led to the reelection of the president and the ruling coalition of three parties that has held power for the past four years. The new cabinet contains a strong reformist economic team committed to maintaining the stabilization and structural adjustment measures begun during 1994.

The former Yugoslav Republic of Macedonia began to conduct its own economic policy in April 1992, when the Macedonian denar was introduced as legal tender, following the withdrawal of the last Yugoslav troops. The country has a population of 2.1 million, growing at just under 1 percent per year, and a per capita income estimated at $820 in 1993.

The former Yugoslav Republic of Macedonia inherited a host of economic problems associated with the policies and institutions of the former Yugoslavia. Like the other former republics of Yugoslavia, the former Yugoslav Republic of Macedonia had adopted a unique Communist economic system best described as market socialism. Under this system of social ownership, capital was owned by society at large, while enterprise governance was entrusted to worker councils. Given the structure of enterprises and the absence of clear-cut ownership, workers were more concerned with employment than preserving and increasing capital. Consequently, enterprises suffered continued high losses that they covered with subsidized credit from banks, which were often owned and controlled by the borrowers.

External events exacerbated the already weak economic situation in the former Yugoslav Republic of Macedonia at its inception. Transfers from the former Yugoslavian federal government, in the range of 5 to 7 percent of GDP (on a net basis), were discontinued. Foreign exchange reserves held at the central bank in Belgrade were lost, while exports declined steadily with the dissolution of the Council for Mutual Economic Assistance arrangements and the imposition of a UN embargo on the country's principal export markets, Serbia and Montenegro. In March 1994 Greece imposed a unilateral blockade, disrupting trade through the port of Thessaloniki and imposing additional costs on the economy, further limiting the country's export capacity. Difficulties in generating sufficient foreign exchange have plunged the country into a severe debt crisis, forcing it to delay servicing its external obligations. Pending normalization of political relations and external debt transactions, assistance from the international community to facilitate the economic transition and soften the ill effects of external shocks has been relatively small.

As a result of the structural problems and the external pressures faced by the former Yugoslav Republic of Macedonia, output has declined by a staggering amount: in 1994 it was about half the 1989 level. Exports and imports are down about a third in real terms since 1990, and total investment is down to about 30 percent of its 1989 peak. Real per capita income and wages have also fallen significantly, while unemployment, already high at 26 percent in 1990, increased to 30 percent in 1994 as social enterprises were restructured and privatized. Consumption is down, and living standards have fallen sharply. Private-sector activity, although growing rapidly, is still relatively small and has been unable to reverse the decline in economic activity.

In early 1994, in response to the difficult economic situation, the government introduced a stabilization program, supported by the IMF and World Bank and complemented by wider structural adjustment measures. The program aimed at building on previous government reforms and accelerating the transition from an inefficient state-dominated economy to one that is open and private-sector oriented. For this to become possible, the international donor community had to provide substantial financial assistance to settle the country's overdue service payments to the World Bank, restore its accrual status, and reinstate its eligibility for disbursements under new World Bank-IDA operations.

Stabilization and Structural Reforms

The stabilization and structural reforms focused on tight monetary policy, strict budgetary discipline, a flexible exchange rate policy, and wage controls. By and large the program remained on track in 1994. Payment delays on government expenditures have been shortened, wage increases have come under control, and foreign exchange inflows from private remittances and regional trade have improved the country's reserve position. Attesting to progress in stabilizing the economy, the fiscal deficit, which had averaged 9 percent of GDP over 1992-93, was cut to about 3 percent of GDP in 1994. December-December inflation peaked at about 2,000 percent in 1992, but was brought down to 230 percent in 1993 and an estimated 55 percent in 1994.

The former Yugoslav Republic of Macedonia has also made encouraging progress in initiating structural reforms in trade and price liberalization, banking and enterprise reform, and improved targeting of the social safety net. It has passed a Law on Transformation of Enterprises with Social Capital to enable divestiture of socially owned firms, privatized socially owned apartments and business premises, and liberalized the trade regime by reducing quotas and tariff rates. The government has approved a Banking Law and audited four major banks, abolished selective credits, developed regulations and procedures for public enterprise reform, implemented laws and administrative arrangements for a new tax system, and revised pension, employment, and social protection legislation.

The former Yugoslav Republic of Macedonia has designed a reform program aimed at economic recovery in the context of a market economy. While the legal framework for private sector development is largely in place, the government believes that achieving sustainable growth will require continuing the required macroeconomic policies to stabilize the economy in the near term, and enhancing private-sector development through privatization and introducing more effective corporate governance in enterprises remaining in state hands. The government also plans to reform the banking sector, primarily by restructuring and privatizing commercial banks; build on private-sector capabilities to increase agricultural production; and modernize physical infrastructure. It plans to develop a social safety net and improve delivery of social services to avoid serious social dislocation, strengthen public administration, and improve environmental management.

Medium-Term Prospects

The former Yugoslav Republic of Macedonia has undergone a dramatic economic transformation over the past four years, with output, employment and domestic absorption declining each year. This trend may persist in 1995 as further adjustments are implemented, particularly those that reduce employment, and expenditures in enterprises and activities no longer protected by budget subsidies and easy access to bank credit. To the extent, however, that these adjustments free up resources for more efficient activities elsewhere, the economic outlook should improve. Thus, provided the reform measures described in the preceding section continue to be implemented, an environment conducive to some modest economic recovery in 1996 will be created. For sustained growth, the impediments to the former Yugoslav Republic of Macedonia's international trade will need to be removed, and external assistance will be needed to implement the country's economic reforms. GDP growth over 1995-97 could average 1 to 2 percent, and accelerate thereafter to 5 percent annually over 1998-2000.

The major impetus to growth over the medium term is likely to come from the nascent private sector in agriculture, manufacturing, trade, and transportation. While still small, the private sector has been vibrant lately, accounting, according to official data, for 17 percent of GDP in 1993 (up from 12 percent in 1990) and 20 percent of formal employment in 1994 (up from 10 percent in 1990). Private-sector growth is being further facilitated by a number of recent initiatives to strengthen the incentive, legal, and regulatory frameworks pertaining to private enterprise. Such initiatives include ongoing reviews and revisions of the Commercial Code and the Foreign Investment Law.

Whereas prudent fiscal and monetary policies are expected to induce domestic savings to finance essential maintenance, renew investments, and repay outstanding debt, the former Yugoslav Republic of Macedonia will still need considerable recourse to foreign savings over the next several years. First, it will take time for the export sector to raise its competitiveness and gain acceptance in new markets. Second, essential imports, severely compressed in the recent past, will need to grow again not only to satisfy consumer requirements, but also to provide inputs, especially for export production. Third, interest payments on the stock of outstanding debt, even if some is rescheduled, will have to be met from current earnings.

External Debt

At the end of 1994 the country's external debt was about \$1,100 million, though this amount refers to claims on the former Yugoslavia and accepted by the former Yugoslav Republic of Macedonia as part of its external debt. The amount includes estimated penalty interest on arrears built up since 1990. About \$412 million (38 percent of the stock) represented arrears built up since

1990. The country's total debt stock in 1994 was about 37 percent of GDP and about 90 percent of exports of goods and all services.

By the above indicators, the former Yugoslav Republic of Macedonia would appear to be moderately indebted. But it faces a serious liquidity problem, which has grown as arrears have mounted. Scheduled debt service payments in 1995 would be over $600 million, of which around $320 million represent arrears on precutoff date (1982) and commercial debt. These payments, if made in full, would take up nearly 45 percent of its projected receipts of exports of all goods and services, putting unacceptable strain on imports.

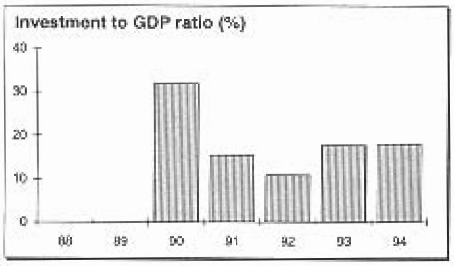
In view of the country's tight liquidity position, the former Yugoslav Republic of Macedonia has conducted preliminary discussions with the Paris Club for rescheduling of the precutoff-date debt. The rescheduling is expected to occur soon, now that a standby agreement with the IMF has been approved.

Former Yugoslav Republic of Macedonia

Population mid-1993 *(millions)*	2.1	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	820	Indebtedness level: **Less indebted**

KEY RATIOS

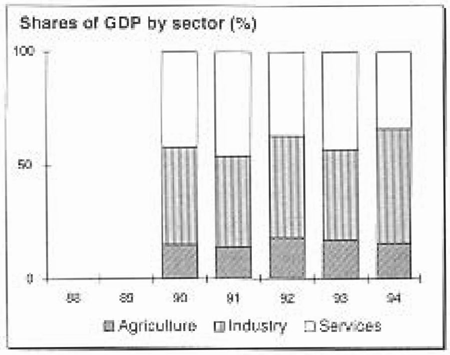
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	32.0	10.9	17.6	18.0
Exports of goods and nfs/GDP	..	23.0	54.9	45.3	44.1
Gross domestic savings/GDP	..	23.5	11.9	12.7	12.2
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	-17.7	-1.0	-3.8	-10.1
Interest payments/GDP	..	..	..	0.2	0.5
Total debt/GDP	..	..	..	50.8	44.5
Total debt/exports	..	..	..	73.9	58.4



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	15.0	18.0	17.0	15.6
Industry	..	43.0	45.0	40.0	50.3
Manufacturing	..	..	..	..	..
Services	..	42.0	37.0	43.0	34.1

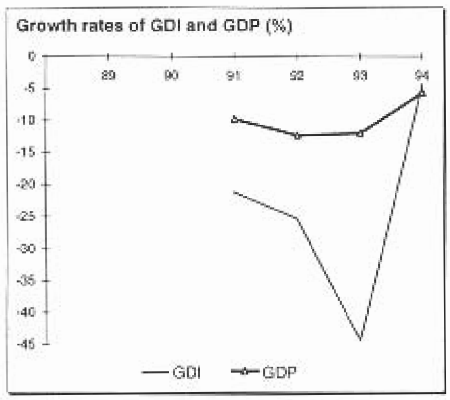
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	..	0.0	-21.1	-9.5
Industry	..	..	-15.7	-14.4	8.5
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	..	-10.5	-12.4	-12.0	-5.7



GDP: EXPENDITURE

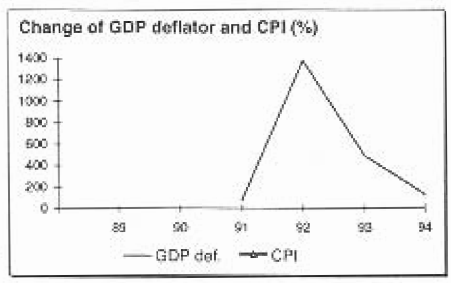
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	70.4	80.8	80.6	80.6
General government consumption	..	6.2	7.2	6.7	7.2
Gross domestic investment	..	32.0	10.9	17.6	18.0
Exports of goods and nfs	..	23.0	54.9	45.3	44.1
Imports of goods and nfs	..	31.5	53.9	50.2	49.9

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	-6.7	-12.2	2.3	-7.5
General government consumption	..	-2.6	-13.9	3.9	3.4
Gross domestic investment	..	-27.4	-25.3	-44.4	-4.4
Exports of goods and nfs	..	0.0	0.6	-4.8	8.5
Imports of goods and nfs	..	-4.5	-13.5	6.5	5.2
Gross national product	..	-10.7	-14.5	-11.2	-5.2
Gross national income	..	-10.8	-13.9	-11.4	-6.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	1,375.7	486.1	126.2
Government finance					
(% of GDP)					
Current budget balance	..	..	-5.4	-10.4	-0.2
Overall surplus/deficit	..	..	-6.0	-11.1	-2.6

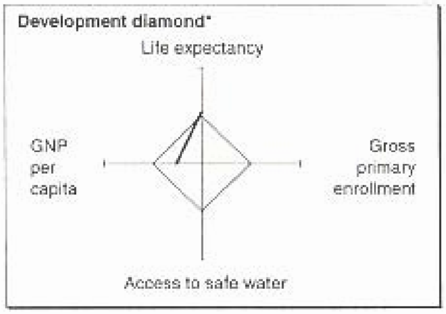


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

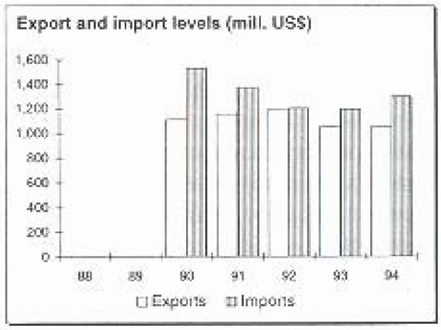
	1985-90	1990-94
(annual growth rates)		
Population	1.1	1.1
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	72.0
Infant mortality *(per 1,000 live births)*	26.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



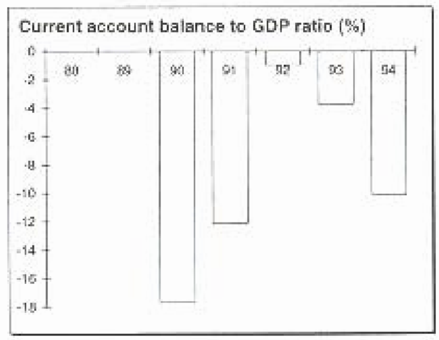
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	1,113	1,197	1,055	1,050
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	995	808	773	781
Total imports (cif)	..	1,531	1,206	1,199	1,300
Food	..	203	189	238	278
Fuel and energy	..	215	142	191	150
Capital goods	..	292	206	204	190
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	55	109	96	94



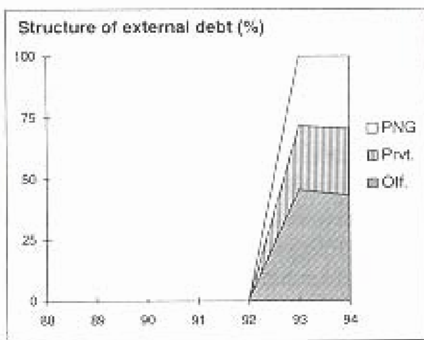
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	1,192	1,259	1,172	1,280
Imports of goods and nfs	..	1,630	1,236	1,299	1,540
Resource balance	..	-438	23	-127	-260
Net factor income	..	-55	-72	-56	-61
Net current transfers	..	84	30	119	151
Current account balance					
Before official transfers	..	-409	-19	-64	-170
After official transfers	..	-409	-19	-36	-145
Long-term capital inflow	..	-61	-96	-79	-80
Total other items (net)	..	454	21	50	244
Changes in net reserves	..	16	94	65	-19
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	0.3	6.1	35.4	76.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	63.0	55.5
IMF credit/exports	..	..	..	0.3	1.6
Short-term debt/exports	..	..	..	10.6	1.3
Total debt service/exports	..	..	..	1.4	3.7
GDP ratios					
Long-term debt/GDP	..	..	..	43.3	42.4
IMF credit/GDP	..	..	..	0.2	1.2
Short-term debt/GDP	..	..	..	7.3	1.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	28.4	29.5
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	26.0	27.4
Official creditors/long-term	..	..	..	45.6	43.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Madagascar

Madagascar is a striking example of a country with significant but unfulfilled growth potential. It is the world's fourth-largest island, with a rugged topography, a wide range of soil types and climates, a rich mineral endowment, unique flora and fauna, and many beaches, and enjoys abundant low-wage and trainable labor. And yet, with a population of over 13 million growing at 2.8 percent a year and a 1993 per capita income estimated at $220, it is one of the world's least-developed countries. Poverty is widespread. The economy is predominantly based on agriculture, which accounts for one-third of GDP and is the main source of income for 80 percent of the population. The agricultural sector is dominated by small-scale farms producing export and food crops. Agricultural products provide about 60 percent of export earnings. Major exports are vanilla, coffee, and shellfish. Rice is the country's main staple. The industrial sector (about 13 percent of GDP) is showing positive results from efforts to move away from capital-intensive and import-substituting activities toward labor-intensive and export-oriented production. Madagascar has significant long-term economic potential, given its industrious labor force and an abundant and wide variety of natural resources.

Poverty and Social Indicators

Madagascar's social conditions are below Sub-Saharan standards: life expectancy is about 50; child mortality claims 15 percent of live births before age five; malaria is a major health problem, and tuberculosis and other communicable diseases are increasing; chronic malnutrition of up to 40 percent exists in certain areas; and illiteracy is increasing. Food security is a particularly serious problem, especially in urban areas, and has worsened over recent years largely due to economic decline. The public health and education systems are poorly managed, underfunded, and inefficient. Little has been done to control population growth.

Madagascar is one of the ecologically richest countries in the world; unfortunately it is also one where the heritage of biological diversity is more at risk as the country finds itself in a cycle of environmental degradation that increasingly threatens sustainable development. The forest cover has been reduced by 50 percent in the last 30 years, and in some areas erosion is decreasing agricultural productivity and threatening infrastructure. Low technology use, slash-and-burn cultivation, and wide-spread poverty and high population growth have contributed to environmental degradation. The authorities recognized the importance of this issue, and Madagascar was the first African country to prepare a national environmental action plan.

From independence in 1960 until 1970, Madagascar enjoyed modest growth. The trend faltered in the mid-1970s as the country underwent a socialist revolution that resulted in authoritarian rule and dirigiste economic policies. The government followed a policy of nationalization and economic controls that effectively discouraged private-sector development. It made industrialization through import substitution a central objective, with agriculture relegated to a supporting role. By the late 1970s this strategy culminated in an ambitious public investment program composed of large, capital-intensive and economically nonviable projects, financed to a large extent by external borrowing on commercial terms. The policy, together with declining terms of trade and stagnant domestic revenues, led to widening external and domestic disequilibria, high inflation, and a contraction in real GDP of 11 percent between 1980 and 1982. The government was soon obliged to institute a stabilization program with support from the IMF.

The financial situation stabilized over the 1983-87 period, during which there was once again modest growth. A series of measures to liberalize domestic trade and deregulate prices, in conjunction with a sizable devaluation of the currency and a liberal import system, boosted output. Between 1988 and 1990 Madagascar saw a modest increase in per capita GDP. This period also saw an increase in private domestic and foreign investment, particularly in the export industries.

Recent Political Developments

Economic progress was accompanied by political liberalization, which began in 1989 with the lifting of press censorship and included unrestricted multiparty activity, as well as steps to adapt the country's socialist constitution to the new market orientation. However, demonstrations and strikes erupted in the summer of 1991, paralyzing public administration and severely disrupting economic activity. Output fell, inflationary pressures increased and the external position weakened. The situation of the poor worsened. Despite the unfavorable political and economic environment, private sector investment continued, particularly in labor-intensive export activities under the special regime of the export processing zone, which was introduced in 1990 and was very successful in creating jobs and expanding nontraditional exports during 1990-93. This private sector response vividly demonstrates Madagascar's underlying potential and reinforced the position of reform-minded groups in the country that support new adjustment measures and private-sector-led growth.

The political crisis led to a transitional power-sharing arrangement, and a coalition government was put in place in early 1992. A new constitution was adopted in August 1992, and presidential elections were held in February 1993, followed by parliamentary elections that June, and a new government was formed in August 1993. The shift to pluralistic democracy was remarkably peaceful.

The Adjustment Program

In 1985, when fiscal deficits and inflation had been reduced to manageable levels, the government turned its attention to structural adjustment efforts with the support of the World Bank and other donors. The adjustment process first focused on correcting the large currency overvaluation, reducing price controls, streamlining and reforming the inefficient parastatal sector and state-owned banking system, and liberalizing domestic and external trade. In 1987 the government embarked on a broader reform agenda spelled out in a series of policy framework papers supported by the IMF.

The policy reforms undertaken since the mid-1980s have drastically altered Madagascar's economic landscape, bringing an unprecedented degree of freedom to the markets and restoring economic growth after a prolonged period of uninterrupted decline. The adjustment experience also contributed to an important shift in mindsets. The export processing zone demonstrates the potential for export-led, private-sector-based growth.

Recent Economic Developments

Political transition to multiparty democracy and disruption of the adjustment process significantly affected Madagascar's economic and financial performance over 1991-94: real per capita income declined by 10 percent, the fiscal situation deteriorated, the competitiveness of the economy declined, and poverty increased.

The economic price exacted by the political transition was particularly costly in 1991 when real output declined 6.8 percent, private per capita consumption decreased 3.6 percent, and inflation rose 14 percent. The 20 percent decrease in imports in dollar terms was not sufficient to reverse the worsening external position, forcing the accumulation of $180 million in new arrears by end-1991 and the suspension of the open general licensing system of foreign exchange allocation in October 1991. Government revenue declined to 9.3 percent of GDP, compared to 13.3 percent in 1990. The overall fiscal deficit climbed to 10.2 percent of GDP, compared to 7.8 percent in 1990).

Over the 1992-94 period, economic growth averaged 1.6 percent, underscoring the need for widespread reform. Domestic investment and savings remained low, at about 12 percent and under 3 percent of GDP, respectively. In the external sector, some improvement was noted as the current account deficit (without grants) relative to GDP fell to about 9 percent on average (compared to 10 percent in 1991). Government revenue stagnated, averaging 9.9 percent of GDP. The overall deficit of the central government continued to remain high, averaging 8.5 percent of GDP. During the period, inflation was almost 18 percent. The debt overhang continued to be a serious constraint: debt outstanding remains high at 140 percent of GDP by end-1994, and the scheduled debt service ratio represented 60 percent of exports, and Madagascar was in arrears to most of its creditors. Arrears amounted to about $1.6 billion at the end of 1994.

Madagascar's vulnerability to external factors was apparent in early 1994 when two cyclones struck the island, wreaking great damage to the main transport corridor linking the port of Toamasina to the central highlands, where the capital is located. Roads, bridges, and railway lines were disrupted not only because of aging infrastructure but because of runoff made worse by environmental degradation.

In April 1994 the government committed itself to resume the economic reform process and took initial steps. A floating exchange rate system put in place in May resulted in a nominal devaluation of about 100 percent against the French franc; import restrictions were lifted; and a revised budget law was presented to parliament, including a new value-added tax. The momentum of reform halted, as the government was unable to reach agreement on a program with the World Bank and the IMF. Early in 1995 the government signaled its desire to renew dialogue with the Bretton Woods institutions, and agreement was reached with the IMF on the government's program, with the primary objective of sharply moderating inflation. Program measures included sharp price increases for energy products, consistent with the termination of price subsidies and increases in excise taxes. The government also decided to revise its 1995 budget.

Medium-Term Prospects

Despite the setbacks to adjustment during the political transition, private investors have maintained their confidence in Madagascar's future. Progress depends, however, on the pace of economic reforms. The complex political landscape in the country, characterized by infighting and jockeying for control at various levels throughout government, may still further delay decisionmaking and the process of recovery.

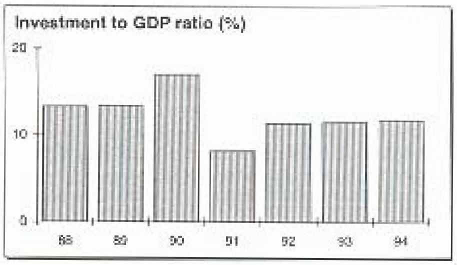
The government has committed itself, in principle, to a program of economic revitalization designed to unleash the Madagascar's substantial potential and put the country on a sustainable growth path. Its priorities are to stabilize the economy by restoring macroeconomic management, with the principal objectives of increasing public savings, strengthening monetary management, and containing inflation, and fostering private-sector development by improving the business environment and providing needed infrastructure.

Madagascar

Population mid-1993 *(millions)*	13.9	Income group:	**Low**
GNP per capita 1993 *(US$)*	220	Indebtedness level:	**Severely indebted**

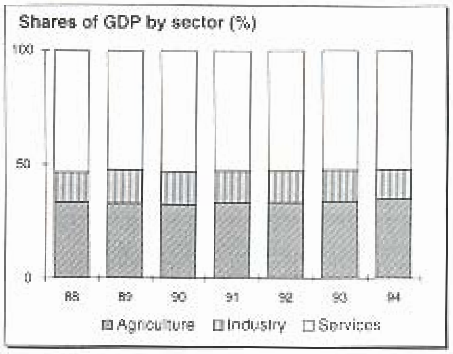
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	8.5	17.0	11.3	11.4	11.7
Exports of goods and nfs/GDP	11.6	16.6	16.7	15.3	22.2
Gross domestic savings/GDP	1.3	6.3	3.5	2.3	1.5
Gross national savings/GDP	-1.9	3.6	2.6	2.3	..
Current account balance/GDP	-8.5	-13.4	-8.7	-9.7	-16.6
Interest payments/GDP	2.1	3.7	1.1	0.7	1.1
Total debt/GDP	96.1	137.5	149.8	136.3	149.4
Total debt/exports	765.2	796.2	879.1	948.9	529.9


Investment to GDP ratio (%)

GDP: PRODUCTION

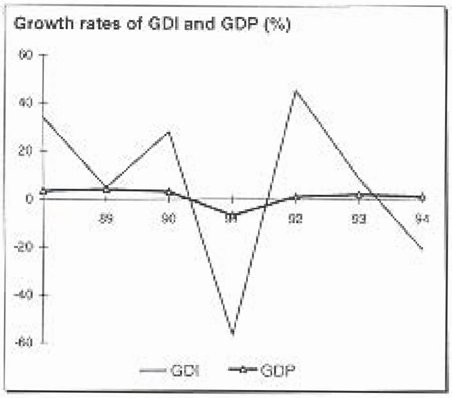
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	35.1	32.3	33.3	33.9	35.3
Industry	13.3	14.3	13.8	13.8	12.7
Manufacturing	..	..	..	..	..
Services	51.5	53.4	52.9	52.2	52.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.1	1.5	1.7	3.2	-0.5
Industry	2.3	-0.7	-1.0	3.2	-6.1
Manufacturing	..	..	..	..	..
Services	2.6	0.3	1.1	2.2	4.0
GDP	2.8	-0.2	1.1	2.1	1.1



Shares of GDP by sector (%)

GDP: EXPENDITURE

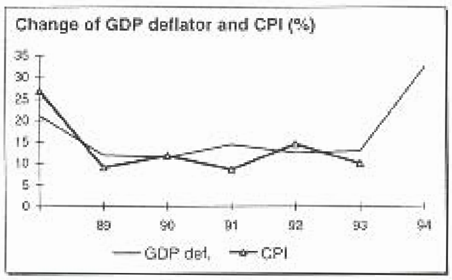
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	89.0	87.5	89.1	89.9	91.0
General government consumption	9.8	6.2	7.5	7.9	7.5
Gross domestic investment	8.5	17.0	11.3	11.4	11.7
Exports of goods and nfs	11.6	16.6	16.7	15.3	22.2
Imports of goods and nfs	18.9	27.3	24.5	24.5	32.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.3	0.1	-3.0	2.8	2.5
General government consumption	1.3	-2.2	0.5	-3.6	0.7
Gross domestic investment	17.8	-7.4	45.4	8.6	-21.0
Exports of goods and nfs	3.7	4.4	2.0	4.8	7.1
Imports of goods and nfs	-1.6	-0.4	0.6	8.7	0.4
Gross national product	2.5	0.2	3.0	2.8	0.7
Gross national income	1.5	-0.6	2.0	1.8	0.8



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.6	11.8	14.5	10.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	10.4	11.4	12.6	13.0	32.4
Government finance					
(% of GDP)					
Current budget balance	-0.4	0.0	-4.3	-1.6	-1.7
Overall surplus/deficit	-7.5	-7.8	-12.4	-10.1	-5.8



Change of GDP deflator and CPI (%)

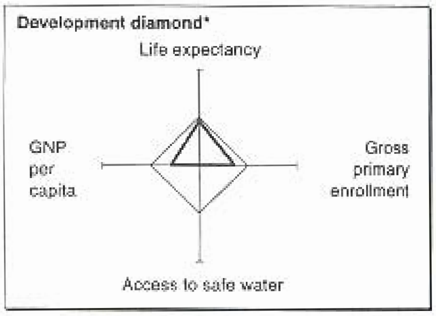
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Madagascar

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.4	3.2
Labor force	2.1	2.3

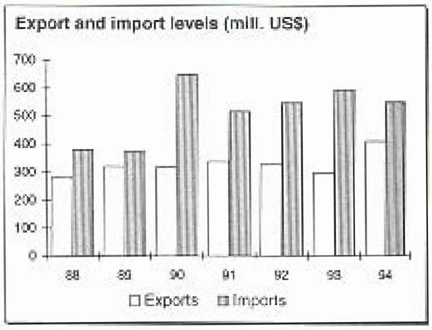
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	57.0
Infant mortality *(per 1,000 live births)*	93.0
Child malnutrition *(% of children under 5)*	39.0
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	34.2
Illiteracy *(% of population age 15+)*	19.8
Gross primary enrollment *(% of school-age population)*	79.0



Development diamond*

TRADE

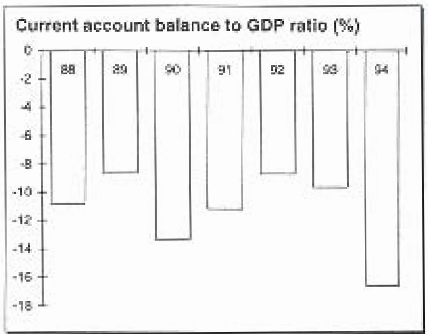
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	291	319	328	297	410
Coffee	103	39	32	40	143
Other food	35	20	9	6	51
Manufactures	..	..	..	7	12
Total imports (cif)	466	649	547	594	549
Food	50	49	58	51	117
Fuel and energy	85	113	72	84	60
Capital goods	98	186	129	139	129
Export price index *(1987=100)*	92	112	117	112	..
Import price index *(1987=100)*	133	136	108	118	..
Terms of trade *(1987=100)*	69	82	108	95	..
Openness of economy *(trade/GDP,%)*	31	44	41	40	55



Export and import levels (mill. US$)

BALANCE of PAYMENTS

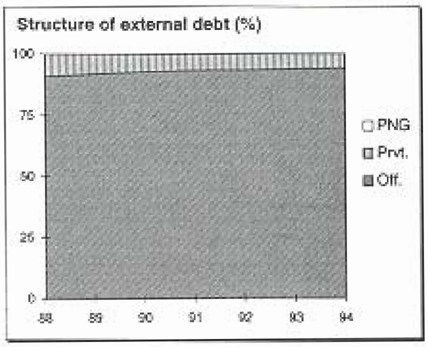
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	350	513	499	481	601
Imports of goods and nfs	503	842	733	810	880
Resource balance	-153	-329	-234	-328	-279
Net factor income	-129	-160	-137	-130	-240
Net current transfers	39	77	109	132	51
Current account balance					
Before official transfers	-243	-412	-262	-326	-468
After official transfers	-243	-251	-136	-167	-404
Long-term capital inflow	66	17	-79	-78	-114
Total other items (net)	154	97	231	262	518
Changes in net reserves	24	137	-17	-16	0
Memo:					
Reserves excluding gold *(mill. US$)*	46	92	..	..	..
Reserves including gold *(mill. US$)*	48	92	..	..	..
Conversion rate *(local/US$)*	662.5	1,494.1	1,864.0	1,913.8	3,064.8



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	676.5	711.0	764.3	809.7	510.8
IMF credit/exports	51.3	27.0	20.7	19.0	10.5
Short-term debt/exports	37.4	58.2	94.0	120.2	8.7
Total debt service/exports	48.6	49.1	19.1	14.3	12.0
GDP ratios					
Long-term debt/GDP	85.0	122.8	130.3	116.3	144.0
IMF credit/GDP	6.4	4.7	3.5	2.7	2.9
Short-term debt/GDP	4.7	10.0	16.0	17.3	2.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	18.4	7.4	6.7	6.1	5.8
Official creditors/long-term	81.6	92.6	93.3	93.9	94.2



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Malawi

Over the past three years Malawi has completed a remarkably peaceful political transition from some thirty years under a single-party system to a multiparty democracy. This achievement is all the more impressive given the economic challenges of the early 1990s, including withdrawal of nonhumanitarian bilateral donor support because of governance issues, severe deterioration in terms of trade, and the worst regional drought on record. The new government has put poverty alleviation squarely in the center of its development agenda and is committed to a major structural adjustment effort over an extended period to reestablish private sector confidence in the economy, facilitate diversification of the economic base and ownership structure, and achieve a sustainable supply response.

During the 1960s and 1970s Malawi's development strategy emphasized infrastructure and estate agriculture as prime vehicles for increased production and growth. Malawi's economy was open, and world market prices for its major exports (tobacco, tea, coffee, and cotton) were relatively high, real GDP more than doubled, and real per capita income grew 3 percent a year. The period of strong growth ended in the early 1980s with the onset of economic problems and external shocks, including deterioration of the terms of trade, oil crises, disruption of external transport routes through Mozambique, and drought. These shocks led to a decline in per capita income and policy setbacks that culminated in 1987 by reversing the openness of the economy and discouraging private sector investment and output.

Malawi embarked on a series of structural adjustment programs in response to these shocks that aimed at correcting the underlying economic fundamentals and removing structural obstacles to growth. Although the early adjustment efforts resulted in several short-lived periods of economic recovery during the 1980s, the government largely failed to effectively address barriers to growth that resulted from the bias against smallholder farmer access to cash crops, discrimination against ethnic minorities, expenditure bias against the social sectors, and an overvalued exchange rate. As a consequence, the country continued to suffer from long-standing distortions and Malawi's social and human resource indicators deteriorated throughout the 1980s.

Malawi took initial steps in 1989 to develop structural policies focused on removing constraints to sustainable growth while addressing the roots of pervasive poverty. The new attempt to reliberalize the economy included lifting restrictions on smallholder access to cash crops, removing constraints on private participation in all sectors of the economy, and moving toward a more liberal external sector policy. Increasing adoption of fertilizer and hybrid seed in the smallholder sector, combined with expanding private sector participation in production and marketing, resulted in per capita GDP growth of 2 percent a year over 1989-91.

Recent Economic Developments

Economic management was challenged by external developments, including the unprecedented drought throughout southern Africa in 1992, significant deterioration in Malawi's terms of trade, and the bilateral donors' decision at the 1992 consultative group meeting to withhold all new nonhumanitarian aid because of governance issues. Following several years of macroeconomic stability and positive per capita growth, Malawi's economy contracted by more than 7 percent in 1992. The return of normal weather during the 1992/93 crop season helped facilitate recovery in agriculture, allowing overall GDP to grow some 9.3 percent in 1993.

After the June 1993 referendum that endorsed the move to multiparty democracy and subsequent steps taken by the government, donors agreed to resume economic aid and financial support at the December 1993 consultative group meeting. When the new government took office in May 1994 it inherited several daunting and immediate challenges. Fiscal and monetary discipline suffered in the months immediately preceding the May elections, and the situation was aggravated by the second drought within a three-year period. As a consequence, economic and financial stabilization efforts of the early 1990s were not sustained.

Economic performance in 1994 was overshadowed by the drought, which contributed to a serious recession.

Real GDP declined in 1994 compared to a positive growth rate of 9 percent in 1993. Agricultural output declined by 30 percent mainly on account of a 33 percent decline in smallholder agriculture.

The government had difficulties maintaining its budget in fiscal years 1994 and 1995 because of the high cost of the political transition, drought-related costs that were much higher than projected, and a depreciation of the kwacha that was more precipitous than expected. In response to the intensifying fiscal crisis the government adopted a supplementary budget in November 1994 supported by administrative strengthening of tax and customs collection, expenditure monitoring, and a move to a cash budget. However, implementation of both revenue and expenditure control measures was ineffective and massive overspending continued across most ministries. As a consequence, the overall fiscal deficit (after grants and excluding drought) for fiscal 1995 is estimated at 9.7 percent of GDP, more than double the target under the supplementary budget.

Failure to control the fiscal program led to excessive borrowing from the domestic banking system, which more than offset the positive effects from tightening of the monetary stance through aggressive treasury bill sales and increased interest rates. As a result, money supply grew over 50 percent in fiscal 1995, against a targeted growth rate of 33 percent. Excessive monetary growth, combined with a cumulative depreciation of the kwacha against the dollar of approximately 250 percent since the kwacha was floated in February 1994 contributed to a consumer price index increase of 66 percent between December 1993 and December 1994. This unanticipated rise in inflation and the concurrent increase in interest rates have significantly dampened economic activities and virtually stalled new investment activities in Malawi.

The government has recognized that rigorous macroeconomic adjustment and stabilization measures are required to avoid spiraling inflation and further downward pressure on the kwacha, rebuild private-sector confidence in the economy, and preserve the progress made in deregulation and liberalization. Immediate and effective measures, supported by external aid resources, are necessary to reverse the fiscal deterioration before government can successfully embark on sustainable structural reforms and poverty alleviation measures.

The IMF approved a standby in November 1994, and Malawi has since strengthened its program with the view to embarking on a three-year structural adjustment program in mid-1995. In February 1995 the government agreed on a comprehensive set of fiscal, monetary, and exchange measures to prevent a downward economic spiral of high inflation, sharp devaluation of the kwacha, high wage increases, and further depression of economic activities. This policy package is embedded in the draft fiscal 1996 budget and includes revenue measures, expenditure cuts, administrative strengthening of tax and tariff collection, and strict enforcement of the cash budget through commercial banks and weekly monitoring by the treasury. Restoring fiscal discipline combined with continued sales of treasury bills will allow the government to avoid borrowing from the banking system on a net basis this fiscal year. Successful implementation of the program would help reduce the fiscal deficit (after grants and excluding drought) to 4.5 percent of GDP and reduce inflation substantially by the end of calendar 1995. The integrity of the fiscal program depends critically on limiting the civil service wage bill in the short term and implementation of a civil service reform program in the medium term.

Malawi's central problem is poverty, and poverty alleviation is at the core of its development agenda for the 1990s. A Presidential Council on Poverty Alleviation with broad-based participation by NGOs, traditional leaders, religious groups, and political parties has been established to set overall policy direction, mobilize resources, and sensitize the population to poverty issues and programs. The government has integrated poverty reduction into its growth strategy through policies to expand employment opportunities by creating a liberal environment for private entrepreneurship and initiative, enhancing agricultural productivity for poor small farmers, ensuring sustainable use of land resources, and expanding human capital through increased public expenditures for education, health, and other social services.

Medium-Term Prospects

Although Malawi has made progress in deregulating the economy, development of the private sector has remained sluggish, the supply response has not been adequate for sustained growth and balance-of-payments viability, and there has been little diversification out of the traditional exports of tobacco, tea, and sugar. The formal economy remains highly concentrated, and financial markets are thin and shallow. Investment response has been obstructed by official caution and long delays in decisionmaking. The trade tax regime has not been sufficiently oriented toward export markets on which Malawi's future production and employment growth will rely heavily.

Sustainable future growth will depend on increasing domestic savings to finance a larger share of total investment. Prerequisites for increased domestic savings include continued improvements in the public sector financial position, higher private savings generated through reforms in the financial sector and improved profitability of the enterprise sector, and substantial reduction in transport costs as a result of the reopening of lower-cost transport routes to the sea through Mozambique.

The government's major challenge is to sustain and further the process of economic deregulation and facilitate participation in the economic process of those economic agents who were excluded in the past. A program to fully liberalize smallholder access to cash crops and inputs is under way. Land policy reform and public enterprise privatization are in the initial stages of policy formulation. These programs seek to promote equity; reduce concentration of ownership in manufacturing, distribution, and finance sectors; and enhance domestic competition and economic diversification, thereby raising productivity, external competitiveness, and long-term rates of growth.

In addition to shortfalls in physical capital accumulation, Malawi's long-term growth prospects are seriously constrained by a poor human capital base as manifested in one of the lowest school enrollment ratios in Sub-Saharan Africa. Low education and health levels have limited the ability of small farmers, particularly women, to respond to incentives and have limited the potential for broadening sources of income for the economy. The government has made free primary education the centerpiece of its policy in the development of human capital; four weeks after the May 1994 election, all primary school fees and school uniform requirements were abolished. An improved public expenditure planning process is shifting resources to social sectors to accommodate the additional financing requirements that resulted from the 50 percent increase in primary school enrollment rates in 1994. Increasing attention will be given to improving the efficiency and effectiveness of expenditures in the social sectors through keener focusing of such expenditures on rural areas where most of the poor live; on primary education and cost-efficient secondary education, from which the majority of the poor can benefit, rather than universities; and on low-cost rural health centers rather than expensive urban hospitals.

The government is also committed to strengthening family planning activities, including increased population education in school curricula; expansion of child-spacing services; and supporting the new National Family Welfare Council to address high population growth rates and population density, and organizing and improving the lot of women.

Rapid population growth and low agricultural productivity have led to an increasingly unsustainable demand on land and forest resources, shown in growing soil erosion rates, declining soil fertility, widespread deforestation, increasing scarcity of potable water, and overfishing in Lake Malawi. Government policy calls for strengthening management of natural resources, with emphasis on indigenous forest management, afforestation, fisheries, and soil conservation, and it is preparing an institutional and policy framework as a follow-up to its 1994 environmental action plan.

External Debt

Malawi's debt burden is largely official and is the direct result of increased support from bilateral and multilateral creditors after the external shocks of the 1980s. In contrast to other developing countries, net flows and net transfers to Malawi have been strongly positive throughout the 1980s and early 1990s, reflecting the volume and concessionality of official flows.

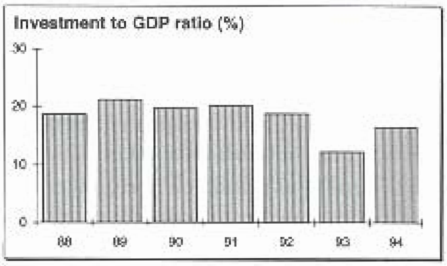
Debt indicators for Malawi deteriorated sharply in the first half of the 1980s, not only because of the increase in debt flows, but because of a weakening in growth and export performance and significant decline in the terms of trade. Debt ratios have improved since 1987 with the recovery of export earnings and the efforts of creditors to shift to grants and concessional financing. In recent years, Malawi has followed a very conservative policy with regard to long- and medium-term debt and has contracted mainly concessional loans. The total stock of public and publicly guaranteed external debt held by the central government as of end-1994 was approximately $1,908 million, including external debt held by the parastatal sector of $98 million. The debt-GDP ratio reached 147 percent in the drought-affected year. Although the ratio is expected to drop with a return to higher GDP levels, it is expected to remain around 100 percent of GDP.

Malawi

Population mid-1993 *(millions)*	**10.5**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**200**	Indebtedness level:	**Moderately indebted**

KEY RATIOS

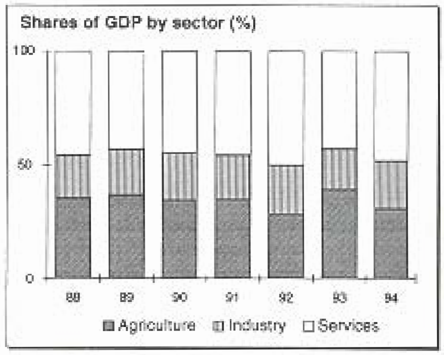
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.6	19.7	18.8	12.3	16.5
Exports of goods and nfs/GDP	24.2	24.8	22.5	16.6	31.2
Gross domestic savings/GDP	12.9	9.7	1.9	1.8	-1.7
Gross national savings/GDP	9.1	6.6	-1.1	1.2	..
Current account balance/GDP	-8.5	-8.0	-18.6	-11.2	-20.3
Interest payments/GDP	2.6	1.8	1.6	1.4	2.4
Total debt/GDP	90.0	87.9	91.7	92.3	161.6
Total debt/exports	361.2	347.0	402.1	545.7	499.5



Investment to GDP ratio (%)

GDP: PRODUCTION

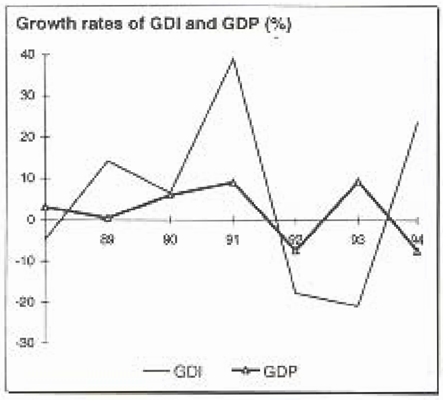
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.6	34.4	28.3	39.2	30.7
Industry	18.7	20.9	21.7	18.1	21.2
Manufacturing	12.3	14.1	14.6	11.8	..
Services	44.7	44.7	50.0	42.7	48.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.3	-0.4	-25.1	53.4	-29.3
Industry	4.9	0.2	2.4	-7.4	5.3
Manufacturing	4.9	-0.8	3.0	-10.5	5.4
Services	3.8	-0.2	0.8	-5.4	0.7
GDP	2.0	0.6	-7.3	9.3	-7.3



Shares of GDP by sector (%)

GDP: EXPENDITURE

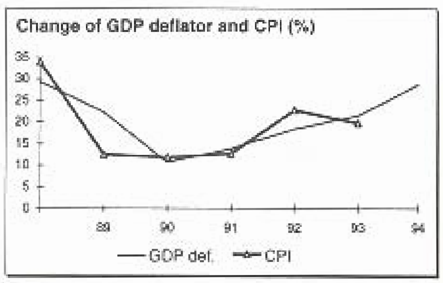
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	69.4	74.6	79.5	81.5	87.7
General government consumption	17.7	15.7	18.5	16.7	13.9
Gross domestic investment	18.6	19.7	18.8	12.3	16.5
Exports of goods and nfs	24.2	24.8	22.5	16.6	31.2
Imports of goods and nfs	29.9	34.9	39.3	27.1	49.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.2	0.2	-8.7	7.9	-6.9
General government consumption	4.7	-4.4	0.7	-3.1	-18.5
Gross domestic investment	-0.8	-2.1	-17.8	-20.9	23.5
Exports of goods and nfs	-0.3	0.1	-2.9	-5.0	7.7
Imports of goods and nfs	4.7	-3.9	-9.3	-21.1	12.6
Gross national product	2.5	0.6	-7.3	9.6	-8.3
Gross national income	1.8	-1.2	-12.2	7.3	-7.2



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.5	11.8	22.7	19.7	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	8.9	10.6	18.3	21.4	28.7
Government finance					
(% of GDP)					
Current budget balance	-0.7	-0.2	-4.3	-3.3	-9.8
Overall surplus/deficit	-6.9	-7.3	-11.6	-8.7	-14.9



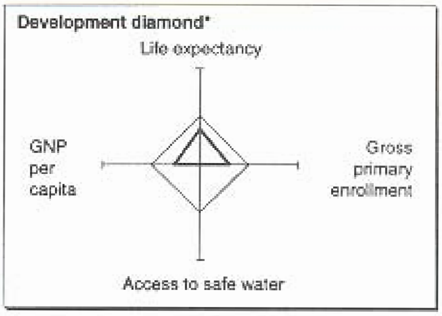
Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

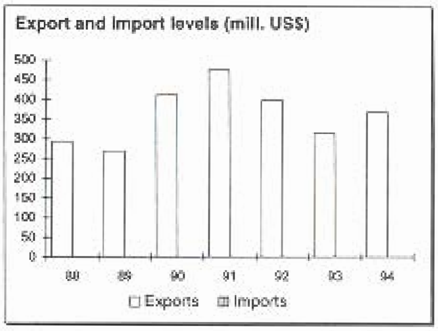
	1985-90	1990-94
(annual growth rates)		
Population	5.1	3.9
Labor force	2.6	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	45.4
Infant mortality *(per 1,000 live births)*	141.6
Child malnutrition *(% of children under 5)*	27.0
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	34.8
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	66.0



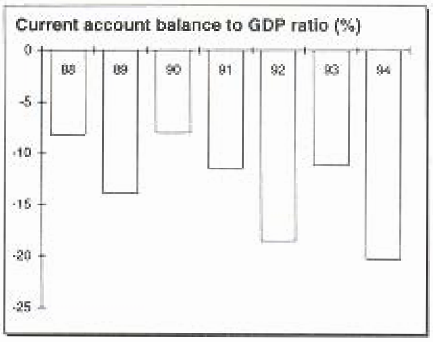
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	250	412	397	315	367
Sugar	26	28	27	16	27
Tea	53	47	30	35	31
Manufactures	16	28	28	32	32
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	84	118	110	94	98
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	54	60	62	44	81



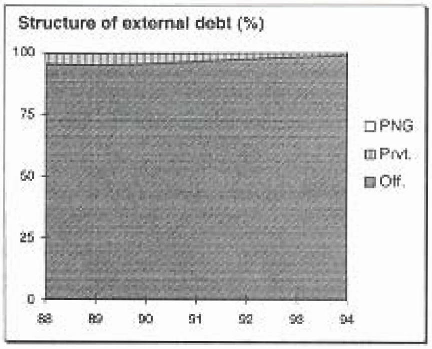
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	276	447	417	332	383
Imports of goods and nfs	331	537	706	541	597
Resource balance	-54	-90	-288	-209	-214
Net factor income	-53	-43	-39	-41	-46
Net current transfers	10	-11	-18	30	18
Current account balance					
Before official transfers	-97	-145	-345	-221	-242
After official transfers	-72	-64	-227	-143	-130
Long-term capital inflow	23	87	92	150	154
Total other items (net)	10	-6	20	21	-7
Changes in net reserves	40	-18	114	-29	-17
Memo:					
Reserves excluding gold *(mill. US$)*	45	137	40	57	..
Reserves including gold *(mill. US$)*	49	142	44	62	..
Conversion rate *(local/US$)*	1.7	2.7	3.6	4.5	8.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	281.0	308.3	368.6	516.5	495.3
IMF credit/exports	51.6	25.2	21.7	25.8	1.6
Short-term debt/exports	28.6	13.5	11.8	3.5	2.6
Total debt service/exports	38.9	23.7	24.9	22.3	20.0
GDP ratios					
Long-term debt/GDP	70.0	78.1	84.1	87.3	160.2
IMF credit/GDP	12.9	6.4	4.9	4.4	0.5
Short-term debt/GDP	7.1	3.4	2.7	0.6	0.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.2	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	11.7	4.4	2.6	1.8	1.0
Official creditors/long-term	88.3	95.4	97.4	98.2	99.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Malaysia

With a real income per capita of $3,140 in 1993, Malaysia is comfortably placed among the upper-middle-income countries. GDP growth in 1994 is estimated at 8.3 percent, the average since 1991. The economy was propelled in this period by a manufacturing sector that grew an average of 13 percent a year. Malaysia is fortunate in having a rich and diverse resource base. This, combined with prudent macroeconomic management — particularly since the mid-1980s — high domestic savings, sound policies for long-term development, and well-managed public institutions, has resulted in impressive growth performance. Significant progress has also been made in poverty alleviation, improvement in income distribution, and educational advancement. These social policy achievements also facilitated Malaysia's remarkably quick adjustment to, and recovery from, the severe economic recession of 1985-86.

Malaysia's real GDP growth averaged 6.9 percent from 1965 to 1994. Three elements were important in this sustained performance. First, substantial attention was given to agriculture, resulting in high productivity gains that cushioned the sector against occasionally steep commodity price declines. Second, manufacturing growth has been rapid, at about 12 percent a year over the last two decades, initially led by domestically oriented subsectors, but more recently led by export industries. Third, the economy has been kept very open. Exports were 80 percent of GDP in 1993, while imports, fueled by high growth and an average nominal tariff rate of 13 percent, were 75 percent of GDP. Furthermore, the increasing export orientation of the economy was accompanied by a transition from an initial dependence on rubber and tin to a broadly diversified basket including palm oil, logs, petroleum and gas, cocoa, and manufactured goods.

Malaysia is a small, very open economy that is sensitive to developments in the external environment. In the past, most recently in 1985-86, external terms of trade shocks have led to recession and prolonged unemployment. To minimize the impact of such external shocks, Malaysia has diversified its exports. In 1975 primary goods constituted 64 percent of exports; their share has now fallen to 40 percent, with manufactured goods accounting for the majority.

Political stability is vital for the sustained development of a multi-ethnic society such as Malaysia's. Malaysia's population consists of 58 percent Malays and other indigenous groups (known as "bumiputra"), 32 percent Chinese, and the remainder largely of Indian origin. At the time of independence, the country inherited deep divisions in the distribution of income between ethnic communities. Poverty affected all ethnic groups but was disproportionately high among Malays; their average per capita incomes were only half those of the Chinese community. In 1971 the government declared a new economic policy, to be effective through 1990, that accorded priority to eradicating poverty and reducing group imbalances in income, employment, and ownership of assets. Considerable progress has been made in poverty alleviation. By 1989 only 16 percent of households were living below the poverty line in rural areas and 4.8 percent in urban areas, compared with 44.8 percent and 21.8 percent of households in 1973. In addition, there has been substantial progress toward reducing intergroup disparities in income and asset ownership.

Recent Economic Developments

Malaysia has enjoyed sustained economic growth in the seven years since the recession of 1985-86, based on sound macroeconomic management, a pragmatic, market-oriented development strategy, and a disciplined and educated labor force. Recent economic developments indicate that as Malaysia industrializes and approaches middle-income status, it will need to watch the emerging trends in these areas carefully. Of particular focus will be the labor market, where shortages are already beginning to emerge.

Malaysia's strong growth performance in 1994 put some pressure on domestic resources, which was addressed through tighter financial policies. Both domestic and external demand grew rapidly in 1994, resulting in an acceleration of inflation at the beginning of the year and a widening current account deficit. In response, the authorities applied fiscal and monetary restraint: for the second year in a row, the government achieved an overall budgetary surplus. The strong fiscal position contributed to a deceleration of monetary growth, with the main sources of monetary expansion limited to a strong demand for credit from the private sector and the external operations of the central bank. In the foreign exchange market, the real value of the ringgit remained roughly constant over the period. These policies resulted in a moderation of inflation to 3.2 percent in the third quarter, from 4.5 percent at the beginning of the year, and 3.4 percent in 1993. The external deficit, however, did not abate, as import growth, mainly for equipment and industrial components, outpaced an export growth close to 25 percent for the first three quarters of the year. The net international reserves of the central bank remained substantial at the equivalent of 7.4 months of retained imports at end-September 1994.

Manufacturing, construction, and services continued to perform strongly in 1994. Overall manufacturing value added grew at close to 15 percent over the first three quarters of the year. Growth was sustained in both the export and domestic sectors. Expansion was particularly strong in transport equipment, nonmetallic mineral products, textile and wearing apparel, and electronics and electrical products. Agricultural value added declined, due mainly to a fall in palm oil production and a decrease in saw log production reflecting a policy of more sustainable forest management.

Malaysia is firmly committed to a pragmatic, market-oriented approach to development. This is recognized in the post-1990 development strategy, which prescribes a supportive role for the government through investment in skills and infrastructure upgrading but recognizes government's fiscal limitations. The privatization program is now in full gear, with private sector firms being invited to participate in mass urban transport, the power and gas industries, water, sewerage, and industrial waste treatment. This would allow expansion of public infrastructure without increasing the financial burden on the budget, if it is implemented judiciously. The private sector is also expected to play an increasing role in education, training, and research.

The competitive edge enjoyed by Malaysia on account of its disciplined and educated labor force and relatively low unit labor costs is becoming harder to sustain. The labor market is tightening rapidly. Unemployment has fallen below 3 percent, and with job creation — 2.9 percent — higher than the rate of labor supply growth — 2.8 — shortages are emerging in several important industrial sectors. This has started to exert pressure on wages. There is already a growing need to import contract labor from neighboring countries to relieve this supply bottleneck.

A competitive labor market is an important determinant of foreign direct investment, which now constitutes 28.6 percent of investment in Malaysia. Large inflows of foreign direct investment — mainly from Asia — have helped expand Malaysia's manufacturing base and have facilitated access to markets abroad. Taiwan (China), Japan, the Republic of Korea, the United States, and Indonesia are the largest sources of foreign direct investment. The bulk of the investment is in basic metals products, petroleum industries, chemicals and chemical products, electrical and electronic products, and nonmetallic products. Net inflows of foreign direct investment rose sharply over 1988-91 and stood at $4.5 billion in 1992, before slipping slightly to $4.4 billion in 1993.

Malaysia's success in attracting direct investment is partly due to its location and its cultural ties with Singapore and Taiwan (China) in particular. The gradual deregulation of financial markets, started in the 1970s and accelerated in the 1980s, has allowed freer capital movements and thus contributed to Malaysia's attractiveness as a destination of direct investment flows. But economic and political stability are equally important. Consistently good growth performance, low inflation, a stable exchange rate, an efficient and competitive private sector, and a favorable regulatory framework have reduced the risk of doing business in Malaysia. Business costs are also lowered by the availability of an educated and disciplined labor force and good infrastructure. The last two features are now the focus of public policy, as the government is keenly aware of the intensive competition for investible funds within the region.

Medium-Term Prospects

As a result of dynamic economic performance, Malaysia is in a strong position to pursue its goal of becoming an industrialized economy early in the 21st century. To consolidate and build upon the growth momentum of recent years, Malaysia's prime minister has set out a target of achieving industrial country status in three decades. "Vision 20-20," as this target has come to be called, requires annual growth rates of 7 percent over the next 30 years. This would double GNP every ten years, and by 2020 income per capita would increase to nearly four times the 1991 level of $2,500. This is not as ambitious a target as it might seem, as it translates into Malaysia achieving, in 30 years' time, the present real income level of Singapore. It does, however, pose challenges on several fronts.

Malaysia's long-term planning establishes a clear set of priorities for addressing these challenges. The government's strategic priority has been to establish political consensus around a new set of policies for equity and social restructuring, which will essentially rely on vigorous market-based growth as the principal means of improving income distribution, but will be accompanied by targeted programs designed to meet the specific needs of the hard-core poor. The second step will involve a strategic shift from public to private sector in the economy. This involves pursuing the unfinished economic liberalization agenda, privatization, and capital market reforms, and deriving maximum advantage from direct foreign investment, including strengthening its links with domestic industry. The third focal point is natural resource management, where Malaysia now recognizes that its long-term economic interests indicate a need for stronger management of mineral, land, and water-based resources, which in some cases (such as timber) have been exploited at unsustainable rates. Other important long-term issues addressed in the perspective plan concern organizing and financing social services, including health and technical and higher education, and reforming the fiscal system to ensure that it can handle expenditure growth in these and other areas.

Thus, the economy's growing strength and prosperity are beginning to define broad policy priorities for the future. The most important concern is maintaining international competitiveness as, given Malaysia's small domestic market, most growth will have to be generated through exports. Productivity improvement will become a central focus, with more internationally competitive Malaysian firms seizing market niches abroad. This is clearly acknowledged in the government's Second Outline Perspective Plan, issued in July 1991, along with the Sixth Five-Year Plan, covering 1991-95, which sets the broad development strategy for the 1990s.

Investment in human resources to upgrade labor skills to continue to attract foreign investment and move the production base to high-tech, greater value-added products is the second thrust of the new development strategy presented in the perspective plan. Recognizing this, the Sixth Plan has allocated M$2.6 billion to higher education and M$580 million to industrial training, increases of 50 percent and 93 percent over their levels in the Fifth Plan. The supply constraints on labor skills will be relaxed through improvements in technical training programs and restructuring higher education to improve the quality of graduates. These policies are expected to improve Malaysia's skills supply, keep a check on nonwage costs of labor, and rationalize the use of migrant workers to supplement the labor force.

The importance of maintaining adequate infrastructure is recognized in the plan documents as crucial for sustaining rapid growth and preserving Malaysia's attractiveness to foreign investors. The Sixth Plan allocates M$10.8 billion to developing transport and telecommunications, 44 percent of the total consolidated public sector development expenditure for the plan period. The government expects much of this investment to be provided through the private sector.

Preserving the environment has been a concern for Malaysia for many years, but has recently begun to figure more prominently in public debate and the government's policy agenda, which now includes efforts to integrate environmental and economic planning better within federal and state government structures, strengthen the environmental impact assessment process — the principal mechanism for preventing major damage to the environment — and to make remediation and treatment investments where needed to deal with environmental damage or potentially hazardous materials.

The Sixth Malaysia Plan gives new emphasis to the conservation and sustainable development of natural resources. It specifies that forest areas will be exploited carefully to ensure sustainable growth and safeguard the heritage of future generations. Since uncontrolled exploitation accelerates the depletion rate and undermines the development of vital sectors, the government is formulating a national conservation strategy to provide the framework for comprehensive resource planning and management, and has recently taken strong measures to discourage illegal logging and underdeclaration of timber royalties. Programs are being developed for progressive reforestation of 6.1 million hectares of logged-over forest, which represent 17.5 percent of the national land area, and additional forested areas are to be designated as forest reserves, animal sanctuaries, and national parks. Malaysia's coastal and marine ecosystems will be further protected to preserve biodiversity, promote tourism, and encourage marine research.

As a result of successful implementation of poverty alleviation programs in the last 20 years, complemented by impressive expansion in education and health services, the incidence of poverty was reduced to under 15 percent in 1990. Hard-core poor are now under 2 percent of the population. Target programs will continue to redress hard-core poverty in specific locations and among households where the household head is sick or has passed away. The bulk of poverty alleviation, however, is expected to come from economic growth and the movement of the poor to higher-paid jobs.

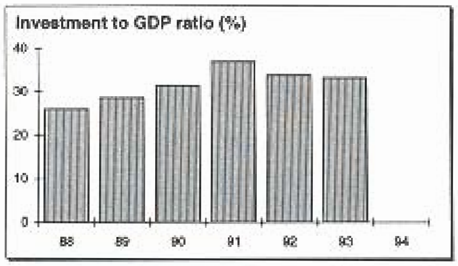
Malaysia

Population mid-1993 *(millions)*	19.0
GNP per capita 1993 *(US$)*	3,140

Income group: **Upper-middle**
Indebtedness level: **Less Indebted**

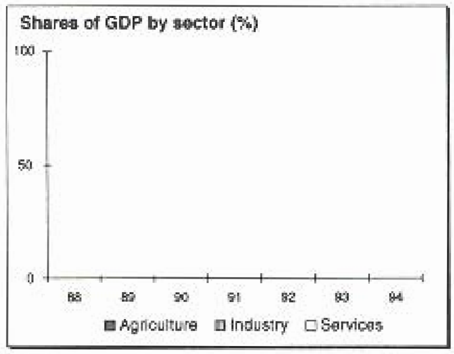
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	27.6	31.5	33.8	33.2	..
Exports of goods and nfs/GDP	54.9	76.6	78.0	80.3	85.4
Gross domestic savings/GDP	32.7	33.4	35.5	38.1	..
Gross national savings/GDP	25.5	29.1	30.5	33.4	..
Current account balance/GDP	-2.1	-2.3	-2.8	-3.3	-10.0
Interest payments/GDP	4.6	2.5	1.7	1.6	1.6
Total debt/GDP	65.0	37.5	34.4	36.2	36.3
Total debt/exports	114.0	46.6	42.8	43.8	40.6



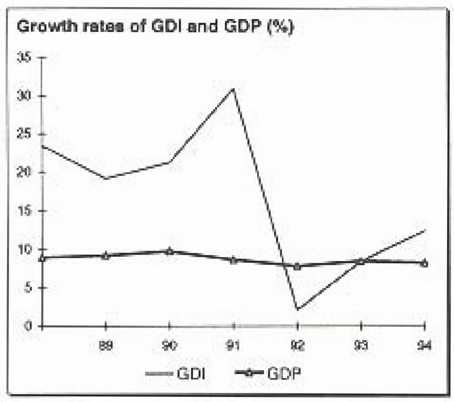
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.0	2.8	4.3	3.0	3.0
Industry	10.1	9.8	8.8	9.6	10.2
Manufacturing	14.1	12.3	10.5	12.5	13.0
Services	5.4	9.0	8.2	9.5	8.3
GDP	7.1	8.3	7.8	8.5	8.3



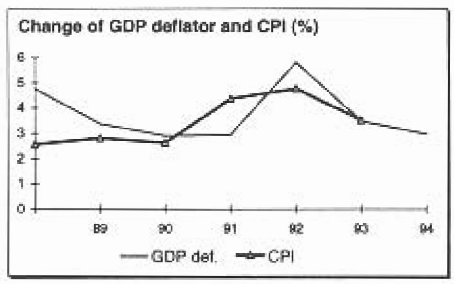
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	52.0	52.6	51.5	49.3	..
General government consumption	15.3	14.0	13.1	12.6	..
Gross domestic investment	27.6	31.5	33.8	33.2	..
Exports of goods and nfs	54.9	76.6	78.0	80.3	85.4
Imports of goods and nfs	49.8	74.6	76.2	75.4	86.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	7.6	5.6	2.4	3.7	7.6
General government consumption	4.3	7.0	4.0	7.7	5.0
Gross domestic investment	10.0	11.4	2.1	8.4	12.4
Exports of goods and nfs	14.7	10.1	5.0	11.8	10.2
Imports of goods and nfs	16.3	9.6	-1.0	8.9	11.1
Gross national product	7.7	8.0	7.2	8.5	8.3
Gross national income	7.6	8.2	10.4	9.8	2.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	0.3	2.6	4.8	3.5	..
Wholesale prices	-2.1	0.9	1.1	1.4	..
Implicit GDP deflator	-1.5	2.9	5.8	3.5	3.0
Government finance					
(% of GDP)					
Current budget balance	1.4	2.1	4.9	5.7	0.4
Overall surplus/deficit	..	..	..	..	0.4



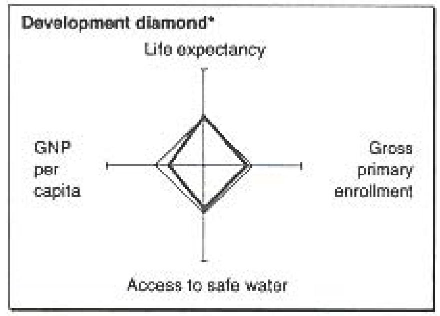
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Malaysia

POVERTY and SOCIAL

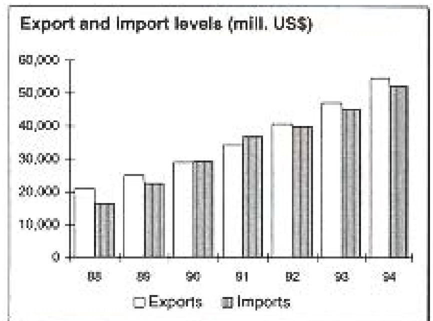
	1985-90	1990-94
(annual growth rates)		
Population	2.5	*2.5*
Labor force	2.7	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	15.5
Life expectancy at birth	71.0
Infant mortality *(per 1,000 live births)*	12.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	78.4
Energy consumption per capita *(kg oil equivalent)*	1,544.8
Illiteracy *(% of population age 15+)*	21.6
Gross primary enrollment *(% of school-age population)*	93.0



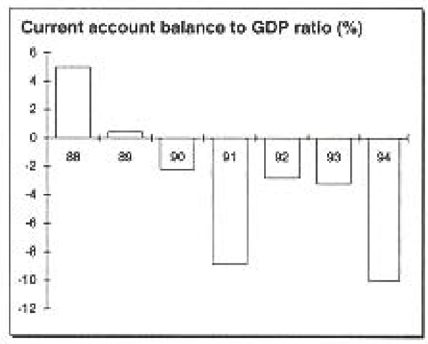
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	15,311	28,956	40,631	47,090	54,571
Fuel	3,503	3,932	3,591	3,049	2,989
Rubber	1,157	1,119	925	831	992
Manufactures	5,023	17,429	25,981	34,850	40,879
Total imports (cif)	12,259	29,251	39,931	45,204	52,127
Food	1,326	1,694	2,434	2,411	2,757
Fuel and energy	1,916	2,366	2,700	2,898	3,128
Capital goods	5,341	14,734	21,942	25,377	29,324
Export price index *(1987=100)*	78	155	200	223	235
Import price index *(1987=100)*	100	207	275	305	315
Terms of trade *(1987=100)*	77	75	73	73	74
Openness of economy *(trade/GDP,%)*	105	151	154	156	171



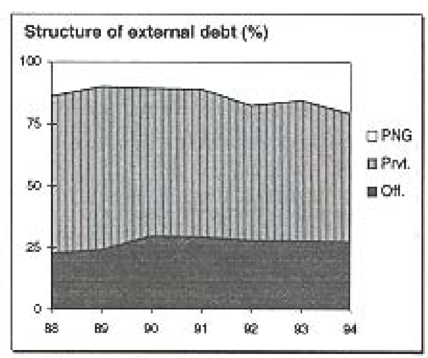
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	17,185	32,665	45,085	51,737	60,714
Imports of goods and nfs	15,604	31,765	43,878	50,748	65,167
Resource balance	1,581	900	1,207	989	-4,453
Net factor income	-2,188	-1,872	-2,918	-3,165	-2,686
Net current transfers	-46	3	65	76	76
Current account balance					
Before official transfers	-653	-969	-1,646	-2,100	-7,063
After official transfers	-613	-918	-1,649	-2,103	-7,063
Long-term capital inflow	1,582	1,274	3,405	4,557	4,059
Total other items (net)	182	1,597	4,900	8,889	6,280
Changes in net reserves	-1,148	-1,951	-6,658	-11,350	-3,276
Memo:					
Reserves excluding gold *(mill. US$)*	4,912	9,754	17,228	27,249	..
Reserves including gold *(mill. US$)*	5,677	10,659	18,024	28,183	..
Conversion rate *(local/US$)*	2.5	2.7	2.5	2.6	2.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	98.3	41.1	35.0	30.7	28.6
IMF credit/exports	0.7	0.0	0.0	0.0	0.0
Short-term debt/exports	15.1	5.5	7.8	13.0	12.0
Total debt service/exports	30.4	10.3	6.6	7.9	7.2
GDP ratios					
Long-term debt/GDP	56.0	33.1	28.1	25.4	25.6
IMF credit/GDP	0.4	0.0	0.0	0.0	0.0
Short-term debt/GDP	8.6	4.5	6.3	10.8	10.7
Long-term debt ratios					
Private nonguaranteed/long-term	16.9	10.5	17.5	15.4	20.6
Public and publicly guaranteed					
Private creditors/long-term	64.8	59.9	54.8	57.0	52.0
Official creditors/long-term	18.2	29.5	27.7	27.6	27.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Maldives

The Republic of Maldives is an archipelago consisting of about 1,200 coral islands in the Indian Ocean of which 200 are inhabited. Its population in 1994 was estimated at 246,000, increasing at 3.2 percent a year. Per capita GNP was estimated at $820 in 1993. Despite smallness, remoteness, and a lack of natural resources, the Maldives performed very well over 1975-90. The development of the tuna and tourism industries, favorable external conditions, large inflows of external aid and expatriate labor, and good economic management contributed to strong GDP growth averaging nearly 9 percent a year in the 1980s.

Developments in the Maldives have been less favorable in the early 1990s, and GDP growth declined to 6 to 7 percent a year. The main sectors of the Maldives' economy were adversely affected by external events: a recession in industrial countries led to lower tourism receipts, and a 30 percent fall in tuna prices reduced export earnings. Fiscal performance also weakened. A quantum jump in public investment and personnel expenditures increased public expenditure from 41 percent of GDP in 1988 to over 60 percent of GDP in the early 1990s. As a result, the budget position turned from a surplus in 1988 to a deficit of 22 percent of GDP (excluding grants) in 1993. Since a large share of the budget deficit was financed through domestic borrowing, credit to the private sector was squeezed, and inflation accelerated from 4 percent in 1990 to 20 percent in 1993. The current account turned from a surplus in 1989 to a deficit of 22 percent of GDP in 1993, and the country borrowed on commercial terms to slow the drawdown of gross official reserves.

Recent Economic Developments

In 1994 the government made substantial progress toward fiscal adjustment. Government current expenditures have been curtailed through a freeze in the hiring of new government employees, except teachers and doctors. Domestically financed capital outlays were sharply reduced by canceling or postponing nonessential projects. As a result,the budget deficit is estimated to have decreased substantially to 11 percent of GDP. Inflation has come down to 16 percent. With the increase in tuna prices and tourist arrivals, the balance of payments has improved, and the current account deficit was reduced to 6 percent in 1994. The government has also initiated discussions with the IMF on a reform program that would focus on continued fiscal adjustment.

Poverty and Social Indicators

The strong economic performance in the 1980s was matched by a reduction in poverty and improvement in social indicators. As a result, the Maldives' social indicators are significantly better than those of other low-income Asian countries. This reflects impressive investments in basic education and health care services over 1975-90. Delivering social services to a population scattered amongst 200 remote islands is a difficult task, and the Maldivian authorities have performed well under these circumstances. The share of education in budgetary expenditures increased from 10 percent in 1988 to 18 percent in 1993; enrollment in primary education grew from 38 percent in 1982 to 79 percent in 1993. Similarly, expenditures on health and water supply increased significantly. As a result, nearly 90 percent of the population have access to clean water; the infant mortality rate fell from 95 per 1,000 in 1980 to 34 per 1,000 in 1993; practically all children are immunized for contagious diseases, and there is a broad-based system of primary health care facilities in operation. However, the population growth rate remains high, at 3.2 percent, putting pressure on the expansion of social services and threatening a fragile natural environment.

Development Issues

The Maldives faces three key development challenges: providing the basis for sustained growth by ensuring macroeconomic stability and creating an environment that is conducive to private-sector investment, ensuring broad-based participation in the growth process by expanding education and health services, and protecting its natural resource base by minimizing the damaging effects of the expanding tourism and fishery industries, and population growth, on the environment.

Government strategy, articulated in the 1994-96 Fourth National Development Plan, emphasizes ensuring a satisfactory standard of living, equitable distribution of a growing national income, creation of employment opportunities, and ensuring improved and equitable access to education and health services. The growth strategy will continue to be based on the fisheries and tourism sectors. Human resources development will remain a focus of the government's investment program, to sustain rapid growth and ensure equity. The strategy also takes account of the fragile natural environment of the Maldives' atolls, as set forth in the national environmental action plan and the Environmental Preservation and Protection Act, passed in 1993.

In the short run, the government's priority is to restore macroeconomic stability while increasing GDP growth to over 6 percent a year. If strong stabilization measures, especially to reduce the budget deficit further, are taken, inflation is projected to come down to 8 percent in 1995. The government is reviewing the relative roles of the public and private sector and considering a larger role for the private sector, particularly in fisheries and in infrastructure for the tourism sector.

Despite the Maldives' progress in improving the social sectors over the past 15 years, human resources development remains a key development constraint. In the education sector, primary school coverage is nearly complete and progress has been made in recent years to increase access to secondary schools. But quality of education remains a concern, skills shortages exist, and the growth of education expenditures needs to be checked. Efforts are under way to increase the contraceptive prevalence level from 15 percent, one of the lowest in the region, but progress has been slow.

The Maldives' high, and highly variable, customs duties encourage importers to seek duty relief or to bypass official trade channels. A 1994 tariff reform was a first step toward narrowing the range of duties and removing exemptions. The recent reduction in import duties on cement, sand, and metallic aggregates from 85 percent in 1990 to 15 percent has helped reduce the trade bias that has favored coral mining over the use of imported building products.

Several structural features make the Maldives' economy very vulnerable to external factors — as demonstrated by a ratio of exports of goods and services to GDP that in most years exceeded 100 percent. The country is highly dependent on one export commodity, tuna, which accounted for an average of two-thirds of export earnings in recent years. The Maldives' service receipts rely heavily on the tourism industry. Both public and private investment depend on continued capital inflows. The government recognizes these vulnerabilities and, while there are no easy solutions, is taking measures to improve the competitiveness of its export industries.

The tourism industry is highly dependent on economic conditions in its source markets. The Maldives has been able to diversify its tourism markets in recent years and to improve capacity use. The tourism industry operates in dollars, and fluctuations of the dollar exchange rate against European currencies have affected the competitiveness of the Maldivian tourism industry and added another element of uncertainty. The expansion of the tourism sector depends on continued foreign investment, adding another risk to the country's economy.

External aid typically has financed 50 to 60 percent of the Maldives' public investment program in recent years. Indications are that the Maldives will continue to receive sizable external assistance. However, this dependence on external aid makes the country very vulnerable to changes in the international aid climate.

Medium-Term Prospects

As in the past, growth will be led by tourism and fisheries activity. With emerging capacity constraints, growth will depend strongly on efficiency improvements brought about through structural reform. Over the medium term, the ability of these sectors to support growth will depend on new investments by the private sector.

External Debt

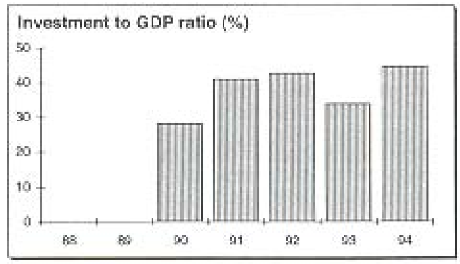
The Maldives' external debt position has continued to improve. As a result of rapid economic growth, the share of external debt outstanding and disbursed in GDP continued to decline and stood at 58 percent in 1993. Total external debt was $131 million. Similarly, reflecting strong export performance, the debt service to export ratio has declined to around 4 percent.

Maldives

Population mid-1993 *(thousands)*	238	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	820	Indebtedness level:	**Less indebted**

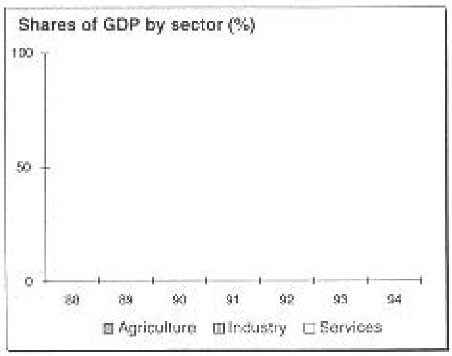
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	28.2	42.8	34.0	44.9
Exports of goods and nfs/GDP	..	..	..	..	..
Gross domestic savings/GDP	..	..	..	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	-10.8	-1.8	-17.7	-24.7	..
Interest payments/GDP	2.2	0.9	0.8	1.1	0.7
Total debt/GDP	98.3	53.5	50.6	50.6	50.2
Total debt/exports	90.9	42.7	43.7	52.2	..


Investment to GDP ratio (%)

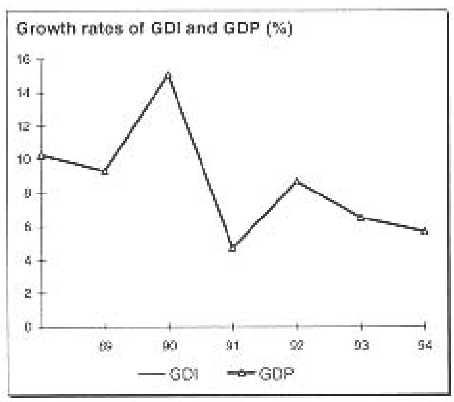
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.7	*0.8*	2.0	-2.4	..
Industry	10.8	*9.2*	12.1	7.6	..
Manufacturing	10.5	*9.3*	10.8	8.7	..
Services	11.5	*8.5*	10.4	9.5	..
GDP	9.8	6.6	8.7	6.5	5.7


Shares of GDP by sector (%)

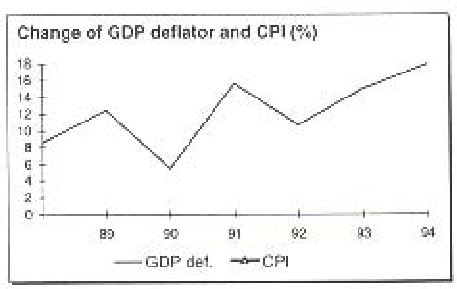
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	28.2	42.8	34.0	44.9
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	12.2	6.6	9.0	7.4	3.2
Gross national income	..	..	..	..	..


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	5.5	10.7	14.9	17.9
Government finance					
(% of GDP)					
Current budget balance	14.2	25.7	..	..	..
Overall surplus/deficit	..	..	..	..	..


Change of GDP deflator and CPI (%)

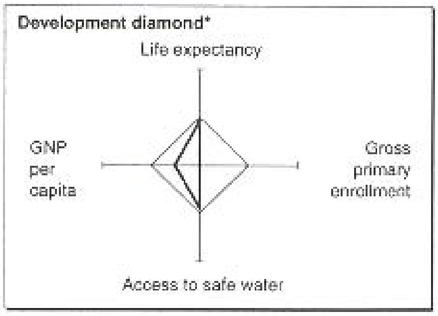
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Maldives

POVERTY and SOCIAL

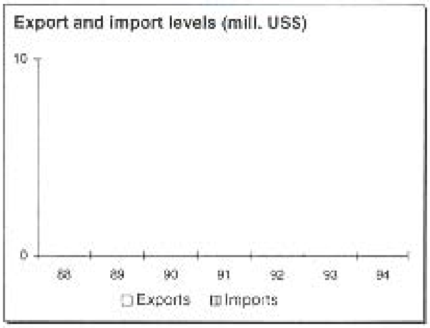
	1985-90	1990-94
(annual growth rates)		
Population	3.2	3.2
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	62.6
Infant mortality *(per 1,000 live births)*	57.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	70.3
Energy consumption per capita *(kg oil equivalent)*	138.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



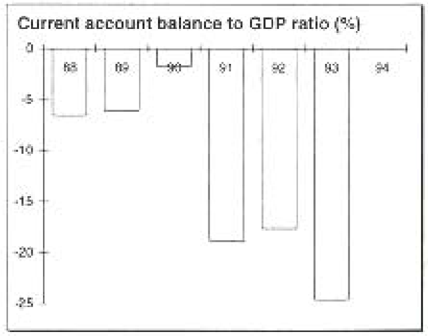
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP, %)*	..	..	..	..	..



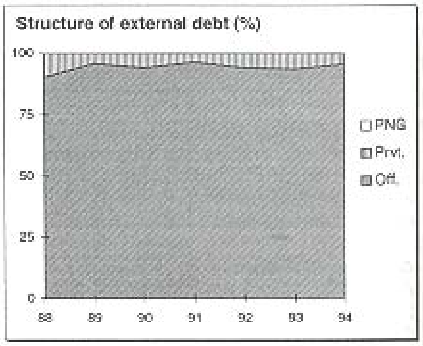
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	91	178	189	185	..
Imports of goods and nfs	85	159	218	234	..
Resource balance	6	19	-29	-49	..
Net factor income	-13	-14	14	13	..
Net current transfers	0	-7	-19	-20	..
Current account balance					
Before official transfers	-9	-3	-34	-56	..
After official transfers	-6	9	-20	-48	..
Long-term capital inflow	-2	11	24	28	..
Total other items (net)	10	-20	0	3	..
Changes in net reserves	-3	0	-4	17	-5
Memo:					
Reserves excluding gold *(mill. US$)*	5	24	28	26	31
Reserves including gold *(mill. US$)*	5	24	28	26	37
Conversion rate *(local/US$)*	7.1	9.6	10.6	11.0	11.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	53.7	35.1	41.7	50.8	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	37.2	7.7	2.0	1.4	..
Total debt service/exports	11.3	4.8	3.1	3.8	..
GDP ratios					
Long-term debt/GDP	58.1	43.9	48.3	49.2	49.0
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	40.2	9.6	2.3	1.3	1.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	14.1	5.9	6.0	6.5	4.6
Official creditors/long-term	85.9	93.9	93.9	93.5	95.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mali

Mali is one of the poorest countries in the world, with a 1993 per capita income of around $270. Primary education enrollment rates are among the lowest in the world, at around 32 percent in 1994, and basic health services are not widely available. Only about a quarter of its vast 1.2 million square kilometers is arable, yet agriculture accounts for around half of GDP and three-quarters of export revenues, and provides a livelihood for close to 80 percent of its population of about 9.5 million, which is growing 3 percent a year. The mainstays of the traditional economy are millet, rice, and other cereals, and nomadic cattle raising for domestic consumption. Cotton and livestock make up the bulk of traditional exports. The modern sector includes gold and some light manufactures. Mali has significant potential in agriculture — of an estimated 500,000 hectares of potential irrigated rice only 50,000 hectares is under cultivation. Livestock, gold mining, and agroprocessing could constitute important sources of sustained longer-term growth. This potential has been constrained by poor economic management and development policies and the economy's resulting lack of competitiveness. This has been further compounded by extremely variable and harsh climatic conditions, low-productivity traditional technologies, and a poor human resource base. However, the stabilization and adjustment efforts pursued by the government in recent years, coupled with the devaluation of the CFA franc in January 1994, provide an opportunity for Mali to exploit more fully its comparative advantage in these areas.

Mali's first democratically elected government assumed office in June 1992. The government has survived severe political and social tensions, but at the cost of three changes in prime ministers and several cabinet reshuffles. Over the last year, the government has made significant progress in asserting the authority of the state while continuing to pursue the ongoing process of democratization. The political climate, however, still remains fragile, and a smoldering Tuareg rebellion in Northern Mali remains a source of concern and instability.

Structural Adjustment

Since 1988 the government of Mali has implemented a wide range of economic and sectoral policy reforms under its structural adjustment program. The underlying objective of the reform program was to improve the competitiveness of the economy and lay the foundation for sustained longer-term growth. Overall, the reforms allowed market forces greater play in determining economic outcomes and removed some bottlenecks to private-sector participation in economic activity. Domestic marketing and prices have been fully liberalized. The trade regime has been substantially simplified and liberalized with the removal of export and import monopolies, a streamlining and reduction of tariff rates, and elimination of nontariff barriers. The investment, commercial, labor, and procurement codes have all been revised to make them simpler and more flexible and remove distortions in the incentives framework. Until end-1993, the prevailing exchange rate policy of the CFA zone precluded the use of nominal exchange rate changes as a means of achieving real exchange rate depreciation and improved competitiveness. The focus was thus on internal adjustment — achieving significant real exchange rate depreciation by lowering domestic inflation rates below those of competitor countries and other trading partners through strict fiscal and monetary policies.

These measures improved economic performance over the adjustment period. Real GDP growth rose from an annual average of less than 2 percent over the first half of the 1980s to about 3 percent between 1988 and 1993. Inflation was kept in check, averaging under 3 percent. The overall fiscal deficit on a commitment basis and excluding grants declined from 12 percent of GDP in 1991 to 9.6 percent in 1993. Despite declining terms of trade due largely to falls in world market cotton prices, the current account balance improved from a deficit of 14 percent of GDP in 1991 to 13.2 percent of GDP in 1993.

Despite this improvement in economic performance, the internal adjustment strategy was unable to achieve appreciable improvements in Mali's external competitiveness. Industries such as textiles, shoes, plastic, and apparel, which flourished in the past, lost their competitive edge, and there was little incentive for new investment in local production. Mali's already fragile industrial base was weakened further, putting the sector into a slump. Despite cost-efficiency gains in agriculture, cotton production was unable to recover its operating costs, and rice and livestock production remained below their full potential.

Comprehensive Adjustment

In January 1994 Mali joined other members of the CFA zone in devaluing the CFA franc 50 percent against the French franc. In line with the parity change, the government prepared a policy framework paper for 1994-96 outlining a series of macroeconomic and structural adjustment measures to consolidate and expand the initial competitiveness gains. These included tariff changes eliminating the "second best" policies that had been necessitated by the overvaluation of the currency, and measures to ensure as large a pass-through as possible of the gains from the parity change to cotton producers to encourage a strong supply response in this key sector. The government also undertook to maintain the momentum of ongoing structural adjustment. Full implementation of this strategy is expected to promote private-sector development, help generate the levels of growth critical for poverty alleviation, and increase equity through increased access to basic social services for the poorer segments of the population.

In February 1995 the government updated and expanded its policy framework paper for the period 1995-97. This framework builds on the progress achieved so far and reaffirms the government's commitment to maintaining and improving short-term stabilization gains through continued fiscal and monetary discipline and deepening and accelerating structural reforms. The framework provides a more comprehensive package of reforms across all key sectors and includes for the first time policies in the important mining sector.

Recent Economic Performance

The first year of the 1994-96 program was successful, and all macroeconomic measures were implemented — in particular, wage restraint, which is critical for ensuring competitiveness gains are not eroded, was strictly observed, with civil service wage increases limited to 15 percent. All macroeconomic targets were achieved and some were exceeded. The real effective exchange rate depreciated by about 35 percent in foreign currency terms. As a share of GDP, the fiscal deficit on a commitment basis and excluding grants is estimated at 13.4 percent compared to the programmed 15 percent, and the current account deficit was 19 percent, a percentage point lower than programmed. Inflation as measured by the GDP deflator was within the 35 percent that was programmed. While overall revenue targets were met, customs revenue receipts were about 27 percent lower than programmed, partly because of continued customs fraud and lower imports than anticipated. The government has already taken remedial steps. Real growth reached the 2.5 percent projected in the first year after the parity change, and it is expected that growth performance will be significantly stronger over the next few years.

Structural measures were also implemented as planned. Key measures included the June 1994 signing of a performance contract that for the first time makes the cotton parastatal, the government, and producers equal partners in decisionmaking in the sector. The contract allows for a 47 percent increase in the floor price of seed cotton to producers in the 1994/95 crop year, and raises the share of parastatal profits going to farmers from 25 percent to 35 percent. The devaluation, coupled with recent increases in world cotton prices, has restored the competitiveness of the cotton sector, and profits for the 1993/94 crop year are estimated at about CFAF 20 billion, compared to an originally projected deficit of CFAF 4 billion. Other measures included the ongoing restructuring of the rice parastatal to focus on a few key public services such as irrigation services and irrigation infrastructure maintenance, while privatizing all other functions — notably rice milling. A new law provides the legal framework for privatization, and a hotel, a textile firm, and some activities of a maritime company have been privatized. The government has begun major reforms to remove distortions in education resource allocation and use that include redeployment of 350 teachers from administrative to teaching positions, introduction of specific budget lines for primary education, and increased allocations in the 1995 budget for teaching materials and maintenance.

There is evidence of a strong supply response to the parity change. Livestock exports to neighboring countries are now more competitive with imports from the European Union and South America, and the volume of exports through formal channels has more than doubled since devaluation. Local rice is also now able to compete with imports from Asia without recourse to excessive tariffs, and exports of vegetables such as potatoes and onions to neighboring countries have increased. Industrial activity slowed because of a wait-and-see attitude adopted by much of the private sector during the first months after the devaluation, but a rebound was visible during the second semester. In Bamako, in particular, a significant number of small-scale businesses opened, including dairies, food processing plants, and soap manufacturers. Also two key textile-producing enterprises that had been closed for several years restarted operations in 1994. It is expected that these initial positive impacts will strengthen and provide a basis for sustained economic growth.

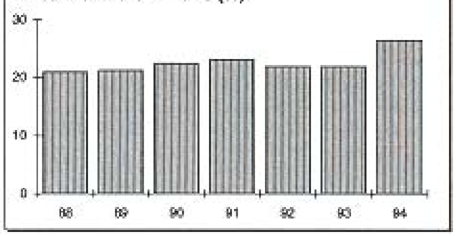
Mali

Population mid-1993 *(millions)* **10.1**
GNP per capita 1993 *(US$)* **270**

Income group: **Low**
Indebtedness level: **Severely Indebted**

KEY RATIOS

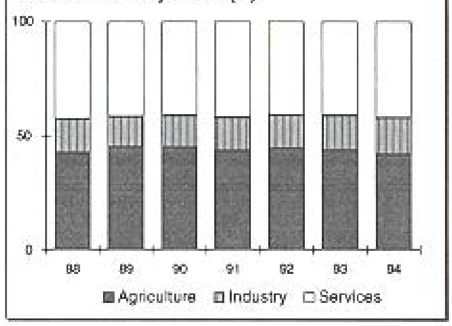
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.6	22.4	21.9	21.9	26.5
Exports of goods and nfs/GDP	20.8	16.9	14.7	15.7	22.3
Gross domestic savings/GDP	-14.3	5.7	4.6	6.3	4.7
Gross national savings/GDP	-7.8	7.7	6.9	8.7	7.6
Current account balance/GDP	-26.9	-14.7	-15.0	-13.1	-18.9
Interest payments/GDP	1.2	0.7	0.4	0.3	0.6
Total debt/GDP	138.9	99.8	93.0	99.6	147.4
Total debt/exports	502.8	432.9	449.3	462.4	632.1


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	47.3	45.1	44.6	43.7	42.0
Industry	14.8	14.0	14.7	15.4	16.1
Manufacturing	8.5	8.2	8.4	8.9	..
Services	37.9	40.9	40.7	40.9	41.9

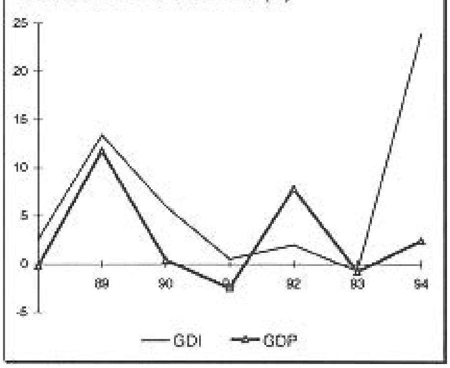
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	9.9	2.1	12.4	-4.9	7.3
Industry	1.6	3.6	5.0	3.7	1.0
Manufacturing	4.4	3.0	3.2	5.4	0.2
Services	2.4	1.4	3.8	2.6	-2.4
GDP	5.4	2.0	7.8	-0.7	2.4


Shares of GDP by sector (%)

GDP: EXPENDITURE

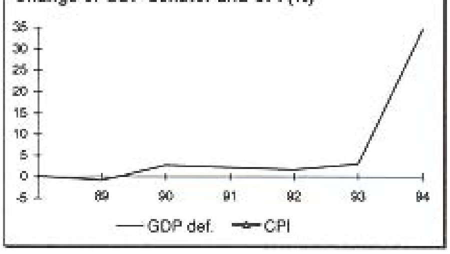
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	100.7	80.8	81.7	82.1	83.4
General government consumption	13.6	13.5	13.7	11.6	11.9
Gross domestic investment	19.6	22.4	21.9	21.9	26.5
Exports of goods and nfs	20.8	16.9	14.7	15.7	22.3
Imports of goods and nfs	54.6	33.7	32.0	31.3	44.1

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.6	0.1	10.6	-3.0	-3.5
General government consumption	5.3	-2.0	-1.2	-5.0	-5.7
Gross domestic investment	6.9	4.9	2.0	-0.7	23.9
Exports of goods and nfs	5.2	4.3	3.2	8.7	-2.9
Imports of goods and nfs	-0.3	-0.8	3.9	-2.8	-3.7
Gross national product	6.1	2.0	7.8	-0.7	1.7
Gross national income	6.1	1.0	5.9	-1.3	1.8


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.3	2.7	1.7	3.0	34.5
Government finance					
(% of GDP)					
Current budget balance	-0.8	1.3	-1.1	0.1	-0.4
Overall surplus/deficit	-15.2	-8.5	-11.2	-9.6	-13.4


Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

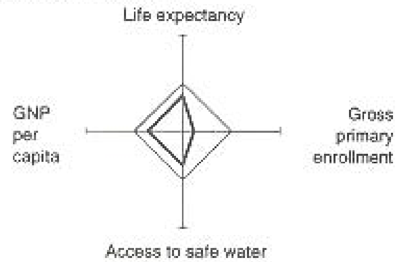
Mali

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.0	3.2
Labor force	2.6	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	46.4
Infant mortality *(per 1,000 live births)*	157.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	48.8
Energy consumption per capita *(kg oil equivalent)*	20.0
Illiteracy *(% of population age 15+)*	68.0
Gross primary enrollment *(% of school-age population)*	25.0

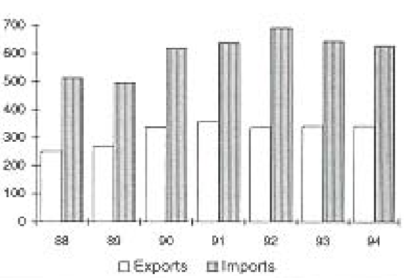
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	176	338	336	342	342
Cotton	78	169	151	147	155
Gold	..	45	62	61	61
Manufactures	..	..	..	..	..
Total imports (cif)	469	617	691	644	629
Food	141	71	102	90	73
Fuel and energy	80	56	73	74	73
Capital goods	105	194	201	183	191
Export price index *(1987=100)*	79	112	96	89	92
Import price index *(1987=100)*	73	108	113	108	111
Terms of trade *(1987=100)*	107	104	85	82	83
Openness of economy *(trade/GDP,%)*	75	51	47	47	66

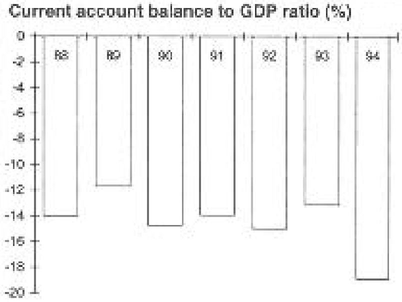
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	220	420	410	418	418
Imports of goods and nfs	578	835	892	833	825
Resource balance	-358	-415	-482	-415	-407
Net factor income	-14	-35	-30	-26	-32
Net current transfers	87	85	94	91	85
Current account balance					
Before official transfers	-284	-365	-418	-350	-354
After official transfers	-87	-139	-112	-125	-82
Long-term capital inflow	58	65	-7	-18	90
Total other items (net)	-11	126	127	167	87
Changes in net reserves	40	-52	-8	-24	-95
Memo:					
Reserves excluding gold *(mill. US$)*	23	191	308	332	..
Reserves including gold *(mill. US$)*	29	198	314	340	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2

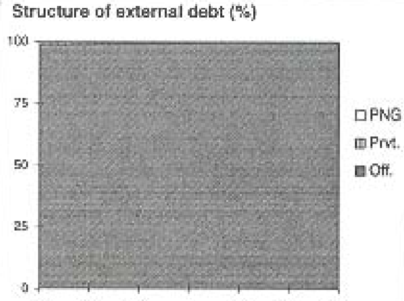
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	445.6	410.8	428.5	437.2	609.6
IMF credit/exports	33.6	12.1	11.3	12.3	15.4
Short-term debt/exports	23.6	10.0	9.5	12.8	7.1
Total debt service/exports	18.1	11.4	7.6	4.6	7.3
GDP ratios					
Long-term debt/GDP	123.1	94.7	86.7	94.1	142.1
IMF credit/GDP	9.3	2.8	2.3	2.7	3.6
Short-term debt/GDP	6.5	2.3	2.0	2.8	1.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	3.4	0.8	0.2	0.1	0.1
Official creditors/long-term	96.6	99.2	99.8	99.9	99.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mauritania

Mauritania is a vast country, with a population of 2 million and a very limited resource base. Virtually all of its 1.1 million square kilometers is desert, and it faces serious environmental degradation from deforestation, overgrazing, and cultivation of marginal lands, all of which contribute to soil erosion. Its major economic activities include iron mining in the north, the fishing industry in and around Nouadhibou, and exploitation of the agricultural and livestock potential in the Senegal River Valley. Earnings from iron ore, which formerly represented the largest source of foreign exchange earnings, have been declining as demand and prices has fallen on the world market since the mid-1980s. Fish exports have become the predominant source of foreign exchange earnings, generating 54 percent of total export receipts in fiscal 1994. This sector represents a promising source of economic growth, with potential for greater domestic inputs, though the 1990 and 1992 declines in production volume of 11.2 percent and 6.0 percent respectively were worrisome, given the risk of premature depletion if the resources are not well managed. With livestock as a driving force, the primary sector contributes about one-third of GDP.

As a result of recurrent droughts and difficult economic conditions in the rural areas during the last two decades, there has been substantial migration to urban centers, where about half of the Mauritanian population now lives. Rapid urban growth has increased unemployment and poverty in urban areas. Life expectancy at birth is estimated at 52 years; infant mortality is 99.2 per 1,000 live births; and 55 percent of school-age children attend primary school, while only 34 percent of the population is literate in either Arabic or French. Progress in addressing social issues is constrained by population growth of 2.8 percent a year. Per capita GNP in 1993 was $500.

Mauritania's economic development through the mid-1980s was uneven and marked by major financial imbalances and highly interventionist government policies. Despite investment rates as high as 36 percent of GDP in the early 1980s, the long-term rate of growth averaged only 2 percent, slower than that of the population. Moreover, domestic savings, which in Mauritania's early years of independence exceeded investment, only a fifth of investment by the early 1980s. The consequent expansion of external financing led to a growing and eventually unsustainable level of indebtedness. While drought and unfavorable terms of trade contributed to this poor performance, there was increasing evidence that economic strategy and policies were in need of change. Faced with a deepening crisis, the government adopted, in 1985, a comprehensive Economic and Financial Recovery Program for 1985-88, which was followed by a Consolidation Program for 1989-91. The adjustment effort was supported by the IMF and IDA.

Macroeconomic performance improved considerably through 1989. Real GDP growth rose to 3.4 percent a year over 1985-89. The overall consolidated government deficit on a commitment basis, excluding grants, declined from 14.7 percent of GDP in 1985 to 10.6 percent in 1989. Mauritania's external position also evidenced steady improvement, as food imports declined in response to improved incentives in the agricultural sector and favorable weather conditions. As a share of GDP, the current account deficit (excluding official transfers) declined from 31 percent in 1985 to 14.5 percent in 1989. The number of civil servants was frozen, while public investments were cut from 10.4 percent of GDP in 1985 to 5.5 percent in 1989. Interest rates were positive in real terms. In parallel with macroeconomic measures, several key structural reforms were put in place. Project selection and budget procedures were considerably strengthened. Price control systems were liberalized, all import licenses and quotas were abolished, and rice processing and marketing were privatized, with the result that the Mauritanian economy has become more market-oriented.

Recent Economic Developments

The Mauritanian economy suffered a series of internal and external shocks between early 1989 and 1992 that had a severe impact on economic and financial performance, disrupted economic activity, and slowed its adjustment effort. Unfavorable weather conditions, institutional bottlenecks, and a difficult sociopolitical situation affected output in agriculture, mining, and fisheries. Sharp cutbacks in external financing occurred as a consequence of the April 1989 Senegal-Mauritania crisis and the 1991 Persian Gulf crisis. These factors contributed to slippage in economic decisionmaking and priority setting. Signs of reversal of the reform were obvious: real GDP growth fell to 1.7 percent in 1992 and domestic financial imbalances re-emerged. The fisheries sector continued to be an enclave with no linkages with the rest of the economy. The agricultural sector underwent a significant setback, and poor management and inadequate supervision hampered the attainment of the 1987-90 banking restructuring program.

The deterioration of the domestic financial position was reflected in a weakening balance of payments. The external current account deficit, excluding official transfers, widened from 14.5 percent of GDP in 1989 to 16.6 percent in 1992, owing in part to a drop in fish export earnings, an increase in imports linked to the public investment program, and the development of a new mining project. The overall consolidated government deficit on a cash basis, excluding grants and restructuring operations, increased from 1.6 percent of GDP in 1990 to 3.1 percent in 1992. These deficits were financed by credit from the central bank and caused an accumulation of arrears on external debt, estimated at SDR 189.9 million at end-1992. This, combined with a swift increase in credit to the agricultural and fisheries sectors, led to an expansion in the money supply and greater inflationary pressures.

Mauritania has intensified its adjustment effort and structural reform since September 1992. The results have been encouraging. A substantial adjustment in the exchange rate took place in October 1992; the exchange system has been liberalized, an auction system for import authorizations implemented, and the limits for transactions in invisibles eliminated. Progress in stabilizing the economy and implementing reforms has been encouraging. Real GDP growth rose in 1993/94 to an estimated 4.5 percent, reflecting improved performance in agriculture (10 percent) and mining (21 percent). Despite the 1992 devaluation, consumer price inflation was contained to 9.3 percent in 1993, below the targeted 13 percent, and declined to 4.1 percent in 1994. Foreign exchange reserves increased to 1.3 months of imports from 0.9 month in 1990. The current account deficit, excluding official transfers, declined from 21.5 percent of GDP in 1990 to an estimated 14.2 percent in 1994. The consolidated government fiscal deficit on a commitment basis, excluding grants, decreased from 5.4 percent of GDP in 1992 to an estimated 4.3 percent in 1994. Although the debt burden was relieved by the January 1993 Paris Club rescheduling, debt service paid in 1993 — 30 percent of exports of goods and services, after debt relief — was still burdensome.

Progress in implementing key structural reforms in trade, foreign exchange, pricing, the tax system, public enterprises, public expenditure, civil service, social sector policies, and enhancing the role assigned to market forces have been key elements in containing inflation and redressing external imbalances. The government has fully privatized all commercial banks, restructured two joint-venture financial institutions, liquidated the development bank, strengthened bank supervision, enacted a new nonperforming-loan-recovery law, and established a special agency responsible for the recovery effort, and created a rural credit system based on cooperative principles. The exchange system was liberalized, notably through the elimination of prior export authorizations and of the preferential exchange rate for workers' remittances, and the removal of limits on transfers for invisibles payments. A free market for foreign currency banknotes and travelers checks was created, and the surrender requirements for foreign exchange receipts were made more flexible. Government has also raised public utility tariffs to levels reflecting economic and financial costs and improved bill collection. Government has either privatized or liquidated several public enterprises and eliminated subsidies to all public enterprises.

All government monopolies and price controls have been abolished. The government has lowered the civil service retirement age, frozen all recruitment except for the education and health sectors, computerized the civil service management system, and implemented a competitive examination system for recruitment. Institutional reform of the fisheries sector has taken longer than expected, with delays in strengthening surveillance over fishing activity and privatizing marketing arrangements. While implementation of the program has led to significant gains, these must be viewed as fragile against the background of a still large foreign debt, a gloomy iron-ore and fisheries export environment, and remaining severe structural impediments to private sector growth and external viability.

Medium-Term Prospects

The Mauritanian economy remains fragile, and its medium-term prospects are constrained by a limited natural and human capital resource base, a high degree of vulnerability to exogenous factors such as climatic conditions and commodity prices, a low revenue base, and a heavy debt service burden. The experience of recent years has made it clear that without macroeconomic stability and access to sufficient external financing, sustainable growth will remain out of reach.

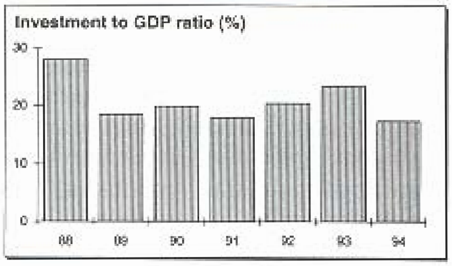
The government's macroeconomic objectives for the medium term have been translated into concrete actions and stabilization targets for 1995-97. Over the medium term, the focus will be on continued strengthening of public resource management, further enhancement of the enabling environment for private sector investment and growth, and an acceleration in its program to develop the country's human resources. The key components of the program include maintaining price stability through sustained implementation of fiscal and monetary restraint, and creating a transparent market-related exchange and international trade system to foster competition and eliminate obstacles to investment and production. The government also plans to continue reforming Mauritania's institutional framework, including the judicial and regulatory systems; it will reform the of fisheries sector by introducing a transparent and market-related system of access rights, strengthening surveillance, privatizing marketing and production, and adopting exit mechanisms for nonviable enterprises. Other objectives include strengthening financial intermediation and resolving external debt problems, especially eliminating the payment arrears to official and private creditors.

Mauritania

Population mid-1993 *(millions)*	2.2	Income group:	**Low**
GNP per capita 1993 *(US$)*	500	Indebtedness level:	**Severely indebted**

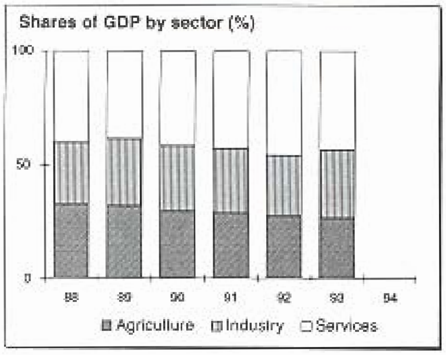
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	28.9	20.0	20.5	23.4	17.4
Exports of goods and nfs/GDP	60.8	46.4	38.8	45.7	43.2
Gross domestic savings/GDP	8.8	5.6	7.2	9.7	9.5
Gross national savings/GDP	4.4	0.6	5.6	4.7	6.3
Current account balance/GDP	-24.5	-19.4	-14.8	-18.7	-11.2
Interest payments/GDP	4.0	3.4	1.6	4.5	3.7
Total debt/GDP	217.4	210.2	179.6	232.6	213.5
Total debt/exports	353.7	436.9	411.3	482.5	485.7



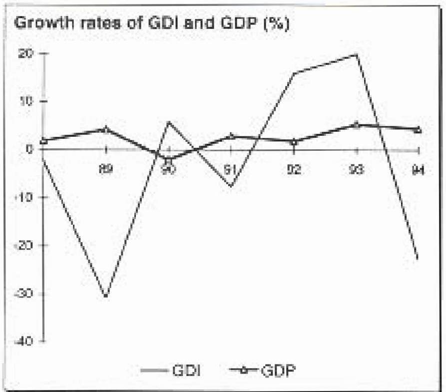
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	22.5	29.6	27.4	26.6	..
Industry	32.9	28.8	26.8	30.2	..
Manufacturing	12.9	10.3	10.9	12.4	..
Services	44.6	41.6	45.7	43.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.5	5.3	1.8	9.7	5.1
Industry	2.5	2.0	-2.2	7.1	3.9
Manufacturing	-2.1	2.3	11.1	5.5	-16.9
Services	3.6	2.8	3.9	0.7	3.4
GDP	2.4	3.6	1.8	5.3	4.4



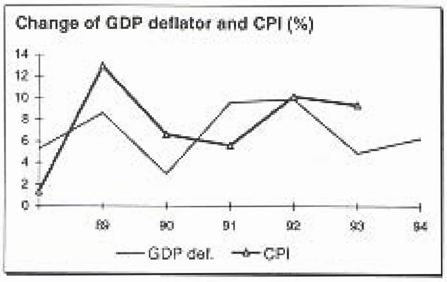
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	74.9	83.3	82.3	79.4	80.3
General government consumption	16.2	11.0	10.5	10.9	10.2
Gross domestic investment	28.9	20.0	20.5	23.4	17.4
Exports of goods and nfs	60.8	46.4	38.8	45.7	43.2
Imports of goods and nfs	80.8	60.7	52.1	59.4	51.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.7	1.7	5.3	-8.4	9.5
General government consumption	-4.4	0.8	-2.1	0.9	-2.3
Gross domestic investment	-7.0	3.2	15.9	19.9	-22.5
Exports of goods and nfs	-0.4	-3.8	-10.2	9.6	-13.0
Imports of goods and nfs	-3.0	-5.3	1.7	-8.3	-14.8
Gross national product	3.0	3.4	1.6	3.5	6.1
Gross national income	2.8	2.9	0.6	-2.7	8.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	6.6	10.1	9.3	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	10.3	3.0	9.9	4.9	6.3
Government finance					
(% of GDP)					
Current budget balance	-5.4	-1.6	-1.1	-5.3	-2.4
Overall surplus/deficit	-14.7	-7.3	-5.4	-11.0	-2.4



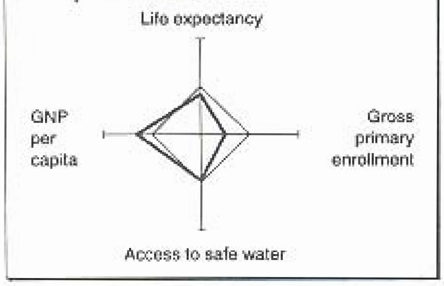
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.5	2.5
Labor force	2.8	3.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	51.9
Infant mortality *(per 1,000 live births)*	99.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	65.8
Energy consumption per capita *(kg oil equivalent)*	104.6
Illiteracy *(% of population age 15+)*	66.0
Gross primary enrollment *(% of school-age population)*	55.0

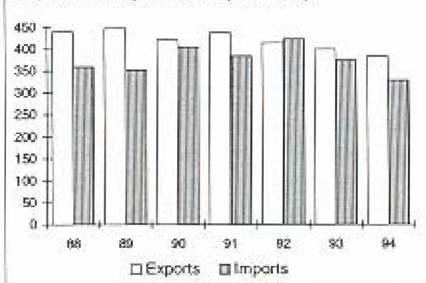
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	378	422	414	400	384
Iron	150	208	155	159	158
Fish	224	206	245	221	208
Manufactures	..	..	..	..	..
Total imports (cif)	334	405	424	375	329
Food	93	118	127	108	99
Fuel and energy	41	43	43	35	35
Capital goods	82	82	111	100	59
Export price index *(1987=100)*	94	110	124	105	117
Import price index *(1987=100)*	95	106	101	100	111
Terms of trade *(1987=100)*	99	104	122	105	105
Openness of economy *(trade/GDP,%)*	142	107	91	105	94

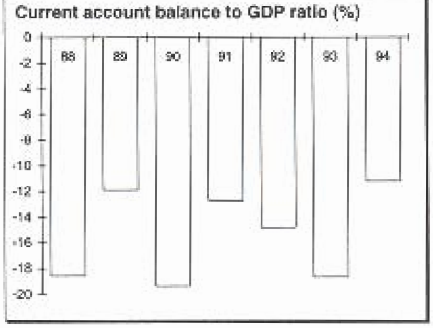
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	415	473	462	433	424
Imports of goods and nfs	552	619	620	563	504
Resource balance	-137	-146	-157	-130	-79
Net factor income	-52	-59	-67	-69	-61
Net current transfers	-24	-14	27	-1	1
Current account balance					
Before official transfers	-167	-198	-177	-177	-115
After official transfers	-86	-131	-104	-94	-18
Long-term capital inflow	63	5	19	35	31
Total other items (net)	1	89	82	37	-19
Changes in net reserves	22	37	3	22	5
Memo:					
Reserves excluding gold *(mill. US$)*	59	54	61	45	40
Reserves including gold *(mill. US$)*	63	59	65	49	44
Conversion rate *(local/US$)*	77.1	80.6	87.0	120.8	123.6

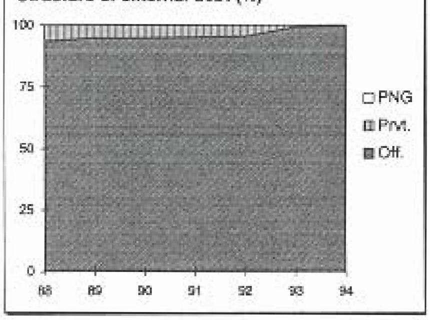
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	317.4	372.6	359.0	429.3	450.9
IMF credit/exports	10.9	14.3	11.1	13.9	15.9
Short-term debt/exports	25.3	50.1	41.1	39.4	18.8
Total debt service/exports	24.3	30.3	16.2	27.4	23.9
GDP ratios					
Long-term debt/GDP	195.1	179.2	156.8	206.9	198.2
IMF credit/GDP	6.7	6.9	4.9	6.7	7.0
Short-term debt/GDP	15.6	24.1	17.9	19.0	8.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	9.7	5.3	4.7	0.9	0.4
Official creditors/long-term	90.3	94.7	95.3	99.1	99.6

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mauritius

Mauritius is a country of three islands in the Indian Ocean with a land area of 1,865 square kilometers and a 1993 population of about 1.1 million growing at 1 percent a year. Mauritius became independent in 1968 and has since been a parliamentary democracy. Ethnic and political diversity contributes to the country's vitality and entrepreneurial spirit. Since independence Mauritius has evolved from a low-income, agriculture-based economy with a GNP per capita of about $300 (1970 dollars) to a middle-income diversified economy with a GNP per capita of about $3,030 in 1993. During the 1970s growth was spurred by sugar production, which provided almost 20 percent of GDP and over half of export earnings. Diversification into manufacturing and tourism led to a reduction in the role of the sugar sector to 6 percent of GDP and about 23 percent of export earnings in 1993. Industrial output comes primarily from an export processing zone created in 1976, which accounted in 1993 for 12 percent of GDP and almost 56 percent of gross export earnings. Tourism expanded from less than 1 percent of GDP and less than 3 percent of foreign earnings in the 1970s to 5 percent and 19 percent, respectively, in 1993. Economic growth and sound public expenditure policies helped improve social indicators: in 1992, life expectancy was 70 years, infant mortality was 17 per 1,000, and the entire population had access to safe water.

Recent Economic Developments

With the exception of a relatively short period (1979-81) of sluggish growth largely due to external shocks and misguided fiscal policies, Mauritius' record is one of solid growth and prudent financial management. Its strong performance has been made possible by a liberal economic environment, including an open exchange and trade regime, incentives for foreign private investment, strong resource mobilization, conservative public expenditure policies, prudent credit expansion, and good governance. Over 1968-93, Mauritius's real GDP grew at an average rate of 5.3 percent and exports grew 6.1 percent a year in real terms. The fiscal deficit averaged 2.6 percent of GDP, and the current account deficit of the balance of payments averaged 4.2 percent of GDP, both indications of the government's prudent financial management. Inflation averaged 9.4 percent over the same period, declining to 4.6 percent in 1992, compared with about 13 percent in 1989/90.

Performance in 1993 was mixed. GDP growth remained strong at 5 percent, slower than the average of recent years due to inclement weather. Savings and investment were also strong at 24 percent and 30 percent of GDP, respectively. However, following an average 20 percent increase in public sector wages in July and the elimination of subsidies on flour, rice, and sugar, inflation rose to 10.5 percent. The government took steps to contain the fiscal deficit (excluding grants) at 2 percent of GDP, and the current account deficit at below 3 percent of GDP.

Poverty and Social Indicators

Over the last decade, Mauritius' population has witnessed a doubling of its per capita income and higher social standards, and has now the standards of living of a middle-income developing country. Standards of nutrition, health care, and general education exceed those of most neighboring countries and are comparable to other middle-income countries'. The benefits of the rapid increase in per capita income and full employment have reached the vast majority of Mauritians. Preliminary results of a household expenditure survey conducted in 1991 document the broad distribution of the benefits of growth. The government has also put in place extensive social safety mechanisms to alleviate poverty.

During the coming years, the Mauritians face the challenge of adapting smoothly to the demands of an emerging industrial society. Three areas of concern have been identified as deserving priority action: a lagging supply of housing compared with the increase in family incomes, unsatisfied demand for labor-saving home appliances and child care services by the growing proportion of women in the labor force, and a potential threat to the financial integrity of the social security and pension systems as the population gets progressively older. The first issue is being addressed by the introduction of changes in property market regulation to permit a greater private role in providing housing. The second is being tackled through the reduction in import duties on home appliances and incentives for private investment in child care services. The third issue is being tackled through a thorough review of the actuarial characteristics of the demographic transition and its likely future impact on the social security and pension systems to set a basis for reforms.

Key Development Issues

Mauritius's past export-led growth largely relied on its ability to deploy underutilized labor resources, and its external competitiveness took advantage of low relative wages and the availability of the limited skills required by first-stage industrialization. It also benefited from preferential arrangements with the European Union, which guaranteed high prices for its sugar under the Sugar Protocol of the Lomé Convention, and duty-free entry for its textile exports. Since 1988, however, the economy has faced increasing constraints as the country neared full employment and the labor market tightened. In the face of labor shortages, explicit linkage of wage settlements — determined by annual tripartite negotiations among the government, the private sector, and labor unions — to past inflation rather than productivity gains builds up inertia in the system and makes macroeconomic management more difficult. Rising inflation (11.8 percent during 1988/90 and 7.5 percent over 1991-93) is starting to erode external competitiveness, particularly critical for an open economy such as that of Mauritius, with foreign trade representing over 105 percent of GDP in 1993. In addition, general trade liberalization under the GATT Uruguay Round raises doubts about the future of Mauritius's market preferences.

Mauritius is thus at a critical juncture in its development, as it aspires to enter the ranks of newly industrialized economies. The shortage of labor and uncertainty about the continuance of its market preferences mean that Mauritius has to acquire a new edge over competitors to maintain its growth momentum. The main challenge facing Mauritius is its ability to compete with countries offering higher labor skills and productivity at similar or even lower wage levels. Mauritius could increase productivity by improving technology and reallocating labor to higher productivity sectors. This implies increased emphasis on technical education and manpower training, and more flexible labor markets, including increased labor mobility between the public and private sectors. A start toward modernizing the financial system needs was made in 1992 with the elimination of credit ceilings and the consolidation of 12 incentive regimes into three categories.

Sugar production and export will remain critical to agriculture in the foreseeable future. In the past, the government encouraged food self-sufficiency, rather than diversification into alternative export crops, despite the fact that many of the existing food crops cannot be produced economically given the climatic conditions. The best way of reconciling legitimate concerns relating to food security with efficiency considerations is to ensure that scarce resources, particularly land and labor, are devoted to crops that yield the highest returns. For example, Mauritius already successfully produces cut flowers for the European market and could grow tropical fruits for the same market.

In industry, notwithstanding rapid growth over the past decade, the export processing zone is highly concentrated in apparel, and thus fragile. Outside garments, there are as yet few significant export industries. The only significant nontextile exports are watches and clocks (3 percent of exports), pearls, precious and semi-precious stones (1.6 percent), and canned tuna (1.5 percent). The government has encouraged diversification through fiscal incentives such as the rapid write-off of capital invested in the new priority areas. There are some indications that new investments are taking place in precision assembly industries such as mechanical, optical, and electronic assembly operations, and in "brain-service exports" such as slow-turnaround data entry, software, translation, digitizing of maps and drawings, and consulting. In addition to investing in developing labor skills, further government measures should reduce red tape and provide information to potential investors on conditions in export markets, including restrictions that may affect specific industries, and on environmental norms and guidelines.

Mauritius has emphasized low-impact, high-spending tourism by promoting an upmarket profile aimed at increasing expenditure per tourist and per tourist-night. Expecting high sustained growth in the sector in the 1990s, the government granted licenses for the construction of a number of hotels — which came on the market when demand growth slowed down because of the decline in growth of arrivals from France and South Africa, increases in air fares and hotel costs, and a shift by tourists to informal accommodation. With an annual increase in arrivals of 10 percent over 1992-93, demand has all but caught up with capacity.

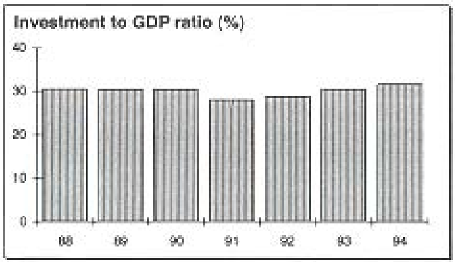
Mauritius has begun to develop offshore banking and regional trade as new sources of growth by establishing an offshore banking center (1988) and a free port (1992). The authorities expect to attract investment funds through the banking center along with other flows of valuable financial, commercial, and industrial intelligence, while providing business opportunities for the country's legal and accounting professions. By December 1992 seven banks were operating in the center and accounting for about 15 percent of total commercial banking assets. The free port will offer facilities for storage, warehousing, bulk-breaking, minor processing, and re-export free of domestic taxes. The benefits of the free port activities are expected to be mainly in the jobs and incomes generated through value added in goods reconditioned for re-export.

Mauritius

Population mid-1993 *(millions)*	**1.1**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**3,030**	Indebtedness level:	**Less indebted**

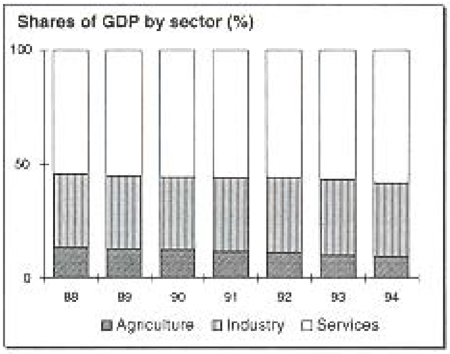
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.5	30.4	28.6	30.5	31.7
Exports of goods and nfs/GDP	53.5	67.4	62.1	61.0	60.9
Gross domestic savings/GDP	21.6	23.0	25.2	24.2	23.3
Gross national savings/GDP	15.3	25.3	28.4	26.5	24.4
Current account balance/GDP	-8.2	-5.2	-0.2	-4.2	-7.3
Interest payments/GDP	2.6	1.6	1.8	1.4	1.5
Total debt/GDP	58.4	37.9	34.1	30.4	31.0
Total debt/exports	108.8	54.4	52.5	48.1	49.0



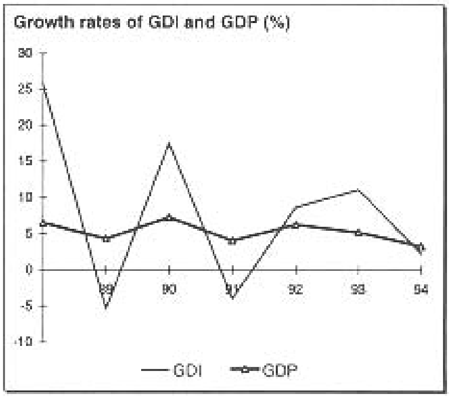
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	15.3	12.3	11.1	9.9	9.4
Industry	29.2	32.2	33.2	33.4	32.4
Manufacturing	20.6	23.5	23.2	23.3	21.7
Services	55.5	55.6	55.8	56.7	58.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-1.2	1.5	6.5	-2.5	4.0
Industry	10.1	7.0	7.3	6.2	9.5
Manufacturing	10.4	7.7	6.4	10.0	9.5
Services	6.8	5.1	6.5	5.5	3.1
GDP	7.4	4.9	6.2	5.2	3.3



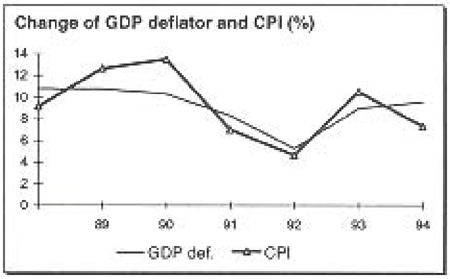
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	68.2	67.3	65.0	65.9	66.2
General government consumption	10.2	9.8	9.7	9.9	10.5
Gross domestic investment	23.5	30.4	28.6	30.5	31.7
Exports of goods and nfs	53.5	67.4	62.1	61.0	60.9
Imports of goods and nfs	55.4	74.8	65.5	67.4	69.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	11.4	4.8	4.8	6.2	6.5
General government consumption	5.5	1.1	4.6	-3.2	0.4
Gross domestic investment	10.5	5.4	8.6	11.1	2.2
Exports of goods and nfs	12.7	4.6	3.4	5.0	6.1
Imports of goods and nfs	18.3	4.3	2.9	7.3	8.2
Gross national product	7.9	5.3	6.4	4.7	4.8
Gross national income	8.5	4.5	6.5	3.0	4.1



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	6.7	13.5	4.6	10.5	7.3
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	7.5	10.3	5.3	9.0	9.6
Government finance					
(% of GDP)					
Current budget balance	-1.8	2.3	2.9	2.8	2.0
Overall surplus/deficit	-6.0	-2.3	-2.1	-2.0	-3.1



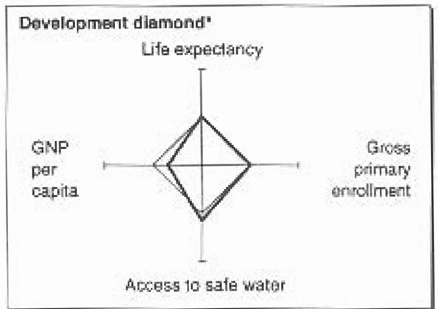
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Mauritius

POVERTY and SOCIAL

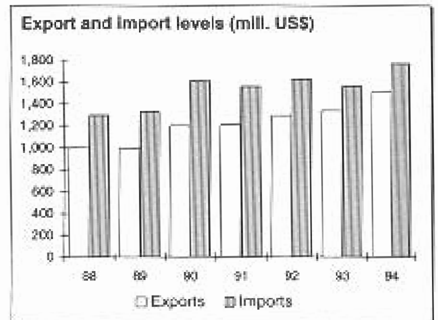
	1985-90	1990-94
(annual growth rates)		
Population	0.8	1.1
Labor force	2.4	1.9

	most recent estimate
Poverty level: headcount index *(% of population)*	5.2
Life expectancy at birth	70.5
Infant mortality *(per 1,000 live births)*	17.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	391.4
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	106.0



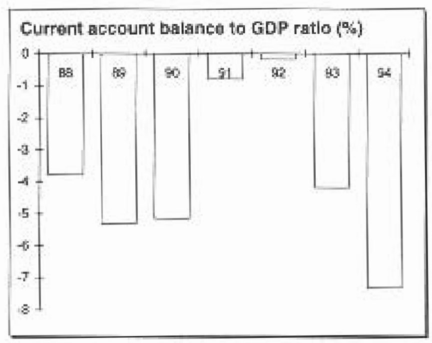
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	430	1,201	1,292	1,336	1,509
Sugar	186	351	364	359	370
Textiles	177	642	703	777	866
Manufactures	212	768	841	920	1,034
Total imports (cif)	526	1,611	1,626	1,559	1,766
Food	87	176	189	268	254
Fuel and energy	74	130	124	128	134
Capital goods	72	423	368	400	424
Export price index *(1987=100)*	71	104	104	108	111
Import price index *(1987=100)*	72	98	90	84	88
Terms of trade *(1987=100)*	98	107	115	128	126
Openness of economy *(trade/GDP, %)*	109	142	128	128	130



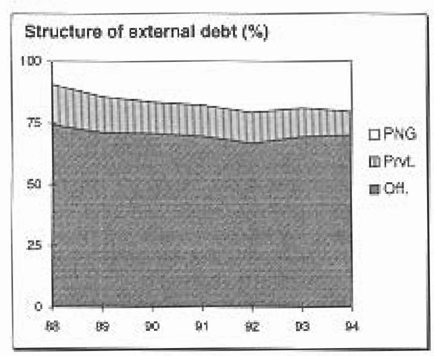
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	576	1,724	1,913	2,003	2,048
Imports of goods and nfs	597	1,915	2,017	2,213	2,330
Resource balance	-21	-191	-104	-210	-282
Net factor income	-45	-23	11	-7	-7
Net current transfers	-22	82	87	79	42
Current account balance					
Before official transfers	-88	-132	-6	-138	-247
After official transfers	-74	-107	13	-136	-245
Long-term capital inflow	26	137	20	73	71
Total other items (net)	67	203	13	123	253
Changes in net reserves	-19	-232	-46	-60	-79
Memo:					
Reserves excluding gold *(mill. US$)*	30	738	820	757	748
Reserves including gold *(mill. US$)*	42	761	841	781	771
Conversion rate *(local/US$)*	15.4	14.9	15.6	16.7	18.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	71.4	50.2	46.9	42.6	43.7
IMF credit/exports	28.5	1.2	0.0	0.0	0.0
Short-term debt/exports	8.8	3.0	5.6	5.5	5.4
Total debt service/exports	24.3	8.6	8.1	6.1	6.5
GDP ratios					
Long-term debt/GDP	38.4	34.9	30.5	26.9	27.6
IMF credit/GDP	15.3	0.9	0.0	0.0	0.0
Short-term debt/GDP	4.7	2.1	3.6	3.5	3.4
Long-term debt ratios					
Private nonguaranteed/long-term	3.6	16.5	20.7	18.9	20.3
Public and publicly guaranteed					
Private creditors/long-term	21.9	12.9	12.5	11.8	9.7
Official creditors/long-term	74.5	70.6	66.8	69.3	70.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mexico

Mexico is in the midst of an economic crisis brought on by high current account deficits and a failure to take adequate measures to address the buildup of balance-of-payments pressures. Reserves fell sharply through most of 1994 and by mid-December were at an uncomfortably low level. The government raised the ceiling of the exchange rate band by 15.3 percent on December 20, but after two further days of very strong capital outflows it was forced on December 22 to allow the exchange rate to float. The devaluation triggered a confidence crisis and the markets have since been extremely volatile.

The crisis was the result of factors that had built up over several years, compounded by severe political shocks in 1994. These included the strong appreciation of the real exchange rate between 1989 and 1993, in part a consequence of the priority the government placed on reducing inflation to single digits — in which it was successful. Other important factors included Mexico's large current account deficits, a fall in domestic private savings, and slow growth in the investment needed to raise productivity. At the same time, increases in international interest rates made Mexican returns relatively less attractive. On the political side, Mexico was shaken by the uprising in Chiapas in January 1994 and two political assassinations.

The government responded by introducing a comprehensive Emergency Economic Program on January 3, 1995. The program aims to restore investor confidence, stabilize inflationary expectations and the financial markets, and ensure a smooth adjustment of the economy to a sustainable current account deficit. The government program is being supported by an IMF standby totaling about $17.8 billion and additional financial support from the U.S. Treasury, the Bank of International Settlements, and others. The program includes wage restraint, tight fiscal and monetary policies, a floating exchange rate, and an acceleration of some structural reform measures. The financial markets continued to be volatile in January and February, however, and the government therefore announced a strengthened program of measures in early March. As of early May, the markets had recovered somewhat, although the situation remained fragile.

Despite Mexico's short-term difficulties, the structural reforms of the past decade should limit the possibility of repeating the protracted economic problems experienced in the 1980s. Starting in the mid-1980s, Mexico adopted an outward-oriented and private-sector-led reform strategy based on sustained fiscal adjustment and an anti-inflationary stabilization program. The strategy included public enterprise privatization and a public debt reduction program, and opened the economy to international competition. Joining the United States and Canada in the North American Free Trade Agreement on January 1, 1994, was an important reform milestone that will lead to free trade with Mexico's major markets and provide competition to previously protected — and often inefficient — sectors.

Structural Reform in the 1980s

The key to Mexico's structural reform program has been a combination of fiscal austerity, opening its economy, and redefining the role of the state in that economy. Reform efforts began in 1983 and were continued and strengthened under the government that took office in December 1988. Political support for these stabilization efforts was carefully engineered through a series of tripartite social pacts among labor, business, and government that began in 1988 and were renewed periodically, most recently in January 1995.

The reform program reestablished investor confidence in the Mexican economy: there were sizable capital inflows, real domestic interest rates fell sharply between 1983 and 1993, and inflation fell from about 159 percent in 1987 to 7 percent in 1994.

Mexico began sustained fiscal adjustment soon after the onset of the debt crisis in 1982. The primary balance in the government accounts registered an improvement equivalent to 16 percentage points of GDP over 1981-83. In 1992 the overall fiscal balance (including net lending of public institutions) showed a surplus equivalent to 0.5 percent of GDP, or 3.5 percent of GDP if the proceeds from privatization are included. The main fiscal changes were in expenditures. Noninterest public expenditure declined from almost 32 percent of GDP in 1981 to 28 percent in 1983 and then gradually to 20 percent by 1990. Capital expenditures were cut by more than half over the same period.

While the cuts brought about increased efficiency in government operations by eliminating most of the dubious large projects of the late 1970s, in the mid-1980s expenditures on maintenance and the social sectors were also reduced. The strengthened fiscal accounts, including the receipts from the privatization program, external debt reduction under the Brady Plan, and increased confidence led to sharply lower interest rates on domestic public-sector debt, which further strengthened fiscal accounts. Total interest payments on public debt fell sharply from the peak of 20 percent of GDP in 1987 to 3.0 percent of GDP in 1993.

Tax reforms also contributed to the fiscal adjustment. A major tax reform initiated in 1987 expanded the tax base, simplified the tax system, reduced rates, and modernized tax administration. At 35 percent, the flat corporate tax rate and the highest personal tax rate are in line with international levels. A uniform VAT rate of 10 percent was introduced in 1991 for about 70 percent of goods and services, replacing the former four rates. Gasoline prices and the excise tax on gasoline were sharply increased.

Successful restructuring of Mexico's external public debt boosted confidence in the reform program. In mid-1989 an agreement was reached with the commercial banks to restructure about $48 billion in external debt. The debt deal reduced annual transfers abroad by about $4 billion.

The strong fiscal position it had created allowed the government to retire foreign and domestic public debt. It also used the proceeds from the 1990-91 oil windfall and from the privatizations of banks and the state telecommunications company to retire debt. In 1992, the government repurchased about $7.2 billion of its outstanding foreign debt, of which $6.1 billion were Brady bonds. And from late 1991 to early 1993 it took steps to retire a significant part of the domestic public debt held by Banco de Mexico. Total domestic public debt was reduced from 19.5 percent of GDP in 1990 to 8.9 percent at the end of 1993.

Mexico's adjustment program was highly successful in reducing inflation, which fell from 159 percent in 1987 to just 7.0 percent in 1994. Average real wages have also increased sharply; in manufacturing they rose about 30 percent between 1988 and 1992, an average annual rate of 6.8 percent.

The *Pactos* were the forum for generating government, labor, and business consensus on basic macroeconomic policy parameters, including the exchange rate system. The government used the exchange rate as a nominal anchor in the stabilization program, and until 1992 exchange rate policy consisted of a daily nominal devaluation of the official rate. This devaluation was originally one peso per day relative to the dollar, reduced to 80 centavos under the May 1990 *Pacto* renewal, 40 centavos under the November 1990 renewal, and 20 centavos under the November 1991 renewal. However, the use of the exchange rate as a nominal anchor also led to its real appreciation. The daily nominal devaluations were insufficient to offset the differential between inflation rates in Mexico and the United States. The real exchange rate appreciated by about 9 percent in 1991, by 10 percent in 1992, and by a further 5 percent in 1993, for a cumulative total of about 26 percent over these three years.

Under the *Pacto* renewal of October 1992 Mexico moved to a different exchange rate system that introduced more flexibility. An explicit exchange rate band system was announced, under which the rate of devaluation of the ceiling of the exchange rate band was increased to 40 centavos a day, while the floor of the band remained fixed at its November 1991 level. Although a band system had already been in effect in 1992, it had never been formally announced as such. The new exchange rate band system marked a significant change in policy and a move in the direction of a more market-determined mechanism for setting the exchange rate.

Far-reaching trade reform has rendered Mexico one of the more open economies in the world. The ratification of the NAFTA and its entry into force on January 1, 1994, capped a process of trade liberalization in Mexico that started in 1985. The United States and Canada account for 79 percent of Mexico's trade in goods, and under NAFTA trade with these partners will become substantially free for most sectors, including agriculture, financial services, and other services, although this liberalization will be phased in over periods of up to fifteen years.

A comprehensive privatization program has reduced the number of public enterprises from 1,155 in 1982 to about 200, some through consolidation or through elimination of nonoperational entities. While the vast majority of the remaining public enterprises are universities, cultural organizations, and other such nonprofit entities, the public sector retains such entities as the national oil and railway monopolies and the national power company. The privatization program has had important positive implications for the government budget. From 1984 through 1992 privatization receipts totaled about $20 billion, with sales concentrated in 1991 and 1992. In addition to providing resources to retire public debt, privatization enabled the government to reduce fiscal transfers to public enterprises from 3.7 percent of GDP in 1983 to 0.8 percent in 1992.

Deregulation has been extended to industry and transportation. The past interventionist industrial policy has been dismantled. A cumbersome transportation licensing system has been streamlined and the sector opened to competition, and the remaining state-owned enterprises are being reformed. Enterprises targeted for major restructuring or privatization include the railway company and the food distribution company. Government plans to retain its monopoly on petroleum production, but foreign participation in the petrochemical sector is being extended as the list of petrochemicals reserved for the public sector has been very significantly narrowed.

The regulatory framework for foreign investment has also been improved. Regulations on foreign investment were modified in 1989 to encourage private investment by introducing automaticity and transparency and harmonizing the tax system. In most sectors, 100 percent foreign ownership is allowed. In the sectors where foreign participation was previously banned, a 49 percent minority stake is permitted, with the exception of brokerage houses and banks where the pre-NAFTA limit was 30 percent. NAFTA will further liberalize these measures for U.S. and Canadian investors, and the government has in a number of cases unilaterally extended NAFTA treatment to others.

The previous government also initiated a strategy to increase private participation in infrastructure services to increase efficiency and reverse the declining trend in infrastructure investment that followed fiscal retrenchment in the 1980s. Construction of private toll roads proceeded rapidly, and over 4,000 kilometers were in operation at the end of 1993. Since 1990, the private sector has also participated in a limited way in financing and building electric generation plants under build-lease-transfer contracts. Direct ownership of electric generating plants is allowed under a law passed in December 1992, although there has yet to be a specific concession agreement reached. At the municipal level, the private sector has been involved in building, financing, and operating water and sewage treatment plants.

In the mid-1980s Mexico's banking system was heavily burdened with interest rate controls, compulsory lending to targeted activities, and high reserve requirements to finance the government's deficit. In the late 1980s all interest rate and portfolio restrictions were eliminated. Prudential regulation and supervision of financial intermediaries were improved and modernized. Restrictions on foreign participation in the financial sector were eliminated under NAFTA — although this is to be phased in for banks. In 1991-92, the government reprivatized the commercial banks that had been nationalized in 1982. As a result, the financial system grew rapidly.

In managing the process of financial liberalization, the government and the Banco de Mexico have sought to protect the economy from the potentially destabilizing effects of short-term private foreign borrowing. To this end, the Banco de Mexico introduced a 15 percent reserve requirement on private domestic bank foreign-currency-denominated liabilities. The reserve requirements can be held in dollar-denominated deposits at Banco de Mexico, in U.S. government securities, or in dollar-denominated liabilities issued by international financial institutions. Also, foreign currency deposits and borrowings of Mexican banks have been restricted to a percentage — up to 20 percent under certain conditions — of their peso-denominated liabilities. These measures have stabilized the stock of external liabilities of Mexican commercial banks since April 1992.

In November 1991 Mexico announced the end of a land redistribution program initiated in the 1920s and proposed modifying the constitution to permit the sale and leasing of communal *ejido* land. In early 1992 the constitution was amended, and the government issued a new Agrarian Law and created the legal framework giving *ejidatarios* the right to sell their land. Under the old law, *ejido* land could not be pledged as collateral for credit and could not be rented or exploited through sharecropping or other tenancy arrangements.

The government is also limiting its intervention in pricing, and marketing and in allocating credit. Subsidies on inputs such as fertilizer, electricity, and water have been reduced. The rural financial system is being reformed and credit subsidies have been significantly curtailed. Output pricing has been substantially liberalized and agriculture protection reduced, with the notable exception until now of maize and beans, which will be phased out under NAFTA. To compensate for the costs of price liberalization, the government has embarked on a massive direct transfer scheme to replace agricultural price supports with lump-sum payments from the budget. To encourage producers to switch to more profitable crops at international prices, payments will be linked to past production levels and patterns, fixed for ten years, and then phased out over the subsequent five. The recent devaluation of the exchange rate has, however, has led to domestic agricultural prices above the old official support levels.

Poverty and Social Indicators

Despite government efforts to reduce poverty, one-fifth of the population is still below a poverty line of $360 per person per year. The government is attacking poverty through its growth-oriented economic strategy and through public expenditure programs targeted to the poor. The *Programa Nacional de Solidaridad*, initiated in 1988, targets health, education, nutrition, housing, employment, infrastructure and other projects for the poor. The program's budget has increased steadily, from $0.5 billion in 1989 to $2.5 billion in the 1993 budget. In addition, the government provides targeted urban and rural food subsidies.

The Recent Economic Crisis

On December 20, 1994, Mexico announced that the ceiling of the exchange rate band would be increased from a rate of $3.47 to the dollar to $4.00, a rise of 15.3 percent. This new exchange rate proved unsustainable as capital outflows became intense. As a result, the Banco de Mexico lost an additional $4 to $5 billion of reserves in just two days, bringing reserves down to just $6.5 billion (less than a month of imports), and on December 22 the authorities announced that the Mexican peso would float.

The government's decision was forced by a combination of external and internal factors. These included strong real exchange rate appreciation between 1989 and 1993 and the increased foreign exchange risk indicated by the long period that the peso remained at the ceiling of the exchange rate band. The current account deficit was large, averaging 7.5 percent of GDP — some $26 billion — since 1992 and supported by capital inflows from abroad, while domestic private savings fell. By December these factors combined with increasing political uncertainty after the Chiapas uprising, the two assassinations, and rising international interest rates to lead foreign investors to reduce their holdings in Mexico.

Initially, the government hoped to avoid a crisis by reassuring foreign investors that there would be no major economic changes and it would be able to maintain the peso within the exchange rate band by relying on high real interest rates to attract capital inflows. However, this strategy left the economy vulnerable to the pace and volatility of foreign capital inflows. While final figures are not yet available for the whole of 1994, net foreign capital inflows are estimated at approximately $10 billion, a sharp fall from the $31 billion that flowed in during 1993. While these inflows were positive and at levels that would be considered quite high in most circumstances, they were far less than the $29 billion estimated current account deficit for 1994, and reserves fell sharply, from over $30 billion by mid-February 1994 to $17 billion by November 1, and to just $6.5 billion by December 21.

Government Response to the Crisis

On January 3, 1995, the government announced an economic program aimed at restoring international confidence, stabilizing the economy, and adjusting the economy to a lower current account deficit. On January 26 the government and the IMF announced agreement on a standby arrangement in support of the program. On March 9 the government revised its main macroeconomic targets and adopted additional measures to adjust the economy. It revised expected GDP growth from 1.5 percent for 1995 to -2 percent, the rate of inflation from 19 to 42 percent, and the current account deficit from 4 percent to near equilibrium. By adopting more realistic macroeconomic targets and undertaking severe measures, the government expects to gain credibility and increase confidence in the program.

On the policy front, the government is converting dollar-denominated peso *Tesebono* bonds to longer-term debt with external support led by the United States, and is promoting severe wage restraint and very tight fiscal and monetary policies while floating the exchange rate and accelerating structural reform measures. It is also putting together a framework for dealing with failed banks and banks experiencing liquidity problems.

Medium-Term Prospects

Mexico's broad and deep reform efforts since 1983 — augmented by the further measures it has taken since last December — provide the basis for a positive medium-term economic outlook. The country has, however, a number of immediate-term obstacles to overcome before it can restart steady economic growth.

Although the government has reacted quickly and decisively to meet the crisis, there is a risk that problems could last beyond 1995 if a lagging supply response leads to a drastic compression in aggregate demand and a recession, or high losses undermine the financial situation of banks and enterprises. A need to maintain very high real interest rates for a long period to restore credibility could also hit the weak financial system, as happened in Chile in 1982. Mexico's success in overcoming the economic crisis will thus depend on how quickly the government restores international confidence, its ability to keep inflationary expectations under control and manage an orderly adjustment to a sustainable current account deficit, and its ability to resume economic growth quickly.

Sustainable medium-term growth will depend on higher domestic savings, in particular by the private sector. The fall in domestic savings in recent years was an important factor leading to the current crisis, and higher future investment will require higher domestic savings, as foreign savings will not be available at the levels seen in the recent past.

Productivity growth across the economy has been very low in recent years, and future economic growth will depend on the impact that the structural reforms have on productivity growth and the competitiveness of domestic enterprises. The keys to stimulating growth in factor productivity will be labor market reform, increasing use of the private sector to provide infrastructure services, and completing privatization of state-owned enterprises in the infrastructure sectors.

The year 1994 was marked by a series of political shocks: on January 1, a major uprising was launched in

Chiapas; the president of Mexico's largest private bank was kidnapped and held for ransom in early March; on March 23, the incumbent party's presidential candidate was assassinated; and on September 23 — a month after the national elections — a high official of the ruling party was assassinated. Financial markets are likely to remain unstable until political stability is perceived to be restored.

With an open capital account and the greater globalization of the financial markets, Mexico will continue to be exposed to foreign capital volatility. But, as happened in the European Monetary System in 1992, countries with open capital accounts need to learn to live with greater volatility in financial markets. And to the extent that capital volatility makes bad economic policies difficult to carry out, this exposure acts as a desirable check on government policies.

Unlike the 1982 crisis, when the economy fell into stagflation, Mexico in 1994 has the economic fundamentals right and has made a commitment to deepen the economic adjustment and maintain tight fiscal and economic policies. If a leaner and more efficient financial system is able to allocate credit sustained by higher private savings to more efficient enterprises, Mexico is likely to achieve its medium-term objective of single-digit inflation and a sustainable rate of growth of about 5 percent.

That growth would be sustained by productivity gains resulting from more efficient production and a more flexible economic environment that has been brought about by years of consistent structural reform. NAFTA will make domestic enterprises more competitive by exposing them to international competition. Total factor productivity is likely to increase as new investment replaces the old capital stock and as inefficient enterprises are restructured or liquidated.

NAFTA is of great significance for three reasons. First, economic integration will be incorporated into a legally binding international agreement that makes reversal of the process difficult. Second, reduced uncertainty will foster opportunities for investments that raise productivity and wages in Mexico. Third, integration will lead to further liberalization in key sectors, particularly in agriculture and financial services.

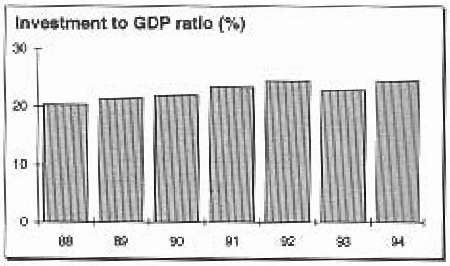
The sustainability of future growth will also be based on continued government commitment to reducing poverty and protecting the environment. By improving the access of the poor to health, education, and clean drinking water, the government will not only raise the well-being of the poor, but will also improve the quality of the labor force. Mexico's environmental problems are a result of many factors, including decades of explosive traffic growth, unchecked industrialization, encroachment on forests by ranchers, and subsidized consumption of natural resources. The government has begun to establish the institutional capability to implement a comprehensive ecological policy. The central agency for environmental policy has been strengthened, and a pricing policy conducive to energy savings is being adopted.

Mexico

Population mid-1993 *(millions)*	**90.0**	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	**3,610**	Indebtedness level: **Moderately indebted**

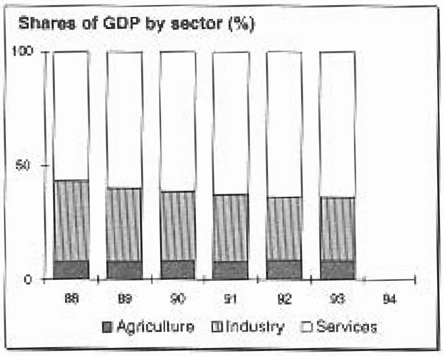
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.2	21.9	24.4	22.8	24.5
Exports of goods and nfs/GDP	15.4	15.8	12.4	12.3	13.3
Gross domestic savings/GDP	26.3	20.7	19.0	18.6	19.2
Gross national savings/GDP	22.5	20.1	17.0	16.4	17.4
Current account balance/GDP	0.4	-3.1	-7.3	-6.4	-7.7
Interest payments/GDP	5.1	2.4	1.8	1.5	1.7
Total debt/GDP	52.5	43.4	33.9	32.3	33.1
Total debt/exports	320.8	243.0	239.8	236.6	217.9



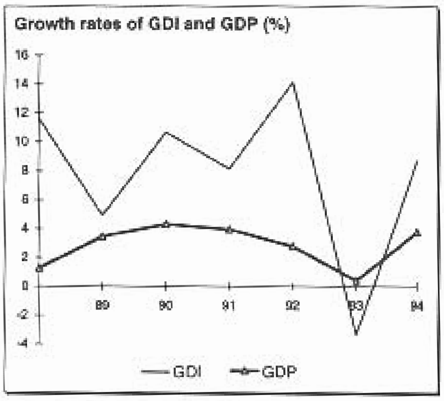
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	9.1	8.0	8.3	8.2	..
Industry	33.3	30.7	27.9	27.9	..
Manufacturing	23.4	22.8	20.1	19.7	..
Services	57.6	61.3	63.7	63.9	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.8	*0.7*	-1.0	2.8	..
Industry	2.6	*2.2*	3.1	-0.2	..
Manufacturing	3.2	*1.7*	2.3	-1.5	..
Services	1.3	*2.8*	3.1	0.5	..
GDP	1.6	2.5	2.8	0.4	3.8



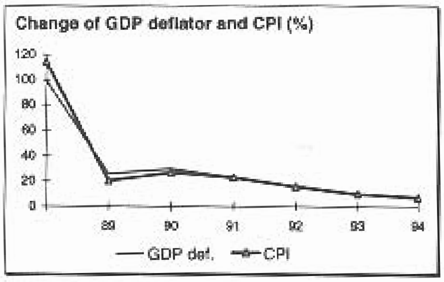
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	64.5	70.9	71.1	70.7	72.2
General government consumption	9.2	8.4	9.9	10.7	8.6
Gross domestic investment	21.2	21.9	24.4	22.8	24.5
Exports of goods and nfs	15.4	15.8	12.4	12.3	13.3
Imports of goods and nfs	10.3	16.9	17.9	16.5	18.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.7	4.1	6.1	0.0	5.1
General government consumption	0.1	2.7	2.3	3.0	1.5
Gross domestic investment	3.8	6.4	14.1	-3.4	8.7
Exports of goods and nfs	5.5	4.0	1.6	3.5	7.7
Imports of goods and nfs	16.8	11.4	20.9	-1.2	12.9
Gross national product	2.1	2.6	2.7	0.6	3.3
Gross national income	2.1	2.8	3.1	1.2	3.6



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	57.7	26.7	15.5	9.8	7.0
Wholesale prices	53.6	23.3	13.4	8.9	..
Implicit GDP deflator	56.5	29.6	14.8	9.7	7.1
Government finance					
(% of GDP)					
Current budget balance	1.0	5.3	9.0	7.1	6.9
Overall surplus/deficit	-8.0	-2.8	1.4	0.2	-0.1

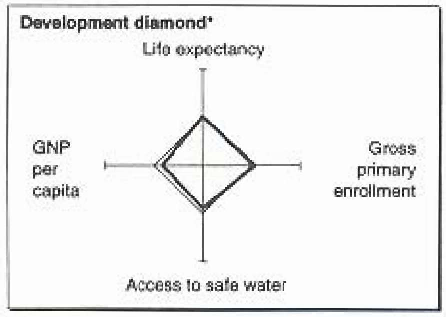


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.2	2.1
Labor force	3.1	3.0

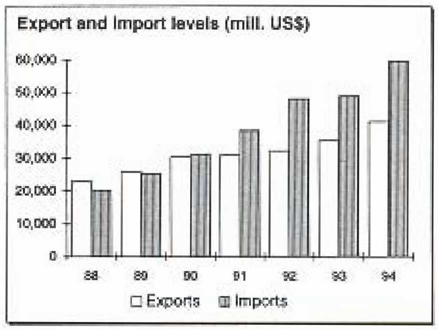
	most recent estimate
Poverty level: headcount index *(% of population)*	10.1
Life expectancy at birth	71.0
Infant mortality *(per 1,000 live births)*	35.4
Child malnutrition *(% of children under 5)*	13.9
Access to safe water *(% of population)*	77.5
Energy consumption per capita *(kg oil equivalent)*	1,439.5
Illiteracy *(% of population age 15+)*	12.7
Gross primary enrollment *(% of school-age population)*	113.0



Development diamond*

TRADE

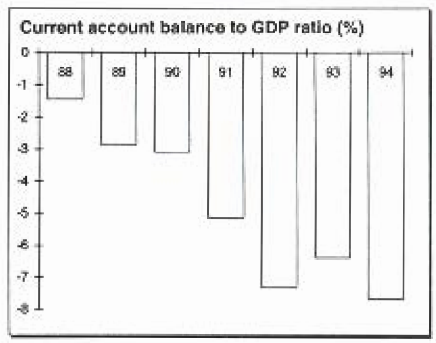
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	22,931	30,390	32,259	35,453	41,146
Fuel	14,767	10,104	8,307	7,418	7,393
n.a.	..	..	..	..	..
Manufactures	6,245	17,507	21,484	25,252	30,717
Total imports (cif)	14,533	31,272	48,193	48,924	59,687
Food	1,082	5,099	7,744	7,842	9,511
Fuel and energy	..	..	..	..	..
Capital goods	3,165	6,790	11,556	11,056	13,322
Export price index *(1987=100)*	125	111	104	102	109
Import price index *(1987=100)*	99	113	115	116	119
Terms of trade *(1987=100)*	127	98	91	87	92
Openness of economy *(trade/GDP,%)*	26	33	30	29	32



Export and import levels (mill. US$)

BALANCE of PAYMENTS

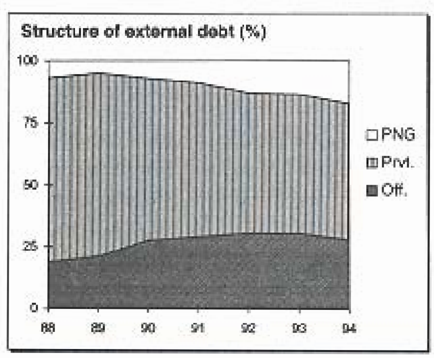
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	27,725	38,411	41,451	44,806	50,883
Imports of goods and nfs	19,915	41,214	59,681	59,952	71,597
Resource balance	7,810	-2,803	-18,230	-15,146	-20,714
Net factor income	-8,996	-8,735	-9,320	-10,933	-12,162
Net current transfers	1,986	3,978	3,021	2,688	4,014
Current account balance					
Before official transfers	800	-7,560	-24,529	-23,391	-28,863
After official transfers	800	-7,560	-24,529	-23,391	-28,863
Long-term capital inflow	1,961	13,169	16,945	25,543	11,363
Total other items (net)	-5,184	-2,375	8,758	3,890	-1,386
Changes in net reserves	2,423	-3,234	-1,173	-6,043	18,885
Memo:					
Reserves excluding gold *(mill. US$)*	4,906	9,863	18,942	25,110	6,278
Reserves including gold *(mill. US$)*	5,679	10,217	19,171	25,299	6,441
Conversion rate *(local/US$)*	0.3	2.8	3.1	3.1	3.4



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	292.9	191.1	175.3	172.3	160.8
IMF credit/exports	9.8	15.0	12.6	9.6	6.6
Short-term debt/exports	18.1	36.9	51.9	54.7	50.5
Total debt service/exports	50.7	26.3	43.9	41.9	43.1
GDP ratios					
Long-term debt/GDP	47.9	34.2	24.8	23.5	24.4
IMF credit/GDP	1.6	2.7	1.8	1.3	1.0
Short-term debt/GDP	3.0	6.6	7.3	7.5	7.7
Long-term debt ratios					
Private nonguaranteed/long-term	17.8	7.0	12.9	13.4	17.0
Public and publicly guaranteed					
Private creditors/long-term	72.2	65.7	56.7	56.2	55.0
Official creditors/long-term	10.0	27.3	30.5	30.4	27.9



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Moldova

Moldova has an ethnically diverse population of about 4.4 million and occupies an area of 33,700 square kilometers. GDP per capita was $1,060 in 1993. The path to independence unleashed an armed conflict in which ethnic factors combined with differences in approach to economic reform and restructuring. The conflict, which ended in a cease-fire in July 1992, resulted in the de facto partition of the country, with the economically significant region of Transnistria remaining under separate control. Discussions with the leaders of that region are continuing, and there appears to be increasing economic cooperation. The previous parliament, which was elected while Moldova was still a part of the Soviet Union, was not fully effective in providing support to economic reforms; however, the government now has a majority in the new (and smaller) parliament elected in February 1994, and the government and parliament have shown a determination to continue reforms.

Moldova's economic role in the Soviet Union's command economy was to produce raw and processed foodstuffs (primarily grapes, grains, wines, vegetables, and livestock). Agriculture alone still accounts for about 40 percent of net material product; agro-industry contributes approximately half of the almost 40 percent of NMP accounted for by the industrial sector, along with household appliances and high technology electrical goods. Most inputs, particularly primary energy supplies, are imported from the former Soviet Union.

Recent Economic Developments

A cumulative decline in GDP of more than 50 percent since 1990 resulted from the collapse of the Soviet command structure, the sharp compression in demand in the former Soviet Union, and the disruption in intra-union trade and payments systems. In 1992 the fall in output was compounded by the worst drought since 1946 and by the conflict in the Transnistria region. In 1993 the volume of energy imports was substantially below expectations, and real GDP continued to fall. Registered unemployment, however, remained below 1 percent of the labor force because of soft budget constraints on enterprises. Inflation accelerated sharply in 1992, with average price increases of almost 1,300 percent as a result of extensive price liberalization and loose monetary policy in the former Soviet Union. There was a surge of inflation before the new currency, the leu, was introduced in November 1993. Inflation peaked in January 1994 at a 45 percent monthly rate, but declined sharply to a monthly rate of 2.7 percent by May 1994 after the institution of a strict stabilization policy, and has remained stable at that level, with monthly inflation for December 1994 at 2.8 percent. In 1994 there was another series of natural disasters, with a second severe drought followed by floods caused by severe storms in the early autumn. Agricultural production appears to have fallen to less than half the 1993 level, and preliminary estimates indicate that GDP fell by around 22 percent for the year.

Moldova traditionally ran a budget surplus. In 1991 and 1992, however, the effects of the output decline, the abolition of transfers from the Soviet Union, tax reform implementation difficulties, and the armed conflict combined to undermine its fiscal position. The general government budget was balanced in 1991, but a cash deficit of 21 percent of GDP emerged in 1992, financed largely by the central bank. The 1993 budget deficit was 8.9 percent of GDP. There were some delays in implementing policy reforms, including introduction of import tariffs, and extending the VAT to imports from outside of the Commonwealth of Independent States. Nevertheless, the fiscal deficit is being narrowed further and recourse to bank financing of the deficit has generally been kept within the limits defined by the monetary program. Due to the increased fiscal pressure caused by the natural disasters in 1994, the budget deficit remained at 8 percent of GDP.

In the first few years of independence Moldova's monetary policy remained largely dependent on decisions of Russia's central bank. However, in June 1992, in the face of cash shortages, the National Bank of Moldova began issuing coupons that circulated alongside the ruble. In parallel with developments in the foreign exchange market in Russia, Moldova then made progress toward market-based allocation of foreign exchange. Foreign exchange auctions were introduced in late 1993, and there is now a well-functioning Chisinau Interbank Foreign Currency Exchange. Since its introduction in November 1993 at a rate of 3.85 to the dollar, the leu has remained very stable, appreciating substantially in real terms. In February 1995 the rate was 4.35 leu to the dollar.

Until mid-1993 credit allocation was subject to a substantial degree of intervention by the government, with preferential credits at highly concessional interest rates directed to the agricultural, agro-industrial, and energy sectors. However, in June 1993 the government decided to grant no new preferential credit and to make all subsidies on outstanding preferential credit explicit in the government budget. Following last year's exceptionally good harvest, the central bank has resisted pressures to provide financing for government crop procurement and has ensured that ceilings on credit to the banking system were respected. During 1992 and 1993 the bank moved its refinancing rates to Russian levels — which were still highly negative in real terms. Since the introduction of the new currency, refinancing credit has been subject to auction, and, with inflation decelerating sharply, monthly rates of interest have remained strongly positive. Bank deposit rates have been liberalized, but the mobilization of financial savings has been constrained by lack of confidence in the banking system.

In mid-October 1993 the Moldovan authorities signed the zero option agreement on the external debt of the former Soviet Union. By end-1994 the government had accumulated approximately $550 million in foreign debt.

With prices for energy imported from Russia rising rapidly toward world levels, the current account position deteriorated in 1992 to a deficit of 1 percent of GDP. This followed a history of positive balances. The relative price of energy continued to rise in 1994, resulting in a current account deficit of about 9 percent of GDP.

In 1993 the government began to lay the foundations for a comprehensive stabilization program supported by an IMF Systemic Transformation Facility and standby arrangements. The program focuses on substantial tightening of monetary and credit conditions through refinancing auctions and limits on credit to government and the banking system, and tight fiscal policy through strengthened revenue measures and broadening the tax base. The program also targets phased elimination of consumer subsidies in favor of targeted compensation schemes, continuation of the restrained public sector wage policy, removing the remaining restrictions on exports, and introducing a market-determined exchange rate with current account convertibility.

The government's 1993-95 economic reform program focuses on removing trade and price restrictions to facilitate resource reallocation to uses that can be competitive at world prices, promoting private-sector development through privatization and tightening financial discipline on public enterprises, and protecting vulnerable groups during the transition process.

Trade reform includes phased abolition of the remainder of quantitative restrictions on exports. In June 1993 the export licensing system was streamlined, and in August 1993 the number of items subject to export licensing and quotas was halved; all quotas on hard currency exports and exports bartered for energy were eliminated. Remaining export quotas on cereals and energy are to be removed in 1995. Export taxes have been abolished, and a phased reduction of import tariffs is under way. Price controls have been abolished, except in the case of monopolies, and controls on commercial margins have been abolished except for a small number of essential goods.

Parliament adopted a privatization program for 1993-94 in March 1993 that called for privatization of an estimated 35 percent of the total value of state assets by the end of 1994 by privatizing 1,600 enterprises, primarily through auctions in exchange for vouchers. While the implementation of this program was initially delayed by technical problems, it gained strong momentum at the end of 1994.

Land reform and the reorganization of state and collective farms are proceeding at a steady pace. By July 1993, 8,000 private farmers had received land. State and collective farms are being converted to a variety of corporate forms from which individuals can leave, taking their share in land. This process has met with considerable political difficulty, as the criteria for dividing land were challenged, leading to a temporary suspension of the process in December 1994. The process started again after parliament adopted corrective measures in February 1995. In parallel, the government has moved to abolish the state monopolies in agricultural trade and input supply. The two largest parastatals, the grain distribution company and the agrochemical company, have been dismantled and will be privatized under the 1995-96 privatization program.

The government is improving the targeting of social protection by replacing generalized consumer goods subsidies with targeted compensation to vulnerable groups. The financing of the Social Support Fund, which addresses the needs of the poorest, has been put on a more secure basis through increased budget allocations. Pensions and other benefits have been delinked from the minimum wage, allowing the government to compensate vulnerable groups for price increases without affecting the entire wage structure. Legislation to phase in increases in the retirement age was introduced in parliament in late 1994.

Medium-Term Prospects

The macroeconomic outlook for Moldova depends largely on its ability to proceed with its reforms, but also on developments in the economies of the Russian Federation and Ukraine, Moldova's export access to world markets, and foreign capital inflows. Vigorous and consistent implementation of the reform program is laying the foundation for restoring of positive real GDP growth.

Moldova's balance of payments came under pressure in 1993, leading to a current account deficit of 12 percent of GDP. With the move to world prices of energy imports, the current account deficit remained very large in 1994 at around 9 percent of GDP; it is expected to decline to more sustainable levels over 1995-97. Timely external financial support will be essential to alleviate the burden of adjustment in Moldova and to allow the government to keep up the pace of reform.

External Debt

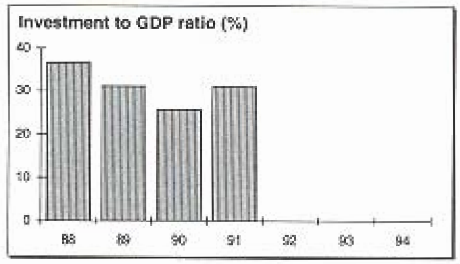
Moldova's debt accumulation since independence has been modest. Projected debt service to export ratios range between 4 and 9 percent over the next five years.

Moldova

Population mid-1993 *(millions)*	**4.4**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,060**	Indebtedness level:	**Less indebted**

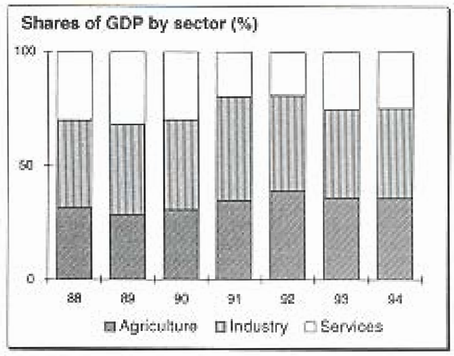
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	30.5	25.6	..	..	..
Exports of goods and nfs/GDP	..	48.7	..	..	..
Gross domestic savings/GDP	34.6	23.4	..	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-0.8	-4.2	-5.3
Interest payments/GDP	..	..	0.0	0.0	0.3
Total debt/GDP	..	..	0.8	5.9	10.7
Total debt/exports	..	..	4.4	63.1	69.3



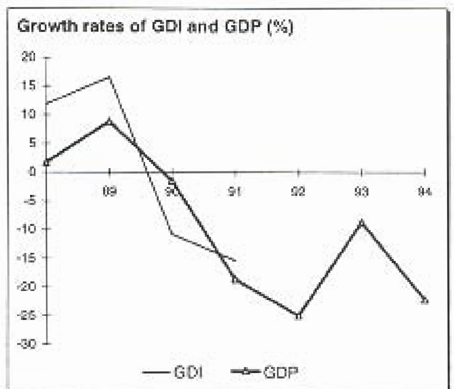
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.6	30.7	39.1	36.0	35.8
Industry	42.5	39.4	41.9	38.6	39.5
Manufacturing	..	..	34.9	32.2	32.9
Services	27.8	29.8	19.1	25.3	24.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.4	-22.1	-21.8	-16.5	-22.7
Industry	4.7	-22.4	-28.8	-16.5	-20.4
Manufacturing	..	..	..	..	..
Services	6.2	-10.8	-22.1	6.0	-23.6
GDP	3.6	-18.5	-25.0	-8.7	-22.2



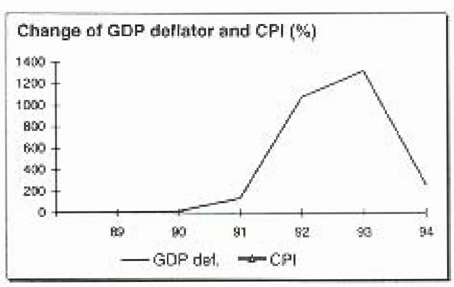
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	58.0	58.9	..	..	..
General government consumption	7.4	17.7	..	..	..
Gross domestic investment	30.5	25.6	..	..	..
Exports of goods and nfs	..	48.7	..	..	..
Imports of goods and nfs	..	51.0	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	7.6	..	..	..	..
General government consumption	5.2	..	..	..	..
Gross domestic investment	5.5	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	3.6	-18.5	-25.0	-8.7	-22.2
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-6.2	14.8	1,077.0	1,320.1	259.4
Government finance					
(% of GDP)					
Current budget balance	1.0	2.8	-24.0	-4.8	..
Overall surplus/deficit	..	..	..	..	..



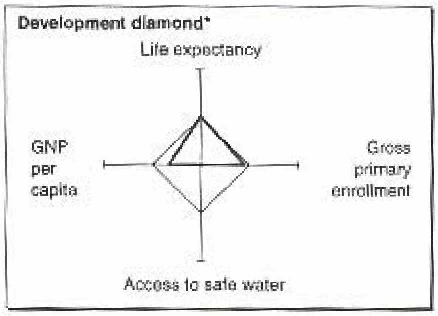
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Moldova

POVERTY and SOCIAL

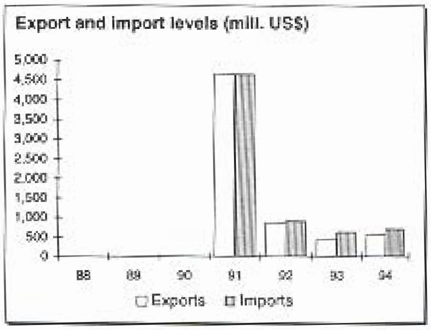
	1985-90	1990-94
(annual growth rates)		
Population	0.7	*0.3*
Labor force	-0.1	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	67.5
Infant mortality *(per 1,000 live births)*	25.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	1,344.6
Illiteracy *(% of population age 15+)*	3.6
Gross primary enrollment *(% of school-age population)*	94.0


Development diamond*

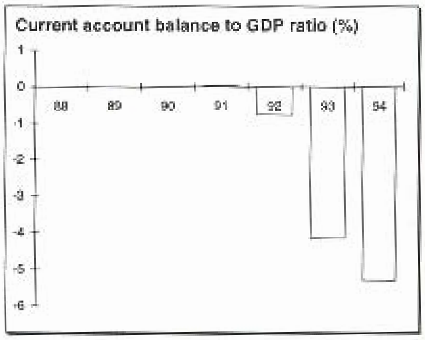
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	868	451	574
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	905	631	699
Food	..	..	..	..	..
Fuel and energy	..	..	..	242	261
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	..	..


Export and import levels (mill. US$)

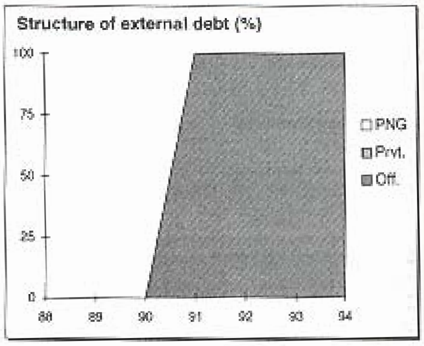
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	868	458	574
Imports of goods and nfs	..	..	905	660	763
Resource balance	..	..	-37	-202	-189
Net factor income	..	..	-2	-2	-9
Net current transfers	..	..	0	0	0
Current account balance					
Before official transfers	..	..	-39	-204	-198
After official transfers	..	..	-38	-182	-176
Long-term capital inflow	..	..	34	135	301
Total other items (net)	..	..	-10	34	-94
Changes in net reserves	..	..	14	13	-31
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	2	76	..
Reserves including gold *(mill. US$)*	..	..	2	76	..
Conversion rate *(local/US$)*	..	1.3E-03	4.2E-02	0.6	2.1


Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	4.4	44.0	47.4
IMF credit/exports	..	..	0.0	18.9	22.0
Short-term debt/exports	..	..	0.0	0.2	0.0
Total debt service/exports	..	..	0.6	0.5	6.3
GDP ratios					
Long-term debt/GDP	..	..	0.8	4.1	7.3
IMF credit/GDP	..	..	0.0	1.8	3.4
Short-term debt/GDP	..	..	0.0	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	0.0	0.0	0.0
Official creditors/long-term	..	..	100.0	100.0	100.0


Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mongolia

For over six decades from its independence in 1921 to the late 1980s Mongolia remained in virtual isolation from the rest of the world. External trade and foreign relations were dominated by the Soviet Union. Mongolia followed the Soviet model of a centrally planned command economy emphasizing industry, mining and energy. With Soviet assistance equivalent to 30 percent of GDP, the economy grew at about 6 percent a year during the 1980s. But this assistance ended in 1990, inflicting an external shock on the Mongolian economy of enormous proportions and sending it into deep recession. Real GDP declined sharply over 1990-93, and inflation accelerated to 331 percent by 1993. Since 1990 the economy has been contracting as a result of large external shocks — notably the dissolution of the CMEA trading system and breakup of the Soviet Union — difficulties in restructuring domestic institutions, and occasional policy slippages. Following a decline of 9.9 percent in 1991, real GDP declined a further 7.6 percent in 1992, and 1.3 percent in 1993.

Notwithstanding growth in activity from the emerging private sector, industrial and agricultural production was constrained by shortages of intermediate goods and spare parts. Savings — and hence investment — fell sharply over 1990-92 as output declined and world prices for Mongolia's primary export items, copper and cashmere, weakened. Some recovery in investment took place in 1993 as domestic savings jumped from 6.1 percent of GDP in 1992 to 12.6 percent. This sudden increase was associated with price liberalization and exchange rate unification in May 1993, which increased the profits of some of Mongolia's large companies, particularly export-oriented ones.

After political reforms in early 1990 an elected coalition government embarked on a program of economic transformation from a socialist to a market economy. Broad-ranging reforms were initiated in the legal and institutional framework. Mongolia established relations with several market economies and became a member of international and multilateral organizations. Most small and medium public enterprises and shops were transferred to the private sector under a voucher system, and privatization of large public enterprises under this system was initiated. Practically all herds were privatized. About half of GDP is now generated by the private sector. Almost all prices have been liberalized and the remaining administered prices, particularly for energy and public utilities, have been increased substantially.

Mongolia has a small population — 2.3 million in 1992 — but is well endowed with natural resources, including 24 million head of livestock and sizable reserves of copper, gold, and other minerals. Prospects for petroleum production in commercial quantities are bright. Mongolia has also a well-developed human resource base with an adult literacy rate of 96 percent.

The economy is relatively diversified. Livestock and agriculture together account for 20 percent of GDP, industry and mining for 45 percent, and services for about 35 percent. Mining, mainly copper, provides 40 percent of foreign exchange earnings. Industry includes wool and cashmere processing, leather goods production, food processing, construction, and, in recent years, garments. Mongolia has a labor force of 800,000, of which the industrial sector employs over 100,000. Many old plants that earlier sold their output in the CMEA market now operate at well below capacity. Restructuring these industries would result in potentially widespread layoffs, an important consideration behind the government's cautious approach toward their reform. Mongolia's trading patterns have changed rapidly since the collapse of the CMEA in 1991. Trade with Russia and former CMEA countries accounted for 89 percent of trade in 1989; by 1993, this share had declined to about 56 percent. Trade with China and Japan was virtually nonexistent five years ago, but now represents about 25 and 5 percent of the total trade.

Recent Economic Developments

Important progress toward economic recovery and stabilization was made in 1994. Real GDP grew by 2.5 percent and inflation declined to less than 70 percent. The exchange rate has remained stable at around 400 tugrik to the dollar since May 1993. Government current expenditures have declined rapidly, from over 50 percent of GDP in 1991 to about 21 percent in 1994. This decline resulted mainly from reduced subsidies and cuts in real wages and employment. Government savings reached about 2 percent of GDP in 1993, and 2.5 percent in 1994, after being negative for seven years in a row. The overall fiscal deficit climbed to 12 percent of GDP, reflecting government investment of almost 15 percent of GDP, financed mainly from external resources.

Monetary aggregates expanded rapidly in the first half of 1994 but, reflecting the efforts to achieve stabilization targets, tightened during the second half of the year. The Bank of Mongolia's lending rates were raised to real positive levels in 1993 and reserve requirements increased to 17 percent. During 1994 broad money increased by 80 percent, somewhat above inflation. Domestic credit expanded by over 100 percent in 1994, recovering in real terms. Credit to public enterprises has been declining since the beginning of 1994. On the other hand, credit to the private sector has increased substantially, helping the economic recovery.

Mongolia faced a hard foreign exchange constraint as the virtual cessation of official medium- and long-term assistance from the former Soviet Union was only partly offset by new assistance from nontraditional sources. Consequently, the brunt of the adjustment was made through lower imports, which declined by about 70 percent over 1990-94. Exports declined by about 55 percent during the same period. Reflecting these declines, the deficit on the external current account declined from 29 percent of GDP in 1990 to about 8 percent in 1994. Official reserves were the equivalent of 1.87 weeks of imports at the end of 1994. External arrears were eliminated during 1994. Mongolia continues to face severe economic difficulties that reflect deep-rooted structural weaknesses, inexperience with new indirect methods of macroeconomic management, and a series of large external shocks since 1990. In 1990 the government undertook a broad range of measures to transform the economy, including a privatization program, domestic price liberalization, and changes in laws and regulations. To reduce large distortions in the market for foreign exchange, a series of devaluations was undertaken in 1991-92. In May 1993 the official exchange rate was unified with the market-determined rate. The state orders and rationing system, which had constituted a major vehicle for administrative intervention in the economy, were abolished in 1993. The government's main macroeconomic objectives are to reduce inflation and accelerate economic growth. To support stabilization efforts and provide scope for adequate expansion of credit to the productive sectors, the government aims to finance the budget deficit mainly from external sources. Expansion in domestic credit is being restrained to reduce the inflation further. The Bank of Mongolia is taking steps to improve monitoring of monetary developments and supervision of commercial banks. Interest rate policy is aimed at keeping lending and deposit rates positive in real terms.

Reform measures, including market-determined producer prices, an appropriate exchange rate, and elimination of mandatory state orders and export licensing, are contributing to a positive supply response in the agricultural and livestock sectors. The new land law should contribute to agricultural growth. The service sector also shows potential for output expansion and gains in private employment in areas such as tourism, external and internal trade, business and professional services, and distribution. Some export-oriented industries, such as garments, and small, import-substituting consumer goods industries, initiated with private capital, have already begun contributing to growth and are likely to increase in importance. However, output of many traditional industries is expected to remain stagnant or to decline as more liberalized prices and hard budget constraints force nonviable entities to close and other entities to restructure.

Improving Mongolia's balance of payments position will depend, to a large extent, on developing an efficient and more diversified export sector.

Continuation of an appropriate exchange rate policy, removing restrictions on private trading, and increased investment in infrastructure will facilitate recovery in noncopper exports, including cashmere, textiles, leather products, and meat and meat products. More foreign investment could also be forthcoming, attracted by a new foreign investment law that aims at reducing impediments to investment, clarifying legal ambiguities, and streamlining approval procedures.

Mongolia has initiated a comprehensive investment review, and decisions to continue existing projects or approve new ones are now based on resource availability, sectoral priorities, and rate of return analysis. Most state farms have been divided into smaller private holdings through privatization and land leasing. Government direct intervention in agricultural production is, however, widespread. As part of the first phase of privatization, equipment and buildings have been made available to the private sector through leasing or purchase. Most procurement prices for agricultural products, held at inadequate levels for some time, were liberalized in 1992.

The government is imposing hard budget constraints on state enterprises by removing indirect subsidies, phased elimination of directed bank credit, and requiring that state enterprises pay market prices for imported inputs. The government will begin to identify and close down state enterprises that cannot be privatized or restructured into viable units in the new market environment. A new mining law has been approved and is expected to improve the environment for domestic and external investment. The government is formulating a plan to address long-term technical, management, and environmental problems in the copper sector, including measures to offset the decline in copper ore grades.

Environment and Social Sectors

The government is completing an environmental action plan that will focus on measures to protect the environment from the negative aspects of mining, stop soil erosion, and reduce air and water pollution in urban areas. The government intends to restore exhausted pasture areas with protective vegetation, reintroduce more traditional forms of livestock breeding, and expand crop cultivation on fragile pastureland. The phasing out of subsidies on fodder transport should also result in the relocation of livestock to areas best suited for pastureland. Efforts are also under way to improve the use of forestry resources through reforestation and better forestry management.

The difficulties of the transition have resulted in significant declines in living standards for the population and have contributed to rising unemployment. To mitigate the effects of unemployment, the government instituted grants in 1990 for civil servants who had lost their jobs as a result of the rationalization of government agencies; in 1991, a similar system of severance pay was instituted for the private sector and financed by employers. All employers are now required to transfer the equivalent of three months' salary of dismissed workers to the social security system, which uses these funds to pay modest unemployment benefits and provide job information, training, and job creation services. In addition to unemployment benefits, two months' salary is paid directly by the employer to the dismissed worker as compensation. The government intends to restructure its current system of social benefits to improve targeting and provide support for self-employment, job creation, and expanded job training. The statistical office has developed a measure of minimum living standards and established an objective measure of poverty to identify vulnerable groups. A poverty fund has been created within the budget, and assistance to vulnerable persons is taking place using this fund.

External Debt

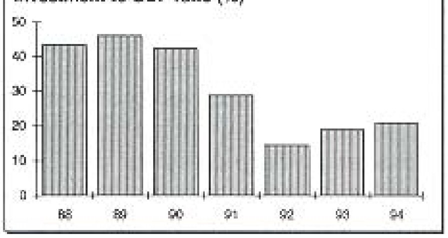
Mongolia's external debt in convertible currencies reached $407.5 million (98 percent of exports) at end-1994. Debt service in 1994 was 10.6 percent of total exports and is projected to decline until the turn of the century. Medium- and long-term debt to the former CMEA denominated in transferable rubles amounts to TR 10.6 billion. The valuation and repayment terms for this debt are under discussion between Mongolia and the interested parties, mainly Russia.

Mongolia

Population mid-1993 *(millions)*	**2.3**		Income group: **Low**
GNP per capita 1993 *(US$)*	**390**		Indebtedness level: **Less indebted**

KEY RATIOS

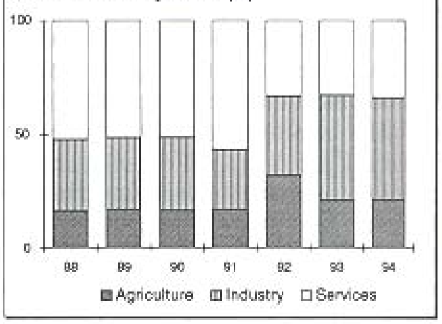
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	58.4	42.3	14.5	19.0	20.9
Exports of goods and nfs/GDP	25.3	22.0	36.3	63.3	56.1
Gross domestic savings/GDP	28.0	15.2	9.4	16.1	15.3
Gross national savings/GDP	..	..	6.1	..	12.9
Current account balance/GDP	-32.2	-29.1	-8.4	-6.4	-8.0
Interest payments/GDP	0.0	0.0	0.8	0.9	0.8
Total debt/GDP	0.1	1.1	34.0	63.2	55.0
Total debt/exports	0.4	5.1	93.7	99.6	96.7



Investment to GDP ratio (%)

GDP: PRODUCTION

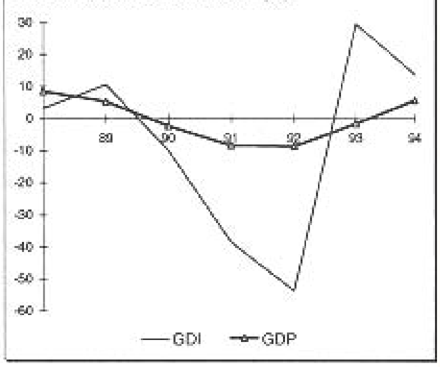
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	14.3	16.5	31.8	20.8	20.7
Industry	31.3	32.2	35.0	46.3	45.4
Manufacturing	..	..	..	..	..
Services	54.4	51.3	33.2	32.8	33.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.6	0.5	-4.0	-7.0	28.1
Industry	4.4	-3.6	-7.9	-6.8	19.8
Manufacturing	..	..	..	..	..
Services	16.8	-6.6	12.7	-3.2	-9.5
GDP	4.3	-3.7	-8.6	-1.6	5.7



Shares of GDP by sector (%)

GDP: EXPENDITURE

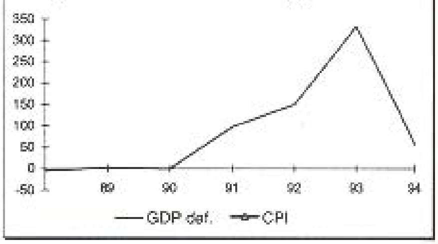
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	58.5	70.9	66.4	71.0
General government consumption	..	26.3	19.7	17.6	13.7
Gross domestic investment	58.4	42.3	14.5	19.0	20.9
Exports of goods and nfs	25.3	22.0	36.3	63.3	56.1
Imports of goods and nfs	55.7	49.1	41.4	66.3	61.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	*9.7*	-0.8	11.4	-12.4	14.3
General government consumption	*5.0*	-12.1	-13.0	9.0	-20.5
Gross domestic investment	-3.0	-20.1	-53.7	29.4	13.6
Exports of goods and nfs	0.2	-13.0	7.9	8.3	-5.6
Imports of goods and nfs	1.2	-26.6	-15.8	0.9	3.1
Gross national product	4.1	-4.1	-10.4	-2.0	6.9
Gross national income	4.2	-4.1	-11.0	-1.8	7.4



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-1.5	-0.2	149.3	332.3	57.5
Government finance					
(% of GDP)					
Current budget balance	3.1	-1.4	-1.1	1.9	2.5
Overall surplus/deficit	..	-13.5	-12.7	-14.6	-11.8



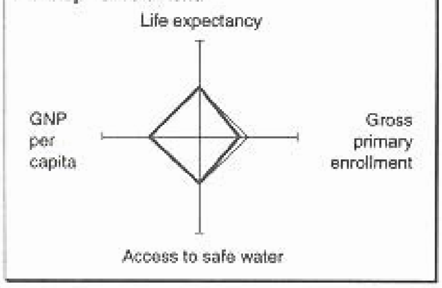
Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.6	2.1
Labor force	2.8	2.8

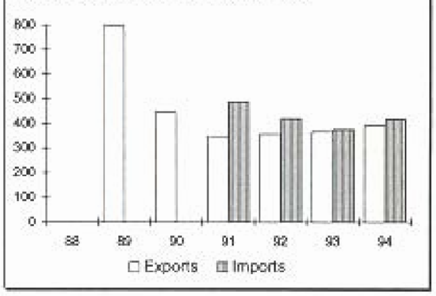
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	64.1
Infant mortality *(per 1,000 live births)*	58.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	66.0
Energy consumption per capita *(kg oil equivalent)*	1,089.3
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	89.0



Development diamond*

TRADE

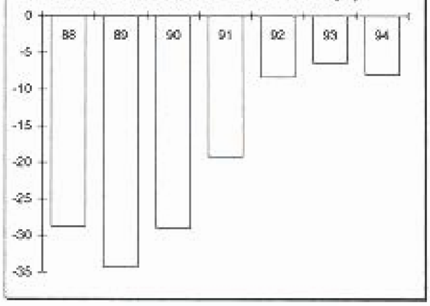
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	445	356	366	392
Copper	..	260	160	155	149
Meat	..	56	32	23	20
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	418	375	416
Food	..	..	21	58	81
Fuel and energy	..	..	88	109	114
Capital goods	..	..	137	88	97
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	81	71	78	130	118



Export and import levels (mill. US$)

BALANCE of PAYMENTS

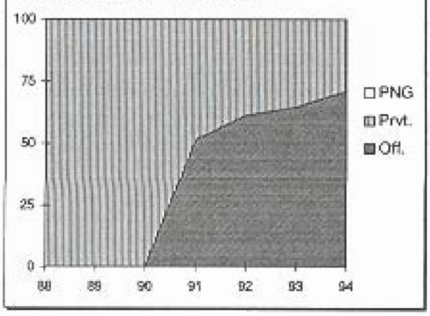
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	639	493	391	392	416
Imports of goods and nfs	1,407	1,101	446	410	457
Resource balance	-768	-608	-55	-18	-41
Net factor income	-45	-44	-33	-22	-18
Net current transfers	0	0	-3	0	0
Current account balance					
Before official transfers	-813	-651	-91	-40	-59
After official transfers	-813	-644	-52	31	5
Long-term capital inflow	3	16	117	56	32
Total other items (net)	841	575	-71	-64	-27
Changes in net reserves	-31	53	6	-23	-10
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	16	60	81
Reserves including gold *(mill. US$)*	..	..	23	66	94
Conversion rate *(local/US$)*	3.7	4.7	40.0	296.3	412.0



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	0.4	5.1	73.7	87.7	85.7
IMF credit/exports	0.0	0.0	4.8	8.0	7.8
Short-term debt/exports	0.0	0.0	15.2	3.9	3.1
Total debt service/exports	0.0	0.3	17.1	4.4	10.7
GDP ratios					
Long-term debt/GDP	0.1	1.1	26.7	55.7	48.7
IMF credit/GDP	0.0	0.0	1.8	5.1	4.5
Short-term debt/GDP	0.0	0.0	5.5	2.5	1.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	100.0	99.6	38.8	35.4	29.1
Official creditors/long-term	0.0	0.0	61.2	64.6	70.9



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Morocco

Despite unfavorable exogenous influences, Morocco has consolidated macroeconomic stabilization and reform during the past decade; these solid achievements can be built on further, but future success will hinge on firming up recent macroeconomic gains and implementing additional structural reforms to support sustained growth over the next few years.

Overall performance of the Moroccan economy continues to be strongly dependent on the agricultural sector, despite efforts to industrialize and diversify the sources of economic growth over the past decade; the country's agriculture suffers from recurrent droughts and other weather-related anomalies. After a drought-induced 4 percent real decline in GDP in 1992, followed by a further 1 percent drop in 1993, economic activities rebounded in 1994. Abundant rainfall contributed to overall GDP growth estimated at 11 percent, with the agriculture sector leading at 60 percent. Cereal output reached a record 9 million tons for the 1993/94 crop campaign, from 2.1 million tons the previous season. The world-wide economic slowdown in 1993 depressed demand for major industrial products, including phosphate products, resulting in a decline in nonagricultural valued added; moreover, industrial output was constrained by drought-generated deficiencies in energy supply.

Morocco's per capita income grew at 3.7 percent on average over the past decade to $1,040 in 1993, while average population growth was 2.2 percent. Inflation is under control after sharp increases over 1990-91 period when changes in the urban consumer price index averaged 8 percent. Over the past two years, inflation averaged 5.5 percent, while that based on the implicit GDP deflator was even lower at about 4 percent. Estimates for 1994 inflation are about 5 percent. As the world inflation rate has averaged about 3 to 4 percent over the past three years, Morocco has achieved a fairly stable real exchange rate without excessive movements in the nominal rate.

The global recession and the drought-induced agricultural downturn worsened the trade balance over 1992-93 through their negative impact on exports and food import requirements, but the balance of payments did not deteriorate significantly. Owing to more favorable trends in other current account items, notably private transfers from abroad, the current account deficit improved steadily from 12 percent of GDP at the height of the economic crisis in 1983 to below 2 percent since the early 1990s. With the end of debt relief, net external debt disbursements and resource flows have declined in the past two years, and mobilizing the needed foreign capital inflows has become a major challenge. Foreign direct investment flows have increased three-fold since 1990, from $227 million to an estimated $660 million in 1994, or 2 percent of GDP. During the economic reform period, many foreign exchange restrictions were dismantled; this led to full current account convertibility in 1993. Trade liberalization has continued; import licensing restrictions on cereals, sugar, and edible oils are scheduled to be removed this year. Finally, the country has witnessed a sharp increase in its foreign exchange reserves over the past several years, reaching the equivalent of six months of imports at the end of 1994.

Morocco has relied consistently on stringent monetary and fiscal policies to sharply reduce the budget deficit from an average of 10 percent of GDP over 1980-83 to 3.2 percent in 1993. Alongside the introduction of a value-added tax in 1986, the government implemented a sweeping tax reform that effectively increased the tax buoyancy and decreased major distortions in relative prices. Tight wage and salary policies under the reform program have continued, but it is estimated that the fiscal deficit has worsened recently due in part to a large increase in the public investment program, drought-related relief expenditures, and agriculture subsidies. Although on a decreasing trend, budgetary expenditures are high relative to the size of the economy, claiming over a quarter of GDP. The functional composition of the budget has changed significantly in the past few years, but the country devotes relatively large shares of its resources to defense and education. Nonwage recurrent and capital expenditures have borne the brunt of the cuts in overall expenditures, leaving the share of wages and salaries particularly high.

Poverty and Social Indicators

Despite a decline in the percentage of the population living in absolute poverty over the past two decades, the latest living standards measurement survey indicates that a large number of households remain vulnerable, even if they are now above the poverty line, and that the level and rate of improvement of many basic social indicators remain disappointing. While absolute income poverty declined from over 20 percent in 1985 to some 13 percent in 1991, such indicators as primary school enrollment, infant nutrition and female mortality, access to safe water, housing quality, and illiteracy rates continue to lag. Moreover, indicator discrepancies are often acute between rural and urban areas, and males and females; net primary enrollment among girls in rural areas is around 30 percent, compared with almost 60 percent for boys. In past years, the poor performance of basic social indicators has been perpetuated by high population growth rates — now reduced to about 2 percent — restrictive attitudes concerning female participation, concentration of land ownership, and insufficient and inadequately targeted public social expenditures. Lack of job creation is a persistent and potentially explosive problem, with urban youth unemployment at over 16 percent (compared with 12 percent a decade earlier).

Environment and Natural Resources

Morocco's water and land have been increasingly under strain in recent years. Most critical is the impending water shortage, with projected water demand and supply patterns confirming a critical global deficit circa 2040, and earlier deficits in some water basins. Worrisome aspects of environmental degradation include deforestation, soil erosion, and the ill effects of industrial effluent, and there is growing competition between existing and potential water users and deterioration in the quality and quantity of the water supply.

Morocco has abundant natural resources, including the world's most easily accessible phosphate reserves, vast areas of arable land, extensive coastlines well suited to tourism, and considerable maritime resources. However, production expansion is likely to run up against trade constraints — if a partnership agreement with the European Union is concluded but also under GATT — on highly competitive exports of agricultural and textile-based products. Expanding tourism faces obstacles from service quality and different cultural values. Natural and physical resources (water, equipped urban land, infrastructure) are growing bottlenecks. Water scarcity will force Morocco to revisit traditional ways of expanding irrigated production for agriculture, which accounts for almost one-fifth of value added. It will also require attention to the long-term relationship between supply and demand of potable water in large cities and deprived rural communities; fewer than 15 percent of rural households have access to safe water, compared with over 90 percent of urban households.

External trade patterns are stable, although the country is vulnerable to external shocks. Over 60 percent of Morocco's merchandise trade is with the European Union, which is also the source of most tourism receipts and foreign investment flows. This concentration of trade is likely to increase further with a trade agreement, while trade flows with other Maghreb countries, despite the creation of the Arab Maghreb Union, remain negligible. In general, the currency denomination of Morocco's foreign exchange earnings is closely aligned with that of its payments, reducing vulnerability to cross-currency exchange rate fluctuations.

The private sector accounts for close to 75 percent of manufacturing output and almost all agricultural production. There is a clear commitment to promote private enterprise as the engine of growth; moreover, after a slow start, the outlook is now promising, as a committee comanaged by the private and the public sectors is actively preparing a program of structural and incentive reforms to foster private-sector growth and improve the regulatory framework for private-sector operations. Morocco's reform agenda also includes issuing labor regulations to promote labor mobility and employment creation, regulatory and institutional reform to improve public enterprises management, and a concession policy that would permit greater private-sector involvement in producing goods and services hitherto reserved for the public sector.

Financial sector reforms since 1993 have included a new banking law with rigorous regulation and supervision and stricter prudential regulations, new stock exchange and capital market laws, and achieving current account convertibility.

Public-enterprise privatization was initiated in 1988; progress was slow at first, but picked up in 1993; it has been administered in a transparent manner, has led to a broadening of corporate ownership, and has strengthened the stock market by attracting foreign investment. The first phase of the program is scheduled to end at end-1995.

Medium-Term Prospects

Medium-term GDP growth of 4 to 5 percent per year with low inflation is feasible under a base case scenario; this would modestly improve Morocco's external debt indicators and broadly maintain its internal and external macroeconomic balances. Under conservative assumptions, growth would increase gradually above levels attained in recent years. Over the medium term the manufacturing and service sectors are expected to lead growth with rates of 5 and 6 percent, though prospects for 1995 look unfavorable because of delayed rains. The current account deficit should continue to decline, and debt service ratios should improve somewhat. Domestic absorption should rise with moderate increases in both investment and consumption. Higher growth rates are possible with accelerated reforms.

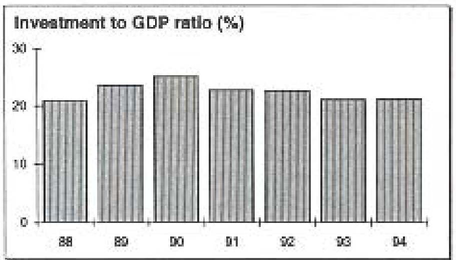
Economic performance is vulnerable to external shocks such as the possibility of drought, increases in the prices of major imports, and lower phosphate prices. Current foreign reserves are sufficient to cover major short-term shocks. However, if these situations were to prevail over longer periods, other macroeconomic policy variables would need to be adjusted. Failure to pursue the structural reforms decisively in areas such as the financial sector, further trade liberalization, public enterprise reform, and an enhanced program of privatization would also slow down future economic growth.

Morocco

Population mid-1993 *(millions)*	**25.9**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,040**	Indebtedness level:	**Severely indebted**

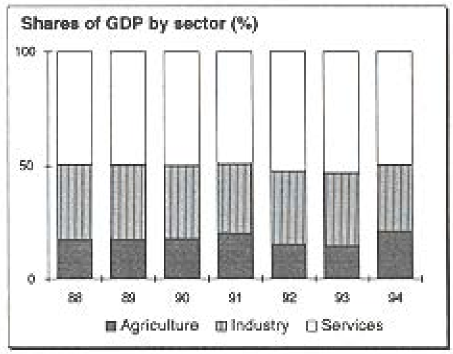
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	27.1	25.2	22.7	21.2	21.2
Exports of goods and nfs/GDP	24.7	24.4	22.8	23.3	21.2
Gross domestic savings/GDP	18.1	19.2	16.2	15.7	16.0
Gross national savings/GDP	17.9	20.8	20.8	19.0	18.6
Current account balance/GDP	-9.3	-4.4	-1.9	-2.1	-1.9
Interest payments/GDP	3.8	3.4	3.3	3.8	3.5
Total debt/GDP	128.4	91.1	76.4	80.5	69.5
Total debt/exports	424.8	304.2	242.4	252.4	241.1



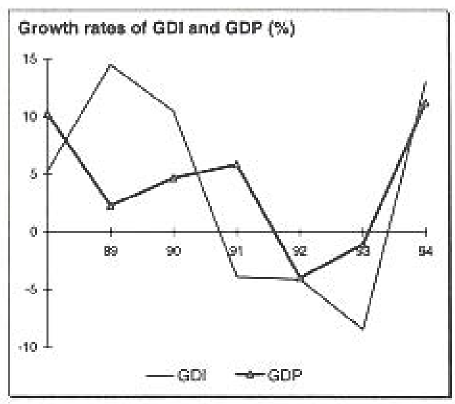
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	16.6	17.7	14.9	14.3	20.9
Industry	33.4	32.4	32.6	32.4	29.5
Manufacturing	18.6	18.4	18.1	18.0	16.4
Services	50.0	49.9	52.5	53.3	49.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.8	-1.3	-36.0	-6.2	65.0
Industry	3.6	0.3	1.9	-2.0	2.3
Manufacturing	3.9	0.9	1.8	-1.5	2.0
Services	4.3	3.5	5.0	0.7	4.3
GDP	4.3	1.7	-4.0	-1.1	11.2



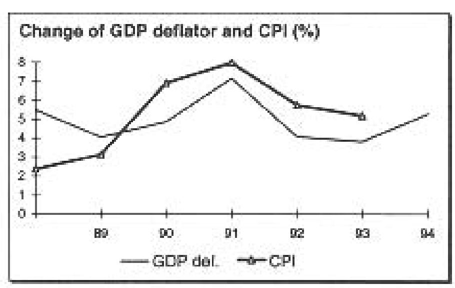
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	66.0	65.3	66.9	66.1	70.5
General government consumption	15.8	15.5	16.9	18.2	13.5
Gross domestic investment	27.1	25.2	22.7	21.2	21.2
Exports of goods and nfs	24.7	24.4	22.8	23.3	21.2
Imports of goods and nfs	33.7	30.4	29.3	28.8	26.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.5	3.1	-3.2	-1.7	12.9
General government consumption	2.8	5.2	8.4	6.4	0.2
Gross domestic investment	3.6	-2.2	-4.1	-8.4	13.0
Exports of goods and nfs	7.1	2.0	0.9	4.8	4.6
Imports of goods and nfs	8.1	3.8	7.7	0.4	5.4
Gross national product	4.1	1.3	-3.7	-2.7	11.4
Gross national income	4.7	1.8	-2.6	-2.8	11.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	7.7	6.9	5.7	5.2	..
Wholesale prices	9.6	4.6	2.8	4.5	..
Implicit GDP deflator	8.5	4.9	4.1	3.8	5.3
Government finance					
(% of GDP)					
Current budget balance	-2.4	3.7	4.9	4.7	4.4
Overall surplus/deficit	-9.6	-3.5	-2.2	-2.3	-2.5



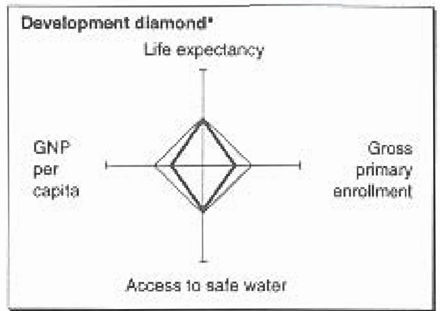
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Morocco

POVERTY and SOCIAL

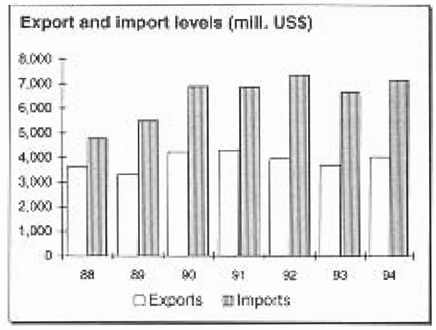
	1985-90	1990-94
(annual growth rates)		
Population	2.2	2.1
Labor force	3.2	3.0

	most recent estimate
Poverty level: headcount index *(% of population)*	13.1
Life expectancy at birth	63.7
Infant mortality *(per 1,000 live births)*	65.6
Child malnutrition *(% of children under 5)*	9.0
Access to safe water *(% of population)*	72.8
Energy consumption per capita *(kg oil equivalent)*	299.2
Illiteracy *(% of population age 15+)*	50.5
Gross primary enrollment *(% of school-age population)*	69.0



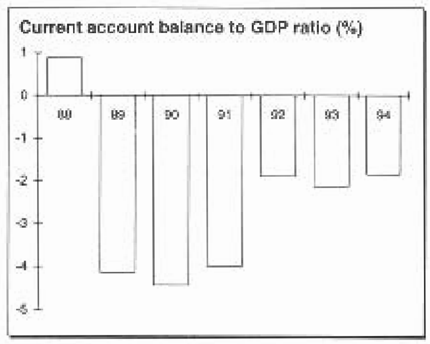
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,145	4,210	3,957	3,678	4,014
Other agriculture	599	1,222	1,186	1,082	1,247
Phosphorus	475	435	307	260	274
Manufactures	474	1,518	1,544	1,476	1,562
Total imports (cif)	3,861	6,908	7,366	6,659	7,154
Food	510	582	892	972	878
Fuel and energy	1,079	1,169	1,122	955	1,062
Capital goods	652	1,654	1,962	1,830	1,933
Export price index *(1987=100)*	87	120	120	109	114
Import price index *(1987=100)*	87	123	118	108	111
Terms of trade *(1987=100)*	100	98	102	101	103
Openness of economy *(trade/GDP,%)*	58	55	52	52	48



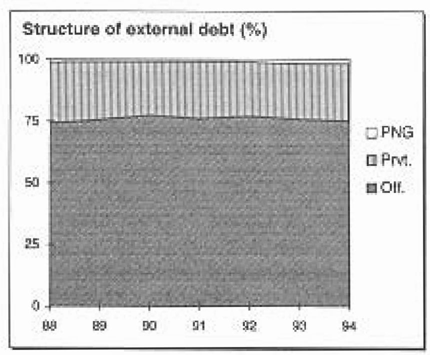
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	3,185	6,306	6,454	6,096	6,585
Imports of goods and nfs	4,341	7,850	8,287	7,664	8,267
Resource balance	-1,156	-1,544	-1,833	-1,567	-1,682
Net factor income	-766	-985	-1,033	-1,225	-1,023
Net current transfers	731	1,386	2,328	2,220	2,117
Current account balance					
Before official transfers	-1,191	-1,143	-538	-573	-588
After official transfers	-859	-209	-460	-542	-538
Long-term capital inflow	638	891	1,243	759	535
Total other items (net)	239	1,115	-223	224	0
Changes in net reserves	-19	-1,797	-560	-441	3
Memo:					
Reserves excluding gold *(mill. US$)*	115	2,066	3,584	3,655	4,352
Reserves including gold *(mill. US$)*	345	2,338	3,819	3,930	4,622
Conversion rate *(local/US$)*	10.1	8.2	8.5	9.3	9.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	360.4	288.8	232.5	243.4	235.6
IMF credit/exports	32.8	9.7	4.9	3.4	1.6
Short-term debt/exports	31.6	5.7	5.0	5.7	3.9
Total debt service/exports	35.3	22.8	23.7	30.8	32.6
GDP ratios					
Long-term debt/GDP	109.0	86.5	73.3	77.6	68.0
IMF credit/GDP	9.9	2.9	1.6	1.1	0.5
Short-term debt/GDP	9.6	1.7	1.6	1.8	1.1
Long-term debt ratios					
Private nonguaranteed/long-term	1.4	0.9	1.0	1.7	1.7
Public and publicly guaranteed					
Private creditors/long-term	29.0	21.8	22.0	22.7	23.1
Official creditors/long-term	69.6	77.3	77.0	75.6	75.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mozambique

Mozambique turned a new page in its history in 1994 as the successful conclusion of the 1992 peace agreement set the stage for long-lasting peace and political stability. The first multi-party elections were held in October and were won by the Frelimo party. The results were endorsed by all parties concerned, and a new government was established. An 85 to 90 percent turnout of registered voters at the elections signaled a clear commitment to peace by the Mozambican people. In addition, a new army, consisting of both Renamo and government troops, was formed following the demobilization of about 80,000 soldiers in 1994 under the supervision of the United Nations. The restoration of peace since the signing of the peace agreement in October 1992 has led to the resettlement of 3.2 million displaced people and the return of over 1 million refugees from neighboring countries.

Mozambique's performance must be assessed against the background of immense distortions that characterized its economy when the government's rehabilitation program was launched in 1987. The advantages the country inherited at independence in 1975 — a good basic infrastructure and export base — had disappeared after long years of rigid central planning and a vicious internal war. The consequences were a sharp fall in Mozambique's GDP, a high level of indebtedness — the debt stock was equal to 45 times exports — and extreme poverty affecting two-thirds of the population.

The Economic and Social Rehabilitation Program

In the initial period of adjustment starting in 1987 priority was given to reducing price and exchange distortions, removing administrative controls, rehabilitating state enterprises, and narrowing domestic and external imbalances.

Significant progress has been achieved in improving financial incentives through price and trade liberalization. Administered consumer prices are now limited to wheat and wheat flour, rents, utilities, and transport fares. Fixed prices for manufactured products were first replaced by a system of ex-post review and subsequently liberalized. Overall, the share of output subject to price control fell from 69 percent to below 5 percent of total production in 1993. In parallel with price adjustments, the government has opened domestic and external trade, allowing increased competition among traders and permitting direct trading between enterprises. Price and marketing distortions, however, prevail within the agricultural sector in some important commodities, such as cashews, with negative impact on overall export earnings and incomes for thousands of family farmers.

Various foreign exchange windows, including donor import support funds, were unified in April 1992 into a market-based system to improve foreign exchange allocation. With the exception of a small negative list, import licenses are now being issued automatically, and all foreign exchange is channeled through the banking system. Under the new system the official exchange rate is determined by market forces. The parallel market premium has remained at 10 to 20 percent, down from 150 percent in 1990.

After the 1991 Privatization Act the government decreed that all state enterprises — with the exception of strategic enterprises that provide essential public goods and services — were to be either privatized, transformed into commercially oriented public enterprises, or liquidated. By the end of 1994 about 360 small and medium enterprises and another 19 large ones had been privatized through either direct sales or leasing arrangements. To speed privatization of large enterprises, the government has simplified procedures and made the process more transparent by publishing winning bids. Reform of some utility parastatals, including the electricity, telecommunications, and petroleum companies, has also commenced, albeit at a slow pace. The post office and telecommunications parastatals were transformed into commercially oriented public enterprises in 1993. The future of the railways and the airline, two major loss-making parastatals, is still under discussion.

Financial sector reform has also been initiated to improve banking services and stop the transfer of financial resources to loss-making parastatals. Since independence the banking sector was dominated by the Bank of Mozambique, which operated both as the central bank and as a commercial bank. In December 1991 new central banking and general banking laws were enacted, and in early 1992 the Bank of Mozambique was separated into Banco Commercial de Mozambique and the central bank. Emphasis is now being given to strengthening the central bank's monetary control, supervision, and foreign exchange management. Measures to increase the competitiveness of the commercial banks focus on rapidly restructuring state-owned commercial banks, in particular Banco Commercial, which still accounts for 50 percent of bank lending and has a large nonperforming portfolio. Business strategy plans and the first external audits for the Banco Commercial and Banco Popular de Desenvolvimento have been completed, and the government plans to privatize both banks.

Progress in reducing domestic and external imbalances has been limited. This is a long-term objective, given the nature of those imbalances and the already low level of per capita income, which effectively precludes drastic cuts in aggregate consumption. Fiscal policy has aimed at expanding the revenue base through tax reform and improvements in tax administration; revenue collections as a percentage of GDP were raised from 18.7 percent of GDP in 1987 to 20 percent in 1993. At the same time recurrent expenditures have been contained through cuts in enterprise subsidies, while investment has been largely financed by external grants. In 1994, however, fiscal imbalances worsened significantly due to increased expenditures associated with the demobilization, elections, and democratization process (5.7 percent of GDP); declining customs revenues (2.4 percent of GDP); and a rapid increase in public investments (4.3 percent of GDP). As a result the deficit after grants widened from 5.1 percent of GDP (22.2 percent before grants) in 1993 to 8.2 percent (29.6 percent) in 1994.

Monetary policy has aimed at reducing inflation by absorbing excess liquidity and improving the efficiency of credit utilization, but the government has had little success in stabilizing the economy. Net domestic bank financing of the budget decreased from 16.5 percent of GDP in 1986 to 0.9 percent in 1993, and net repayments equivalent to 1.4 percent of GDP were made in 1994. However, failure to control credit expansion through credit ceilings on commercial banks has led to rapid monetary expansion. Consequently, annual inflation remained at 45 percent over 1991-93 and accelerated to 71 percent in 1994. An important source of macroeconomic instability that contributes to continued high inflation, is leakage in the banking sector: "other items net" (mainly representing transitory accounts within the banking system) are large and have been growing rapidly. Inadequate control of these accounts has resulted in a rapid expansion of the banking sector's assets — and consequently of money supply. Hence, strengthening the central bank, developing appropriate monetary instruments, and establishing a properly functioning financial sector are seen as critical to addressing the underlying causes of macroeconomic instability.

The reduction in external imbalances has been constrained by the key role assigned to imports under Mozambique's 1987 Economic and Social Rehabilitation Program. Increasing the supply of capital and consumer goods, largely financed by donor grants and concessional loans, has been essential to rehabilitate infrastructure and provide the incentive goods necessary to complement reforms financial incentives. Given the low base of exports of goods and services, the current account deficit before grants averaged 55 percent of GDP over 1990-94. Because of strong donor support, the current deficit after grants fell from 29 percent of GDP in 1987 to 21 percent of GDP in 1994.

One major achievement of the Economic and Social Rehabilitation Program has been to restore economic growth. GDP growth averaged nearly 10 percent over 1987-89 despite the security situation. Growth slowed in the next two years to an average of 1.7 percent as the 1992 drought reduced GDP by 2.4 percent, security deteriorated, and external aid fell. With improved security, better weather, partially restored infrastructure, and continued structural reform, GDP growth accelerated to 19.3 percent in 1993 and to 5.4 percent in 1994. Growth was led primarily by the recovery in agricultural production, which increased by 21 percent and 5 percent, respectively, reflecting the end of the 1992 drought and the massive resettlement of family farmers in rural areas. Transport and construction also fared well as road and rail links were rehabilitated and private construction resumed. However, manufacturing production continued to decline for the fifth consecutive year due to widespread competition from smuggled imports, inadequate provisions for exporters, and delays in privatizing large industrial firms.

Poverty and Social Indicators

Although data are scarce, social indicators for Mozambique continue to show high rates of mortality and low levels of life expectancy. Life expectancy in Mozambique is only 47 years. The under-five mortality rate in Mozambique is 283 per 1,000, well above the regional average of 179 per 1,000; the maternal mortality rate is 1,100 per 100,000 live births relative to a regional average of 690. Many children are born underweight due to maternal malnourishment and about 30 percent of all urban children are stunted. Compared to average adult literacy of 45 percent among the United Nations-designated least developed countries, only 33 percent of adults in Mozambique are literate. The government increased budgetary allocations for health and education by 19 percent in real terms from 1991 to 1993. Although expenditures in the social sectors fell in 1994, due the need to finance extraordinary items related to the democratization process, the budget for 1995 once again targets real increases in social sector spending.

A large proportion of Mozambique's population is poor. About 60 percent of all rural households and 30 percent of urban households fall below a poverty line defined in terms of a minimum food consumption basket. Minimum wages for urban unskilled workers have fallen in real terms. Under the government's poverty alleviation strategy 70,000 poor urban households are covered by a direct income transfer scheme. Ultimately, however, a resumption of growth will be necessary to reduce both urban and rural poverty.

Medium-Term Prospects

Mozambique's long-term objective under its Economic and Social Rehabilitation Program is to repair the damage of the past and establish conditions for sustained economic growth and poverty reduction. Key elements of the government's national reconstruction strategy include drastically reducing domestic inflation from 71 percent in 1994 to 24 percent in 1995, rationalizing and prioritizing public expenditures by adopting sectoral investment programs and shifting budgetary allocations from military to social sectors, reforming customs and introducing a VAT system, and accelerating privatization of major loss-making parastatals and the restructuring the commercial state-owned banks.

The macroeconomic program for 1995-97 envisages a substantial reduction in domestic and internal imbalances. Key elements of the program include reducing the fiscal deficit after grants from 8.2 percent of GDP in 1994 to 3.7 percent of GDP in 1995 — and the fiscal deficit before grants from 29.6 percent to 21.3 percent. The government aims to increase budgetary net repayments to the banking system to ensure adequate levels of credit for the private sector, and strengthen credit policies to keep monetary growth within targets, and reduce the current account deficit before grants by containing imports and establishing an appropriate incentive framework for exports.

Mozambique's overriding challenge in the external sector is to achieve financial viability and reduce dependence on external aid. This will entail maintaining the level of imports required for growth, rapidly expanding exports, and reducing its high external indebtedness. While remaining high relative to exports, imports are projected to decline in 1995 and grow slowly thereafter. This will reflect the end of demobilization, elections and other special programs in place last year, reduced dependency on food aid, and a gradual recovery of import substitution industry. However, most available external aid is absorbed by debt-service payments and donor-financed investment projects, leaving a relatively small margin of funds to finance needed imported inputs — such as petroleum — basic consumer goods, and capital goods not financed under investment projects. The share of import support funds over total external financing decreased visibly in 1994, while that of project financing increased. Since funds deriving from exports will be limited in the medium term, it is essential that adequate levels of import support funds be made available to finance private-sector foreign exchange needs.

Over the long term Mozambique's dependence on external aid should decrease. Exports are projected to rise by over 14 percent a year in current dollars from 1995 to 2002. This increase is expected to stem from restored traditional commodity exports such as cashews, sugar, and tea as state firms and transport services are privatized, expanding nontraditional manufacturing exports with the gradual improvement in the incentive framework, and the development of new gas fields, electricity, and mining resources. Foreign investment is expected to become the driving force behind the projected rise in exports: authorized investments reached \$870 million by September 1994. Overall, the current account deficit before grants is projected to fall from 59 percent in 1994 to below 30 percent by the year 2000, and Mozambique's dependence on external aid could fall from \$67 per capita in 1993 to the regional average of \$34 in per capita terms in 1990 prices by 2002.

External Debt

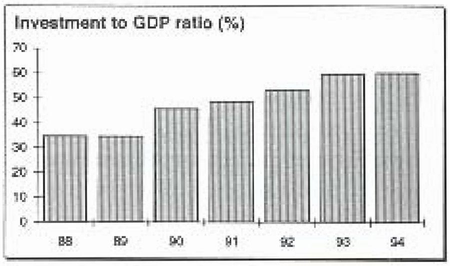
Despite rapid export growth and import substitution envisaged under this favorable scenario Mozambique will need continued debt rescheduling through the 1990s. Current debt relief is generous, but even after rescheduling, debt service amounts to 25 to 30 percent of exports. For debt rescheduling to be a long-term solution, a 60 to 70 percent reduction in bilateral debt would have to take place. Debt cancellation agreements have been reached with several of Mozambique's bilateral creditors.

Mozambique

Population mid-1993 *(millions)*	**15.1**	Income group: **Low**
GNP per capita 1993 *(US$)*	**90**	Indebtedness level: **Severely indebted**

KEY RATIOS

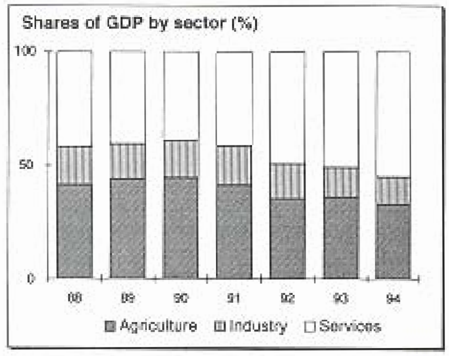
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.1	45.9	53.2	59.7	60.2
Exports of goods and nfs/GDP	5.6	15.9	23.6	21.3	23.2
Gross domestic savings/GDP	-4.1	-3.9	1.4	7.2	4.7
Gross national savings/GDP	-8.0	-7.7	-5.8	4.0	..
Current account balance/GDP	-17.2	-53.1	-57.5	-56.2	-59.3
Interest payments/GDP	0.7	0.8	1.3	2.8	3.2
Total debt/GDP	105.5	330.5	403.5	358.7	351.9
Total debt/exports	1,472.8	1,594.9	1,432.9	1,416.4	1,514.1



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	49.1	44.5	35.2	36.0	32.8
Industry	10.8	16.4	15.4	13.1	12.3
Manufacturing	..	..	..	..	..
Services	40.1	39.1	49.3	50.9	54.9

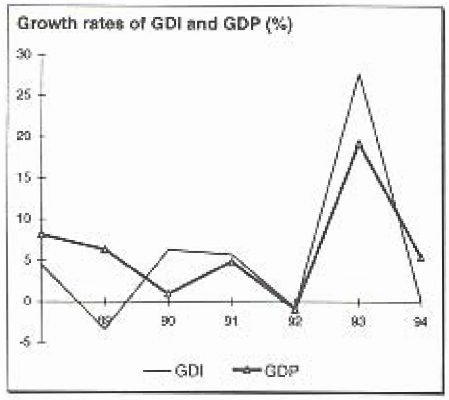
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.2	2.4	-11.3	21.3	5.0
Industry	9.1	-2.4	-5.1	-6.7	-3.3
Manufacturing	..	..	..	..	..
Services	-0.6	15.0	9.0	22.8	11.9
GDP	6.5	7.3	-0.9	19.2	5.4



GDP: EXPENDITURE

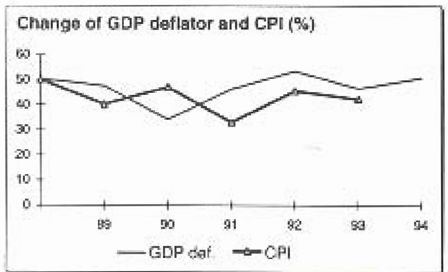
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.1	83.7	79.5	76.0	75.3
General government consumption	21.0	20.2	19.1	16.7	20.0
Gross domestic investment	9.1	45.9	53.2	59.7	60.2
Exports of goods and nfs	5.6	15.9	23.6	21.3	23.2
Imports of goods and nfs	18.8	65.7	75.5	73.8	78.7

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	7.3	3.0	-6.5	18.2	-0.5
General government consumption	4.6	9.8	8.9	5.8	28.9
Gross domestic investment	3.4	8.6	-0.7	27.7	0.1
Exports of goods and nfs	6.5	7.2	-1.2	3.4	7.3
Imports of goods and nfs	5.4	1.8	-5.9	8.5	4.1
Gross national product	7.0	7.9	-2.3	21.8	6.0
Gross national income	6.2	7.6	-3.0	22.0	5.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	47.0	45.5	42.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	33.3	34.1	53.4	46.6	50.8
Government finance					
(% of GDP)					
Current budget balance	-12.5	-3.3	-3.1	-1.4	..
Overall surplus/deficit	-18.5	-29.2	-28.6	-22.2	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

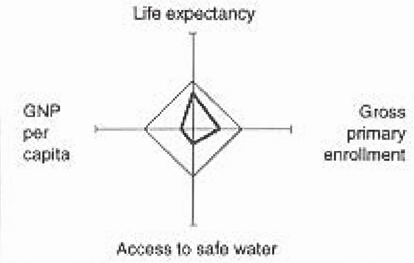
Mozambique

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	0.9	2.1
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	46.5
Infant mortality *(per 1,000 live births)*	145.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	21.6
Energy consumption per capita *(kg oil equivalent)*	43.4
Illiteracy *(% of population age 15+)*	67.1
Gross primary enrollment *(% of school-age population)*	60.0

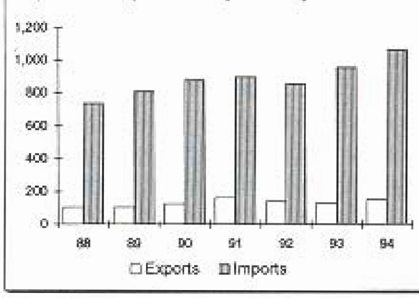
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	77	126	139	132	150
Groundnuts	12	15	18	8	3
Fish	33	43	55	69	63
Manufactures	..	..	..	..	..
Total imports (cif)	424	877	855	955	1,064
Food	121	155	199	172	248
Fuel and energy	75	95	78	81	..
Capital goods	49	252	261	309	325
Export price index *(1987=100)*	92	131	160	159	..
Import price index *(1987=100)*	72	122	118	131	..
Terms of trade *(1987=100)*	128	108	135	121	..
Openness of economy *(trade/GDP,%)*	24	82	99	95	102

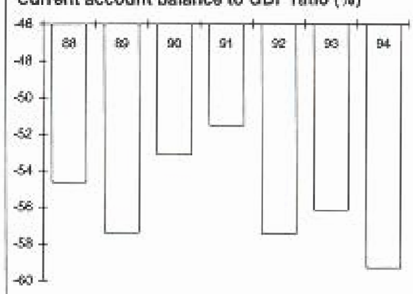
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	143	229	304	312	341
Imports of goods and nfs	481	948	970	1,083	1,155
Resource balance	-339	-719	-666	-771	-814
Net factor income	-117	-190	-214	-238	-248
Net current transfers	16	143	141	185	192
Current account balance					
Before official transfers	-440	-767	-739	-824	-870
After official transfers	-301	-318	-239	-321	-306
Long-term capital inflow	-50	-83	-155	-107	-22
Total other items (net)	330	408	434	382	385
Changes in net reserves	21	-6	-40	46	-57
Memo:					
Reserves excluding gold *(mill. US$)*	41	207	..	..	..
Reserves including gold *(mill. US$)*	41	207	..	..	..
Conversion rate *(local/US$)*	43.2	929.1	2,432.7	3,722.7	5,918.1

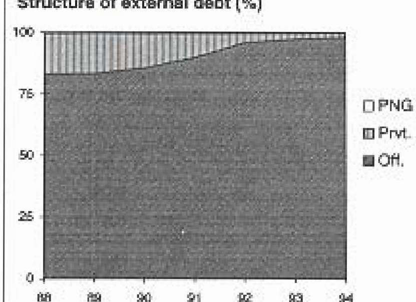
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	1,388.0	1,400.6	1,252.0	1,256.1	1,454.8
IMF credit/exports	0.0	24.7	48.2	51.0	54.3
Short-term debt/exports	84.8	169.5	132.7	109.4	5.0
Total debt service/exports	23.0	18.9	13.8	20.6	30.5
GDP ratios					
Long-term debt/GDP	99.5	290.3	352.6	318.1	338.1
IMF credit/GDP	0.0	5.1	13.6	12.9	12.6
Short-term debt/GDP	6.1	35.1	37.4	27.7	1.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.4	0.5	0.4	0.4	0.3
Public and publicly guaranteed					
Private creditors/long-term	27.3	13.9	3.8	2.3	1.9
Official creditors/long-term	72.2	85.6	95.9	97.3	97.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Nepal

Nepal remains one of the poorest countries in the world, with a per capita income of about $190. Social indicators among its population of 20 million remain well below the average for the South Asia region. Life expectancy at birth is 54 years, and infant mortality is 102 per 1,000. Adult literacy stands at only 36 percent, and an estimated 7 to 8 million of the country's population live in conditions of absolute poverty as defined by minimum basic caloric intake. Nepal's population is growing rapidly at 2.5 percent a year, and population density of around 600 persons per square kilometer of arable land is one of the highest in the world. The resulting pressure on Nepal's natural resource base contributes to low productivity and poverty, deforestation, and environmental degradation. The close linkages between the resource base, rapid population growth, environmental degradation, low levels of social development, and widespread poverty present a complex development challenge, which requires a well-integrated strategy to ensure economic development and poverty alleviation on a sustainable basis.

Agriculture accounts for about half of Nepal's GDP and is the primary source of employment. Crop production accounts for about 60 percent of agricultural output, livestock for 30 percent, and forestry for 10 percent. Within manufacturing, which accounts for 9 percent of GDP, carpets and ready-made garments developed rapidly in recent years to account for almost 80 percent of merchandise exports, with the rest consisting mainly of pulses and other agricultural goods, jute products, and other simple manufactures. In the service sector, tourism contributes about 20 percent of Nepal's export earnings. Nepal's large hydroelectric potential remains substantially untapped.

Nepal's development efforts in recent decades have been hindered by a number of fundamental constraints, including high transportation costs due to its geography, a poor resource endowment, underdeveloped physical and social infrastructure, a weak administrative and political system, and continued high population growth. The overall rate of economic growth has been slow, social indicators have improved but remain unsatisfactory, and serious structural weaknesses in the economy persist.

Economic Reforms

Nepal's economic growth during the 1970s barely kept pace with population growth. Heavy regulation of industry and imports and reliance on a large and inefficient public enterprise sector discouraged private initiatives and undermined efficiency. Efforts in the early 1980s to accelerate economic growth through expansionary fiscal policies led to considerable macroeconomic instability. In the mid-1980s Nepal embarked on a program of structural adjustment supported by the IMF and IDA. While this program helped achieve macroeconomic stabilization, only limited progress was achieved in structural reforms.

Recent Economic Developments

Political changes in 1991, which led to the election of a democratic government with a strong commitment to economic reforms — and economic liberalization in India over the past three years — reinvigorated economic reform in Nepal. Major efforts were made in liberalizing trade and industrial policies and rationalizing the foreign exchange regime. Over the past three years quantitative restrictions have been abolished and the import tariff structure has been greatly simplified; consequently, the import-weighted average custom duty rate fell to 12 percent in fiscal 1994. The industrial licensing system for domestic investment was eliminated, except in a few areas that continue to be restricted for security, health, and environmental reasons, and regulations for foreign investment were greatly simplified. Some progress was made in privatizing public enterprises: 10 out of 62 public enterprises have been privatized, although these accounted for only 3 percent of government equity in nonfinancial enterprises.

The exchange rate was unified and made fully market-determined, and full convertibility was achieved for all current transactions, well ahead of neighboring countries. The government also took steps to strengthen public resource management and streamline the civil service. A major tax reform program was launched; domestic sales and excise taxes were simplified with a view to the full implementation of a VAT by the end of fiscal 1996, the tax base was expanded, and tax administration has been considerably strengthened. The government also undertook a public expenditure review, and some programs and projects were canceled or merged, while budget allocations for the key social sector programs, drinking water and rural infrastructure, were increased significantly in fiscal years 1993 and 1994.

These reforms contributed to significantly improved economic performance in a number of areas. Exports — almost entirely private-sector-led — increased by 20 to 25 percent a year in dollar terms over fiscal years 1991-94. The external current account deficit declined from 9.3 percent of GDP in fiscal 1991 to 6.0 percent in fiscal 1994, and external reserves rose to the equivalent of ten months of imports. The inflation rate, which is closely related to that of India, decelerated sharply from 21 percent in fiscal 1992 — reflecting a major devaluation — to about 9 percent in fiscal 1994. The reforms have also stimulated private investment, thus sustaining the overall investment level at about 22 percent of GDP. GDP growth has been erratic, as agricultural production, which remains the dominant economic activity and is largely rainfed, has fluctuated due to weather conditions; but GDP grew at an average rate of about 5 percent over fiscal 1991-94.

The fiscal situation remained weak at first but improved in fiscal 1994. With a revenue ratio of around 10 percent of GDP, one of the lowest among developing countries, and inadequate expenditure controls, domestic borrowing was in the order of 3.5 percent of GDP over fiscal 1991-93. But impressive revenue growth in fiscal 1994 — an increase equivalent to over 1 percent of GDP — and tighter control of expenditures led to a reduction of domestic borrowing to about 1 percent of GDP. The fiscal deficit, which reflects the fact that Nepal relies heavily on foreign aid to finance much of its development activity, also declined from around 10 to 8.4 percent of GDP (foreign aid is about 10 percent of GDP, and a large share of it is channeled through the budget).

Some weaknesses on the external front have emerged recently. Following a few buoyant years, overall export growth leveled off in fiscal 1994. Weak demand, quality problems, and perceptions of employment of child labor in some factories affected carpet exports adversely, while the relaxation of quotas for Indian garments exports is having an adverse impact on the exports of ready-made garments, Nepal's other major export item. Notwithstanding the weakening of export growth, however, the overall balance of payments situation remained strong due to miscellaneous capital inflows (mostly flows of capital from India, unrecorded aid, and exports); and gross foreign exchange reserves were still at around ten months' imports at the end of fiscal 1994. GDP growth is expected to be around 2.8 percent in fiscal 1995, reflecting drought conditions in some areas.

Recent Political Developments

Following the resignation of the Nepali Congress Party in July and early elections in November, the Unified Marxist-Leninist Party formed a minority government in December 1994. In the December 1994 budget speech the new government stressed its support for a liberal market-oriented approach, but also called for a greater role for public enterprises and more caution with privatization and trade reform. A number of committees and study groups have been set up to reevaluate economic policies in important areas — trade, industrial and foreign investment policies, land reform, and taxation. These reviews will take a few months to be concluded, and a clear enunciation of the new government's policies and programs can be expected only after that, probably by early summer 1995.

External Debt

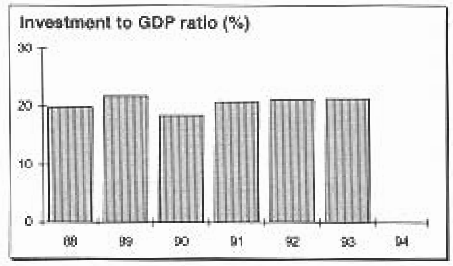
Even with sustained efforts to mobilize domestic resources, Nepal will continue to require disbursements of external assistance on the order of 9 percent of GDP annually in the medium term. With stronger efforts to improve utilization of the existing project aid pipeline, this level of aid disbursements is likely to be achievable. As of December 1992, Nepal's official foreign debt outstanding and disbursed amounted to about $2 billion. As virtually all loans are concessional, debt-service payments, including payments to the IMF, are around 6 to 7 percent of exports of goods and services. With continued reliance on concessional external assistance and projected export growth, the debt-service ratio is expected to be slightly over 9 percent over the next five years.

Nepal

Population mid-1993 *(millions)*	**20.8**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**190**	Indebtedness level:	**Moderately Indebted**

KEY RATIOS

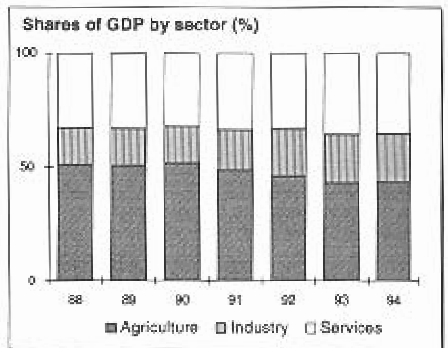
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.9	18.4	21.2	21.4	..
Exports of goods and nfs/GDP	11.5	10.5	16.0	18.2	..
Gross domestic savings/GDP	13.4	7.9	10.8	11.7	..
Gross national savings/GDP	16.6	11.5	14.3	16.0	..
Current account balance/GDP	-7.1	-8.5	-7.9	-7.0	-6.1
Interest payments/GDP	0.3	0.7	0.8	0.7	0.8
Total debt/GDP	22.5	45.2	51.1	53.6	58.6
Total debt/exports	184.0	406.2	315.2	264.7	..


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	51.7	51.6	45.9	43.1	43.5
Industry	15.1	16.2	20.9	21.3	21.3
Manufacturing	5.7	6.1	9.0	9.1	9.2
Services	33.2	32.1	33.3	35.6	35.2

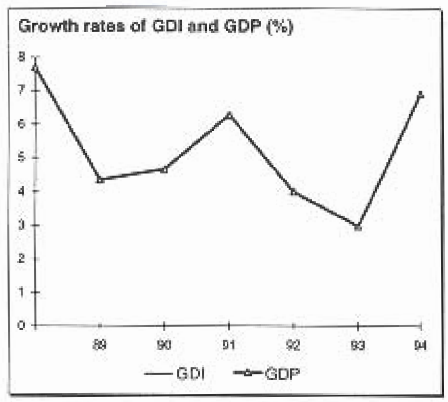
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.1	1.2	-1.1	-1.4	7.7
Industry	6.0	10.2	16.8	4.8	6.5
Manufacturing	3.7	16.7	32.0	6.2	10.7
Services	4.8	7.2	6.4	7.2	5.9
GDP	4.6	4.7	4.0	3.0	6.9


Shares of GDP by sector (%)

GDP: EXPENDITURE

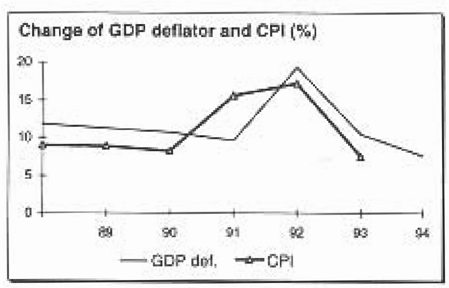
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	77.2	83.5	81.2	79.6	..
General government consumption	9.4	8.7	8.0	8.8	..
Gross domestic investment	21.9	18.4	21.2	21.4	..
Exports of goods and nfs	11.5	10.5	16.0	18.2	..
Imports of goods and nfs	20.0	21.1	26.3	27.9	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	4.7	4.7	4.0	3.1	6.9
Gross national income	..	..	..	..	..


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	8.1	8.2	17.1	7.5	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	11.4	10.7	19.3	10.4	7.6
Government finance					
(% of GDP)					
Current budget balance	2.2	2.5	2.4	1.7	3.3
Overall surplus/deficit	..	..	..	..	..

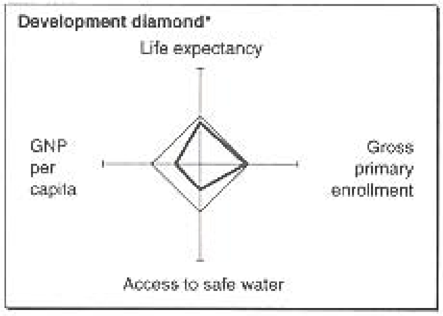

Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

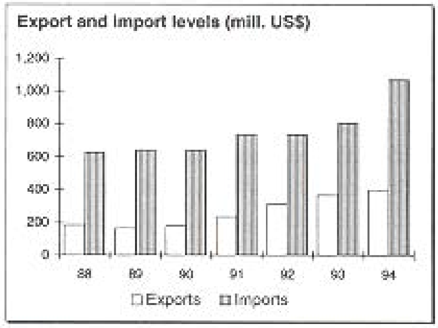
	1985-90	1990-94
(annual growth rates)		
Population	2.5	2.6
Labor force	2.3	2.3

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	54.1
Infant mortality *(per 1,000 live births)*	96.4
Child malnutrition *(% of children under 5)*	50.0
Access to safe water *(% of population)*	36.7
Energy consumption per capita *(kg oil equivalent)*	22.3
Illiteracy *(% of population age 15+)*	74.4
Gross primary enrollment *(% of school-age population)*	102.0



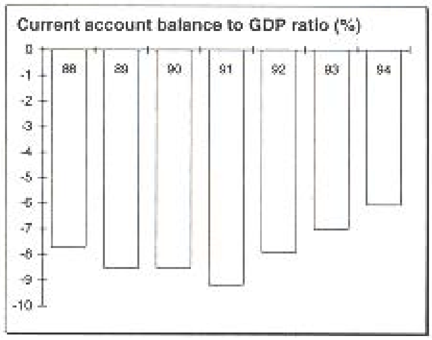
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	161	181	311	365	397
Food	59	19	19	34	..
n.a.	..	..	..	..	..
Manufactures	67	136	229	286	..
Total imports (cif)	457	642	735	806	1,071
Food	51	51	103	107	..
Fuel and energy	52	50	81	85	..
Capital goods	263	354	367	448	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	32	32	42	46	..



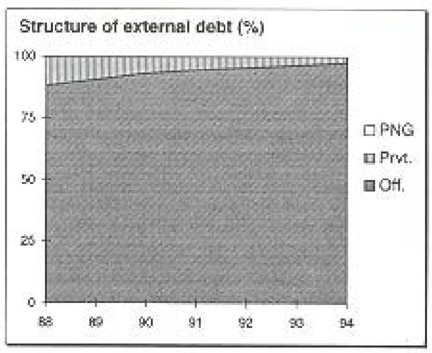
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	315	381	548	593	..
Imports of goods and nfs	494	695	823	899	..
Resource balance	-179	-314	-275	-306	..
Net factor income	-52	-56	-63	5	..
Net current transfers	45	61	58	74	..
Current account balance					
Before official transfers	-186	-309	-279	-263	-241
After official transfers	-108	-271	-242	-195	-179
Long-term capital inflow	96	144	87	126	..
Total other items (net)	-36	222	228	71	..
Changes in net reserves	48	-95	-74	-2	-5
Memo:					
Reserves excluding gold *(mill. US$)*	56	295	467	640	..
Reserves including gold *(mill. US$)*	105	354	518	700	..
Conversion rate *(local/US$)*	17.8	26.5	42.3	45.4	49.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	170.0	389.3	306.4	255.2	..
IMF credit/exports	6.8	10.9	7.6	6.5	..
Short-term debt/exports	7.2	6.0	1.2	3.0	..
Total debt service/exports	7.3	17.6	11.5	9.0	..
GDP ratios					
Long-term debt/GDP	20.6	43.3	49.7	51.7	57.0
IMF credit/GDP	0.8	1.2	1.2	1.3	1.1
Short-term debt/GDP	0.9	0.7	0.2	0.6	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	3.2	7.0	4.7	3.6	2.6
Official creditors/long-term	96.8	93.0	95.3	96.4	97.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Nicaragua

Nicaragua, with just under 4 million inhabitants and a per capita GNP of $340 in 1993, is one of the poorest countries in Latin America. The mainstay of the economy is agriculture (about 30 percent of GDP in 1993), while industry, which has been mainly import-substitution oriented, accounts for 20 percent of GDP. Coffee, cotton, sugar, beef, and bananas accounted for nearly 70 percent of merchandise exports on average over 1987-93. Production of basic grains, mainly beans and rice, is also important.

Poverty and Social Indicators

Although social indicators have improved over the last 20 years, they remain very low. Slightly more than half of the population is poor, and close to one-fifth live in extreme poverty. Infant mortality is 72 per 1,000 live births, and over 28 percent of children under 5 suffer from some form of malnutrition. Health and nutrition indicators reflect the acute problems facing the Nicaraguan poor: lack of clean water and sanitation, deficient hygiene and dietary habits, and a severe deterioration of primary health care facilities. Education indicators show high repetition and dropout rates, particularly between first and second grades. The average level of education attainment is four years of schooling, and only 1.6 years for the extremely poor. There is a lack of qualified teachers, and education suffers from severe deterioration of facilities, particularly in rural areas; lack of school furniture and equipment; and insufficient teaching-learning materials.

When the current administration assumed office in April 1990, Nicaragua's economy was in disarray due to a ten-year military conflict that destroyed much of its physical infrastructure and weakened its institutional framework. The government inherited a centralized economy with an extremely low production level, hyperinflation, and significant external imbalances. Market institutions were extremely weak or had completely disappeared after a decade of centralized decisionmaking. International trade was controlled by state trading companies, which in 1989 handled virtually all exports and more than half of imports. Foreign trade transactions were subject to a system of multiple exchange rates and pervasive exchange controls.

State entities controlled financial intermediation and allocated credit according to nonmarket criteria. Most enterprises in agriculture, manufacturing, and mining were state-owned, operated under soft budget constraints, and received subsidized credit from the central bank. The expansion of government activity was financed by large fiscal deficits. By the end of the 1980s GDP had fallen below its 1970 level due to inappropriate policies, coupled with the effects of the civil war, adverse external conditions including the trade embargo by the United States, a drain of human capital, and bad weather. Exports had contracted to one-half their 1980 level and represented about one-third of current imports. Moreover, Nicaragua had accumulated an enormous external debt equivalent to over six times the level of GDP.

Recent Economic Developments

In early March 1991 the government initiated a comprehensive stabilization and adjustment effort. The stabilization measures were remarkably successful. Inflation was reduced from hyperinflationary levels in 1988-90 to single digits in 1992, and in 1992 the economy recorded a very modest output growth for the first time since 1983. Fixed investment had recovered to levels reached in the early 1970s. The key factors responsible for this success were a major reduction of the fiscal deficit, maintenance of credit discipline, and adoption of a fixed exchange rate system facilitated by large inflows of foreign aid. With strong donor support the government succeeded in clearing its arrears with multilateral banks in September 1991, and reached a Paris Club agreement on enhanced terms in December 1991.

The government also succeeded in implementing the first phase of its structural adjustment program, supported by IDA. In addition to underpinning the stabilization effort, the main achievements of the reform program included a major downsizing of the public sector through reductions in current expenditures, cutting military personnel by over 80 percent and government employees by 12 percent, and divesting 233 out of

351 state-owned enterprises. The government also liberalized foreign trade by unifying exchange rates, adjusting most import tariffs to a range 10 to 40 percent, eliminating most nontariff import and export barriers, and abolishing state trading monopolies. Domestic commerce was liberalized by eliminating official price controls and privatizing state trading activities.

In the financial sector, the government created an autonomous superintendency of banks, and eliminated interest controls, restructured state-owned banks, and opened the financial system to private banks, seven of which are now in operation.

The adjustment was supported by systematically targeted social safety nets, including an IDA-supported emergency social investment fund, and an employment generation program, coupled with an expanded public investment program designed to rehabilitate the devastated social and physical infrastructure.

Nicaragua's political situation deteriorated in 1993, exacerbated by the interruption of important bilateral aid flows, a marked drop in commodity prices, and adverse weather; this led to a deterioration in economic conditions. Output fell by 0.7 percent, inflation increased to 20 percent, and international reserves declined by $100 million. The government took corrective actions and managed to prevent a more serious deterioration in macroeconomic conditions, particularly by reducing current expenditures and tightening credit policies.

The economy rebounded in 1994, with the highest GDP growth in over a decade since 1993. Agriculture and construction recorded high growth, and inflation fell to single-digit levels. Merchandise exports increased by 29 percent in dollar terms, boosted by coffee and nontraditional agricultural exports. A stronger balance of payments outcome resulted in a buildup of foreign exchange reserves to 2. 5 months of imports. The fiscal deficit deteriorated due to higher spending caused by a severe drought.

External Debt

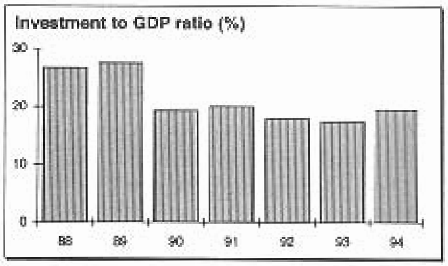
As of end-1994 Nicaragua's external debt was estimated at $9.2 billion, of which about 76 percent was owed to official creditors, $1.2 billion to multilateral creditors and $5.8 to bilateral creditors. This external debt burden is more than five times the value of GDP and more than 21 times the value of exports of goods and nonfactor services. Nicaragua's debt per capita, at about $2,250, makes it one of the of the most highly indebted countries in the world. In December 1991 Nicaragua was the first country to be granted "enhanced Toronto terms" by the Paris Club. The government and the Paris Club reached an agreement that effectively cut debt service in half over the period 1992-94 and left open the possibility of reducing the debt stock at the end of this three-year period. It is expected that Nicaragua will be considered for the Paris Club's "Naples terms."

Nicaragua

Population mid-1993 *(millions)*	**4.1**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**340**	Indebtedness level:	**Severely indebted**

KEY RATIOS

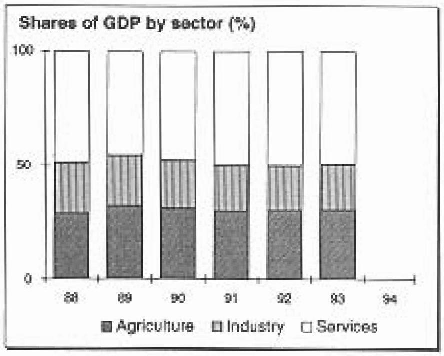
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.1	19.3	18.0	17.4	19.5
Exports of goods and nfs/GDP	14.8	25.0	16.8	20.4	24.2
Gross domestic savings/GDP	16.1	0.8	-13.8	-7.5	-1.8
Gross national savings/GDP	5.9	-13.3	-40.0	-30.1	-26.2
Current account balance/GDP	-31.8	-32.8	-58.0	-47.5	-48.0
Interest payments/GDP	1.0	0.3	1.9	3.2	4.9
Total debt/GDP	216.9	694.0	603.1	580.3	520.7
Total debt/exports	1,683.8	2,658.3	3,407.8	2,637.5	2,163.3


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	23.7	31.1	30.3	30.3	..
Industry	35.0	21.2	19.5	20.2	..
Manufacturing	27.6	16.9	16.6	17.1	..
Services	41.3	47.8	50.2	49.5	..

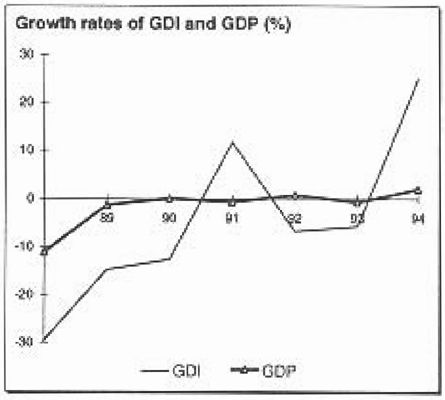
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	-2.8	*0.3*	2.9	1.0	..
Industry	-7.3	*-0.3*	-3.3	-1.1	..
Manufacturing	-7.9	*-0.7*	-5.1	-1.5	..
Services	-2.7	*-0.3*	1.1	-1.7	..
GDP	-3.7	0.3	0.8	-0.7	2.0


Shares of GDP by sector (%)

GDP: EXPENDITURE

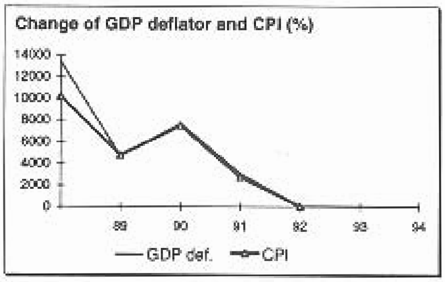
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	48.2	66.6	94.7	90.7	83.4
General government consumption	35.7	32.6	19.1	16.8	18.4
Gross domestic investment	23.1	19.3	18.0	17.4	19.5
Exports of goods and nfs	14.8	25.0	16.8	20.4	24.2
Imports of goods and nfs	21.8	43.5	48.5	45.3	45.5

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	0.6	2.6	-2.1	-2.2	2.1
General government consumption	-12.7	-15.9	-4.1	-15.9	-11.2
Gross domestic investment	-14.0	2.8	-6.8	-5.7	24.9
Exports of goods and nfs	5.3	3.8	20.2	8.4	-4.6
Imports of goods and nfs	-3.4	-1.9	-0.6	-12.0	-4.5
Gross national product	-4.5	-1.3	1.4	2.1	-0.8
Gross national income	-6.9	-2.9	-5.2	1.2	1.8


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	219.5	7,485.2	20.3	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	167.4	7,689.1	23.1	20.2	7.2
Government finance					
(% of GDP)					
Current budget balance	..	-26.2	1.4	3.5	5.0
Overall surplus/deficit	..	-27.7	-8.7	-8.4	-9.0


Change of GDP deflator and CPI (%)

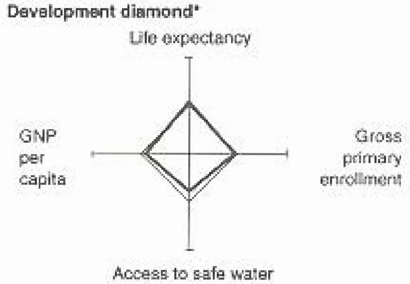
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.6	3.8
Labor force	3.8	3.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	67.0
Infant mortality *(per 1,000 live births)*	50.6
Child malnutrition *(% of children under 5)*	11.9
Access to safe water *(% of population)*	53.2
Energy consumption per capita *(kg oil equivalent)*	240.9
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	102.0

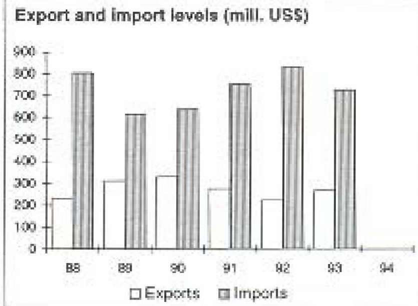
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	305	331	223	266	..
Cotton	91	37	26	0	..
Meat	11	57	41	60	..
Manufactures	36	69	52	87	..
Total imports (cif)	892	637	830	727	..
Food	132	129	242	212	..
Fuel and energy	164	123	121	106	..
Capital goods	251	197	193	154	..
Export price index *(1987=100)*	127	129	100	111	..
Import price index *(1987=100)*	140	68	84	..	..
Terms of trade *(1987=100)*	91	189	119	..	..
Openness of economy *(trade/GDP,%)*	37	69	65	66	70

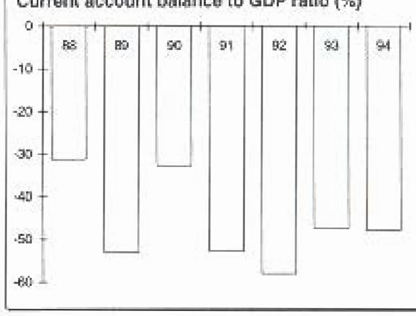
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	344	390	309	366	392
Imports of goods and nfs	924	679	895	817	810
Resource balance	-580	-288	-586	-451	-418
Net factor income	-274	-217	-495	-429	-457
Net current transfers	0	0	10	25	25
Current account balance					
Before official transfers	-853	-505	-1,071	-856	-850
After official transfers	-727	-304	-745	-613	-639
Long-term capital inflow	693	-737	-291	-182	-652
Total other items (net)	-87	843	1,031	695	1,337
Changes in net reserves	121	198	5	100	-45
Memo:					
Reserves excluding gold *(mill. US$)*	..	107	130	55	141
Reserves including gold *(mill. US$)*	..	166	289	59	145
Conversion rate *(local/US$)*	8.6E-09	0.2	5.0	6.1	6.8

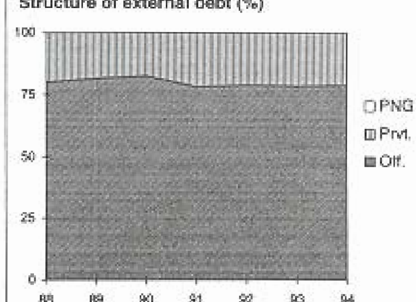
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	1,437.9	2,049.9	2,752.1	2,215.5	2,080.5
IMF credit/exports	0.0	0.0	7.2	5.9	4.9
Short-term debt/exports	245.9	608.4	648.5	416.2	77.9
Total debt service/exports	18.5	3.9	25.3	29.2	39.6
GDP ratios					
Long-term debt/GDP	185.2	535.2	487.1	487.5	500.8
IMF credit/GDP	0.0	0.0	1.3	1.3	1.2
Short-term debt/GDP	31.7	158.8	114.8	91.6	18.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	27.5	17.5	21.2	21.6	21.3
Official creditors/long-term	72.5	82.5	78.8	78.4	78.7

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Niger

Niger is a large landlocked country of 1.27 million square kilometers 600 kilometers from the closest ocean. Its population is estimated at 8.7 million — about half of which is less than 15 years old — in 1994, growing at about 3.3 percent a year, which is above average for Sub-Saharan Africa. Nearly 90 percent of its population is concentrated in the 12 percent of its land area considered arable. Rainfall is limited and often irregular, while soil fertility is low and declining, due to intensive use. As a result, Niger's fast-growing population is becoming one of the poorest in the world. Per capita GNP declined by a yearly average of 4.5 percent since 1980 to reach $270 in 1993. The country's social indicators are among the lowest in the Sahelian countries. Life expectancy at birth of 45 years is one of the lowest on the continent. Infant and child mortality rates are high. The adult literacy rate is only 14 percent (9 percent among women), and the primary school enrollment ratio is less than 30 percent.

Subsistence agriculture has traditionally dominated the economy, with millet and sorghum taking up 80 percent of the cultivated area. Livestock also provides an important source of income and export receipts. Except during the Sahelian drought periods, Niger has been self-sufficient in staple food production. The discovery of large uranium deposits in the late 1960s triggered development of an important mining sector, which expanded rapidly under highly favorable conditions in the world market during the late 1970s. Uranium became Niger's principal foreign exchange earner, amounting to 70 percent of exports and a major source of government revenues (around 12 percent). As a result, Niger went through a period of rapid growth with the public sector taking a dominant role in the modern economy. The uranium boom ended in 1981 when prices plummeted and Niger's market share decreased. The formal sector now accounts for around 27 percent of GDP (of which 7 percent is mining) and comprises a relatively inefficient public sector and a small modern private sector in rapid decline until recently, owing to the lack of competitiveness of the Nigerien economy, and "fraudulent" imports from Nigeria. Niger has an open economy, with imports and exports of goods and nonfinancial services exceeding 30 percent of GDP. There are strong trade links with Nigeria, which exerts considerable economic influence through long-standing trading and cultural bonds. This influence heightened during the 1980s as Nigeria's competitive position was bolstered by steady depreciation of the naira.

Niger exhibited the features of a typical resource-poor Sahelian country until the uranium boom raised the mining sector's share of GDP from 6 percent in 1975 to 13 percent in 1980. The collapse of the uranium boom revealed serious structural deficiencies engendered by the public sector's excessive involvement in production and resource allocation. The deflationary strategy Niger adopted to address these problems ran into serious difficulty during a protracted political transition. Revenues declined, due in part to the increased informalization of the economy and weak tax administration, and expenditures, mostly public sector wages, proved hard to curtail. Public investment focused on infrastructure and construction projects, while agricultural investment encountered serious problems. Recurrent expenditure favored personnel and transfer payments over operations and maintenance, to the detriment of infrastructure and basic public services. The recent deepening of the adjustment strategy to include the January 1994 devaluation of the CFA franc opens up new avenues to solve the current crisis.

Structural Adjustment

Adjustment efforts in Niger began in 1983, and were supported by IDA and the IMF, bilateral donors, and continuous Paris Club and London Club debt rescheduling until major slippages occurred in 1990. In 1991 the government began an internal adjustment package that had very limited results. In September 1993 internal adjustment efforts were expanded to include a 24 percent cut in public-sector base salaries, subsequently lowered to 13 percent under union pressure. Donor support for adjustment restarted after the CFA franc devaluation, but subsided late 1994, given weak progress, timid structural reforms, and a stabilization program that went off track with declining government revenues (especially customs) and a ballooning wage bill.

Structural reform has been a special challenge in the face of resistance, particularly from students and labor unions. Reform has focused on areas where policy changes can have the greatest impact on the budgetary and balance of payments positions: public resource management, including public investment programming; civil service, parastatal, and trade reform; macroeconomic management, and improving improved supply response through an agricultural policy, labor market reform, private sector development, and expanded delivery of education and health services.

Progress in structural adjustment has been mixed. The January 1994 devaluation was expected to result in a reallocation of resources to the tradables sector through the provision of price incentives. This has happened in the liberalized sectors yielding expanded outputs and exports in livestock, cowpeas, and rice. However, in other sectors, the shift of resources to more productive uses needs to be strengthened by accompanying structural reforms.

The public sector continues to dominate economic and social infrastructure, and a rolling three-year investment program has been put in place that emphasizes the directly productive sectors, development of human resources, and infrastructure rehabilitation. Public investment, which slowed with the accumulation of external arrears and the lack of counterpart funds, improved in 1994 with the resumption of aid inflows after devaluation. From 9.2 percent of GDP in 1991, domestic investment fell to 5.7 percent in 1993, and then improved to 9.8 percent in 1994.

Civil service reform is lagging and recruitment is largely uncontrolled. The government's attempts to control the wage bill through salaries while tolerating overstaffing of the civil service and parastatals has proven ineffective. The parastatal reform program included measures to encourage private investment and restructure the banking system, but progress has been weak.

The government has reformulated its rural development strategy to improve the efficiency of its interventions in this sector and limit their budgetary impact. The sectoral investment program has been largely reoriented to emphasize quick-yielding small-scale projects, farmer participation, and infrastructure rehabilitation. The operations of the cereals marketing and storage agency have been limited to managing a security stock, and its price stabilization role eliminated. Subsidies on agricultural inputs are being curtailed to expand their availability and limit the budgetary drain. Price and market liberalization and good rainfall have helped raise agricultural output in 1995.

Expected private-sector development and labor market reforms have not materialized, but progress was achieved on structural reforms in education and health under the government's 1994-2000 Health Plan. Trade liberalization efforts have been pursued with the elimination of export taxes, and of licensing on cotton exports, and imports of rice, cigarettes, and edible oil.

Since the National Conference in November 1991, political and social agendas transfixed Nigerians and crowded out concerns about adjustment and other economic issues. Recently a political crisis developed into protracted social unrest and labor militancy. Following the January 12, 1995, legislative elections, a new government has been installed. Time will tell whether the new political platform drawn from the elections could support a more stable future government.

Recent Economic Developments

Despite lags in its adjustment program, policy changes since the CFA franc devaluation have yielded some positive results in Niger. General economic activity has improved with a 4 percent real GDP growth in 1994, compared to 1.4 percent in 1993, as a result of a good rainy season that boosted agricultural production, increased land use and crop yields, and increased liberalization in pricing and trade. Inflationary pressures remain, however, structural reform and stabilization have been weak, and there has been protracted social and political turmoil. The benefits of the devaluation accrued mainly because of price pass-throughs in agriculture. Production and exports of major commodities (cowpeas, livestock, hides and skins) increased, and import substitution took place for rice, cement, and construction items. Efforts to jump-start the business cycle by liquidating government arrears to enterprises and restrained fiscal and monetary policies, met with modest results largely due to lack of government action. Structural reforms to increase supply response were effective in agriculture and trade, but were delayed for privatization and public enterprise reform, and labor policy.

Gross domestic investment improved from 5.7 percent in 1993 to 9.8 percent in 1994. However, less than adequate progress in reducing external arrears and lack of counterpart funds have resulted in lackluster public investment performance (4.8 percent versus 4.2 percent in 1993). Persistent public finance imbalances are a root cause of Niger's crisis. Tax revenues declined in 1994 by 32 percent below program targets despite numerous discretionary tax changes, and budgetary expenditures remained high despite attempted containment. The revenue shortfall reflects mainly poor customs revenue mobilization. The wage bill is projected to reach 98.7 percent of the 1994 tax revenues.

The government enacted a tariff reform eliminating nontariff barriers on rice, cotton fiber, cigarettes, and edible oil, eliminating export taxation and decreasing tariffs. External trade responded well to these changes, albeit slowly. Export volume increased overall by 0.5 percent, and import volume fell 5.9 percent, but sizable price effects (78.5 percent for exports and 106.9 percent for imports) yielded a 13.7 percent deterioration in Niger's terms of trade, which translated into a further deterioration of external current account balance to -7.5 percent of GDP as against -0.9 percent of 1993.

With price decontrol, and after the initial three months of devaluation, inflation accelerated quickly to a cumulative rate of 41.9 percent in August, but positive developments in agricultural production tempered inflation, which fell to 40.6 percent in December 1994.

Development Issues

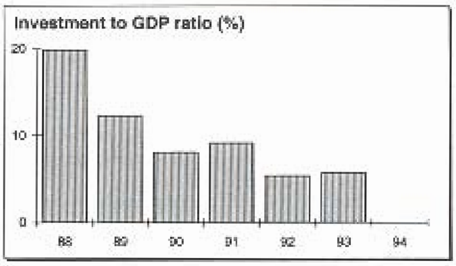
Niger faces many constraints to its long-term development. It has a slim natural resource base of fragile and degrading arable land, low rainfall, and periodic drought; a very weak human resource base; high factor and input costs; and overdependence on a single export — uranium. Its earlier interventionist economic policies and significant anti-export bias impeded broad-based development. Since 1981 plummeting uranium prices prompted chronic fiscal imbalances, and inadequate revenue generation and an uncontrolled wage bill have saddled Niger with mounting budget and payment deficits and rapidly rising debt service.

Niger

Population mid-1993 *(millions)*	8.6	Income group: **Low**
GNP per capita 1993 *(US$)*	270	Indebtedness level: **Severely indebted**

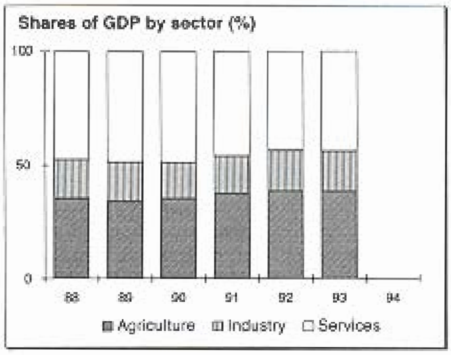
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	15.3	8.1	5.4	5.7	..
Exports of goods and nfs/GDP	21.0	17.0	14.2	12.8	..
Gross domestic savings/GDP	6.1	4.0	1.8	1.3	..
Gross national savings/GDP	-1.0	-0.2	-1.2	-1.7	..
Current account balance/GDP	-19.2	-11.8	-7.4	-7.3	-14.9
Interest payments/GDP	2.9	0.9	0.6	1.0	1.2
Total debt/GDP	83.9	73.4	70.5	76.8	112.5
Total debt/exports	379.3	471.0	499.7	574.3	681.4



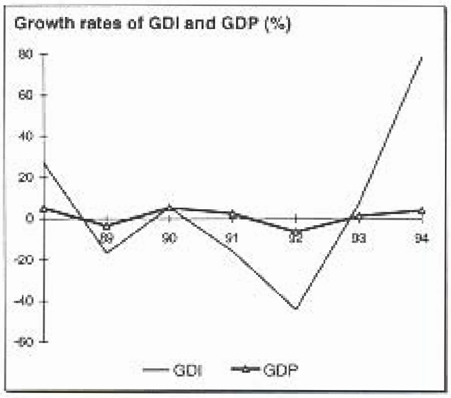
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.7	35.3	36.8	38.5	..
Industry	20.9	16.2	17.9	17.9	..
Manufacturing	7.1	6.6	6.5	6.5	..
Services	42.3	48.6	43.4	43.6	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	..	-7.4	0.7	..
Industry	..	..	-5.0	2.5	..
Manufacturing	..	..	..	..	..
Services	..	..	-6.0	1.8	..
GDP	1.5	-0.3	-6.5	1.4	3.9



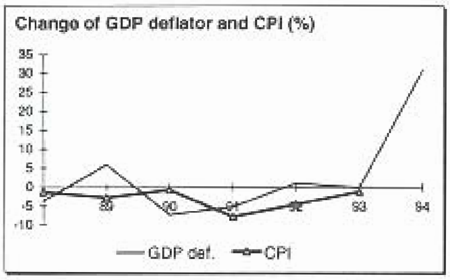
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	78.8	81.0	81.2	82.1	..
General government consumption	15.0	15.0	17.1	16.6	..
Gross domestic investment	15.3	8.1	5.4	5.7	..
Exports of goods and nfs	21.0	17.0	14.2	12.8	..
Imports of goods and nfs	30.1	21.1	17.8	17.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.7	0.5	-1.8	1.6	1.4
General government consumption	2.2	1.9	11.1	-1.3	-8.9
Gross domestic investment	-0.6	-6.9	-44.1	7.3	78.6
Exports of goods and nfs	-0.3	-6.7	-19.0	-3.1	-4.2
Imports of goods and nfs	-7.9	-5.4	-6.8	-3.8	-3.5
Gross national product	1.8	-0.4	-6.5	1.4	3.8
Gross national income	0.9	*-1.6*	-5.6	0.7	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	-0.9	-0.8	-4.5	-1.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-1.9	-7.3	1.1	-0.1	30.9
Government finance					
(% of GDP)					
Current budget balance	..	-3.1	-5.4	-6.2	-7.1
Overall surplus/deficit	..	..	-9.6	-10.1	-11.2



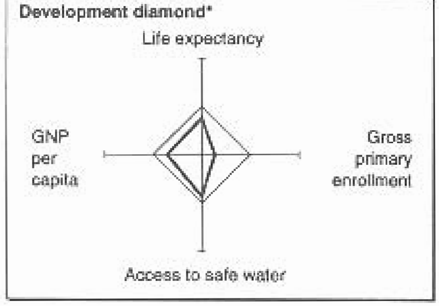
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Niger

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.1	3.4
Labor force	2.4	2.6

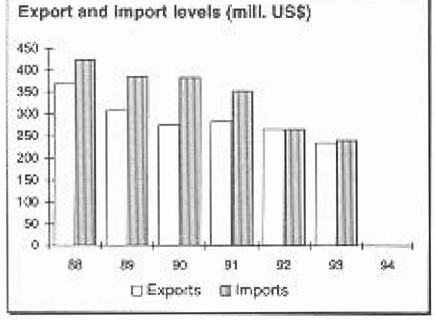
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	46.9
Infant mortality *(per 1,000 live births)*	122.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	59.4
Energy consumption per capita *(kg oil equivalent)*	37.9
Illiteracy *(% of population age 15+)*	71.6
Gross primary enrollment *(% of school-age population)*	29.0



Development diamond*

TRADE

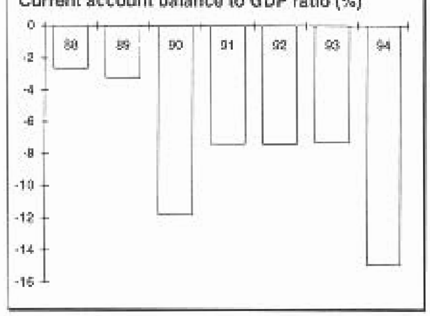
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	251	275	265	236	..
Other metals	214	222	190	160	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	354	384	266	241	..
Food	91	34	28	28	..
Fuel and energy	28	23	28	25	..
Capital goods	..	..	109	88	..
Export price index *(1987=100)*	92	94	96	69	..
Import price index *(1987=100)*	..	94	56	149	..
Terms of trade *(1987=100)*	..	100	172	46	..
Openness of economy *(trade/GDP,%)*	51	38	32	30	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

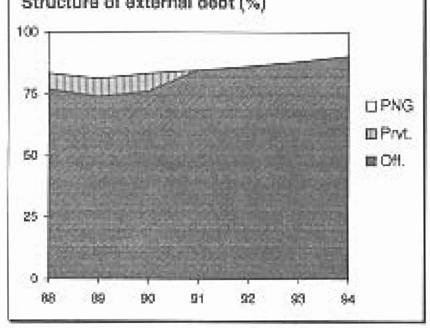
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	298	372	315	282	245
Imports of goods and nfs	473	559	415	378	351
Resource balance	-175	-187	-100	-96	-106
Net factor income	-42	-58	-34	-32	0
Net current transfers	-59	-49	-40	-34	..
Current account balance					
Before official transfers	-276	-293	-174	-163	-230
After official transfers	-64	-109	-37	-19	-129
Long-term capital inflow	49	22	58	-41	57
Total other items (net)	18	109	-8	51	..
Changes in net reserves	-3	-22	-13	9	-8
Memo:					
Reserves excluding gold *(mill. US$)*	136	222	225	192	..
Reserves including gold *(mill. US$)*	140	226	229	196	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	323.7	409.2	452.3	517.1	645.9
IMF credit/exports	24.6	22.0	18.5	17.5	23.2
Short-term debt/exports	31.1	39.8	28.8	39.7	12.2
Total debt service/exports	33.8	25.3	15.8	31.4	30.7
GDP ratios					
Long-term debt/GDP	71.6	63.7	63.8	69.1	106.6
IMF credit/GDP	5.4	3.4	2.6	2.3	3.8
Short-term debt/GDP	6.9	6.2	4.1	5.3	2.0
Long-term debt ratios					
Private nonguaranteed/long-term	19.3	16.5	13.7	11.8	9.6
Public and publicly guaranteed					
Private creditors/long-term	16.5	7.3	0.1	0.1	0.1
Official creditors/long-term	64.3	76.2	86.2	88.1	90.4



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Nigeria

Nigeria is the largest country in Sub-Saharan Africa, with some 20 percent of the region's population. Its wealth of natural and human resources — including major oil and gas deposits, a vibrant private sector, and a large labor force — endow it with considerable potential for growth and development. When Nigeria became independent in 1960 it inherited institutions and processes that have evolved into robust professional associations, an inquisitive press, a cultural commitment to political and economic freedom, and a competent bench and bar. But it also inherited ethnic and regional tensions that reflected the colonial design of its borders and constituencies.

In recent years, Nigeria has undergone a series of attempts to replace military with civilian leadership. The transition timetable, first announced in 1986, was supposed to be completed by the end of 1992. A presidential election was held in June 1993, but the result was voided by the then-military government. An interim government headed by a civilian assumed power in August of that year, but survived only four months until November 1993, when it was replaced by the current military government. A constitutional conference is expected to submit, in the course of 1995, its recommendation for a new constitutional framework and a timetable for a return to civilian rule.

Petroleum production constitutes about 34 percent of Nigeria's GDP, over 97 percent of total exports, and 80 percent of budgetary revenues. Its vast reserves of natural gas are only beginning to be exploited. Agriculture employs two-thirds of the labor force and accounts for 36 percent of GDP. Ninety percent of agricultural output originates from food crop production, which is largely based on small-scale farming. Yams, cassava, and grains are the main food crops, and cocoa, palm oil, rubber, groundnuts, and cotton are the principal cash crops. Productivity is low but holds considerable scope for large gains through increased irrigation, improved technology, and intensified extension services. Manufacturing accounts for about 7 percent of GDP. The service sector, dominated by wholesale and retail trade, accounts for the remaining 23 percent of GDP.

The oil boom of the mid- to late 1970s financed massive increases in public investment. These were designed to raise the economy's productive capacity and human capital, and to heal the wounds of the civil war that ravaged Nigeria in the late 1960s. But many of the investments were undertaken without sufficient attention to their economic viability. In addition, shifts in the terms of trade, together with excessive government spending, undermined the nonoil export base in cocoa, groundnuts, and cotton, and raised the prices of nontradables. When oil revenues fell in the aftermath of the decrease in oil prices and rising international interest rates in the early 1980s, the government, instead of cutting its expenditures, increased borrowings abroad to sustain them. As a result, foreign debt accumulated and sizable arrears on trade payments emerged. In late 1983 a new military government introduced across-the-board budgetary cuts and administrative restrictions on imports and foreign exchange transactions. Although the government succeeded in reducing domestic and external imbalances, it failed to address the economy's structural weaknesses: low agricultural productivity, an uncompetitive manufacturing sector, significant trade distortions, and a cumbersome regulatory framework. Uneven implementation notwithstanding, the measures exacted a heavy economic toll and proved to be politically unsustainable.

Adjustment Efforts 1986-1993

The government that came to power in mid-1985 declared its intention to move from "austerity alone to austerity with structural adjustment." With a further collapse in oil prices adding urgency, in 1986 the government adopted a far-reaching structural adjustment program that combined exchange rate and trade policy reforms aimed at revitalizing the nonoil economy with stabilization policies designed to restore price stability and balance of payments equilibrium. The adjustment program emphasized downsizing the public sector and improving the efficiency of public asset management. Import licenses and the agricultural marketing boards were eliminated, price controls were lifted, and deregulation of the banking system was initiated. The restructuring of domestic production and the liberalization of the incentive regime led to a resurgence of agriculture and manufacturing.

Although some reforms were sustained over 1986-93, others were implemented unevenly. All suffered from the vagaries of an increasingly erratic macroeconomic environment. Successive cycles of contractionary and expansionary policies — with their attendant effects on prices and economic activity — rocked the economy. From late 1986 to end-1987, fiscal and monetary policies became reasonably tight. However, in response to political pressures, they turned expansionary in 1988, only to reverse themselves a year later when the inflationary consequences of this policy direction became painfully evident. Increased international oil prices associated with the 1990 Persian Gulf crisis fueled higher spending, which continued following their subsequent collapse. Mirroring earlier periods, Nigeria recorded large overall fiscal deficits, which by 1992 reached 10 percent of GDP. This trend continued in 1993, with the fiscal deficit increasing further to 17 percent of GDP. Driven by the need to finance a rising fiscal deficit, monetary policy became increasingly lax — the money supply increased by 33 percent in 1991, 55 percent in 1992, and 51 percent in 1993, and average inflation by 13 percent, 45 percent, and 57 percent, respectively.

Exchange rate reform was at the core of the structural adjustment program. Although the specific modalities and its implementation varied over the adjustment period, the reform facilitated a cumulative depreciation in the real effective exchange rate of about 80 percent between September 1986 and the end of 1992. The financing of the fiscal deficit through the Central Bank of Nigeria over 1991-93 led to rapid depreciation of the naira. With foreign exchange reserves nearly depleted in early 1993, the authorities switched back to a system of rationing of foreign exchange. By the end of the year, the premium on the free market had risen to 100 percent above the official exchange rate. Although initial trade reforms reduced the cascading of protection that had encouraged assembly type operations, some of the adjustment program's first-round tariff reductions — and the pruning of the import prohibition list — were later rolled back.

The government encouraged private sector activities by simplifying the regulatory environment, reducing limitations on foreign investment, cutting corporate tax rates, and introducing a debt-equity conversion program. Yet the private sector continues to face cumbersome regulations and approval processes that raise the cost of doing business. Ongoing difficulties with public utility management have made the provision of critical infrastructure services such as power and telecommunications erratic, hindering private sector activity. Even more critical, Nigeria's unstable macroeconomic policies and political uncertainty have increasingly discouraged investors.

Much-needed financial sector reforms began under the adjustment program but were frequently reversed. Although interest rates and spreads were deregulated, they were periodically subjected to moral suasion by the authorities to mitigate their rise. Credit ceilings have only recently been phased out, but sectoral allocation guidelines remain.

Until recently, there has been a proliferation of sectoral banks and other nonbank financial institutions that fall outside the purview of central bank supervision, regulation, and credit allocation guidelines. Financial-sector reforms included new legislation, which led to the adoption of Basle standards for new prudential guidelines, and to stricter supervision and provisioning requirements. Within the banking system, new entrants aiming to secure foreign exchange allocations from the central bank at preferential rates mushroomed, and serious financial distress emerged in established financial institutions, with classified loans accounting last year for over one-third of total bank credit. While the central bank and the National Deposit Insurance Corporation have taken limited actions toward a few small banks with nonperforming loans, their eventual disposition and financing to restructure banks in need remain unclear. The authorities have yet to adopt a comprehensive strategy for distress resolution. Meanwhile, the federal government has divested most of its equity participation in commercial and merchant banks.

The adjustment program also included public enterprise reform. Eighty-nine mostly small enterprises have been privatized — mostly through public offers and deferred public offers — on the Nigerian Stock Exchange, but the planned privatization of several large enterprises has been put on hold. The commercialization program, on the other hand, has failed. Eleven parastatals were slated for full commercialization, and in some cases, performance contracts (including ten-year corporate plans) have been signed, although virtually no progress has been made with the partial commercialization of the electric utility or the full commercialization of the oil and telecommunications companies. Institution-building efforts, increased autonomy, and the creation of appropriate regulatory frameworks have stalled, while service delivery has continued to deteriorate, raising operating costs for users.

Public expenditure management has deteriorated sharply since the mid-1980s. Increased off-budget spending and continued financing of nonviable investment projects have been the main causes of eroding fiscal discipline. For example, the temporary revenue windfall from the rise in international oil prices in 1990 led to the reemergence of large-scale government spending, financed through recourse to central bank credit and diversions of revenues outside the purview of the statutory, budgetary, and accounting framework. Spending in real terms on the social sectors had contracted sharply before the adjustment program, and these lower spending levels were maintained in per capita terms throughout the adjustment period.

Recent Economic Developments

In 1994 the new government, instead of tackling the causes of the mounting economic crisis in the expanding fiscal deficit, mismanagement of public resources, and half-hearted implementation of structural reforms, attempted to suppress its symptoms by centralizing all foreign exchange transactions, maintaining an increasingly overvalued official exchange rate, setting up committees to ration foreign exchange to the private sector, and capping interest rates significantly below prevailing inflation levels. In mid-1994 a major political challenge by the oil workers' union and prodemocracy movements led to a prolonged strike in the petroleum industry. Although the strike only affected crude oil exports marginally, it had a dramatic impact on domestic fuel supplies and commercial activities. In October the government effected a 300 percent increase in domestic fuel prices, which brought retail prices to about two-thirds of international levels (net of taxes). With external debt service payments unilaterally capped at $1.8 billion against due amounts of over $4.5 billion, debt service arrears on the external debt continued to mount and reached $9.6 billion at the end of 1994. Following the pattern of the previous three years, against a budget target of a small surplus, Nigeria ended the year with a budget deficit of 10 percent of GDP, mostly financed through recourse to central bank credit.

Rapidly worsening economic conditions in 1994 led to government reassessment of its policy direction. In January 1995, a new budget of "guided deregulation" with some significant policy corrections was introduced. Included among these were a renewed promise of a tight fiscal and monetary stance, a free market for foreign exchange for all except some government transactions, a more liberal environment for foreign investors, and the intention of turning over the management of some public enterprises to private operators. However, the new budget reaffirmed the continuation of interest rate ceilings, as well as of commercialization plans for key public enterprises, already tried unsuccessfully in the past. Moreover, it called for a suspension of the privatization program. Only modest progress has been achieved on improving transparency and accountability.

Despite difficulties in implementation and overspending, the policies incorporated in the structural adjustment program, particularly the abolition of price controls at the factory gate and of agricultural marketing boards, together with the large depreciation of the real effective exchange rate, produced results. In contrast to an average decline of 2 to 3 percent between 1980 and 1986, real GDP grew by about 5 percent a year between 1987 and 1992, primarily reflecting a recovery in agriculture and manufacturing. Some of Nigeria's earlier anti-export bias in manufacturing disappeared under the adjustment program, and producers switched from imported to local inputs. The assembly-based manufacturing sector, which depends on imported inputs and had been shielded from competition and market signals, contracted during the adjustment era. Following a shift in relative prices in favor of the rural sector, the production of traditional food crops and cash crops increased, and agricultural output expanded 4 percent a year on average: Nigeria now spends one-fifth of what it spent in 1986 on food imports.

However, overall economic growth has slowed down in recent years in response to the general worsening in macroeconomic policies, falling to 1.5 percent in 1993. In 1994 recorded nonoil merchandise exports fell by 44 percent and GDP growth stagnated. Per capita GDP and consumption are estimated to have fallen by about 2.6 percent in real terms in 1994 and by a cumulative 1.1 percent between 1991 and 1994.

Inflation has fluctuated widely since 1986, reflecting policy variations. In 1986, despite a 70 percent depreciation of the exchange rate, satisfactory monetary performance kept inflation at 16 percent. While inflation decelerated in 1987, the expansionary 1988 budget boosted prices by 55 percent. Inflation moderated once again, as tight fiscal and monetary policies were pursued in 1989, falling below 7 percent in 1990. Recent expansionary fiscal and monetary policies caused inflation to rebound. By end-1994, with the parallel market premium above 350 percent, end-of-year inflation is estimated to have reached close to triple-digit levels.

The benefits of growth were unevenly distributed at best, with a growing share of public resources being channeled off-budget to special interest groups. The overall incidence of poverty declined in the growth interval between the mid-1980s and the early 1990s, but there is also strong evidence of a worsening of income distribution and the situation of the poorest of the poor. Although the adjustment program revived economic growth, this was not able to compensate for the huge drop in purchasing power associated with the collapse of international oil prices. With GDP growing at 5 percent a year and population at 3 percent, per capita income grew at 2 percent over 1987-92. Continuing that growth rate would take about 30 years for Nigeria to recover its peak living standard achieved in 1981. In real per capita terms, consumption and income are now little higher than they were in the early 1970s, before the oil boom. The urban middle class, primarily civil servants and workers in import-substituting industries, has continued to bear the cost of adjustment.

Poverty and Social Indicators

Economic mismanagement and negative external shocks contributed to reducing GNP per capita from $1,160 in 1980 at the peak of the oil boom to $300 in 1993. As a result, the incidence of poverty increased significantly. One-third of Nigeria's population is considered poor, with about 10 percent, some 10 million people, classified as extremely poor. In real per capita terms, consumption and income are now no higher than they were in the early 1970s. Basic social indicators place Nigeria among the 20 poorest countries worldwide. Infant mortality rates are around 85 per 1,000 live births, half of all children aged 2 to 5 show signs of persistent malnutrition, and only about two-thirds of the relevant age group are enrolled in primary schools — down from 90 percent in the early 1980s.

Nigeria has recently adopted comprehensive and far-sighted education, health, and population policies that give preference to the promotion of health and education services at the primary over the tertiary level, provide access to universal primary education free of charge, encourage cost recovery measures in health care, and aim to improve the health of women and children through birth spacing. However, without a commensurate improvement in management of an increase in and a reallocation of budgetary provisions, notably for salary levels, supplies, and maintenance over capital expenditures, prospects for reversing the decline in enrollments, quality of services, and utilization rates remain poor.

Nigeria's public sector lacks transparency and accountability. Pervasive mismanagement robs the economy of resources that otherwise might be used for growth and poverty reduction, adds to the cost of doing business, and undermines confidence in the public sector. Deficiencies in governance manifest themselves in a number of ways. First, oil revenues typically cannot be fully accounted for. The failure to establish full control over the government's statutory oil revenues and lack of accountability for nonstatutory oil revenues have obstructed proper fiscal management. Second, successive governments have lacked political will in halting unauthorized extrabudgetary spending for nonproductive programs. Third, the public investment program is too large, biased toward large capital-intensive projects, and plagued by high costs due to rent seeking. Fourth, the quality of public service delivery, particularly utility and infrastructure services, is deteriorating, undermining Nigeria's international competitiveness.

While some women play a dynamic role in political and economic life in parts of the country, women generally tend to be seriously disadvantaged, particularly in rural areas. Legal, cultural, and social barriers limit their access to land, credit, farming inputs, technology, and support services and constrain their earning capacity. They spend long hours on low-output, physically demanding activities such as water and fuelwood transport, manual crop processing, and headloading of farm produce, in addition to their responsibilities for household and family maintenance tasks. They are more likely than men to be illiterate and poorly nourished, and women face extreme health risks because of frequent pregnancies starting at a young age.

Environment

As in much of Sub-Saharan Africa, Nigeria's key environmental problems are soil degradation, water contamination, and deforestation. Many of the problems are directly related to rapid population growth, which has reduced the natural resource base. Traditional bush-fallow farming systems are land-intensive but sustainable and compatible with the environment as long as population remains in check. But with the rising population, farmers cultivate exhausted soils, and their incomes decline. Worsening poverty engenders demand for more children to help families survive on the land, which in turn increases the pressure on the environment in a vicious circle. Moreover, Nigeria is the world's largest flarer of natural gas.

The government has taken some initial steps toward redressing Nigeria's environmental problems. A national environmental policy has been formulated, and state-level agencies have been set up to coordinate environmental activities. Legislation has been enacted regulating effluent limitation and industrial wastes and requiring environmental impact assessments, but enforcement remains weak. The government is also incorporating environmental concerns in its sectoral policies and projects in forestry, water and sanitation, gas flaring reduction, population and health, industrial and hazardous waste management, and coastal zone management.

External Environment

The pressure on Nigeria's external balance has been exacerbated by the downturn in world oil prices of recent years. Meanwhile, the competitiveness of nonoil exports was dealt a severe blow in 1994 by rapidly increasing inflation, the impact of the CFA franc devaluation, and the abolition of the legal autonomous foreign exchange market and the fixing of the official exchange rate at an overvalued level. While in the 1995 budget nonoil exporters are once again allowed to retain legally their foreign exchange earnings and obtain a market rate when selling them, it is unlikely that recorded exports will show a rapid recovery, as exporters' confidence will take time to be restored.

The Nigerian economy is highly exposed to world oil price fluctuations. For each $1 per barrel change in oil prices, total foreign exchange revenues change by 6 percent. While the market outlook is for oil prices to be slightly higher in real terms in 1995 than in 1994, and to rise gradually over the medium term, Nigeria's efforts to increase its productive capacity to 2.5 million barrels a day by the middle of the decade appear unlikely: favorable new terms have been negotiated with joint venture companies, but arrears on cash calls, estimated to be above $1 billion at the beginning of 1995, will continue to restrict new investment. The government's efforts to diversify energy exports, notably through a liquefied natural gas project, remain under active discussion with potential foreign investors.

Medium-Term Prospects

Assuming a continuation of recent policies, Nigeria's medium-term prospects remain bleak. While in the short term, a small rebound in economic activity might occur following the liberalization of the autonomous foreign exchange market, growth in key sectors, especially manufacturing, services, and oil, is likely to stagnate. The adoption of an appropriate policy mix aimed at stabilization and sustainable growth would impact positively on economic efficiency and bring about a more rapid and sustained supply response.

Nigeria faces interrelated development challenges of establishing viable and stable macroeconomic framework policies and streamlining its incentive regime, reducing poverty through policies that promote efficient growth and that target public expenditures on basic social services, and downsizing its public sector and improving governance. Economic management, which has progressively deteriorated since 1990, has been responsible for the slowdown in growth. As fiscal and balance of payments deficits have increased, inflation has accelerated. Trade distortions have reemerged. Interest rates are now set administratively and are far below market-clearing levels. The foreign exchange regime for government transactions is open to abuse.

External Debt

Nigeria has run a large trade surplus since 1986 but — with the exception of 1990 — a current account deficit, reflecting its large interest due and other services. Nigeria's net transfer position on official external debt was persistently negative, averaging 4.6 percent of GDP a year between 1986 and 1994. The stock of public and publicly guaranteed external debt increased from $19.5 billion at end-1985 to around $30.5 billion (including $9.6 billion of arrears on both principal and interest) by end-1994. This 50 percent increase occurred mostly between 1985 and 1987, and was principally due to cross-currency revaluations, which boosted the value nondollar-denominated debt, and the reconciliation and recognition as public debt of a large stock of trade arrears from the 1982-83 period. Nigeria has concluded three rescheduling agreements with the Paris Club since 1986, but substantial new arrears accumulated after the expiration of the third agreement at end-March 1992. Nigeria's total debt service burden, two-thirds of which is due to official creditors, is projected to remain above 31 percent of projected exports during 1995/96.

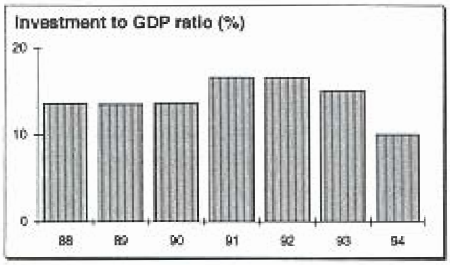
Nigeria

Population mid-1993 *(millions)*	**105.3**
GNP per capita 1993 *(US$)*	**300**

Income group: **Low**
Indebtedness level: **Severely Indebted**

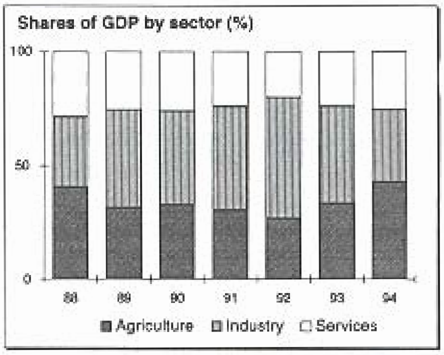
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.0	13.6	16.6	15.1	10.1
Exports of goods and nfs/GDP	16.1	43.5	39.1	36.1	21.9
Gross domestic savings/GDP	12.6	28.3	21.2	18.5	11.0
Gross national savings/GDP	8.7	18.4	14.7	11.2	4.4
Current account balance/GDP	-0.3	4.7	-2.0	-3.3	-5.3
Interest payments/GDP	1.6	5.7	5.6	4.5	4.0
Total debt/GDP	24.1	106.5	104.3	114.3	86.8
Total debt/exports	148.6	241.6	247.3	284.2	312.1



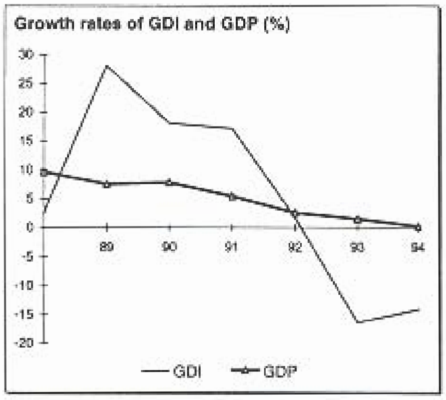
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	37.3	32.7	26.7	33.5	42.7
Industry	29.2	41.4	53.2	42.6	32.1
Manufacturing	12.2	7.9	6.4	7.1	7.5
Services	33.5	25.9	20.1	23.8	25.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.7	2.2	2.1	1.4	2.4
Industry	3.5	0.3	1.3	-2.4	-5.1
Manufacturing	5.0	-0.3	-2.5	-1.8	-2.6
Services	8.2	5.0	5.7	6.1	3.7
GDP	4.5	2.4	2.6	1.5	0.3



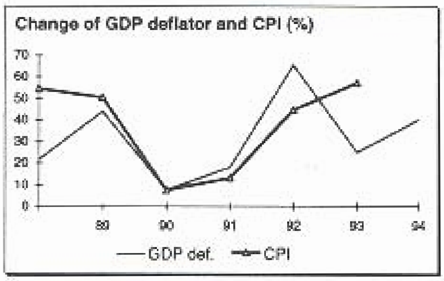
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	73.8	57.4	65.7	63.2	78.6
General government consumption	13.5	14.3	13.1	18.3	10.5
Gross domestic investment	9.0	13.6	16.6	15.1	10.1
Exports of goods and nfs	16.1	43.5	39.1	36.1	21.9
Imports of goods and nfs	12.4	28.8	34.4	32.6	21.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-1.2	2.8	4.1	-1.2	2.2
General government consumption	6.7	4.0	-5.2	28.4	-3.3
Gross domestic investment	2.6	-4.6	1.8	-16.4	-14.1
Exports of goods and nfs	3.1	1.7	3.3	2.9	-4.9
Imports of goods and nfs	-9.0	-0.5	2.2	-2.1	-12.0
Gross national product	3.2	3.4	3.1	1.3	2.7
Gross national income	0.3	0.2	1.5	-1.0	-0.6



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	7.4	7.4	44.6	57.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.8	7.6	65.4	24.9	40.0
Government finance					
(% of GDP)					
Current budget balance	4.4	3.6	-1.4	-8.6	-2.4
Overall surplus/deficit	-2.0	-2.9	-8.1	-17.8	-9.6



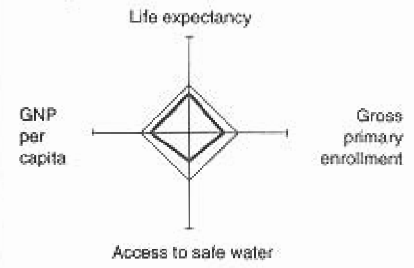
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.9	3.0
Labor force	2.7	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.8
Infant mortality *(per 1,000 live births)*	82.6
Child malnutrition *(% of children under 5)*	43.0
Access to safe water *(% of population)*	40.0
Energy consumption per capita *(kg oil equivalent)*	140.5
Illiteracy *(% of population age 15+)*	49.3
Gross primary enrollment *(% of school-age population)*	76.0

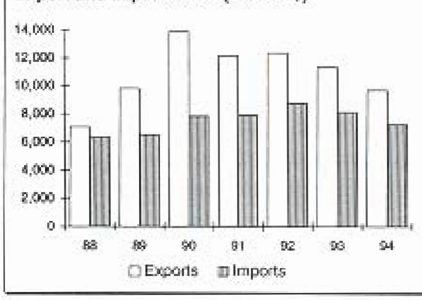
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	12,566	13,914	12,307	11,297	9,661
Fuel	12,203	13,508	12,026	11,022	9,508
Cocoa	310	166	90	76	70
Manufactures	..	..	..	..	..
Total imports (cif)	9,165	7,827	8,737	8,129	7,271
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	3,199	3,511	..	..	..
Export price index *(1987=100)*	152	145	119	106	95
Import price index *(1987=100)*	74	102	101	96	97
Terms of trade *(1987=100)*	206	141	118	110	98
Openness of economy *(trade/GDP,%)*	29	72	74	69	43

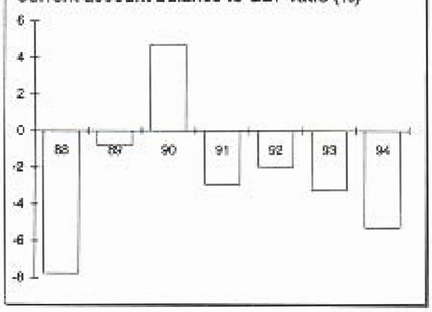
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	13,032	14,083	12,424	11,412	9,759
Imports of goods and nfs	10,070	9,341	10,947	10,317	9,359
Resource balance	2,962	4,742	1,477	1,095	400
Net factor income	-2,916	-3,287	-2,800	-2,627	-2,545
Net current transfers	-260	74	733	605	281
Current account balance					
Before official transfers	-214	1,529	-590	-927	-1,864
After official transfers	-214	1,529	-590	-927	-1,864
Long-term capital inflow	-753	-2,510	-5,225	-1,840	-1,540
Total other items (net)	1,663	3,489	2,039	3,422	2,477
Changes in net reserves	-696	-2,508	3,776	-655	927
Memo:					
Reserves excluding gold *(mill. US$)*	1,667	3,864	967	1,372	..
Reserves including gold *(mill. US$)*	1,892	4,129	1,196	1,640	..
Conversion rate *(local/US$)*	0.9	8.0	18.5	24.5	27.8

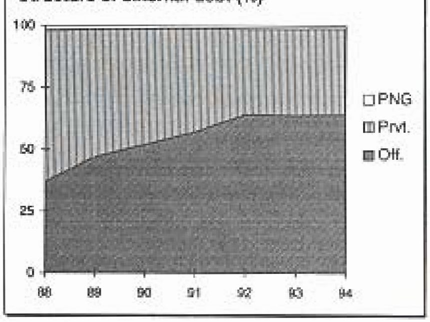
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	110.7	230.7	229.7	249.5	295.6
IMF credit/exports	0.0	0.0	0.0	0.0	0.0
Short-term debt/exports	38.0	10.9	17.6	34.7	16.5
Total debt service/exports	34.2	23.6	30.1	16.0	21.1
GDP ratios					
Long-term debt/GDP	18.0	101.7	96.9	100.4	82.3
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	6.2	4.8	7.4	14.0	4.6
Long-term debt ratios					
Private nonguaranteed/long-term	9.7	1.2	1.2	1.1	1.0
Public and publicly guaranteed					
Private creditors/long-term	75.0	46.8	34.6	35.0	34.8
Official creditors/long-term	15.3	52.0	64.3	63.8	64.1

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Organization of the Eastern Caribbean States (OECS)

The six OECS countries that are members of the World Bank — Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines — face special challenges to development because of their small size and extreme vulnerability. Though at varying stages of development, they share a common set of constraints. Their populations are very small, amounting to 0.5 million overall, and ranging from 158,000 in St. Lucia to 41,000 in St. Kitts and Nevis. Because of their topography (mountainous terrain) and low population densities, the cost of economic and social infrastructure is high. Their internal markets are very small and they are extremely open to world trade, with exports and imports of goods and services averaging about three-fourths of GDP. Most of the islands have traditionally been monocrop economies that relied on preferential trade arrangements for their main exports. They also have depended on a high level of external assistance to develop their infrastructure. Moreover, their ecosystems are fragile, and their vulnerability is further compounded by being in the hurricane belt between the Atlantic Ocean and Caribbean Sea, and by some islands having active volcanoes.

The OECS countries have made remarkable achievements since they gained independence from the United Kingdom in the late 1970s and early 1980s. As a group, their economies grew an average of 6 percent a year during the 1980s. And with steady growth and a strong commitment by governments, social indicators improved steadily, in line with improvements in their standards of living. All the countries have also developed relatively stable democracies and efficient administrations based on the Westminster model.

In an attempt to overcome the political and economic limitations created by each country's small size, the OECS common market was formed within the larger CARICOM group in 1981. Because of their small size, the OECS countries also receive preferential treatment within CARICOM and the regional bank, the Caribbean Development Bank. The OECS countries share a common currency, the Eastern Caribbean dollar, which has a single bank of issue, the Eastern Caribbean Central Bank, and a central policy coordinating body, the OECS Secretariat.

Recent Economic Developments

The OECS countries are in a period of transition. After their impressive growth in the 1980s, performance has slowed to less than 2 percent in the early 1990s. The primary reason for the strong growth rates of the 1980s was a favorable external environment: concessional aid flows financed a large portion of public investments in infrastructure; preferential market access and favorable prices allowed a doubling of banana exports, and tourism expanded rapidly from a small base and with foreign investment. St. Kitts, and other countries to a lesser extent, also made use of the Caribbean Basin Initiative and special trade provisions with the United States to penetrate some niche manufactured export markets. Antigua, and to some extent Grenada, resorted to commercial borrowing to sustain high levels of investment.

The recent economic slowdown marks the end of this favorable period. Concessional aid flows have declined rapidly from a peak of about 9 percent of GDP in the early 1980s to about 4 percent in the 1990s. More important, preferential access for key export commodities' is threatened by larger trade arrangements, such as the GATT, integration of the European Common Market, and NAFTA. The 20 percent decline in banana export receipts in 1992 (due to a decline in banana prices and a 25 percent slide in the British pound relative to the dollar) has had an adverse impact on most of the banana-producing countries.

Despite their common institutional arrangements, the OECS countries are unevenly placed to respond to these challenges. While tourism provided a major source of growth in the 1980s, not all countries benefited from its rapid expansion. Dominica and St. Vincent have lagged somewhat because of their more difficult transportation access and lack of white sand beaches on the main islands. Because of a low OECS domestic savings base (15 percent of GDP), much of past growth was fueled by external savings, either from public or private sources. Concessional flows financed a large proportion of public investment, up to 85 percent of the public investment program in Dominica, while direct investments supported the large expansion of tourism. The dependency (and consequent vulnerability) of these small economies on external financing is illustrated by the large current account deficits in their balance of payments, averaging about 20 percent of GDP during the 1980s, needed to support their high growth rates. Those deficits were mostly sustainable in the past because they closely reflected expenditures associated with concessional flows or direct investments.

Economic policies have differed among the countries. Because of common currency arrangements — the countries cannot monetize debt through central bank operations — and the relatively large size of the public sectors in such small economies, the main element of public policy centers on fiscal management and, related to this, debt management. Given the small size of the OECS economies, fiscal savings are a key determinant of domestic savings. In this area, the countries have differed substantially. While St. Lucia, St. Vincent, and St. Kitts have high levels of public savings to finance part of their investment programs, fiscal management in the other countries has been weaker.

The management of public finances, and the wage bill in particular, will be key to maintaining competitiveness. The East Caribbean dollar has been fixed since 1976 at EC$2.7 to the dollar. Exchange rate realignments are possible only by unanimous decision of all member states. This system has generally worked well in the past as it withstood the oil shocks of the 1970s, two world recessions, and a series of natural disasters. The net international reserves of the East Caribbean Central Bank also remained comfortable despite a worsening external environment, at over $250 million (equivalent to cover 90 percent of its note liabilities) during 1993-94.

Finally, while all the countries are market-based and open to private-sector development, they have differed in their success in developing that sector as the main engine of growth. Because of the narrowness of their internal markets, domestic private-sector activities have centered on small agriculture or commercial enterprises, with few large private entrepreneurs emerging in selected industries. The countries have been quite open to foreign investment, however, especially in tourism and export products. They provide harmonized tax incentives for new investments, are in the process of simplifying investment applications, and are refining their incentive regimes. In particular, the trade regimes are being simplified with a view to reducing the common external tariffs to 5 to 20 percent by 1997, excepting a few agricultural products, in line with CARICOM partners. Consumption taxes are being introduced concurrently to offset the potential revenue losses.

The external debt stocks of St. Kitts, St. Lucia, and St. Vincent have remained manageable and low, at less than 30 percent of GDP, with debt service below 5 percent of exports and 10 percent of government revenues. In contrast, countries with difficult fiscal balances that have resorted to commercial borrowing have quickly faced constraints in servicing their debt. The case of Antigua is even more acute: its external debt stock amounts to about 82 percent of GDP, and its arrears have accumulated to $297 million, or 65 percent of GDP. While Grenada has started to address its external debt problem through fiscal strengthening and bilateral negotiations, Dominica's deterioration is more recent.

A favorable external environment, coupled with rapidly expanding tourism, was the basis for the successful past economic performance of the OECS countries. Over the last ten years, export revenues almost quadrupled, fueling the strong growth rates of these economies. Tourism revenues expanded particularly rapidly, by over six times, while agricultural export earnings — mostly bananas — doubled in their protected markets. As a result, the export structure of the OECS countries as a whole was transformed from an agricultural to a services base that is heavily dominated by the tourism industry. Tourism revenues now account for 64 percent of export receipts from the region, significantly reducing the vulnerability of the OECS as a group.

This favorable external environment is not expected to last. Preferential arrangements for bananas are threatened by the integration of the Common European Market; the advent of NAFTA is eroding the preferences of the Caribbean Basin Initiative, and while tourism still offers much potential, future expansion will depend on continued improvements in this highly competitive industry.

Agriculture exports are almost fully concentrated in bananas in Dominica, St. Lucia, and St. Vincent, where they account for 20 percent of GDP, 55 percent of merchandise exports, and over 30 percent of employment. In St. Kitts, agricultural exports are primarily sugar but account for less than 5 percent of GDP. Most agriculture exports are directed toward the European market under preferential arrangements, but the July 1993 formation of a single European Union market led to drastic changes in the banana market faced by the OECS. Prior to that date, Windward Island (and other Caribbean) producers were able to sell any amount of fruit produced in a protected British market, which gave high returns to Caribbean producers and marketers. As a result, banana production in the Windwards more than doubled during the 1980s. While the new European Market banana regime still protects traditional Caribbean producers with import quotas, duties, and complex marketing arrangements, it introduced new quota arrangements for the Windward Islands and other developing country producers. More important, the new regime has increased uncertainty as to how long the preferential system will remain in effect and how it will operate against increased pressures from more efficient banana-producing countries.

The region's success in manufacturing exports has been limited and has primarily depended on preferential trading agreements. Manufactured exports account for only 14 percent of export revenues, and their relative share in total exports has declined continuously since 1980. Exports of manufactured products — such as garments, soaps, cardboard boxes, fruit juice concentrates, and electronic assembly — within CARICOM and to North America benefit from preferential arrangements. However, over time NAFTA may limit the emergence of new products unless full parity is made available to these countries.

Tourism has become the most important source of foreign exchange and employment in the region. The number of stay-over visitors has risen about 7 percent a year over the last decade, with even faster growth in cruise ship passengers. This has fueled employment opportunities in construction and the full range of related services. Tourism performance has, however, been uneven among the islands — expanding rapidly in the islands well served by international connections and with white sand beaches, and more slowly in Dominica and St. Vincent. To maximize their own competitive advantages, Dominica is focusing on ecotourism, while St. Vincent has emphasized luxury tourism, including yachting, in the Grenadines.

Though the OECS countries face constraints in expanding traditional agriculture and manufacturing, they show much promise in expanding new export services. In recent years, data-processing and information-based services have emerged in a few countries, such as in St. Kitts, St. Lucia, and Grenada (and in Barbados and Jamaica within the region). The fast growth of services in world trade, the proximity of the islands to the large U.S. market, their success in tourism, their excellent telecommunications facilities, and their relatively well educated labor force should provide them with a strong comparative advantage in the booming services export market in the future.

Poverty and Social Indicators

Economic growth in the 1980s was accompanied by steady social development. Public investments of over 4 percent of GDP in the social sectors were instrumental in improving access to health services, safe water, and sanitation to almost 100 percent by 1993. Public health and education, and free social programs for vulnerable groups, supported by donor assistance, have also significantly enhanced the standards of living. Indicators of life expectancy, infant mortality, malnutrition, and fertility compare favorably with those of other middle-income countries. No significant gender bias exists in the provision of social services, and women, who are better educated than men on average, are being integrated into positions of authority. The governments have joined in an OECS Education Reform Strategy — supported through a regional basic education project — designed to reform education at all levels to enable the countries to compete in the new global economy.

Unemployment has, however, remained high at 12 to 20 percent of the labor force even during the high growth period. The labor situation is complex, and the high unemployment rates partly result from skills mismatches. The difficult problems of unemployment and poverty in the banana-producing countries will be exacerbated by the economic transition facing these countries. The ongoing restructuring of the banana industry is likely to adversely affect the employment and revenue base of marginal banana farmers. Preliminary estimates indicate that 5,000 to 8,000 small farmers may be affected in each of the three banana-producing countries, representing about 12 to 15 percent of their total employment. Hence the necessary banana restructuring program may seriously affect the social fabric of these islands.

Poverty and social indicators for the OECS countries suggest that poverty is not a serious problem in these countries compared to the lower-middle-income group of countries. Poverty pockets exist in most of the countries, however, with a higher incidence of poverty in the agriculture-based Windward Island economies. Incomplete data from ongoing poverty assessments suggest that 10 to 20 percent of the population may be below the poverty line in those countries. A special group at risk is the indigenous Caribs in Dominica and St. Vincent, who live in remote hamlets and have limited access to economic and social infrastructure. Both islands have initiated special programs for these groups.

The Caribbean Development Bank is completing poverty assessments of each country to understand better the profile of the poor and the link with unemployment and the labor market. The high growth rates and high emigration rates of the 1980s have not reduced the unemployment rates prevailing in most countries. Population censuses and selected poverty surveys indicate that most unemployed have less than a primary education. Labor mobility across the islands would reduce the vulnerability of each island, increasing their flexibility and reducing skill mismatch.

Environment

The OECS countries have remained relatively pristine with lush green mountain landscapes, unspoiled beaches and coral reefs, and an unusual level of biological diversity. The fast growth of the last decade has started to threaten these fragile ecosystems. In particular, the expansion of tourism and construction activities threatens beaches and coral reefs, and the fast expansion of banana production and other agricultural activities has eroded forest cover, especially on hillsides, aggravating the effects of hurricanes and tropical storms. Most governments in the region are acutely aware of the need for improved environmental management, are preparing environmental action plans, and have set up environmental management units. The OECS has a strong environmentally oriented NGO community, which participated actively in the preparation of these plans.

Medium-Term Prospects

The primary concern now facing the eastern Caribbean is how to sustain the growth rates of the past while making a difficult transition into a more competitive global economy. The governments in the region fully recognize this challenge. In particular, the Windward governments are aware of the acuteness of the transition for their banana industry, and they are preparing a Banana Restructuring Program with external support.

The OECS countries are handicapped by the high unit cost of infrastructure due to their hilly terrain, vulnerability to natural disasters, and need for duplication of facilities in each of the islands. Infrastructure investments in the 1980s did not fully meet the needs of these rapidly growing economies. Power shortages; inadequate port, water delivery, and waste disposal facilities; and inadequate road networks still constrain economic growth.

While most islands have international airports and good connections, Dominica and St. Vincent rely on inefficient regional air services and inadequate facilities. Regional air transport is expected to improve, following the recent restructuring of LIAT airline and the introduction of private air services. St. Vincent is carrying out a detailed study of expanding its airport. Sea transportation has been mostly adequate, in line with relatively low volumes. While the quality of telecommunications services and facilities is good, their high cost threatens the potential expansion of information service exports.

A further challenge in the banana-producing countries is to design appropriate transition programs and create new opportunities for marginal banana farmers likely to be displaced from the industry. Over time, any diversification effort should focus on all economic sectors, with emphasis on services. In the short to medium term, however, a focus on alternative agricultural employment and rural-based infrastructure development may be necessary to avoid social disturbance and increased urban migration. This may require labor-intensive infrastructure development in priority development areas, such as rural roads, irrigation, river control, and environmental protection. Construction linked to tourism and other private sector expansion should also provide opportunities. The Caribbean Development Bank already has a well-functioning basic needs program for poverty alleviation supported by grant financing.

The high cost of maintaining full government functions for small populations has been a major problem for the OECS. The OECS governments have traditionally been welfare oriented, and have taken over some private sector functions to compensate for the small size of the domestic private sector. As a result, consolidated public sector expenditures have been high at about 30 percent of GDP. The need for increased fiscal saving and new ways to finance investments may, however, provide a good basis to reevaluate the role of the OECS governments. Though most of the islands already share some services, such as embassies and external promotion agencies to reduce costs, they have not yet taken full advantage of commonalities. There may also be a need to reevaluate and rationalize memberships in some regional organizations with high costs and limited benefits.

Political integration between all or some of the countries has been discussed for some time, but with limited progress. There may be a need to move faster, at least toward economic integration to address common external issues. The Eastern Caribbean Central Bank has recently taken a leadership role in this endeavor by fostering harmonization of common policy frameworks for capital development, trade and tax reforms, and investment incentives. The OECS Secretariat and a new banana-marketing company have also provided useful platforms for common policy decisions and negotiations.

Economic prospects for the OECS countries depend on their success in adapting to the rapidly changing world environment. The prospects are not as bright as in the 1980s due to deteriorating terms of trade for their primary commodities, the progressive loss of preferential trade arrangements, and the projected decline in concessional flows. Their economic performance will depend to a great extent on how well they succeed in continuing to attract foreign direct investments, sustain tourism flows, diversify their economic base, penetrate new niche export markets, and adjust domestic policies to the changing environment. A key issue for the banana-producing countries will also be the pace of transition and level of success in improving the competitiveness of the industry.

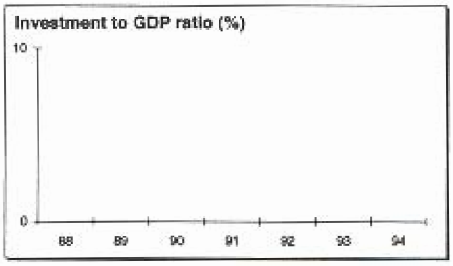
While the economies will have difficulty in matching their past growth performance, continued growth rates of about 3 to 4 percent a year should be achievable, providing a strong base for improvement in the standards of living. This depends on relatively slow declines in the prices of bananas and other commodities, the countries' maintaining their high levels of investment of over 20 percent of GDP, and raising domestic saving — particularly public-sector saving — to offset reduced bilateral aid flows and allow for annual public investment of 8 to 10 percent of GDP.

Antigua and Barbuda

Population mid-1993 *(thousands)*	65	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	6,540	Indebtedness level:	**Moderately indebted**

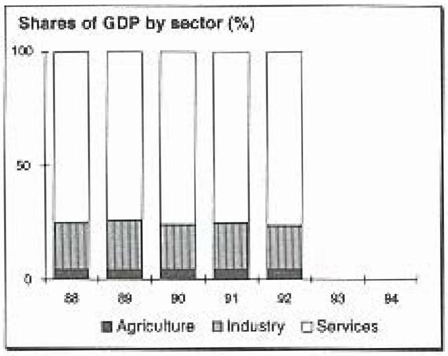
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	..	..	..	..
Exports of goods and nfs/GDP	88.6	..	..	..	..
Gross domestic savings/GDP	..	..	..	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	-11.8	-10.3	-2.3	..	..
Interest payments/GDP	..	..	..	..	..
Total debt/GDP	..	..	..	..	..
Total debt/exports	..	..	..	..	..



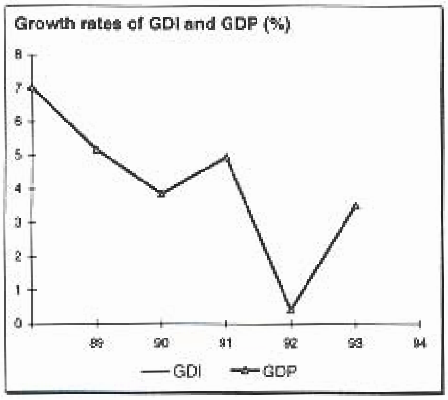
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	5.0	4.1	4.1	..	..
Industry	16.7	19.9	19.5	..	..
Manufacturing	4.4	3.3	2.7	..	..
Services	78.3	76.0	76.4	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	6.9	..	4.4	..	..
Industry	11.1	..	-3.3	..	..
Manufacturing	3.0	..	-6.0	..	..
Services	6.4	..	3.0	..	..
GDP	7.2	*2.7*	0.4	3.5	..



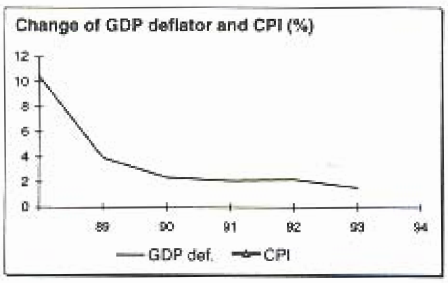
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	88.6	..	..	..	..
Imports of goods and nfs	105.8	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	1.8	*3.6*	-0.5	4.6	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	6.6	2.4	2.2	1.5	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



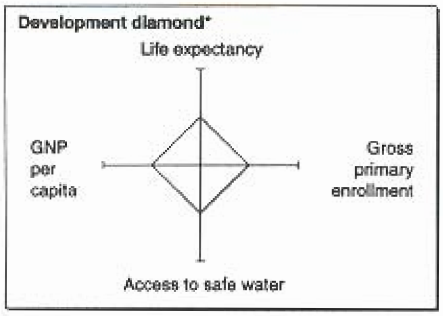
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Antigua and Barbuda

POVERTY and SOCIAL

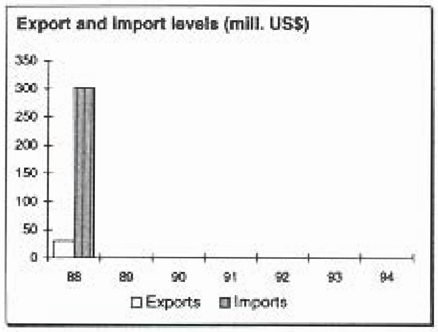
	1985-90	1990-94
(annual growth rates)		
Population	0.6	*0.5*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	2,000.0
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



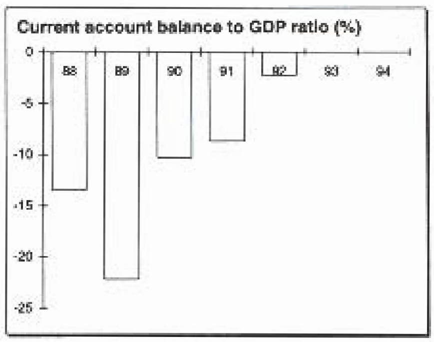
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	28	..	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	192	..	..	..	..
Food	32	..	..	..	..
Fuel and energy	34	..	..	..	..
Capital goods	42	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	194	..	..	..	..



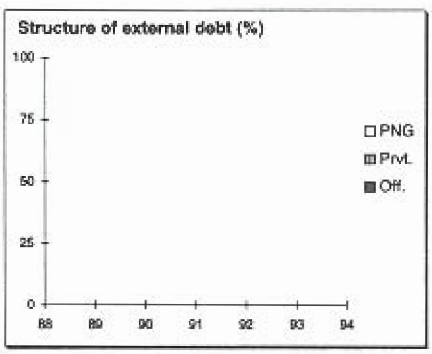
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	179	335	391	..	..
Imports of goods and nfs	213	340	376	..	..
Resource balance	-35	-5	15	..	..
Net factor income	-3	-43	-30	..	..
Net current transfers	0	8	5	..	..
Current account balance					
Before official transfers	-24	-41	-10	..	..
After official transfers	-23	-38	-9	..	..
Long-term capital inflow	11	16	-4	..	..
Total other items (net)	16	22	31	..	..
Changes in net reserves	-3	1	-18	12	..
Memo:					
Reserves excluding gold *(mill. US$)*	17	28	51	38	..
Reserves including gold *(mill. US$)*	17	28	51	38	..
Conversion rate *(local/US$)*	2.7	2.7	2.7	2.7	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	..	..
IMF credit/exports	..	..	..	..	..
Short-term debt/exports	..	..	..	..	..
Total debt service/exports	..	..	..	..	..
GDP ratios					
Long-term debt/GDP	..	..	..	..	..
IMF credit/GDP	..	..	..	..	..
Short-term debt/GDP	..	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	..	..
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	..	..
Official creditors/long-term	..	..	..	..	..



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

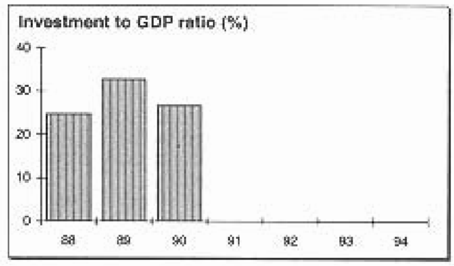
Dominica

Population mid-1993 *(thousands)* **71**
GNP per capita 1993 *(US$)* **2,720**

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

KEY RATIOS

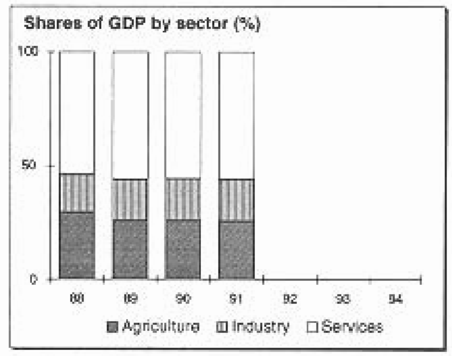
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	30.7	26.7	..	..	..
Exports of goods and nfs/GDP	38.9	54.1	..	..	..
Gross domestic savings/GDP	5.3	-0.8	..	..	..
Gross national savings/GDP	5.9	0.1	..	..	..
Current account balance/GDP	-24.1	-24.2	-16.3	-14.8	..
Interest payments/GDP	0.6	0.9	1.0	1.1	..
Total debt/GDP	52.7	50.7	48.9	45.6	..
Total debt/exports	105.2	81.2	80.1	80.4	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	27.9	25.9	..	..	..
Industry	16.6	18.4	..	..	..
Manufacturing	6.4	7.1	..	..	..
Services	55.5	55.7	..	..	..

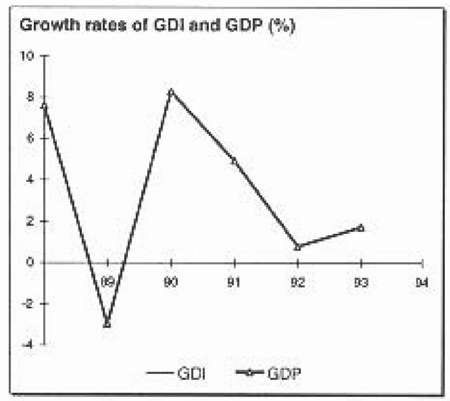
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	2.7	..	..	..	..
Industry	8.2	..	..	..	..
Manufacturing	6.6	..	..	..	..
Services	5.3	..	..	..	..
GDP	5.1	*2.3*	0.8	1.7	..



GDP: EXPENDITURE

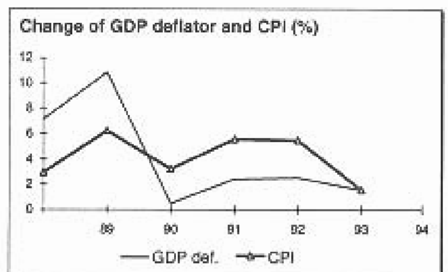
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	71.8	81.0	..	..	..
General government consumption	22.9	19.8	..	..	..
Gross domestic investment	30.7	26.7	..	..	..
Exports of goods and nfs	38.9	54.1	..	..	..
Imports of goods and nfs	64.2	81.6	..	..	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	5.1	*2.9*	1.3	3.0	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	3.7	3.2	5.5	1.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	8.1	0.5	2.5	1.6	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



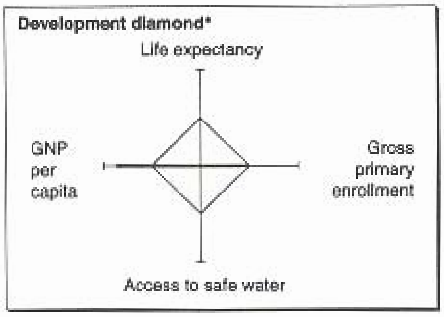
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Dominica

POVERTY and SOCIAL

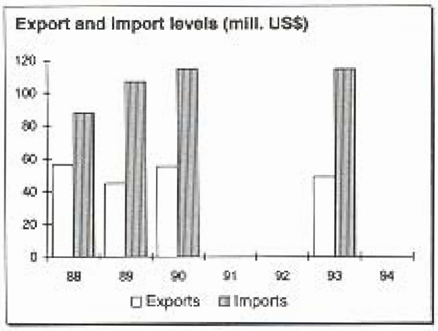
	1985-90	1990-94
(annual growth rates)		
Population	-0.3	0.0
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	295.8
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	95.0



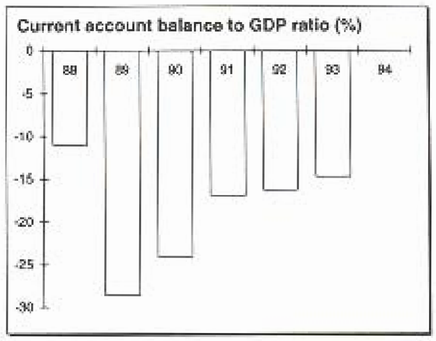
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	28	55	..	49	..
Other manufactures	7	12	..	..	..
Bananas	13	31	..	24	..
Manufactures	..	..	..	..	..
Total imports (cif)	57	115	..	115	..
Food	13	24	..	27	..
Fuel and energy	6	7	..	9	..
Capital goods	12	30	..	25	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	103	136	..	..	..



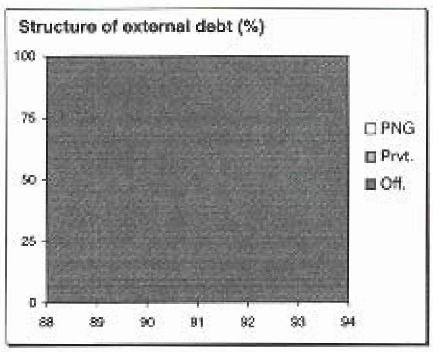
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	39	93	102	96	..
Imports of goods and nfs	64	140	136	131	..
Resource balance	-25	-48	-34	-35	..
Net factor income	-5	-6	-9	-8	..
Net current transfers	7	13	12	14	..
Current account balance					
Before official transfers	-24	-41	-31	-29	..
After official transfers	-10	-32	-25	-23	..
Long-term capital inflow	6	16	19	11	..
Total other items (net)	3	21	9	13	..
Changes in net reserves	1	-5	-3	-1	..
Memo:					
Reserves excluding gold *(mill. US$)*	3	14	20	20	..
Reserves including gold *(mill. US$)*	3	14	20	20	..
Conversion rate *(local/US$)*	2.7	2.7	2.7	2.7	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	84.9	74.0	74.2	76.8	..
IMF credit/exports	20.3	5.3	3.3	2.8	..
Short-term debt/exports	0.0	1.9	2.7	0.8	..
Total debt service/exports	7.6	5.4	4.9	6.7	..
GDP ratios					
Long-term debt/GDP	42.5	46.2	45.2	43.6	..
IMF credit/GDP	10.2	3.3	2.0	1.6	..
Short-term debt/GDP	0.0	1.2	1.6	0.5	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.0	0.1	0.0	0.0	0.0
Official creditors/long-term	100.0	100.0	99.9	100.0	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

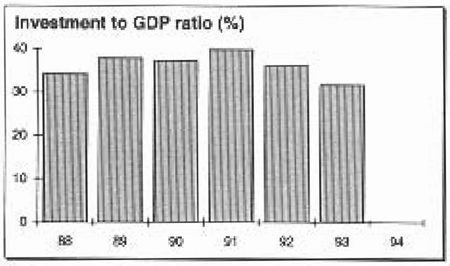
Grenada

Population mid-1993 *(thousands)*	**92**
GNP per capita 1993 *(US$)*	**2,380**

Income group: **Lower-middle**
Indebtedness level: **Less Indebted**

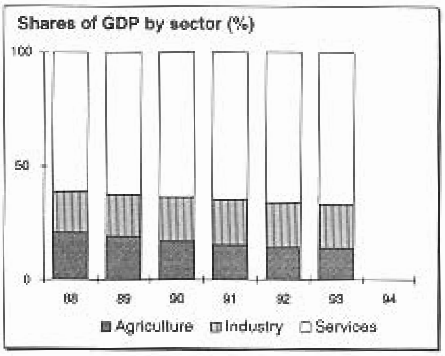
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	33.5	37.3	36.2	31.7	..
Exports of goods and nfs/GDP	45.7	53.3	53.8	54.0	..
Gross domestic savings/GDP	4.3	17.4	16.8	12.7	..
Gross national savings/GDP	11.5	22.0	25.9	21.5	..
Current account balance/GDP	-22.0	-15.3	-10.3	-12.9	..
Interest payments/GDP	1.0	0.5	0.7	0.8	..
Total debt/GDP	45.4	51.2	50.5	62.8	..
Total debt/exports	99.2	93.8	91.2	111.9	..



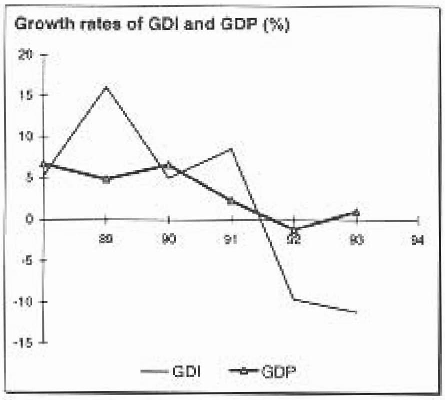
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.0	16.9	13.9	13.7	..
Industry	15.9	19.4	20.0	19.4	..
Manufacturing	5.1	5.4	5.6	5.2	..
Services	66.2	63.7	66.1	66.9	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.8	*-2.2*	-5.4	0.9	..
Industry	12.6	*4.0*	6.6	-0.4	..
Manufacturing	10.4	*-2.1*	6.2	-18.0	..
Services	4.3	*0.8*	-0.9	0.8	..
GDP	6.0	*0.5*	-1.2	1.0	..



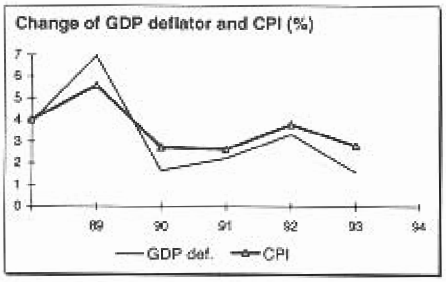
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	72.7	60.4	63.8	69.1	..
General government consumption	22.9	22.3	19.4	18.2	..
Gross domestic investment	33.5	37.3	36.2	31.7	..
Exports of goods and nfs	45.7	53.3	53.8	54.0	..
Imports of goods and nfs	74.9	73.2	73.1	73.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.0	*3.9*	-0.9	5.9	..
General government consumption	5.3	*-3.6*	-9.7	6.6	..
Gross domestic investment	6.2	*-5.0*	-9.7	-11.2	..
Exports of goods and nfs	10.4	*1.1*	-0.5	1.7	..
Imports of goods and nfs	3.1	*-0.1*	-7.1	1.2	..
Gross national product	4.7	*1.7*	-0.3	1.0	..
Gross national income	2.6	*1.7*	-0.3	1.1	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.6	2.7	3.8	2.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	5.6	1.7	3.3	1.6	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

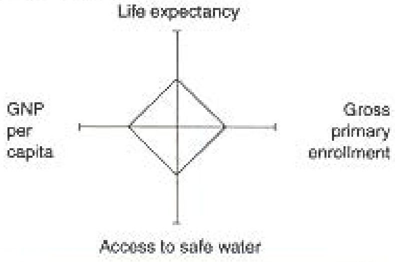
Grenada

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	0.2	*0.4*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	282.6
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..

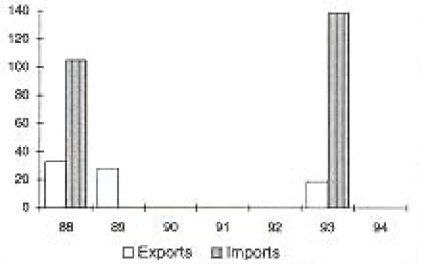
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	22	..	..	19	..
Cocoa	5	..	..	3	..
Bananas	3	..	..	2	..
Manufactures	..	..	..	..	..
Total imports (cif)	73	..	..	139	..
Food	19	..	..	33	..
Fuel and energy	7	..	..	9	..
Capital goods	16	..	..	27	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	121	126	127	127	..

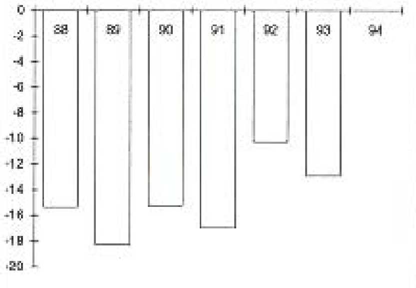
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	53	108	116	124	..
Imports of goods and nfs	87	148	158	168	..
Resource balance	-34	-40	-42	-44	..
Net factor income	0	-12	-7	-11	..
Net current transfers	10	22	26	26	..
Current account balance					
Before official transfers	-25	-31	-22	-29	..
After official transfers	2	-26	-20	-25	..
Long-term capital inflow	5	26	33	20	..
Total other items (net)	-1	2	-5	4	..
Changes in net reserves	-7	-2	-8	1	..
Memo:					
Reserves excluding gold *(mill. US$)*	21	18	26	27	..
Reserves including gold *(mill. US$)*	21	18	26	27	..
Conversion rate *(local/US$)*	2.7	2.7	2.7	2.7	..

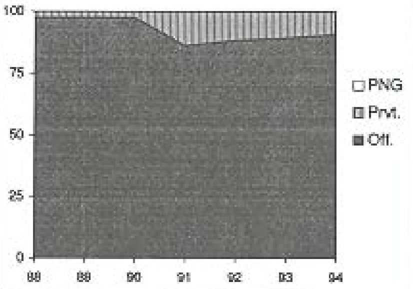
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	88.3	82.4	81.9	77.3	..
IMF credit/exports	7.9	0.0	0.0	0.0	..
Short-term debt/exports	3.0	11.4	9.4	34.6	..
Total debt service/exports	10.8	2.9	4.9	6.7	..
GDP ratios					
Long-term debt/GDP	40.4	45.0	45.3	43.4	..
IMF credit/GDP	3.6	0.0	0.0	0.0	..
Short-term debt/GDP	1.4	6.2	5.2	19.4	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	7.7	2.6	11.7	10.8	9.4
Official creditors/long-term	92.1	97.4	88.2	89.2	90.6

Structure of external debt (%)



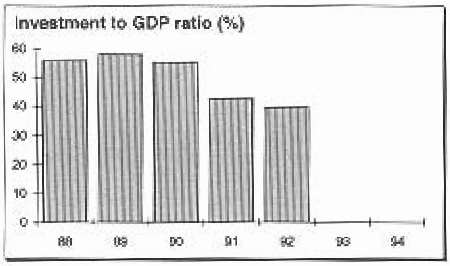
* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

St. Kitts and Nevis

Population mid-1993 *(thousands)*	**42**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**4,410**	Indebtedness level:	**Less indebted**

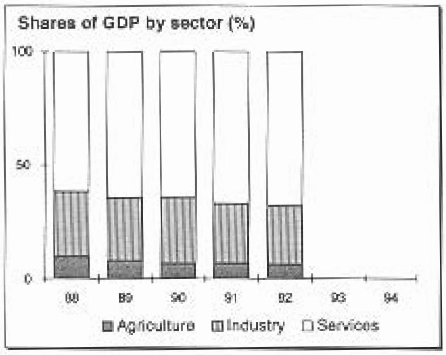
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	30.3	55.3	39.6	..	..
Exports of goods and nfs/GDP	55.4	52.1	59.5	..	..
Gross domestic savings/GDP	7.8	22.5	27.0	..	..
Gross national savings/GDP	19.5	27.0	28.6	..	..
Current account balance/GDP	-10.8	-28.1	-11.8	..	..
Interest payments/GDP	0.5	0.9	0.6	0.7	..
Total debt/GDP	16.4	23.5	24.2	21.9	..
Total debt/exports	28.7	43.8	38.0	..	..



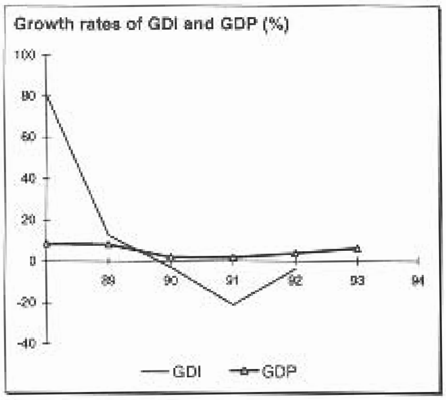
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	9.1	6.4	6.1	..	..
Industry	21.7	29.1	25.8	..	..
Manufacturing	12.1	12.8	11.9	..	..
Services	69.2	64.4	68.1	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-2.4	..	-2.3	..	..
Industry	8.9	..	2.2	..	..
Manufacturing	-0.1	..	3.6	..	..
Services	7.7	..	4.7	..	..
GDP	7.4	*3.9*	3.8	6.3	..



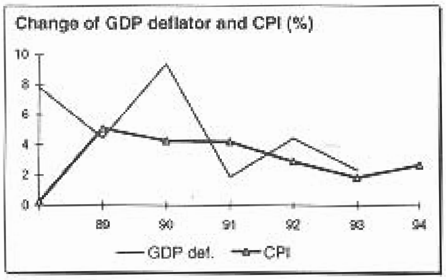
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	69.7	59.1	55.8	..	..
General government consumption	22.5	18.4	17.1	..	..
Gross domestic investment	30.3	55.3	39.6	..	..
Exports of goods and nfs	55.4	52.1	59.5	..	..
Imports of goods and nfs	77.9	84.8	72.1	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.7	..	-1.9	..	..
General government consumption	3.1	..	-0.5	..	..
Gross domestic investment	26.7	..	-3.8	..	..
Exports of goods and nfs	5.4	..	4.5	..	..
Imports of goods and nfs	9.5	..	-5.0	..	..
Gross national product	6.4	*2.7*	2.2	6.0	..
Gross national income	6.4	..	2.2	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.6	4.2	2.9	1.8	2.6
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	5.7	9.4	4.4	2.3	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

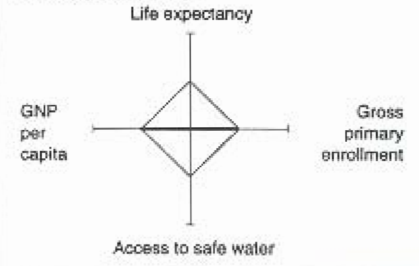
St. Kitts and Nevis

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	-0.5	0.0
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	476.2
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	98.0

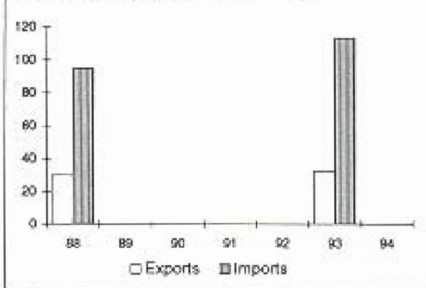
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	22	..	..	32	..
Sugar	9	..	..	12	..
Other manufactures	3	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	51	..	..	114	..
Food	12	..	..	22	..
Fuel and energy	4	..	..	7	..
Capital goods	10	..	..	26	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	133	137	132	..	..

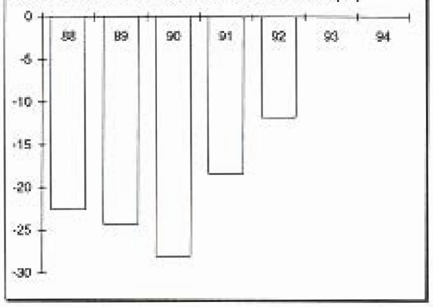
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	23	24	112	..	..
Imports of goods and nfs	61	121	136	..	..
Resource balance	-38	-97	-24	..	..
Net factor income	-1	-7	-11	..	..
Net current transfers	11	12	13	..	..
Current account balance					
Before official transfers	-8	-45	-21	..	..
After official transfers	-4	-44	-21	..	..
Long-term capital inflow	4	51	15	..	..
Total other items (net)	-2	0	15	..	..
Changes in net reserves	3	-7	-10	-3	..
Memo:					
Reserves excluding gold *(mill. US$)*	7	16	26	29	..
Reserves including gold *(mill. US$)*	7	16	26	29	..
Conversion rate *(local/US$)*	2.7	2.7	2.7	2.7	..

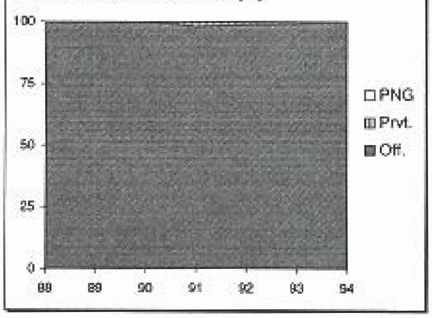
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	28.7	42.6	34.5	..	..
IMF credit/exports	0.0	0.0	0.0	..	..
Short-term debt/exports	0.0	1.2	3.5	..	..
Total debt service/exports	2.0	3.0	2.3	..	..
GDP ratios					
Long-term debt/GDP	16.4	22.9	21.9	20.3	..
IMF credit/GDP	0.0	0.0	0.0	0.0	..
Short-term debt/GDP	0.0	0.6	2.2	1.6	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.0	0.0	1.3	1.0	0.0
Official creditors/long-term	100.0	100.3	98.5	99.2	100.0

Structure of external debt (%)



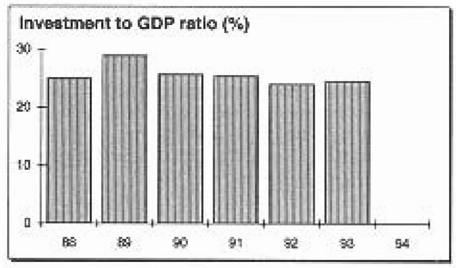
* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

St. Lucia

Population mid-1993 *(thousands)*	**142**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**3,380**	Indebtedness level:	**Less indebted**

KEY RATIOS

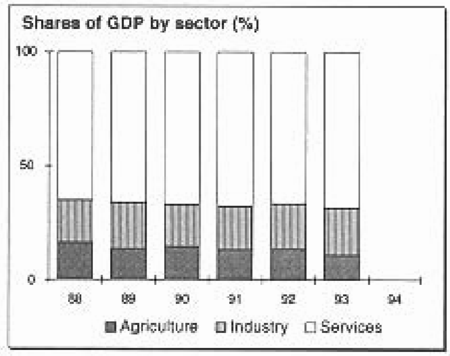
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.0	25.7	24.1	24.6	..
Exports of goods and nfs/GDP	55.9	72.3	67.7	65.8	..
Gross domestic savings/GDP	7.2	14.2	15.2	16.6	..
Gross national savings/GDP	12.5	10.9	12.2	..	..
Current account balance/GDP	-8.6	-14.6	-12.9	..	..
Interest payments/GDP	0.3	0.7	0.9	1.0	..
Total debt/GDP	10.6	19.8	20.4	20.4	..
Total debt/exports	19.0	26.8	29.8	..	..



GDP: PRODUCTION

(% of GDP)	1985	1990	1992	1993	1994
Agriculture	15.2	14.5	13.4	10.8	..
Industry	18.4	18.4	20.0	20.9	..
Manufacturing	8.5	8.1	7.5	7.4	..
Services	66.4	67.1	66.7	68.3	..

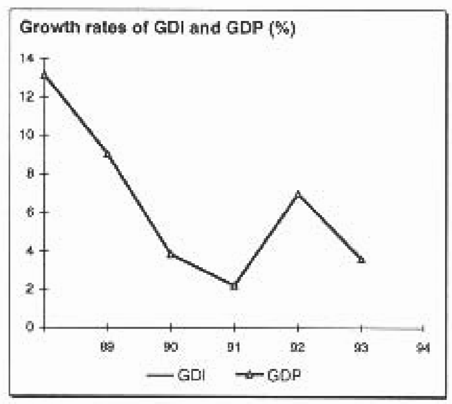
(average annual growth)	1985-90	1990-94	1992	1993	1994
Agriculture	7.0	*0.9*	21.3	-6.0	..
Industry	9.7	*8.3*	10.6	6.0	..
Manufacturing	6.5	*1.3*	2.4	4.3	..
Services	8.1	*4.1*	3.6	4.1	..
GDP	9.1	*4.5*	7.0	3.6	..



GDP: EXPENDITURE

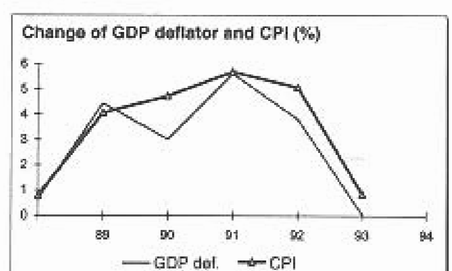
(% of GDP)	1985	1990	1992	1993	1994
Private consumption	73.4	71.1	70.1	68.7	..
General government consumption	19.4	14.7	14.6	14.6	..
Gross domestic investment	21.0	25.7	24.1	24.6	..
Exports of goods and nfs	55.9	72.3	67.7	65.8	..
Imports of goods and nfs	69.7	83.8	76.5	73.8	..

(average annual growth)	1985-90	1990-94	1992	1993	1994
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	8.1	*5.1*	8.4	4.3	..
Gross national income	..	..	..	..	..

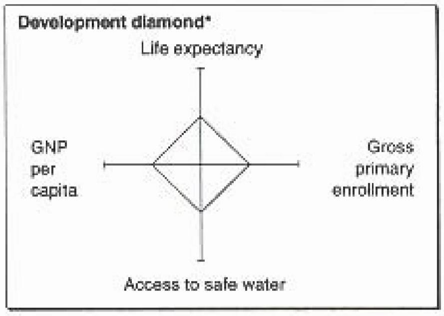


PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.4	4.7	5.1	0.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	3.0	3.8	0.0	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

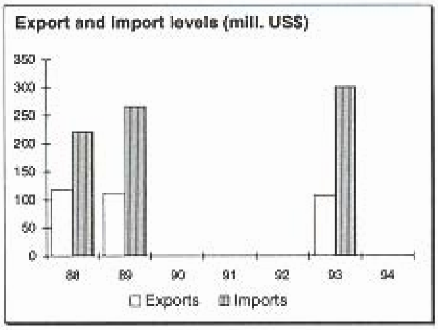


POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.6	*1.6*
Labor force	..	..

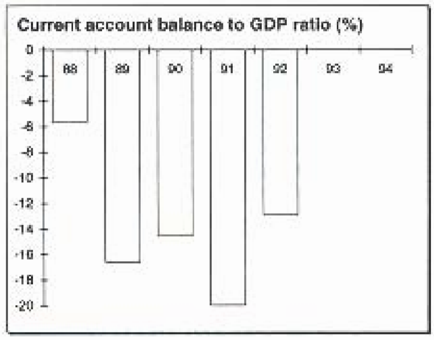
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	373.2
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..

TRADE



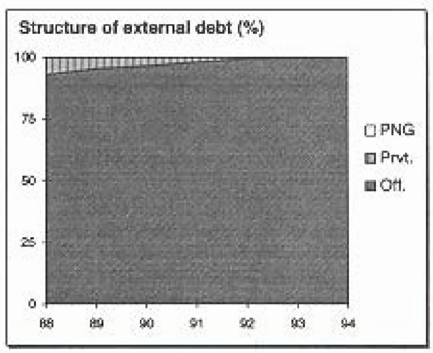
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	52	..	..	107	..
Bananas	32	..	..	51	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	125	..	..	301	..
Food	31	..	..	70	..
Fuel and energy	13	..	..	10	..
Capital goods	23	..	..	64	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	126	156	144	140	..

BALANCE of PAYMENTS



	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	122	290	322	..	..
Imports of goods and nfs	152	335	371	..	..
Resource balance	-30	-45	-49	..	..
Net factor income	-3	-28	-29	..	..
Net current transfers	15	15	16	..	..
Current account balance					
Before official transfers	-19	-58	-62	..	..
After official transfers	-13	-55	-55	..	..
Long-term capital inflow	19	55	67	..	..
Total other items (net)	-2	8	-5	..	..
Changes in net reserves	-5	-7	-7	-4	..
Memo:					
Reserves excluding gold *(mill. US$)*	13	45	55	60	..
Reserves including gold *(mill. US$)*	13	45	55	60	..
Conversion rate *(local/US$)*	2.7	2.7	2.7	2.7	..

EXTERNAL DEBT



	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	19.0	24.4	27.3	..	..
IMF credit/exports	0.0	0.0	0.0	..	..
Short-term debt/exports	0.0	2.4	2.5	..	..
Total debt service/exports	1.2	2.1	3.5	..	..
GDP ratios					
Long-term debt/GDP	10.6	18.1	18.7	19.5	..
IMF credit/GDP	0.0	0.0	0.0	0.0	..
Short-term debt/GDP	0.0	1.8	1.7	0.9	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.9	3.6	0.7	0.1	0.0
Official creditors/long-term	99.1	96.3	99.3	100.0	100.0

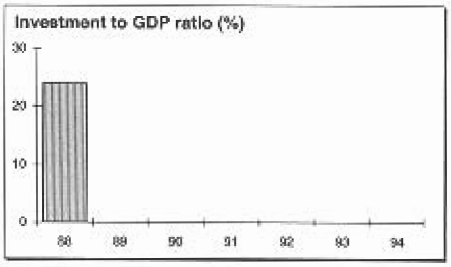
* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

St. Vincent and the Grenadines

Population mid-1993 *(thousands)*	**110**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**2,120**	Indebtedness level:	**Less indebted**

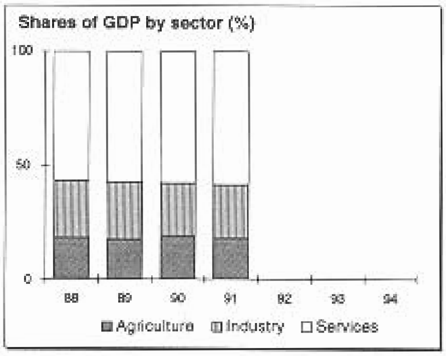
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	28.0	..	..	..	..
Exports of goods and nfs/GDP	73.1	..	..	..	..
Gross domestic savings/GDP	22.0	..	..	..	..
Gross national savings/GDP	28.3	..	..	..	..
Current account balance/GDP	-4.8	-10.8	-12.2	..	..
Interest payments/GDP	1.1	0.9	0.8	0.8	..
Total debt/GDP	24.1	29.9	27.6	36.7	..
Total debt/exports	30.8	47.6	48.3	..	..



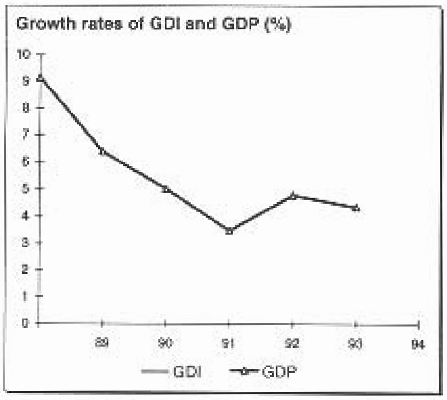
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	19.6	18.9	..	..	..
Industry	23.5	23.3	..	..	..
Manufacturing	11.6	3.6	..	..	..
Services	56.9	57.7	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	7.8	..	..	..	..
Industry	7.0	..	..	..	..
Manufacturing	5.0	..	..	..	..
Services	7.2	..	..	..	..
GDP	6.9	*4.3*	4.8	4.3	..



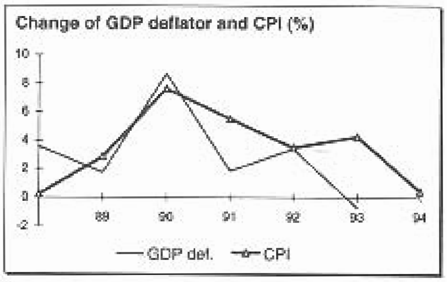
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	58.3	..	..	..	..
General government consumption	19.7	..	..	..	..
Gross domestic investment	28.0	..	..	..	..
Exports of goods and nfs	73.1	..	..	..	..
Imports of goods and nfs	79.1	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	6.1	*5.1*	8.1	4.6	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.1	7.6	3.5	4.3	0.4
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.8	8.7	3.4	-0.7	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



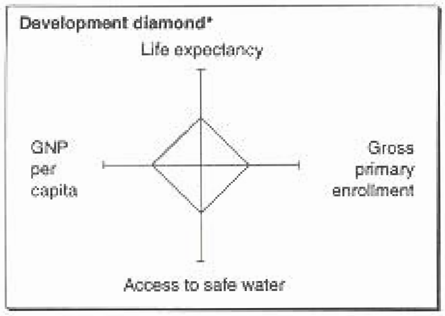
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

St. Vincent and the Grenadines

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.0	*0.9*
Labor force	..	..

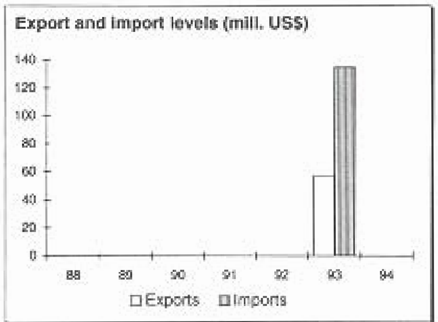
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	200.0
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



Development diamond*

TRADE

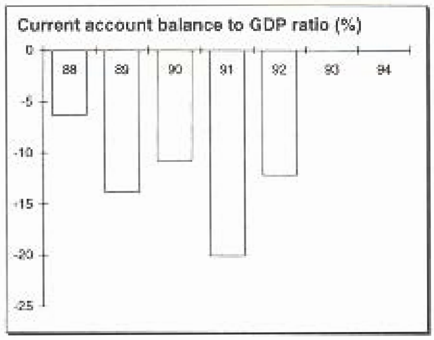
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	..	57	..
Bananas	..	..	..	23	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	135	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	152	..	..	..	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

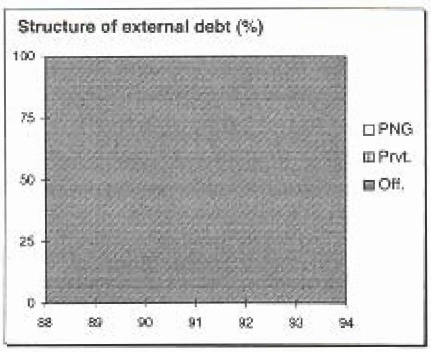
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	85	120	125	..	..
Imports of goods and nfs	98	155	159	..	..
Resource balance	-14	-35	-34	..	..
Net factor income	-2	-10	-7	..	..
Net current transfers	10	24	13	..	..
Current account balance					
Before official transfers	-5	-21	-28	..	..
After official transfers	-1	-11	-17	..	..
Long-term capital inflow	6	1	22	..	..
Total other items (net)	3	15	6	..	..
Changes in net reserves	-7	-4	-11	2	..
Memo:					
Reserves excluding gold *(mill. US$)*	14	26	33	31	..
Reserves including gold *(mill. US$)*	14	26	33	31	..
Conversion rate *(local/US$)*	2.7	2.7	2.7	2.7	..



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	28.1	45.9	47.1	..	..
IMF credit/exports	0.3	0.0	0.0	..	..
Short-term debt/exports	2.4	1.7	1.2	..	..
Total debt service/exports	3.7	3.3	3.6	..	..
GDP ratios					
Long-term debt/GDP	22.0	28.9	26.9	26.6	..
IMF credit/GDP	0.3	0.0	0.0	0.0	..
Short-term debt/GDP	1.9	1.1	0.7	10.1	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	2.0	0.0	0.0	0.0	0.0
Official creditors/long-term	97.6	99.8	100.0	100.0	100.0



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Pakistan

Pakistan has been engaged since 1988 in a major reorientation of its economic and social policies aimed at strengthening public finances, promoting private sector investment and growth, and improving its poor social indicators. Pakistan has experienced considerable political turmoil over the past several years as it sought to reestablish democratic institutions after years of military dictatorship, but the main thrust and principal objectives of the adjustment program are shared by all major political groups. The present government took office in October 1993 and has continued and reinforced the expanded economic reform program put in place by a caretaker government earlier in that year. The government's program emphasizes improving macroeconomic management, broadening privatization, and accelerating trade-policy reform. The government has also emphasized human development objectives, including the Social Action Program.

The economic reform program has received strong international support since 1994 from the World Bank and IMF. Substantial progress has been made in opening up the economy, improving the environment for the private sector, and reducing the scope of public-sector activities through an ambitious privatization effort. Progress is also being made in initiating reforms to improve social-sector performance. Over the past year, however, GDP growth has been adversely affected by floods and shortfalls in cotton production, revenue performance has been below program targets, and the acceleration of inflation has emerged as a key issue that may undermine adjustment progress in the absence of corrective action.

Pakistan faces significant medium- and longer-term development challenges. Its poor social indicators reflect long years of inadequate attention to basic social services. Per capita income remains low at about $430, and the benefits of growth have not been widely shared. Rapid population growth is putting an increasingly heavy burden on the economy. Even with an accelerated effort to improve basic services, educate women, and strengthen family planning, Pakistan's population could double in two more decades to about 250 million. The investment required to catch up with existing large shortfalls in physical and social infrastructure and at the same time cover the basic needs of this rapidly expanding population will be massive. The country's heavy dependence on cotton and cotton-based manufactures as the major source of growth and export earnings leave it vulnerable to external and internal shocks. Diversification is essential to reduce this vulnerability, strengthen the economy's competitiveness, and improve growth prospects.

Pakistan's natural resource base is also coming under increasing pressure from rapid population growth, poor management of water resources, and lack of attention to urban environmental issues. The level of investment and savings in the economy remains too low to meet requirements for sustained higher growth. As a consequence, Pakistan compares unfavorably with fast-growing economies in Asia in terms of physical infrastructure — basic transport, power, and telecommunications — and even more so in human resources development.

The country also continues to grapple with difficult political, social/cultural, and governance issues that affect the pace and effectiveness of its economic development effort. Ethnic, domestic, and regional rivalries have contributed to political instability and have delayed efforts to reach a consensus on development policies and programs. Ethnic and tribal conflicts have also contributed to periodic law and order problems, which have been exacerbated by drugs and corruption. These difficulties have slowed implementation of development projects and affected the location and size of new investment. Over the past year law and order problems and violent clashes between rival political and religious groups in Karachi (the principal commercial center) have claimed many lives and adversely affected economic activity.

Government efforts to increase resource mobilization have long been undermined by the exemption of agriculture incomes from taxation (now being remedied) and by a political environment that has condoned the nonpayment of taxes and other charges. Resource constraints are further compounded by the priority placed on maintaining a large military establishment, given strained relations with India.

Recent Economic Developments

GDP growth under the first phase of the adjustment program (fiscal 1989-93) was strong, averaging about 5.2 percent a year. Real industrial output grew by about 7 percent a year, and agriculture by about 4 percent. The strong growth performance was supported by a 13.9 percent a year expansion of exports. During fiscal 1993 the country's good growth performance suffered a major setback, with GDP growth (at factor cost) falling sharply to 2.3 percent — owing mainly to the impact of the devastating September 1992 floods and a cotton virus that severely affected cotton production. Economic performance in fiscal 1994 improved relative to the previous year, but the GDP growth rate of 4 percent (at factor cost) fell short of the initial target of 7.5 percent, owing mainly to the adverse impact of a virus on cotton production, the impact of reduced cotton production on cotton manufacturing, and weaker than expected overall export performance resulting from the problems in the cotton sector and the recession in industrialized countries.

GDP growth in fiscal 1995 is expected to fall below the program target of 6.6 percent, the result of weaker than expected recovery in the agricultural sector, continuing slow growth in parts of the industrial sector, and law and order problems in Karachi. Gross fixed domestic investment and domestic savings have also remained relatively low. In fiscal 1994 these stood at 17.3 percent of GDP and 15 percent of GDP, respectively. Investment growth is also expected to remain weak in fiscal 1995.

After deteriorating sharply to 7.1 percent of GDP in fiscal 1993, the current account deficit of the balance of payments (before official transfers) was reduced to 3.5 percent of GDP in fiscal 1994 reflecting the tightening of financial policies, as lower than expected exports were more than compensated for by a sharp decline in imports. Nontraditional exports expanded significantly, and the capital account recorded large inflows, particularly of foreign direct and portfolio investments. At an estimated increase of 16 percent over the corresponding period in fiscal 1994, export growth was strong in the first half of fiscal 1995, while imports expanded less rapidly at an estimated 7 percent. Current projections are for a deterioration in the current account deficit from 3.9 percent of GDP in fiscal 1994 to 4.2 percent in fiscal 1995.

Foreign reserves rose further in the first quarter of fiscal 1995, with inflows from the very successful Pakistan Telecommunications Corporation voucher sale helping to maintain them at about $2.8 billion — equivalent to 15 weeks of imports — at end-December 1994. Despite these improvements, the balance of payments remains vulnerable to external shocks pending full realization of the benefits of the structural reform measures aimed at further increasing domestic savings and export earnings. Continued progress in reducing macroeconomic imbalances, fostering diversification of exports, and reducing reliance on short-term foreign currency accounts remain important for reducing the fragility of the balance of payments over the medium term.

Fiscal performance has been the weakest link in the government's economic reform effort. Over fiscal years 1988-93 the consolidated federal and provincial fiscal deficits exceeded 7 percent of GDP, and public savings were negative in every year but one. In fiscal 1994, however, adjustment measures helped reduce the consolidated deficit to 5.9 percent of GDP, with the public sector borrowing requirement (which includes all public sector corporations) declining to 7.2 percent from the record high of 9.6 percent of GDP in fiscal 1993. The government embarked upon an ambitious new budget in fiscal 1995 to increase revenues substantially and reduce the budget deficit. However, as a result of large revenue shortfalls in the first half of fiscal 1995, fiscal performance is likely to be disappointing, with the consolidated deficit expected to approach 5.6 percent of GDP, significantly above the program target of 4.0 percent of GDP. The revenue shortfall has resulted from a number of factors including lower import tariff rates, slower growth of GDP and imports than projected, delays in implementing reforms, continued weaknesses in tax administration, and civil disturbances in Karachi.

Further reduction of the consolidated deficit will remain a cornerstone of the government's adjustment efforts in the medium term, and the policy framework for fiscal 1996-98 envisages a reduction of 3.1 percentage points of GDP over the period, with the deficit approaching 2.5 percent of GDP in fiscal 1998. To achieve these goals, the program emphasizes reform of the tax system, including a renewed effort to reform direct and indirect taxation, additional improvements in tax administration, further reduction of exemptions, and efforts to expand the tax net, including developing a broad-based value-added tax and taxing previously exempt agriculture income.

The recent acceleration in inflation is a major threat to the success of the government's adjustment efforts. The consumer price index increased at an average rate of 9.3 percent in fiscal 1993, 11.2 percent in fiscal 1994, and reached a high of 14.3 percent at end-December 1994. Supply-side factors played an important role in the upsurge in inflation in the first half of fiscal 1995, but increases in administered prices, the monetary overhang from years of deficit financing, and the effects of large capital inflows also contributed to the acceleration of inflation. Moreover, monetary growth accelerated in the first half of fiscal 1995, reflecting weaker fiscal adjustment than targeted. The fiscal 1995 inflation target of 7.0 percent is likely to be exceeded by a significant margin, with inflation expected to average 13.2 percent. Reducing the rate of inflation to a manageable level is an immediate priority for the government. While the expected upturn in agricultural production and other measures to improve the domestic supply of key commodities will help, the government has also taken remedial measures to reduce the fiscal deficit and tighten monetary policy during the second half of fiscal 1995.

Progress in Structural Reform

In addition to strengthening macroeconomic performance, Pakistan's ongoing structural reform and development program concentrates on four broad goals — poverty reduction and human resource development; strengthening the enabling environment for the private sector; including a major restructuring of the roles of the public and private sectors; and improving the allocation and use of public expenditures.

Following very limited progress in strengthening social sector performance in the early years of the adjustment program, the federal and provincial governments have been implementing a multisectoral Social Action Program since fiscal 1993. The program aims at providing a coherent framework for improving the coverage and quality of basic social services, with emphasis on primary education, basic health care, family planning, and rural water supply and sanitation.

Implementation of the action program was uneven in fiscal 1994, with development expenditures in all four sectors falling short of targets, the result of both inadequate funding and implementation problems; nonetheless, total national spending on social action sectors rose by 33 percent, from 1.7 percent of GDP in fiscal 1993 to 2.0 percent the next year. Budgetary allocations for social action sectors were increased by 47 percent to 2.6 percent of GDP in fiscal 1995, and emphasis is being placed on increasing nonwage recurrent expenditures, timely release of funds, and removing implementation constraints.

Substantial progress has been made in redefining the role of the public and private sectors. Some 85 industrial units out of a list of 118 industries targeted for privatization have been sold, along with two of the four nationalized commercial banks. Ongoing privatization efforts focus on selling or liquidating the remaining industries on the list and privatizing telecommunications and power utilities. The government expects to complete privatization of a third nationalized bank by end-November 1995. Measures have been taken to deregulate the economy, including virtually abolishing investment licensing, liberalizing the exchange system, and opening areas of investment previously closed to the private sector in power, banking, and transport. These measures have elicited strong investor interest in the power sector, and letters of support for 30 projects with a total capacity of 7,000 megawatts have been signed.

The second phase of trade policy reform has also been carried out, with the maximum tariff dropping from 92 to 70 percent. Over the next two years tariff reform is expected to accelerate, with the maximum tariff falling to 35 percent in fiscal 1997. The financial sector has also undergone considerable reform, including introduction of an auction system for government securities, licensing of new banks, and strengthening of banking regulations and supervision. The current stage of financial sector reform focuses on additional liberalization measures, further development of the capital market, and institutional strengthening of financial institutions.

Government efforts have also focused on improving the allocation and use of public expenditures to address shortages of human and economic infrastructure, including the need for substantial increases in spending on operations and maintenance to improve the quality of public services. Steps are being taken to strengthen project implementation and improve the flow of disbursements for externally assisted projects. To improve resource management and reduce financing bottlenecks, the government now prepares a core investment program that will be protected from budgets cuts and a three-year rolling investment plan to help forecast future resource needs.

Subsidies have been reduced and some progress has been made in containing defense spending. However, interest payments and public sector wages have continued to increase.

Medium-Term Prospects

Pakistan's relatively good growth record underscores the dynamism of its private sector, which has been strengthened in recent years with the progress made in liberalizing the economy. Prospects for continued solid growth in the private sector remain strong, but are closely linked to progress in strengthening macroeconomic performance and overcoming social, infrastructure, and governance constraints. Continued progress in improving agricultural productivity and completing policy reforms in trade and the regulatory environment is also critical to strengthening and diversifying Pakistan's productive base and promoting greater efficiency. On the demand side, exports and investment are expected to be the main sources of growth. In addition, the share of private investment in total gross domestic investment is expected to rise, albeit gradually over the rest of this decade. The trade and industry reform program, together with the flexible exchange rate policy, is expected to benefit export-oriented industries, particularly in manufactures.

Despite Pakistan's good growth potential, there are substantial risks posed by vulnerability to external and internal shocks and policy slippages. On the external front, the main sources of risks are fluctuations in cotton and oil prices, slow growth in the OECD countries, changes in international interest rates, and sudden outflows of capital. On the internal side, the cotton virus is having a major impact on cotton production, which is likely to continue to be affected for several years.

External Debt

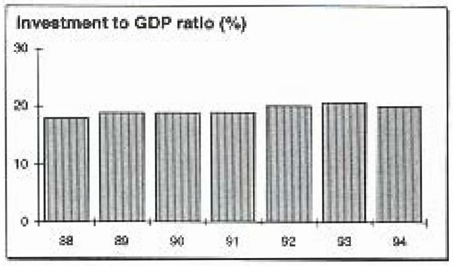
If growth remains strong and adjustment measures are implemented, Pakistan's overall debt indicators are expected to improve over the medium term. The ratio of total debt (including military debt) to GDP is projected to decline from 47.1 percent in fiscal 1994 to about 32 percent by the end of the decade; the debt service to exports ratio is also expected to improve significantly during this period from 26 percent to around 16 percent.

Pakistan

Population mid-1993 *(millions)*	**122.8**		Income group: **Low**
GNP per capita 1993 *(US$)*	**430**		Indebtedness level: **Moderately indebted**

KEY RATIOS

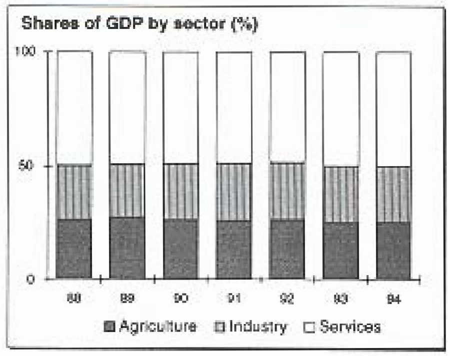
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.3	18.9	20.2	20.7	20.1
Exports of goods and nfs/GDP	11.2	14.8	17.3	16.2	15.8
Gross domestic savings/GDP	6.7	13.5	17.0	14.8	15.7
Gross national savings/GDP	23.9	23.4	24.5	20.8	21.3
Current account balance/GDP	-5.4	-4.7	-2.8	-7.1	-3.5
Interest payments/GDP	1.0	1.3	1.3	1.3	1.7
Total debt/GDP	42.9	51.4	49.3	50.3	54.2
Total debt/exports	228.2	248.8	245.6	261.2	281.3



Investment to GDP ratio (%)

GDP: PRODUCTION

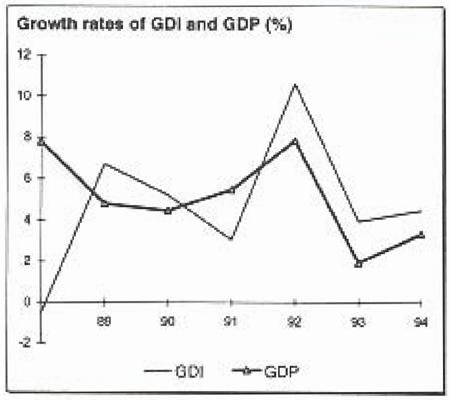
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	28.5	26.0	26.2	24.8	25.0
Industry	22.5	25.2	25.4	25.3	25.1
Manufacturing	15.9	17.4	17.3	17.3	17.3
Services	49.0	48.8	48.4	49.9	49.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.3	2.6	9.5	-5.3	2.6
Industry	7.6	6.5	7.8	5.6	5.4
Manufacturing	7.0	6.4	8.1	5.5	5.6
Services	5.4	5.2	6.8	4.5	3.9
GDP	6.0	4.7	7.8	1.9	3.3



Shares of GDP by sector (%)

GDP: EXPENDITURE

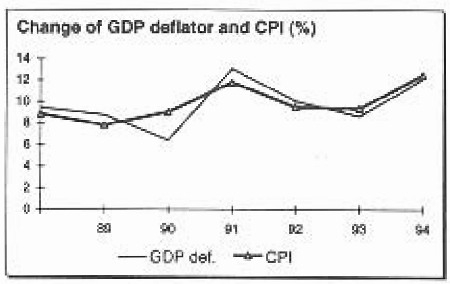
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	81.2	71.4	70.2	72.2	71.9
General government consumption	12.1	15.1	12.8	13.0	12.4
Gross domestic investment	18.3	18.9	20.2	20.7	20.1
Exports of goods and nfs	11.2	14.8	17.3	16.2	15.8
Imports of goods and nfs	22.8	20.2	20.4	22.1	20.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.3	5.0	13.6	1.9	3.1
General government consumption	9.5	2.3	-7.9	17.7	-0.3
Gross domestic investment	3.6	5.8	10.6	4.0	4.5
Exports of goods and nfs	8.9	10.7	13.9	1.3	0.3
Imports of goods and nfs	1.1	10.5	30.8	13.6	-1.7
Gross national product	4.9	4.0	6.8	2.0	3.2
Gross national income	4.8	3.8	7.5	1.7	4.0



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.6	9.1	9.5	9.4	12.5
Wholesale prices	2.9	8.6	7.2	9.3	18.7
Implicit GDP deflator	4.6	6.4	10.1	8.7	12.1
Government finance					
(% of GDP)					
Current budget balance	-0.8	0.1	-1.4	-2.5	-1.4
Overall surplus/deficit	..	..	-7.1	-9.6	-7.3



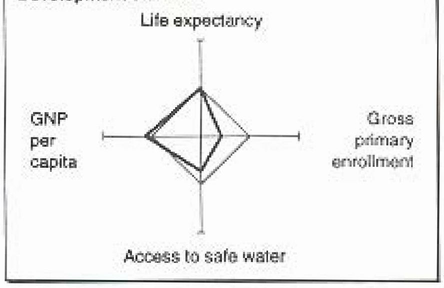
Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

(annual growth rates)	1985-90	1990-94
Population	2.8	2.8
Labor force	2.5	2.9

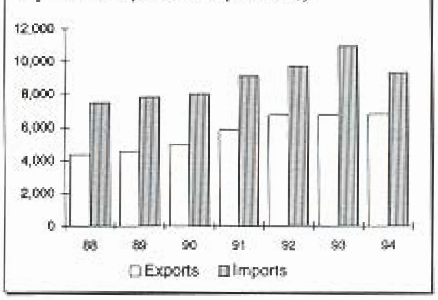
	most recent estimate
Poverty level: headcount index (% of population)	34.0
Life expectancy at birth	62.1
Infant mortality (per 1,000 live births)	87.6
Child malnutrition (% of children under 5)	40.4
Access to safe water (% of population)	49.9
Energy consumption per capita (kg oil equivalent)	226.4
Illiteracy (% of population age 15+)	65.2
Gross primary enrollment (% of school-age population)	46.0



Development diamond*

TRADE

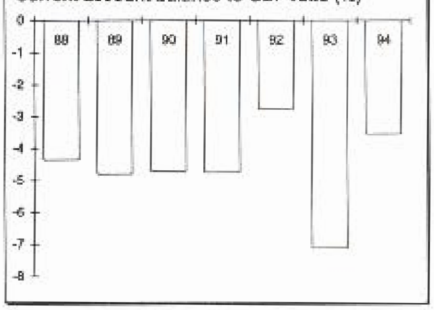
(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	2,457	4,926	6,763	6,782	6,795
Rice	279	443	518	271	80
Cotton	222	239	415	317	242
Manufactures	1,922	4,200	5,747	6,104	6,396
Total imports (cif)	6,531	8,055	9,732	10,929	9,333
Food	..	..	251	390	199
Fuel and energy	1,398	1,186	1,374	1,578	1,459
Capital goods	..	..	..	..	..
Export price index (1987=100)	..	..	..	..	..
Import price index (1987=100)	..	..	..	..	..
Terms of trade (1987=100)	..	..	..	..	..
Openness of economy (trade/GDP,%)	34	35	38	38	36



Export and import levels (mill. US$)

BALANCE of PAYMENTS

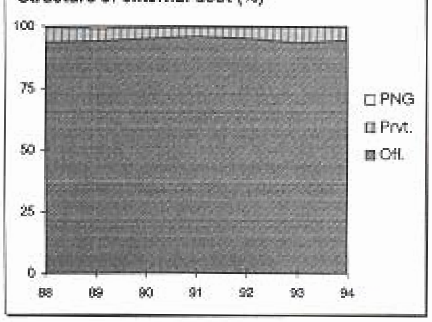
(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	3,247	6,217	8,273	8,339	8,417
Imports of goods and nfs	7,113	9,351	11,468	12,856	11,079
Resource balance	-3,867	-3,134	-3,195	-4,517	-2,662
Net factor income	-506	-966	-1,266	-1,498	-1,547
Net current transfers	2,688	2,210	3,114	2,327	2,375
Current account balance					
Before official transfers	-1,685	-1,890	-1,347	-3,688	-1,834
After official transfers	-1,282	-1,352	-897	-3,327	-1,520
Long-term capital inflow	274	587	1,144	1,106	1,212
Total other items (net)	-39	765	-117	1,591	2,121
Changes in net reserves	1,048	0	-130	630	-1,813
Memo:					
Reserves excluding gold (mill. US$)	807	296	850	1,197	2,929
Reserves including gold (mill. US$)	1,429	1,046	1,524	1,995	3,716
Conversion rate (local/US$)	15.2	21.4	24.8	25.9	30.1



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	181.0	200.2	189.4	204.9	223.1
IMF credit/exports	24.8	10.1	11.5	11.2	12.1
Short-term debt/exports	22.4	38.5	44.8	45.1	46.0
Total debt service/exports	24.2	23.2	24.0	24.7	34.4
GDP ratios					
Long-term debt/GDP	34.0	41.4	38.0	39.4	43.0
IMF credit/GDP	4.7	2.1	2.3	2.2	2.3
Short-term debt/GDP	4.2	8.0	9.0	8.7	8.9
Long-term debt ratios					
Private nonguaranteed/long-term	0.2	0.8	0.7	0.6	0.6
Public and publicly guaranteed					
Private creditors/long-term	7.6	4.3	4.4	6.2	5.2
Official creditors/long-term	92.2	94.9	94.9	93.2	94.2



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Panama

With a per capita GDP of about $2,600 and scant inflation, the Panamanian economy remains among the more prosperous and stable in the region. Nonetheless, the economy is highly segmented between the dynamic internationally oriented service sector and the domestically oriented sector, characterized by policy-induced rigidities and low productivity. The factor market likewise is segmented by policies that drive up the cost of labor and cheapen the cost of capital. More than one-fifth of the urban labor force is unemployed despite the preponderance of services in the economy, deceleration in the growth of the economically active population, and relatively slow rate of rural to urban migration. The protracted poor performance of the economy has impeded job creation, swelling the ranks of the poor to over one-third of the population and exacerbating extreme poverty. This is especially worrisome because 45 percent of the population of 2.5 million still resides in the countryside.

The peculiar structure and pattern of growth of the Panamanian economy stem from its privileged geographical position. The Panama Canal and the monetary regime anchored in the use of the U.S. dollar as legal tender spurred the rapid development of a wealthy services economy. The launching of the Colon Free Zone in the late 1940s coincided with the intensification of restrictive trade policies elsewhere in Latin America and generated substantial growth during the following three decades. Panama also took advantage of its location, unique monetary regime, and the prevalence of restrictive policies elsewhere by creating the International Banking Center, which grew rapidly through the 1960s and 1970s. Substantial rents were garnered through the construction of the transisthmian pipeline and by licensing the Panamanian flag to merchant ships from around the world. The economy generated annual growth of more than 6 percent over 1950-81. Although serious distortions were introduced in the economy in the 1970s, their growth-inhibiting effects were masked by massive inflows of external finance. In the aftermath of the second petroleum price shock and the debt crisis, these distortions depressed growth well below potential, to 2.5 percent a year over 1981-93.

During the early 1980s GDP declined when the onset of very high international interest rates provoked a fiscal crisis. The government embarked on a program of structural adjustment supported by the World Bank and the IMF that proved unsustainable. The government ceased to service its external debt in 1987. The political crisis in the late 1980s and the imposition of stringent external economic sanctions by the United States led to a 30 percent reduction in the money supply and a 16 percent contraction of economic activity over 1988-89.

Poverty and Social Indicators

Despite Panama's relatively high per capita income, over one-third of the population lives in poverty. Two-thirds of the poor reside in the countryside; yet nowhere is the duality of the economy and society more striking than in the area adjacent to the Atlantic entrance of the canal, where the poverty-ridden city of Colon is juxtaposed with the busiest free trade zone in the Western Hemisphere. The distribution of income is highly skewed and has become much more regressive in the past decade. In 1979 the poorest 20 percent of the population received 4 percent of income; in 1989 that share had plunged to 2 percent, giving Panama one of the most unequal distributions of income in the hemisphere. Moreover, in 1989, the average real income of the poorest 40 percent of the population was one-third lower than in 1979 (in part due to the 1988-89 contraction).

During the 1980s immunization rates declined by 13 percent; the incidence of growth retardation among children rose from 19 to 24 percent; tuberculosis cases doubled; and malaria cases climbed tenfold.

Recent Economic Performance

The elected coalition that assumed office following the ouster of a military government in December 1989 launched a National Economic Development and Modernization Strategy designed to increase efficiency by opening the economy to external competition and reforming the public sector. Panama cleared its arrears with the international financial institutions and made great strides over 1990-94 in mitigating internal and external imbalances. The removal of economic sanctions and implementation of the adjustment program bolstered confidence and resulted in repatriation of private assets and large bilateral aid flows that fueled private investment and pent-up consumption demand. The externally financed upturn in absorption engendered a rapid recovery in economic activity and a surge in imports. In 1994 GDP per capita surpassed the pre-crisis peak as output rose 4 percent. Yearly inflation remained below 2 percent throughout the recovery. The unemployment rate fell, but remained very high (13.6 percent in 1994) and several percentage points above its level before the crisis. Much of the growth in domestic demand was met by imports, which increased twice as much as GDP from 1990 to 1994. Exports initially recovered at a brisk pace, but stagnated in 1992-93; however, nontraditional exports continued to rise (18 percent) in 1993, thanks in part to a further depreciation of the real effective exchange rate. Bilateral aid flows, repatriation of private capital, and large unidentified capital inflows financed an expansion of the current account deficit. The overall balance of payments deficit was more than offset by the accumulation of arrears to commercial bank creditors. Although Panama normalized relations with the Paris Club and the international financial institutions, it is unlikely that a current account balance of payments deficit of the magnitude registered the past two years (about 4 percent of GDP) can be sustained in light of declining aid flows without debt relief.

Solid progress also has been achieved in shoring up public finances. At the height of the economic contraction in 1989, the cash deficit of the nonfinancial public sector reached 9 percent of GDP. By 1992 this deficit had been transformed into a cash surplus of more than 5 percent of GDP. While the government consistently complied with performance criteria under successive IMF-backed programs, it encountered political barriers to key elements of the medium-term adjustment program required to achieve a sustainable fiscal position. Progress in carrying out other structural adjustment measures also was slow. In 1993 the overall cash balance of the nonfinancial public sector deteriorated to about 1.1 percent of GDP and registered a deficit of about 4 percent of GDP on an accrual basis. Substantial progress was achieved in adopting additional measures to stem the deterioration in public finances. These yielded some important results; in particular, the state wage bill fell during 1994.

External Environment

The transfer of the Canal Zone looms large in the future development of the country. Panama must cope with the withdrawal over 1994-99 of some $300 million annually (or about 5 percent of GDP) that U.S. entities and personnel pump into the economy and the attendant loss of 6,000 high-paying jobs. Transferal of the canal itself to Panama would offset only a small fraction (about $50 million annually) of this income loss. Development of the surrounding territory that also will revert to Panama should offset the impact of the U.S. departure but may do so fully only over the longer term. Enhancing investor confidence will be crucial to this process.

Technological change has resulted in the development of competitive alternatives to the Panama Canal. The growth of canal traffic has waned since the early 1980s, owing mainly to competition from bulk carriers too large to transit the canal and the integration of sea and land transport through containerization. Panama has undertaken studies of options to recoup its share of world shipping. By far the most ambitious one is the construction of a new sea-level canal. Another is the enlargement of the existing canal. Construction of high-speed transisthmian transport facilities — a railway and/or a modern Colon-Panama City highway — could enable Panama to capture a larger share of world shipping through "interlining" — interchange of containerized cargo by ships with different destinations whose routes coincide in the Canal and transfer of cargo from larger to smaller vessels for regional distribution. Another means of keeping the canal competitive would be divesting and outsourcing canal-related services.

The international financial services sector has not fully recovered from the 1988-89 shock, and deposits are only about 75 percent of those held in 1987. With the proliferation of offshore banking centers and financial liberalization in the region, this sector appears unlikely to generate significant growth in the future. Scope for further growth of the income Panama obtains from flag registry services also has been constrained by increasingly intense competition from a growing number of nations. Moreover, the transisthmian shipment of petroleum products, which generated 4.5 percent of GDP in 1987, has been hard hit by the opening of two pipelines across the southern United States. Transshipment value added plunged 84 percent during 1988-93. In contrast, despite initial fears that trade liberalization in Latin America could divert a substantial amount of business from the Colon Free Zone, it has taken advantage of new commercial opportunities in the region, experiencing a boom that doubled its value added to 8 percent of GDP over 1988-93.

The North American Free Trade Agreement does not give Mexico significant advantages over Panama in most products. But NAFTA does effectively lower U.S. barriers to Mexican sugar, apparel, and textiles. The potential trade and investment diversion effects of NAFTA on Panama generally will differ from those on

Central America. Panama's economy is unusually capital intensive as a result of domestic market distortions and the canal. In fact, Panama's imports of labor-intensive goods per worker are similar to those of the United States. Because Panama does not export significant quantities of apparel and textiles, the main effect of NAFTA will be on its sugar to the high-price U.S. market. Panama holds 2.9 percent of the U.S. quota for sugar imports. Export volumes below this quota enter the United States duty-free. Beyond this volume, exports are subject to a 16 percent tariff. Panama's 1992 sugar exports amounted to $22 million, 1.5 percent of exports. Under NAFTA, the 16 percent tariff on imports of Mexican sugar will be gradually reduced to zero by 2008. This provision will give Mexico an unlimited quota, displacing exports from Panama. The effect of NAFTA on Panama's net exports, thus, would be relatively small and would be incurred gradually.

Over 1990-93 the United States provided $500 million to Panama, mainly in the form of grants. These large inflows, which played an important part in the rapid recovery of GDP, fell abruptly to about $30 million in new commitments in 1994, although increased lending from the international financial institutions is expected to offset the decline in bilateral aid. Rising international interest rates also imply an increase in debt service of about $40 million (0.5 percent of GDP) per year over 1994-97. The sizable impact of the interest rate shock stems from the public sector's large external debt, which is equivalent to about 82 percent of GDP. The government is pursuing a debt and debt-service reduction agreement with commercial bank creditors to mitigate the impact of higher international interest rates and create an environment more conducive to the large inflows of foreign investment needed to develop the reverted areas.

Medium-Term Prospects

The recovery of the heavily protected domestic manufacturing sector has run its course. The margin for further substitution of food imports likewise is slim. The construction boom is winding down. Market prospects for Panama's traditional exports are not especially favorable. And the erosion of the economy's competitiveness hinders expansion of the traditional leading sectors. Nevertheless, the scope for future growth is considerable. The greatest potential in the near term lies in the internationally oriented services sector. In particular, the Colon Free Zone has demonstrated a remarkable capacity to adjust to the changing international economy despite domestic constraints and is expected to continue to generate substantial growth in the medium term. The free zone operates mainly in merchandise with high unit prices because handling, port and transport costs are high. A reduction of costs should enable it to expand into new products. In 1993 the city of Colon was made a free port to attract tourist-oriented retail business. Tourism, which was a significant source of income before the mid-1980s, recently has experienced an upturn, and the expansion of the free zone is expected to continue to exercise a sizable effect on tourism. Although not expected to generate activity the way it did during its boom years, the International Banking Center should recover from the 1988-89 shock at a moderately rapid pace.

Panama offers an impressive array of untapped sources of growth. In agriculture, both yields and value added (measured at international prices) are very low because price distortions divert resources from crops in which the economy possesses a comparative advantage. For example, land that should produce rice is used for sugar cane; land apt for raising cattle is cultivated in corn, and farms that should specialize in cattle are devoted to dairy production. Panama is well suited for flowers, ornamental plants, and exotic fruits — all of which have been exploited to great advantage by its neighbors — but has made little progress in developing these high-value-added products. Panama also is endowed with unexploited copper and gold resources.

Reversion of the Canal Zone opens up a new source of growth of great potential. The area that will revert to Panama covers 150,000 hectares and is roughly valued at $5 billion. It includes 5,000 buildings, recreational facilities, airfields, military bases, ports, and a wide range of ancillary facilities. The government should reap a sizable stream of capital revenues through the rest of the century and beyond from the lease or sale of assets in the reverted areas. Much of this will be in the form of foreign investment. Investment of these revenues by the government in the rehabilitation of dilapidated infrastructure, and development of the reverted areas by private capital, brings to bear a new factor in its development prospects. A new $100 million state of the art container port and transshipment facility is under construction by private capital and will enable Panama to begin to realize its potential as an international maritime transportation center. The project represents the first significant general cargo port to be developed by the private sector and has the potential to exert a positive demonstration effect for the development of the reverted areas. In addition, the Panama Canal Commission has launched a $360 million ten-year project to widen the 13-kilometer Gaillard Cut to permit simultaneous transit of large vessels.

High and low bounds for growth over the medium term are suggested by the trend growth of GDP before and after the introduction of major policy distortions — over 6 percent a year over 1950-73, and 2.5 percent over 1981-93. Because the medium-term projections for the salient external variables are less favorable than during the former period and more favorable than during the latter, a likely range of growth rates would appear to be on the order of 3 to 5 percent. The depressive short-term effects of the U.S. withdrawal from the Canal Zone and the sharp reduction in bilateral aid pose serious challenges. In this setting, two factors will be critical in shaping the actual evolution of the economy over the next few years. One is the new administration's perseverance in building consensus on the need for change. The second concerns the rate at which the large projects discussed above materialize over the medium term, which in turn will depend largely on the implementation of policy reforms needed to boost investor confidence.

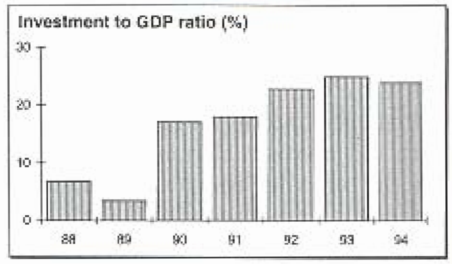
The new government has taken important steps to implement its comprehensive economic reform program. In February 1995, the Legislative Assembly approved a partial privatization and incorporation law for the telecommunications company, and a law opening the generation of electricity to the private sector. The Assembly is considering other key reform bills, including antitrust legislation and elimination of the price control agency, trade reform, and elimination of subsidies for importables and capital-intensive production techniques. Parallel to this, the government is preparing a concession program to expand transport infrastructure, negotiating its adherence to GATT, and negotiating a debt reduction with its commercial bank creditors.

Panama

Population mid-1993 *(millions)*	2.5	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	2,600	Indebtedness level:	**Severely indebted**

KEY RATIOS

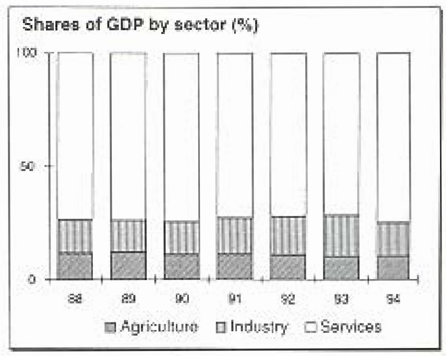
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	15.2	17.1	22.8	25.0	24.0
Exports of goods and nfs/GDP	36.8	38.6	38.9	37.0	37.0
Gross domestic savings/GDP	17.9	21.3	23.3	23.9	21.2
Gross national savings/GDP	16.3	15.8	20.0	22.7	18.4
Current account balance/GDP	-3.4	-5.4	-6.0	-6.6	-5.5
Interest payments/GDP	6.1	1.8	3.8	1.2	1.1
Total debt/GDP	96.2	133.3	107.8	103.6	78.4
Total debt/exports	119.8	258.4	224.4	226.7	171.0



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	10.1	11.0	10.9	10.2	10.3
Industry	17.5	14.4	17.0	18.3	14.8
Manufacturing	8.5	8.1	8.3	8.1	9.3
Services	72.4	74.5	72.0	71.6	74.9

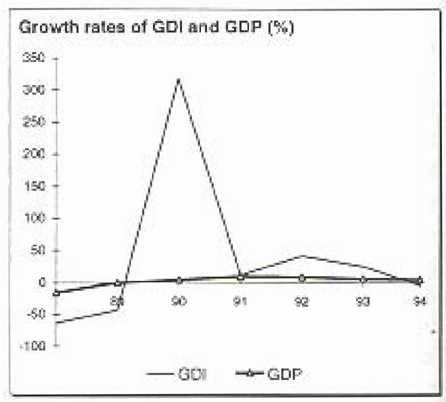
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	1.4	3.4	6.7	0.6	1.1
Industry	-6.0	13.7	16.7	14.2	4.9
Manufacturing	-2.6	7.3	8.1	7.0	5.0
Services	-2.6	5.8	6.9	3.9	4.2
GDP	-2.7	6.9	8.5	5.4	4.0



GDP: EXPENDITURE

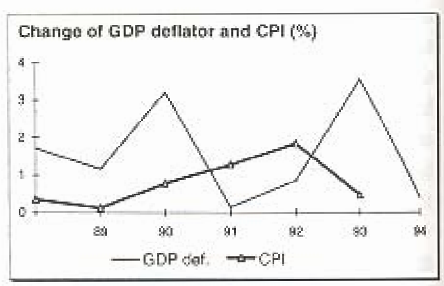
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	61.0	60.0	59.7	59.4	62.9
General government consumption	21.1	18.7	17.0	16.7	15.8
Gross domestic investment	15.2	17.1	22.8	25.0	24.0
Exports of goods and nfs	36.8	38.6	38.9	37.0	37.0
Imports of goods and nfs	34.2	34.5	38.5	38.0	39.8

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	-3.7	*7.1*	4.4	1.9	..
General government consumption	-3.9	*1.9*	2.3	2.0	..
Gross domestic investment	-15.6	19.9	41.4	24.8	-5.3
Exports of goods and nfs	1.6	5.5	6.4	3.4	4.2
Imports of goods and nfs	-4.4	10.1	11.7	7.8	5.6
Gross national product	-3.9	8.2	10.3	7.6	4.0
Gross national income	-5.1	8.1	9.4	7.9	2.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.0	0.8	1.8	0.5	..
Wholesale prices	-0.4	3.9	1.6	-0.2	..
Implicit GDP deflator	2.5	3.2	0.8	3.5	0.4
Government finance					
(% of GDP)					
Current budget balance	2.8	-2.0	8.2	5.4	3.3
Overall surplus/deficit	-1.9	-2.6	5.2	1.0	-1.1

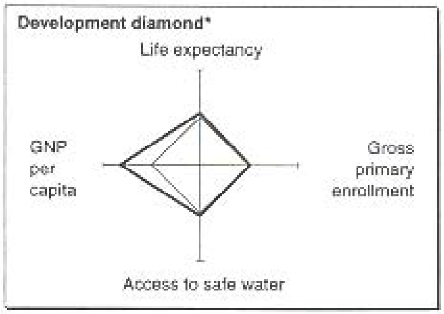


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

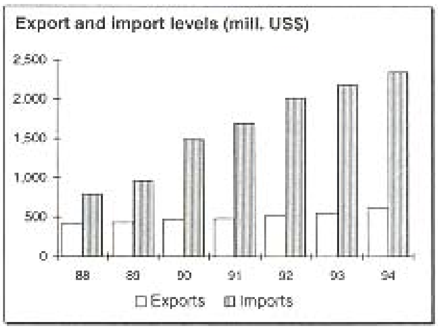
	1985-90	1990-94
(annual growth rates)		
Population	2.0	*1.9*
Labor force	2.8	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	73.1
Infant mortality *(per 1,000 live births)*	24.2
Child malnutrition *(% of children under 5)*	7.0
Access to safe water *(% of population)*	82.6
Energy consumption per capita *(kg oil equivalent)*	598.9
Illiteracy *(% of population age 15+)*	11.9
Gross primary enrollment *(% of school-age population)*	106.0



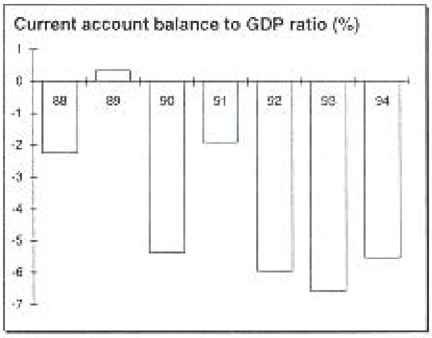
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	420	478	526	552	624
Bananas	165	213	213	200	211
Sugar	60	44	54	57	67
Manufactures	..	..	..	..	..
Total imports (cif)	1,390	1,495	2,018	2,187	2,346
Food	159	156	188	182	272
Fuel and energy	292	185	226	192	182
Capital goods	319	200	414	515	536
Export price index *(1987=100)*	90	104	106	105	111
Import price index *(1987=100)*	102	96	92	97	100
Terms of trade *(1987=100)*	88	109	115	108	111
Openness of economy *(trade/GDP,%)*	71	73	77	75	77



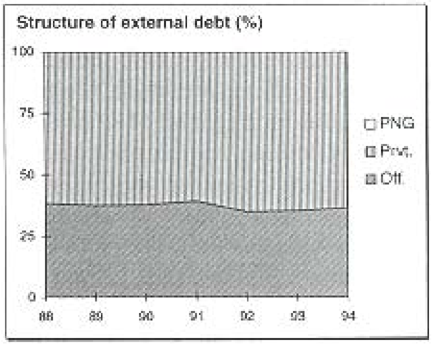
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,963	1,997	2,318	2,399	2,534
Imports of goods and nfs	1,736	1,756	2,327	2,518	2,725
Resource balance	227	240	-9	-119	-191
Net factor income	-367	-488	-323	-287	-164
Net current transfers	-31	-22	-27	-27	-25
Current account balance					
Before official transfers	-170	-269	-359	-433	-380
After official transfers	-31	-55	-29	-226	-305
Long-term capital inflow	120	-418	-225	-253	47
Total other items (net)	-207	734	370	534	263
Changes in net reserves	118	-261	-116	-56	-5
Memo:					
Reserves excluding gold *(mill. US$)*	98	344	504	597	704
Reserves including gold *(mill. US$)*	98	344	504	597	704
Conversion rate *(local/US$)*	1.0	1.0	1.0	1.0	1.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	83.7	154.3	130.5	123.6	119.8
IMF credit/exports	7.8	10.5	3.8	3.8	5.0
Short-term debt/exports	28.3	93.6	90.1	99.3	46.2
Total debt service/exports	11.8	8.8	31.5	7.8	7.1
GDP ratios					
Long-term debt/GDP	67.2	79.6	62.7	56.5	54.9
IMF credit/GDP	6.3	5.4	1.8	1.7	2.3
Short-term debt/GDP	22.7	48.3	43.3	45.4	21.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	64.2	62.3	65.1	64.8	63.6
Official creditors/long-term	35.8	37.7	34.9	35.2	36.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Papua New Guinea

Papua New Guinea is endowed with a rich natural resource base, including major gold and copper deposits, large oil and natural gas reserves, vast expanses of agricultural land, and extensive forests and maritime fisheries. These resources provide the foundation for a markedly dualistic economy in which a dynamic, capital-intensive enclave minerals sector dominates, but most of the population derives its livelihood from agriculture, mainly low-productivity, labor-intensive farming.

Economic development has been constrained by difficulties in establishing transportation and communication between population centers, which are separated by rugged terrain on the mainland and large distances between the islands. Much of the population of 4 million remains in the nonmonetized subsistence sector. Papua New Guinea's per capita income of about $1,130 in 1993 should classify it as a middle-income country. But because wealth is unevenly distributed, the average per capita income for more than 80 percent of the population is only $350 — for much of the population, the quality of life and social indicators are no better than those in the average low-income country.

Until the latter part of the 19th century Papua New Guinea had very limited commercial or cultural ties internally and virtually none externally, except for some coastal areas. The country was nearly impenetrable, and most of the population lived in isolated tribes speaking more than 700 distinct languages. Tribal warfare was (and to an extent still is) common. When the country became independent in 1975 the tasks of nation building and putting the economy on a viable, self-reliant, and sustainable footing had to begin from a frail base in terms of human resources, administrative capacities, and sociopolitical structures. In addition to the central government, provincial parliamentary governments were established and given responsibility for a number of public services, including education, health, and local infrastructure. These governments are supported by financial and staff resources from the center, but many have not functioned well, and some are currently suspended.

Recent Economic Developments

For a decade after independence Papua New Guinea experienced gradual development. With this slow pace of growth, much of its rich natural wealth was kept intact, but the quality of life of its people improved only slowly. In the mid-1980s the government began to encourage rapid commercial exploitation of natural resources. This shift in strategy led to a sharp rise in exports and growth. Despite the Bougainville crisis of 1989, which involved the closure of a major copper mine and large expenditures on security, macroeconomic indicators at the start of the decade appeared fairly healthy by international standards. GDP growth averaged 12 percent a year over 1991-93, led by explosive growth in mining and in related construction activity, and exports increased from $1.2 billion in 1990 to $2.5 billion in 1993.

Good macroeconomic performance during 1991-92 was due in part to measures introduced earlier under a structural adjustment program launched in 1989, including reducing government employment, resorting to commercial borrowing for equity participation in joint-venture arrangements with private foreign investors in resource-based projects, and restricting duty exemptions and excessive protection to certain industries. The government that took office in 1992 reversed some of these measures. It also introduced tax cuts that raised after-tax incomes to some 4 percent of GDP, but did not generate the projected supply response. The deficit began rising. Recognizing that change was needed, government undertook budget revisions in March 1994. To reduce the fiscal deficit from 8 percent to about 4 percent of GDP, the government reduced expenditures, increased export taxes on forestry products, and revised personal income tax regulations.

These measures proved insufficient. During the first three quarters of 1994 the underlying imbalances grew further. The fiscal deficit remained at 8 percent of GDP (including grants and on commitment basis), foreign exchange reserves fell from 1.8 months of nonmining imports at the end of 1993 to only half a month by end-September 1994, a domestic payment arrears situation began to emerge, and domestic public debt increased further to K1.4 billion (or more than 30 percent of GDP).

Facing virtual financial insolvency, the new administration that took office in August 1994 introduced measures to deal with the crisis, including devaluing the kina by 12 percent. This proved insufficient to stem the run against the kina as a loss of confidence accelerated capital flight and depleted foreign exchange reserves. The government floated the kina in October 1994 and delayed presentation of the 1995 budget to March 1995. In its place, the government introduced in November a "supply bill" setting out expenditure allocations for the first quarter of 1995 and the revenue targets for the entire year within an overall budget deficit target of 1 percent of GDP.

The preliminary out-turn for 1994 was mixed: the overall budget deficit was brought down to 2 percent of GDP, mainly through curtailing development expenditures to 2.1 percent of GDP and sharply cutting public services; the external position deteriorated further to 1.2 months of nonmining imports; GDP increased by 1.2 percent, compared with 16.6 percent in 1993, primarily because of a decline in mining output but also because of the adverse impact of natural disasters on agricultural cash crops and manufacturing output from the East New Britain Province. Private investment is estimated to have declined.

Lack of fiscal discipline and an inappropriate exchange rate policy created serious macroeconomic imbalances in 1993-94. The government has taken initial steps to restore macroeconomic stability. Public expenditure in Papua New Guinea exhibits a high degree of bias against capital spending. Only one of every seven kina goes to capital expenditure, and of the remaining six kina used for current expenditure, four kina go to finance public wages and salaries, leaving very little for operations and maintenance and other development expenditures. Despite large external resource inflows and vast need for physical and social infrastructure, public investment has hovered around 5 to 6 percent of GDP and declined over the past decade by about 4 percent a year on average in real terms.

Private investment — both mining and nonmining — has declined as a share of GDP. Of particular concern is the sharp decline in private nonmining investment, reflecting reduced competitiveness and lack of business confidence in the economy. Papua New Guinea's trade policy, although it involves a relatively simple tariff structure and only modest trade restrictions, nevertheless suffers from key defects. These include high and variable effective rates of protection for manufacturing, construction, and distribution services, and negative effective rates of protection for most agricultural commodities, lack of responsiveness of some trade tax revenues to growth, and increasing recourse to negotiated trade arrangements involving import restrictions and domestic market guarantees for large new projects.

Among the most significant deterrents to investment are Papua New Guinea's very high wages and low productivity. The 1992 decision to cut the urban minimum wage by almost two-thirds has produced some supply response. But public sector wages, which largely determine the equilibrium wages for skilled labor, remain high by any regional standard. Land tenure issues have led to problems in constructing roads and other infrastructure that should be addressed. Existing government land policies remain contradictory and complex, and changes in land compensation many years after settlement have given rise to land disputes and undermined investor confidence in the security of land titles and leaseholds.

Mining sector policy allows state and local landowner equity participation of up to 30 percent in mining development projects. The government has in the past exercised this option and financed its participation through commercial borrowing, but the return to its investment has so far been suboptimal. It is considering divesting part of its interest in mining joint ventures to help finance the fiscal deficits, while continuing to take equity participation in new joint ventures.

Peace and order are basic necessities for sound economic development. Although reliable data on the effect of crime on the economy are lacking, there is little doubt that the fear of crime has become an important barrier to economic growth.

Since independence the government has promoted tree crop production to generate cash incomes in rural areas. When world market prices for tree crops collapsed in the 1980s the government provided generous subsidies to prop up producer prices. As producer subsidies are reduced, investments will be needed to raise smallholder productivity, improve product quality, and lower estate costs. A combination of improved extension services, wide distribution of improved varieties, and adoption of better farming systems would help raise smallholder productivity and improve product quality.

Intensification programs in horticulture, livestock, fisheries, and even food crop production would help raise smallholder productivity and reduce food imports. There is adequate technology to support a significant increase in labor productivity — and incomes — in these activities. The main challenge is to organize and provide sufficient finance to programs to develop these activities. Papua New Guinea's vast forestry resources provide an opportunity for income generation, but must be managed carefully to avoid unsustainable use and destruction of precious habitat. Spurred by rising world market prices, logging rates have doubled since 1991, and the total cut is now estimated to be very close to the maximum sustainable yield.

Papua New Guinea has experienced a decade or more of eroding and, recently, sharply deteriorating, basic public services. The health advances achieved in the early years after independence do not appear to have been sustained or carried further in the last decade; disease patterns still resembles those of a poor tropical country at an early stage of the epidemiologic transition, its fertility rate is among the highest in the world, and its population growth is outpacing growth in the non-mineral sector, leading to a general deterioration in welfare.

Papua New Guinea has some of the lowest levels of enrollment at every level of education in Asia. The rate of attrition and dropouts at primary level is exceptionally high at 40 percent. And the situation does not appear to be improving. Women face particular difficulties in this traditionally male-dominated society: their subsistence labor burdens are greater, access to education and health services are more limited, and opportunities in the modern sector remain narrow.

Medium-Term Prospects

The exceptionally strong growth of the early 1990s has begun to ease. Petroleum production is declining and, depending on the rate of new discoveries, could bottom out by the turn of the century. Production at existing mines is also projected to decline somewhat. The non-mining economy should be buoyed by commencement of the construction phase of two small oil fields and the Lihir gold mine, which seems likely to begin by mid-1995. After a once-off sharp increase, following the floating of the kina, inflation should remain moderate, and there should be some improvement in the balance of payments over the medium term if the fiscal situation can be kept under control.

The medium-term outlook depends mainly upon two factors: the capacity of the government to manage its mineral wealth to provide sustainable employment opportunities and basic public services to the great bulk of the population; and the discovery of new exploitable oil fields. On the explicit assumption that bold policy measures are taken to build a solid foundation for the private nonmining sector to carry the burden of economic growth, employment generation, and poverty alleviation, yearly growth in the private nonmining sector of the economy has the potential to exceed 4 percent around the end of the decade, offsetting sizable declines in output of the mining sector.

External Debt

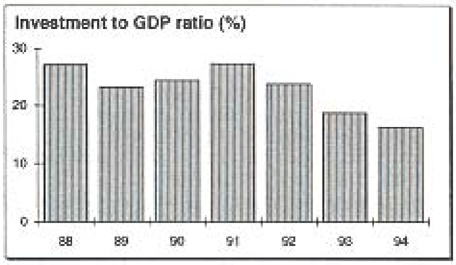
By international standards Papua New Guinea is a moderately indebted country. The private component of the debt (which is mostly related to mining and oil activities) constitutes on average around 40 percent of the total. The annual average of 1991-93 disbursed and outstanding debt stock is around 70 percent of GDP. The external debt service ratio is expected to remain relatively high over the next few years, at some 25 to 35 percent, largely on account of the maturing government commercial debt contracted in the early 1980s and the servicing of the large new private sector borrowing associated with mineral and oil projects. Provided a prudent approach to public external borrowing is maintained, with the government relying on concessional sources to meet most of its external financing requirements, the debt service position should improve rapidly thereafter on account of a sharp drop-off in private borrowing for mineral sector development.

Papua New Guinea

Population mid-1993 *(millions)*	**4.1**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,130**	Indebtedness level:	**Moderately indebted**

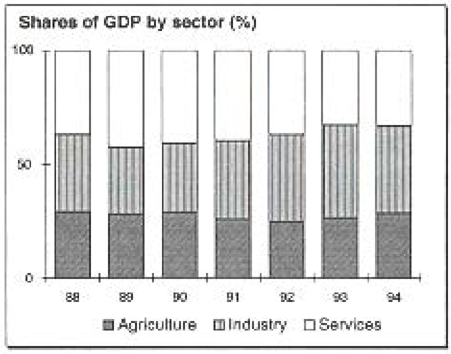
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.8	24.4	23.8	18.8	16.3
Exports of goods and nfs/GDP	42.1	40.6	45.2	50.2	45.2
Gross domestic savings/GDP	9.5	16.1	19.7	29.3	25.0
Gross national savings/GDP	11.2	9.0	9.2	19.3	14.6
Current account balance/GDP	-8.1	-9.8	-6.8	6.3	2.7
Interest payments/GDP	5.4	4.8	3.7	2.7	2.8
Total debt/GDP	87.1	79.9	87.0	61.8	63.9
Total debt/exports	157.4	164.9	165.7	111.0	101.3



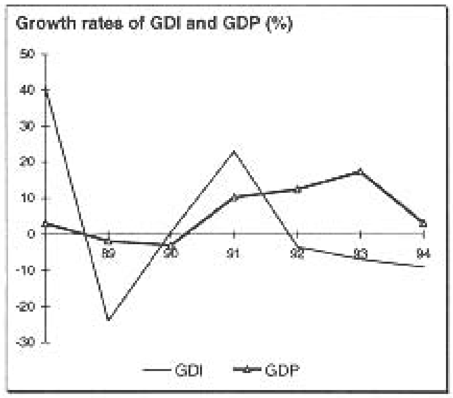
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	33.8	29.0	24.7	26.6	28.5
Industry	26.2	30.4	38.4	40.8	38.3
Manufacturing	10.9	9.0	9.4	8.2	7.8
Services	40.0	40.6	36.9	32.6	33.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.0	5.3	6.1	9.5	6.0
Industry	-1.4	24.3	28.5	35.8	-0.8
Manufacturing	-2.0	5.9	8.0	1.6	-0.1
Services	1.7	4.4	2.9	3.0	6.6
GDP	1.2	11.5	12.4	17.4	3.2



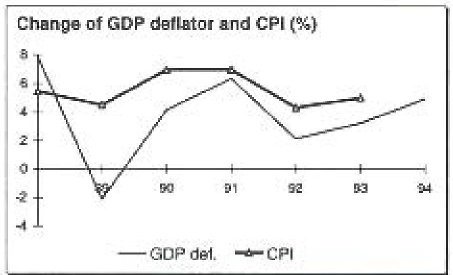
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	67.0	59.0	57.9	50.4	55.0
General government consumption	23.5	24.8	22.5	20.3	19.9
Gross domestic investment	19.8	24.4	23.8	18.8	16.3
Exports of goods and nfs	42.1	40.6	45.2	50.2	45.2
Imports of goods and nfs	52.4	48.9	49.3	39.7	36.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-2.2	8.1	8.6	2.3	11.7
General government consumption	1.0	4.4	10.1	4.3	2.1
Gross domestic investment	5.7	-0.9	-3.5	-6.8	-8.9
Exports of goods and nfs	0.1	17.3	21.5	31.2	-4.6
Imports of goods and nfs	-2.3	3.3	6.4	-5.0	-3.4
Gross national product	1.1	10.4	6.3	19.0	3.8
Gross national income	0.0	9.7	4.8	17.8	4.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	3.7	7.0	4.3	5.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	1.3	4.2	2.1	3.2	4.9
Government finance					
(% of GDP)					
Current budget balance	2.0	1.7	-1.6	-1.2	-0.4
Overall surplus/deficit	..	..	..	..	-3.9



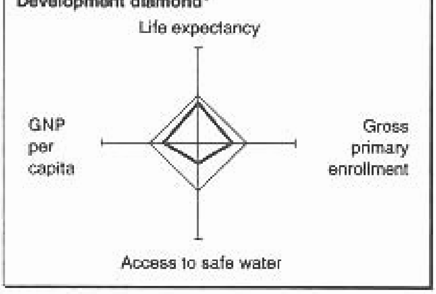
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Papua New Guinea

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.2	2.3
Labor force	1.5	1.1

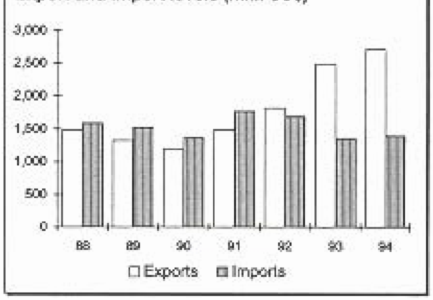
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	56.3
Infant mortality *(per 1,000 live births)*	66.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	32.8
Energy consumption per capita *(kg oil equivalent)*	238.4
Illiteracy *(% of population age 15+)*	48.0
Gross primary enrollment *(% of school-age population)*	73.0



Development diamond*

TRADE

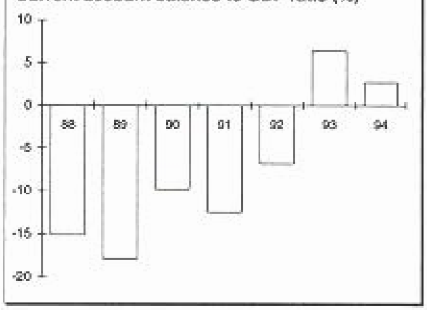
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	972	1,196	1,815	2,484	2,722
Gold	335	412	773	697	688
Copper	209	366	325	262	420
Manufactures	..	..	..	..	..
Total imports (cif)	1,043	1,363	1,686	1,356	1,393
Food	166	222	229	210	208
Fuel and energy	184	147	152	139	155
Capital goods	304	442	734	484	425
Export price index *(1987=100)*	88	97	97	107	120
Import price index *(1987=100)*	..	123	120	116	122
Terms of trade *(1987=100)*	..	79	80	92	99
Openness of economy *(trade/GDP,%)*	95	90	94	90	82



Export and import levels (mill. US$)

BALANCE of PAYMENTS

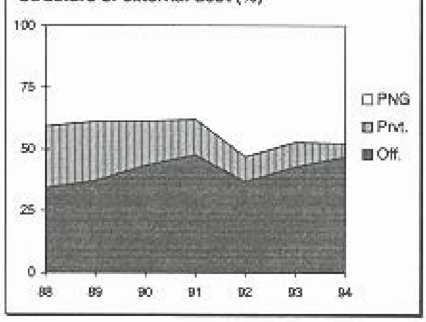
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	980	1,402	2,164	2,753	2,927
Imports of goods and nfs	1,179	1,509	2,008	1,872	2,028
Resource balance	-199	-107	156	881	899
Net factor income	-127	-103	-387	-429	-600
Net current transfers	129	-107	-62	-129	-171
Current account balance					
Before official transfers	-197	-317	-293	323	128
After official transfers	21	-96	-101	495	297
Long-term capital inflow	288	459	911	-388	-339
Total other items (net)	-285	-262	-880	-201	-55
Changes in net reserves	-24	-101	71	94	97
Memo:					
Reserves excluding gold *(mill. US$)*	443	403	239	141	96
Reserves including gold *(mill. US$)*	463	427	260	166	120
Conversion rate *(local/US$)*	1.0	1.0	1.0	1.0	1.1



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	144.4	156.4	144.7	100.2	91.4
IMF credit/exports	2.2	3.9	2.6	1.5	0.5
Short-term debt/exports	10.9	4.6	18.3	9.2	9.4
Total debt service/exports	25.3	35.7	29.3	30.2	27.0
GDP ratios					
Long-term debt/GDP	79.9	75.8	76.0	55.8	57.6
IMF credit/GDP	1.2	1.9	1.4	0.9	0.3
Short-term debt/GDP	6.0	2.2	9.6	5.1	5.9
Long-term debt ratios					
Private nonguaranteed/long-term	44.8	38.4	52.9	47.0	47.5
Public and publicly guaranteed					
Private creditors/long-term	30.5	18.2	10.4	10.2	5.7
Official creditors/long-term	24.7	43.3	36.7	42.8	46.8



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Paraguay

Landlocked between Argentina, Bolivia, and Brazil, Paraguay is a sparsely populated country whose political and economic history has been heavily influenced by its relationship with its neighbors. Paraguay is divided into two distinct areas: the Eastern Region and the Chaco. Agriculture still dominates the economy. Economic activity is concentrated mainly in the Eastern Region, which includes Asunción, the capital, and about 98 percent of the total population of 4.5 million people. The larger Chaco Region to the west has an extremely low population density because of its arid climate. Per capita income was about $1,510 in 1993 and population growth about 2.8 percent a year.

In February 1989 a coup ended a 35-year military dictatorship. The coup leader, also a general, was subsequently elected president for a four-year term on the promise to return the country to full democratic rule in 1993. Macroeconomic management improved substantially following 1989 change of government. The multiple exchange rates were unified and exchange markets liberalized. Financial management of public enterprises was tightened and public investment slowed. Tax collection improved, and revenues from the Itaipú hydroelectric facility increased after Brazil settled its arrears to Paraguay. Financial savings increased as most interest rates were freed, selective credit controls were almost completely abolished, foreign exchange deposits were liberalized, and reserve requirements were reduced and made more uniform. Reform of the central bank also began and a privatization law was passed, although progress on the latter has been slow.

A new constitution was enacted in June 1992, and Paraguay's first truly democratic presidential elections took place in May 1993; the ruling Colorado Party won both the presidency and a plurality in the congress. The new administration took office in August 1993 and inherited a relatively stable and open economy, a small public sector, low external debt, and relatively low poverty levels. The government's main objective is to create an environment for sustained private-sector-led growth to improve the living standards of Paraguay's population.

Paraguay's public sector is small and quite centralized, and policies and decisionmaking have not always been transparent. Modernizing key public institutions and improving their accountability will be a major task cutting across all sectors of the economy. In addition, a weak legal and institutional framework has resulted in nonenforcement of many laws and regulations.

Paraguay is rapidly approaching a critical point in the development of its agricultural sector, which has thus far been based on expanding land use. Abundant land allowed this form of production, but accelerated development over the past 20 years has meant that the end of the agricultural frontier will soon be reached.

Rural areas still account for 48 percent of Paraguay's population; an additional 8 percent of the population live in towns of fewer than 25,000 inhabitants. With high population growth and the effective end of its agricultural frontier, Paraguay is witnessing growing urbanization. The success of this rural-urban transition will depend heavily on the pattern of infrastructure investment and on the delivery of quality social services. The new constitution provides for municipalities to play a greater role in urban services and infrastructure, but local administrations suffer from severe financial and administrative weaknesses.

Poverty and Social Indicators

In comparison with other countries in Latin America of similar per capita income, Paraguay has a relatively even income distribution and a low level of poverty. About 20 percent of the Eastern Region's population lives below the poverty line and only about 3 percent lives in extreme poverty. These comparatively good poverty indicators appear to reflect the previous abundance of land, a high level of primary education coverage, the openness of the economy, low taxation, and strong community involvement in service delivery. Nonetheless, social spending has historically been low, and coverage of secondary education, provision of basic health care, and access to basic water and sanitation could be increased.

In March 1991 Paraguay agreed to join the MERCOSUR regional trade group with Argentina, Brazil, and Uruguay. The bulk of Paraguay's trade is with them: 30 percent of imports and over 70 percent of its exports.

Nearly three-fourths of these exports are unregistered exports of electronic and consumer goods ("tourism" trade), imported by Paraguay for re-export to its less open neighbors. The effect of MERCOSUR on such exports will depend, among other things, on the level of the common external tariff and the capability of Paraguay and its neighbors to curb smuggling. Paraguay's comparative advantage in MERCOSUR stems from low wages, low taxation, its experience with an open economy, and abundant hydroelectric resources.

Paraguay's registered exports consist mostly of agricultural products; cotton and soybeans alone provide over 65 percent of registered exports. Paraguay's dependence on agricultural exports will increase as tourism trade declines, and estimates suggest that Paraguay's main agricultural products can do well in MERCOSUR, particularly if agricultural services are strengthened to explore alternative agricultural opportunities for which Paraguay appears to have comparative advantage, and to assist both small and commercial farmers in making the necessary transformation of their farming systems.

Recent Economic Developments

GDP growth, which had slowed to just 1.8 percent in 1992 as a result of adverse weather conditions and a further deterioration in international prices for Paraguay's export products, recovered to about 4 percent in 1993 and 3.5 percent in 1994. Relaxed fiscal and monetary discipline increased inflation to 18 percent in 1992 and 20 percent in 1993. Inflation control has been difficult as a result of unsterilized monetary expansion because of capital inflows. Still, inflation declined slightly to 18.3 percent in 1994.

The real effective exchange rate depreciated 3 percent in 1994, even though Paraguay had 18 percent inflation and the Guarani was devalued nominally only 5 percent, largely due to the effects of Brazil's Plano Real. Registered exports fell in volume 2 percent but increased 8 percent in value, because of the increase in commodity prices. Registered imports surged at a rate of 25 percent. The current account deficit continued to be large, but if consolidated with errors and omission (that include all unregistered trade) it is in balance. Since the capital account has shown a surplus of 4 percent of GDP owing to capital inflows, international reserves have grown to a comfortable seven months of registered imports.

A December 1991 tax code simplified and modernized the tax system and placed greater reliance on the value-added tax, and a new tariff code approved in July 1992 lowered and simplified the tariff structure to bring it into line with the *de facto* openness of the economy. However, the public sector deficit increased to 2.4 percent of GDP in 1992 because of lower tax collections, mainly because import tax revenues dropped after the tariff reform undertaken in mid-1992 and further increases in the wage bill and pensions. However, public finances improved in 1993 enough to require almost no central bank financing; the previous year's deficit was almost fully erased. This improvement appears to stem mainly from a stronger performance by public enterprises, and lower interest payments, current transfers to the private sector, and public investment. In 1994, public finances continued to improve because of a marked improvement in tax collection, showing a surplus of 1.7 percent of GDP.

External Debt

Long-term external public debt was estimated at $1.3 billion at end 1994, slightly more than 17 percent of GDP and 61 percent of exports, and about $900 million less than in 1987. The reduction reflects mainly the prepayment of $436 million owed to Brazil, the buy-back of commercial debt ($175 million) and the cash payment of most bilateral arrears ($290 million). As a result net disbursements on an accrual basis from foreign creditors are soon expected to be significantly positive again. Paraguay's public-sector long-term debt service was about $210 million in 1993, about 10 percent of export of goods and nonfactor services.

Medium-Term Prospects

Economic growth recovered in 1993 and 1994 and is expected to remain strong. Because of more aggressive sterilization of capital inflows, inflation is expected to decline in 1995. It should continue declining toward single digit levels in the medium term, provided public finances remain under control and monetary growth is restrained. The balance of payments will remain in surplus if the level of short-term capital inflows, which benefit from liberalized interest rates, is maintained.

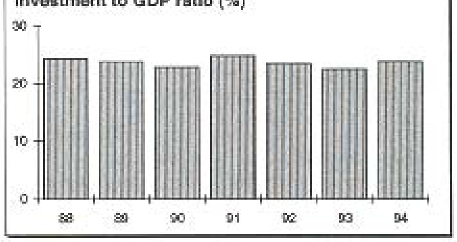
Long-term growth could rise to above 5 percent per year in the medium term, and stability prospects are good if authorities follow prudent macroeconomic policies, terms of trade do not deteriorate further, and regional growth remains strong. Paraguay's situation has always been sensitive to the economic conditions of its neighbors, and its growth prospects would be affected if either Argentina or Brazil runs into severe problems. Paraguay's ability to weather any potential regional shocks will be especially sensitive to public sector financial results. The maintenance of a surplus will give the government a degree of maneuver it would lack if the public sector deficit returned to 1992 levels.

Paraguay

Population mid-1993 *(millions)*	**4.7**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,510**	Indebtedness level:	**Less indebted**

KEY RATIOS

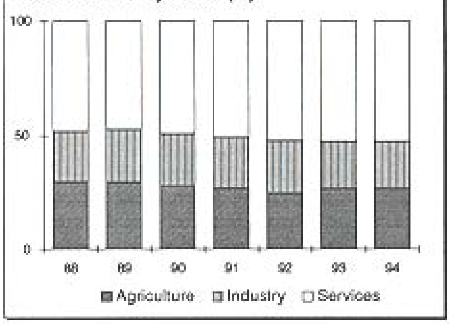
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	22.0	22.9	23.5	22.5	23.8
Exports of goods and nfs/GDP	23.2	36.0	24.4	26.6	26.9
Gross domestic savings/GDP	18.8	19.3	10.5	13.5	16.9
Gross national savings/GDP	18.1	19.6	11.2	15.2	18.4
Current account balance/GDP	-3.8	-3.3	-12.4	-7.2	-12.4
Interest payments/GDP	2.5	1.5	3.6	1.2	0.9
Total debt/GDP	57.4	40.0	25.3	23.4	20.9
Total debt/exports	226.8	106.2	96.3	83.2	80.2



Investment to GDP ratio (%)

GDP: PRODUCTION

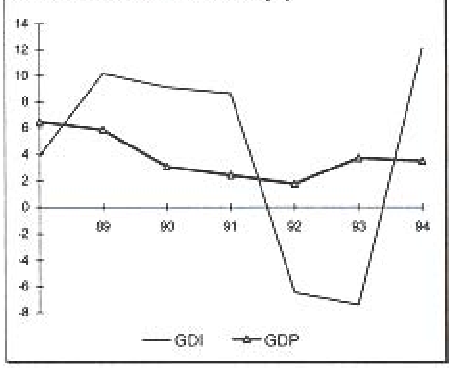
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	28.9	27.8	24.5	26.4	26.4
Industry	22.6	23.1	23.1	20.9	20.9
Manufacturing	16.2	17.3	17.1	15.5	15.5
Services	48.5	49.1	52.4	52.7	52.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.7	1.7	0.1	3.7	3.5
Industry	3.3	2.6	1.7	3.7	3.5
Manufacturing	3.8	2.0	0.4	3.3	3.5
Services	4.1	3.5	2.7	3.7	3.5
GDP	4.4	2.8	1.8	3.7	3.5



Shares of GDP by sector (%)

GDP: EXPENDITURE

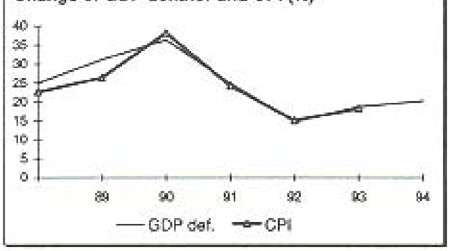
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	75.6	74.5	80.5	77.2	73.8
General government consumption	5.6	6.2	9.0	9.3	9.3
Gross domestic investment	22.0	22.9	23.5	22.5	23.8
Exports of goods and nfs	23.2	36.0	24.4	26.6	26.9
Imports of goods and nfs	26.4	39.5	37.4	35.6	33.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.9	3.6	14.2	3.1	-0.8
General government consumption	6.9	13.8	26.5	8.5	5.1
Gross domestic investment	6.6	-0.4	-6.5	-7.4	12.1
Exports of goods and nfs	15.3	4.9	-2.4	15.5	7.8
Imports of goods and nfs	14.0	5.5	17.9	5.3	3.5
Gross national product	4.3	4.2	1.1	6.8	5.2
Gross national income	5.6	3.2	2.2	8.8	6.2



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	25.2	38.2	15.1	18.3	..
Wholesale prices	23.4	55.1	..	..	..
Implicit GDP deflator	25.2	36.3	14.8	18.7	20.3
Government finance					
(% of GDP)					
Current budget balance	0.0	6.1	3.8	5.2	7.2
Overall surplus/deficit	..	0.4	-2.5	0.0	1.7



Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

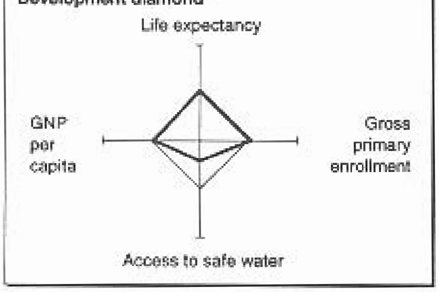
Paraguay

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.1	2.8
Labor force	2.8	2.8

	most recent estimate
Poverty level: headcount index *(% of population)*	21.8
Life expectancy at birth	70.2
Infant mortality *(per 1,000 live births)*	37.4
Child malnutrition *(% of children under 5)*	3.7
Access to safe water *(% of population)*	33.0
Energy consumption per capita *(kg oil equivalent)*	213.6
Illiteracy *(% of population age 15+)*	9.9
Gross primary enrollment *(% of school-age population)*	110.0

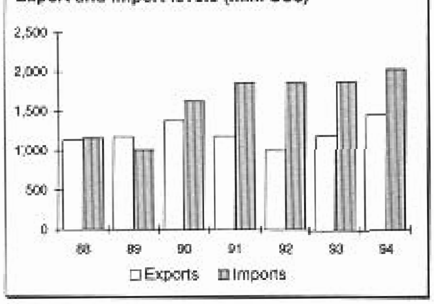
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	552	1,382	1,003	1,186	1,463
Other food	106	273	139	237	261
Cotton	142	333	209	158	222
Manufactures	..	..	..	..	..
Total imports (cif)	660	1,636	1,863	1,876	2,039
Food	41	104	172	160	199
Fuel and energy	118	146	145	148	159
Capital goods	107	612	543	670	759
Export price index *(1987=100)*	99	124	107	101	114
Import price index *(1987=100)*	95	92	99	94	99
Terms of trade *(1987=100)*	104	134	107	107	115
Openness of economy *(trade/GDP,%)*	50	76	62	62	61

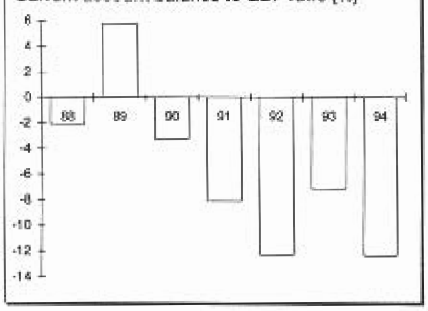
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	734	1,904	1,571	1,807	1,906
Imports of goods and nfs	833	2,090	2,411	2,416	2,985
Resource balance	-99	-186	-840	-609	-1,079
Net factor income	-29	-44	-32	37	34
Net current transfers	8	56	76	80	82
Current account balance					
Before official transfers	-121	-174	-796	-492	-963
After official transfers	-121	-174	-796	-492	-963
Long-term capital inflow	165	-193	-127	136	288
Total other items (net)	-91	587	576	443	975
Changes in net reserves	46	-220	347	-87	-300
Memo:					
Reserves excluding gold *(mill. US$)*	534	661	562	631	..
Reserves including gold *(mill. US$)*	545	675	573	645	..
Conversion rate *(local/US$)*	440.7	1,229.8	1,500.3	1,744.4	1,911.5

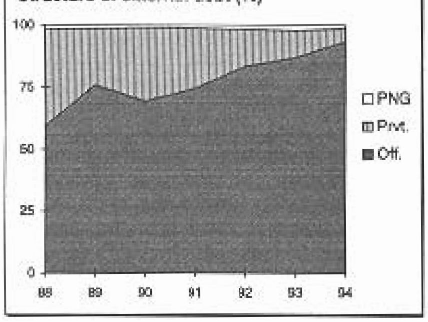
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	204.4	87.4	81.7	68.1	66.5
IMF credit/exports	0.0	0.0	0.0	0.0	0.0
Short-term debt/exports	22.4	18.8	14.6	15.1	13.7
Total debt service/exports	19.7	16.4	36.9	14.9	12.3
GDP ratios					
Long-term debt/GDP	51.8	32.9	21.5	19.2	17.3
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	5.7	7.1	3.8	4.2	3.6
Long-term debt ratios					
Private nonguaranteed/long-term	6.3	1.1	1.5	2.0	1.3
Public and publicly guaranteed					
Private creditors/long-term	30.0	29.5	15.2	11.1	5.4
Official creditors/long-term	63.7	69.4	83.3	86.8	93.3

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Peru

Peru's recent history has been marked by political and economic instability. After a twelve-year period of military rule ended in 1980 the new government engaged in expansionary fiscal and monetary policies, which caused inflation to double to over 100 percent in 1983. During 1984 and early 1985, efforts to stabilize the economy brought about a significant reduction in the fiscal deficit and reversed the deterioration in Peru's competitiveness that had occurred over the preceding five years. However, economic activity remained depressed and inflation accelerated.

In 1985 a new president was elected on a populist economic platform and adopted expansionary fiscal policies, instituted widespread foreign-exchange controls, declared a moratorium on debt-service payments to the international financial institutions and private foreign banks, increased minimum wages, expanded directed credit and subsidies, reduced the rate of the value-added tax, and lowered public sector prices. These policies to expand demand initially appeared to work, and the economy grew rapidly for a couple of years — but at the price of an increased fiscal deficit, inflation, and financial isolation from the rest of the world. Economic mismanagement reached a climax in 1989-90. By late July 1990, inflation had reached an annual rate close to 36,000 percent. Tax revenues dropped to 4 percent of GDP from 14 percent in 1985. Per capita income had declined to the levels of thirty years earlier. Underemployment rose sharply and real wages declined by 60 percent between 1985 and 1990. Between 1985 and 1990 the average household in Lima experienced a decline in per capita consumption of 55 percent.

The administration that took office at the end of July 1990 launched a sweeping program of stabilization and structural reforms as radical as that seen in any other Latin American country. The most immediate task was to cope with hyperinflation and the fiscal crisis that lay at its root, and stabilization measures were announced in August 1990. They included drastic adjustments to public sector prices and tariffs — the price of gasoline was raised thirty-two-fold to $1.50 per gallon — eliminating price controls on food and imposing several emergency tax measures to increase fiscal revenues. Peru's multiple exchange rates were unified. The country adopted a dirty float system, imposed stringent controls on public spending, and eliminated import licenses and streamlined and simplified import tariffs. The program halted hyperinflation, with inflation in November 1990 declining to around 6 percent a month, after reaching 397 percent in August 1990. The foreign exchange market began showing considerable stability and the central bank began accumulating foreign reserves. The program caused an initial drop in economic activity, but the economy recovered to its prestabilization level by the end of December 1990. Stabilization measures have been maintained and strengthened through a series of broad-based structural reforms concentrated in the trade and financial sectors. Since 1991 the government has orchestrated a sweeping privatization program that includes complementary legal and regulatory reforms. These reforms have dramatically changed the orientation of the economy from the state to the private sector.

Recent Economic Developments

The positive effects of the economic program are showing up in several areas. After declining by 2.4 percent in 1992, GDP grew by 6.5 percent in 1993 and 12.5 percent in 1994, driven in part by increased activity in fisheries, mining, agriculture, and construction. Inflation declined steadily to 139 percent in 1991, 63 percent in 1992, 46 percent in 1993, and 15.4 percent at the end of 1994. Nominal interest rates declined during the same period, particularly in domestic currency, but real interest rates remain positive, and gross domestic savings increased from 16 percent of GDP in 1993 to 20 percent in 1994. As a result of the improved economic environment, domestic investment grew from 18.6 percent of GDP in 1993 to 22.6 percent in 1994. Trade policy reform is moving forward toward a unified import tariff rate, and the external current account deficit continues to be financed largely through private capital inflows.

Peru, however, has not escaped investor skittishness in Latin America related to the Mexican economic crisis, but its effects have been minor to date. There has been some negligible capital flight, which, compounded by uncertainty in light of the elections and the border conflict with Ecuador, has been partly responsible for erratic fluctuations and a fall in the Lima Stock Exchange since mid-January.

The government has privatized enterprises in the mining, banking, transportation, energy, telecommunications, and manufacturing sectors. Cash proceeds from privatization have totaled about $2.8 billion to date, $1.4 billion of which was raised in March 1994 in the sale of 35 percent of the Peruvian telephone company to Spain's Telefónica. There have been additional commitments for capital improvements. The bulk of privatization revenues have been used to increase reserves, but the government has used some of the funds to finance part of its social programs.

Although recurrent fiscal revenues, estimated at 12.1 percent of GDP in 1994, have increased substantially, they continue to be low compared with other Latin American economies in large part because of a large informal sector, continued tax evasion, and a small tax base. The government, however, has controlled spending, and the current account surplus increased from 1.1 percent of GDP in 1993 to about 2.6 percent in 1994.

Medium-Term Prospects

Given the favorable policy environment and improved security situation, gross domestic investment is expected to be about 20 percent in 1995. This should make possible sustained GDP growth rates of 5 to 6 percent a year. Exports are expected to grow at an average of 7 percent, with nontraditional exports gaining a higher share of the total. Given rising imports fueled by strong investment and GDP growth, the current account deficit in the next few years is projected to be in the range of 5 percent of GDP.

While Peru's economic program has achieved remarkable results and laid the foundation for growth, low tax collection restricts the government's capacity to provide basic services and reduce poverty. In the short term low tax revenues will continue to be counterbalanced by the proceeds from privatization — a number of major privatizations are pending in the energy sector.

External Debt

Peru's total external debt outstanding was $21.7 billion at the end of 1994, representing 439 percent of exports of goods and services and 44 percent of GDP. Total debt service in 1994 was $1.1 billion, equal to 40 percent of exports. Total debt to commercial banks is estimated to be about $7 billion. During 1994, Peru continued accumulating arrears with commercial banks.

The government is addressing its heavy debt burden in stages and has made significant progress in reintegrating Peru into the international financial community. The overall external debt strategy has involved agreements with international financial institutions and the Paris Club, and first steps to solve the commercial bank debt problem. The government rescheduled its official bilateral debt with Paris Club creditors in September 1991 and May 1993. The current agreement expires in March 1996.

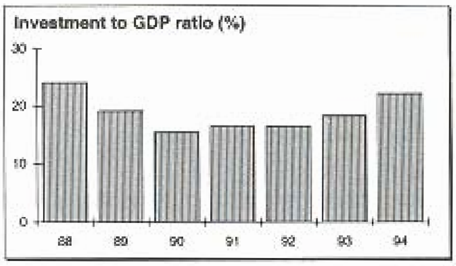
Peru is moving to solve its commercial debt problem. In November 1992, the government issued a tolling declaration to the bank advisory committee representing foreign commercial banks, paving the way for the start of negotiations between Peru and commercial banks. Legal issues that had blocked further negotiations have been resolved, and an agreement may follow in 1995.

Peru

Population mid-1993 *(millions)*	**22.9**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**1,490**	Indebtedness level: **Severely indebted**

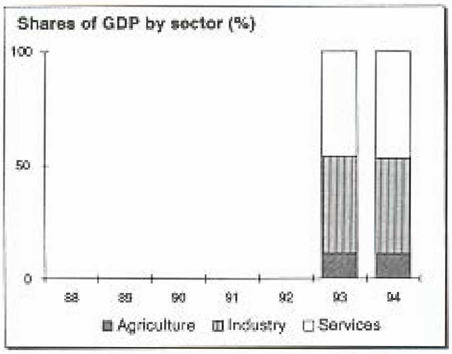
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.4	15.5	16.5	18.4	22.2
Exports of goods and nfs/GDP	23.0	12.6	10.3	10.6	9.4
Gross domestic savings/GDP	24.9	16.2	13.5	15.3	20.0
Gross national savings/GDP	18.7	11.2	9.9	11.7	18.5
Current account balance/GDP	-0.3	-6.0	-10.0	-5.2	-3.5
Interest payments/GDP	2.2	0.3	1.1	1.9	0.7
Total debt/GDP	80.0	64.7	67.2	49.5	41.5
Total debt/exports	328.2	486.6	452.8	452.7	398.9



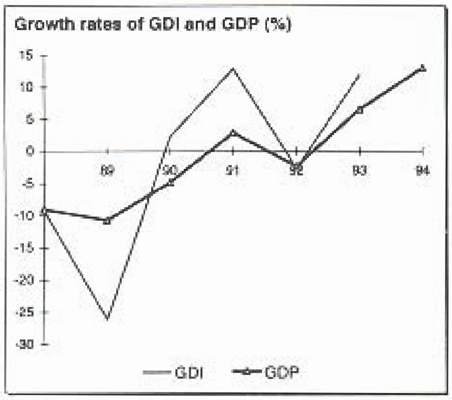
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	..	11.0	10.8
Industry	..	..	..	43.1	42.4
Manufacturing	..	..	..	20.6	20.3
Services	..	..	..	45.9	46.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.5	3.3	-6.7	7.6	14.9
Industry	-3.5	5.4	-2.4	8.2	16.4
Manufacturing	-3.4	5.3	-4.0	6.7	16.9
Services	-2.9	3.5	-1.1	4.8	9.3
GDP	-2.6	4.3	-2.4	6.5	12.9



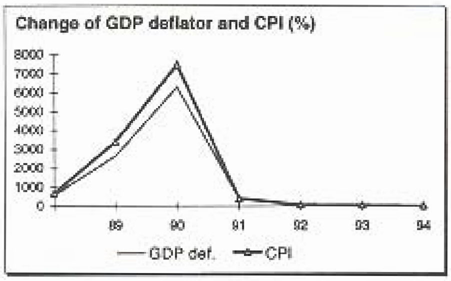
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	65.6	77.5	79.9	78.2	74.1
General government consumption	9.5	6.3	6.6	6.5	5.9
Gross domestic investment	18.4	15.5	16.5	18.4	22.2
Exports of goods and nfs	23.0	12.6	10.3	10.6	9.4
Imports of goods and nfs	16.5	11.9	13.3	13.7	11.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-2.5	*3.3*	-0.6	7.8	..
General government consumption	-4.5	*-2.5*	7.4	-0.7	..
Gross domestic investment	1.1	*6.1*	-2.7	11.9	..
Exports of goods and nfs	-2.4	*3.8*	0.5	6.2	..
Imports of goods and nfs	0.2	*8.2*	10.0	-0.3	..
Gross national product	-2.5	4.8	-2.3	6.0	14.8
Gross national income	-2.3	*0.8*	-2.4	4.7	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	163.4	7,481.7	73.5	48.6	23.7
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	165.2	6,312.8	63.3	46.5	18.9
Government finance					
(% of GDP)					
Current budget balance	..	-2.3	0.5	1.1	2.6
Overall surplus/deficit	..	-3.7	..	-1.9	-3.6



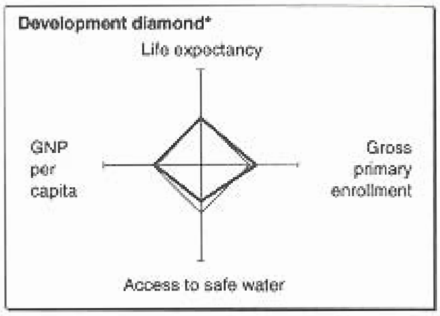
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Peru

POVERTY and SOCIAL

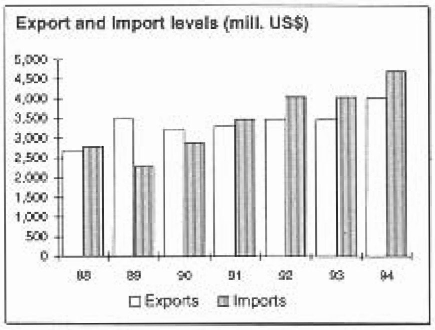
	1985-90	1990-94
(annual growth rates)		
Population	2.0	*1.9*
Labor force	2.8	2.8

	most recent estimate
Poverty level: headcount index *(% of population)*	32.0
Life expectancy at birth	66.2
Infant mortality *(per 1,000 live births)*	63.0
Child malnutrition *(% of children under 5)*	10.8
Access to safe water *(% of population)*	58.4
Energy consumption per capita *(kg oil equivalent)*	332.1
Illiteracy *(% of population age 15+)*	14.9
Gross primary enrollment *(% of school-age population)*	119.0



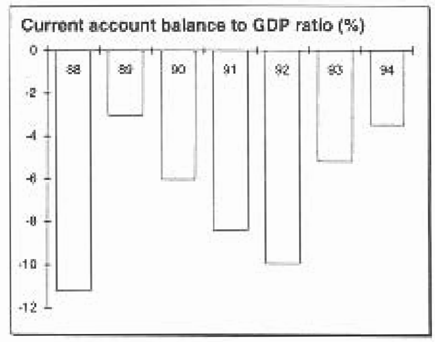
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,978	3,231	3,484	3,464	4,025
Fuel	645	258	806	658	806
Copper	476	700	440	542	697
Manufactures	714	968	1,013	1,130	1,191
Total imports (cif)	1,806	2,891	4,051	4,043	4,707
Food	204	460	452	478	544
Fuel and energy	..	..	..	404	445
Capital goods	558	886	1,120	1,136	1,429
Export price index *(1987=100)*	119	99	115	118	128
Import price index *(1987=100)*	73	80	107	110	116
Terms of trade *(1987=100)*	163	124	107	107	111
Openness of economy *(trade/GDP,%)*	39	25	24	24	21



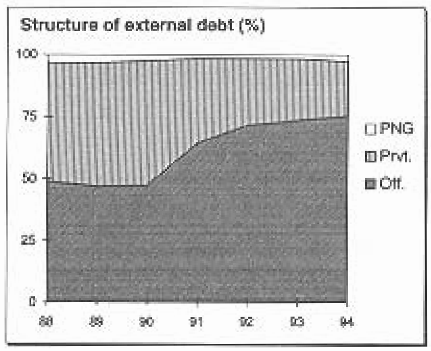
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	3,792	4,062	4,345	4,022	4,713
Imports of goods and nfs	2,790	4,387	5,762	5,023	5,814
Resource balance	1,002	-325	-1,417	-1,001	-1,101
Net factor income	-1,044	-1,547	-1,588	-1,354	-885
Net current transfers	0	0	0	220	229
Current account balance					
Before official transfers	-42	-1,872	-3,005	-2,135	-1,757
After official transfers	-42	-1,625	-2,707	-1,812	-1,526
Long-term capital inflow	259	-1,023	-26	1,280	3,261
Total other items (net)	-31	2,811	3,073	1,032	500
Changes in net reserves	-186	-163	-341	-500	-2,235
Memo:					
Reserves excluding gold *(mill. US$)*	1,842	1,040	2,849	3,408	..
Reserves including gold *(mill. US$)*	2,481	1,891	3,456	3,918	..
Conversion rate *(local/US$)*	1.2E-05	0.2	1.7	2.0	2.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	260.5	338.6	349.1	364.4	345.9
IMF credit/exports	17.9	16.3	14.1	19.7	17.4
Short-term debt/exports	49.9	129.7	89.6	68.6	35.6
Total debt service/exports	28.0	11.5	23.0	61.8	18.0
GDP ratios					
Long-term debt/GDP	63.5	45.1	51.8	39.8	36.0
IMF credit/GDP	4.4	2.4	2.1	2.1	1.8
Short-term debt/GDP	12.2	17.3	13.3	7.5	3.7
Long-term debt ratios					
Private nonguaranteed/long-term	4.0	2.4	1.5	1.5	2.5
Public and publicly guaranteed					
Private creditors/long-term	51.7	50.4	26.9	24.9	22.2
Official creditors/long-term	44.3	47.2	71.6	73.7	75.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Philippines

The government elected in June 1992 in the first peaceful democratic transition of power in more than 20 years has developed a growth-oriented program focusing on improved competitiveness and "people empowerment." In addition to improving the law and order situation, the government has completed a number of steps to address the Philippines' economic problems. It has continued stabilization and structural reform to maintain a reasonably stable macroeconomic framework and further integrate the Philippines into the world economy. Foreign exchange transactions, foreign investment, and trade have been further liberalized. A comprehensive agreement to restructure medium- and long-term external debt held by commercial banks was concluded in December 1992. Actions were taken to deal with the severe energy crisis, and power shortages disappeared in 1994, removing a key obstacle to growth. The result of these reforms has been an acceleration of growth and a dampening of inflation. GNP growth in 1994 increased to 5.1 percent, while inflation was 7 percent.

Although the Philippine economy grew at a strong 6 percent a year in the 1970s, the need for structural adjustment was evident by the end of the decade. External debt had accumulated rapidly, and current account deficits were running at over 5 percent of GDP. Beginning in 1980, and with renewed vigor since the change in government in 1986, the authorities have made concerted efforts to correct a wide array of structural problems. Reforms in agricultural pricing and marketing, the financial sector, investment incentives, and direct and indirect taxes were undertaken, along with some liberalization of the trade regime and privatization. Sugar and coconut monopolies were disbanded, interest rates became determined by market forces, the bias toward capital intensity in investment incentives was effectively removed, and a value-added tax and improved income tax measures reduced tax distortions.

A package of further reforms was carried out in 1991. The Foreign Investment Act of 1991 substantially liberalized the environment for foreign investment, allowing investment into all but a few sectors on a short negative list and 100 percent foreign equity in most sectors. A tariff code introduced in August 1991 reduced tariff dispersion and the number of tariff bands and lowered overall protection in stages; The average import-weighted tariff is to be reduced to 14 percent by July 1995. Removal of quantitative restrictions has also continued. Deregulation of the foreign exchange market was begun in 1991 and completed in 1992, allowing free use of foreign exchange funds for current and capital transactions.

Decentralization of significant fiscal powers and responsibilities from the national to local government units was mandated at the end of 1991, providing an opportunity to increase local autonomy and improve service delivery. The government also substantially improved transport policies by promoting competition on major routes and liberalizing rate setting. In 1992, in response to the continuing power crisis, the government adopted a national action plan for the energy sector, made progress in depoliticizing the setting of energy prices, and was successful in attracting private investment through build-operate-transfer projects to eliminate the power shortages by the end of 1993.

Despite successes in structural reform and an initial recovery of growth over 1986-89 to average 5.2 percent a year, sustainable growth did not materialize in the following three years — GDP growth remained below 1 percent a year on average over 1990-92, and the Philippines continued to lag behind its dynamic neighboring countries in foreign investment inflows, export performance, and overall income growth. The failure of private investment to respond to the improving policy environment can be attributed to a number of factors. An uncertain macroeconomic environment, inadequate infrastructure, barriers to entry, and domestic political turmoil, especially the political crisis of the mid-1980s, depressed private investment. A heavy burden of foreign debt through the 1980s added to public deficits and created worries about future disruption of trade and capital flows. Exogenous shocks also pummeled the Philippines, especially a string of major natural disasters in 1990 and 1991. Last, macroeconomic policy slippages were frequent, with delayed response by the government to shocks such as higher oil prices or revenue shortfalls.

Recent Economic Developments

While the government successfully completed a 1991-93 IMF program, tight fiscal and monetary policies and severe power shortages slowed growth to about 0.5 percent in 1991 and 1992. GDP growth recovered to 2.1 percent in 1993, as the power shortages abated, and then accelerated to 4.3 percent in 1994. The recovery has been driven by higher fixed capital formation — averaging 24.6 percent of GDP — generated by strong expansion of the construction sector, and export growth of 11.5 percent and 18.6 percent in dollar terms in 1993 and 1994. A modest 1.9 percent current account deficit in 1992 widened to 6.1 percent of GDP in 1993, driven by a combination of high capital goods imports associated with the increased investment and slow growth in service receipts. In 1994 the current account deficit narrowed to about 5 percent of GDP, as a result of rapid growth of exports and remittances despite the peso's appreciation through the second half of the year. A particularly encouraging sign in this recovery has been the robust expansion of net foreign direct investment, from a mere $228 million in 1992 and to about $2 billion in 1994.

The government has made considerable progress toward sustained macroeconomic stabilization. The better-than-expected outcome for 1994 reflects a steady reduction in the fiscal deficit from 3.5 percent of GDP in 1990 to 1.4 percent in 1993. It was transformed into a surplus of 0.8 percent of GDP in 1994, the result of tight cash management, lower domestic interest rates, and about $1 billion in revenue from privatizing government corporations. Displaying similar improvement, the consolidated public sector deficit for 1994 fell below 1 percent of GDP.

The government's stabilization policies since 1992 have begun to establish a track record of sound macroeconomic management. Inflation has been reduced, falling from 19 percent in 1991 to 7 percent in 1994. Returning flight capital and other foreign exchange inflows have nurtured reserve levels. Gross reserves rose from $2 billion in 1990 to $5.9 billion in 1993. The continued strength of private capital inflows in 1994 drove gross reserves to over $7 billion, as the central bank bought foreign exchange to stem the appreciation of the peso, which nonetheless appreciated significantly.

Despite these positive developments, some concerns remain about the long-term sustainability of stabilization efforts because of the large current account deficit and tax revenues that have increased less than programmed. To reduce such concerns and to stay the course of sound macroeconomic management, the government has been taking several fiscal revenue measures. However, one such measure, the expansion of the base of the value-added tax, remains blocked by a challenge in the Supreme Court. Another important revenue measure is also delayed: the Department of Justice ruled that the automatic oil price adjustment mechanism cannot be established without new legislation, which will have to be taken up by the new congress after the May 1995 elections.

Progress on structural issues continued through 1993 and 1994. Quantitative restrictions have been removed from all but a few products, and the ratification of the Uruguay Round Final Act commits the Philippines to the orderly liberalization of all agricultural products except rice. Foreign investment was further liberalized with the entry of new foreign banks into the domestic financial sector in 1995. When these things are considered together with the range of actions taken since 1980, it is clear that the economy has been opened to external competition and freed of major policy-induced distortions, leaving the Philippines with a business environment that compares favorably with those of other reforming countries. Structural adjustment has certainly not been achieved smoothly; nevertheless, viewed from the perspective of a decade of effort, the breadth and depth of policy reform has been substantial.

Improved investor sentiment and the liberalization of capital account transactions since 1992 have increased gross foreign investment flows of both direct and portfolio investments. This has had a favorable impact on the economy through increased technology transfer and reduced reliance on debt financing. However, in common with other emerging market economies, these relatively large and potentially volatile flows pose additional concerns for macroeconomic management.

Poverty and Environment

Poverty alleviation continues as a central concern of the Philippine government. The official poverty line used in the past in the Philippines was much higher than that used in other countries. This definition has now been adjusted, and estimates under the new definition show that poverty incidence decreased from 44 percent of families living below the poverty line in 1985 to 39 percent in 1991. Moreover, most of these gains accrued to the poorest of the poor. Given significant demographic changes, with population growth now projected to fall below 2 percent per year over the next decade as compared to 2.5 percent in the 1980s, poverty alleviation should be able to gain momentum.

While the government recognizes that sustained growth remains the best solution to alleviate poverty, it plans to give increased attention to targeted interventions such as women's health and nutrition programs. In education, priority needs are to reduce the dropout rate of poor students and to improve the quality of education in rural areas. For poverty-alleviating rural development, basic infrastructure in rural areas, particularly roads, electricity, and telecommunications, needs to be expanded.

The environmental sustainability of the development agenda hinges on progress in tackling key issues affecting the quality of the environment. The Philippines has a rich but fragile biodiversity, which is at risk from natural disasters, such as the 1991 eruption of Mt. Pinatubo, and from uncontrolled exploitation and pressures from a growing population. Urban pollution, particularly in the Metro Manila region, has also deteriorated. The government has formulated a plan that calls for strengthening preservation of natural resources, especially forests and national parks; controlling industrial air and water pollution; reducing urban degradation through better systems of human and industrial waste management, including the eradication of toxic wastes; and strengthening protection of coastal waters and fisheries.

Medium-Term Prospects

The government's 1993-98 Medium-Term Development Plan describes the challenging tasks ahead in sustaining robust growth while addressing the issue of high poverty. The government recognized that investor confidence needed to be bolstered and that, in addition to macroeconomic stability, this required an improved law and order situation and an expanded infrastructure base. The government also realizes the importance of environmental sustainability and poverty alleviation in underpinning growth over the long term and distributing its benefits more fairly.

After a decade of reform effort, the Philippines is now well placed to resume growth on a sustained path, with performance in 1994 the first step on that path. The debt restructuring operation completed in 1992 reduced the burden of foreign debt service on external payments and fiscal balances. Further, relative economic stability is now complemented by political stability and improved law and order. The political situation today is stronger than at any time in the recent past: the threat of coups and the disruptive capacity of various extreme groups that so weakened the previous administration have become insignificant. Thus, the Philippines can realistically aim over the medium term for a target growth rate of GDP of 5 to 6 percent a year.

Sustained growth of 5 percent a year or higher will require an overall investment rate of 25 percent (or above) of GDP with an emphasis on substantial improvements in infrastructure, especially in power and transport. A large share of this investment will have to come from the private sector, given the government's tight resource constraints. Although improved efficiency of investment and increased domestic savings can be expected to cover some part of the financing needs, the mobilization of foreign resources will be critical for Philippine development over the medium term. The country aims to secure direct foreign investment flows to all sectors in excess of $1 billion annually over the medium term, a target that was hit squarely in 1994.

A substantial portion of these flows over the next few years will likely be linked to the many build-operate-transfer contracts for power generation and other infrastructure projects that the government has negotiated.

The Philippines will continue to push for a strong export drive, as the engine of sustained growth. The Medium-Term Development Plan places international competitiveness at center stage and proposes policies to reach that goal, including wage and antimonopoly policies and greater emphasis on product quality and export promotion. In addition to liberalizing foreign exchange markets and the foreign investment and trade regimes, important institutional changes have cleared the way for export growth. Procedures for customs inspections, for duty drawbacks, and for foreign investors have been streamlined. The government has also amended the build-operate-transfer law to permit an increased number of forms of private investment in infrastructure facilities.

External Debt

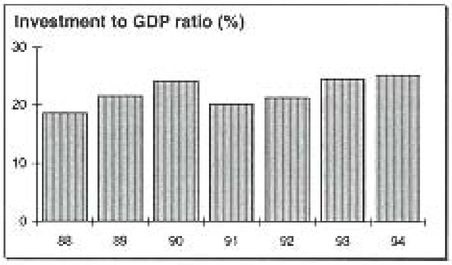
An important further success has been the country's return to international creditworthiness following the completion of a broad debt restructuring agreement with its creditor banks in 1992. The Brady-type agreement restructured $4.5 billion of Philippine medium- and long-term commercial bank debt generating gross interest savings of around $1.5 billion and gross deferred principal savings of around $1.8 billion over 1993-97. As a result, debt service as a share of exports, which peaked at 44 percent in 1982, is estimated at 20 percent in 1994. The Brady agreement, along with macroeconomic stability and rising foreign exchange reserves, improved creditworthiness sufficiently to allow the government and some large Philippine companies to reenter international capital markets. Further, the government, having secured a Paris Club rescheduling in July 1994, has chosen instead to make its bilateral debt payments according to the original schedule; it is the first country to take such action.

Philippines

Population mid-1993 *(millions)*	**64.8**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**850**	Indebtedness level: **Moderately indebted**

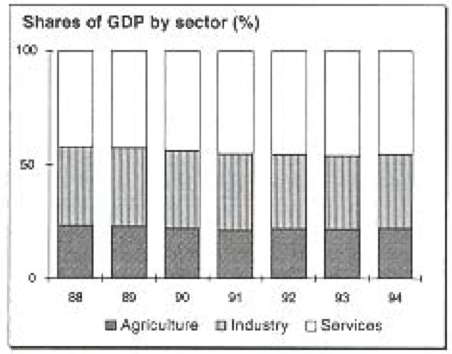
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	15.3	24.2	21.3	24.5	25.3
Exports of goods and nfs/GDP	24.0	27.5	29.1	31.3	34.6
Gross domestic savings/GDP	17.4	18.4	16.4	15.7	17.4
Gross national savings/GDP	15.9	20.7	20.6	20.0	22.7
Current account balance/GDP	-0.1	-6.1	-1.9	-6.0	-5.0
Interest payments/GDP	3.1	3.5	2.5	3.2	2.6
Total debt/GDP	86.7	69.1	60.6	64.8	59.8
Total debt/exports	331.8	231.7	182.8	183.4	168.0


Investment to GDP ratio (%)

GDP: PRODUCTION

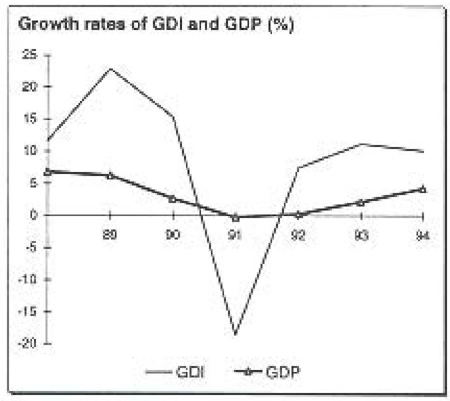
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	24.6	21.9	21.8	21.6	22.0
Industry	35.1	34.5	32.8	32.7	32.7
Manufacturing	25.2	24.8	24.2	23.7	23.3
Services	40.4	43.6	45.3	45.7	45.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.8	1.5	0.4	2.1	2.4
Industry	5.5	1.0	-0.5	1.6	6.1
Manufacturing	5.7	0.6	-1.7	0.7	5.1
Services	5.8	2.0	0.9	2.7	3.8
GDP	5.0	1.5	0.3	2.2	4.3



Shares of GDP by sector (%)

GDP: EXPENDITURE

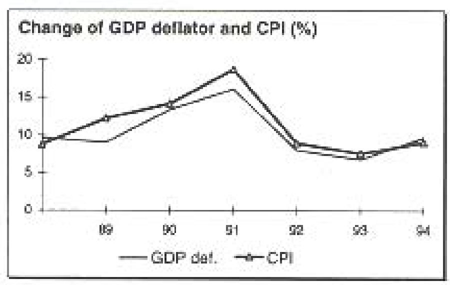
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	75.0	71.5	73.9	74.2	72.6
General government consumption	7.6	10.1	9.7	10.1	10.0
Gross domestic investment	15.3	24.2	21.3	24.5	25.3
Exports of goods and nfs	24.0	27.5	29.1	31.3	34.6
Imports of goods and nfs	21.9	33.3	34.0	40.2	42.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.9	2.5	2.1	2.4	3.6
General government consumption	6.0	1.1	-0.9	6.2	-0.1
Gross domestic investment	15.2	3.2	7.4	11.1	10.1
Exports of goods and nfs	10.2	7.9	3.9	6.2	19.5
Imports of goods and nfs	17.8	9.7	11.6	12.2	17.9
Gross national product	5.6	2.3	1.4	2.6	5.1
Gross national income	5.8	2.2	1.8	1.4	5.9



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	23.1	14.1	8.9	7.6	9.1
Wholesale prices	18.2	10.2	4.5	-1.1	..
Implicit GDP deflator	17.6	13.4	8.0	6.8	9.7
Government finance					
(% of GDP)					
Current budget balance	2.4	0.3	2.1	2.5	4.1
Overall surplus/deficit	-1.9	-3.5	-1.2	-1.4	0.5



Change of GDP deflator and CPI (%)

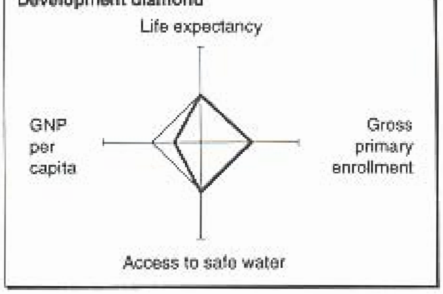
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Philippines

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.1	2.1
Labor force	2.5	2.5

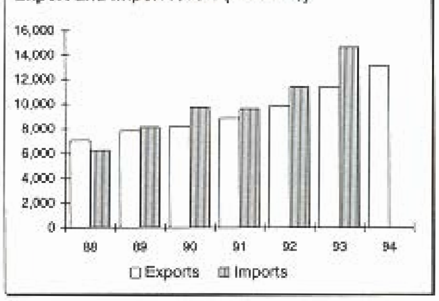
	most recent estimate
Poverty level: headcount index *(% of population)*	61.8
Life expectancy at birth	66.7
Infant mortality *(per 1,000 live births)*	42.2
Child malnutrition *(% of children under 5)*	33.0
Access to safe water *(% of population)*	81.0
Energy consumption per capita *(kg oil equivalent)*	328.3
Illiteracy *(% of population age 15+)*	10.3
Gross primary enrollment *(% of school-age population)*	109.0



Development diamond*

TRADE

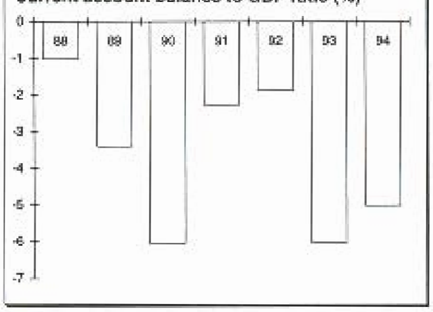
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	4,629	8,186	9,824	11,375	13,060
Timber	347	361	481	358	406
Sugar	185	111	88	102	88
Manufactures	2,539	5,706	7,293	8,488	10,262
Total imports (cif)	4,062	9,724	11,413	14,628	..
Food	256	656	562	607	785
Fuel and energy	1,452	1,842	2,050	2,050	1,855
Capital goods	769	3,122	4,023	5,638	6,477
Export price index *(1987=100)*	81	134	147	173	..
Import price index *(1987=100)*	66	162	193	247	..
Terms of trade *(1987=100)*	123	83	76	70	..
Openness of economy *(trade/GDP,%)*	46	61	63	72	77



Export and import levels (mill. US$)

BALANCE of PAYMENTS

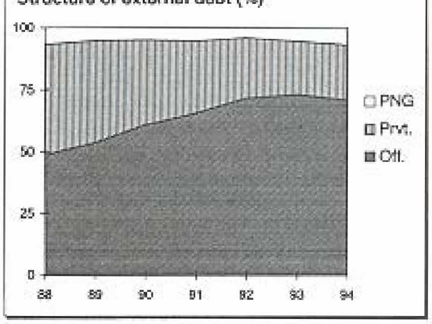
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	6,864	11,106	14,244	15,875	18,821
Imports of goods and nfs	5,961	13,832	16,698	20,537	23,805
Resource balance	903	-2,726	-2,454	-4,662	-4,984
Net factor income	-1,317	-762	573	674	823
Net current transfers	379	793	882	699	948
Current account balance					
Before official transfers	-35	-2,695	-999	-3,289	-3,213
After official transfers	-35	-2,695	-999	-3,289	-3,213
Long-term capital inflow	-380	1,865	1,591	3,248	3,827
Total other items (net)	1,247	785	-239	-460	649
Changes in net reserves	-832	45	-353	501	-1,263
Memo:					
Reserves excluding gold *(mill. US$)*	615	924	4,403	4,676	6,017
Reserves including gold *(mill. US$)*	1,098	2,036	5,336	5,934	7,126
Conversion rate *(local/US$)*	18.6	24.3	25.5	27.1	26.4



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	203.2	191.3	151.6	151.0	140.3
IMF credit/exports	14.6	6.9	6.3	6.3	4.9
Short-term debt/exports	114.1	33.5	24.9	26.2	22.7
Total debt service/exports	31.6	27.2	24.5	24.9	20.1
GDP ratios					
Long-term debt/GDP	53.1	57.0	50.3	53.4	50.0
IMF credit/GDP	3.8	2.1	2.1	2.2	1.8
Short-term debt/GDP	29.8	10.0	8.2	9.3	8.1
Long-term debt ratios					
Private nonguaranteed/long-term	15.9	4.8	3.9	5.4	6.9
Public and publicly guaranteed					
Private creditors/long-term	41.4	34.3	24.5	21.7	22.1
Official creditors/long-term	42.6	60.9	71.6	73.0	71.0



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Poland

Poland has a per capita income of about $2,260 and a population of 38.5 million, which has grown during the last decade at about 0.5 percent a year. In 1994 industry and construction accounted for about 50 percent of GDP and employed 25 percent of the 18 million in the labor force. Agriculture represented less than 7 percent of GDP, with employment exceeding 20 percent of the labor force.

Recent Political Developments

Only six parties gained representation in parliament in the September 1993 elections. The Alliance of the Democratic Left and the Polish Peasants' Alliance together received 36 percent of the vote, which translated into an almost 66 percent majority in parliament. These two parties formed a coalition government under the premiership of the Peasant Alliance's president. In February 1995 the coalition parties agreed to a major reshuffling in the government, including a change of prime ministers. On March 6 a prominent Alliance leader and former speaker of the parliament formed a new government. Given the presidential election scheduled for the fall of this year, the political scene is likely to remain volatile.

Recent Economic Developments

Five years ago Poland was the first Eastern European country to embrace bold policies of economic reform toward a market economy. Now the country is enjoying the third year of economic recovery after the deep recession of 1990-91. Last year witnessed strong economic growth: GDP grew by an estimated 5.5 percent.

The recovery has been broad-based, and important gains in productivity have been registered across sectors, with few (but significant) exceptions. Industrial production, led by strong growth in manufacturing, has been steadily expanding for three years, as have construction and services — particularly in the private sector. Agriculture, however, after one year of recovery, was hit by a serious drought, and output fell in 1994.

The overall pattern of growth changed in 1994. In previous years economic growth was entirely attributable to private-sector expansion, which more than compensated for declines in public-sector activity; but last year also saw output growth in the public sector. This reflects the ability of part of the state-owned enterprise sector to adapt to the changing economic environment, as well as the beneficial impact of the resurgence of growth in Western Europe. Nevertheless, the private sector remains the most dynamic part of the economy, while the public sector continues to be burdened with a number of large loss-making enterprises.

The 1994 increase in output was driven by exports (24 percent increase on a balance of payments basis) thanks to Western Europe's growth performance, which resulted in increased demand for Polish exports and sustained investment growth (6 percent increase in fixed capital formation). This is a welcome change compared to 1992-93, when growth was primarily domestically driven and fueled mostly by strong growth in personal consumption.

Because of the outstanding export performance, the trade deficit is estimated to have shrunk to some $840 million — an improvement of about $1.5 billion from 1993 — resulting in a current account deficit on a recorded balance of payments basis of about 0.8 percent of GDP in 1994, compared to 2.7 percent in 1993. Consequently, net international reserves of the banking system remained at comfortable levels at about seven months of imports, even after the completion of the debt and debt-service reduction operation in late 1994.

Inflation has continued to decline, albeit slowly. The 1994 end-year inflation rate declined to slightly below 30 percent, as compared to 38 percent at end-1993. However, inflation remained well above the government's original target of 24 percent.

Progress on privatization, enterprise, and banking sector reform has continued, although delays have occurred. By September 1994 some 2,300 state enterprises, about 27 percent of the original population, had been privatized or were undergoing liquidation proceedings. Another 650 enterprises have been commercialized, and are waiting to be privatized through capital privatization or under the mass privatization program. After long delays, mass privatization resumed in October 1994 with the approval of the list of the 444 enterprises participating in the program. Since then, the members of the supervisory boards of the 15 National Investment Funds have been appointed, and negotiations begun between the boards and potential fund managers to finalize management contracts. The enterprises are expected to be assigned to the investment funds in the second quarter of 1995, and the distribution of share certificates to the population is planned for the third quarter.

Seven of the original nine treasury-owned commercial banks have been recapitalized, and three have been privatized. The restructuring of specialized banks (particularly in agriculture credit and housing finance), strengthening the cooperative banking system, continued privatization of the treasury-owned commercial banks, and further strengthening of banking supervision constitute the most important tasks ahead.

The government's fiscal policy was well on target in 1994, resulting in an estimated state budget deficit equivalent to 2.8 percent of GDP (the same share as in 1993), which was considerably lower than the 4 percent original target. Expenditures remained below budget targets and decreased as a percentage of GDP, while revenues were higher than expected because of the economy's strong growth. The proposed 1995 state budget includes a deficit target equivalent to 3.3 percent of GDP, which shows the government's continued determination to keep the fiscal situation under control.

Over the next few years, expenditure programs will be under pressure from a variety of fronts. Additional resources will be required to eliminate the quasi-fiscal deficits that continue to linger in the enterprise and financial sectors, and to finance the social costs of restructuring programs. Payments on external and domestic debt will absorb an increased portion of expenditures, and more resources will be required to modernize infrastructure and for investment in human capital. Finally, if left unattended, social security payments will continue to increase as a share of GDP because of adverse demographics and overly generous entitlements. Over the medium term, a clash between demands on public resources and available financing is inevitable unless reform goes more deeply into existing programs, particularly social security, which appear to be the core of Poland's fiscal problem.

Poverty and Social Indicators

Despite Poland's good growth performance, social indicators have lagged. Unemployment, officially nonexistent before 1990, rose rapidly with the recession of 1990-91. It now stands at around 16 percent despite the continuing recovery in output and is far higher in some parts of the country. A recent poverty assessment estimated the number of poor to have increased over the transition, reaching 5.5 million, or 14.4 percent of the population. However, poverty is "shallow" in Poland, meaning that economic growth can rapidly pull many out of poverty. On average, the income of the poor is only 12 to 15 percent less than the minimum pension, used to define the poverty line. While poverty shows strong correlation with unemployment and the number of children in families, elderly people seem to be quite effectively protected by the social safety net, as the poverty rate among elderly people is about half the average.

Medium-Term Prospects

Poland needs to sustain the growth rate of 1994 to narrow the income differential with the European Union that would facilitate Poland's full membership.

If progress continues in privatization, social security reform, with special emphasis on the pension system, and restructuring of specialized banks and large loss-making industrial sectors, annual growth of around 5 percent appears sustainable through the rest of the decade. Direct foreign investment is expected to grow briskly on account of Poland's good economic prospects and climate, from virtually nil in 1990 to perhaps $1 billion by 1996. While private lending is expected to grow continuously through the rest of the decade and become the major source of finance by 2000, a reasonable buildup of new lending from bilateral and other official sources is also assumed.

External Debt

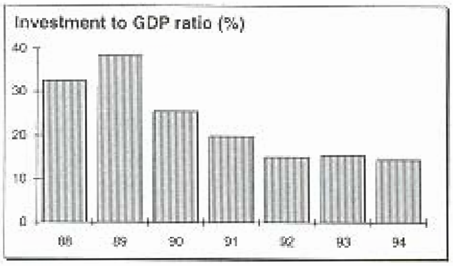
After years of protracted negotiations the government and the London Club creditors reached an agreement in 1994 on a comprehensive debt and debt-service reduction operation for Poland's roughly $14 billion commercial debt. In view of Poland's compliance with the IMF program and the comparable reduction provided for by the agreement with the London Club creditors, the Paris Club also agreed to the execution of the second phase of the official debt reduction. The debt reduction exercise significantly improves Poland's creditworthiness and paves the way for increased direct foreign investment. After a sustained period of economic growth the debt-GDP ratio is expected to decline steadily from 40 percent in 1994 to 29 percent by 2000. The debt-service ratio is expected to remain about 11 percent for the rest of the decade.

Poland

Population mid-1993 *(millions)*	38.3	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	2,260	Indebtedness level:	**Severely indebted**

KEY RATIOS

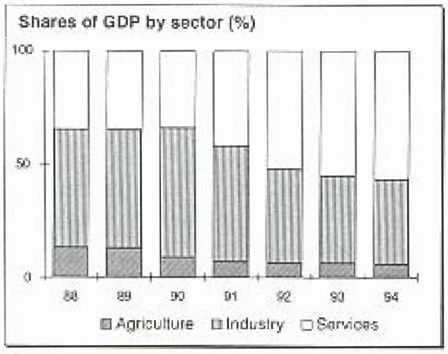
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	27.7	25.6	15.2	15.6	14.6
Exports of goods and nfs/GDP	18.2	28.6	23.7	22.9	24.1
Gross domestic savings/GDP	29.0	32.8	16.7	16.5	17.2
Gross national savings/GDP	26.5	30.4	15.4	16.1	17.3
Current account balance/GDP	-1.7	5.2	-0.3	-2.7	-0.8
Interest payments/GDP	2.1	0.3	0.9	1.0	1.1
Total debt/GDP	46.9	83.7	57.7	52.8	45.8
Total debt/exports	278.7	265.6	300.2	283.0	230.4



Investment to GDP ratio (%)

GDP: PRODUCTION

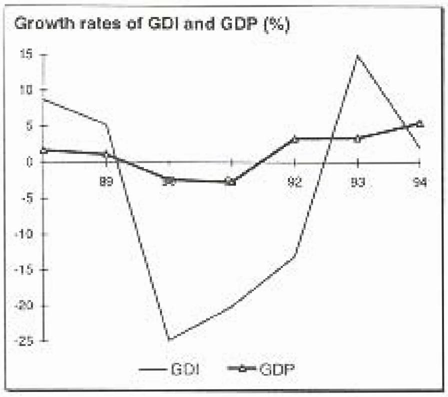
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	14.5	8.9	6.4	6.3	5.8
Industry	51.0	57.2	41.6	38.6	37.8
Manufacturing	..	..	..	..	..
Services	34.4	33.9	52.0	55.1	56.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.6	*-8.3*	-19.0	5.3	..
Industry	-0.9	*-4.2*	1.1	5.1	..
Manufacturing	..	..	..	..	..
Services	2.3	*7.2*	8.6	2.2	..
GDP	0.8	2.5	3.3	3.4	5.5



Shares of GDP by sector (%)

GDP: EXPENDITURE

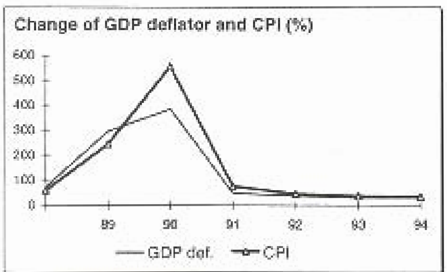
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	61.8	48.0	58.1	58.5	58.2
General government consumption	9.2	19.3	25.2	25.0	24.6
Gross domestic investment	27.7	25.6	15.2	15.6	14.6
Exports of goods and nfs	18.2	28.6	23.7	22.9	24.1
Imports of goods and nfs	16.9	21.5	22.2	22.0	21.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.1	5.7	4.0	4.3	3.2
General government consumption	-0.6	5.6	6.4	4.0	2.1
Gross domestic investment	0.1	-4.0	-13.0	14.9	2.0
Exports of goods and nfs	5.7	7.0	10.8	3.1	17.0
Imports of goods and nfs	2.5	11.7	1.7	13.4	8.5
Gross national product	0.7	3.2	2.6	3.9	5.6
Gross national income	1.0	3.8	4.0	6.2	5.5



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	11.5	555.4	45.3	36.9	33.3
Wholesale prices	16.2	622.4	28.0	32.2	..
Implicit GDP deflator	16.7	385.0	37.6	31.1	31.9
Government finance[a]					
(% of GDP)					
Current budget balance	..	7.3	-3.6	0.7	-0.8
Overall surplus/deficit	..	..	-6.2	-1.9	-2.5



Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

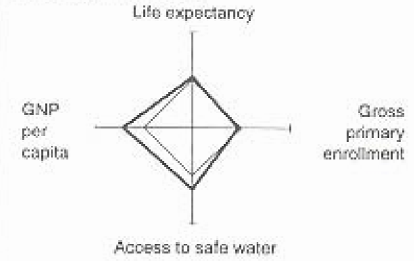
Poland

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	0.5	*0.2*
Labor force	0.5	0.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	71.1
Infant mortality *(per 1,000 live births)*	14.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	2,389.8
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	98.0

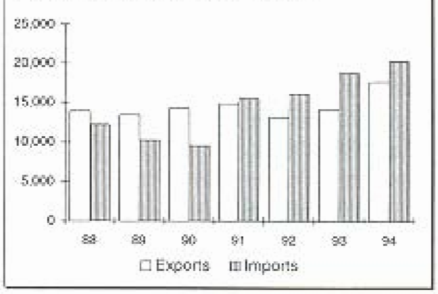
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	14,322	13,182	14,195	17,659
Other metals	..	..	1,758	1,586	..
Other metals	..	..	1,121	786	..
Manufactures	..	..	87,908	10,426	..
Total imports (cif)	..	9,528	16,136	18,748	20,267
Food	..	..	1,551	1,814	..
Fuel and energy	..	..	3,580	3,219	..
Capital goods	..	..	4,818	551	..
Export price index *(1987=100)*	..	124	118	134	138
Import price index *(1987=100)*	..	91	145	168	173
Terms of trade *(1987=100)*	..	136	81	80	80
Openness of economy *(trade/GDP,%)*	35	50	46	45	45

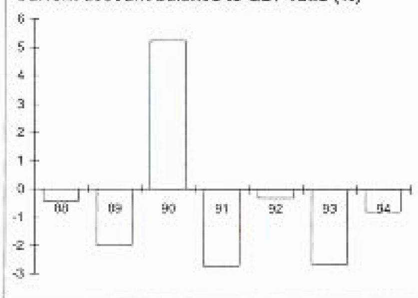
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	11,778	17,972	15,609	15,431	18,975
Imports of goods and nfs	11,209	13,464	14,753	17,355	19,583
Resource balance	569	4,508	856	-1,924	-608
Net factor income	-2,557	-3,356	-1,654	-1,292	-1,509
Net current transfers	778	1,940	528	929	1,350
Current account balance					
Before official transfers	-1,210	3,092	-270	-2,287	-767
After official transfers	-1,210	3,092	-270	-2,287	-767
Long-term capital inflow	-273	-2,679	-1,045	292	1,356
Total other items (net)	1,247	4,029	2,930	2,629	1,811
Changes in net reserves	236	-4,442	-1,615	-634	-2,400
Memo:					
Reserves excluding gold *(mill. US$)*	870	4,492	4,099	4,092	5,842
Reserves including gold *(mill. US$)*	1,025	4,674	4,257	4,277	6,023
Conversion rate *(local/US$)*	147.1	9,500.0	13,631.0	18,145.0	22,727.0

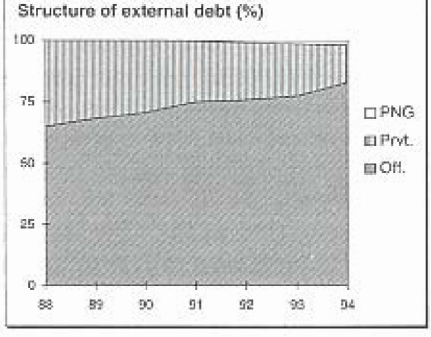
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	248.8	211.2	267.2	262.1	218.6
IMF credit/exports	0.0	2.7	5.1	4.3	4.7
Short-term debt/exports	29.9	51.6	27.9	16.6	7.0
Total debt service/exports	17.1	5.2	9.3	10.6	10.7
GDP ratios					
Long-term debt/GDP	41.9	66.6	51.4	48.9	43.5
IMF credit/GDP	0.0	0.9	1.0	0.8	0.9
Short-term debt/GDP	5.0	16.3	5.4	3.1	1.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.9	1.3	2.0
Public and publicly guaranteed					
Private creditors/long-term	36.2	29.4	23.3	21.3	15.1
Official creditors/long-term	63.8	70.6	75.8	77.4	82.9

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. General government accounts.

Romania

Romania is a lower-middle-income country with a population of about 23 million and a 1993 per capita GDP estimated at $1,140. Romania has had several governments since December 1989. In May 1990 a coalition of reform-minded parties won a majority of the popular vote for both the presidency and parliament. This government developed a comprehensive reform program and established much of the legal framework for the transition to a market economy. The shocks of systemic change led, however, to turbulent social conditions; coal miners twice marched violently on Bucharest and overthrew the government in September 1991. A second government then formed a multiparty coalition and intensified reform efforts. Fresh elections were held a year later in September 1992, and a coalition government headed by a technocratic prime minister was appointed.

Recent Economic Developments

The reform programs of the last three years have been ambitious in combining macroeconomic stabilization with important elements of systemic and structural reforms. Their results have been considerable, and include enacting a new constitution guaranteeing property rights and establishing the legal framework for a market economy. They include several stages of price liberalization, trade reform and subsidy reductions, establishment of a two-tier banking system, and development of indirect instruments of monetary control, reducing government's role and reforming the tax system, including the introduction of a VAT. Romania has also developed a framework for privatizing and corporatizing over 6,000 enterprises, and made some progress in small-scale privatization, and improved targeting of a safety net comprising unemployment compensation, family assistance, and pensions.

Between 1990 and 1992 Romania adopted two IMF-supported programs, neither of which was completed. The programs were launched under highly unfavorable conditions as, after several years of economic decline, the successive collapse of the CMEA, the Persian Gulf crisis, and the turmoil in Yugoslavia severely disrupted external trade. These difficulties were exacerbated by insufficient progress in microeconomic reforms and inconsistency in macroeconomic policies. Between 1989 and 1992 output fell by 32 percent, with industrial output falling by 44 percent. A current account surplus of $2.5 billion in 1989 was transformed into a deficit of $3.3 billion in 1990, and deficits averaged $1.3 billion over 1991-92. Inflation averaged 200 percent over 1991-92.

In 1993 a more mixed picture emerged. Output growth turned positive for the first time since 1988, registering a 1 percent increase. Agriculture, recovering from the severe drought of 1992, was the main contributor to this positive turnaround, showing 14 percent growth. In the latter part of the 1993 the government moved to tighten macroeconomic policies. Through virtual elimination of consumer subsidies and stringent expenditure controls, a balanced budget was achieved — after a fiscal deficit of about 7 percent of GDP in 1992. In addition, the role of the National Bank of Romania in the conduct of monetary policy was strengthened by removing impediments to its refinancing operations. As a result, lending rates increased sharply, and commercial bank lending rates became positive in real terms for the first time since 1990. Nonetheless, with inflationary expectations deeply embedded, and with continuing negative deposit rates (in real terms), the flight from domestic currency continued, and inflation accelerated to 256 percent in 1993. Unemployment rose to 10.2 percent of the labor force.

After fiscal adjustment and monetary tightening in 1993, progress was made in early 1994 in establishing a more liberalized exchange rate regime through substantially widening access to the central bank auction and development of an interbank market. As a result the — sometimes large — differential between the parallel and official rates has narrowed significantly, and the real exchange rate depreciated by 25 percent by the end of the first quarter of 1994. Inflation also subsided, falling from an average monthly rate of 12 percent in 1993 to 5.5 percent in the first semester and 2.7 percent in the second semester of 1994. The program reduced inflation to 62 percent by year-end, while net international reserves tripled and the economy began showing signs of recovery. GDP growth is estimated at over 2 percent in 1994, and exports grew by nearly 15 percent. However, enterprise reform has lagged behind schedule, and there has been some concern over the growth of directed credit to agriculture and the lagged adjustment of some key prices.

A number of other actions have been taken to improve economic performance. In particular, price setting has largely been liberalized with the removal of most consumer subsidies. The government has also given up attempting to control commercial margins, and most producers, wholesalers, and retailers are now, in principle, free to establish prices. Administered prices are limited to utility prices, some agricultural procurement prices, urban rents, and transport. Energy prices have been raised periodically to import parities, although with considerable lags during the winter months. A liberal tariff code has been put into force with an average nominal tariff of about 14 percent. Most export bans and quotas have been removed; the remaining nontariff restrictions cover special items, such as those obtained through commodity assistance or covered by natural conservation laws. The United States has also restored Romania's most favored nation status, reopening a large market for the Romanian economy.

By late 1992 the legislative and administrative framework for privatization was largely in place. Companies were classified as either commercial companies, expected to be privatized, or firms expected to remain in the hands of the state. About 30 percent of the share ownership of the commercial companies was distributed to the Romanian population through certificates of ownership in five private ownership funds; the remaining 70 percent of share capital devolved to a state ownership fund that is legally required to divest its shares in seven years. Nonetheless, the pace of privatization has been disappointing. Despite ambitious targets, and some success in small-scale privatization, overall asset divestiture has been a small fraction of total assets in state ownership. The government has recently adopted accelerated privatization as an overriding priority, and a mass privatization scheme has been submitted to parliament.

Following a land reform that restored land to private owners, agricultural production has been constrained by a rigid marketing and distribution structure. State-owned agro-industries and state farms continue to play an important role in virtually all agricultural input and product markets. The government is considering plans to restructure the main grain procurement agency and the rural credit delivery system.

Social Safety Net

Income in Romania is more evenly distributed than in most middle-income developing countries. There is mounting evidence, however, that poverty has increased because of the fall in output. To finance increased assistance to the poor, nontargeted cash benefits are being reduced. The government is also maintaining expenditures on social services such as health, education, and training despite falling revenues to ensure the needy continue to have the access to services enjoyed in the past.

Medium-Term Prospects

Romania will require considerable external support, both technical and financial, from public and private sources, and continuous efforts in reform implementation to manage its transition to a market economy effectively. Romania has run large current account deficits since 1990, averaging $1.5 billion a year. While the economy has amassed medium- and long-term debt of $4.3 billion and a short-term debt estimated at over $1 billion, this level of external indebtedness is quite low relative to both exports (about 80 percent) and GDP (about 18 percent). Romania is increasingly diversifying sources of finance, obtaining credits from a number of foreign private banks and official export credit agencies.

Romania has a number of advantages that could provide a basis for renewed growth in the medium term. The labor force is literate and skilled, and wages are relatively low by international comparison, allowing for competitive advantage in a number of exports. In the early 1980s Romania was a competitive exporter of textiles, wood products, machinery, and light consumer goods to convertible currency markets, and it could, in time, recapture lost market shares. Agriculture also has good export potential, and the expansion of tourism holds promise.

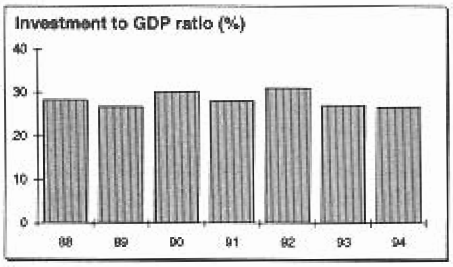
The strength of recovery in the medium term is contingent on continued implementation of stabilization measures and an accelerated pace of systemic reforms, particularly privatization. Assuming steady and effective reform implementation, output growth is expected to increase gradually to the trend growth rate of 4.5 percent. This growth performance would entail current account deficits on the order of $0.5 billion per year or an average of 1.5 percent of GDP, declining steadily thereafter to 0.7 percent of GDP at the end of the decade. This projection is predicated on a tapering off of last year's export growth, which followed exchange rate liberalization and agreements with the European Union. It also depends on modest import growth; the greatest potential for import savings lies in reduced energy use.

Romania

Population mid-1993 *(millions)*	**22.8**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**1,140**	Indebtedness level:	**Less indebted**

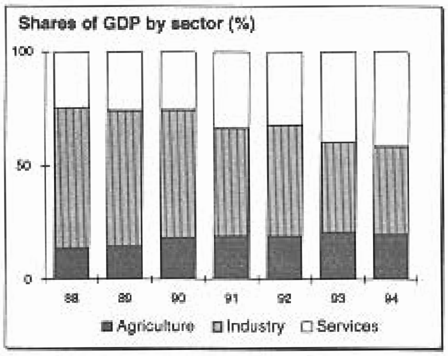
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	33.0	30.2	31.0	27.1	26.6
Exports of goods and nfs/GDP	22.9	16.7	25.2	23.3	26.0
Gross domestic savings/GDP	37.2	20.8	23.4	22.0	24.8
Gross national savings/GDP	35.9	21.5	23.3	22.2	24.8
Current account balance/GDP	..	-8.5	-5.9	-4.8	-0.6
Interest payments/GDP	..	0.0	0.2	0.3	0.6
Total debt/GDP	..	3.1	14.2	17.2	19.3
Total debt/exports	63.5	17.9	71.5	78.4	84.4


Investment to GDP ratio (%)

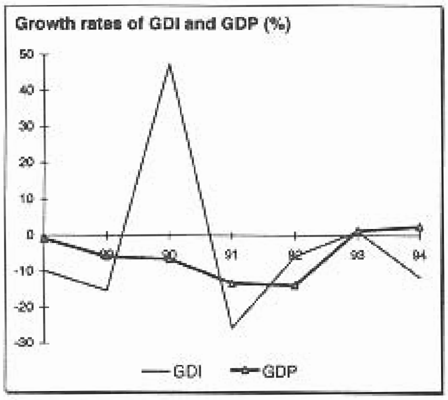
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	14.0	18.3	18.9	20.5	19.6
Industry	60.0	56.3	49.1	39.9	39.0
Manufacturing	..	..	44.7	36.1	36.8
Services	26.0	25.4	32.0	39.6	41.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.2	-2.2	-12.4	12.1	4.7
Industry	-7.5	-7.4	-14.7	0.0	2.1
Manufacturing	..	..	..	..	..
Services	4.0	-6.7	-13.2	-3.1	1.3
GDP	-3.8	-6.3	-13.9	1.2	2.4


Shares of GDP by sector (%)

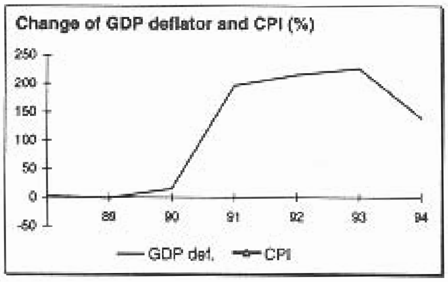
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	58.9	65.9	61.7	65.5	61.2
General government consumption	3.9	13.3	15.0	12.5	14.1
Gross domestic investment	33.0	30.2	31.0	27.1	26.6
Exports of goods and nfs	22.9	16.7	25.2	23.3	26.0
Imports of goods and nfs	18.7	26.1	32.8	28.3	27.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	*5.6*	..	..	0.6	-0.7
General government consumption	6.3	6.3	2.3	2.3	14.7
Gross domestic investment	-5.9	-9.4	-5.8	1.1	-11.6
Exports of goods and nfs	*5.3*	..	..	11.1	13.7
Imports of goods and nfs	*24.7*	..	..	3.9	-2.1
Gross national product	-3.5	-6.6	-14.3	1.0	2.2
Gross national income	*1.2*	..	..	3.3	4.0


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	0.6	14.7	215.3	225.9	139.2
Government finance					
(% of GDP)					
Current budget balance	29.7	8.6	-2.2	3.6	1.9
Overall surplus/deficit	12.1	1.1	-5.4	-0.4	-2.6


Change of GDP deflator and CPI (%)

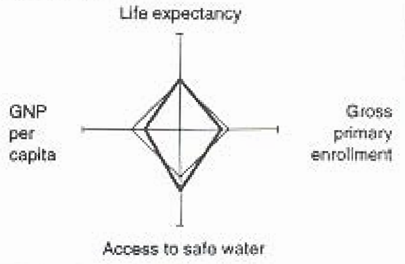
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	0.2	0.2
Labor force	0.7	0.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.9
Infant mortality *(per 1,000 live births)*	23.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	1,784.9
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	88.0

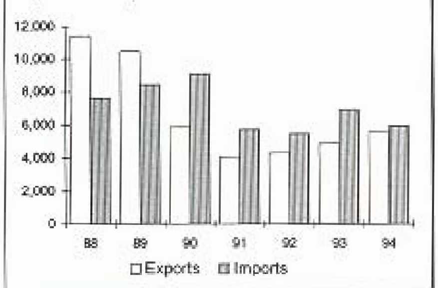
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	10,174	5,870	4,300	4,882	5,592
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	6,949	3,870	1,988	..	..
Total imports (cif)	8,402	9,109	5,457	6,922	5,922
Food	160	470	162	378	383
Fuel and energy	4,753	4,338	1,996	1,053	1,054
Capital goods	1,861	2,164	1,043	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	42	43	58	52	54

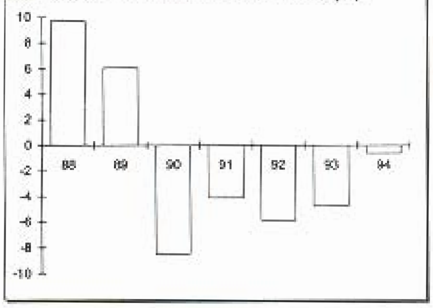
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	10,920	6,380	4,888	5,625	6,601
Imports of goods and nfs	8,926	9,901	6,321	6,922	6,801
Resource balance	1,994	-3,521	-1,433	-1,297	-200
Net factor income	-613	161	-91	-152	-210
Net current transfers	0	106	61	214	224
Current account balance					
Before official transfers	1,381	-3,254	-1,463	-1,235	-187
After official transfers	1,381	-3,254	-1,463	-1,235	-187
Long-term capital inflow	-707	8	1,096	1,148	883
Total other items (net)	-991	1,774	346	203	-108
Changes in net reserves	317	1,472	21	-116	-588
Memo:					
Reserves excluding gold *(mill. US$)*	199	373	826	995	2,086
Reserves including gold *(mill. US$)*	1,447	1,223	1,595	1,921	3,092
Conversion rate *(local/US$)*	..	22.4	240.3	760.1	1,655.1

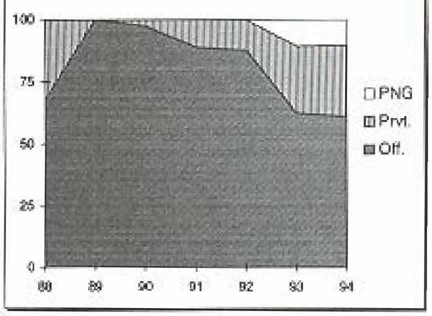
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	52.6	4.0	27.0	40.9	48.1
IMF credit/exports	6.0	0.0	20.9	18.2	19.0
Short-term debt/exports	4.9	13.9	23.6	19.3	17.3
Total debt service/exports	18.7	0.1	9.0	6.3	10.0
GDP ratios					
Long-term debt/GDP	..	0.7	5.4	9.0	11.0
IMF credit/GDP	..	0.0	4.1	4.0	4.3
Short-term debt/GDP	..	2.4	4.7	4.2	4.0
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	10.6	10.1
Public and publicly guaranteed					
Private creditors/long-term	52.9	2.7	12.2	26.9	28.8
Official creditors/long-term	47.1	97.3	87.8	62.5	61.1

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Russian Federation

Economic developments in the Russian Federation during 1994 were dominated by a continuing decline in official GDP and changing inflationary expectations as single digit inflation midyear gave way to a sharp increase in prices by year's end. GDP registered a further 15 percent decline in 1994, bringing the total fall in production to almost 40 percent since 1991. However, other indicators suggest that the fall in output has not been as sharp or made so severe an impact on living standards as the GDP estimates suggest. Unregistered economic activity appears to be expanding at a robust pace, both in services such as retail trade and banking and through informal manufacturing activity. Real industrial output has shown modest gains since mid-1994. Personal incomes and consumption increased during 1994 as relative price changes and restructuring continued the shift in GDP share toward private consumption at the expense of investment.

Monthly inflation averaged just under 10 percent during 1994, well below the 21 percent average monthly rate of 1993 but far above official inflation targets. Early tightening of monetary policy helped reduce monthly inflation to 4.6 percent by August, but political pressure to expand credit led to a resurgence of double-digit monthly inflation during the last quarter. Financing of the fiscal deficit and credit to agriculture and the northern territories were sources of growth in the broad money supply. The consolidated government deficit (including extrabudgetary funds and interest due) for the year was near 12 percent, a dramatic reduction from 30 percent two years earlier. However, with limited recourse to foreign or domestic borrowing, the government resorted to monetizing the deficit, fueling inflationary expectations and reducing willingness to hold ruble-denominated balances. Lack of confidence in government policies also lay behind the October plunge in the ruble exchange rate, necessitating heavy intervention to restore stability in the market.

The drop in trade that accompanied the breakup of the Soviet Union and CMEA trade system has been reversed. Exports to all countries grew by 13 per cent to reach $66 billion in 1994. There was an even healthier growth in total imports, which reached $54 billion. Over three-quarters of total trade in value terms was with countries outside the former Soviet Union. Moreover, growth in trade with these countries continues to expand as Russia's trade is increasingly directed to Western Europe. The shift in trade patterns is particularly noticeable for raw materials such as oil and gas. Exports of crude oil to countries outside the former Soviet Union increased from 47 percent of the total in 1992 to 74 percent in the first half of 1994. Similar shifts occurred in manufactured products such as processed timber and pulp and paper.

Unemployment worsened throughout the year as enterprise restructuring led to labor shedding. Open unemployment rose from about 5 percent at the end of 1993 to 7 percent by the end of 1994, although registered unemployment amounted to only one-third of this. The rise in unemployment is smaller than expected, apparently because of the continued retention of labor — while real wages have been reduced and wage arrears have expanded — and resort to involuntary unpaid leave and part-time employment. Including workers affected by these adjustments raised the unemployment figure to around 13 percent at the end of 1994.

Social Indicators

Social indicators reflect mixed patterns of adjustment during 1993 and 1994. Population data show a sharp increase in morbidity rates in 1993, contributing to a decline in male life expectancy by 4.9 years between 1990 and 1993. Many households have been seriously affected by inflation-induced erosion of real transfers (especially minimum pensions and unemployment benefits), the decline in wage-earning opportunities, and distinct widening of income distribution. The incidence of poverty has increased significantly since the onset of transition. Moreover, regional variation in poverty and unemployment is widening, with the greatest concentration in regions dependent on declining industries. At the same time, some indicators show improvements in average household consumption and average real income levels, consistent with expansion of income from informal economic activity. But indirect evidence suggests opportunities in the informal sector are also skewed and may contribute to the observation of worsened income distribution.

In April 1994 the IMF approved Russia's purchase of the second tranche under the Systemic Transformation Facility, based on the government's economic program for the remainder of 1994. In early April 1995 an IMF standby loan to Russia was approved. This program will help to form the basis for fiscal and monetary policy in support of macroeconomic stabilization.

Following the major structural reforms introduced in 1991-1993, the past year was a period of general consolidation. By mid-1994 private retail trade already accounted for over 60 percent of total turnover, and domestic prices of traded goods — with the notable exception of energy — moved closer to world levels. Greater progress was made in specific areas. The privatization program continued strongly through midyear, moving onto the phase of cash purchases following completion of the mass voucher privatization launched earlier.

Further steps taken to reduce trade barriers included removing export quotas. Few new social protection policies were introduced, but the social programs established after 1991 continued to support large segments of the population. Little progress was made on land reform. The rights of land owners to lease or rent land were restated in late 1993 and the moratorium on land sales was lifted, but only 6 to 7 percent of arable land is thought to be cultivated by individual farmers.

The stabilization program adopted by the government in early 1995 will require significant fiscal tightening and more stringent monetary measures to reel in inflation. With elections scheduled for end-1995 and mid-1996, resisting political pressures to relax credit constraints will pose a challenge to authorities. If these pressures can be resisted, a gradual resumption of positive growth and investment is expected in the second half of 1995, with inflation falling to moderate levels.

Progress in privatization has been the centerpiece of the government's achievements in structural reform. The Russian privatization program has been impressive: by end-1994, 84 percent of the industrial work force was employed in enterprises with majority private ownership. The voucher program for divesting ownership was completed in October, with over two-thirds of large and medium enterprises, and over 80 percent of small enterprises, privatized or a majority interest auctioned for vouchers.

The new phase, based on cash auctions and investment tenders, began in July 1994 under new regulations clarifying land transfer and limiting concessional shares for employees. Other legislation has strengthened the bankruptcy agency's role in handling insolvent enterprises. However, legislation on collateral, property rights, and accounting has not made rapid progress. While many state and collective farms have been technically privatized, often they remain under collective management, and most have not been significantly restructured. Land privatization should accelerate following the prime minister's announced commitment in March 1994 to expand a pilot model of farm privatization carried out in Nizhny Novgorod. By the end of 1993 some 25 percent of eligible housing units had been transferred to occupants under a nationwide framework of housing privatization on a giveaway basis. Housing privatization continued in 1994, but the pace slowed as fewer occupants perceived private ownership as advantageous.

The core of remaining state enterprises has shrunk to extraordinarily large and profitable enterprises, large and particularly poor performers, and public utilities. The first group of enterprises, particularly in the energy sector, raises the issue of how best to divide production into competitive units to avoid the consequences of adverse monopolistic behavior. Loss-making large enterprises require selective government support for restructuring to downsize, shift production, and in some cases liquidate assets. Public utilities, on the other hand, require an appropriate regulatory environment, and policy reform to encourage them to divest competitive businesses. Regional and local authorities will have a major influence on the future pace of privatization and enterprise restructuring.

Following removal of all import subsidies at the end of 1993, major steps were taken to eliminate export quotas in 1994. Export quotas were removed as of July 1, with the important exception of oil, for which quotas were lifted as of end-December. At the same time, the government introduced an export contract registration system for the same "strategic" exports, ostensibly aimed at preventing underinvoicing of export contracts. Simultaneously, export duties were lowered on key exports such as aluminum and oil and eliminated for some commodities. The government has explicitly stated it will not use import tariffs for domestic protection, despite increasing pressures from Russian suppliers. However, revision of the import tariff schedule did involve upward revision of rates, with average import duties raised from 8 to 12.5 percent as of July 1994. By end-1995 all export taxes are to be eliminated. The government has indicated its intent to further rationalize tariffs over the coming year. However, at the local level some oblast governments continue to interfere in price formation, including restricting trade across internal boundaries.

The challenge facing the government in the next few years will be to resist pressures for protectionist measures by export industries. These industries are caught between growing import competition (from exchange rate appreciation) and rising production costs following the removal of export quotas. The government's decision to join the GATT will help in resisting such pressures.

There are some 2,500 independent commercial banks in Russia, almost all created within the last few years. Among the new banks, as many as 100 appear to be evolving into real banking institutions. While the volume of their operations is still small, they are growing at an unprecedented rate and are involved in profitable and genuine banking activities. As the privatization program has removed restrictions on the participation of financial institutions in privatization, the investment activity of banks has grown.

These rapid developments place greater priority on strengthening the capacity of the Russian central bank to monitor commercial banks and ensure prudential regulations are enforced. The government has established a commission on securities and capital markets, although capacity to monitor capital markets remains quite limited. Government support of technical assistance to commercial banks will enhance banking skills and the application of prudential regulations. Supporting linkages between capital market development and enterprise privatization will be another priority policy area for government. Several large commercial banks remain under state ownership, including the formerly specialized Soviet agriculture and industrial banks.

There have been substantial changes in the agricultural sector as a result of price and trade liberalization, reductions in subsidies and directed credits, privatization of agro-industrial enterprises, and partial progress with enhancing private land rights for farmers. The key remaining issues include demonopolization of agricultural distribution and marketing, implementation of land privatization legislation, improvement of agricultural credit markets, and a strengthening of agricultural institutions to serve a market-based agricultural sector.

The benefits financed by social extrabudgetary funds set up in 1991-92, including pensions, unemployment insurance, and cash transfers targeted to mothers and children, continue to be the main social safety nets. Local governments also maintain modest social assistance programs to alleviate poverty. There were no major changes to these programs during 1994, despite growing unemployment and evidence that about one-fifth of the poor received no form of public assistance. Real benefit levels continued to be eroded by inflation due to inadequate indexation. At the end of 1994 the minimum pension (received by roughly one-fourth of all pensioners) was equal to just 60 percent of the minimum subsistence income level for the elderly. Because of rapid inflation, the average unemployment benefit declined to about one-fifth of the minimum adult subsistence income during 1994. As minimum benefit levels are eroded, the need to restructure social protection programs grows.

The institutional structures supporting many of these reforms have required major changes and in some cases were developed from nonexistent bases. This has proven a major bottleneck to implementing economic reforms. The weakness of institutions and lack of transparency in the legal system also impede the inflow of foreign direct investment. Moreover, the political system's institutional weakness has led to a lack of clearly delineated legislative authority. While foreign technical assistance can help address some of these problems, the needs are immense and must be met largely from Russia's own resources.

External Debt

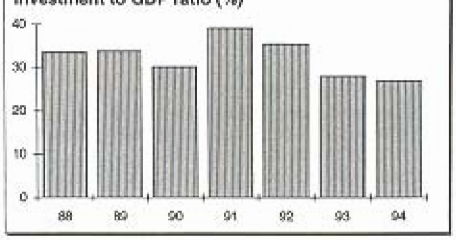
An important government goal is to regain access to international credit markets to facilitate inflows of private foreign investment. Russia is in substantial arrears on debt payments and will face large scale repayment obligations for the next several years. Rescheduling of debt-service payments falling due during 1994 was concluded with a group of official creditors participating in the Paris Club in early June 1994. The terms, which reflect the arrangement with the same creditors in April 1993, provide substantial cash flow relief for Russia during 1994. Thus far, Russia and its commercial bank creditors have been unable to implement a rescheduling agreement reached in principle last year, and arrears continue to accumulate. A new Paris Club debt payment rescheduling may follow adoption of the IMF standby agreement.

Russian Federation

Population mid-1993 *(millions)*	**148.7**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**2,340**	Indebtedness level:	**Moderately indebted**

KEY RATIOS

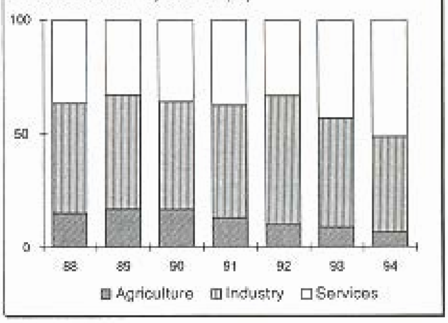
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.8	30.1	35.5	28.0	27.0
Exports of goods and nfs/GDP	..	18.2	57.0	37.5	25.9
Gross domestic savings/GDP	35.2	30.4	35.9	32.1	28.5
Gross national savings/GDP	..	30.2	..	..	..
Current account balance/GDP	..	-0.7	-1.5	-0.2	-0.8
Interest payments/GDP	0.4	0.4	0.1	0.2	0.3
Total debt/GDP	7.7	9.8	20.8	25.2	32.5
Total debt/exports	..	72.4	189.2	162.0	155.7



Investment to GDP ratio (%)

GDP: PRODUCTION

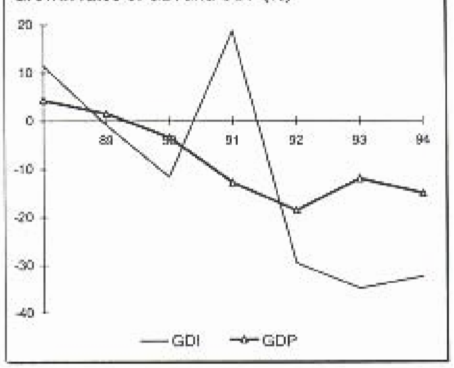
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	11.9	16.6	10.1	8.8	6.4
Industry	50.0	47.6	56.7	48.1	42.5
Manufacturing	41.6	34.9	..	..	..
Services	38.1	35.8	33.3	43.1	51.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.5	..	..	..	..
Industry	2.9	..	..	..	..
Manufacturing	..	..	..	..	..
Services	1.6	..	..	..	..
GDP	2.1	-14.7	-18.5	-12.0	-15.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

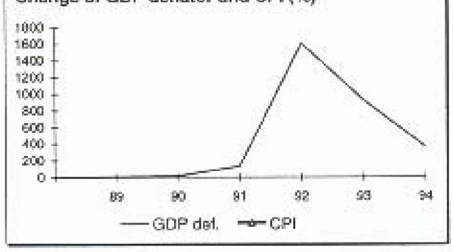
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	44.7	48.9	49.5	46.8	50.4
General government consumption	20.1	20.8	14.6	21.1	21.1
Gross domestic investment	32.8	30.1	35.5	28.0	27.0
Exports of goods and nfs	..	18.2	57.0	37.5	25.9
Imports of goods and nfs	..	18.0	56.6	33.4	24.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.3	-13.1	-6.6	-11.1	-6.7
General government consumption	1.5	-12.2	-26.3	27.1	-15.0
Gross domestic investment	1.5	-24.2	-29.5	-34.9	-32.4
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	2.1	-15.2	-22.3	-9.8	-14.3
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.1	16.4	1,604.7	921.0	356.7
Government finance					
(% of GDP)					
Current budget balance	..	..	-20.7	-5.8	-6.0
Overall surplus/deficit	..	..	-25.9	-13.9	-9.3



Change of GDP deflator and CPI (%)

Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

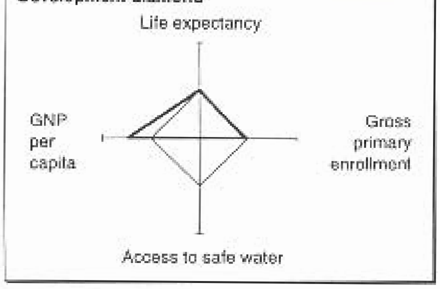
Russian Federation

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	0.5	*0.5*
Labor force	0.1	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	67.5
Infant mortality *(per 1,000 live births)*	20.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	4,410.6
Illiteracy *(% of population age 15+)*	2.0
Gross primary enrollment *(% of school-age population)*	98.0

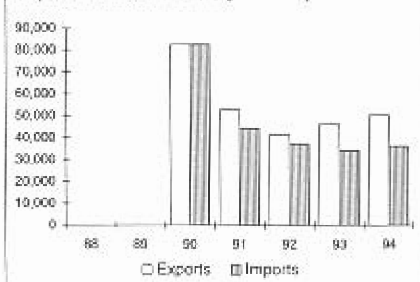
Development diamond*



TRADE[a]

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	82,600	41,577	46,354	50,688
Other fuel	..	27,100	12,677	11,903	11,954
Other fuel	..	9,600	7,500	6,951	7,665
Manufactures	..	..	..	..	..
Total imports (cif)	..	82,870	37,200	34,400	36,253
Food	..	11,470	7,307	5,835	4,092
Fuel and energy	..	..	..	..	..
Capital goods	..	42,300	13,554	9,686	10,338
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	36	114	71	50

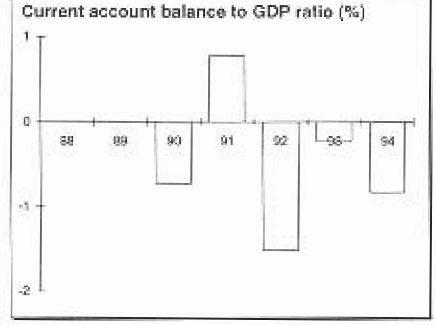
Export and import levels (mill. US$)



BALANCE of PAYMENTS[a]

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	82,600	41,577	51,276	57,478
Imports of goods and nfs	..	84,870	42,700	47,449	54,387
Resource balance	..	-2,270	-1,123	3,827	3,091
Net factor income	..	-2,200	-4,600	-4,600	-5,400
Net current transfers	..	0	0	0	0
Current account balance					
Before official transfers	..	-4,470	-5,723	-773	-2,309
After official transfers	..	-4,470	-2,723	2,033	91
Long-term capital inflow	..	1,300	4,000	-9,714	-11,700
Total other items (net)	..	-6,030	-477	11,081	7,509
Changes in net reserves	..	9,200	-800	-3,400	4,100
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	1.3	1.1	47.9	493.0	2,291.5

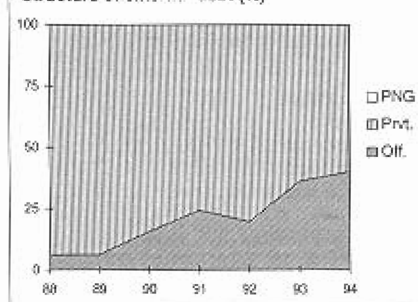
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	56.1	155.6	141.9	138.1
IMF credit/exports	..	0.0	2.4	4.8	7.1
Short-term debt/exports	..	14.3	31.2	15.3	10.5
Total debt service/exports	..	14.3	3.9	4.5	7.3
GDP ratios					
Long-term debt/GDP	5.8	7.9	17.1	22.1	28.9
IMF credit/GDP	0.0	0.0	0.3	0.7	1.5
Short-term debt/GDP	1.9	1.9	3.4	2.4	2.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.1
Public and publicly guaranteed					
Private creditors/long-term	98.3	84.4	80.4	63.9	59.7
Official creditors/long-term	1.7	15.6	19.6	36.1	40.1

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Excludes transactions with the CIS countries.

Rwanda

Rwanda is a small, resource-poor, overpopulated, and landlocked country in Central Africa beset by chronic poverty and ethnic conflict. Its population, which stood at 7.8 million in 1993 (295 inhabitants per square kilometer), declined in 1994 to about 7.0 million as a consequence of the civil war that erupted in April 1994. About 2 million Rwandese live in refugee camps in neighboring Zaire, Burundi, Tanzania, and Uganda, and another million are internally displaced.

Ethnic conflict between Tutsi herders (15 percent of the population) and the majority Hutu farmers led to major exoduses of Tutsis before independence in 1959 and in 1969 and 1972-73. During the late 1980s frequent but minor incidents of ethnic violence culminated with a large-scale invasion of Rwanda in October 1990 by armed rebels of the Rwandese Patriotic Front, composed mainly of exiled Tutsis. A peace agreement was signed in August 1993, and a national coalition government was expected to be formed. However, implementation of the peace accord was delayed. After the death of Rwanda's president in April 1994, intensive fighting resumed throughout the country. The previous government and its army were ousted. Rwanda's new government, sworn in in July 1994, is dominated by the patriotic front, but includes members of both ethnic groups and has gained widespread international recognition.

Recent Economic Developments

Before the recent events, Rwanda was already one of the least developed countries in Africa, with a GNP per capita of $210 in 1993. The economy was essentially rural; nearly 93 percent of the population lived in rural areas and derived its livelihood from subsistence agriculture and the cultivation of coffee and tea, which represented about 80 percent of export earnings.

The economy stagnated over 1990-93, and per capita GDP declined by about 20 per cent. In 1993 the deficit on the current account of the balance of payments exceeded 24 percent of GDP, compared with 16 percent during the previous three years; the ratio of exports to imports declined to 23 percent, from an already low level of 36 per cent over 1988-90, and foreign reserves declined to the equivalent of one month of imports. Fiscal management was the weak link of Rwanda's economic management. The 1993 deficit was 19.2 percent of GDP because of a 1.0 percent decline in tax revenue and continued high levels of military spending. The deficit was financed by recourse to domestic credit, resulting in inflationary pressure. External assistance financed about 60 percent of imports and 90 percent of public investment, and was equivalent to about $30 yearly per capita. Debt outstanding and disbursed was equivalent to 60 percent of GDP in 1993.

The Rwandan civil war dealt a severe blow to the foundations of a narrow and fragile economy. The contraction of the Rwandan economy as a result of the war is difficult to calculate: a reasonable estimate is that real GDP declined by as much as 50 percent in 1994; this came in the wake of an 10 percent contraction in 1993.

Economic Reform Attempts

By the late 1980s Rwanda faced a severe financial crisis brought about by a combination of falling coffee prices and inappropriate macroeconomic policies. It embarked on a reform program in 1990 supported by IDA and an IMF adjustment facility. The key elements of the adjustment program were to stabilize the financial situation, enhance the competitiveness of the economy, improve the allocation and use of resources, lay the foundation for export-led sustainable growth, and provide a framework for poverty alleviation.

In fiscal 1992 the authorities implemented most of the reform measures, with the important exception of coffee sector reforms, including tight fiscal and monetary management (including the devaluation of the Rwandan franc), the introduction of an open general licensing system, elimination of export taxes (with the exception of coffee) and import quotas, and the introduction of a simplified import tariff structure. The adjustment program was derailed by the civil war, which led to an unsustainable buildup of military expenditures and serious disruption of economic activity, especially in the countryside, and by a 30 percent decline in world market prices for coffee. The war in 1994 dismantled the macroeconomic framework and led to the collapse of the reform program. The government that took power in July 1994 was not in a position to resume adjustment, the focus being on reconstruction and rehabilitation of the country's physical and social infrastructure.

Rwanda's post-war economic situation is grim: more than one-third of the population are refugees in neighboring countries or internally displaced; more than half its agricultural and industrial output was lost, and most Rwandan enterprises are not operating. The collapse of the banking system impeded the normalization of economic activities. Although damage to physical infrastructure such as roads and bridges was relatively light, human losses were enormous, and the central administrative capacity was nearly paralyzed. The country's institutional memory and project implementation capacity were severely handicapped by the killings and disappearance of personnel, destruction of files, and theft of computers and equipment. Most, if not all, externally financed development projects came to a halt, or were replaced by emergency humanitarian assistance.

The immediate challenges facing the government are achieving national reconciliation and the return of refugees and displaced persons, rebuilding institutions, and restarting economic growth and development.

Poverty and Social Indicators

Because of deteriorating economic conditions, exacerbated by the armed conflict since 1990, the percentage of Rwanda's population living below the poverty line of $170 at 1985 prices is estimated to have risen sharply from 40 percent in 1985 to over 53 percent in 1992. As a result of the civil war, the incidence and depth of poverty has worsened. Rwanda's social indicators, which used to be above regional averages, deteriorated in the late 1980s and early 1990s; life expectancy was only forty-nine years; 53 percent of the population was illiterate, infant mortality was 119 per 1,000, and the AIDS epidemic was one of the worst in the world — with 20 percent of the population seropositive — and the incidence of malaria was increasing.

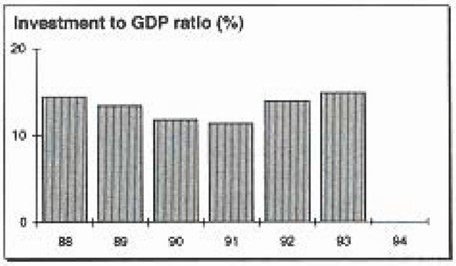
The 1994 crisis also caused a sharp drop in the delivery of social services. A sizable part of the personnel in these sectors was killed or fled. Medical supplies, essential medicines, and vehicles were stolen; medical centers were damaged; and normal distribution channels broke down. Much of current health services are being delivered by international NGOs. Educational infrastructure and equipment were also stolen or vandalized. Nevertheless, a large proportion of primary schools restarted activities in late 1994, albeit with greatly reduced resources: they lacked qualified teachers and basic equipment and essential learning materials such as textbooks, notebooks, and pencils.

Rwanda

Population mid-1993 *(millions)*	**7.6**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**210**	Indebtedness level:	**Severely Indebted**

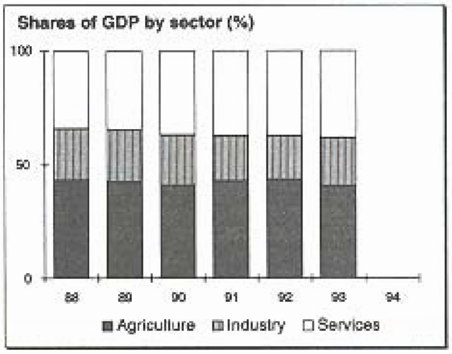
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.3	11.8	13.9	14.9	..
Exports of goods and nfs/GDP	10.8	6.5	6.9	7.4	..
Gross domestic savings/GDP	8.2	-1.1	-6.5	-9.6	..
Gross national savings/GDP	8.5	-0.9	-5.3	-8.3	..
Current account balance/GDP	-10.2	-13.2	-19.9	-24.1	..
Interest payments/GDP	0.2	0.3	0.4	0.2	..
Total debt/GDP	21.4	31.9	53.3	60.9	..
Total debt/exports	222.2	468.6	717.0	765.6	..



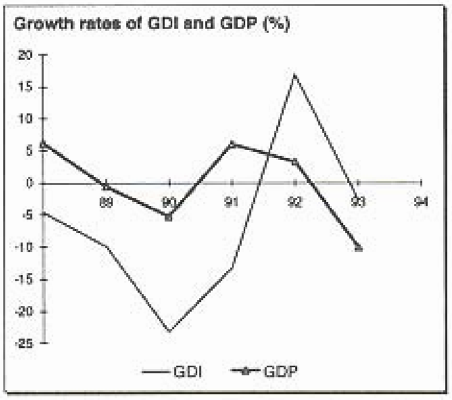
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	45.7	40.8	43.2	40.5	..
Industry	25.4	22.3	19.6	21.5	..
Manufacturing	15.0	14.5	12.2	13.9	..
Services	28.9	36.9	37.2	38.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.0	*-5.4*	-1.7	-15.4	..
Industry	-1.5	*0.5*	4.5	2.1	..
Manufacturing	1.1	*0.7*	2.9	3.8	..
Services	4.8	*-4.2*	-1.7	-10.5	..
GDP	1.0	*-0.2*	3.2	-10.0	..



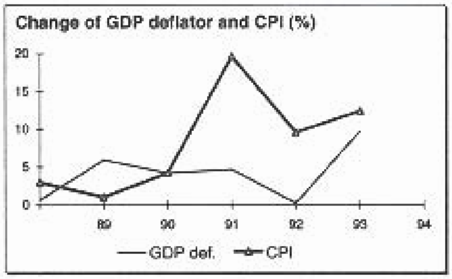
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	80.5	86.5	79.9	87.4	..
General government consumption	11.3	14.7	26.6	22.2	..
Gross domestic investment	17.3	11.8	13.9	14.9	..
Exports of goods and nfs	10.8	6.5	6.9	7.4	..
Imports of goods and nfs	19.9	19.5	27.3	32.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.0	*-1.4*	-5.4	-0.2	..
General government consumption	6.7	*10.4*	34.2	-27.1	..
Gross domestic investment	-8.1	*1.2*	16.8	-2.7	..
Exports of goods and nfs	3.0	*-5.4*	0.2	-12.8	..
Imports of goods and nfs	-1.5	*3.5*	2.9	11.7	..
Gross national product	1.0	*-0.2*	3.2	-10.0	..
Gross national income	-0.3	*-0.3*	2.0	-9.3	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.8	4.2	9.6	12.4	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.7	4.2	0.2	9.7	..
Government finance					
(% of GDP)					
Current budget balance	2.2	-4.6	-8.3	-8.2	..
Overall surplus/deficit	-4.3	-11.2	-17.5	-18.2	..



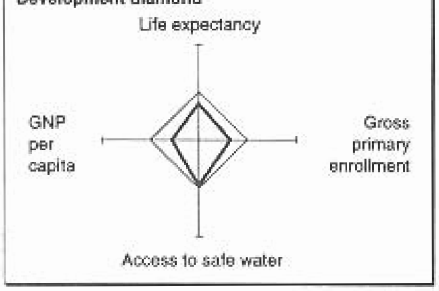
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Rwanda

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.9	2.6
Labor force	2.8	2.9

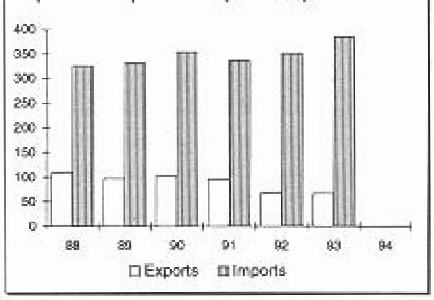
	most recent estimate
Poverty level: headcount index *(% of population)*	53.0
Life expectancy at birth	47.2
Infant mortality *(per 1,000 live births)*	109.0
Child malnutrition *(% of children under 5)*	29.2
Access to safe water *(% of population)*	64.2
Energy consumption per capita *(kg oil equivalent)*	27.4
Illiteracy *(% of population age 15+)*	49.8
Gross primary enrollment *(% of school-age population)*	71.0



Development diamond*

TRADE

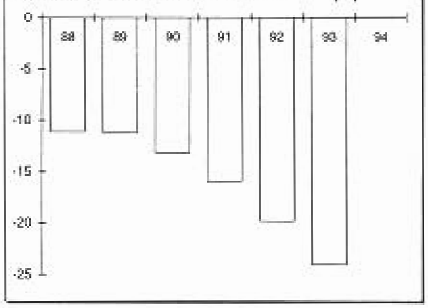
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	119	103	69	68	..
Coffee	86	66	35	42	..
Other agriculture	17	21	21	16	..
Manufactures	5	4	3	4	..
Total imports (cif)	274	354	351	385	..
Food	41	32	29	59	..
Fuel and energy	51	45	37	39	..
Capital goods	56	98	102	104	..
Export price index *(1987=100)*	77	113	120	117	..
Import price index *(1987=100)*	77	113	120	117	..
Terms of trade *(1987=100)*	100	100	100	100	..
Openness of economy *(trade/GDP,%)*	31	26	34	39	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

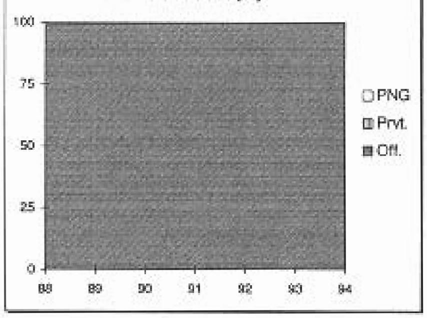
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	154	151	113	111	..
Imports of goods and nfs	328	449	448	478	..
Resource balance	-174	-299	-335	-367	..
Net factor income	-6	-12	-11	-14	..
Net current transfers	4	6	20	21	..
Current account balance					
Before official transfers	-175	-305	-325	-360	..
After official transfers	-63	-167	-107	-111	..
Long-term capital inflow	73	85	86	64	..
Total other items (net)	5	25	-10	16	..
Changes in net reserves	-14	56	31	32	..
Memo:					
Reserves excluding gold *(mill. US$)*	113	44	79	47	..
Reserves including gold *(mill. US$)*	113	44	79	47	..
Conversion rate *(local/US$)*	101.3	82.6	133.4	144.3	..



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	199.8	437.8	660.4	703.1	..
IMF credit/exports	6.1	0.1	9.8	10.1	..
Short-term debt/exports	16.4	30.7	46.8	52.4	..
Total debt service/exports	10.8	13.8	20.2	5.0	..
GDP ratios					
Long-term debt/GDP	19.2	29.8	49.1	55.9	..
IMF credit/GDP	0.6	0.0	0.7	0.8	..
Short-term debt/GDP	1.6	2.1	3.5	4.2	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	3.5	0.5	0.2	0.2	0.1
Official creditors/long-term	96.5	99.5	99.8	99.8	99.9



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

São Tomé and Principe

The Democratic Republic of São Tomé and Principe consists of two islands in the Gulf of Guinea about 200 miles off the coast of Gabon. The islands cover a total area of about 1,092 square kilometers, with most of the country's 125,000 inhabitants living on the island of São Tomé, with an estimated per capita GDP of $350 (1993). The Portuguese settled the islands in the 15th century and developed plantations based on sugar cane and coffee. In more recent times, cocoa has been grown on medium and large estates utilizing labor from other African countries. Consumption needs were met largely by imports. At independence in 1975 São Tomé and Principe adopted a centralized economic planning system. Most agricultural land was nationalized, and market mechanisms were limited.

São Tomé and Principe inherited a well-organized cocoa plantation network and supporting infrastructure from the colonial administration, but maintenance of the plantations had declined precipitously by 1975 as the Portuguese reduced investments in anticipation of independence. From 10,000 tons at independence, cocoa output declined to 3,200 tons by 1994, owing to the inability of the government to replace the departing Portuguese with experienced managers and invest adequately in repair and maintenance. Agriculture production, including cocoa, was further discouraged by inappropriate price and trade policies, including an overvalued exchange rate, and low international cocoa prices in the second half of the 1980s.

A variety of microclimates allows cultivation of a broad range of tropical crops. Although about half of the cultivated land area is used for cocoa production, which accounts for over 70 percent of export earnings, the government is promoting diversification of exports and is seeking to establish trade agreements with neighboring countries. Long-term growth will depend largely on expanding domestic and international markets for Santomean agricultural products, including fisheries. Development of tourism is still in its infancy because of poor physical infrastructure and insufficient links with the rest of the world. However, a new airport was completed, and the upgrading of maritime port facilities is under way.

The country is endowed with abundant energy reserves and great natural beauty. Only 10 percent of its estimated hydroelectric potential has been harnessed. The first multiparty elections took place in 1991. A new government was installed in November 1994 after a second democratic electoral process. Because of the political developments, macroeconomic performance was weak in 1994.

Poverty and Social Indicators

São Tomé and Principe's low income level disguises a relatively good performance with regard to other social indicators. Life expectancy at birth is about 68 years; well above the level in most African countries; infant mortality rate is about 48 per 1,000, and the basic literacy rate, at 75 percent, is above that of many low-income developing countries.

Transition to a Market Economy

The government undertook an ambitious public investment program between 1976 and 1983 involving substantial investments in construction, beverages, poultry, fishing, and transport. These investments did not make a significant contribution to GDP growth and created an unsustainable debt-service burden. In spite of economic measures aimed at reforming the incentive system, GDP per capita declined an estimated 30 percent in real terms between 1984 and 1987. The growing losses of both the cocoa plantations and the majority of nonagricultural public enterprises, combined with increasing debt-service obligations, resulted in large fiscal deficits. Faced with internal and external imbalances, the government decided to break with its postindependence policies and embarked on a comprehensive structural adjustment program in mid-1987. Since the onset of the program, the government has taken firm steps toward decreasing its role in the economy.

The second phase of the structural adjustment program started in 1991, and the government has since focused on stabilization policies aimed at achieving macroeconomic equilibrium. It dismantled a complex system of price and trade controls, and liquidated the state trading company and allowed imports by the private sector. A crawling peg system of exchange rate management was adopted in 1992 to ensure a more timely response to differential inflation trends at home and abroad. Widening fiscal deficits have been contained through tax increases, including a tax increase on petroleum products, and increases in electricity tariffs. Although the primary current balance improved from a deficit of 3.1 percent of GDP in 1990 to a surplus of 1.3 percent in 1993, it deteriorated to a deficit of 9.6 percent of GDP in 1994 because of lax fiscal and monetary policies. In December 1994 the government took drastic measures to reverse this trend and unified the official and free market exchange rates. As a result of the above measures, inflation declined to 20 percent in 1993 from 36 percent in 1991; it rose again to close to 40 percent in 1994 and dropped to nearly zero during the first two months of 1995.

Significant progress has also been made in restructuring the banking system, which was dominated by the National Bank of São Tomé and Principe. The government is committed to reforms in the public investment program to ensure more efficiency. It has also restored the profitability of the major cocoa estates through privatization measures, and encouraged diversification of agricultural production and exports. Finally, major reforms in the public enterprise sector and public administration are under way.

Maintaining fiscal discipline has proved a difficult task. The current fiscal balance (excluding interest on external debt) moved from a deficit of 2.8 percent of GDP in 1990 to a surplus of 3.6 percent of GDP in 1993, but declined to a deficit of 1 percent in 1994. Although the ratio of tax revenues to GDP has risen dramatically from 11 percent in 1991 to 17 percent in 1994 as a result of tax reforms including conversion of all sales taxes from a specific to an ad valorem basis, inclusion of import duties in the tax base for the calculation of the consumption tax, and strengthening of the tax administration, the ratio of expenditure to GDP has risen faster, from 31 percent in 1991 to 51 percent in 1994. The authorities are, however, committed to further strengthening the tax administration and reducing expenditures — mainly transfers to parastatals — and maintaining tight control on the wage bill and parafiscal operations. The government prepared a three-year public investment program for 1993-95, and work has started on a 1995-97 investment program. Total investment for 1994 amounted to $21 million and is programmed at $19 million for 1995.

Lower imports and higher exports of goods and nonfactor services during 1994 allowed the current account deficit (after grants) to drop to $17.6 million from $23.8 million in 1993. Exports of goods averaged $6.5 million in fiscal 1994 compared to $5.7 million in fiscal 1992. Current account deficits of the balance of payments have been financed mainly by loans and grants, and the overall deficit by further accumulation of arrears, debt relief, grants, and some reduction in reserves. The current account deficit (after grants) is expected to drop to $17.2 million (78.6 percent of GDP) in 1995, mainly because of lower imports.

Since the start of the second phase of the structural adjustment program, the government has adjusted the exchange rate at various times, causing a cumulative depreciation of about 328 percent in local currency terms through December 1994, nearly 75 percent in real terms. This devaluation made the more efficient cocoa estates profitable, notwithstanding a fall of about 50 percent in world cocoa prices over the period of adjustment. Pursuit of a more realistic exchange rate policy contributed to reducing the gap between the official and the parallel market exchange rates from 65 percent at end-1987 to 1 percent at end-1992. During fiscal 1994 expansionary monetary policies and delays in donor disbursements have been to a large extent responsible for the wider gap. However, the government stepped in to reverse the trend through tight monetary and fiscal policies and unified the official and free market exchange rates in early December 1994. The authorities have also allowed the operation of exchange houses, which has helped stabilize the exchange rate.

As financing of the fiscal deficit required increased recourse to bank credit, growth in broad money accelerated from an average annual rate of about 7 percent in 1987 to a peak of 31 percent in 1992, reflecting a rapid expansion of credit. In 1993 the authorities reduced the growth of broad money to 18 percent, which contributed to reducing inflation; however, this trend was reversed in 1994. Inflation declined from 36 percent in 1991 to 21 percent in 1993, but rose again to close to 40 percent in 1994. Nominal interest rates have been raised since 1991 to positive levels in real terms, in sharp contrast to the negative real levels of the 1980s. To keep inflation under control, the authorities have also adopted a policy of sterilizing the counterpart funds arising from balance of payments support, with the exception of food aid.

The government has dismantled price controls and eliminated all subsidies on imported foodstuffs and petroleum products. The private sector has taken an increasing role in exporting and importing all but petroleum products since the monopoly of the state trading company was abolished. Export procedures have been greatly simplified, and an automatic import licensing system, currently being implemented, no longer restricts access to foreign exchange. The cocoa export tax has been reduced to 10 percent. Efforts are under way to set up a market-based mechanism to move the distribution of food aid to the private sector.

Government has also undertaken a major land reform and a comprehensive privatization program aimed at reducing budgetary transfers to public enterprises and stimulating private investment. Ten nonagricultural public enterprises have been privatized, liquidated, or brought under foreign management. Eighteen others are expected to be privatized in the next few years. The government is streamlining the civil service and improving the incentive structure by raising salary levels, and has reduced the civil service by 8 percent.

Financial sector reform has been a central feature of the structural adjustment program. The primary objective of the reform was to separate the central banking and commercial banking functions of the National Bank of São Tomé and Principe. A new central bank was established in August 1992, the Caixa Nacional de Poupança e Crédito was created in February 1993, and a private bank, the International Bank, started operations in March 1993.

Medium-Term Prospects

São Tomé and Principe will continue to face a difficult economic and financial situation over the medium term. The authorities intend to accelerate the pace of structural reforms during 1995 to bring inflation under control and narrow the current account deficit to a level that can be financed by grants and concessional aid. The government intends to continue to promote food crop diversification and export expansion, based on smallholder agriculture, together with appropriate pricing and marketing polices. Real output is forecast to increase by an average of 3.0 percent a year between 1995 and 1997 and rise to 4 to 5 percent a year after 1997. The main sources of growth are expected to be increased cocoa production, export diversification of agricultural products and fisheries, construction, tourism, and cottage industries. Continued contraction of public consumption, improved public sector resource allocation and investments, along with improved incentives for the private sector, would imply increased private savings and investments. Private consumption is projected to increase by about 2 percent a year over 1995-97.

External Debt

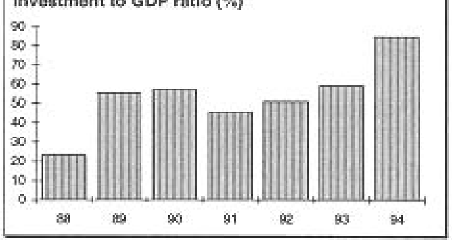
External debt outstanding and disbursed, which was estimated at about $135 million in 1987, rose to about $236 million in 1994 (including capitalization of arrears), the equivalent of approximately 650 percent of GDP. At the end of 1993 medium- and long-term debt amounted to $190.4 million, representing 81 percent of the total, of which $48.8 million consisted of payments arrears. Short-term debt represents the remaining 19 percent, amounting to $45.1 million, which consisted almost entirely of payment arrears. As a result, the ratio of scheduled debt service (before rescheduling and refinancing) to exports of goods and nonfactor services increased from 64 percent in 1988 to about 95.2 percent in 1994.

São Tomé and Principe

Population mid-1993 *(thousands)*	122	Income group:	**Low**
GNP per capita 1993 *(US$)*	350	Indebtedness level:	**Severely indebted**

KEY RATIOS

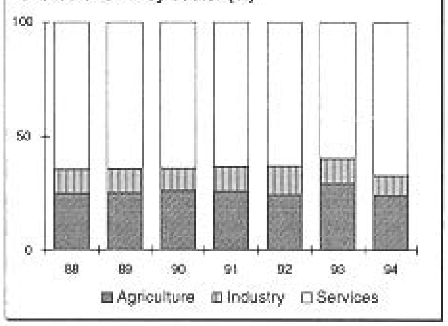
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	37.0	57.2	51.1	59.5	85.0
Exports of goods and nfs/GDP	26.4	16.7	24.1	30.4	42.6
Gross domestic savings/GDP	-18.1	-9.4	-18.8	-18.1	-14.2
Gross national savings/GDP	-23.6	-19.6	-27.9	-27.0	..
Current account balance/GDP	-60.3	-62.0	-81.3	-86.8	-100.2
Interest payments/GDP	3.7	2.4	2.1	2.3	..
Total debt/GDP	178.9	305.4	503.9	648.5	..
Total debt/exports	650.5	1,175.4	2,169.0	2,116.7	..


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	25.8	24.0	29.3	23.8
Industry	..	10.0	12.9	11.1	9.0
Manufacturing	..	5.6	6.7	..	..
Services	..	64.2	63.1	59.6	67.2

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	0.7	1.4	1.5	1.3	1.5

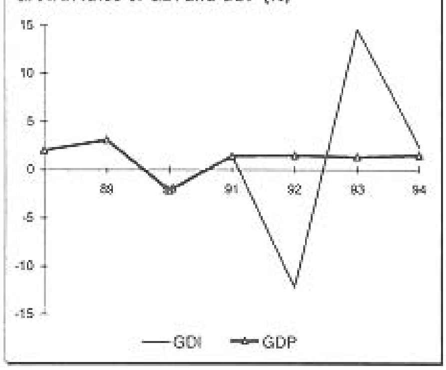


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	80.7	92.1	96.2	89.1	73.4
General government consumption	37.4	17.3	22.6	29.0	40.8
Gross domestic investment	37.0	57.2	51.1	59.5	85.0
Exports of goods and nfs	26.4	16.7	24.1	30.4	42.6
Imports of goods and nfs	81.4	83.3	94.0	108.0	141.8

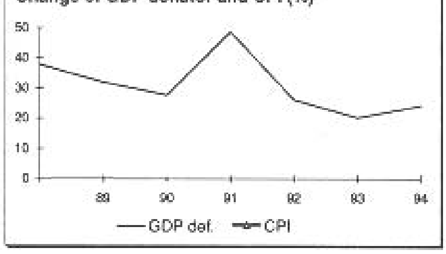
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	0.9	-10.0	-7.3	-8.9	-25.0
General government consumption	-4.3	22.4	18.1	32.2	38.7
Gross domestic investment	8.4	0.9	-12.2	14.6	2.4
Exports of goods and nfs	4.6	4.5	-0.6	12.6	3.6
Imports of goods and nfs	0.9	-0.6	-10.8	13.2	-6.0
Gross national product	-0.6	0.0	3.3	-1.6	-1.6
Gross national income	-2.8	0.3	2.7	-0.9	-2.4



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	0.2	27.7	26.0	20.1	24.1
Government finance					
(% of GDP)					
Current budget balance	..	-11.8	-9.2	-10.9	-13.2
Overall surplus/deficit	..	..	..	..	-64.4



Change of GDP deflator and CPI (%)

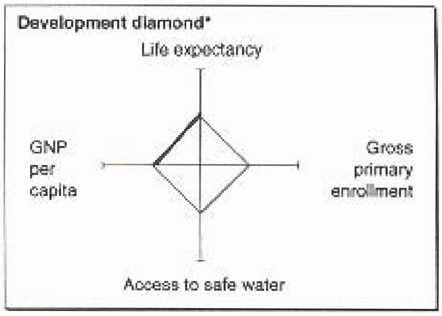
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

São Tomé and Principe

POVERTY and SOCIAL

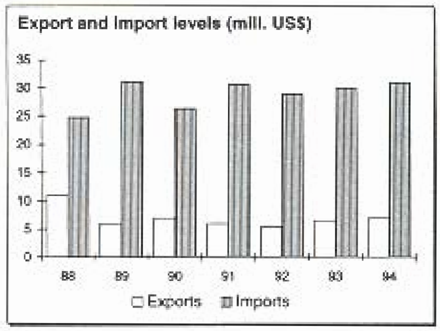
	1985-90	1990-94
(annual growth rates)		
Population	2.0	2.0
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	67.0
Infant mortality *(per 1,000 live births)*	25.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	188.5
Illiteracy *(% of population age 15+)*	33.0
Gross primary enrollment *(% of school-age population)*	..



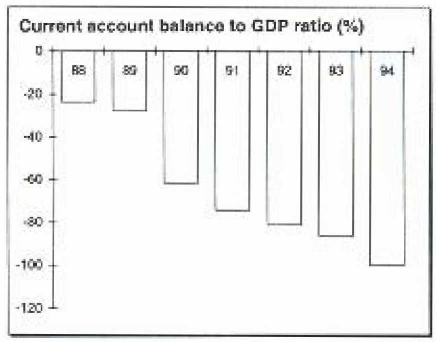
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	7	7	5	7	7
Cocoa	6	6	4	4	5
Copra	1	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	24	26	29	30	31
Food	7	6	5	4	7
Fuel and energy	..	2	3	3	1
Capital goods	9	9	11	7	11
Export price index *(1987=100)*	..	60	79	..	..
Import price index *(1987=100)*	..	133	..	..	..
Terms of trade *(1987=100)*	..	45	..	..	..
Openness of economy *(trade/GDP,%)*	108	100	118	138	184



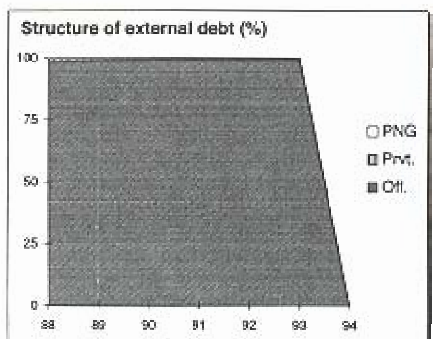
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	9	12	10	12	12
Imports of goods and nfs	29	38	45	42	39
Resource balance	-19	-26	-35	-30	-27
Net factor income	-2	-5	-5	-6	-5
Net current transfers	0	0	1	2	3
Current account balance					
Before official transfers	-21	-31	-35	-34	-29
After official transfers	-16	-20	-22	-24	-15
Long-term capital inflow	8	9	13	9	13
Total other items (net)	9	11	11	20	0
Changes in net reserves	-1	0	-2	-5	2
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	44.6	143.3	321.3	429.9	732.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	642.2	1,043.1	1,956.0	1,881.7	..
IMF credit/exports	0.0	8.5	11.0	9.2	..
Short-term debt/exports	8.3	123.8	202.0	225.8	..
Total debt service/exports	29.1	21.5	26.0	20.8	..
GDP ratios					
Long-term debt/GDP	176.6	271.0	454.4	576.5	..
IMF credit/GDP	0.0	2.2	2.6	2.8	..
Short-term debt/GDP	2.3	32.2	46.9	69.2	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	..
Public and publicly guaranteed					
Private creditors/long-term	9.2	0.9	0.6	0.5	..
Official creditors/long-term	91.0	99.1	99.4	99.5	..



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Senegal

Senegal is a small semi-arid Sahelian country whose population growth of about 3.0 percent a year is substantially above real annual GDP growth of 1.7 percent over 1988-1993. Predominantly rural and with limited natural resource endowments, the economy is highly vulnerable to climatic vagaries and price fluctuations in international commodity markets, and has long been dependent on external funding. The modern sector, which includes fishing, phosphates, chemical industries, manufacturing, and tourism, is concentrated in Dakar and on the coastal belt. Following the January 1994 devaluation of the CFA franc, per capita GNP in 1994 is estimated at $750. Adult literacy and primary enrollment rates in 1993 were 27 percent and 58 percent respectively, 27 percent and 21 percent below the average for Sub-Saharan Africa. Although Senegal has shown improvements in life expectancy, infant mortality, and child mortality, these indicators remain below those for other lower-middle-income countries.

At independence in 1960, Senegal inherited a relatively well-developed economy. Between 1974 and 1978, a fortuitous combination of good rainfall and high world prices for groundnuts and phosphates led to a short-lived export boom that fueled high levels of public investment. A succession of droughts together with a substantial deterioration in terms of trade between 1978 and 1981 led to heavy borrowing to continue past spending patterns and created significant macroeconomic imbalances that were not corrected until 1984. Between 1984 and 1988 real GDP grew at an average rate of 4.3 percent, but this could not be sustained. The large real depreciation achieved by many competitor countries and trade partners since 1985, combined with negative terms of trade shocks, led to an increasing overvaluation of Senegal's real exchange rate, and the economy experienced a serious decline in key sectors after 1988.

Recent Economic Performance

Since the beginning of the 1990s Senegal's economy has experienced a serious contraction. The inability of firms to compete implied a shrinking tax base that led the government to increase its reliance on exceptional revenue measures, such as heavy taxation of petroleum imports. This had an adverse impact on costs of production and forced firms to close or join the informal economy. In 1992 and 1993 Senegal's economy continued to deteriorate as the difficulties of pursuing an adjustment strategy based on internal deflationary policies became more acute. The fiscal deficit and balance of payment positions worsened, with the fiscal balance (excluding grants) declining from a 0.2 percent surplus in 1991 to a 3.9 percent deficit in 1993, and the current account balance (excluding transfers) sliding from a deficit of 8.3 percent of GDP to 9.3 percent over the same period. Substantial domestic and external arrears accumulated and foreign reserves declined sharply. Thus, the economy was stuck in a low-level equilibrium characterized by a sustained recession and underutilized capacity.

To halt a rapidly deteriorating situation the Senegalese authorities adopted several measures in August 1993 designed to deepen the deflationary policies that had been followed through the preceding decade, including a 15 percent cut in public sector wages. Although these measures contributed to reducing imbalances, the magnitude of the real exchange rate overvaluation was such that they came too late to be able to restore the competitiveness of the economy. There was an overall budget deficit of CFAF 47 billion, and arrears rose from CFAF 49 billion to CFAF 134 billion by the end of 1993. Net foreign assets fell by CFAF 17 billion during the last six months of the year and reached minus CFAF 203 billion. Overall, growth prospects remained extremely poor.

As the internal adjustment strategy pursued by the authorities fell short of expectations, the government joined other member countries of the CFA franc zone in devaluing the currency 50 percent against the French franc in January 1994. At this stage the real exchange rate overvaluation has been sufficiently corrected by the nominal devaluation — inflation remained below the 40 percent target for the first year, resulting in a real depreciation of over 30 percent in foreign currency terms — to permit renewed economic growth, if implementation of accompanying measures is sustained. There are signs of recovery in production in several sectors where the devaluation had a particularly favorable impact. For example, exports of phosphoric acid are up in volume by 27 percent, total fish exports are up in volume by 17 percent, the production of cement has increased (first quarter production in 1994 was 19 percent over the same period in 1993), and the number of tourism arrivals is up 31 percent. However, because of an initial contraction and collection lags, there has been a substantial shortfall in government receipts, particularly for customs duties on imports of nonessential consumer goods. Furthermore, according to local banks, most investment projects are still being postponed, although potential investors are actively negotiating for several enterprises in such sectors as textiles, shoes, and leather that had shut down during the recession.

Senegal's current account deficit, including gross official transfers, was 7.6 percent of GDP in 1994.The overall deficit was 4.4 percent of GDP in 1994, and real GDP growth was 2.1 percent. Senegal's outstanding external debt totaled about $3.7 billion in 1993, or 64.7 percent of GDP. Debt outstanding as a percentage of GDP has increased as a result of the devaluation and is projected to be reach 73.3 percent in 1996. Debt service as a share of exports is, however, expected to decrease from 21.5 percent in 1993 to 18.8 percent in 1996. In 1993, 60.8 percent of Senegal's total debt disbursed and outstanding was concessional, and its strategy is to contract new debt exclusively on concessional terms. The country recently benefited from a generous Paris Club rescheduling in addition to receiving extensive debt relief from France, and a commercial debt buyback operation is under preparation.

Structural Adjustment

The government's reform effort began in 1980, and while little structural adjustment took place in the first half of the decade, more substantial structural changes occurred after 1985. However, the adjustment programs suffered major setbacks because of negative exogenous shocks and policy slippage. The broad objectives of the adjustment programs have been to reestablish viable balance of payments and public finance positions, promote private investment and production in agriculture and industry, and achieve greater efficiency in managing public sector resources. More recently, as the lack of competitiveness of the economy had become more acute, a central focus of the reform effort has been to restore competitiveness through internal deflationary policy. Sectoral level reforms covered the banking and financial sector, and the human resources and the transport sectors.

The economy was substantially liberalized in the mid-1980s, and progress was made in investment planning and programming and population policy. Senegal's tax structure and administration have been simplified, as have the regulatory and administrative procedures for setting up private sector investment operations, and a public enterprise reform was undertaken. Despite progress in privatization, simplifying the tax structure, and eliminating direct subsidies to public enterprises, improvements in civil service reductions were later reversed.

Financial sector adjustment, completed in 1992, was restructured and consolidated the Senegalese banking sector; nine banks out of fifteen were liquidated, restructured, or merged. In parallel, the Central Bank of the Monetary Union undertook far-reaching reforms aimed at removing controls on lending margins and sectoral allocations of credit, improving bank supervision, and moving from direct control on credit to a system of indirect control through an interbank money market.

While the CFA franc devaluation offers Senegal a window of opportunity to make a breakthrough to sustained growth, it continues to face major challenges, including maintaining the reform momentum created by the devaluation. The devaluation has eliminated the need for the distortionary policies necessitated by the overvalued exchange rate and is proving to be a powerful impetus to reform. As a result, long-stalled reforms have been approved, including amendment of the Labor Code and dismantling of monopolies through the elimination of special agreements with enterprises.

Medium-Term Prospects

The government adopted an adjustment program for 1994-96 whose objectives are to achieve real GDP growth of 4.7 percent in 1995 and 4.8 percent in 1996, increase the investment-to-GDP ratio from 14.1 percent in 1993 to 16.7 percent (measured in current prices) in 1996, achieve primary surpluses in the government's budget that reduce the budget deficit on a commitment basis excluding grants from 4.5 percent of GDP in 1994 to 1.7 percent in 1996, and contain the external current account deficit, excluding official transfers, to 9.8 percent of GDP in 1994 and reduce it to 7.3 percent by 1996.

Achieving the real growth target over the long term will depend on favorable supply responses in agriculture and industry. For the major export crops, as well as for rain-fed food crops, technical, institutional, and environmental factors still represent important obstacles. The physical constraints to development are not amenable to change in a medium-term perspective: improved soil and water resource management can affect agricultural production only gradually, and mineral and fish resources are currently exploited at near-optimum rates. Industrial expansion will depend to a large extent on the response of domestic and foreign investors to the industrial incentives and on the success of measures to reduce production costs. In addition, Senegal faces key environmental issues such as soil degradation, salinization of agricultural land in low-lying coastal areas, and loss of forest cover. It is estimated that soil fertility is declining by 3 to 5 percent a year, and forestry resources by 1.2 percent a year. Persistent lack of funding for maintenance has resulted in serious deficiencies in transport, irrigation development, and water.

Sustaining the improvement in real per capita income will hinge on the government's ability to deal effectively with the difficult problem of rapid population growth. The government has recently formulated a population policy, but demographic growth will remain, at least for the next decade, one of the major constraints to Senegal's development efforts. Senegal's population at the turn of the century will be about 10 million people. Approximately 125,000 young adults are expected to join the labor force every year. Rapid population growth also has an adverse impact on the environment.

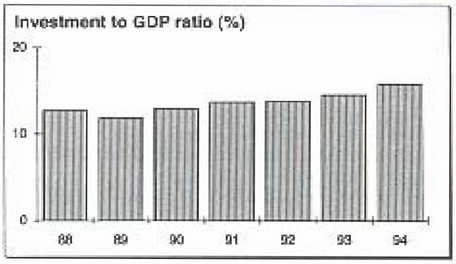
In education, overall enrollment increased by one-third between the first and the second half of the 1980s, with female enrollment growing faster than male. The most recent estimates for primary education are that the enrollment ratio is 56 percent, a decline from 58 percent in 1993, while the average number of pupils per teacher is 58. Life expectancy increased from 45 years in 1980 to 47 in 1990, while infant mortality declined from 116.0 per 1,000 live births to 80.6 between 1975 and 1991. However, on almost all these scores, the trend has been at best stagnant in recent years, rather than improving. The government has resolved to improve access to key social services, and primary education accounts for 66 percent of planned investments in the education sector over 1991-94, up from 42 percent in the 1981-86 plan period. Primary health care has been expanded recently, and in recent years allocation of resources for health care has seen a shift from hospital-based and urban (45 percent in the 1981-85 period compared to an allocation of 34 percent for the 1986-95 period) to health-center-provided services and to rural areas. Finally, government has promoted programs of public works rehabilitation and microenterprise development in a bid to increase employment.

Senegal

Population mid-1993 *(millions)*	7.9	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	750	Indebtedness level:	**Moderately indebted**

KEY RATIOS

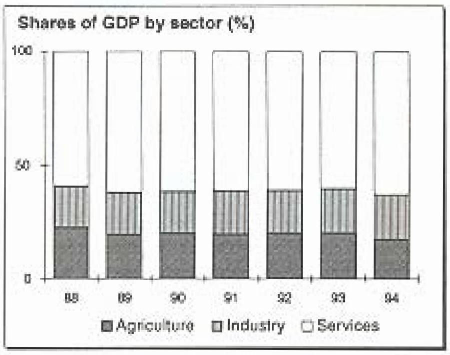
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.8	12.9	13.8	14.5	15.8
Exports of goods and nfs/GDP	29.7	25.4	23.0	22.6	35.7
Gross domestic savings/GDP	-1.4	8.1	7.5	7.6	9.7
Gross national savings/GDP	-6.8	4.5	4.8	4.9	6.4
Current account balance/GDP	-16.8	-7.8	-9.0	-9.5	-9.0
Interest payments/GDP	2.0	1.5	0.8	0.4	2.1
Total debt/GDP	99.4	65.4	59.6	67.3	98.4
Total debt/exports	281.6	236.3	235.9	272.2	283.2



Investment to GDP ratio (%)

GDP: PRODUCTION

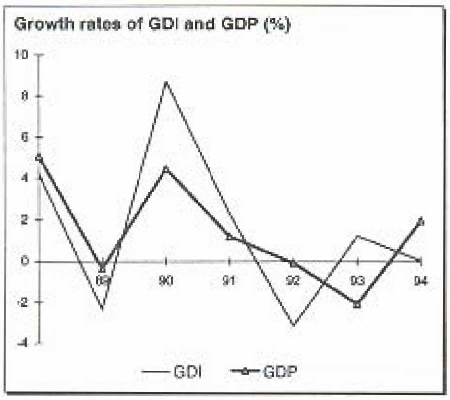
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.7	19.9	20.0	20.1	17.2
Industry	17.7	18.7	19.2	19.7	20.0
Manufacturing	12.8	13.1	13.3	13.5	13.9
Services	63.6	61.4	60.8	60.2	62.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.3	-4.9	-0.9	-5.4	-12.2
Industry	5.6	1.1	2.6	-2.2	3.3
Manufacturing	6.7	-1.7	-5.7	-1.4	1.0
Services	2.8	1.2	-0.6	-0.9	6.1
GDP	3.4	0.0	-0.1	-2.1	2.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

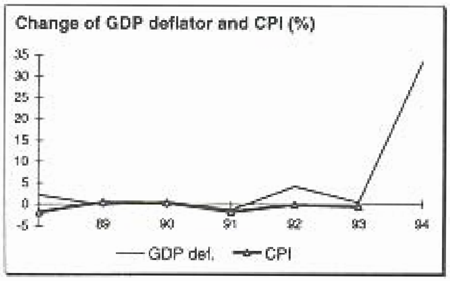
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	84.6	77.3	79.2	79.5	78.7
General government consumption	16.8	14.6	13.4	12.9	11.6
Gross domestic investment	9.8	12.9	13.8	14.5	15.8
Exports of goods and nfs	29.7	25.4	23.0	22.6	35.7
Imports of goods and nfs	40.9	30.2	29.3	29.5	41.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.5	1.0	4.6	-2.5	1.8
General government consumption	1.5	-3.6	-3.8	1.0	-13.4
Gross domestic investment	7.7	-0.1	-3.1	1.2	0.1
Exports of goods and nfs	2.9	1.4	3.0	-1.3	2.2
Imports of goods and nfs	1.3	2.4	12.3	0.0	-5.7
Gross national product	3.5	0.1	0.0	-2.2	1.1
Gross national income	3.7	0.3	1.1	-2.5	1.8



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	13.0	0.3	-0.1	-0.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	9.1	0.7	4.1	0.5	33.2
Government finance					
(% of GDP)					
Current budget balance	-1.3	0.4	0.7	0.4	0.4
Overall surplus/deficit	..	..	..	-4.0	-4.7



Change of GDP deflator and CPI (%)

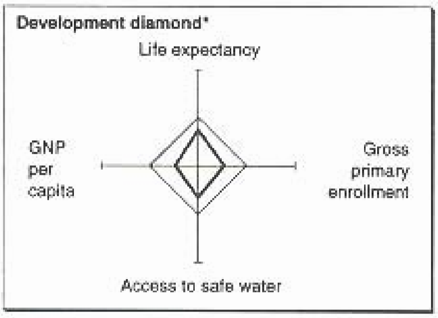
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Senegal

POVERTY and SOCIAL

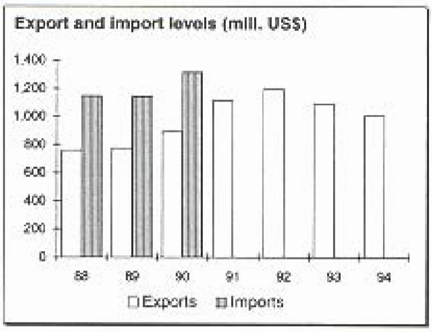
	1985-90	1990-94
(annual growth rates)		
Population	2.8	2.5
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	49.7
Infant mortality *(per 1,000 live births)*	66.8
Child malnutrition *(% of children under 5)*	20.1
Access to safe water *(% of population)*	51.2
Energy consumption per capita *(kg oil equivalent)*	114.5
Illiteracy *(% of population age 15+)*	61.7
Gross primary enrollment *(% of school-age population)*	56.0



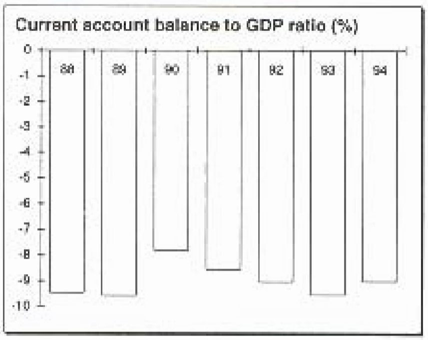
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	481	891	1,200	1,089	1,008
Fish	120	200	..	..	..
Fuel	51	26	..	..	..
Manufactures	130	307	..	..	..
Total imports (cif)	900	1,316	..	..	..
Food	258	364	..	..	..
Fuel and energy	195	159	..	..	..
Capital goods	115	187	..	..	..
Export price index *(1987=100)*	84	110	..	..	..
Import price index *(1987=100)*	92	105	..	..	..
Terms of trade *(1987=100)*	92	105	..	..	..
Openness of economy *(trade/GDP,%)*	71	56	52	52	77



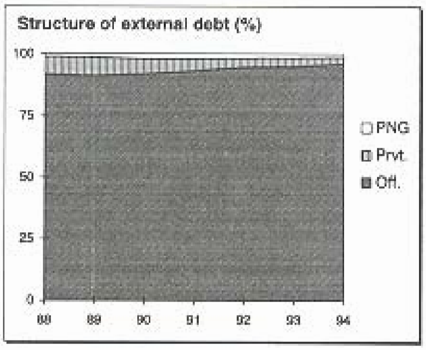
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	845	1,472	1,422	1,269	1,325
Imports of goods and nfs	1,162	1,751	1,810	1,655	1,553
Resource balance	-318	-279	-388	-386	-228
Net factor income	-123	-197	-200	-189	-163
Net current transfers	8	29	37	40	41
Current account balance					
Before official transfers	-434	-447	-551	-535	-350
After official transfers	-272	-397	-551	-483	-298
Long-term capital inflow	155	82	103	149	234
Total other items (net)	103	361	468	223	65
Changes in net reserves	14	-46	-20	111	-1
Memo:					
Reserves excluding gold *(mill. US$)*	5	11	12	3	..
Reserves including gold *(mill. US$)*	15	22	22	15	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	227.6	189.9	195.4	221.1	239.7
IMF credit/exports	29.4	19.9	17.6	17.6	20.0
Short-term debt/exports	24.6	26.4	22.9	33.5	23.5
Total debt service/exports	20.8	20.6	13.6	8.5	25.1
GDP ratios					
Long-term debt/GDP	80.4	52.6	49.4	54.6	83.3
IMF credit/GDP	10.4	5.5	4.5	4.4	7.0
Short-term debt/GDP	8.7	7.3	5.8	8.3	8.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.6	2.0	1.7	1.6	1.3
Public and publicly guaranteed					
Private creditors/long-term	13.4	6.0	3.7	3.5	2.8
Official creditors/long-term	86.0	92.0	94.6	94.9	95.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Seychelles

Seychelles is an archipelago of some 115 islands in the western Indian Ocean, with a land area of 445 square kilometers and an exclusive economic zone of about 1.3 million square kilometers. An essential feature of the islands is their unique ecology, pristine environment, and touristic attraction. Among them is Aldabra, one of the last refuges of the giant land tortoise. Seychelles' population of about 70,000 is concentrated on the main island of Mahé and two others nearby and is growing at about 0.9 percent a year. The minuscule size of the economy and its reliance on external markets — foreign trade averaged 156 percent of GDP over the last five years — render it particularly vulnerable to external economic conditions. Seychelles has experienced rapid and reasonably equitable economic growth. GNP per capita rose from $870 in 1976 to about $6,280 in 1993.

Seychelles became independent in 1976 under a coalition government. In 1977 a coup established a one-party socialist state, and in 1992 the government initiated a transition to multiparty rule. A new constitution was adopted in April 1993, and elections were held three months later.

Seychelles' main economic activities are tourism and fishing, and some agriculture and small-scale manufacturing. Industry and agriculture have been severely constrained by limited land, water, and skilled labor and the small size of the domestic market and remoteness of the islands. With the development of tourism since the early 1970s and of port services for foreign tuna fishing fleets since the early 1980s, the role of agriculture declined further. The country's tropical climate and unique environment attract mid- and upscale tourists. In the peak year of 1993, visitors numbered 116,000, compared with 37,000 in 1976, an average growth rate of 6.6 percent, and generated some 17 percent of GDP, 60 percent of exports of goods and services, and 19 percent of formal employment. Fishing, the source of the second most important export, lagged far behind, accounting for only 1 percent of GDP and about 8 percent of the exports of goods and services.

Recent Economic Developments

Until recently, Seychelles' development relied on economic policies emphasizing public-sector-led development and important amounts of external savings. Most of the economy, with the exception of the banking sector, is publicly owned and managed, including the most modern part of the key tourism sector. The public sector employs two-thirds of the labor force, the government's budget is about half of GDP, and government consumption is about 40 percent of GDP. The wage structure is dominated by public-sector wages, which promote even income distribution rather than incentives and efficiency. Over 1975-93 yearly net official development assistance transfers averaged about $200 per capita.

Between the mid-1970s and 1990 Seychelles' economy expanded at 6.3 percent a year, driven by tourism and relatively abundant external financing, albeit with some pauses reflecting external shocks. In 1991 the economy entered another cycle of a setback caused by an external shock, followed by financial difficulties brought on by increased public spending. Performance slipped in 1991 when tourist arrivals fell in reaction to fears of safety during and immediately after the Persian Gulf war. Tourist arrivals and expenditure fell by 13 percent and 19 percent, respectively, and real GDP growth fell to 2.2 percent. In 1992, although arrivals and expenditure increased by 9.4 percent and 14 percent respectively over 1991 levels, they remained below the results of 1990. The slow rebound of the critical tourism sector reflects, in part, past insufficient effort to rehabilitate and upgrade hotel infrastructure and diversify tourist services, and the vulnerability of the tourism industry to economic conditions in industrialized countries, notably Western Europe.

Over 1992-93 increased public expenditures covered the negative growth impact of the decline in tourism earnings while inducing public finance and balance of payments difficulties. Real GDP growth averaged 6.2 percent over the two years, driven by exceptional expenditures linked to the democratization process and infrastructure for the Indian Ocean Games. At the same time, despite new revenue measures (including temporary import surcharges and tax increases on alcohol and tobacco) that boosted revenues by a cumulative 11 percent of GDP over the two years, the budget deficit (before grants) remained about as high as in 1991 (about 5 percent of GDP). In 1991 import controls and administrative payment delays helped temporarily contain the current account deficit (before grants) at 5.8 percent, compared with a surplus of 8 percent in 1990. A temporary requirement imposed on exporters to surrender 30 percent of their gross foreign exchange earnings to the central bank was eased to 15 percent in early 1992. The high import content of expenditures over 1992-93 amplified balance of payments difficulties. The current account deficit (before grants) averaged 8.6 percent over the two years. Short-term external trade arrears equivalent to two months of imports were accumulated by end-1993.

Social Indicators

Economic growth has been accompanied by significant progress in social conditions. Seychelles has low unemployment and actually faces a shortage of skilled labor. Social indicators are comparable to those of higher-income countries. The government has sought to minimize income disparities and provide equal access to education, health, and housing: 75 percent of the children 6 to 14 are in school; there are 6.2 hospital beds per 1,000 inhabitants and one physician for 1,403 people; 99 percent of the population has access to basic health care; life expectancy at birth is almost 71 years; infant mortality is 17 per 1,000, almost all children under one year of age are immunized against the most common childhood diseases; the entire urban population and 95 percent of the rural population have access to safe water; and subsidized housing has been made available to low-income and large families. The social expenditure programs are inefficient; they include transfers that leak outside target groups and create disincentives to work.

Seychelles has legislated and practiced gender equality. Women enjoy equal access to education and jobs, including management positions and official appointments. In 1990, women represented 43 percent of the active labor force.

Medium-Term Prospects

The government's development objectives are to improve the quality of life of all Seychellois and achieve environmentally sustainable development. Its recent strategic thinking has emphasized diversifying tourist markets and developing ecotourism to reconcile environmental constraints and growth objectives. Other goals include skill enhancement to raise productivity and faster introduction of incentives for private investment and poverty reduction through social spending policies targeted at lower-income groups. On the fiscal side it aims for fiscal moderation through gradual disengagement of the state from the economy, stronger public investment management through public investment programming, and improving debt management by seeking most favorable terms, converting floating-rate liabilities into fixed-rate debt, and reviewing debt buy-back or conversion opportunities and raising public savings and foreign reserves to provide a cushion against external uncertainties.

The setback in the tourism sector in 1991 and the reemergence of financial difficulties in 1992-93 drove home to the authorities the need to accelerate the expansion of the private role in the economy and adopt more prudent public expenditure policies. More sectors are being opened to private participation, a new and more liberal investment law is bring prepared, and some parastatal assets in the hotel sector and the port have been privatized. At the same time, the authorities have set up a commission to propose tax reforms to encourage private-sector growth. In addition, sharp reductions in public expenditure during fiscal 1996 should help curb the aggregate demand overhang from 1991-93 and restore external sector viability.

The preservation of the environment and effective use of human resources are Seychelles' main challenges of sustainable development. The government is firmly committed to protecting the environment and prepared in 1990 a ten-year Environmental Management Plan of Seychelles that has received broad donor support. In 1994 it prepared a program for human resource development. Seychelles supports greater regional cooperation in the area of environment — on marine pollution in particular — and education, through the Indian Ocean Commission.

For the foreseeable future, Seychelles' economy will remain dependent on tourism, despite efforts to diversify into fishing, fish processing, agriculture, light manufacturing, and regional transshipment and offshore services. The tourism marketing strategy is likely to remain aimed primarily at mid- and upscale tourists willing and able to pay above-average airfares and landing fees. So far, Seychelles has been successful in attracting such tourists. Weaknesses in fiscal management remain a major shortcoming.

The government has formulated a medium-term macroeconomic framework in the context of preparing its first three-year public investment program. A strategy encouraging greater private sector investment and production and more efficient delivery of public sector services could allow Seychelles to achieve annual real growth of about 5 to 6 percent over 1995-99, supported by investment equivalent to 18 to 19 percent of GDP, compared with 24 percent over 1987-92. Public investment would decline from 13 percent of GDP in 1989-93 to around 10 percent over 1994-98, while private investment would rise from 5 to 6 percent of GDP to 8-9 percent.

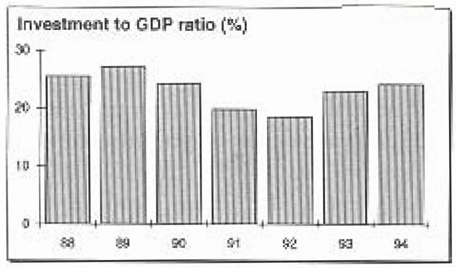
Provisional 1994 fiscal results, including a deficit of 7.8 percent of GDP, show that the government has not begun to live up to the broad targets of the medium-term plan in which fiscal adjustment is a key element. To make up for the delayed start on adjustment, the authorities announced their determination to pursue rigorous fiscal policies over 1995-98, limiting the overall deficit to a maximum of 4 percent of GDP, and financing it in a noninflationary way, thus keeping inflation below 5 percent. Together with prudent credit policies, this would keep aggregate demand broadly in line with resource availabilities, with an average current account deficit (before official transfers) of the order of 5 to 6 percent of GDP, and a debt-service ratio to exports of goods and services below 10 percent.

Seychelles

Population mid-1993 *(thousands)*	72	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	6,280	Indebtedness level: **Less indebted**

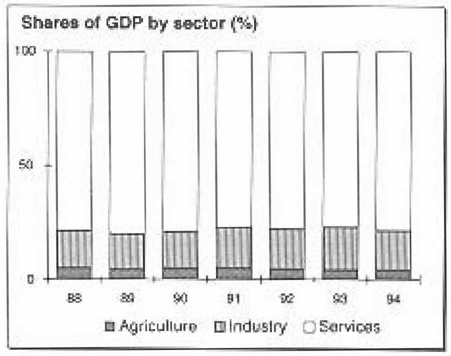
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	22.7	24.3	18.5	23.0	24.2
Exports of goods and nfs/GDP	68.9	68.5	63.0	62.9	65.0
Gross domestic savings/GDP	27.9	37.7	14.2	8.7	15.9
Gross national savings/GDP	24.4	31.8	12.7	7.3	13.7
Current account balance/GDP	1.5	-11.9	-5.1	-12.2	-10.2
Interest payments/GDP	1.4	1.9	1.3	1.3	1.1
Total debt/GDP	58.0	52.3	42.4	36.7	41.5
Total debt/exports	82.5	74.9	66.4	56.2	63.2


Investment to GDP ratio (%)

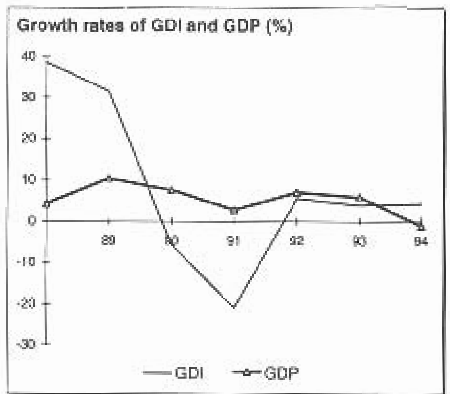
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	5.8	4.6	4.4	4.1	4.1
Industry	18.4	16.1	17.7	18.9	17.3
Manufacturing	9.7	9.0	9.7	11.2	..
Services	75.9	79.3	77.9	76.9	78.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.3	-2.7	-6.7	-1.8	-1.0
Industry	3.2	2.9	-0.4	11.4	-9.7
Manufacturing	9.0	*3.9*	2.4	12.4	..
Services	6.5	4.7	9.4	5.0	0.8
GDP	5.6	4.1	6.9	5.8	-1.1


Shares of GDP by sector (%)

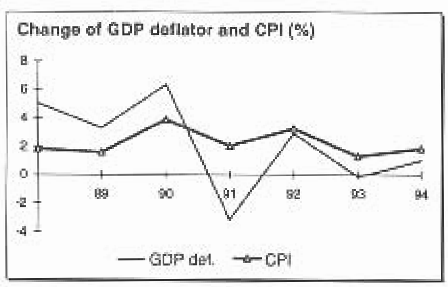
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	37.5	34.8	53.7	43.6	41.0
General government consumption	34.6	27.6	32.2	47.7	43.2
Gross domestic investment	22.7	24.3	18.5	23.0	24.2
Exports of goods and nfs	68.9	68.5	63.0	62.9	65.0
Imports of goods and nfs	63.8	55.1	67.3	77.1	73.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-14.2	47.4	237.1	7.8	-24.7
General government consumption	3.3	7.5	-2.8	2.0	2.0
Gross domestic investment	12.3	-1.2	5.4	3.8	4.3
Exports of goods and nfs	21.1	-3.9	-7.2	9.9	-15.1
Imports of goods and nfs	13.0	8.0	35.6	7.7	-23.3
Gross national product	5.2	5.3	10.6	5.7	-1.1
Gross national income	1.4	8.4	43.3	-5.7	-2.2


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	0.8	3.9	3.2	1.3	1.9
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.3	6.4	2.9	-0.1	1.0
Government finance					
(% of GDP)					
Current budget balance	0.2	9.1	5.4	7.1	1.0
Overall surplus/deficit	-11.9	-0.8	-4.4	-5.3	-8.2


Change of GDP deflator and CPI (%)

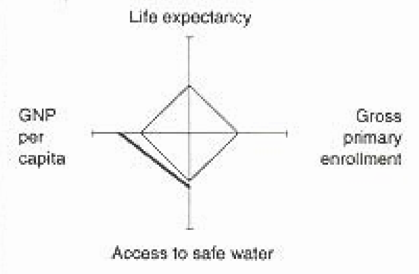
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.5	*0.9*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	5.7
Access to safe water *(% of population)*	98.5
Energy consumption per capita *(kg oil equivalent)*	1,680.6
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..

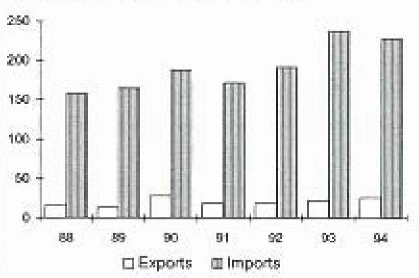
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	5	28	20	22	26
Copra	1	..	..	3	..
Fish	1	2	4	2	..
Manufactures	..	10	13	19	..
Total imports (cif)	100	188	192	238	228
Food	17	34	41	48	..
Fuel and energy	26	36	33	34	..
Capital goods	25	50	40	60	..
Export price index *(1987=100)*	65	..	..	..	..
Import price index *(1987=100)*	96	..	..	..	..
Terms of trade *(1987=100)*	67	..	..	..	..
Openness of economy *(trade/GDP,%)*	133	124	130	140	138

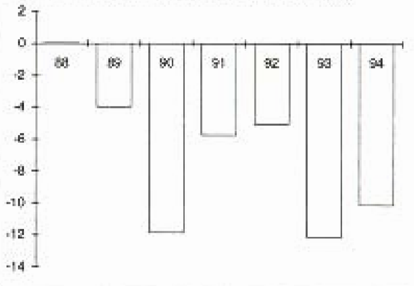
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	116	256	268	287	288
Imports of goods and nfs	108	281	283	335	325
Resource balance	9	-25	-15	-48	-37
Net factor income	-6	-16	-4	-4	-3
Net current transfers	0	-3	-2	-2	-5
Current account balance					
Before official transfers	3	-44	-22	-54	-45
After official transfers	17	-9	2	-20	-10
Long-term capital inflow	16	19	16	35	31
Total other items (net)	-33	-6	-13	-12	-29
Changes in net reserves	0	-4	-5	-3	8
Memo:					
Reserves excluding gold *(mill. US$)*	9	17	31	36	..
Reserves including gold *(mill. US$)*	9	17	31	36	..
Conversion rate *(local/US$)*	7.1	5.3	5.1	5.2	5.2

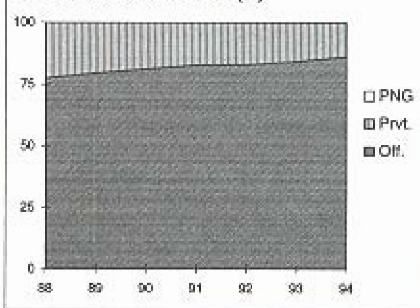
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	62.3	57.2	54.0	47.5	55.1
IMF credit/exports	0.0	0.0	0.0	0.0	0.0
Short-term debt/exports	20.2	17.7	12.5	8.6	8.1
Total debt service/exports	7.9	8.9	7.3	6.3	4.8
GDP ratios					
Long-term debt/GDP	43.8	39.9	34.4	31.1	36.2
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	14.2	12.3	7.9	5.6	5.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	21.1	18.9	17.1	15.7	13.8
Official creditors/long-term	78.9	81.1	83.0	84.3	86.3

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Sierra Leone

Sierra Leone is endowed with substantial mineral wealth, a varied agricultural resource base with good potential for raising yields, and rich fisheries. Agriculture employs most of the population in low-productivity, labor-intensive farming. Rice, the staple food, is grown by more than 80 percent of farmers but has been imported in large quantities since the late 1970s. Coffee, cocoa, and fish are the major agricultural exports. The mining sector comprises a capital-intensive enclave and substantial small-scale alluvial operations. It accounts for 10 percent of GDP and is the most important source of foreign exchange earnings. Services account for about 40 percent of GDP.

Sierra Leone's population of 4.4 million is growing at 2.6 percent a year. Per capita income was $150 in 1993, and Sierra Leone is classified as a least-developed country by the United Nations. Over two-thirds of the population live in absolute poverty. Rural life is at a subsistence level. Infant mortality of 143 per 1,000 live births is one of the highest in the world, while other key indicators such as life expectancy of 42 years and primary school enrollment are among the lowest. The adult illiteracy rate is estimated at 79 percent. The quality of Sierra Leone's civil service has declined over the past decade in part because of a lack of incentives for qualified staff at the senior level.

Sierra Leone's economic infrastructure deteriorated rapidly during the 1980s. Rural feeder roads are in a state of collapse; trunk roads are in poor condition. A severely deteriorated power generation system has forced households and firms to operate private power generators, affecting economic activity. Only about 30 percent of the rural population has access to safe drinking water.

During the first decade after independence in 1961 Sierra Leone's economy grew at nearly 4 percent a year. The fiscal and foreign exchange position was healthy; inflation was low. The first oil shock notwithstanding, economic growth averaged over 3 percent in the first half of the 1970s. GDP growth slowed to about 1 percent a year over 1975-80, mainly because of falling incomes from the mining sector. During the 1980s the economic situation continued to deteriorate. Budgetary revenues fell sharply, from 16 percent of GDP in fiscal 1981 to only 5 percent in fiscal 1986, as reductions in imports and official diamond sales reduced the tax base and increasing indiscipline in public-sector management eroded collection efficiency. Major cuts in capital expenditures followed. Investments in new social and physical infrastructure and maintenance virtually ceased, causing rapid decay in facilities. Inflation accelerated, peaking at close to 170 percent in fiscal 1987.

Against this background and with foreign exchange controls, a rapidly expanding parallel market in foreign exchange and trade emerged. Because of the overvalued official exchange rate, official diamond and gold exports fell sharply. Recorded imports also fell sharply, reflecting shortages of foreign exchange. With official foreign exchange reserves virtually exhausted and the inflow of foreign capital falling to very modest levels, the balance of payments deficit was financed mainly by the accumulation of arrears. Confronted with this deterioration, the government negotiated a standby arrangement with the IMF in November 1986, supplemented by support from a Structural Adjustment Facility; these were suspended in March 1987 because of expenditure overruns and excessive credit creation.

Faced with an increasingly difficult economic situation, the government took measures in early 1989 to stabilize the economy and address structural bottlenecks and has since liberalized the exchange rate and trade, decontrolled prices and interest rates, strengthened revenue collection and expenditure controls, and revamped mining and fishery policies. It has also begun rehabilitating infrastructure and revitalizing social services.

Since April 1991 the government has also had to address severe security problems initiated by incursions deep into the economically important eastern and southern parts of the country by rebels based in Liberia. Since then, the security situation has shifted character, now taking predominantly the form of scattered banditry attacks that have spread beyond those two regions. The government took major steps at the end of December 1994 to upgrade its security forces and has offered to negotiate with one known rebel group.

Recent Economic Developments

The pace of economic activity has remained sluggish, largely because of the impact of the rebel conflict on mining and agricultural activities. Real GDP grew 1.5 percent in 1993, and 1994 GDP growth is estimated at about 3 percent, mainly as a result of good harvest and reviving trading activities. The low level of economic activity has curtailed import demand, and the current account deficit (excluding official transfers) narrowed from 12.8 percent of GDP in 1992 to 12.5 percent in 1993 and about 12.2 percent in 1994. Coffee and cocoa exports have also suffered as the security situation affected production. A large proportion of diamond and gold exports continue to be traded in the parallel market. The weak demand for foreign exchange has enabled the central bank to step up its foreign exchange purchases from the commercial banks. As a result, gross reserves at the end of 1994 are estimated to have risen to the equivalent of over three months of imports, compared with only three weeks of imports in April 1992.

Structural Adjustment Program

Despite the difficulties caused by the security situation, Sierra Leone has made satisfactory progress in implementing its structural adjustment program. At the first consultative group meeting for Sierra Leone in March 1994, donors commended the government's progress in implementing a courageous reform program under difficult domestic and external conditions.

Sierra Leone has maintained a market-determined exchange system since April 1990. Foreign exchange bureaus have been established. The operation of the exchange market has improved substantially, and the private sector is now handling a larger portion of total foreign transactions. The exchange rate in the commercial bank market has been relatively stable since May 1992; the differential between commercial bank and parallel market exchange rates is now less than 5 percent. The real effective exchange rate has depreciated by over one-third since the leone began floating in April 1990.

Trade reform has focused on removing import and export licensing requirements (except for gold and diamonds) and all quantitative restrictions on imports, and the abolition of public-enterprise trading monopolies. Duty rates on imported goods were rationalized in 1992 and 1993 to improve administration and compliance by importers and ensure a more development-focused tariff structure. The 1983 investment code has been repealed and the investment incentive framework incorporated into the tax and customs laws. The Sierra Leone Export Development and Investment Corporation was established in January 1994 to promote exports and investment across all sectors, and an export processing zone has been established starting with the textile industry. The government has also simplified its export regulatory procedures.

The maintenance of strict fiscal discipline remains the key to stabilizing the economy. As a result of the government's efforts to improve fiscal management, total revenues rose from 9.2 percent of GDP in fiscal 1989 to 14 percent in fiscal 1994. Recurrent expenditures, however, increased modestly from 15.5 percent of GDP in fiscal 1989 to about 16 percent of GDP in fiscal 1994. The overall budget deficit contracted from 9 percent of GDP in fiscal 1989 to about 6.3 percent of GDP in fiscal 1994 despite an increase in war-related expenditures. However, because of the impact of the security situation on economic activity, major revenue shortfalls are anticipated in fiscal 1995. At the same time, a rise in defense expenditures to deal with the security situation has put additional strains on the budget.

Monetary policy since the beginning of the reform program has been directed toward reducing money supply growth to levels consistent with the inflation objectives and ensuring that sufficient bank credit is made available to fuel the recovery of private-sector activity. The deceleration in the rate of growth of broad money, mainly as a result of improved government fiscal operations, contributed to the slowdown in inflation from 115 percent in 1991 to less than 20 percent in fiscal 1994. Lending rates were decontrolled in April 1990. Nominal interest rates have continued to decline. The depressed private sector demand for credit and lack of availability of alternative financial instruments have resulted in the real yield on treasury bills, after being positive since June 1992, falling to a negative 10 percent at the end of September 1994. Commercial bank lending rates have, however, remained positive in real terms. The Bank of Sierra Leone exercises monetary control through open-market operations through weekly auctions of treasury bills.

The government has begun a thorough review of the financial sector. Following a comprehensive management audit of the Bank of Sierra Leone the government initiated an institutional development program in early 1994 aimed at strengthening its role as a central bank, focusing on promoting monetary stability and a sound financial structure. The central bank also initiated in late 1993 a program to restructure the commercial banks and bolster their financial positions. Pending passage of a new banking act, the central bank has developed and issued prudential bank lending and capital adequacy guidelines to maintain the soundness of the banking system.

The government has initiated a comprehensive civil service reform program aimed at restoring civil service efficiency and capacity for delivering essential public services. Between July 1991 and December 1994 civil service employment was reduced by more than 32,000 (44 percent), mainly through the retrenchment of redundant daily workers and temporary staff and removing "ghost workers" from the payroll.

All public enterprises are now subject to taxes and duties and are allowed to adjust their tariffs and prices in line with costs. The government has divested its interest in the National Petroleum (distribution) Company, the Sierra Leone Petroleum Refining Company, and the Bennimix Baby Food Company. The Public Enterprise Reform and Divestiture Commission has also tendered and renewed lease contracts for three government-owned hotels, which has resulted in significant additional revenue to the government. The sale process for two smaller hotels has commenced, and plans for divestment and liquidation other public enterprises are being implemented.

Sierra Leone's broad development objectives are to stabilize the economy and create a macroeconomic and sectoral environment conducive to sustained private-sector-led growth and poverty reduction. While it is committed to the policies needed to achieve these objectives, the government's capacity to develop and implement well-defined development strategies remains extremely limited and has been further complicated by the unsettled security situation.

The government's strategy to combat Sierra Leone's widespread poverty joins policies that promote labor-intensive growth, especially macroeconomic policies supported by the adjustment reform program and sectoral policies with public expenditure policies and rehabilitation of institutions that over time will improve access to basic education, health care, and other social services. A Social Action and Poverty Alleviation Unit has been set up to screen and monitor projects carried out by NGOs to improve the living standards of the poor people.

The government's human resource development strategy focuses on improving the quality of education with particular emphasis on basic education, substantially reducing the illiteracy rate (with special attention paid to female illiteracy), increasing the enrollment ratio in primary education, and making relatively low-cost preventive and basic curative health care available throughout the country. The government has developed a National Education Action Plan and a National Health Action Plan. Strengthening planning and implementation capacity of the Health and Education Departments is a priority. Budget allocations for the social services will be increased by at least 5 percent annually in real terms over their fiscal 1994 levels in the next few years.

The government is articulating sectoral strategies to provide a basis for clearly defined functions and work programs for departments and units, and has begun to recruit qualified candidates under donor-funded projects from both within the country and among Sierra Leoneans living abroad. Budgetary allocations for materials and supplies will be brought to adequate levels. Promotions will be based on merit rather than mainly on the length of service or political connection.

Faced with acute shortages of skilled manpower, the government has taken steps to shift the responsibility for providing some services to the private sector. A semi-autonomous Road Authority, funded by taxes on gasoline and diesel sales, has been established to manage the entire periodic and routine road maintenance program through contracting to the private sector. Provision of primary health care services and the management of elementary schools have been increasingly undertaken by NGOs, local communities, and other organizations.

The fisheries sector has considerable potential for growth in the medium term, but care must be taken to monitor yields to protect against overfishing. The Fisheries Act and regulations were revised in September 1994 to provide the basis for a durable fisheries management regime. The government has tendered a management contract for a fisheries control and surveillance system for a period of two years.

The mining sector has a critical role in Sierra Leone's long-term economic development, and a revised Mining Act, introduced in early 1994, provides the framework for mining investment, taxation, profit repatriation, and the environmental treatment of mining activities in a manner that guards against land degradation, ensures sound mining practices, and avoids distortive fiscal and incentive systems for the sector. A combination of conducive legal and regulatory frameworks and improvements in the security situation, including removal of military personnel from alluvial diamond mining areas, is the key to improvement in alluvial diamond mining production and exports by the private sector.

Women are predominant among the poor in Sierra Leone and severely disadvantaged. They are more likely than men to be illiterate, unskilled, and malnourished; their productivity is further hampered by limited access to credit and productive assets. In the agriculture sector, women represent about 55 percent of the labor force and in urban areas, especially in the Western Area, they control a large share of trade and distribution activities, and some have secure incomes. Limited access to health facilities, especially for rural women, is being addressed through the Primary Health Care Program and the National Health Policy. The government, women's groups, and NGOs are also active in disseminating family planning education and conducting awareness programs.

Environment

Preliminary findings from an initial environmental assessment point to significant problems across all sectors. Salient issues include water access and sanitation, land degradation from large-scale and artisanal mining and agricultural practices detrimental to sustainable agriculture, deforestation, forest degradation and loss of biodiversity, and marine fishing in excess of maximum sustainable yield. The government has prepared a National Environmental Action Plan to strengthen the framework for environmental conservation and sound natural resource management.

External Debt

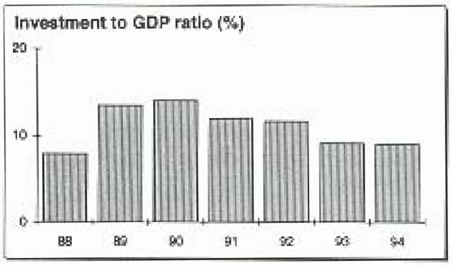
Sierra Leone's external debt is estimated at about $1.4 billion at end-1994. Sierra Leone's debt service obligations in 1994 amounted to about $90 million, about 76 percent of merchandise exports, of which $25 million represented commercial debt service. The Paris Club offered Sierra Leone debt relief on "enhanced Toronto" terms in November 1992 and June 1994. Payment arrears, largely to commercial creditors, are estimated at $430 million, including $124 million in interest arrears. Sierra Leone expects to clear these arrears with the aid of donors through an IDA-financed commercial debt buyback operation planned for the first half of 1995.

Sierra Leone

Population mid-1993 *(millions)*	**4.5**	Income group: **Low**
GNP per capita 1993 *(US$)*	**150**	Indebtedness level: **Severely indebted**

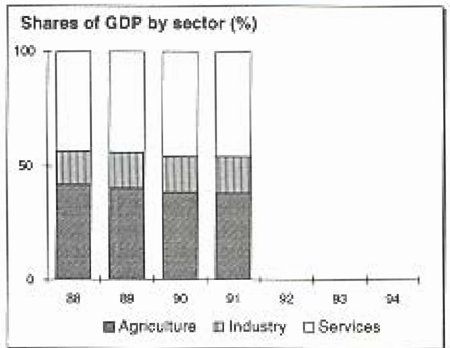
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	10.0	14.0	11.7	9.2	9.1
Exports of goods and nfs/GDP	9.7	19.7	24.7	22.4	17.4
Gross domestic savings/GDP	9.8	8.7	10.5	5.1	3.1
Gross national savings/GDP	6.3	-0.3	-3.1	-8.2	-8.0
Current account balance/GDP	-6.5	-15.7	-14.7	-17.4	-17.0
Interest payments/GDP	0.2	0.4	1.5	0.2	1.2
Total debt/GDP	55.0	134.8	181.7	189.6	172.0
Total debt/exports	495.7	745.1	734.0	839.7	982.2



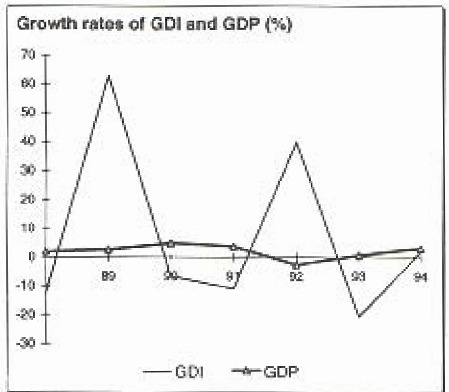
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	44.5	38.3	..	..	..
Industry	12.8	15.9	..	..	..
Manufacturing	3.6	6.8	..	..	..
Services	42.7	45.7	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.9	*-6.6*	-17.9	2.7	..
Industry	3.1	*8.9*	15.4	-6.7	..
Manufacturing	-5.0	..	..	..	..
Services	1.6	*0.3*	0.5	0.9	..
GDP	2.8	0.7	-2.7	0.7	3.0



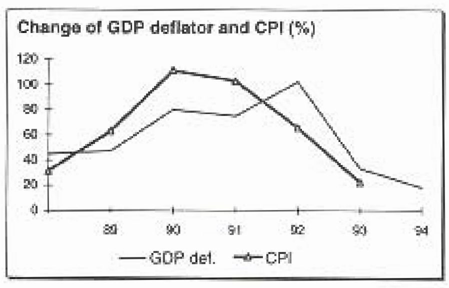
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.0	84.7	80.2	83.7	84.4
General government consumption	7.2	6.6	9.2	11.2	12.5
Gross domestic investment	10.0	14.0	11.7	9.2	9.1
Exports of goods and nfs	9.7	19.7	24.7	22.4	17.4
Imports of goods and nfs	9.8	25.1	25.8	26.5	23.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.5	1.3	-5.0	5.1	4.0
General government consumption	0.2	-7.9	-48.1	31.6	2.7
Gross domestic investment	0.0	1.1	39.8	-20.8	1.9
Exports of goods and nfs	-5.1	5.7	43.5	-9.2	-5.8
Imports of goods and nfs	1.6	5.0	34.5	0.5	-0.3
Gross national product	1.9	0.2	-2.3	1.4	3.3
Gross national income	2.0	-0.3	-3.5	1.1	2.5



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	76.6	111.0	65.5	22.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	85.7	79.7	102.0	32.9	18.0
Government finance					
(% of GDP)					
Current budget balance	-8.6	-8.2	-4.0	-2.3	..
Overall surplus/deficit	..	..	..	..	..



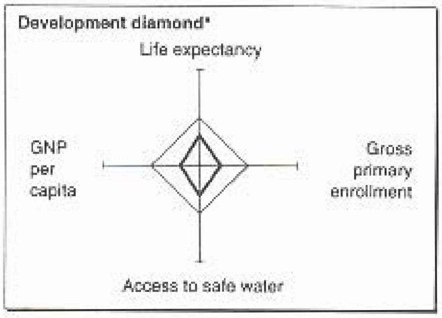
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Sierra Leone

POVERTY and SOCIAL

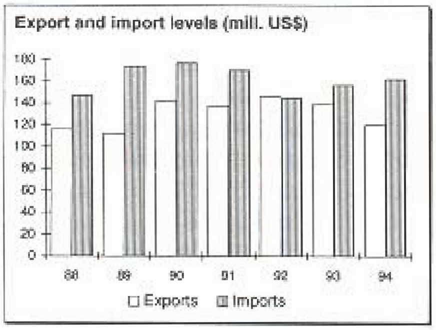
	1985-90	1990-94
(annual growth rates)		
Population	2.5	2.5
Labor force	1.2	1.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	39.4
Infant mortality *(per 1,000 live births)*	163.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	43.0
Energy consumption per capita *(kg oil equivalent)*	71.6
Illiteracy *(% of population age 15+)*	79.3
Gross primary enrollment *(% of school-age population)*	48.0



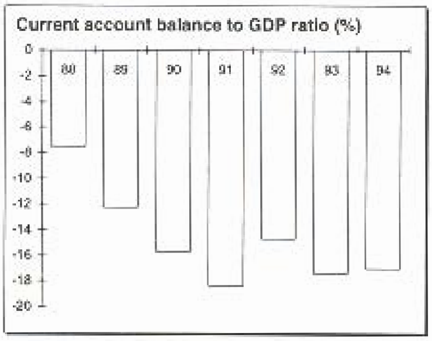
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	139	142	146	139	120
Diamonds	30	21	35	23	24
Cocoa	25	8	2	2	2
Manufactures	..	..	..	..	..
Total imports (cif)	169	177	145	156	162
Food	56	58	57	66	69
Fuel and energy	26	27	19	25	20
Capital goods	42	51	29	31	35
Export price index *(1987=100)*	109	125	113	120	109
Import price index *(1987=100)*	185	205	183	202	204
Terms of trade *(1987=100)*	59	61	62	59	53
Openness of economy *(trade/GDP,%)*	19	45	50	49	41



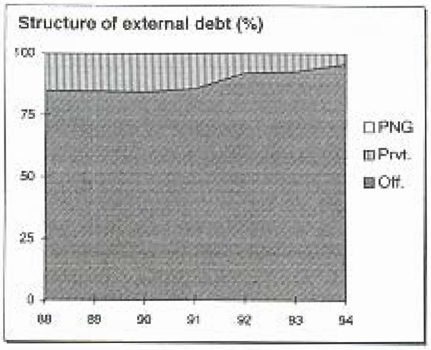
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	146	155	172	164	144
Imports of goods and nfs	182	210	180	194	194
Resource balance	-36	-55	-8	-30	-50
Net factor income	-51	-84	-95	-98	-92
Net current transfers	2	5	0	0	0
Current account balance					
Before official transfers	-85	-135	-103	-128	-142
After official transfers	-68	-93	-66	-89	-127
Long-term capital inflow	3	46	28	221	120
Total other items (net)	55	51	53	-114	-111
Changes in net reserves	10	-4	-15	-18	118
Memo:					
Reserves excluding gold *(mill. US$)*	11	5	21	33	50
Reserves including gold *(mill. US$)*	11	5	21	33	50
Conversion rate *(local/US$)*	3.6	96.7	424.0	539.9	576.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	265.7	389.9	394.6	440.6	585.6
IMF credit/exports	69.1	69.9	53.4	50.7	55.5
Short-term debt/exports	160.8	285.3	286.0	348.5	341.1
Total debt service/exports	13.7	10.1	20.3	11.9	20.5
GDP ratios					
Long-term debt/GDP	29.5	70.5	97.7	99.5	102.6
IMF credit/GDP	7.7	12.6	13.2	11.4	9.7
Short-term debt/GDP	17.8	51.6	70.8	78.7	59.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	20.6	15.7	7.8	7.2	4.3
Official creditors/long-term	79.4	84.3	92.2	92.8	95.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Slovak Republic

Slovakia became an independent country at the beginning of 1993 after the "velvet" breakup of the Czech and Slovak Republic. Slovakia has a population of 5.3 million and an estimated 1993 per capita income of $1,950. After World War II the country, then the less developed of Czechoslovakia's two republics, underwent rapid industrialization, which resulted in a convergence of incomes across the federation as Slovakia's measured per capita income rose from around 60 percent of that in the Czech lands in 1948 to near parity in the 1970s.

As part of the federation, Slovakia implemented, at the beginning of 1991, a bold and far-reaching transformation program, characterized by a 50 percent devaluation of the koruna, almost complete trade and price liberalization, rapid privatization of state enterprises through mass and standard privatization methods, and, most important, prudent fiscal, monetary, and income policies. The program enjoyed very substantial support from the international community, most prominently from the IMF, the World Bank, the European Union, and Japan.

When the federation split into two countries Slovakia lost important resources it had received from the federal budget amounting to an estimated 7 percent of GDP in 1992. To facilitate the transformation to an economic structure more in line with the country's comparative advantage and the adjustment to the loss of federal transfers, the IMF and the World Bank provided Slovakia with financial support.

The government voted into office in mid-1992 lost its parliamentary support in early 1994, and a transitional government was in charge of reform policies until new elections in September-October 1994, when a new coalition government was formed. A different emphasis on the speed and method of privatizing the remaining enterprises is the main distinction between the reform programs of the transitional and current governments.

Recent Economic Developments

After declining by 24 percent between 1990 and 1993, GDP rose an impressive 5 percent in 1994. Industrial production, which fell by 44 percent in real terms over 1990-93, rose about 7 percent in 1994. While the economic recovery is in line with the trend observed in the other transforming economies in Central Europe, Slovakia's output performance in 1994 ranks among the best in that group. Consumption and investment remain, however, low. Interest rates have remained high, and bank credit to the private sector has expanded only slowly.

Two factors sparked the economic turnaround. First, Slovakia has succeeded, despite political instability, in preserving its tradition of macroeconomic prudence. A tight monetary policy and strong fiscal stabilization measures, anchored in a fixed exchange rate, led to a rapid decline of the budget deficit from 12.8 percent of GDP in 1992 to 7.6 percent in 1993, and 2.8 percent in 1994, one percentage point better than targeted under the IMF program. Inflation was cut in half from 25 percent in 1993 to slightly less than 12 percent, or less than 1 percent a month in 1994. Unemployment has stabilized at around 14 to 15 percent of the labor force.

Second, after having successfully reoriented foreign trade to Western European markets, Slovakia was able to take advantage of the recent recovery on these markets. Aided by an additional 10 percent devaluation of the koruna in mid-1993 and a wage level about one-tenth of Western European levels, exports rose 16 percent in real terms in 1994. Imports, constrained by low domestic demand and slow industrial restructuring, as well as a temporary import surcharge applied since March 1993, rose only 1 percent in real terms in the same period. Consequently, the current account improved by 11 percentage points, from a deficit of 5.4 percent of GDP in 1993 to a surplus of almost 6 percent in 1994. Slovakia also succeeded in tapping international capital markets in 1994, and by the end of that year foreign reserves stood at $3 billion, equivalent to about four months of imports.

Slovakia has also made progress in privatizing the economy. Thanks to an early start in privatizing state enterprises through coupon and standard methods in the first privatization wave in 1992 and 1993, and the emergence of newly created enterprises, the private sector accounted for an estimated 58 percent of GDP in early 1995, compared to only 3 or 4 percent in the late 1980s.

After independence, privatization slowed significantly, mainly because the government was not convinced about the merits of privatizing state enterprises hastily. In the case of coupon privatization, concerns were raised that enterprise governance would not significantly improve when many atomistic shareholders became the owners of enterprises, and that investment funds lacked sufficient expertise or interest to restructure or liquidate enterprises. Even privatization through standard methods virtually came to a halt, because of attempts to favor sales to domestic investors (over interested foreign investors), even if they found it difficult to mobilize sufficient funds or credit from the banking sector. Consequently, in early 1995 more than two-thirds of equity in medium and large enterprises remained in state ownership.

After a prolonged stalemate, the new government is reactivating privatization of the remaining state enterprises, mainly through standard methods, complemented with a second round of coupon privatization. Coupon holders would be allowed to become minority shareholders in the approximately 500 enterprises to be privatized over the next two to three years. The start of the second wave of coupon privatization, for which an overwhelming majority of eligible Slovaks had registered before the current government was voted into office has, however, been postponed until later in 1995.

Another area where progress has been slow is in reducing the overall size of the state and restructuring the state budget. High social security payments and large current and capital subsidies to ailing enterprises, accounting for 6 percent of GDP in 1994, have resulted in public expenditures that absorbed more than half of GDP in 1994. The latter have even been budgeted to rise in 1995. The level and the composition of public expenditures, and the correspondingly high tax burden, are constraining development of a more dynamic private sector. The authorities have begun to address these issues by downsizing some components of the social welfare program, such as lowering the income ceiling for receiving child benefits, and by moving toward self-financed insurance schemes for the principal programs: pensions, health services, and unemployment and sickness benefits. At the same time, the core safety net — means-tested social assistance — is being fully funded to provide minimum income support for the long-term unemployed. The authorities realize that many benefit payments are still too generous and that further restructuring will be needed to reduce the size of the state in the economy and support those who are really in need of financial support.

Slovakia's banking system is undergoing fundamental change, and the government is considering additional reforms. Institutional reforms, including the creation of a two-tier system took place very early, and a basic banking supervision and regulatory framework is in place, though poor auditing and weak supervision have enabled banks to continue to roll over loans to insolvent enterprises. The framework for bankruptcy procedures, conciliation, and enterprise reorganization and audits of bank portfolios is being strengthened.

As in the Czech Republic, banks were included in the first privatization wave, and the two largest of Slovakia's three major banks have been partially privatized. Like most banks in the region, they were impaired by the legacy of past lending decisions and carried substantial nonperforming loans. To address the problem of bad loans in a systematic and comprehensive fashion, and to improve the capital base of banks, significant portions of bad loans were removed from the balance sheets of the two major banks in 1992 and 1993 and transferred to a special "consolidation bank." The latter is now in the process of recovering as much as possible of these loans through new techniques and intensified efforts, including sales of portions of the assets of the debtor enterprises. This improved the banks to such a degree that now, through large spreads between the deposit and lending rates, banks have been able to generate substantial retained earnings that have helped build up capital from within. Consequently, the financial condition of the two largest banks seems to be improving. The Savings Bank, Slovakia's third major bank and largest deposit taker, remains fully in state hands, and its privatization and rehabilitation are issues for the future.

Medium-Term Prospects

Slovakia has succeeded in laying the basis for a robust economic turnaround in the second half of the 1990s. Because of favorable conditions, including competitive wage levels, a strategic location in the heart of Europe, and very low external indebtedness, the country is well positioned to take further advantage of the economic recovery in Europe and to grow at annual rates of 4 to 5 percent, although these growth rates can be sustained only if political and macroeconomic stability is accompanied by accelerated structural reforms. An increase in direct foreign investment — which averaged only some $135 million over 1992-94, far less than some of Slovakia's neighbors — that brings in technology and management would also promote growth. Policies that support the emerging private sector and a transparent privatization program would greatly facilitate attracting direct foreign investment.

Projections assume that domestic investment will increase in response to privatization and restructuring of the remaining state enterprises and an improved business climate, and will rise faster than national savings; the present current account surplus would turn into moderate deficits in the medium term. These would be financed, initially, largely from official sources that would be increasingly replaced with market-based private sources as Slovakia's structural reforms bear fruit, physical and regulatory infrastructure improves, and economic recovery proves to be robust and sustainable.

Slovakia has made impressive progress during the first two years of independence. However, economic and political uncertainties remain. Unfavorable external events, such as a slowdown of the European recovery or a substantial reduction in earnings from gas or petroleum transit fees, could affect both the fiscal deficit and the balance of payments. Internally, general slippage in structural reforms due to weak implementation capacity or political pressures could threaten to reverse progress. In either case, growth would be reduced and prospects for joining the European Union by the turn of the century dimmed.

External Debt

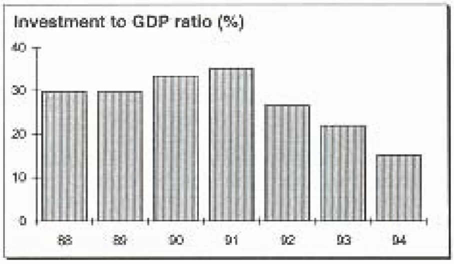
Under this scenario, medium- and long-term debt would remain at 30 percent of GDP to 2000, roughly the same level as in 1993-94. Debt service would rise slightly, from 8 percent in 1994 to 10 percent of exports of goods and nonfactor services by 2000, mainly because of rising short-term debt and suppliers' credits.

Slovak Republic

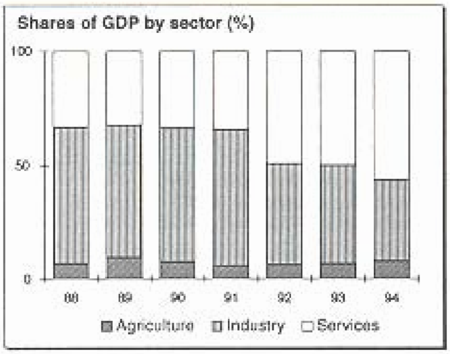
Population mid-1993 *(millions)*	5.3
GNP per capita 1993 *(US$)*	1,950

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

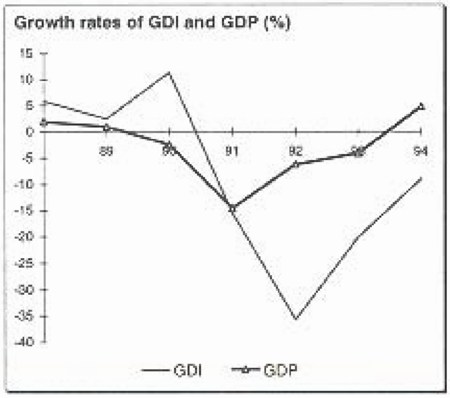
KEY RATIOS	1985	1990	1992	1993	1994
Gross domestic investment/GDP	31.6	33.5	26.5	21.9	15.1
Exports of goods and nfs/GDP	..	26.3	75.9	67.0	69.6
Gross domestic savings/GDP	30.6	24.2	22.0	15.9	20.4
Gross national savings/GDP	..	..	..	16.4	20.0
Current account balance/GDP	..	..	-5.2	-5.5	5.2
Interest payments/GDP	0.8	0.6	1.1	1.1	1.5
Total debt/GDP	8.9	14.0	23.5	30.1	30.9
Total debt/exports	..	..	31.1	43.9	..



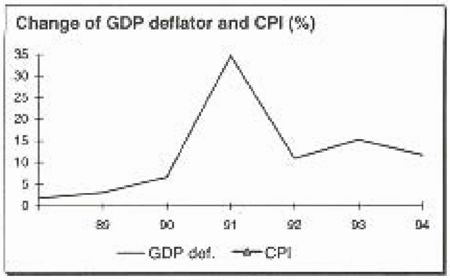
GDP: PRODUCTION	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	6.4	7.4	6.2	6.6	7.7
Industry	61.6	59.1	44.7	43.5	36.0
Manufacturing	..	..	..	..	..
Services	32.0	33.5	49.1	49.9	56.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.6	-2.5	-8.4	1.7	1.6
Industry	2.0	-11.8	-13.7	-11.5	5.1
Manufacturing	..	..	..	..	..
Services	0.7	3.4	4.4	3.4	5.1
GDP	1.5	-5.2	-6.2	-4.1	4.8



GDP: EXPENDITURE	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	54.1	59.0	55.7
General government consumption	..	..	23.9	25.1	24.0
Gross domestic investment	31.6	33.5	26.5	21.9	15.1
Exports of goods and nfs	..	26.3	75.9	67.0	69.6
Imports of goods and nfs	..	35.6	80.4	73.0	64.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	-6.6	3.4	-1.6	-3.2
General government consumption	..	-2.4	3.4	4.6	-4.4
Gross domestic investment	3.7	-22.3	-35.7	-20.0	-8.9
Exports of goods and nfs	*-10.1*	27.0	81.2	-0.2	14.0
Imports of goods and nfs	*3.7*	11.5	60.3	-1.0	0.6
Gross national product	1.5	-5.3	-6.6	-4.1	4.2
Gross national income	*2.7*	-7.3	-9.0	-6.7	6.9



PRICES and GOVERNMENT FINANCE	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	1.1	6.6	10.9	15.2	11.7
Government finance					
(% of GDP)					
Current budget balance	..	..	-4.8	-1.4	1.7
Overall surplus/deficit	..	..	-12.8	-7.6	-4.0



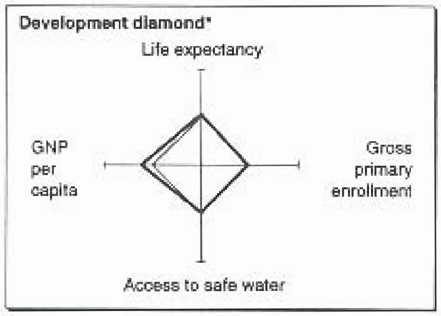
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Slovak Republic

POVERTY and SOCIAL

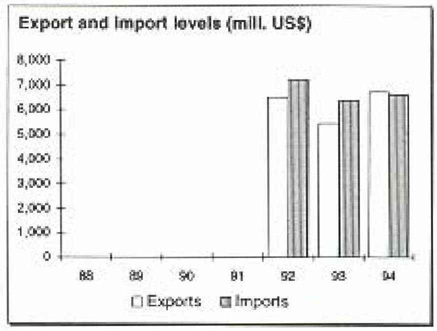
(annual growth rates)	1985-90	1990-94
Population	0.4	0.4
Labor force	0.6	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	70.8
Infant mortality *(per 1,000 live births)*	12.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	77.0
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	100.0



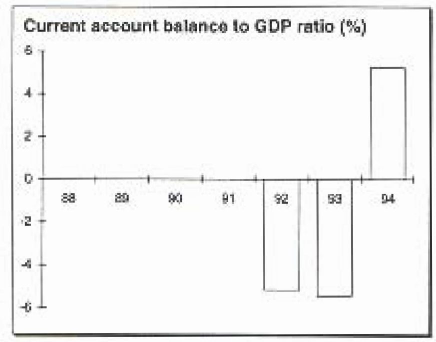
TRADE

(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	..	..	6,515	5,447	6,727
Other agriculture	..	..	525	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	5,581	..	..
Total imports (cif)	..	..	7,229	6,379	6,622
Food	..	..	390	..	..
Fuel and energy	..	..	2,007	..	..
Capital goods	..	..	2,365	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	62	156	140	134



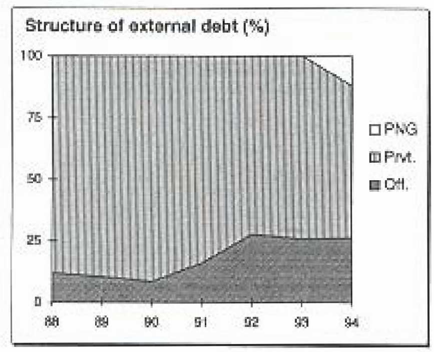
BALANCE of PAYMENTS

(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	..	..	8,048	7,398	..
Imports of goods and nfs	..	..	8,648	8,061	..
Resource balance	..	..	-600	-663	..
Net factor income	..	..	-35	-38	..
Net current transfers	..	..	70	96	71
Current account balance					
Before official transfers	..	..	-565	-605	648
After official transfers	..	..	179	-601	648
Long-term capital inflow	..	..	107	-106	..
Total other items (net)	..	..	-286	1,138	..
Changes in net reserves	..	..	-1	-431	-1,444
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	416	1,689
Reserves including gold *(mill. US$)*	..	..	..	920	2,183
Conversion rate *(local/US$)*	17.2	18.0	28.3	30.8	32.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	20.2	27.1	..
IMF credit/exports	..	..	5.7	7.3	..
Short-term debt/exports	..	..	5.2	9.4	..
Total debt service/exports	..	..	7.1	8.0	..
GDP ratios					
Long-term debt/GDP	6.3	10.5	15.2	18.6	20.2
IMF credit/GDP	0.0	0.0	4.3	5.0	5.0
Short-term debt/GDP	2.6	3.5	3.9	6.5	5.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	12.0
Public and publicly guaranteed					
Private creditors/long-term	89.3	91.7	72.4	74.2	61.7
Official creditors/long-term	10.7	8.3	27.6	25.8	26.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Republic of Slovenia

With a population of 2 million and a per capita income of $6,490 in 1993, Slovenia is the most prosperous country in Central and Eastern Europe. The Slovene economy is oriented toward services and manufacturing, with the services sector accounting for about 53 percent and industry accounting for about 29 percent of output. Its economy is comparatively open, with exports and imports each averaging over 60 percent of GDP during recent years. The European Union is Slovenia's biggest trading partner, accounting for about 60 percent of its external trade.

Slovenia enjoyed the highest standard of living among the former Yugoslav republics. Its macroeconomic and growth performance, however, deteriorated substantially with the rest of Yugoslavia during the 1980s because of the structural weaknesses of the old Yugoslav system of enterprise self-management and the ownership links between banks and enterprises. The system of self-management lacked the discipline of capital markets and private ownership, and resulted in excessive wage pressures and large enterprise losses financed by the enterprise-owned banking system without reference to commercial criteria.

The disintegration of Yugoslavia and the resulting disruptions in trade, production, and tourism led to further output decline in Slovenia. GDP fell by 15 percent in real terms between 1990 and 1992, and fixed investment declined to an all-time low of around 17 percent of GDP in 1992. The contraction of activity was accompanied by a sharp increase in the unemployment rate, from around 4 percent in 1990 to more than 14 percent in late 1993.

Slovenia has made substantial progress toward macroeconomic stability since its independence in October 1991. A new currency — the Slovene tolar — was introduced in October 1991 as Slovenia began a stabilization program aimed at reducing the high rates of inflation inherited from the former Yugoslav Federation and increasing its critically low level of foreign exchange reserves. Yearly inflation fell from 247 percent at end-1991 to around 23 percent at end-1993, and foreign exchange reserves increased from almost zero at independence to about $1.5 billion by end-1993, equivalent to 2.2 months of imports.

The 1992-93 macroeconomic improvements, although impressive, were achieved on the same distorted microeconomic foundations that led to hyperinflation and economic stagnation in the 1980s. Enterprise accounting losses remained high at 17 percent of GDP, and continued poor performance by the enterprise sector led to difficulties of near crisis proportions in the banking sector. Economic stability could clearly not be sustained without rapid and thorough reform of the enterprise and banking sectors.

In early 1993 Slovenia launched a comprehensive structural reform program to address these inherited structural problems. The program's core elements included enterprise-sector reform, including privatizing socially owned enterprises, reforming state-owned enterprise ownership and governance, and programs to stem enterprise losses and develop the private sector. The program also called for reforming the banking sector by restructuring banks, improving bank regulation, and privatizing banks.

Recent Economic Developments

Slovenia now appears to be on its way to recovery. Real GDP growth accelerated to 5 percent in 1994, from the modest 1 percent recorded in 1993 and, more important, followed a more sustainable pattern than in the previous year. While consumption was the main driving force behind the 1993 recovery, domestic savings rose by over 2 percent of GDP in 1994, reaching 24.6 percent of GDP, one of the highest levels in the region. Increased savings, in turn, made room for a higher external sector surplus and a sharp increase in investment, two factors that underpinned the growth of 1994.

The current account recorded a surplus of 4 percent of GDP in 1994 — up from 1.6 percent in 1993 — which, together with significant capital inflows, helped Slovenia increase its international reserves to 4.2 months of imports. The improvement in the current account reflected a turnaround in exports, which grew 4 percent in 1994, following a 6 percent decline in 1993, and a moderate increase in imports of 2.4 percent, contrasting with their sharp 17 percent increase in 1993.

A strong recovery of investment was the second driving force behind the good 1994 growth performance. Investment increased for the second year in a row, and the share of investment in GDP, now over 20 percent, is high by regional standards and, if sustained, should allow Slovenia to maintain high growth rates and rapidly recover its pre-independence output levels. This would also help reduce unemployment, which stands at 14 percent of the labor force.

Progress was also good, although slower, on stabilization, as annual inflation fell to 19 percent in 1994, from 23 percent in 1993. Monetary and exchange rate management walked an uneasy tightrope between the objectives of increasing price stability and maintaining external competitiveness. Although not as high as in 1992, the external surplus in 1994 exerted pressure on the real exchange rate to appreciate; to preserve external competitiveness, the central bank purchased significant amounts of foreign exchange, containing the appreciation of the real exchange rate to about 10 percent. But foreign inflows, while building reserves, contributed to inflationary pressures. This led the authorities to keep a tight monetary and fiscal stance. The government held the budget deficit to 1 percent of GDP in 1994, pursuing its policy of progressive fiscal retrenchment. Fiscal revenues were reduced by about 3 percent of GDP in 1994, to about 47 percent of GDP. And the central bank continued to enforce tight monetary policies at the cost of continued high interest rates, which were 15 percent in real terms for bank lending.

These problems point to an embedded weakness in the Slovene economy — cost-push pressures coming particularly from wages — that have a potential negative impact on external competitiveness. Real wages rose rapidly in 1993 and 1994, by 15 percent and 6 percent, respectively. These increases exceeded productivity gains as the enterprise restructuring, particularly reductions in employment levels, has not proceeded as rapidly as would have been economically desirable. As a result, unit labor costs have been on the rise, threatening external competitiveness and constraining monetary and exchange rate management. This led the government to adopt measures aimed at relieving the burden of labor costs, including lowering social security contributions from 48.1 percent of gross wages to 45.2 percent, and imposing an excess wage tax.

Structural Reforms

The June 1993 Law on Ownership Transformation governs the privatization of about 1,500 socially owned enterprises in industry, trade, and services. The Slovene Privatization Agency and the Development Fund are the principal institutions in charge of the privatization program. The law provides the framework for a multitrack privatization including: trade sales, sale of shares through public offering, worker-management buyouts, and mass privatization. Under the latter, certificates equivalent to DM8 billion have been issued to all Slovene citizens, to be used to purchase shares in enterprises or private investment funds. The law gave enterprises until end-1994 to initiate transformation on a voluntary basis.

Until recently, the privatization of socially owned enterprises has been slower than expected, as privatizations were initiated on a voluntary basis until the December 31, 1994 deadline. The pace has picked up substantially, however, since the second half of 1994, as the deadline neared and mass privatization started. The authorities expect to have substantially completed privatization by end-1996. The growth of new private enterprises has been robust, partly due to good progress in adopting important elements of the legal framework for private-sector development, including bankruptcy and company laws, auditing and notary standards, and securities market legislation. The private sector accounted for more than one-third of GDP in 1994.

Laws providing the framework for organizing, privatizing, and regulating public service subsectors such as power utilities are under preparation, and are expected to lead to significant privatization in these subsectors. Substantial progress has also been made in reducing accounting losses in the steel, energy, and railways subsectors.

Slovenia initiated a banking reform program in 1993 by taking over insolvent banks representing more than 50 percent of the banking system's assets. Major progress has been achieved in the restructuring these banks to ready them for privatization by writing off loan portfolio and other losses and separating out assets and liabilities related to former Yugoslavia. The program was implemented by the Bank Rehabilitation Agency and has involved the issue of approximately DM3.2 billion in state and state-guaranteed bonds to replace bank claims against the National Bank of Yugoslavia related to the Slovene household deposits and a portion of the banks' other nonperforming assets.

There has also been a significant strengthening of bank governance and operations. The restructuring process has curtailed the ownership links between enterprises and banks, substantially transformed the structure of the banking sector, and enhanced competition among banks. The authorities are currently in the process of preparing privatization strategies for the rehabilitated banks, and are continuing to strengthen the regulatory framework and the supervisory capacity of the Bank of Slovenia to enable effective regulation and surveillance of a private and more sophisticated banking sector.

The government has set guidelines to bring energy and transportation prices to European levels in the shortest possible period to ready them for privatization and attract foreign direct investment in these sectors. The authorities have improved the Slovene labor market and social safety net policies and provided adequate budgetary funding for the incremental costs resulting from enterprise reforms. They have reformed the tax system and are strengthening tax administration. They intend to reform the health services and the pension system, and have begun a study aimed at guiding reform of pensions and identifying the measures needed to introduce a two-tier pension system.

Medium-Term Prospects

If Slovenia continues its sound short-term economic management, including wage policies, prospects for 1995 appear to be good for another year of rapid growth — 5 percent — led by continued investment demand. The current account surplus is expected to decline to 2.5 to 3 percent of GDP, and inflation should decline further, to low double-digit levels. For 1996 and beyond, however, Slovenia's ability to sustain high growth under stable monetary conditions will increasingly depend on its capacity to fully implement its program of restructuring and privatizing the enterprise and banking sectors. This will improve efficiency, free monetary policies from current constraints, and pave the way for sustained private-sector-led growth.

External Debt

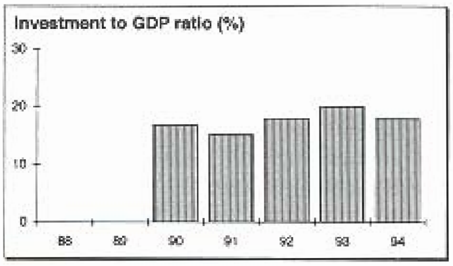
Slovenia's external situation is strong and clearly no cause for immediate concern. By the end of 1994, reserves had increased to levels above four months of imports, and the ratio of debt to GDP stood at 16.1 percent. Although the debt-to-GDP ratio could increase by roughly 4 percent of GDP when the issue of the unallocated debt of former Yugoslavia is resolved, indebtedness would still remain low by all standards. Despite its current account surpluses, Slovenia will need significant amounts of foreign financing in coming years to meet its public debt obligations and increase its reserves to at least five months of imports, a level deemed necessary considering the openness of the economy.

Republic of Slovenia

Population mid-1993 *(millions)*	**1.9**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**6,490**	Indebtedness level:	**Less indebted**

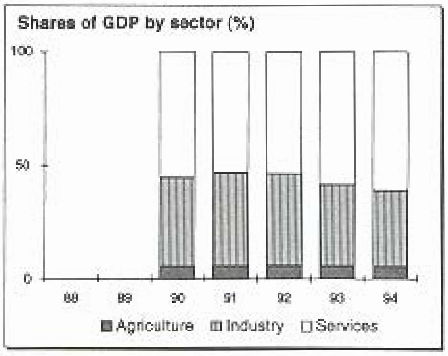
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	16.9	17.9	20.0	17.9
Exports of goods and nfs/GDP	..	85.6	63.7	62.6	51.6
Gross domestic savings/GDP	..	32.6	26.9	21.2	21.2
Gross national savings/GDP	..	32.4	26.5	21.1	..
Current account balance/GDP	..	2.8	7.5	1.6	4.0
Interest payments/GDP	..	..	..	1.1	1.0
Total debt/GDP	..	..	..	16.1	16.1
Total debt/exports	..	..	..	25.3	24.0



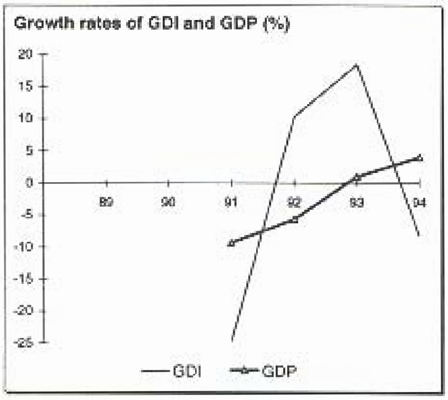
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	5.3	5.7	5.6	5.3
Industry	..	39.6	40.7	36.0	33.8
Manufacturing	..	33.5	34.1	30.2	28.3
Services	..	55.2	53.5	58.3	61.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	..	-2.6	-5.7	1.0	4.0



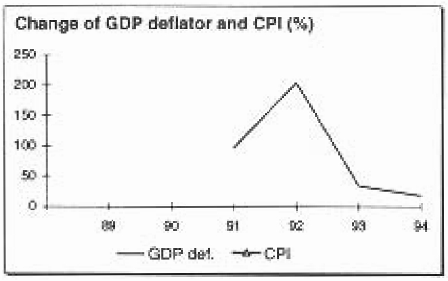
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	49.9	51.8	56.3	47.5
General government consumption	..	17.4	21.3	22.5	31.3
Gross domestic investment	..	16.9	17.9	20.0	17.9
Exports of goods and nfs	..	85.6	63.7	62.6	51.6
Imports of goods and nfs	..	69.9	54.8	61.5	48.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	5.0	-4.6	9.6	-12.2
General government consumption	..	9.6	7.7	7.2	44.3
Gross domestic investment	..	0.6	10.3	18.4	-8.2
Exports of goods and nfs	..	-18.2	-34.6	-8.9	1.2
Imports of goods and nfs	..	-12.3	-33.0	5.7	-3.3
Gross national product	..	-2.6	-5.6	1.0	4.0
Gross national income	..	0.2	-2.5	1.9	4.0



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	204.5	33.8	18.1
Government finance					
(% of GDP)					
Current budget balance	..	..	3.0	2.8	2.7
Overall surplus/deficit	..	..	0.2	0.5	-1.0



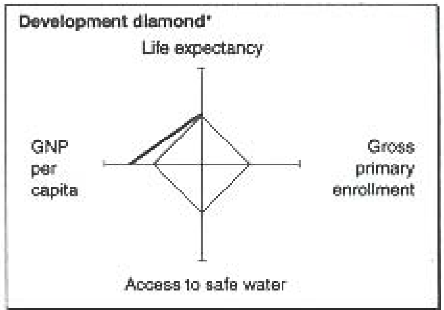
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Republic of Slovenia

POVERTY and SOCIAL

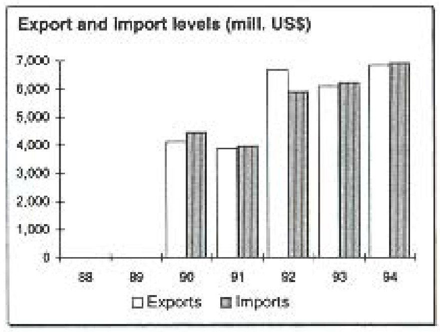
	1985-90	1990-94
(annual growth rates)		
Population	0.4	*0.3*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	72.7
Infant mortality *(per 1,000 live births)*	7.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	1,530.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



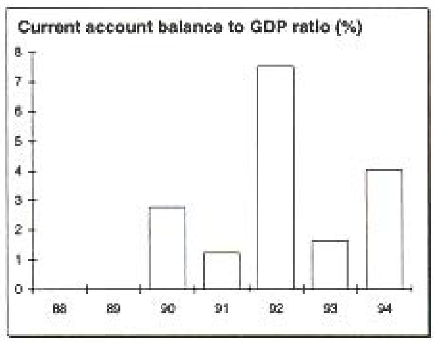
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	4,118	6,682	6,087	6,843
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	4,459	5,892	6,224	6,922
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	155	118	124	100



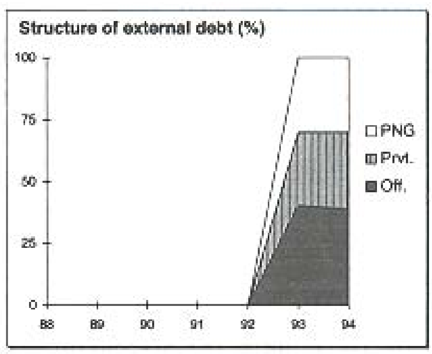
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	5,813	7,902	7,478	8,593
Imports of goods and nfs	..	5,302	6,931	7,266	8,001
Resource balance	..	511	971	212	592
Net factor income	..	-119	-92	-56	-134
Net current transfers	0	87	50	40	58
Current account balance					
Before official transfers	..	479	929	196	516
After official transfers	..	526	976	196	516
Long-term capital inflow	..	-2	97	215	84
Total other items (net)	..	..	-469	-356	-325
Changes in net reserves	..	..	-604	-55	-275
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	11.3	81.3	113.2	129.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	23.6	22.6
IMF credit/exports	..	..	..	0.2	0.1
Short-term debt/exports	..	..	..	1.5	1.3
Total debt service/exports	..	..	..	5.6	4.5
GDP ratios					
Long-term debt/GDP	..	..	..	15.0	15.1
IMF credit/GDP	..	..	..	0.1	0.1
Short-term debt/GDP	..	..	..	1.0	0.9
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	30.0	29.9
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	29.8	31.2
Official creditors/long-term	..	..	..	40.2	38.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Sri Lanka

Sri Lanka's development performance since independence has been good. Long-run growth of per capita GDP has averaged 2.8 percent, and there have been impressive social gains, especially in improving basic education and health indicators. Literacy and primary school enrollment are virtually universal, and the demographic transition is almost complete. With its human resource base, varied natural endowments, and tradition of political participation, Sri Lanka could potentially become an important player in the Asian economic scene. However, Sri Lanka's aspirations to achieve newly industrialized country status have been frustrated by a protracted and costly ethnic conflict in the northeast, resurgent political violence, and a history of stop-and-go reforms associated with election cycles. After the 1989 elections, for instance, adjustment efforts gathered momentum, just to level off again and even backtrack in some important areas during the heavy electoral period of the preceding eight-teen months.

A key goal of the adjustment program has been creation of an environment favorable to sustained expansion in private-sector activity; this is now complemented by efforts to restructure and redirect public sector activities. Between 1989 and 1993 adjustment performance was strong in terms of growth and external sector performance, but mixed in reducing inflation and addressing structural and other quality-related aspects of the program. Most progress was achieved in eliminating foreign exchange controls, especially for current account transactions, and in privatization. There were slippages in meeting monetary targets, and inflation remained in the two-digit range. The quality of both current and development public expenditures also remain of concern, and the privatization program did not include many of the larger public enterprises and banks — and in fact stalled altogether last year.

Despite this recent backtracking, progress on the adjustment front has produced tangible results: Growth has averaged better than 5 percent over the past five years; the role of the private sector has grown considerably, including in the shaping of public policy, and is showing remarkable resilience to political changes; foreign direct investment flows have increased substantially and steadily; and export performance is strong even if the base remains narrow and the leading garment sector faces market-access restrictions and intense competition. Moreover, international reserves have reached over five months of imports.

he unexpected success of the People's Alliance Party in regional elections in March 1994 paved the way for the defeat of the ruling United National Party in the August parliamentary elections after 17 years in power, in turn leading to a decisive victory by the Alliance candidate in the November presidential elections. The need for peace occupied a major place in the election platform. Negotiations with the Tamil Tigers were initiated, and a cease-fire negotiated in early 1995. While developments were initially encouraging, the cease-fire was seriously violated in April, leaving the outcome of the peace process uncertain. The effective restoration of peace would improve dramatically Sri Lanka's economic prospects even if in the short run, reconstruction and demobilization complicate macroeconomic management.

After initial hesitation, the new government clarified its economic policy stance and resumed implementation of the unfinished agenda although it is too early to assess the quality of the reform effort.

Recent Economic Developments

Sri Lanka's economy has experienced a rebound in growth since late 1989, spurred by renewed adjustment efforts and increasing private sector confidence. The efforts focused on reducing macroeconomic imbalances and improving incentives for the private sector through privatization and trade and external payments reforms. The rebound was broad-based, with strong growth in industry and services and a rapid expansion of domestic and foreign private investment. Real GDP rose by an average of 5.5 percent over 1990-94, compared to 2.1 percent during the prior three years, with significant expansion of exports. The current account deficit (before grants) was about 8 percent of GDP in 1994, well above the average of 2.6 percent over 1985-89. The overall balance of payments recorded surpluses over 1990-94, and official reserves rose to five months of imports by the end of 1994. Strong export performance, especially in garments, and an increase in remittances account for most of the improvement in the current account.

There was a considerable deterioration in economic policies in 1994. While estimated real output grew by about 5.6 percent, inflation remained high at 8.4 percent, although below earlier years, reflecting reductions in some administered prices, new subsidies on essential commodities such as wheat and fertilizer, rather than tight fiscal and monetary policies. The overall budget deficit (before grants) widened from 8 percent of GDP in 1993 to 10 percent of GDP, reversing gains made toward fiscal sustainability in earlier years. The authorities resorted to monetary expansion (20 percent in broad money) to accommodate both the fiscal slippage and the private sector's strong credit demand.

Thus, while economic recovery is well under way, the restoration of domestic macroeconomic balances proved more difficult, and there are also some concerns about the quality of the fiscal adjustment. Although the budget deficit was reduced (from 11.6 percent in 1991), the adjustment was largely through contraction in public investment. Mounting pressures on current expenditures prevented a stronger sustainable fiscal improvement. Capital spending fell to accommodate the escalation in spending on defense, civil service wages, and debt service obligations, especially on domestic debt service at high interest rates. On the monetary policy side, slippages and large increases in net foreign assets resulted in a relatively rapid expansion of the money supply over 1990-94 and reduced the fiscal adjustment's beneficial impact on inflation.

Substantial progress was made over 1989-93 in liberalizing the exchange and trade regimes (except for agriculture), and the system of incentives for private investment, boosting private sector confidence in the manufacturing and service sectors, and foreign direct investment. The government also moved on the privatization of small and medium firms, achieving commendable progress. However, with few exceptions, it was unable to tackle major loss-making enterprises. Also, an initially successful but costly effort to reduce the size of the civil service could not be sustained. Moreover, tax holidays proliferated as part of an effort to reduce the high rate of rate of unemployment — about 13 percent in mid-1994 — a major concern to the government, which views job creation as a political necessity for stemming a resurgence of political violence.

The 1995 budget sets an ambitious deficit-reduction target (7.5 percent of GDP) compared to the 11 to 12 percent expected in the absence of corrective measures. It is underpinned by a large number of structural reforms encompassing the trade and tax regimes, privatization, and the restructuring of the welfare programs. On the expenditure side, the budget also contains a 20 percent cut on nonwage expenditures as well as a marginal cut in the wage bill while allowing for an increase in capital expenditures to about 8 percent of GDP. It also includes costly subsidies introduced before and after the elections. In addition to their fiscal implications and their distortionary nature, some of these may in fact be also antipoor — a large bread and flour subsidy will encourage a shift in consumption and hurt subsistence rice farmers — and environmentally questionable, such as the reintroduction of the fertilizer subsidy.

Medium-Term Prospects

Sri Lanka faces major challenges, not least the unresolved civil conflict in the northeast country, which has exacted a high cost in terms of human suffering, forgone output, fiscal imbalance, and implications for the investment climate. Yet despite the country's troubled political situation, the economy, especially the private sector, has shown remarkable growth in recent years.

Sri Lanka's medium-term prospects depend on the government's ability to improve short-term economic management and address longer-term development constraints. The government's medium-term objective is to sustain economic growth of 6 to 6.5 percent a year. Achieving this pattern of growth should ensure solid progress in dealing with unemployment and reducing poverty. Export of goods, expanding at 12 percent a year in real terms over 1989-94, if sustained over the medium term, would continue to provide the impetus for growth. The key here is further diversification, as tea still accounts for more than 20 percent of total exports, and garments (which largely depend on the quota systems in the United States and the European Union) account for another 40 percent. Tourism, experiencing a major rebound since the unrest of the late 1980s, can also continue to contribute significantly to growth, especially if peace can be restored. The need for diversification and scope for output growth are perhaps greatest in agriculture, where performance is lagging.

External Debt

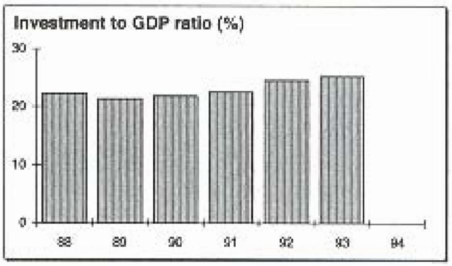
At end-1994 Sri Lanka's medium- and long-term public and publicly guaranteed debt (including the IMF) amounted to $7.2 billion, or 60.9 percent of GDP. Sri Lanka is fortunate to have access to highly concessional funds, and its debt service ratio in 1994 was 13 percent, down from 18.6 percent in 1989.

Sri Lanka

Population mid-1993 *(millions)*	17.9		Income group: **Low**
GNP per capita 1993 *(US$)*	600		Indebtedness level: **Less indebted**

KEY RATIOS

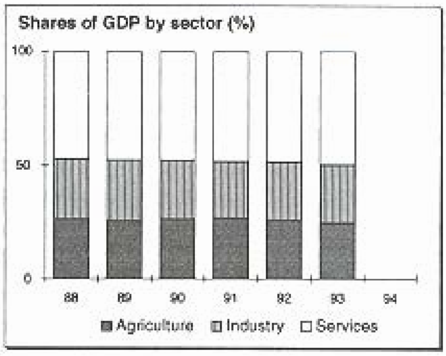
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.4	21.9	24.6	25.3	..
Exports of goods and nfs/GDP	25.6	29.8	31.3	33.4	32.4
Gross domestic savings/GDP	11.7	14.1	15.5	15.8	..
Gross national savings/GDP	14.0	16.5	18.3	20.1	..
Current account balance/GDP	-9.8	-5.9	-6.1	-5.2	-6.2
Interest payments/GDP	1.9	1.5	1.4	1.3	1.3
Total debt/GDP	58.2	71.8	65.0	64.8	63.0
Total debt/exports	182.8	209.7	173.3	160.0	162.2



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	27.7	26.3	25.9	24.6	..
Industry	26.2	26.0	25.6	25.6	..
Manufacturing	14.7	14.8	15.3	15.2	..
Services	46.1	47.7	48.5	49.8	..

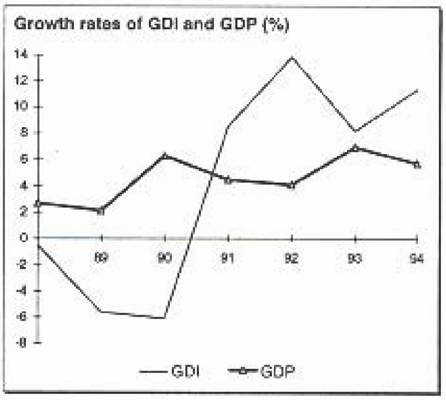
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	0.4	2.0	-1.6	4.9	3.3
Industry	5.3	7.5	7.1	9.8	8.1
Manufacturing	6.3	7.7	9.0	10.3	3.0
Services	3.1	5.7	5.3	6.2	5.2
GDP	2.9	5.3	4.1	6.9	5.7



GDP: EXPENDITURE

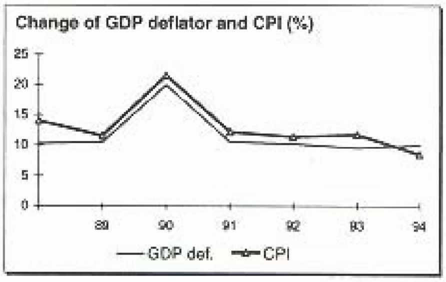
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	78.3	76.2	75.1	75.0	..
General government consumption	10.1	9.6	9.5	9.2	..
Gross domestic investment	23.4	21.9	24.6	25.3	..
Exports of goods and nfs	25.6	29.8	31.3	33.4	32.4
Imports of goods and nfs	37.3	37.6	40.4	42.8	42.6

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	1.5	5.4	2.6	7.9	5.7
General government consumption	1.0	2.8	-2.4	3.8	7.4
Gross domestic investment	1.3	10.5	13.8	8.2	11.3
Exports of goods and nfs	2.9	10.7	11.4	13.1	8.4
Imports of goods and nfs	-1.9	12.6	10.7	14.5	11.6
Gross national product	3.0	5.5	4.2	7.5	5.7
Gross national income	2.5	5.8	5.1	7.9	5.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.5	21.5	11.4	11.7	8.4
Wholesale prices	-15.2	22.2	8.7	7.6	..
Implicit GDP deflator	2.8	19.9	10.2	9.5	10.0
Government finance					
(% of GDP)					
Current budget balance	2.2	-1.2	-0.9	-0.5	-6.2
Overall surplus/deficit	..	..	..	..	-6.2

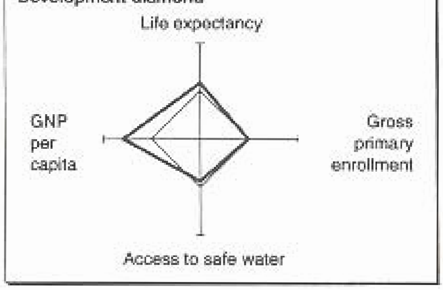


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	1.3	1.3
Labor force	1.5	1.6

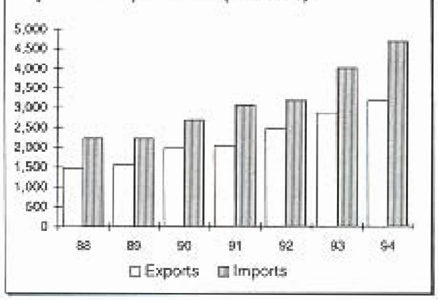
	most recent estimate
Poverty level: headcount index *(% of population)*	22.4
Life expectancy at birth	72.1
Infant mortality *(per 1,000 live births)*	17.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	60.0
Energy consumption per capita *(kg oil equivalent)*	109.5
Illiteracy *(% of population age 15+)*	11.6
Gross primary enrollment *(% of school-age population)*	107.0



Development diamond*

TRADE

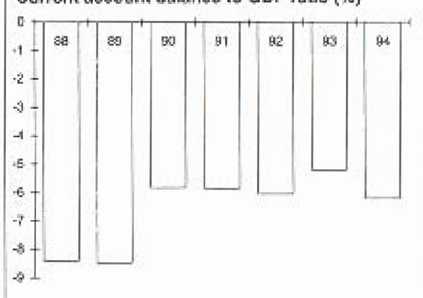
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,333	1,984	2,461	2,859	3,186
Tea	442	495	340	412	449
Rubber	94	77	68	64	69
Manufactures	233	408	536	668	..
Total imports (cif)	1,948	2,689	3,182	4,005	4,688
Food	217	390	420	415	443
Fuel and energy	404	359	318	309	302
Capital goods	382	584	851	1,045	1,431
Export price index *(1987=100)*	96	116	139	158	161
Import price index *(1987=100)*	86	94	117	135	141
Terms of trade *(1987=100)*	112	123	118	117	114
Openness of economy *(trade/GDP,%)*	63	67	72	76	75



Export and import levels (mill. US$)

BALANCE of PAYMENTS

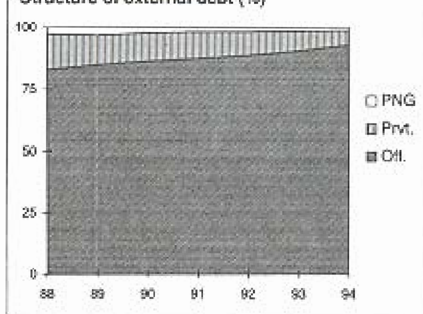
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,561	2,293	3,083	3,494	3,866
Imports of goods and nfs	2,296	2,965	3,964	4,481	5,079
Resource balance	-734	-672	-881	-987	-1,213
Net factor income	-127	-167	-178	-119	-147
Net current transfers	266	362	462	561	622
Current account balance					
Before official transfers	-596	-476	-597	-545	-739
After official transfers	-418	-298	-414	-385	-579
Long-term capital inflow	345	406	410	554	541
Total other items (net)	-42	-47	345	533	40
Changes in net reserves	104	-112	-318	-702	-3
Memo:					
Reserves excluding gold *(mill. US$)*	451	423	927	1,629	2,046
Reserves including gold *(mill. US$)*	472	447	980	1,686	2,046
Conversion rate *(local/US$)*	27.2	40.1	43.8	48.3	49.4



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	151.7	180.9	154.5	142.2	145.4
IMF credit/exports	20.5	14.7	12.6	12.2	11.2
Short-term debt/exports	10.7	14.1	6.2	5.7	5.5
Total debt service/exports	16.5	14.0	13.1	9.9	10.3
GDP ratios					
Long-term debt/GDP	48.3	61.9	58.0	57.5	56.5
IMF credit/GDP	6.5	5.0	4.7	4.9	4.4
Short-term debt/GDP	3.4	4.8	2.3	2.3	2.1
Long-term debt ratios					
Private nonguaranteed/long-term	3.4	2.0	1.7	1.5	1.2
Public and publicly guaranteed					
Private creditors/long-term	22.9	11.7	9.8	8.1	6.0
Official creditors/long-term	73.8	86.3	88.5	90.4	92.9



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Tanzania

With an estimated GNP per capita of about $90 in 1993, Tanzania is one of the poorest countries of the world — though a recent survey of household expenditures indicates this official estimate of GNP may be understated by as much as 50 percent. Covering an area of 945,000 square kilometers just south of the equator, it has a population of about 28 million growing at 3 percent a year. The economy is heavily dependent on agriculture (over 50 percent of GDP), and its diverse ecology supports cultivation of coffee, cotton, tea, cashew nuts, sisal, maize, rice, wheat, cassava, and tobacco. The manufacturing sector is small, and the mining sector has good potential but is relatively undeveloped. Tourism is one of Tanzania's dynamic sectors, with significant growth in recent years. The large service sector is increasingly an important source of employment.

After independence in 1961 Tanzania's economy, burdened with a legacy of extensive poverty, dependence on subsistence agriculture, a small industrial base, and a limited number of educated and trained personnel, managed to grow at about 6 percent a year through the late 1960s. In 1967 the government's Arusha Declaration called for the establishment of a socialist economy. Over the next two decades, the government nationalized many commercial and financial firms, imposed price controls and restrictive marketing policies, granted exclusive marketing and processing rights over agricultural commodities to cooperatives and marketing boards, invested in large and inefficient industrial parastatals, and instituted credit and interest rate controls.

Despite progress in forging a unified nation and improving social conditions, these policies greatly inhibited private-sector development and encouraged macroeconomic instability. This, combined with successive droughts, a costly war with Uganda, the breakup of the East African Community, and a fall in the terms of trade, led to a protracted decline in output. By the mid-1980s real per capita incomes were falling, industrial output declined sharply, and high rates of monetary expansion increased inflation to over 30 percent. The shilling became significantly overvalued, and payment arrears on external debt began to mount. Social progress achieved in the 1970s began to be reversed, and a lack of revenues severely hampered infrastructure maintenance.

Economic Reform

In 1986 the government embarked on a reform program to dismantle the system of pervasive economic controls and encourage more active participation of the private sector. The overvalued exchange rate was progressively depreciated, culminating with the unification of the exchange system on the basis of the market in 1993; almost all administrative restrictions on exports and surrender requirements for traditional export goods were eliminated and import licenses abolished for most goods; budget deficits were reduced and monetary control improved; interest rates were liberalized and the entry of private banks encouraged; most price controls and restrictions on domestic marketing arrangements were eliminated; investments in most sectors were opened to private-sector participation, and the marketing of food crops was liberalized. Programs were launched to rehabilitate key infrastructure, particularly roads, railways, and ports. The economy responded well to the reform program and the accompanying increased availability of external resources. Official estimates indicate that both GDP and exports grew by more than 4 percent a year over 1987-94. Because the official data do not reflect informal activities, it is likely that these estimates understate the increase in output, particularly the rapid growth in small-scale industrial activities, increases in agricultural production, and growth in the volume of exports.

Despite the progress of reforms, the economy continues to face considerable difficulties. A gradualist approach to adjustment has meant that reforms are not yet completed. Cooperatives continue to dominate the processing of export crops, excessive regulations throttle private sector operations, financial services still are provided largely by inefficient public-sector banks, and inefficient (and often bankrupt) parastatals continue to play a major role in the industrial sector.

The economy does not generate sufficient savings to sustain development, and large inflows of external resources are required. With approximately 45 percent of the population under the age of 15, output growth may not be sufficient to create the employment necessary to absorb the expected large increases to the labor force, much less to raise significantly the well-being of most Tanzanians. Moreover, the public sector lacks the capacity to cope with the challenges posed by extensive poverty, a rapid increase in population, a growing menace from AIDS, deteriorating essential infrastructure, and the disastrous state of most public services. Finally, the recent political turmoil in neighboring Rwanda has imposed a major burden on the Kagera region, where the economy and surrounding environment have been damaged by a sudden influx of half a million refugees.

Recent Political Developments

After three decades of rule by one party, Tanzania has embarked on a process of political reform. Multiparty elections at the local level were successfully held in late 1994, and presidential and parliamentary elections are scheduled for October 1995. Political liberalization has been a new and, in some respects, difficult experience, and it is not clear what impact the elections and potentially increasing political tensions will have on the implementation of economic reforms.

Regional Economic Integration

Over the past two years, Tanzania, Kenya, and Uganda have resumed active discussions toward reviving East African cooperation in trade, transport and communications, finance, and investment, as well as regional immigration and security. In November 1994 the three heads of state issued a communiqué indicating the establishment of a secretariat in Arusha to facilitate East African cooperation and formulate steps toward strengthening regional institutions. The communiqué also indicated the intention of the three governments to implement the provisions of the cross-border initiative, including steps to harmonize tariff rates and simplify customs procedures and consider the possibility of forming a customs union. In addition, the Ministers of Health in Kenya, Tanzania, and Uganda have consulted for two years on joint concerns in health. They have recently emphasized regional elements of communicable disease control (e.g., malaria), joint financing of regional tertiary services, and health insurance issues.

Tanzania has also endorsed the regional Common Market for Eastern and Southern Africa initiative, which effectively replaces the Preferential Trade Area arrangement.

Recent Economic Performance

Macroeconomic management deteriorated significantly during the past two years. After a broadly balanced position in fiscal years 1990-92, the fiscal deficit (after grants) shot up to 9 percent of GDP in fiscal 1993, and fiscal performance continued to deteriorate during the first half of fiscal 1994. This weakened fiscal position reflected widespread customs duty exemptions, inefficient tax administration, and a failure to control expenditures. A severe drought adversely affected electrical power generation, which lowered industrial production, which contributed to the fall in tax revenues. Aid disbursements were less than expected because of slow implementation of projects and of the reform program.

In January 1994 the government made a determined effort to reestablish macroeconomic stability. It instituted a cash system for controlling expenditures: no checks were to be issued without sufficient funds, and the public-sector banks were instructed not to honor checks issued on accounts that did not contain sufficient funds. This policy, in conjunction with revenue measures, improved the fiscal balance through June 1994. During the first half of fiscal 1995, however, failure to control tax exemptions, evasion of import taxes, and a huge check float from the previous fiscal year led to a further increase in money growth. As a result, the growth of the money supply and inflation have both remained above 30 percent. Since December 1994 the government has taken steps to increase revenue collection and ensure more effective administration of the tax system; these actions have shown some initial success.

Tanzania's central development objective is to reduce poverty through economic growth by stimulating the private sector's capacity to produce and deliver goods and services, while limiting the role of the public sector and strengthening its capacity to manage the economy and provide essential services.

The government's program to reduce poverty is based on three pillars: accelerating labor-absorbing growth, increasing the level and efficiency of social sector expenditures, and targeting interventions to assist the poorest segments of the population. Liberalization of the agriculture sector has enhanced agricultural growth and benefited the rural poor. A food-security program and operation of a strategic grain reserve are designed to forestall food price spikes and alleviate temporary shortages affecting areas of the country and vulnerable groups. The public-sector reform program includes a safety net for low-income workers, including a retrenchment compensation package and retraining opportunities for the civil service. The government has developed a poverty profile that will enable it to strengthen policy formulation and target its programs effectively by groups of people and regions.

The medium-term goals of the government's macroeconomic management program aim to raise the annual rate of economic growth from its present level of about 4 percent to above 6 percent. Robust agricultural growth is projected to combine with faster growth from industry, mining, and services, particularly tourism. The government remains fully committed to the newly liberalized exchange and trade regime and to reducing the current account deficit while maintaining foreign reserves at a level equivalent to at least three months of imports. The principal objective of fiscal policy will be reestablishing macroeconomic stability through greater revenue mobilization (including the collection of tax arrears) and strict expenditure control. Monetary policy will be aimed at reducing inflation from over 30 percent to rates prevailing in Tanzania's major trading partner economies — less than 5 percent — by ensuring a tight liquidity position in the commercial banks, maintaining positive rates of interest in real terms, and making greater use of market-based policies.

A comprehensive financial sector reform program is under way and involves the restructuring and commercialization of the public-sector banks with a view to ultimately privatizing them. In particular, based on the results of a loan portfolio review and a diagnostic evaluation, the government plans to finalize and begin implementation of its medium-term restructuring program for the National Bank of Commerce, which will include divesting one or more branch networks to the private sector and establishing a joint venture with a private financial institution to handle the bank's international business.

The government is using a rolling plan and forward budget process to focus scarce government resources in key areas and identify a core investment program to aid in allocating resources to priority projects and rationalizing the public investment portfolio.

The government's civil service reform covers four major elements: personnel control, reducing the size of the civil service, pay reform, and a comprehensive rationalization process on the basis of organizational and efficiency reviews of each ministry. Efforts to improve personnel control include the imposition of a ceiling on the number of all civil servants and implementation of a more effective personnel control system. The government also plans a new salary structure in which most in-kind benefits will be monetized and monetary allowances will be included in basic wages.

The parastatal sector reform program aims to improve the operational efficiency of enterprises and to reduce fiscal pressures. The program is designed to sell, lease, or liquidate commercial parastatals, promote wide participation by nationals in the ownership and management of businesses, and improve the efficiency of enterprises and reduce fiscal pressures by implementing a hard budget constraint, under which commercial parastatals receive no financial support from the budget or other public-sector entities.

Improvements in the environment for private-sector activities and promotion of local and foreign private investment remain key elements of the government's reform program. Apart from pursuing macroeconomic and sectoral policies and investments — including substantial improvements to infrastructure — to create an environment conducive to private investment, the government plans to open all sectors (outside a negative list) to private investment and streamline the approval procedures to reduce the number of steps necessary to start a business. The government also plans to review its system of investment incentives, and consider alternative means of providing incentives that would be more transparent and automatic, and more appealing to investors.

The focus of agricultural policy is on enhancing smallholder productivity within an environmentally sustainable production system. Priority will be given to improving the capability of the agricultural research system and disseminating improved technology through agricultural extension. Public funding will be used to complement private activities in both these services, mainly to ensure coverage of maize and other food crops where private funding is unlikely to be available and where the effect on rural poverty reduction is greatest. In recent years, the markets for agricultural produce and inputs to production have been liberalized. Exporters of coffee, cotton, cashews, and tea receive the full market value for their produce, and trade in maize and food crops is carried out almost exclusively by the private sector. The private sector is taking an ever more important role in the agricultural inputs industry, supplying seeds, fertilizer, and veterinary inputs.

The tourism and mining sectors have potential for rapid growth and have exhibited dynamism under the reform program. The government intends to facilitate development of tourist attractions by rehabilitating and building access roads, water supply, electricity, airstrips, and telecommunications, where possible relying on private sector initiatives. For mining, the government will continue to adopt policies aimed at providing an attractive enabling environment for investors. For both these sectors, environmental concerns will inform and guide all policies.

The government has recently formulated a social sector strategy that recognizes the priority status of the social sectors in the government's agenda and the paramount role of households in making investments in human capital. The agenda also focuses government resources on areas with high social payoffs, benefits to the poor, and greater intersectoral linkages; provides for improved accountability to communities and households; and emphasizes measuring progress through outcomes rather than expansion of facilities.

The government continues to emphasize infrastructure maintenance and rehabilitation while undertaking selected new investments in infrastructure and energy. The second phase of its Integrated Roads Program is focusing on strengthening transport administration and management of the road network. State-owned transport operations will be privatized where possible. Policies are being adopted to address the poor state of urban services, giving greater voice to communities and local administrations. In the energy sector, the government strategy aims at exploiting hydroelectric sources and developing other indigenous energy resources, such as natural gas, coal, and petroleum, in collaboration with the private sector. The government is reviewing the feasibility of privatizing all or part of the power sector and introducing competition in marketing and distributing petroleum products.

Environment

A recently completed national environmental action plan focused on the need for priority action in six key areas: land degradation, water supply, environmental pollution, marine and freshwater resource management, habitat conservation and loss of biological diversity, and deforestation. The government intends to implement a program that will include adoption of a national environment policy, revising the legislative framework to encourage local participation in environmental management and sustainable natural resource use, developing ways of assessing the environmental impact of future initiatives, strengthening environmental education and public awareness programs, and ensuring that prices for natural resources reflect their true cost.

Medium-Term Prospects

Tanzania is expected, if the economic reform program is vigorously implemented, to achieve considerable improvements in its external position over the medium term. With strong export performance and continuation of favorable terms of trade, the current account deficit (after grants) is projected to fall from 13 percent of GDP in fiscal 1994 to about 7 percent of GDP in fiscal 2000. Tanzania's excessive dependence on donor funds should decline, and an increasing percentage of foreign exchange requirements is expected to be met from Tanzania's own resources. However, the availability of foreign resources in the medium term remains a very important concern, both to finance imports and to service payments on existing debt. It is anticipated that private capital inflows will increasingly substitute for declining donor inflows as the reform program establishes a competitive and sound financial system, liberalizes the trade and exchange regimes, privatizes or liquidates most commercial parastatals, improves the regulatory climate for private investment, and achieves macroeconomic stability.

External Debt

Tanzania's debt overhang is considerable (at over 250 percent of GDP), and the debt service burden, while high, remains manageable only because Tanzania services only multilateral debt and its rescheduled obligations under Paris Club agreements, with most of the remaining official and commercial debt in arrears. Tanzania has had four Paris Club reschedulings, and it is anticipated that it will soon request a further rescheduling of debt service owed to the Paris Club.

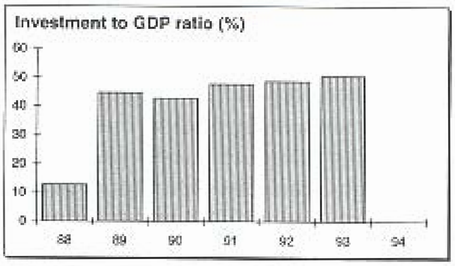
Tanzania

Population mid-1993 *(millions)*	**28.0**
GNP per capita 1993 *(US$)*	**90**

Income group: **Low**
Indebtedness level: **Severely indebted**

KEY RATIOS

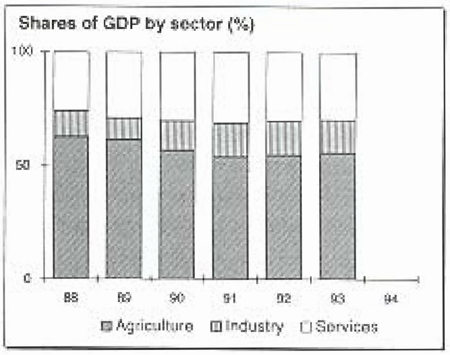
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.7	43.0	48.9	50.7	..
Exports of goods and nfs/GDP	6.3	21.0	22.4	31.3	36.2
Gross domestic savings/GDP	8.4	7.2	2.0	9.8	..
Gross national savings/GDP	9.2	17.0	12.5	22.0	..
Current account balance/GDP	-7.5	-29.5	-33.7	-40.0	..
Interest payments/GDP	0.6	2.6	2.9	2.8	3.1
Total debt/GDP	61.3	265.6	284.0	317.0	303.0
Total debt/exports	951.7	1,315.0	1,275.1	1,218.6	..



Investment to GDP ratio (%)

GDP: PRODUCTION

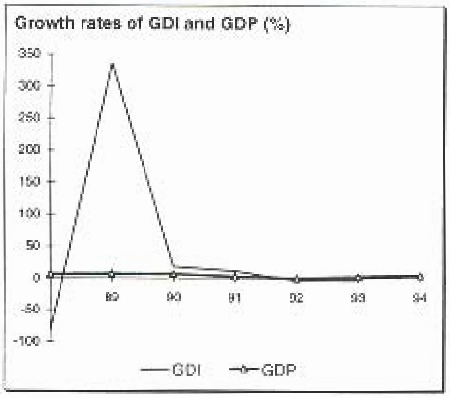
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	56.7	56.9	54.9	56.0	..
Industry	9.3	13.0	15.0	14.4	..
Manufacturing	6.2	4.5	5.4	4.9	..
Services	34.1	30.1	30.1	29.6	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.0	*5.9*	3.5	5.7	..
Industry	6.4	*2.4*	4.4	-3.3	..
Manufacturing	3.6	*4.9*	2.1	2.1	..
Services	2.8	*2.7*	3.2	3.9	..
GDP	6.7	2.3	0.0	2.6	4.5



Shares of GDP by sector (%)

GDP: EXPENDITURE

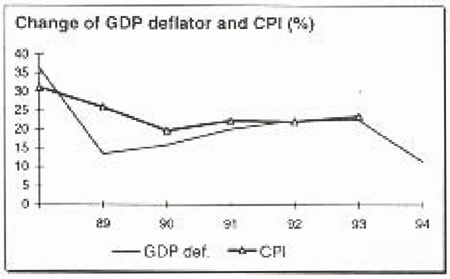
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	76.2	82.3	87.6	81.6	..
General government consumption	15.4	10.4	10.5	8.5	..
Gross domestic investment	17.7	43.0	48.9	50.7	..
Exports of goods and nfs	6.3	21.0	22.4	31.3	36.2
Imports of goods and nfs	15.6	56.7	69.4	72.2	81.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	1.1	*0.9*	-3.5	-3.2	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	5.0	2.6	-0.8	2.3	5.7
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	33.3	19.7	22.1	23.5	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	34.0	15.9	22.3	22.5	11.3
Government finance[a]					
(% of GDP)					
Current budget balance	-1.9	-1.8	1.5	-7.5	-4.7
Overall surplus/deficit	-6.4	-6.3	-2.8	-14.3	-11.2



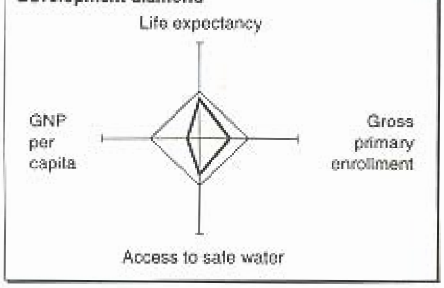
Change of GDP deflator and CPI (%)

Note: Economic data refer to mainland Tanzania only. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.2	*3.0*
Labor force	2.9	3.0

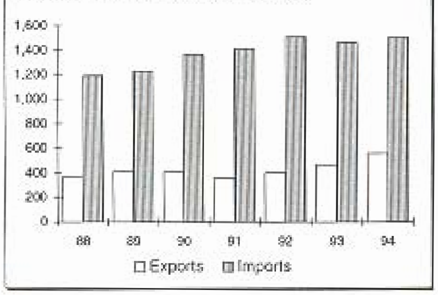
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	51.9
Infant mortality *(per 1,000 live births)*	84.2
Child malnutrition *(% of children under 5)*	28.0
Access to safe water *(% of population)*	52.1
Energy consumption per capita *(kg oil equivalent)*	34.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	68.0



Development diamond*

TRADE

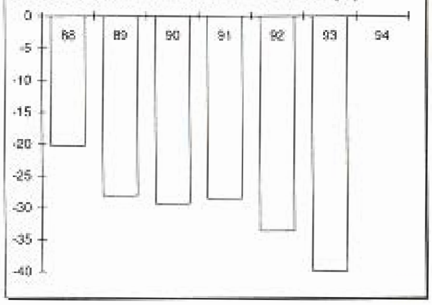
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	326	408	401	466	562
Coffee	119	85	60	96	115
Cotton	27	75	98	78	105
Manufactures	33	97	64	52	77
Total imports (cif)	999	1,364	1,513	1,465	1,505
Food	78	63	49	94	128
Fuel and energy	224	195	185	167	149
Capital goods	434	599	701	633	657
Export price index *(1987=100)*	86	117	128	143	..
Import price index *(1987=100)*	103	105	107	108	..
Terms of trade *(1987=100)*	84	111	120	132	..
Openness of economy *(trade/GDP,%)*	22	78	92	103	118



Export and import levels (mill. US$)

BALANCE of PAYMENTS

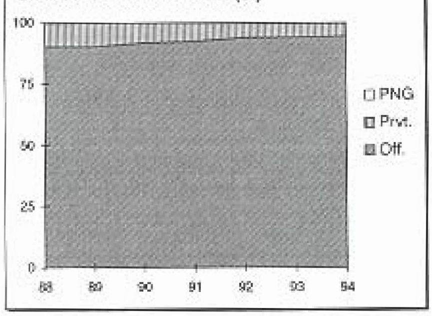
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	445	520	567	611	..
Imports of goods and nfs	1,016	1,557	1,701	1,851	..
Resource balance	-571	-1,037	-1,134	-1,239	..
Net factor income	-93	-188	-189	-172	..
Net current transfers	148	461	456	463	..
Current account balance					
Before official transfers	-516	-764	-866	-948	..
After official transfers	-347	-234	-297	-366	..
Long-term capital inflow	-46	37	146	-167	..
Total other items (net)	408	253	253	410	..
Changes in net reserves	-14	-57	-102	123	-138
Memo:					
Reserves excluding gold *(mill. US$)*	16	193	327	203	327
Reserves including gold *(mill. US$)*	16	193	327	203	327
Conversion rate *(local/US$)*	17.5	195.1	297.7	405.3	477.6



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	772.5	1,206.0	1,150.6	1,093.0	..
IMF credit/exports	13.0	26.7	38.5	34.8	..
Short-term debt/exports	166.2	82.3	86.0	91.0	..
Total debt service/exports	47.5	44.7	53.0	25.1	..
GDP ratios					
Long-term debt/GDP	49.8	243.6	256.3	284.3	289.8
IMF credit/GDP	0.8	5.4	8.6	9.0	8.8
Short-term debt/GDP	10.7	16.6	19.2	23.7	4.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.6	0.2	0.2	0.2	0.1
Public and publicly guaranteed					
Private creditors/long-term	12.6	8.0	5.9	5.6	5.4
Official creditors/long-term	86.9	91.8	93.9	94.2	94.5



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Fiscal year (July to June)

Thailand

Thailand's development record over the past three decades is impressive. Real per capita income growth has been positive every year and has averaged almost 4 percent over the period. The transformation during this time of an economy heavily dependent on agriculture and natural resources to one that is now a major exporter of manufactured products has provided a diversified base of economic activity and employment. Moreover, inflation and external debt have been kept within manageable limits. Thailand provides an excellent example of the dividends to be obtained through outward orientation, receptivity to foreign investment, and a market-friendly philosophy backed by conservative macroeconomic management and cautious external borrowing policies. Significant progress has also been made in a variety of other areas, including food security, primary school enrollment, adult literacy, infant mortality, maternal health, and life expectancy. Absolute poverty has been reduced from over 57 percent in the late 1960s to less than 20 percent.

The structure of the Thai economy has undergone considerable change over the last decade. At the end of the 1970s agriculture employed more than two-thirds of the labor force and produced more than a quarter of GDP, while the share of manufacturing in GDP was 20 percent. By 1981 manufacturing had overtaken agriculture in value-added terms, and in 1993 it contributed 28 percent of GDP while agricultural value added had declined to about 10 percent. Thailand's manufacturing sector is now the largest within the Association of Southeast Asian Nations. The economy is also strongly export-oriented. Exports of manufactures have grown particularly fast, with exports of goods and nonfactor services increasing from 24 percent of GDP in 1980 to over 40 percent in 1994; the share of manufactures in total merchandise exports rose from 35 percent to over 68 percent in the same period. Rice, the leading export commodity of Thailand for many years, was surpassed by textile products in 1985, and textile exports are now more than three times the value of rice exports.

Early in the 1980s the Thai economy faced a period of serious imbalance and painful adjustment. Because of its heavy dependence on imported oil, Thailand was seriously affected by both oil price shocks, but the higher prices were not immediately passed on to consumers. The second oil shock in 1979 also coincided with an expansionary fiscal stance and contributed to a sharp deterioration in the fiscal and external accounts. From 1979 to 1983 the current account deficit averaged about 7 percent of GDP, and the public sector deficit hovered around 5 percent of GDP for an even longer period. Long-term external debt rose sharply from $2.7 billion in 1978 to $13.2 billion in 1985.

The Thai government took a number of corrective actions in the first half of the 1980s in pursuing a path towards stabilization and structural reform. These involved fiscal retrenchment, stronger tax collection, competitive exchange-rate management, vigorous export promotion, and a reduction in external borrowing. Initially, the economy responded slowly to these policy changes, in part because of the unfavorable global economic situation, and in part because the adjustment was relatively gradual. From 1985, however, the cumulative effect of various policy measures, including a 14 percent devaluation of the baht in late-1984, combined with more propitious external economic conditions, stimulated a rapid turnaround and recovery. This turnaround was sustained by effective exchange rate management and an increasingly attractive market for Thai exports. Accompanied by improvements in the terms of trade, the economy grew faster, and the fiscal and external deficits both fell rapidly.

Recent Economic Developments

The performance of the Thai economy has been particularly impressive since the mid-1980s. Between 1987 and 1990, real GDP growth was among the highest in the world, averaging almost 12 percent a year. And despite the recession in the industrial economies and domestic political uncertainties, Thailand's economy still expanded at about 8 percent a year over 1991-93.

This remarkable growth performance was built on favorable external factors, political stability, and prudent macroeconomic and sectoral policies in conjunction with a vibrant and responsive private sector. The growth of manufactured exports and inflows of foreign direct investment in the second half of the 1980s were facilitated by the depreciation of the dollar (to which the baht was tied), rising cost pressures in other East Asian economies, lower oil prices, and relatively strong growth in OECD economies. Domestic policies such as conservative fiscal management, aggressive export promotion, and market-friendly sectoral interventions helped Thailand take advantage of these external developments. Of particular importance were the successful stabilization and adjustment measures of the early 1980s.

While growth since 1991 has been below the double-digit rates of the late 1980s, this pace is more sustainable. Because of tightened financial policies, domestic demand is expanding less rapidly than during the boom years. Economic deceleration has also shrunk the current account deficit, which had risen to almost 9 percent of GDP in 1990. GDP growth in 1994 was about 8 percent and as in the past was based on double-digit export growth, which rebounded from a temporary slowdown in early 1993. The pickup in export growth meant that the current account deficit fell to 5.4 percent of GDP (from 5.8 percent in 1993). Although inflation continues to be moderate, remaining below 4 percent at the consumer level in 1994, there are signs that price pressures may be building, with bottlenecks emerging as robust growth continues.

Trade liberalization has continued, particularly for raw materials and intermediates. Agreement was also reached on establishing the ASEAN Free Trade Area in January 1993, to promote economic integration within ASEAN. The multiyear program will reduce tariffs on inter-ASEAN trade, and tariffs above 30 percent were lowered to that level in February 1993. New tax reforms were implemented, with a rise in indirect taxes through the introduction of a VAT, and a cut in direct taxes, with reductions in income and company taxes. Monetary arrangements have also been liberalized, while the regulatory and supervisory framework of financial transactions has been strengthened. Deposit interest rates (except savings deposit rates) have been completely freed. Lending rates have also been substantially liberalized, essentially by raising the ceiling rates. The foreign exchange regime and controls, already quite liberal, have been further relaxed.

Macroeconomic stability and a liberal trade regime have helped Thailand to become a major recipient of foreign direct investment flows, which have surged from less than 2 percent of GDP in the early 1980s to more than 6 percent in 1988. This has contributed to an increase in investment of more than 10 percentage points of GDP, to 38 percent of GDP in 1990. The combination of a stable environment and foreign investment has brought forth more domestic investment as well.

Development Objectives

The government's development objectives are reflected in its Seventh National Development Plan (1992-96). This plan differs in its emphasis from previous plans in focusing not only on the factors that could constrain growth, but also in stressing the need to improve household and regional income distribution and manage natural resources sustainably. It calls for continuing the export-led strategy of the past, but acknowledges that Thailand can no longer compete solely on the basis of low wages. Thus, it aims to produce and export more sophisticated products by improving physical infrastructure and upgrading labor skills.

Thailand's export competitiveness is already under threat from infrastructure bottlenecks, rising wages, and skills shortages.

As Thailand's comparative advantage shifts from labor-intensive products to technologically sophisticated manufactures, export competitiveness will be determined increasingly by the quality of infrastructure and labor. Infrastructure bottlenecks are already serious in the Bangkok Metropolitan Region and extend to many secondary towns. Although the results of some major investments, such as the Eastern Seaboard development program, have begun to materialize, they have not yet significantly eased congestion and pollution in the Bangkok area, which continue to grow more quickly than in other urban areas. Unless infrastructure deficiencies are addressed aggressively, the potential for medium-term growth could suffer.

It is also becoming increasingly difficult for investors to find and retain skilled workers. Part of the problem is that only about one-fifth of the labor force has more than a primary school education. Also, only 30 percent of the relevant age group is enrolled in secondary school, as compared with about 60 percent in Indonesia and Malaysia and over 90 percent in Korea. While the rate of new secondary enrollments has been rising — in 1992 almost two-thirds of all primary school leavers entered secondary school — aggressive efforts to expand and upgrade secondary, vocational, and technical education are required if success in upgrading the industrial structure is to be achieved.

While per capita incomes have doubled during the past decade, there is a growing perception that progress in poverty alleviation has slowed. Although the level of absolute poverty has been reduced dramatically over the last three decades, more than 9 million people — mostly in rural areas — remain poor. Moreover, many observers believe that the number of the absolute poor appears to have fallen only slightly despite the creation of over half a million new jobs each year since 1988, although the most recent income and expenditure data have not yet been analyzed in detail.

Rapid growth has also exposed the need for greater attention to environmental protection. Deforestation, soil erosion, and coastal and watershed encroachment have been joined on the environmental agenda by concerns about air and water pollution that have been aggravated by the recent expansion of industrial and commercial activities. Particularly in metropolitan Bangkok, the costs of congestion and of the health impacts of some forms of air pollution have worsened dramatically. Moreover, new problems such as the management of hazardous wastes from manufacturing are emerging even as traditional problems such as the microbiological contamination of water continue unabated.

In its Seventh Plan, the government proposes to address these issues primarily by increasing public investment. For infrastructure, in particular, an investment program of about $55 billion (or 8 percent of GDP over the plan period) is recommended, of which about 75 percent would be by the public sector. It also calls for additional public investment to develop labor skills, extend basic education from six to nine years, strengthen vocational and on-the-job training, and improve capabilities in universities and research institutes.

In addressing the problems of poverty and income disparities, the plan proposes additional incentives to industry to locate outside metropolitan Bangkok; increased public spending for rural development, including social services and education; and upgrading rural infrastructure, including capital markets. It also proposes that the administration of several public expenditure programs be more decentralized. The government is reviewing its agricultural support programs in the context of its longer-term strategy for the sector, which faces substantial adjustment needs if rural poverty is to be tackled.

The plan calls for providing subsidies and public investment for pollution control facilities, and streamlining regulations and developing improved enforcement mechanisms. Further, communal investments for pollution control and sewage treatment will be supported by an environmental fund to be financed from budgetary sources and a tax on oil imports.

Medium-Term Prospects

If the competitiveness of Thai exports is maintained by implementing measures to address infrastructure inadequacies and skill constraints, real GDP growth over 1995-97 is projected to average 8 percent. This performance would be underpinned by annual export growth of about 11 percent, based on continued recovery in the industrial economies. Gross domestic investment over 1995-97 should remain strong, rising at about 7 percent a year, which is also lower than during the 1980s, particularly the 25 percent annual increases experienced during the investment boom of 1988-90. The growth in investment is conditioned on higher infrastructure investment, in both the public and private sectors, as well as continued private-sector spending on plant and equipment.

External Debt

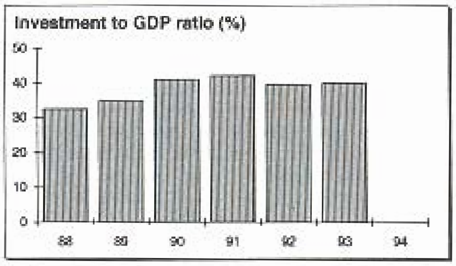
Since domestic savings are not anticipated to rise substantially, the savings-investment gap should fall only slightly to just over 5 percent of GDP. This gap and the corresponding current account deficit (which although lower than during 1990-91 still averages about 5 percent of GDP) imply the need for flows of external capital of about the same order as in 1992-94. However, while total external debt would rise as a share of GDP over 1995-97, the continued expansion of exports implies that it will fall as a share of exports. Similarly, debt service as a share of exports should continue to decline, and is projected in 1997 to be 8.5 percent, less than half its 1993 level.

Thailand

Population mid-1993 *(millions)*	**58.1**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**2,110**	Indebtedness level:	**Less indebted**

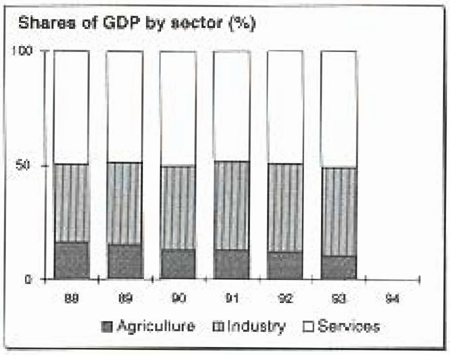
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	28.2	41.1	39.6	40.0	..
Exports of goods and nfs/GDP	23.2	34.0	36.3	37.0	37.0
Gross domestic savings/GDP	25.5	33.6	35.4	35.9	..
Gross national savings/GDP	23.9	32.4	33.9	34.3	..
Current account balance/GDP	-4.3	-8.7	-5.7	-5.6	-5.4
Interest payments/GDP	2.3	1.6	1.7	1.5	1.1
Total debt/GDP	45.1	33.0	35.5	36.7	41.7
Total debt/exports	171.7	90.3	92.4	94.0	107.0



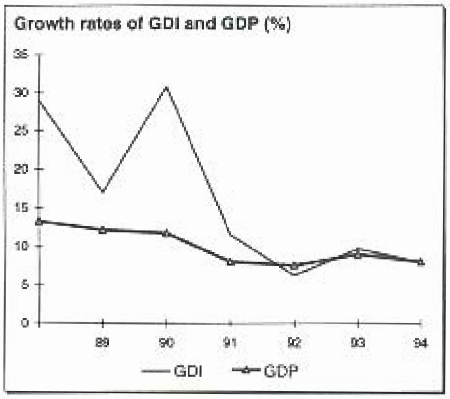
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	15.8	12.7	12.0	10.0	..
Industry	31.8	37.0	38.5	39.2	..
Manufacturing	21.9	27.2	28.0	28.4	..
Services	52.3	50.2	49.5	50.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.3	2.5	4.2	-1.7	3.0
Industry	14.9	10.7	9.6	10.8	10.1
Manufacturing	15.6	11.6	11.3	11.5	11.5
Services	10.2	7.6	6.8	10.2	7.5
GDP	10.8	8.2	7.6	9.0	8.1



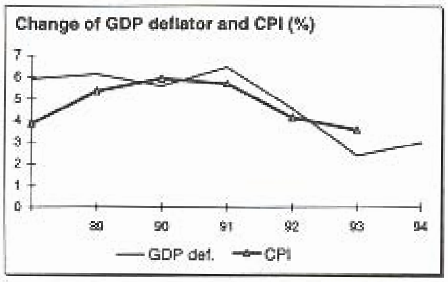
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	61.0	57.0	54.6	53.8	..
General government consumption	13.5	9.4	10.0	10.3	..
Gross domestic investment	28.2	41.1	39.6	40.0	..
Exports of goods and nfs	23.2	34.0	36.3	37.0	37.0
Imports of goods and nfs	25.9	41.5	40.5	41.1	42.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	10.9	6.2	5.7	7.0	6.8
General government consumption	2.7	6.9	6.5	7.8	6.5
Gross domestic investment	18.9	8.7	6.2	9.7	8.0
Exports of goods and nfs	20.6	14.6	12.0	19.1	11.2
Imports of goods and nfs	25.3	11.3	7.5	15.9	9.1
Gross national product	11.0	*8.4*	8.0	8.2	..
Gross national income	11.2	*8.0*	9.4	7.2	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.4	5.9	4.1	3.6	..
Wholesale prices	0.0	3.5	0.2	-0.4	..
Implicit GDP deflator	2.1	5.6	4.5	2.4	3.0
Government finance					
(% of GDP)					
Current budget balance	-0.6	7.4	6.4	6.3	0.6
Overall surplus/deficit	..	..	..	..	0.6



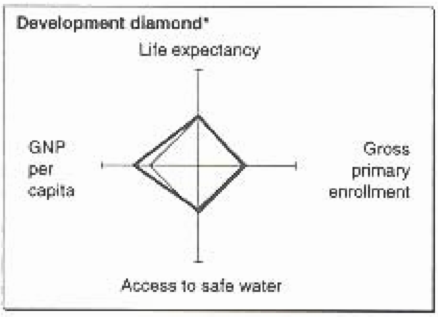
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Thailand

POVERTY and SOCIAL

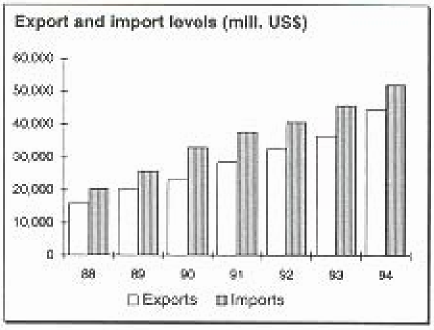
	1985-90	1990-94
(annual growth rates)		
Population	1.7	1.7
Labor force	2.0	1.7

	most recent estimate
Poverty level: headcount index *(% of population)*	21.8
Life expectancy at birth	68.8
Infant mortality *(per 1,000 live births)*	36.4
Child malnutrition *(% of children under 5)*	13.0
Access to safe water *(% of population)*	72.1
Energy consumption per capita *(kg oil equivalent)*	672.6
Illiteracy *(% of population age 15+)*	7.0
Gross primary enrollment *(% of school-age population)*	97.0



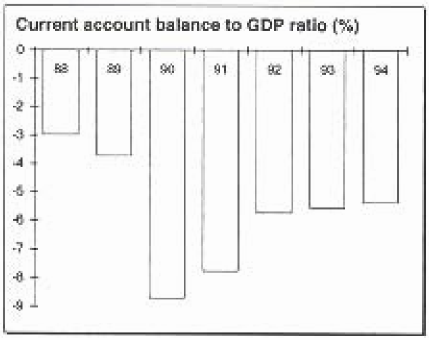
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	7,120	23,053	32,466	36,391	44,419
Rice	829	1,085	1,425	1,301	2,005
Other food	..	379	1,166	858	738
Manufactures	2,920	13,911	21,054	25,619	30,222
Total imports (cif)	9,248	33,006	40,679	45,804	52,059
Food	348	1,312	2,015	1,958	2,525
Fuel and energy	2,696	5,175	5,888	6,189	6,544
Capital goods	2,598	13,611	17,351	21,173	23,658
Export price index *(1987=100)*	73	172	230	234	0
Import price index *(1987=100)*	72	204	237	240	248
Terms of trade *(1987=100)*	101	84	97	98	0
Openness of economy *(trade/GDP,%)*	49	76	77	78	80



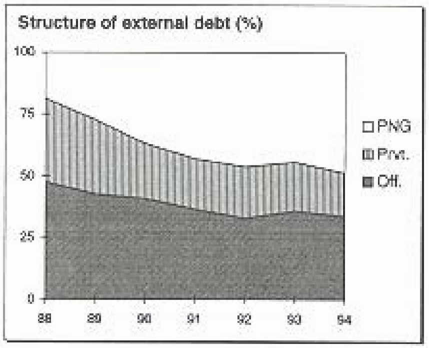
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	9,100	29,230	40,661	46,511	51,676
Imports of goods and nfs	10,160	35,700	45,931	52,103	59,503
Resource balance	-1,060	-6,471	-5,271	-5,592	-7,827
Net factor income	-643	-1,024	-1,461	-1,648	-30
Net current transfers	47	26	323	281	333
Current account balance					
Before official transfers	-1,656	-7,469	-6,409	-6,959	-7,524
After official transfers	-1,537	-7,282	-6,355	-6,928	-7,524
Long-term capital inflow	1,606	3,489	4,226	4,289	2,194
Total other items (net)	13	7,022	5,054	9,808	7,090
Changes in net reserves	-82	-3,230	-2,925	-7,169	-1,760
Memo:					
Reserves excluding gold *(mill. US$)*	2,190	13,305	20,359	24,473	29,332
Reserves including gold *(mill. US$)*	3,003	14,258	21,183	25,439	30,280
Conversion rate *(local/US$)*	27.2	25.6	25.4	25.3	25.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	129.4	63.7	58.0	53.5	59.4
IMF credit/exports	11.0	0.0	0.0	0.0	0.0
Short-term debt/exports	31.3	26.6	34.4	40.5	47.6
Total debt service/exports	31.9	16.9	13.9	18.7	11.3
GDP ratios					
Long-term debt/GDP	34.0	23.3	22.3	20.9	23.2
IMF credit/GDP	2.9	0.0	0.0	0.0	0.0
Short-term debt/GDP	8.2	9.7	13.2	15.8	18.6
Long-term debt ratios					
Private nonguaranteed/long-term	25.5	36.7	46.0	44.2	48.6
Public and publicly guaranteed					
Private creditors/long-term	31.3	22.6	21.2	20.0	17.8
Official creditors/long-term	43.2	40.7	32.8	35.8	33.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Togo

Togo is a small country of 56,800 square kilometers with a population of about 3.9 million. Located on the Gulf of Guinea, midway between Nigeria and Côte d'Ivoire, it is relatively well endowed with agricultural and mineral resources. Its economy has traditionally depended on primary production, services activities, and exports of phosphates and cotton. Agricultural production, primarily rainfed and small-scale, is concentrated in staple food crops, cotton, coffee, and cocoa and generates about 40 percent of GDP and provides the livelihood of about 75 percent of the population. Exports of coffee, cocoa, and cotton contribute about 36 percent of domestic exports.

Togo is self-sufficient in food production, although there are significant regional disparities between the wetter south and the more savanna-like north. The secondary sector, dominated by phosphate production and a robust small-scale manufacturing sector, contributes about 20 percent of GDP. The service sector makes up the remaining 40 percent of GDP and includes a vital commerce sector and a banking system, which, until recently, was relatively healthy and served the entire sub-region. A well-developed highway network linking the capital and the principal port, Lomé, with neighboring Benin, Ghana, and Burkina Faso supports transit and trade activities which, because of Togo's geographical position and to a long period of political stability, were well developed until recently. Togo's economic growth potential is significant, particularly in agriculture, regional trade and commerce, and small-scale industrial production. However, the country remains poor, with an estimated GDP per capita of only $340 in 1993.

With phosphate mining and, later, cotton as its principal source of export revenues, the Togolese economy benefited from private-sector-led growth and financial stability for a decade and a half, until the mid 1970s. Buoyed by a quadrupling of phosphate prices in late 1974, the government launched a program of growth based on increased public investment and the creation of public enterprises, including phosphate mining and cotton. In 1981/82, the country experienced a sharp decline in the international prices of its major exports and initially failed to adjust, but over 1983-89 it implemented a broad economic stabilization and adjustment program that was supported by IDA and the IMF. Major accomplishments under the program include liberalizing food-crop marketing, reforming the foreign trade regime (including eliminating export and import licensing and the state trading company's import monopoly), price liberalization, privatizing or liquidating 30 public enterprises, creating an export-processing zone, and adopting a rolling three-year investment program.

This reform effort helped Togo achieve a substantial liberalization of its economy and led to a resumption of growth to 3.4 percent a year over 1984-89 despite low export commodity prices and an appreciation of the real exchange rate. The adjustment program formed a solid basis for a more intensive reform effort that was undertaken in 1989.

Recent Economic and Political Developments

In late 1990 a political crisis brought the implementation of the adjustment program to a halt as the government came under increasing pressure to establish a multiparty system. After violent street riots and mass civil disobedience, a national conference convened in July 1991 led to the formation of a one-year transition government. While parliamentary and presidential elections were scheduled for July 1992, political violence, which forced 300,000 Togolese to seek refuge in neighboring countries, disturbed the elections calendar, led to a general strike launched by the opposition and the trade unions, and brought most economic activities to a standstill from November 1992 through August 1993, and bilateral aid was cut off in condemnation of the lack of progress in the elections. Presidential elections were held in August 1993 after international mediation, and the sitting president was reelected; legislative elections in February 1994 were won by the political opposition.

The long period of political instability and the general strike had a severe impact on Togo's economy and social conditions. Real GDP fell by more than 17 percent between 1991 and 1993, and economic transactions and businesses became increasingly informal. As civil servants' salaries were not paid for several months and investment expenditures fell short of their projections, public services and infrastructure maintenance have deteriorated. The north-south highway, Togo's main transport corridor for transit trade with the Sahelian landlocked countries, and the feeder roads network, have degraded markedly. Preliminary estimates indicate a significant increase in poverty and, in some areas of the country, high levels of malnutrition among women and children. Quality of, and access to, basic and preventive health and primary education services, already hampered by inappropriate budget allocations and policies before 1991, further deteriorated with the crisis, particularly in rural areas. Deterioration of social conditions is also linked to severe environment degradation.

The crisis severely affected public finances. Revenues fell by more than 51 percent during the 1992-93 period, as a result of a drastically shrunken tax base. Moreover, despite a decline in investment expenditures of about 60 percent, the overall fiscal deficit (excluding grants) widened to 14.5 percent of GDP by the end of 1993. Because of the interruption of foreign aid disbursements the deficit was partly financed through the accumulation of domestic and external payment arrears. By the end of 1993 domestic payment arrears increased by about 9 percent of GDP, with more than half of this amount in unpaid salaries and social security contributions. External payment arrears amounted to 9 percent of GDP. Despite an improvement in the trade account, which resulted from a greater contraction in imports than in exports, the drop in net foreign financing led to a sharp deterioration in the overall balance of payments. By end of 1993 reserves had fallen over 56 percent from the 1991 level.

The economic and fiscal collapse also disrupted the functioning of the parastatal and financial sectors. The parastatal sector, which still includes key economic activities such as cotton and phosphate production, and all utilities, is characterized by cross-debts and arrears. In addition, the position of commercial banks was seriously compromised by their high exposure to the phosphate company, to which they had extended short-term credit over several years, well beyond the prudential ratios set by the Central Bank for the West African States, a sharp deterioration in the quality of the private sector portfolio, and substantial government drawings on their public enterprises' deposits to finance the budget deficit. As a result of the deterioration of the banking system's financial situation, the financial sector has a reduced ability to finance a strong supply response to the devaluation and contribute to the resumption of growth.

The formation of a new government in May 1994 and, later, the establishment of the National Assembly are viewed by most observers as important steps toward restoring civil peace and opening the way to a democratic system of government in Togo. The economic adjustment program, which had come to a halt in 1993, has slowly resumed. In January 1994 the government reinforced the adjustment effort by devaluing, in cooperation with other CFA zone countries, the CFA franc by 50 percent against the French franc. After the devaluation the government prepared a three-year policy framework paper setting forth its stabilization and adjustment program. In 1994 Togo's economy shown signs of recovery, led by a strong resumption of traditional exports. Real GDP growth for 1994 is estimated to have exceeded 16 percent, reflecting a recovery of secondary and tertiary activities and the effect of the franc devaluation on traditional export crops. Also, following a 29 percent upward price adjustment in the two months following the devaluation, monthly inflation has returned to moderate levels, fiscal revenues have exceeded program targets by about 4 percent, and current expenditures are broadly in line with program targets.

Despite these positive signs, Togo's economic and political environment remains fragile; there have been outbursts of violence in recent months and the international community is hesitant. In addition, and despite an economic and fiscal revenue performance exceeding program targets, the budgetary situation remains difficult.

Medium-Term Prospects

Building on opportunities stemming from the devaluation, the policy framework aims at promoting a broad-based, private-sector-led recovery of Togo's economy and returning it to a sustainable growth path that will accelerate employment creation for its rapidly growing population and raise incomes. The government has set a target of 6 percent annual growth over 1995-97. The key strategies to attain these goals include restoring macroeconomic stability, resuming the structural adjustment program interrupted by the 1992-93 political crisis to support a strong private-sector supply response to the recent devaluation, rehabilitating Togo's physical infrastructure, and alleviating urgent social problems, including the lack of essential social services and widespread unemployment. The key issue in the government's development agenda is how swiftly it can reorient itself from heavy intervention in the economy to providing an enabling environment for private economic activity and the essential services and infrastructure needed to underpin economic growth. Progress in this area will critically depend on the speed and depth with which the government is able to privatize the phosphate company, reduce military expenditures, decentralize its administration, and create a national consensus on the reform agenda.

Togo's main sources of growth are agriculture, light industry, and commerce. Increased agricultural production will depend upon productivity gains, increased crop diversification, and development of unused land. Among cash crops, cotton clearly provides the most promising prospects. Significant potential also exists for increasing and diversifying production of food crops such as tubers, maize, millet, and sorghum to meet growing urban demand. Growth in small-scale industry, commerce, and transit activities, which are private-sector-led, will hinge on government's ability to put in place an enabling environment and a stable macroeconomic framework. Regaining its position as a regional financial center will remain a long-term objective dependent on comprehensive measures to stabilize Togo's financial system, including a reform of public enterprises and a restructuring of its financial sector.

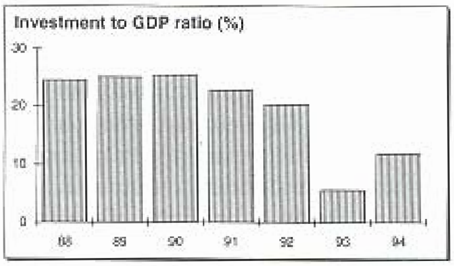
Even before the crisis, Togo's health and education indicators, while having improved over the last 30 years, were lower than in many other Sub-Saharan countries. Reducing customs duties and taxes on essential goods was among the first measures taken by government in early 1994 to attenuate the effect of the devaluation. It has also resumed a major structural and budgetary reform of the health system started in 1991 that aims at enhancing the delivery of basic services and ensuring low-cost availability of essential drugs. The government also intends to accelerate implementation of labor-intensive public works projects — primarily priority road and social infrastructure rehabilitation — to provide short-term employment and income-earning opportunities for unskilled workers and small contractors.

Togo

Population mid-1993 *(millions)*	3.9		Income group: **Low**
GNP per capita 1993 *(US$)*	340		Indebtedness level: **Moderately Indebted**

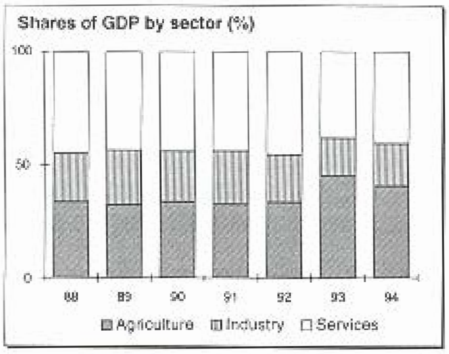
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	24.1	25.4	20.2	5.6	11.8
Exports of goods and nfs/GDP	48.4	33.3	26.8	21.0	32.3
Gross domestic savings/GDP	15.4	13.6	11.1	-2.2	2.6
Gross national savings/GDP	10.0	12.3	10.0	-4.1	-1.1
Current account balance/GDP	-12.7	-13.0	-10.3	-9.3	-13.8
Interest payments/GDP	5.1	2.0	0.6	0.6	3.1
Total debt/GDP	123.3	78.5	80.1	96.3	128.8
Total debt/exports	230.4	216.9	267.7	386.3	388.6



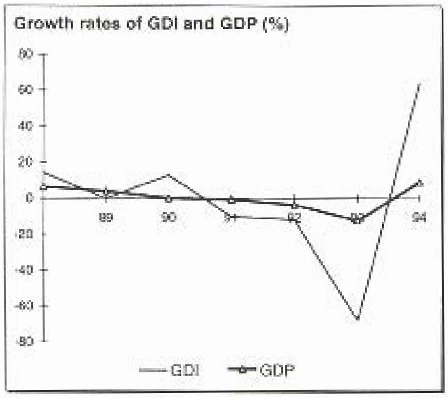
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	33.7	33.7	33.5	45.2	40.7
Industry	21.7	22.5	21.1	16.7	18.9
Manufacturing	6.7	9.9	9.5	6.5	..
Services	44.7	43.8	45.4	38.1	40.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.3	5.7	-1.3	16.6	8.1
Industry	4.5	-11.0	-13.4	-30.0	10.6
Manufacturing	8.1	-15.0	-9.8	-40.8	7.8
Services	1.1	-9.1	-0.3	-28.9	9.2
GDP	2.9	-3.5	-3.6	-12.4	8.9



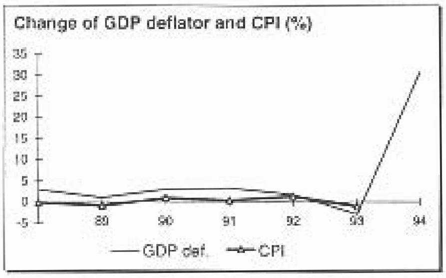
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	71.5	71.2	75.1	86.7	82.4
General government consumption	13.1	15.2	13.8	15.5	15.0
Gross domestic investment	24.1	25.4	20.2	5.6	11.8
Exports of goods and nfs	48.4	33.3	26.8	21.0	32.3
Imports of goods and nfs	57.1	45.1	35.9	28.8	41.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.9	-1.6	-0.5	-4.2	2.3
General government consumption	5.8	-6.7	-11.3	-11.6	8.0
Gross domestic investment	5.9	-26.1	-11.9	-68.0	63.7
Exports of goods and nfs	1.6	-10.6	-12.8	-22.7	0.1
Imports of goods and nfs	2.9	-17.6	-12.7	-34.9	-3.0
Gross national product	3.6	-4.0	-3.4	-13.1	7.1
Gross national income	3.4	-6.0	-5.8	-17.0	8.2



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	-1.8	1.0	1.4	-1.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.9	3.0	1.8	-2.8	30.6
Government finance					
(% of GDP)					
Current budget balance	6.2	1.2	-2.2	-12.3	-11.0
Overall surplus/deficit	-6.1	-6.0	-5.7	-14.2	-12.7

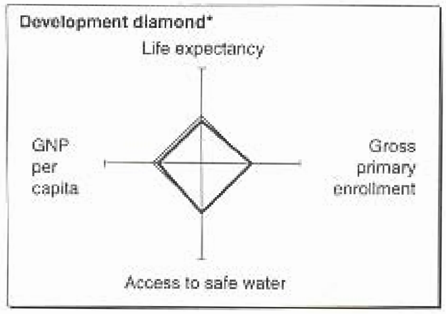


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

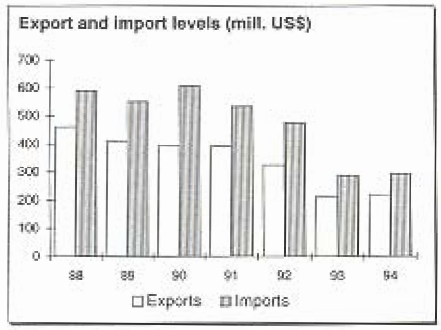
	1985-90	1990-94
(annual growth rates)		
Population	3.1	3.2
Labor force	2.3	2.4

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	55.4
Infant mortality *(per 1,000 live births)*	83.4
Child malnutrition *(% of children under 5)*	24.4
Access to safe water *(% of population)*	70.7
Energy consumption per capita *(kg oil equivalent)*	46.6
Illiteracy *(% of population age 15+)*	56.7
Gross primary enrollment *(% of school-age population)*	111.0



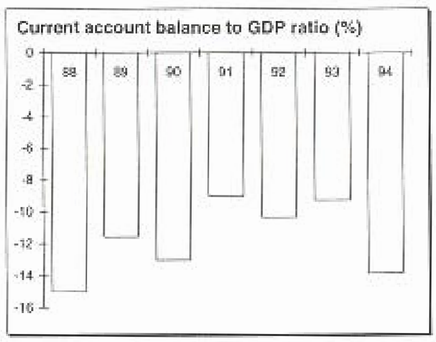
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	282	395	327	214	219
Phosphorus	95	103	79	52	69
Cocoa	15	15	10	5	4
Manufactures	47	150	128	75	61
Total imports (cif)	435	607	475	290	294
Food	87	86	81	46	41
Fuel and energy	20	48	36	26	22
Capital goods	52	131	85	61	91
Export price index *(1987=100)*	131	110	103	97	192
Import price index *(1987=100)*	113	106	103	105	205
Terms of trade *(1987=100)*	116	104	100	92	93
Openness of economy *(trade/GDP,%)*	106	78	63	50	74



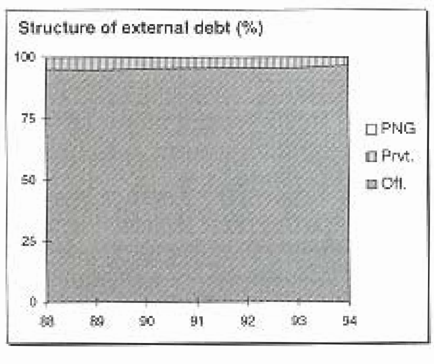
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	369	545	456	297	315
Imports of goods and nfs	436	738	612	396	414
Resource balance	-67	-193	-156	-99	-99
Net factor income	-38	-30	-27	-35	-44
Net current transfers	8	10	9	10	8
Current account balance					
Before official transfers	-97	-213	-175	-125	-135
After official transfers	-27	-99	-94	-94	-114
Long-term capital inflow	-2	62	18	3	-4
Total other items (net)	108	40	-10	-35	159
Changes in net reserves	-79	-3	86	125	-41
Memo:					
Reserves excluding gold *(mill. US$)*	297	353	272	156	..
Reserves including gold *(mill. US$)*	301	358	277	161	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	194.1	183.1	224.7	337.3	353.3
IMF credit/exports	18.2	14.7	15.2	20.5	19.8
Short-term debt/exports	18.1	19.1	27.8	28.5	15.5
Total debt service/exports	27.3	14.5	7.2	8.2	27.6
GDP ratios					
Long-term debt/GDP	103.8	66.3	67.3	84.1	117.1
IMF credit/GDP	9.7	5.3	4.5	5.1	6.6
Short-term debt/GDP	9.7	6.9	8.3	7.1	5.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	10.9	4.8	4.4	4.4	3.3
Official creditors/long-term	89.1	95.2	95.6	95.6	96.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Trinidad and Tobago

Trinidad and Tobago is a small oil-dependent economy of 1.3 million people. Trinidad, an island of 4,820 square kilometers, is home to 95 percent of the nation's population and is more heavily industrialized. Tobago, with 300 square kilometers, lacks oil and gas deposits, and is dominated by tourism and agriculture. Trinidad and Tobago's economic fortunes have followed closely the world price of its major export commodity, oil, over the past two decades. Oil revenue windfalls after 1973 brought unprecedented prosperity, raising per capita GNP to $6,450 in 1982. But this prosperity was not sustained. Oil prices began to fall in 1982, and growth has been negative in nine of the last twelve years. By 1993 per capita income had fallen to $3,830.

The economic decline in Trinidad and Tobago can be traced to poor economic management during a decade of oil revenue windfalls, and slow adjustment when the windfalls ended. During the 1970s the government used its vast oil revenues to foster a public-sector-led development strategy. Production subsidies, regulations, uneconomic investments, and accompanying inefficiencies multiplied and the real exchange rate was allowed to appreciate, virtually decimating traditional agriculture and undermining incentives for non-oil exports. As oil prices fell after 1982, structural changes were needed to adjust to the changed environment. But the decline in the price of oil was considered temporary, and the government tried to maintain living standards by expanding public employment and transfer payments, while reducing public investments and running down reserves. GDP continued to decline, unemployment increased to 20 percent of the labor force, and the once considerable foreign exchange reserves of $3.3 billion were soon depleted.

Only after a further steep decline in the price of oil in 1986 did the government face the challenge of a fundamental adjustment in economic policy and initiate a program supported by the World Bank and the IMF. Trinidad and Tobago is now undertaking the difficult transition to a more diversified, market-oriented economy led by the private sector.

Recent Economic Developments

Real GDP grew by 4 percent in 1994 after a decade of almost uninterrupted economic decline. While most of this growth remains attributable to the oil and gas sector, a very positive development has been that for the first time in two decades, this growth comes in a year following a decline in the price of oil. As yet, however, there is no demonstrable progress on a sustainable recovery in the non-oil and gas sectors, indicating that the supply response in the non-oil tradables sector is still lagging and the reform agenda is not yet completed.

The government's efforts to stabilize the macro-economic situation have begun to yield results. With better tax administration and sustained control of public expenditures, central government operations have improved from an average overall deficit of 5.3 percent of GDP over 1983-92 to a small deficit of 0.3 percent in 1994.

While external balances have improved, Trinidad and Tobago remains vulnerable to oil price fluctuations. While its current account balance reached a surplus of 2 percent of GDP in 1994, that surplus continues to derive in large part from new capacity in oil and gas exports and favorable world petrochemical prices. Nontraditional exports have only just begun to expand from a very small base to reach 20 percent of exports. International reserves, while still low, are also being replenished and are targeted to reach the equivalent of three months of imports in the next three years. The remainder of the current account surplus is being used to amortize public external debt, which has been reduced by $400 million since 1991.

Inflation fell from 13 percent in 1993 to around 6 percent at the end of 1994, signaling the end of the pass-through effects of the April 1993 depreciation. Since then, the nominal exchange rate has been relatively stable rising from around TT$5.7 to TT$5.95 to the dollar. The index of the real effective exchange rate has declined (denoting a depreciation) by about 20 percent since the currency was floated in 1993. The low inflation rate is the result of tight monetary policy achieved by raising bank required reserve ratios to 20 percent. The tight monetary policy has led to orderly operation of the foreign exchange market, but has resulted in relatively high interest rates; the prime rate is about 15 percent. The authorities anticipate a convergence to world interest rates as the government's credibility grows and inflationary expectations subside.

Poverty and Social Indicators

Very high unemployment has increased poverty and caused many social problems. Unemployment rates have traditionally been high in Trinidad and Tobago, even at the height of the oil boom. During the oil boom, however, high social expenditures and transfers mitigated the link between poverty and unemployment. The oil price decline, reduced economic activity, and declines in public revenues led to retrenchments in both the public and the private sector, and unemployment rates doubled from 10 percent of the labor force in 1982 to 20 percent in 1992, while part-time employment increased from 8 percent to 15 percent. Unemployment rates are highest among youth and are higher for females than for males.

With the recent increase in unemployment, a group of new poor has emerged as people slipped below the poverty line because of recent loss of employment or the low productivity of their occupations. Female-headed households are a particularly vulnerable group accounting for one-third of poor households. The increase in the new poor has largely affected urban areas, where the severity of poverty is greater. As in many other Caribbean countries, this, coupled with high youth unemployment, has contributed to growing problems of crime and drug use.

Trinidad and Tobago traditionally had high-quality health and education services, but both have deteriorated significantly in recent years as public expenditures fell. Real per capita health expenditures halved over the last ten years, and the decline in education has been even more severe, with real expenditures falling to one-fifth of their 1982 levels. As a result, a large number of students now graduate without basic cognitive and numerical skills.

While the increase in poverty and the decline in social services are very significant concerns, it is important to note that the living conditions of the poor are tempered by the relatively high per capita incomes of past years and access to the some of the social services of an upper-middle-income country. Even poor households have access to consumer durables — 75 percent have access to electricity and 73 percent own televisions. Primary school enrollment is nearly universal and gender neutral, and malnutrition rates for children under five years are extremely low. In addition, the government has demonstrated strong commitment to an extensive system of social safety nets. To meet the short-term needs of the displaced population, it has expanded safety net coverage with supplementary feeding and employment programs and a range of training, extension, and business development services. Longer-term reductions in poverty and unemployment will require broad-based, labor-intensive economic growth.

Environment

Trinidad and Tobago's main environmental problems are deforestation and soil erosion, particularly in the Northern Range, industrial pollution due mainly to oil and chemical industries, and marine waters pollution due mainly to faulty sewage and effluent treatment. The government has taken a significant step forward in integrating environmental concerns in its development agenda with the establishment of the Environmental Management Authority. The next step is the development of a National Environmental Action Plan to spell out in detail the environmental priorities and standards and instruments for achieving them.

Recent Economic Developments

The present government assumed office in 1992 and acted quickly to stabilize the economy and accelerate the pace of reforms. Government strategy in the oil and gas sector has been to reopen it to private development through tax incentives and a new regulatory framework, and by encouraging foreign investors to stimulate exploration activities and improve secondary yields. A restructuring within the sector from oil toward natural gas and its ancillary industries is also being strongly promoted to exploit considerable gas deposits. The government has divested its enterprises producing urea and methanol, and is rationalizing the operations of its petroleum enterprises as a first step toward divesting some operations. As a result of these initiatives, foreign investment commitments of $750 million were negotiated in 1994, and feasibility studies are under way for exporting liquid natural gas, which could potentially lead to additional investments of over $1 billion by an international consortium.

To encourage diversification toward nonpetroleum sectors, the government has undertaken comprehensive reforms in the trade and exchange rate regimes and the investment environment. Quantitative restrictions have been eliminated, as have surcharges and stamp duties on nonagricultural goods. The import duty band is being phased down to 5 to 20 percent by 1998 in line with CARICOM policies. A market-determined exchange rate introduced in 1993 led to an immediate depreciation of 26 percent. Fluctuations have been moderate since then. Customs procedures are being streamlined, and restrictions on foreign exchange transactions have been eliminated. In addition, the government has reduced the corporate tax rate from 40 percent to 35 percent and is revising its investment code. The financial sector is being strengthened with improvements in regulation and supervision of the insurance, mutual funds, and securities industries.

The government is downsizing and refocusing the public sector with an extensive program of divestment and reducing public employment. Most commercial enterprises are being partially or wholly privatized, and private participation is being introduced in public utilities. The public portfolio, which comprised 87 enterprises in 1992, was reduced to 66 by mid-1994, and 35 other enterprises in telecommunications, airlines, energy, and agriculture are scheduled for divestment or liquidation over the next few years.

Trinidad and Tobago remains largely an oil economy, even though oil reserves are being depleted. While the natural gas sector will benefit the economy in the future, it will not solve the its most crucial economic problems. The government has identified policies to further its goal of diversifying into more labor-intensive export industries and services to generate employment and growth and minimize its external vulnerability.

In macroeconomic policy, it is seeking to build up reserves consistent with the maintenance of a competitive exchange rate and use monetary policy to contain inflation and sterilize the reserve accumulation, and strengthen fiscal balances to reduce government debt and lower interest rates. These policies are designed to is establish a track record of sound economic management that will enhance the credibility of its program, dampen inflationary expectations, and boost investor confidence. This will contribute to lowering interest rates and stimulate investment, thus promoting long-run growth.

The government intends to reinforce the growth orientation of the macroeconomic agenda with progressive increases in public saving and investment. Central government saving fell from 18.5 percent in 1981 to an average of 1 percent over 1982-91. This drastic fall in public savings, by shifting the burden of adjustment to monetary policy, limited private investment as well. As a result, total investment in the economy has fallen to about 13 percent of GDP in recent years, with central government investment falling below maintenance levels, to less than 2 percent of GDP.

Trinidad and Tobago has made significant progress in removing the policy impediments to economic diversification, but a strong supply response depends on completion of the policy agenda. This will involve steady implementation of trade reforms, continued divestment of state enterprises, and further progress in clarifying the investment regime as a signal to foreign investors.

One of the most important means of promoting economic diversification will be improving essential infrastructure services in ports, electricity, transport, and water. Despite heavy investments in the oil-boom years, infrastructure services have deteriorated significantly because of lack of maintenance, poor management, and a lack of new investment. To attract capital investments and improve the management efficiency in the utilities, the government has decided to introduce private participation in the power, water, ports, and transport sectors, and to revise its regulatory framework.

While progress has been made in reducing and redefining the scope of the public sector, the ambitious privatization program remains to be completed. More important, improving institutional capacity and the regulatory framework to support the increasing role of the private sector remains a priority. The government is committed to strengthening the core public sector by introducing incentive-based systems of public management, improving professional skills, delegating authority, and improving client orientation and accountability.

The government's poverty alleviation strategy has three themes: promoting a labor-intensive pattern of development, strengthening human-resources development, and improving the efficiency of social safety nets until broad-based growth is realized. While the labor market has become more flexible in recent years, there remain rigidities and dualism that contribute to persistently high unemployment and may have constrained private investment. In particular, laws providing for unduly high retrenchment compensation and the arbitration standards used by the Industrial Court, which, by sustaining high wages in the organized sector, have contributed to high rates of frictional unemployment.

The government's policy of high quality and equitable social services requires refocusing expenditures away from tertiary education and health care toward basic education and primary health care and correcting the recent imbalances between capital and nonwage recurrent and wage expenditures. Institutional strengthening and management reforms are also important to improve the efficiency and quality of services. The government is undertaking a comprehensive reform of the health sector and moving to rehabilitate educational facilities, strengthen curricula, and increase decentralization.

While social safety nets are extensive, they have become increasingly fragmented, with significant duplication and gaps in coverage. Key issues include a reevaluation and prioritization of the large number of programs, improved targeting, and greater emphasis on rehabilitation and enhancement of the earning potential of recipients. Administrative rationalization of the programs is also required to improve their efficiency and provide an integrated range of services for maximum effectiveness. Greater decentralization in delivering social services with increased involvement of NGOs is being considered to increase community participation in addressing the complex issues of poverty, crime, and the breakdown of family structures.

Medium-Term Prospects

Trinidad and Tobago is a small open economy whose economic fortunes have been closely linked to oil price fluctuations. Oil exports accounted for 90 percent of exports in 1982. A major development within the oil-gas sector has been a progressive increase in gas-related industries due to discovery of large deposits of natural gas and active promotion of gas-based industries. Nontraditional exports more than doubled between 1982 and 1994, albeit from a small base. As a result, though the export structure has diversified somewhat, it remains mostly dualistic: a large capital- and energy-intensive sector comprising 80 percent of total exports, and a small manufacturing and agricultural sector (mostly sugar) oriented toward Europe and the CARICOM markets.

In the short term, therefore, any recovery in exports will continue to be closely linked to the fortunes of the oil and gas sectors. Crude oil prices are expected to continue to hover around $18 a barrel, and production is expected to decline by about 3 percent a year over the next decade. While this decline is likely to be offset by increases in natural gas and gas-based chemical industries such as ammonia, urea, and methanol, these increases are unlikely to restore exports to the levels of the early 1980s. Moreover, gas-based industries are highly capital-intensive and contribute little directly to employment creation. Thus, while the development of gas-based industries has reduced the economy's dependence solely on oil, it has not eliminated the need for employment-generating growth from nontraditional labor-intensive sectors.

Broad-based growth with diversified production and exports has been the main objective of the structural adjustment program. While the supply response has been slow, there is potential for investment in tourism and other nonhydrocarbon activities, and the external environment may now be favorable for such an expansion to take place. The liberalization of world trade after the Uruguay Round and progress towards free hemispheric trade are expected to lead to an increase in world trade, with even faster growth in services exports. With its advantages of a well-educated work force, proximity to large markets, and abundant natural beauty, Trinidad and Tobago is well positioned to expand into service industries such as tourism, information processing, insurance, offshore banking, shipping, light manufacturing, specialized agricultural products, and agrobusiness.

Even though oil, its major export to North America, is not subject to tariffs, joining NAFTA would enhance Trinidad and Tobago's ability to attract foreign investment. The country has already established a track record of direct foreign investment with a six-fold increase between 1988 and 1994, from $63 million to $415 million. This investment was concentrated in the oil and gas sectors. The challenge for the future will be to increase of foreign investment in nontraditional export sectors and supporting infrastructure.

Provided the development agenda remains on track and public investments increase progressively, the economy could grow 2 to 3 percent a year in the medium term and 4 to 5 percent by the end of decade. The oil and gas sector and expanding construction activities will initially constitute the major source of growth. However, the nonoil tradable sector should also start expanding in response to the changed policy environment and growing confidence in the government's policies. Should the economy achieve these rates of growth, unemployment rates could fall to below 15 percent by the end of the decade, and income levels could rise to $4,300 per capita by the year 2000. While this level would still be below the peak attained in 1982, it would be more sustainable and broad-based.

External Debt

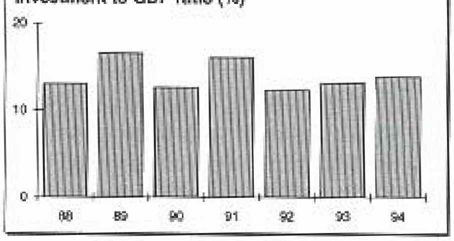
Since rescheduling its debt in the Paris Club in 1988, it has met all its repayment obligations on schedule. This has enabled it to regain access to private capital markets, and it has placed bonds amounting to $335 million on the Eurobond market over the last three years. The present level of external debt is considered manageable at 40 percent of GDP. The debt-service ratio amounts to 30 percent of GDP and is expected to decline to half this level by 2000.

Trinidad and Tobago

Population mid-1993 *(millions)*	**1.3**	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	**3,830**	Indebtedness level: **Less indebted**

KEY RATIOS

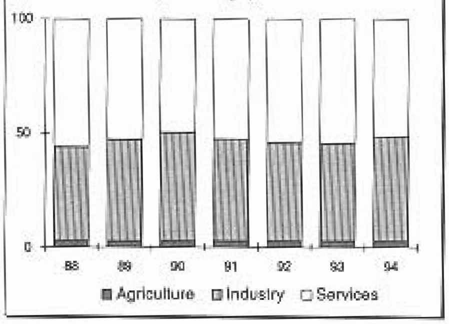
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.8	12.6	12.3	13.1	13.8
Exports of goods and nfs/GDP	32.6	43.7	36.9	38.1	40.3
Gross domestic savings/GDP	22.9	29.1	22.5	21.7	24.2
Gross national savings/GDP	17.4	20.2	14.0	14.7	16.0
Current account balance/GDP	-1.4	7.6	1.7	1.6	2.2
Interest payments/GDP	1.3	3.5	2.5	2.3	2.7
Total debt/GDP	19.6	49.5	43.5	45.8	44.8
Total debt/exports	55.8	111.2	115.6	117.4	108.1



Investment to GDP ratio (%)

GDP: PRODUCTION

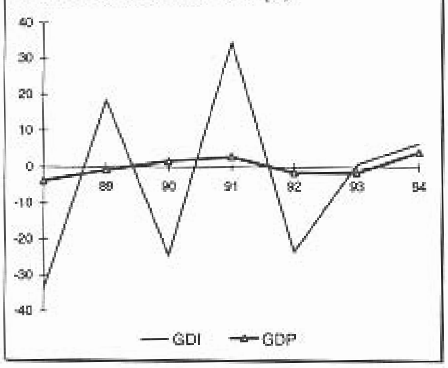
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	2.3	2.6	2.6	2.5	2.6
Industry	42.7	47.8	43.2	42.9	46.0
Manufacturing	6.8	8.7	9.2	9.5	9.5
Services	55.0	49.6	54.2	54.5	51.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.7	0.9	-2.8	-3.3	11.6
Industry	-3.2	-0.5	-2.1	-6.0	7.1
Manufacturing	-1.3	-0.1	-0.2	-4.1	1.5
Services	-4.5	-0.6	-2.7	-2.9	3.1
GDP	-2.5	0.3	-1.7	-1.7	4.0



Shares of GDP by sector (%)

GDP: EXPENDITURE

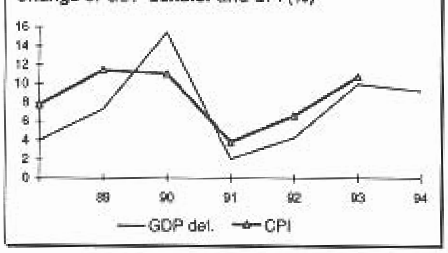
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	54.4	59.0	64.7	66.0	63.5
General government consumption	22.7	11.9	12.8	12.3	12.3
Gross domestic investment	18.8	12.6	12.3	13.1	13.8
Exports of goods and nfs	32.6	43.7	36.9	38.1	40.3
Imports of goods and nfs	28.4	27.2	26.8	29.6	29.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.2	-3.1	-6.6	-4.8	-7.8
General government consumption	-10.8	-0.7	-2.5	-6.4	5.1
Gross domestic investment	-16.5	-0.6	-23.4	0.7	6.5
Exports of goods and nfs	4.2	12.1	3.1	25.9	21.2
Imports of goods and nfs	-2.7	7.5	-11.3	20.4	8.0
Gross national product	-3.5	1.1	-1.2	0.4	3.5
Gross national income	-1.9	-2.4	-3.5	-3.4	-0.2



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	7.6	11.1	6.6	10.7	..
Wholesale prices	4.7	1.4	0.8	5.4	..
Implicit GDP deflator	10.1	15.4	4.2	9.9	9.2
Government finance					
(% of GDP)					
Current budget balance	3.1	0.1	-0.9	1.6	1.6
Overall surplus/deficit	-5.9	-1.2	-2.8	0.2	-0.3



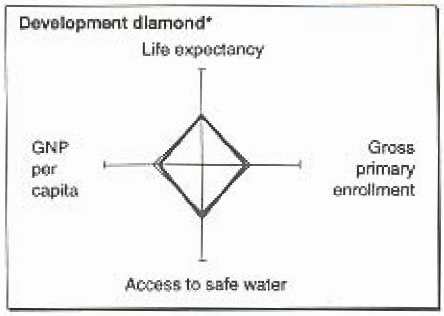
Change of GDP deflator and CPI (%)

Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

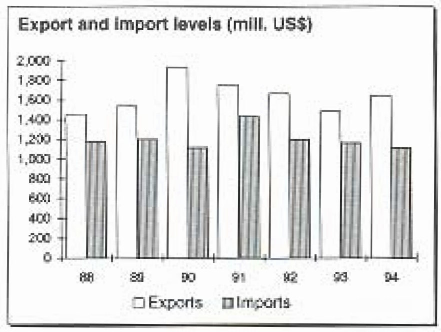
	1985-90	1990-94
(annual growth rates)		
Population	1.3	*1.1*
Labor force	2.1	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	71.8
Infant mortality *(per 1,000 live births)*	17.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	95.9
Energy consumption per capita *(kg oil equivalent)*	4,696.4
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	95.0



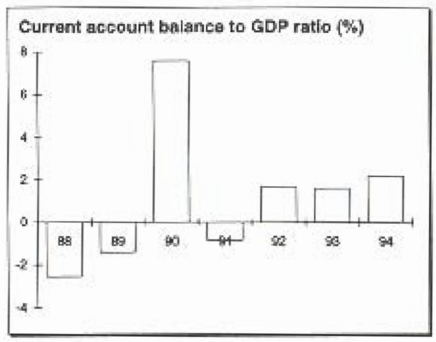
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,155	1,935	1,662	1,480	1,640
Fuel	1,001	1,039	908	767	692
Other fuel	674	286	286	278	422
Manufactures	..	125	123	125	131
Total imports (cif)	..	1,118	1,200	1,165	1,109
Food	..	181	146	114	113
Fuel and energy	..	33	187	188	107
Capital goods	..	312	355	391	427
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	61	71	64	68	70



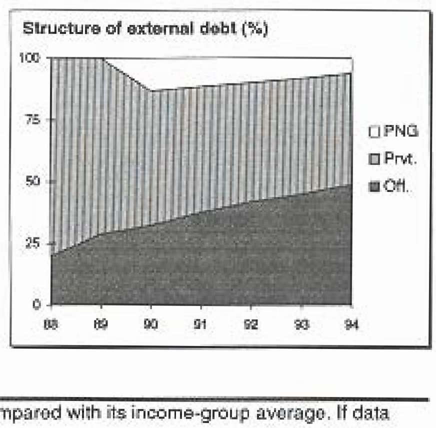
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,401	2,214	2,009	1,781	1,955
Imports of goods and nfs	2,097	1,377	1,458	1,381	1,453
Resource balance	304	836	551	400	502
Net factor income	-350	-430	-444	-319	-385
Net current transfers	-55	-21	-16	-7	-13
Current account balance					
Before official transfers	-101	385	91	74	104
After official transfers	-108	381	91	74	98
Long-term capital inflow	194	58	151	291	244
Total other items (net)	168	-350	-276	-206	-192
Changes in net reserves	-254	-90	35	-159	-150
Memo:					
Reserves excluding gold *(mill. US$)*	1,129	492	172	206	..
Reserves including gold *(mill. US$)*	1,146	513	190	228	..
Conversion rate *(local/US$)*	2.4	4.3	4.3	5.4	5.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	50.0	90.9	92.1	101.8	96.9
IMF credit/exports	0.0	14.6	13.8	8.5	4.4
Short-term debt/exports	5.7	5.6	9.7	7.1	6.8
Total debt service/exports	10.2	20.1	27.9	34.0	28.9
GDP ratios					
Long-term debt/GDP	17.6	40.5	34.6	39.7	40.1
IMF credit/GDP	0.0	6.5	5.2	3.3	1.8
Short-term debt/GDP	2.0	2.5	3.6	2.8	2.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	13.3	9.9	8.1	6.1
Public and publicly guaranteed					
Private creditors/long-term	71.7	54.5	48.4	47.0	45.0
Official creditors/long-term	28.3	32.2	41.8	44.9	48.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Tunisia

Tunisia is a country of 8.5 million people that, despite only modest natural resources, has made considerable economic and social progress without incurring excessive debt. Much of the country is arid or semi-arid; only 6 percent of arable land is irrigated, and the output of rainfed agriculture fluctuates substantially according to rainfall. It has petroleum resources, and for a brief period from the mid-1970s to the mid-1980s, earnings from oil exports were substantial. But reserves are being depleted: extraction began to decline in 1980, and since 1994 Tunisia has become a net oil importer. There is a considerable phosphate mining and processing industry, but earnings are constrained by the low grade of ores. Tunisia's historic sites, beaches, and unusual scenery have made tourism a major industry and source of export earnings.

Poverty and Social Indicators

Tunisia's 1993 GNP per capita of $1,720 was exceeded in the whole of Africa only by some OPEC economies, Mauritius, and South Africa. New estimates show that the rate of absolute poverty fell from an estimated 11.2 percent in 1985 to 7.4 percent in 1990 and identify poverty as essentially a rural phenomenon. Life expectancy has risen from 48 years to 68 years since 1970, and infant mortality has fallen from 145 to 38 per 1,000, a level surpassed in Africa only by Mauritius. Over this period adult literacy rose from 15 percent to 65 percent, and primary school completion ratios rose from 33 percent in the early 1970s to 62 percent in 1993. Population growth has declined continuously and is now less than 2.0 percent a year, although labor force growth was higher, at 3.0 percent a year over 1986-93, because of the increasing entry of women and the high proportion of young in the population. Despite the pace of economic growth, unemployment continues to increase to an estimated rate of 16 percent and constitutes one of the greatest concerns of the authorities. The government plans to focus on strategies to achieve higher and more persistent growth rates of 7 to 8 percent — compared to an average rate of 5 percent over the past five years — as a means of addressing the employment issue.

Recent Economic Developments

Tunisia began a World Bank- and IMF-supported structural adjustment program in 1986 with the aim of orienting the economy outward and relying increasingly on the private sector. The authorities recognized that the future of Tunisia, with its small domestic market and diminishing oil earnings, depended on export performance and that, tourism apart, little of the domestic economy could compete internationally. Although the "offshore" sector had caused exports to grow fast, it did not stimulate efficiency and innovation in the economy as exports normally do, because it used almost no domestic inputs, beyond labor and nontradable goods and services. Other potential inputs are mostly not yet competitive internationally.

From the start the adjustment process had a wide span. Requirements for prior authorizations for investment and bank loans were dropped, and a medium-term program of liberalizing trade and prices were begun. Interest rates on bank loans were largely freed, antiquated and distortionary taxes were replaced by a VAT on production and wholesale goods (except foodstuffs and agriculture), and the corporate income tax rate was reduced to a maximum rate of 35 percent. Most agricultural prices, including producer prices of cereals, were aligned with international market prices. A privatization program was started, and the state began to withdraw from a number of activities, notably agriculture.

These measures were quickly accompanied by a robust economic performance. Despite droughts in 1988 and 1989, GDP growth remained positive; previously droughts had normally caused GDP to fall. The average annual growth for the period was 3.5 percent, only slightly below the 1980-86 average of 3.8 percent. Export performance was especially successful: nonoil exports grew at an annual average of 14.7 percent in volume, as compared to 5.4 percent over 1980-86. The deficit on current account of the balance of payments fell, as a consequence of this and of stringent demand management, to an average of 1.1 percent of GDP, as compared to 7.9 percent for 1980-86, while the budget deficit fell to 3.5 percent as compared to 5.6 percent.

Over the past five years Tunisia has achieved reasonable growth rates with relatively low inflation. From 1989 to 1994, GDP growth rates averaged around 5 percent, but the annual rate fluctuated considerably depending on the weather and tourism. GDP growth in 1991 was 3.9 percent. 1992 was a year of recovery; tourism unexpectedly recovered to surpass its 1990 level, and with a reasonably good agricultural year, growth reached 8.0 percent. The performance would have been better still had the recession in Europe not made itself felt in a fall in the growth rate of manufactured exports to 3.5 percent over 1990-93. A severe drought in 1993 brought GDP growth down to 2.1 percent; in 1994 it was 4.4 percent, which was below the projected 6 percent level primarily because of inadequate rainfall.

The Tunisian authorities limited the 1991 current account deficit to 4.4 percent of GDP, after it had reached 5.4 percent in 1990. Beginning in 1992 and estimated through 1995, the current account deficit is high due to large oil and gas investments, peaking in 1993 at 8.1 percent of GDP. This rate is expected to fall sharply beginning in 1996 to around 3 percent. The budget deficit rose slightly in 1991, to 4 percent of GDP from 3.8 percent in 1990, both because of the loss of revenues from lost exports and because of the cost of large stocks of cereals and olive oil from the abundant crops, but it fell to 2.6 percent of GDP in 1993 and is estimated to have been 2.0 percent in 1994.

The perseverance of the authorities has paid off in several respects. One was the decline in inflation, which had averaged about 7 percent a year, to below 6 percent in 1992 and down to 4.5 percent in 1993 and again in 1994. Another was an improvement in external debt indicators; the share of debt servicing in exports has fallen steadily from 23.8 percent in 1991 to 20.2 percent in 1994.

Structural Adjustment

In 1991, 72 percent of Tunisia's agriculture and manufacturing production was protected by quantitative restrictions. By the end of 1994 an estimated 24 percent remained protected, 85 percent of all producer prices were liberalized, and about 70 percent of distribution margins are free.

After reforming direct taxes and introducing a VAT, the government reformed stamp duties and registration fees and started reforming local taxation. It has also reformed the taxation of financial instruments, which had caused distortions that hindered the development of financial markets. The result is a simple tax system with moderate rates, wider incidence, and no multiple taxation of income. This opened the way to reform Tunisia's many investment codes, which afforded tax and other financial advantages, by reducing the need for them. A new unified code was approved by the Chamber of Deputies in January 1994 with more modest advantages accorded only to investments that fulfill the objectives of the code. These reforms move in the direction of a more equitable tax regime between offshore and domestic companies.

Reform in the financial sector has included a new regulatory framework for banking, notably strict prudential regulations, and removal in April 1994 of a cap on the spread of deposit bank lending rates over the money market rate. Government borrowing through the obligatory purchase by banks of low-yielding bonds is being replaced by an auction process resulting in much higher yields for the banks and public. The stock market has also undergone reforms to modernize its regulations. These and the tax reforms have created the conditions for a potentially active and diversified financial market, although at present few companies are listed.

Privatization began in 1987 but is proceeding at a slow pace. Out of nearly 200 enterprises in which the state had majority shares only about 40 small ones have been privatized. A diffusion of responsibilities caused delays but had the benefit of ensuring a measure of transparency and public acceptance. In 1993 the Ministry of Economic Development was given responsibility for privatization, but the process remains essentially on hold.

Medium-Term Prospects

By deepening structural reforms, Tunisia could attain its objective of increasing the efficiency of investment through a gradual decline of the five-year incremental capital-output ratio from its level of over 6 in the early 1980s to 4.5 by the late 1990s. A GDP growth rate of 5 percent in the mid-1990s could be achieved with a level of total investment averaging a quarter of GDP. Part of the decline in the capital-output ratio should come from an increased share of private-sector investment in GDP at the expense of the public sector. The rest can be expected from changes in relative prices, notably the increase in the cost of capital relative to wages due to the wage restraint and the real depreciation of the Tunisian dinar since 1985.

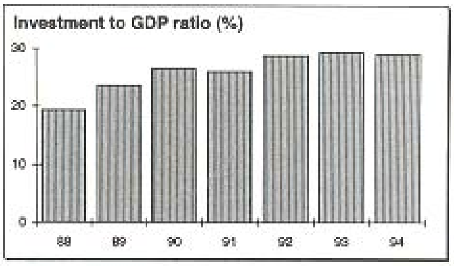
The lower level of investment needed to achieve the above growth rates, as compared to the levels in the late 1970s and early 1980s, would, given that domestic saving is only expected to increase modestly from around 20 percent of GDP in recent years to around 22 percent in the second half of the 1990s, result in current account deficits small enough for debt indicators to improve steadily. Tunisia's noninterest current account would be close to balancing after 1995, and the current account deficit, after reaching 8.1 percent of GDP in 1993, should decline to less than 3 percent by 1997. External debt to GDP and debt service ratios should decline from 1992 levels (53.6 percent and 21 percent respectively) to 52 percent and 16.4 percent in the late 1990s. The nominal size of the external debt will increase, however, with much of the growth coming from a resumption of borrowing on financial markets.

Tunisia

Population mid-1993 *(millions)*	8.7	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	1,720	Indebtedness level:	**Moderately indebted**

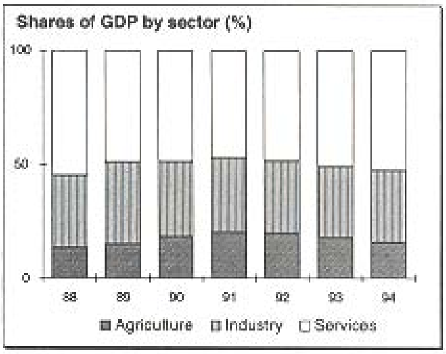
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	26.6	26.6	28.8	29.3	29.0
Exports of goods and nfs/GDP	32.6	42.2	38.4	39.7	41.7
Gross domestic savings/GDP	20.4	19.0	20.1	22.8	22.8
Gross national savings/GDP	19.4	19.9	19.7	21.4	22.5
Current account balance/GDP	-7.1	-5.5	-6.9	-8.1	-7.0
Interest payments/GDP	3.0	3.2	2.6	2.9	2.8
Total debt/GDP	59.0	62.6	54.9	59.5	58.8
Total debt/exports	161.8	129.5	127.9	133.0	130.4



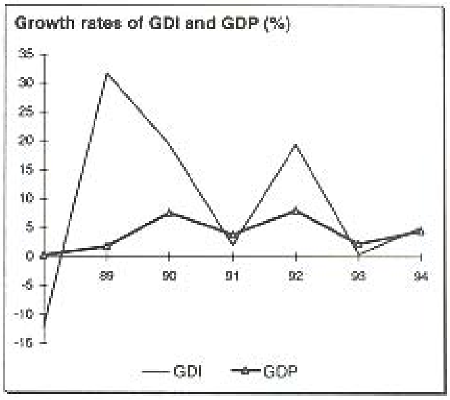
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	17.3	18.4	19.7	17.9	15.9
Industry	34.1	33.0	31.9	31.3	31.8
Manufacturing	13.5	18.8	18.9	19.2	..
Services	48.6	48.5	48.3	50.8	52.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.4	1.0	5.4	-5.9	-6.9
Industry	3.6	4.0	5.4	0.5	5.8
Manufacturing	9.3	5.6	7.6	2.7	7.7
Services	2.7	6.2	10.8	6.0	7.1
GDP	2.8	4.7	8.0	2.2	4.5



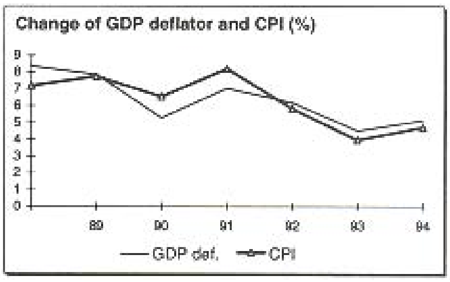
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	63.0	64.7	64.2	61.0	60.8
General government consumption	16.5	16.4	15.8	16.2	16.4
Gross domestic investment	26.6	26.6	28.8	29.3	29.0
Exports of goods and nfs	32.6	42.2	38.4	39.7	41.7
Imports of goods and nfs	38.7	49.9	47.1	46.2	47.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.1	2.6	7.2	-1.6	2.8
General government consumption	2.1	4.0	4.3	3.1	3.7
Gross domestic investment	2.1	7.0	19.3	0.4	5.0
Exports of goods and nfs	10.3	5.6	11.0	2.5	11.3
Imports of goods and nfs	7.3	3.8	14.8	-3.3	8.5
Gross national product	2.9	4.7	8.9	2.0	4.4
Gross national income	2.4	4.2	8.0	1.8	3.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	7.3	6.5	5.8	4.0	4.7
Wholesale prices	11.3	2.8	1.6	2.0	..
Implicit GDP deflator	4.9	5.3	6.2	4.5	5.1
Government finance					
(% of GDP)					
Current budget balance	6.6	2.3	2.4	3.5	3.8
Overall surplus/deficit	-4.9	-5.6	-2.9	-2.6	-2.0



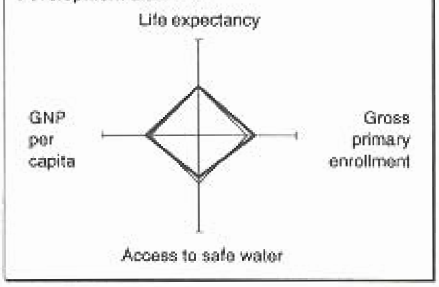
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Tunisia

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.3	2.3
Labor force	3.1	2.8

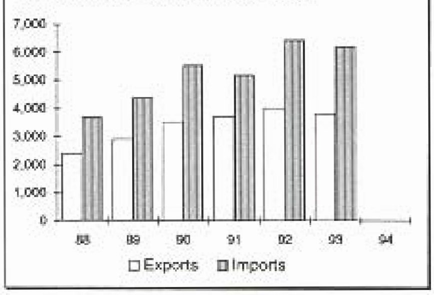
	most recent estimate
Poverty level: headcount index *(% of population)*	14.1
Life expectancy at birth	68.1
Infant mortality *(per 1,000 live births)*	41.8
Child malnutrition *(% of children under 5)*	7.8
Access to safe water *(% of population)*	67.4
Energy consumption per capita *(kg oil equivalent)*	576.1
Illiteracy *(% of population age 15+)*	34.7
Gross primary enrollment *(% of school-age population)*	120.0



Development diamond*

TRADE

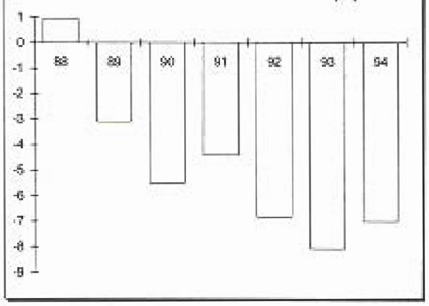
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,729	3,516	4,014	3,804	..
Fuel	97	240	249	266	..
Other agriculture	723	607	609	433	..
Manufactures	877	2,621	3,104	3,063	..
Total imports (cif)	2,741	5,525	6,432	6,213	..
Food	333	506	430	417	..
Fuel and energy	370	487	449	455	..
Capital goods	603	1,235	1,578	1,569	..
Export price index *(1987=100)*	82	135	146	144	..
Import price index *(1987=100)*	102	149	160	163	..
Terms of trade *(1987=100)*	81	90	91	88	..
Openness of economy *(trade/GDP,%)*	71	92	86	86	90



Export and import levels (mill. US$)

BALANCE of PAYMENTS

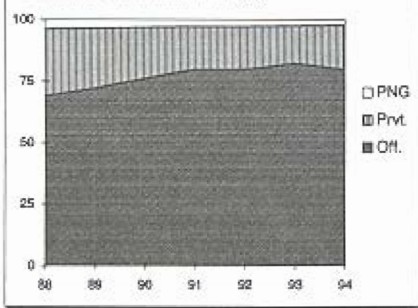
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,700	5,191	5,973	5,815	6,647
Imports of goods and nfs	3,207	5,986	6,978	6,790	7,726
Resource balance	-507	-795	-1,005	-975	-1,079
Net factor income	-352	-497	-606	-599	-664
Net current transfers	270	613	543	388	608
Current account balance					
Before official transfers	-589	-679	-1,067	-1,186	-1,135
After official transfers	-552	-470	-986	-1,082	-1,071
Long-term capital inflow	435	331	841	894	1,020
Total other items (net)	5	56	227	227	243
Changes in net reserves	113	83	-82	-39	-192
Memo:					
Reserves excluding gold *(mill. US$)*	233	795	852	854	1,462
Reserves including gold *(mill. US$)*	294	867	924	938	1,544
Conversion rate *(local/US$)*	0.8	0.9	0.9	1.0	1.0



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	155.7	115.9	111.0	116.6	114.8
IMF credit/exports	0.0	3.0	4.3	4.4	4.0
Short-term debt/exports	6.1	10.7	12.6	12.1	11.5
Total debt service/exports	24.7	24.1	20.1	20.6	20.5
GDP ratios					
Long-term debt/GDP	56.8	56.0	47.6	52.1	51.8
IMF credit/GDP	0.0	1.4	1.9	1.9	1.8
Short-term debt/GDP	2.2	5.2	5.4	5.4	5.2
Long-term debt ratios					
Private nonguaranteed/long-term	5.2	3.2	2.8	2.7	2.4
Public and publicly guaranteed					
Private creditors/long-term	30.3	20.8	17.5	15.3	17.9
Official creditors/long-term	64.5	76.0	79.7	82.0	79.7



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Turkey

Turkey's population of about 60 million has grown at an average rate of about 2.3 percent during the last decade. Population density is low, and about 60 percent of the population lives in urban centers. Unemployment has remained slightly above 10 percent through most of the past decade. There is little absolute poverty, but income inequality is high, with considerable differences in income between regions and between rural and urban communities. Per capita income for 1993 is estimated at $2,970 — Turkey has recently revised its methodology for estimating national income, resulting in an increase in estimated GNP of about 30 percent. Available data indicate that only 5 percent of income accrues to the lowest 20 percent of households, while 50 percent goes to the richest 20 percent of households. Educational enrollment at all levels has increased considerably during the past two decades. Most health indicators, including infant mortality rates, have also shown substantial improvement, although regional disparities remain significant.

Over the last few years there has been a resurgence of high fiscal deficits and inflation in Turkey that has overshadowed the gains attained through the broad-based liberalization of the economy in the 1980s. The public sector borrowing requirement rose from 4.8 percent of GNP in 1988 to about 12.6 percent in 1993, chiefly as a result of rapid government expenditure growth and a steady worsening of the performance of the state-owned enterprise sector. Annual inflation rates averaged over 60 percent over 1988-93, compared to about 30 percent in the mid-1980s. These difficulties were mirrored in high real interest rates and subdued private investment demand. Although real GNP rose by about 5 percent a year over 1988-93, there was considerable annual variation, reflecting the uncertain course of macroeconomic policies and the economy's vulnerability to external shocks.

For most of this period Turkey's external current account deficits remained at moderate levels because of relatively strong export growth. However, in 1993 the internal imbalances spilled over into the external accounts, with a sharp deterioration in the trade balance. The external current account deficit increased from $942 million in 1992 to $6.4 billion in 1993. Despite growing financial imbalances, Turkey experienced little difficulty in raising most of the required external financing during 1993. However, with the liberal external capital account and high real domestic interest rates, the share of short-term debt increased significantly. The stock of external debt at the end of 1993 was about $68 billion, equivalent to 39 percent of GNP. Of this amount, short-term debt accounted for $18.5 billion.

Recent Political Developments

Difficulties on the economic policy front mirror Turkey's increasingly complex political environment. Beginning in 1987 there was a serious erosion of political support for the center-right ANAP party that had dominated the political scene in Turkey since the restoration of civilian government in 1983. One important reason for this was that a number of politicians who had been barred from the 1983 general elections were allowed to participate in the 1987 elections following a national referendum on the subject. The crowded electoral field meant that political considerations diverted attention away from economic strategy. The ANAP government called early general elections in the fall of 1991. While no party won a majority, The DYP (center-right) won the largest number of seats and formed the current coalition government with the SHP (socialist). The DYP-SHP government has pledged to redress fiscal imbalance and reduce fundamentally the role of government in the economy. However, the coalition is fragile and faces difficult challenges from the economy, internal politics, and security issues. The security situation in the east places major demands on the government, and terrorist activities have affected the crucial tourism industry. Nationwide local elections held in March 1994 produced mixed results for the government. The DYP won the largest share of votes, but the junior coalition partner, the SHP, lost control of key municipalities to the Refah Party (Islamic). National elections are scheduled for November 1996.

Recent Economic Developments

The inadequacy of the macroeconomic framework in Turkey was highlighted by a severe currency crisis during the early months of 1994. The market value of the Turkish lira fell by about 60 percent against the major currencies during the first quarter of 1994. In an attempt to stem the depreciation, the central bank intervened heavily in both foreign exchange and money markets. The central bank's foreign exchange reserves declined by over $3 billion during the first quarter of 1994. There were successive downgradings of Turkey's credit rating by international rating agencies, and access to external financing was severely constrained. These developments compelled the treasury to increase its recourse to central bank financing, which exacerbated inflationary pressures and the depreciation of the lira.

Faced with a general financial crisis, the government initiated a major economic stabilization program supported by an IMF standby arrangement in April 1994. In addition, the program aimed to strengthen Turkey's growth prospects and competitiveness by introducing structural reforms in several key areas. The main objectives were to achieve a substantial and durable reduction in the fiscal deficit and inflation, reduce the external payments deficit and restore foreign exchange reserves, and establish a structural framework for more sustainable rapid growth, chiefly through a considerably reduced government role in economic activities.

The impetus for adjustment stems not only from the recent financial crisis, but from the customs union with the European Union that is to take effect at the beginning of 1996. The government recognizes the urgent need to strengthen the Turkish economy's financial position and competitiveness to enhance the benefits from this major step toward greater integration with the world economy. In addition, after a decade of relative neglect, measures to alleviate poverty and promote a more even distribution of the benefits of growth are urgently needed. This can occur only if substantially greater flexibility is introduced into government expenditure decisions than exists at present — interest payments and personnel costs absorbed about 80 percent of budget revenues in 1993.

The government's objectives are being pursued through fiscal adjustment, complemented by a program of monetary restraint. Initial results have been encouraging. The budget deficit was reduced substantially in 1994, largely through real cuts in spending on personnel costs and subsidies. As a result, the overall public sector borrowing requirement fell from 12.6 percent of GNP in 1993 to 7.8 percent in 1994. The external current account registered a surplus of about $2.5 billion in 1994 — a turnaround of almost $9 billion from the 1993 outcome. As a result, by the end of 1994, foreign currency reserves had been fully restored to the levels prevailing before the crisis and the stock of external debt was reduced to about $63 billion.

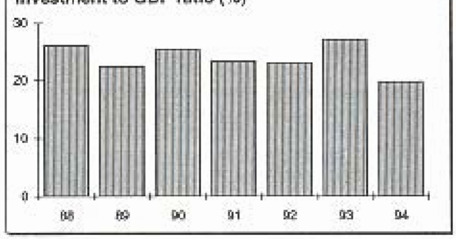
Despite these achievements, the underlying macroeconomic situation remains tenuous. Access to external credit is still severely constrained. Inflation is running at an annual rate of 150 percent, and real interest rates and inflationary expectations within the economy remain very high. These factors have contributed to a much deeper than anticipated economic recession, and real GNP declined by an estimated 4 to 6 percent in 1994. The continued volatility of underlying expectations suggests that confidence in the government's program is yet to develop. In large measure, this stems from the slow and uneven progress achieved in introducing fundamental structural reforms to provide the basis for a durable fiscal adjustment, notably reforms of the state-owned enterprise sector.

Turkey

Population mid-1993 *(millions)*	**59.6**	Income group: **Lower-middle**
GNP per capita 1993 *(US$)*	**2,970**	Indebtedness level: **Moderately Indebted**

KEY RATIOS

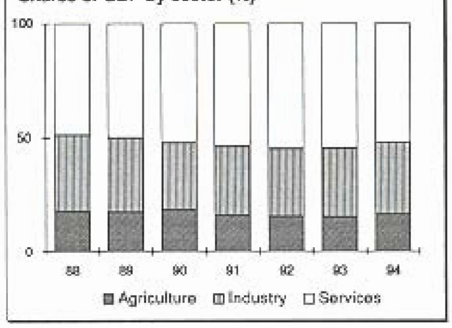
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	21.0	25.5	23.1	27.1	19.8
Exports of goods and nfs/GDP	20.6	13.5	14.7	14.4	21.7
Gross domestic savings/GDP	17.8	21.9	21.0	22.2	21.2
Gross national savings/GDP	18.6	23.0	22.0	23.1	21.3
Current account balance/GDP	-2.3	-2.5	-1.2	-4.1	1.4
Interest payments/GDP	2.5	1.9	2.0	1.8	2.4
Total debt/GDP	49.2	32.6	35.0	39.0	57.2
Total debt/exports	198.0	194.7	196.1	223.4	231.1



Investment to GDP ratio (%)

GDP: PRODUCTION

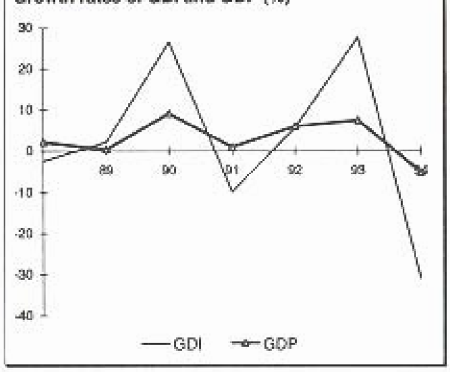
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.8	18.3	15.3	15.1	16.6
Industry	35.3	29.8	29.9	30.4	31.6
Manufacturing	25.1	19.5	18.9	19.0	19.7
Services	45.9	51.9	54.7	54.5	51.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.7	0.3	3.9	-1.9	-1.0
Industry	5.5	4.3	6.7	8.4	-3.6
Manufacturing	6.3	4.4	6.8	9.9	-5.3
Services	4.4	2.8	6.9	5.8	-5.2
GDP	4.8	3.1	6.0	7.4	-5.1



Shares of GDP by sector (%)

GDP: EXPENDITURE

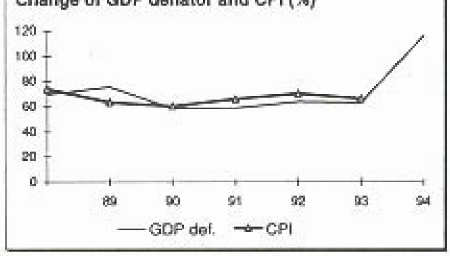
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	73.6	68.0	66.6	65.0	70.2
General government consumption	8.6	10.1	12.4	12.8	8.6
Gross domestic investment	21.0	25.5	23.1	27.1	19.8
Exports of goods and nfs	20.6	13.5	14.7	14.4	21.7
Imports of goods and nfs	23.8	17.0	16.8	19.4	20.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.5	4.3	5.8	7.9	-1.4
General government consumption	3.6	-4.9	9.4	3.7	-37.1
Gross domestic investment	6.4	-0.5	5.6	27.7	-30.9
Exports of goods and nfs	9.2	8.3	7.8	5.2	17.9
Imports of goods and nfs	9.8	5.1	7.9	33.4	-21.3
Gross national product	3.8	1.5	8.2	6.6	-10.6
Gross national income	3.9	1.8	8.1	8.2	-11.1



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	45.0	60.3	70.1	66.1	..
Wholesale prices	43.2	52.3	62.1	58.0	..
Implicit GDP deflator	44.0	58.5	63.7	62.9	115.7
Government finance					
(% of GDP)					
Current budget balance	..	3.3	-1.4	-3.3	-1.1
Overall surplus/deficit	..	-7.6	-11.2	-12.6	-8.1



Change of GDP deflator and CPI (%)

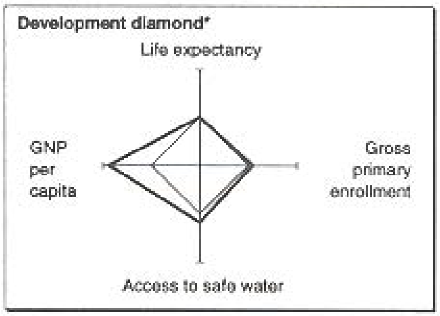
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Turkey

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.2	2.0
Labor force	2.1	2.0

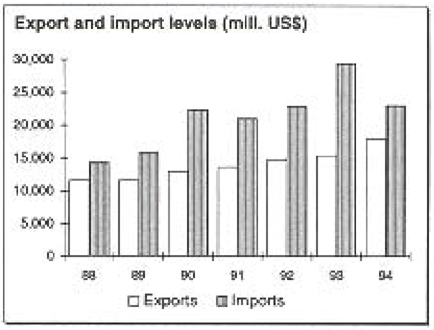
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	66.9
Infant mortality *(per 1,000 live births)*	62.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	92.1
Energy consumption per capita *(kg oil equivalent)*	983.0
Illiteracy *(% of population age 15+)*	12.0
Gross primary enrollment *(% of school-age population)*	113.0



Development diamond*

TRADE

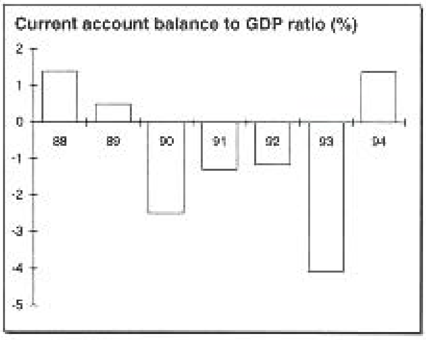
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	12,960	14,714	15,345	17,954
Other agriculture	..	2,074	2,013	2,027	2,176
Textiles	..	273	190	338	351
Manufactures	..	5,933	6,748	7,149	8,640
Total imports (cif)	..	22,302	22,871	29,429	23,044
Food	..	422	224	487	379
Fuel and energy	..	4,294	3,346	3,359	2,559
Capital goods	..	5,788	6,825	9,566	7,598
Export price index *(1987=100)*	..	123	124	120	116
Import price index *(1987=100)*	..	131	128	118	119
Terms of trade *(1987=100)*	..	94	97	102	98
Openness of economy *(trade/GDP,%)*	44	30	31	34	42



Export and import levels (mill. US$)

BALANCE of PAYMENTS

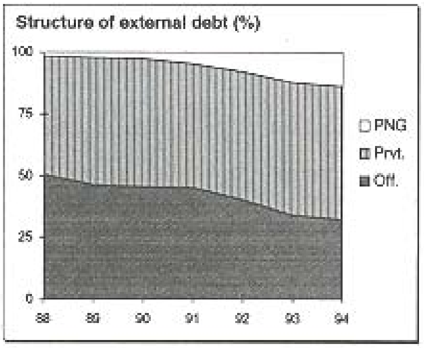
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	10,873	20,301	23,343	25,121	28,452
Imports of goods and nfs	12,563	25,652	26,706	33,721	26,608
Resource balance	-1,690	-5,351	-3,363	-8,600	1,844
Net factor income	-1,307	-1,888	-2,130	-2,075	-2,855
Net current transfers	1,762	3,470	3,639	3,562	2,850
Current account balance					
Before official transfers	-1,235	-3,769	-1,854	-7,113	1,839
After official transfers	-1,013	-2,625	-942	-6,380	2,463
Long-term capital inflow	262	1,958	3,094	6,567	786
Total other items (net)	642	2,813	849	2,720	-4,499
Changes in net reserves	109	-2,146	-3,001	-2,907	1,250
Memo:					
Reserves excluding gold *(mill. US$)*	1,056	6,050	6,159	6,272	7,169
Reserves including gold *(mill. US$)*	2,318	7,626	7,508	7,846	8,633
Conversion rate *(local/US$)*	522.0	2,608.6	6,872.4	10,984.6	29,300.0



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	151.6	157.0	151.5	162.4	157.8
IMF credit/exports	10.1	0.0	0.0	0.0	0.0
Short-term debt/exports	36.2	37.7	44.7	61.0	73.2
Total debt service/exports	35.0	29.3	31.8	28.3	27.0
GDP ratios					
Long-term debt/GDP	37.7	26.3	27.0	28.3	39.1
IMF credit/GDP	2.5	0.0	0.0	0.0	0.0
Short-term debt/GDP	9.0	6.3	8.0	10.6	18.1
Long-term debt ratios					
Private nonguaranteed/long-term	1.8	2.7	8.0	12.2	13.8
Public and publicly guaranteed					
Private creditors/long-term	36.6	51.9	51.8	53.9	54.1
Official creditors/long-term	61.6	45.4	40.2	33.9	32.1



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Turkmenistan

Turkmenistan declared independence from the Soviet Union in October 1991 and joined the Commonwealth of Independent States that December. The Republic of Turkmenistan lies in the southernmost part of the former Soviet Union. With an area of 488,100 square kilometers, it is the fourth largest republic of the former Soviet Union. However, because the Kara Kum Desert comprises 90 percent of the total area, Turkmenistan has only 3.9 million people, making it the fourth smallest republic in terms of population. Of the Central Asian republics, Turkmenistan has the highest share of population constituted by the dominant ethnic group.

Turkmenistan has the characteristics of a lower-income country in spite of its rich natural resource base. Although its growth rate was high compared to those of other republics of the former Soviet Union, incomes per capita are significantly below those of Russia and former Soviet Union averages. Turkmenistan's social indicators are low by Western standards and in comparison to those of the other Central Asian countries. The average family size is 5.6 compared to 3.5 in the former Soviet Union, and population growth is high at 2.5 percent a year over 1985-90.

Turkmenistan has substantial energy resources, primarily natural gas and oil, and is the second largest natural gas producer in the former Soviet Union after the Russian Federation and the fourth largest producer in the world. It is also the fourth largest oil producer in the region. Turkmenistan has an estimated 1.3 trillion cubic meters of proven and probable gas reserves — a further estimated 1.1 trillion cubic meters have been identified as possible reserves awaiting full appraisal — and 1.1 billion tons of oil reserves. Turkmenistan extracts about 60 to 80 billion cubic meters of natural gas a year, most of which is exported. Generation of chemicals from other mineral resources is highly developed.

Although Turkmenistan has considerable potential for diversification into mineral-resource-based industries, its economy is still predominantly agricultural. Over the past three years agriculture accounted on average for 46 percent of net material product, and 42 percent of employment. Cotton, grains, vegetables, and fruits are the major crops. Industrial production as a whole constituted about one-fifth of net material product and construction activity accounted for about one-fourth of NMP in 1991.

Exports are largely dominated by gas and oil and light industrial goods, mainly cotton fiber. The main imports from inter-republican trade in 1991 were machinery and metalwork (one-third of the total), light manufactured goods (19 percent), and processed food (15 percent); major components of imports from the rest of the world were light industry products (37 percent) and food products (27 percent).

Recent Economic Developments

Turkmenistan was initially less affected by the breakup of the former Soviet Union than other republics, and the country's terms of trade improved substantially in 1992 and 1993. However, the inability of several former Soviet countries to pay for their gas imports from Turkmenistan led to a serious problem of external arrears and declining gas output. Agricultural output declined due to bad weather in 1993. However, the GDP fall of 10 percent was less than in other republics due to significant construction activity. In 1994 agricultural output remained stable, growth rates in construction went down, and gas output continued to fall, resulting in an overall GDP decline of about 20 percent.

With growing inflation in the ruble area in 1992 and 1993, the government realized that national independence had to be accompanied by monetary independence and introduced its own currency — the manat — in November 1993. Between November 1 and March 1994 the official exchange rate was set at 2 manat to the dollar and then fixed at 10 manat per dollar until August 1994. The exchange rate has been artificially constrained and foreign exchange auctions were suspended in early December 1993. In May 1994 the central bank introduced a new commercial rate of 60 manat to the dollar. The official and commercial rates were unified at 75 manat per dollar in August 1994. In December 1994 the commercial rate adjusted to 220 manat to the dollar.

Exports are largely dominated by gas, oil, and cotton. Turkmenistan's energy exports are hampered by two problems. First, Turkmenistan is dependent on the Russian gas pipeline for hard-currency sales to Europe. Russia pools its own gas with that of Turkmenistan and then uses it either domestically or for hard-currency exports to Europe. In early 1994 the situation was complicated by Russia's refusal to grant Turkmenistan access to hard currency exports. Second, the other former Soviet republics importing gas from Turkmenistan ran up large payment arrears in 1993 and 1994.

Primarily reflecting exports of natural gas and cotton, which account for 85 percent of exports, trade remained in a large surplus of around \$800 million in 1994. Imports grew only slightly. However, since gas transit fees amounted to about \$400 million and construction services from abroad to \$200 million, the current account surplus declined from 22 percent of GDP in 1993 to 13 percent in 1994. Because of the large payment arrears by other former Soviet countries the capital account was in deficit of around \$300 million, amounting to a small overall balance of payments surplus. Gross official reserves in convertible currencies were estimated at around \$850 million at end-September 1994, equivalent to six months of imports.

Consumer prices rose by 2,400 percent in 1994, compared with over 3,000 percent in 1993. The decline is mostly due to lower imported wholesale inflation. With the introduction of the new currency in November 1993, the government liberalized several prices. Eleven commodities are still subject to control at subsidized prices. Another 26 are subject to review by an antimonopoly commission that negotiates price adjustments with enterprises. While the government has indicated that its goal is full price liberalization, no timetable has been set. Direct consumer price subsidies are estimated at about 3 percent of GDP for 1994.

There were several increases in the minimum wage in 1993, but only one in 1994. The average minimal wage rose sixteen-fold in 1993, but only eight-fold in 1994. Real wages in 1993 were only slightly lower than in 1992, but appear to have declined substantially in 1994.

Turkmenistan's budgetary situation is hard to assess because foreign exchange earnings, which constitute a substantial share of total government revenues, are channeled through an extrabudgetary fund. The budgetary situation began to deteriorate in 1993, as a result of accumulating arrears of some former Soviet countries on Turkmenistan's exports and the appreciation of the real exchange rate. Arrears have a substantially negative effect on revenues, as a large proportion of government revenues consists of hard currency receipts from gas. The government began to operate an emergency budget in 1994 on a quarterly basis with sharply reduced expenditures. Revenues from gas declined from around 68 percent of total revenues in 1992 to 13 percent in the third quarter of 1994. The 1994 budget deficit is estimated at around 1 percent of GDP.

Turkmenistan's government has postponed articulating a comprehensive reform program on the ground that nonpayment for gas exports by trading partners constrains its financial resources, and overall reform has lagged. The state-owned enterprise sector has seen little reform. Plans have been announced for small-scale privatization to begin by end-1995. The government has removed price controls on several goods and increased subsidies on others, such as energy, and restructured the fiscal system by introducing a VAT, excise taxes, and changes in the taxation of energy and exports. It has also reduced fiscal expenditures and limited the budget deficit, and drafted laws covering foreign direct investment and monetary policy.

Medium-Term Prospects

Turkmenistan has good longer-term potential for development given its rich natural resources, particularly energy, that offer high potential for export-led growth. While it will be able to grow over the medium term even with slow economic reforms, growth rates will be constrained by substantial waste and inefficiency in the use of resources without reforms. Moreover, given its growing population and poor baseline social conditions, slow movement on the reform program would also increase the budgetary expenditures required to provide social services.

The government has drawn up a five-year production and investment plan that includes large investments in infrastructure and energy financed by foreign direct investment and the budget. The government regards the energy sector as the engine for transforming the economy. In the medium to long term, the realization of the potential of the energy sector will depend on substantial investments to regenerate its production potential and access to new markets.

The current status of structural reforms limits the prospects for substantial output growth in the short term. Industrial output is expected to decline by as much as 5 percent in 1995. If industrial enterprises are not forced to restructure and the incentive structure is not changed, productivity will not increase. Furthermore, continued supply disruptions in the former Soviet Union and the buildup of arrears by Turkmenistan's main trading partners will have a negative effect on output. Agricultural output is expected to be stagnant until 1996-97 if there are no incentives to increase production and yields.

Construction is expected to increase by about 6 percent during 1995, driven by large investments the government plans in infrastructure and the energy sector. Investment flows associated with foreign direct investment in the energy sector are expected to help contain the contraction in aggregate investment expenditure.

The government's predominant role in investment is unlikely to decline over the medium term.

Faster and more comprehensive implementation of the reform program would affect the pace of recovery in the short and medium terms. By leading to more efficient use of limited resources with the same amount of investment, growth rates could reach 4 to 5 percent by the late 1990s, compared to only 2 to 3 percent with very slow reform. Progress on structural and systemic reforms would provide enterprises and individuals with the right institutional and market incentive structures and would help instigate a supply response in the economy.

Turkmenistan is vulnerable to movements in a few international prices, since its production and export bases are very concentrated. The country is also characterized by high population growth, remoteness from foreign markets, and the inefficiency of many of its inherited economic institutions. A faster and more comprehensive implementation of reforms could reduce these vulnerabilities by initiating a more diversified economy, higher growth rates, and more efficient use of resources.

External Financing Requirements

Turkmenistan's foreign exchange earning potential and financing requirements are severely affected by the uncertainty surrounding the evolution of inter-republican trade, increasing payment arrears, the terms of trade, the pricing of gas exports, and its trade regime. If a large proportion of former Soviet gas trade continues to be on a barter basis for an extended period of time, or if its trading partners are unable to pay, Turkmenistan will not be able to use export earnings for its pressing investment needs.

The country has very large investment requirements, especially in the energy sector. To maintain its medium- to long-term production capacity, Turkmenistan would need to invest about \$3 billion to \$4 billion in developing identified reserves in the next five to ten years, in addition to stepping up exploration efforts. Overall, the country may need to invest some \$8 billion by the end of the decade to ensure access to non-former Soviet Union markets. This can be financed only with significant foreign investment participation and access to capital markets at an early stage. Most of the financing will have to be supplied by direct foreign investment.

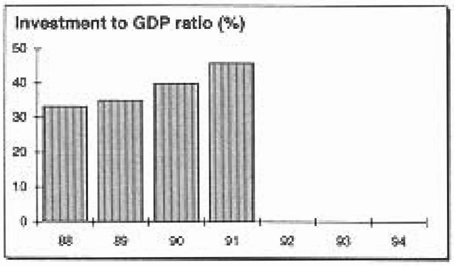
Turkmenistan also faces significant investment needs for developing and maintaining basic infrastructure, especially in transport and telecommunications. The existing network is in poor condition and is not oriented to support a country independent of Russia. This lack of infrastructure could be a major constraint to investment. Furthermore, if Turkmenistan were to reform it would require substantial assistance in developing the capability and institutions needed to manage the transition to a market economy.

Turkmenistan

Population mid-1993 *(millions)*	3.9	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Less indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	40.9	40.0	..	..	..
Exports of goods and nfs/GDP	..	..	..	..	..
Gross domestic savings/GDP	27.9	27.2	..	..	..
Gross national savings/GDP	..	27.2	..	..	..
Current account balance/GDP	..	..	18.0	..	..
Interest payments/GDP	..	..	..	..	..
Total debt/GDP	..	..	..	..	..
Total debt/exports	..	..	..	0.3	0.4

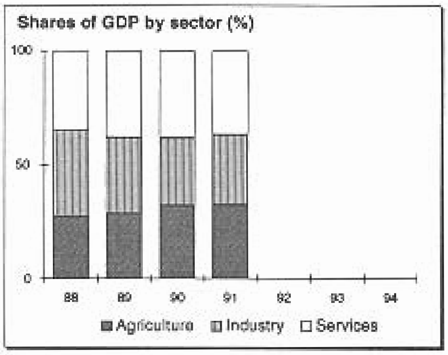


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	28.9	32.2	..	..	..
Industry	37.3	29.8	..	..	..
Manufacturing	..	..	..	..	..
Services	33.8	38.0	..	..	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	3.6	..	..	..	..
Industry	-0.5	..	..	..	..
Manufacturing	..	..	..	..	..
Services	7.1	..	..	..	..
GDP	3.4	..	-5.4	..	..

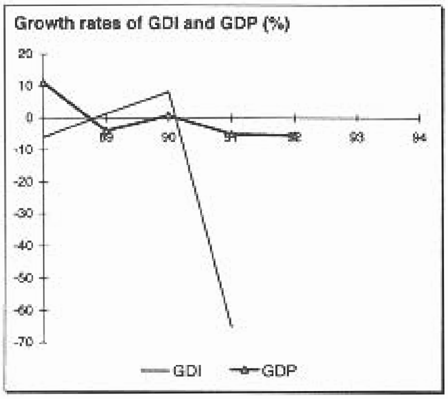


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	51.3	50.1	..	..	..
General government consumption	20.9	22.8	..	..	..
Gross domestic investment	40.9	40.0	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..

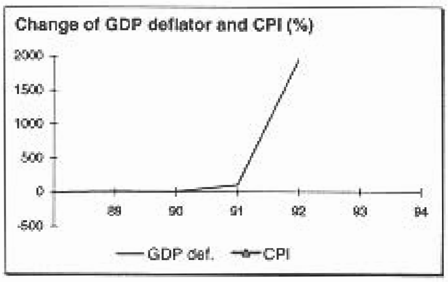
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.8	..	..	..	..
General government consumption	4.3	..	..	..	..
Gross domestic investment	-1.9	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	3.4	..	-5.4	..	..
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-7.6	5.7	1,943.7	..	..
Government finance					
(% of GDP)					
Current budget balance	1.6	1.6	-10.1	..	..
Overall surplus/deficit	..	..	..	..	..



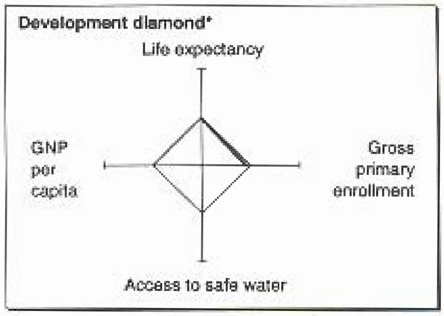
Change of GDP deflator and CPI (%)

Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

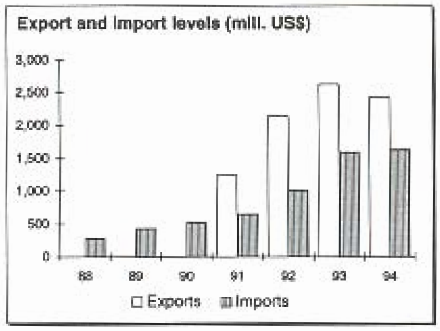
	1985-90	1990-94
(annual growth rates)		
Population	2.5	2.3
Labor force	2.8	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	65.3
Infant mortality *(per 1,000 live births)*	55.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	2,268.3
Illiteracy *(% of population age 15+)*	2.3
Gross primary enrollment *(% of school-age population)*	94.0



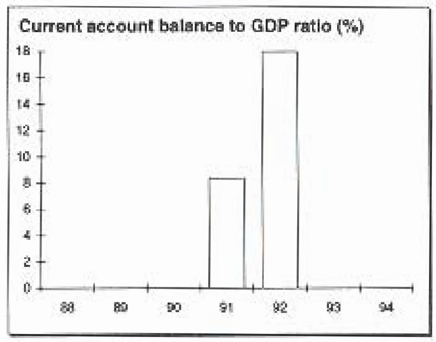
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	2,149	2,626	2,425
Fuel	..	..	1,249	1,806	1,648
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	523	1,009	1,593	1,636
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	..	..



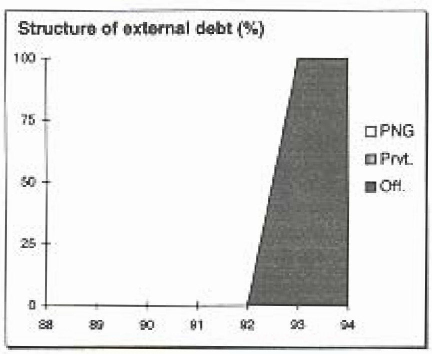
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	2,149	2,626	2,425
Imports of goods and nfs	..	..	1,222	1,929	2,134
Resource balance	..	..	927	697	292
Net factor income	..	..	0	..	..
Net current transfers	..	..	0	12	4
Current account balance					
Before official transfers	..	..	927	676	320
After official transfers	..	..	927	676	320
Long-term capital inflow	..	..	21	-528	-304
Total other items (net)	..	..	-1,056	338	38
Changes in net reserves	..	..	108	-486	-54
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	1.4	55.1	..	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	0.3	0.4
IMF credit/exports	..	..	..	0.0	0.0
Short-term debt/exports	..	..	..	0.0	0.0
Total debt service/exports	..	..	..	0.0	0.0
GDP ratios					
Long-term debt/GDP	..	..	..	..	..
IMF credit/GDP	..	..	..	..	..
Short-term debt/GDP	..	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	0.0	0.0
Official creditors/long-term	..	..	..	100.0	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Uganda

During the 1960s Uganda was one of the most promising economies in Sub-Saharan Africa, but, starting in 1972, the economy declined because of political turmoil, civil war, and economic mismanagement. The National Resistance Movement, which took power in January 1986, inherited an extremely difficult economic situation, with a real GDP that had declined by about 20 percent between 1972 and 1985. The new government also inherited a large external debt burden, with a debt service ratio of more than half of fiscal 1985 export earnings.

The government at first adopted an interventionist stance, introducing expansionary fiscal and monetary policies. However, these policies proved unsustainable and inflation soared to triple-digit levels. In 1987, amidst a rapidly deteriorating economic situation, the government began an economic recovery program aimed at restoring macroeconomic stability, creating the conditions for sustained economic growth, and developing human capital through investments in education, health, and other social services. The program also included widespread structural reform.

Only slow progress was made on stabilization and the reform program from 1987 to 1992. Since then, however, implementation has been strengthened and notable successes have been achieved. Tight expenditure control helped bring annual inflation brought down from nearly 65 percent in June 1992 to about 7 percent by the end of December 1994. Control over monetary growth was less effective, but the economy was able to absorb the increased money supply without excessive inflationary pressures. The low inflation contributed significantly to the stability of the exchange rate and supported the ongoing trade and exchange liberalization. Per capita income in 1993 was about $180.

Structural and Institutional Reforms

When the recovery program began, Uganda's economy was very static and highly regulated. Parastatals dominated nearly all sectors, inefficient state trading boards abounded, government controls circumscribed private-sector activity in nearly every aspect of economic activity, and institutional inefficiencies were a debilitating drag on private business initiatives. In addition, a number of important products, including most export items and some imported goods, were price controlled. To reverse this situation, the government embarked on a comprehensive policy and institutional reform program designed to deregulate the economy, eliminate direct state involvement in all but essential public services, and improve institutional efficiency. Price controls were first removed from industrial products, then in fiscal 1992 from major crop prices, and in January 1994 from retail petroleum prices.

Price deregulation was accompanied by removing entry barriers to markets and dismantling state marketing boards that controlled the internal trade and export marketing of produce, coffee, and cotton. Uganda also deregulated its trade and payments system. First, the licensing of exports and imports was replaced by simple registration systems, and the level and dispersion of import duty rates were reduced. Shortly thereafter, all quantitative restrictions on imports were removed, except for those on a small negative list, and the surrender requirement on export earnings was progressively eliminated. The market for foreign exchange was steadily liberalized, the latest step being replacement of the foreign exchange auction in November 1993 with a fully liberalized interbank market.

In an effort to stimulate private-sector investment and growth, the government has made substantial progress in the politically sensitive task of returning properties expropriated under a previous regime. To improve fiscal management and enhance the delivery of public services, the government has undertaken a wide-ranging civil service reform that reduced its staff from 320,000 in 1990 (including ghost and temporary workers) to around 150,000 in December 1994. In addition, all government ministries and agencies have been reorganized and restaffed along functional lines. Concurrently, wages and salaries are being raised as rapidly as resources permit. The army is being downsized, and when completed, the demobilization will represent an estimated 50 percent reduction in the nation's military forces.

A quasi-independent Uganda Revenue Authority was established to improve tax administration and reduce corruption, and a new Uganda Investment Authority was created to facilitate private and foreign investment. The government has embarked on a wide-ranging decentralization program to devolve much of public service delivery to district and local governments. Reform efforts in the financial sector have concentrated on freeing interest rates and increasing the efficiency of the banking system by attempting to restructure problem banks and introduce competition. The government is restructuring — and plans to privatize — the Uganda Commercial Bank, the dominant bank in the sector with about 40 percent of all deposits, and the Cooperative Bank. In addition, through the passage of the new Banking and Financial Institutions Acts, the autonomy and authority of the central bank have been increased to enable it to manage monetary policy more effectively and improve its prudential supervision of commercial banks.

Recent Economic Performance

Uganda's real GDP grew at an average of 5.4 percent over fiscal years 1987-93, a gain of about 2.5 percent a year in per capita terms. To a large extent this growth was the result of bringing land and capital back into production, an outcome made possible by increased peace and security. More recently, growth has also been fueled by some private investment and the impact of trade, exchange rate, and crop marketing liberalization. Preliminary indications are that real GDP may have risen as much as 6 percent in calendar 1994. There are a number of reasons for the relatively low level of private investment, including a regulatory framework that is still stultifying despite substantial reforms, a legacy of concern over economic and political stability, poorly functioning infrastructure, the high cost of doing business in Uganda, and inefficiency of the banking system. The low level of domestic tax revenue remains a constraint to public investment, most of which is financed by donors. Although domestic tax revenue increased from 7.2 percent of GDP (market prices) in fiscal 1993 to 8.2 percent in fiscal 1994, the national budget remained dependent on the shilling counterpart to donor import support. There is also an absorptive capacity constraint on public investment.

Coffee provides about two-thirds of Uganda's export revenue, and the tripling of world coffee prices in June 1994 was a major event. So far, the government has managed the boom well: inflation has actually fallen, and the nominal exchange rate has appreciated only 4 percent since June 1994. The boom will temporarily ease Uganda's balance of payments problems, and provide good returns to coffee growers and exporters. For the longer term, however, Uganda will continue to depend on external financing of imports vital to its growth process, despite rapid growth in nontraditional exports from a very low base. There is also a risk that the appreciation of the shilling will erode Uganda's competitiveness in external markets, which could delay much-needed diversification of its export base. Uganda recently imposed a stabilization tax on coffee exports to sterilize some of the revenues. Additional import demand also seems to be offsetting some of the inflow. The Bank of Uganda is also building a cushion of reserves that can be decumulated when the situation reverses.

The primary objective of Uganda's development strategy is to reduce poverty by generating employment and income opportunities through sustained macroeconomic stability, strong economic growth and increasing the provision and effectiveness of public services. Poverty reduction is receiving greater attention from the government, now that much of the reform program is well under way. Economic growth is seen as the main vehicle for poverty reduction. This has been reflected in income-generating initiatives in high-poverty areas of the country. Efforts are also being made to target public spending on essential services (especially health, education, water, and sanitation) benefiting the poor.

Uganda has good growth potential, particularly in agriculture, industry, and tourism. With the current policy and incentive framework, the economy can sustain annual growth of 5 to 6 percent. With more rapid adjustment and institutional reforms, and higher investment, this could rise to 7 to 7.5 percent in the medium term.

In agriculture, the greatest potential is in cash crops for export. Apart from coffee, cotton, which was once a major export crop, has substantial room for expansion, and present reforms aimed at deregulating and restructuring this subsector to facilitate private investment should provide the impetus for rapid growth. Nontraditional export crops, such as maize, beans, fish, cut flowers, and horticultural products, also have good potential. Manufacturing has grown rapidly over the past several years and has the potential for further increases. The processing of agricultural raw materials and the production of consumer goods to substitute for imports seem to have the best prospects in the short term. However, there is a danger that the disproportionate inward orientation of manufacturing will result in stagnation in the longer term. Despite substantial actions already taken to improve the business climate, investment has been slow to respond. Tourism is receiving increased attention from external investors, however, as the government moves to privatize the industry.

Improving public sector management is high on the government's agenda, and good progress has been made on civil service reform. Managing the public sector is made more difficult by parastatals, whose importance in the economy is limited but whose drain on the budget is substantial; progress on privatization and public enterprise reforms to resolve this problem has been slow. The public sector's capacity to implement investment programs is limited, constraining growth in the development budget. The government has recently begun an extensive decentralization program to devolve public services to district and local governments.

Environment

Deforestation and degradation of Lake Victoria and other lakes have emerged as Uganda's most serious environmental problems. Some estimates have suggested that as much as 40 percent of the country's forests have been lost since the late 1950s owing to agricultural expansion and demand for timber. Lake Victoria is being threatened by urban water pollution, overfishing, and the conversion of wetlands to agriculture, and the spread of noxious water plants threatens the lake ecosystem's integrity. Regional plans to address the urgent problems of Lake Victoria are under preparation. In a broader context, a national environmental action plan lays out a framework for integrating environmental considerations into Uganda's overall economic and social development efforts. A recently completed "State of the Environment" report provides a comprehensive overview of the sector. District environment profiles are being prepared in a number of districts.

Regional Economic Integration

In the past two years, Uganda has resumed active discussions with its neighbors in East Africa, Kenya and Tanzania, towards reviving East African cooperation in trade, transport and communications, finance, and investment, as well as in regional immigration and security. In November 1994, the three heads of state issued a communiqué indicating the establishment of a secretariat in Arusha to facilitate East African cooperation and formulate steps toward strengthening regional institutions. The communiqué also indicated the intention of all three governments to implement the provisions of the cross-border initiative, including steps to harmonize tariff rates and simplify customs procedures and to consider the possibility of forming a customs union.

Medium-Term Prospects

Uganda has good prospects for economic growth. Since the commitment to structural change is strong, and political and social stability seem assured, no significant downside risk to the economy is foreseen. In fact, recent developments show a much improved economic outlook for fiscal 1995-96, due in particular to higher world coffee prices. This positive external shock is expected to have direct and indirect repercussions on the economy, not only in the balance of payments through higher exports, imports, and reserves, but also in consumption, investment, fiscal revenues, net foreign assets, and monetary growth. This in turn is expected to support continued rapid GDP growth, perhaps of over 7 percent over the next two years. Although the Ugandan economy is expected to continue making steady progress over the next decade, it will, however, also continue relying heavily on foreign aid.

External Debt

As of December 1994 Uganda had $3.15 billion in external debt outstanding and disbursed (equivalent to about 80 percent of 1994 GDP), which included $235 million in principal and interest arrears. These arrears were mainly to non-Paris Club, non-multilateral creditors. About 28 percent of external debt was owed to official bilateral creditors, half of which was owed to Paris Club creditors. Debt service payments (including IMF charges) in 1994 were equivalent to 54 percent of exports of goods and services. Multilaterals accounted for over half of the debt service payments that year.

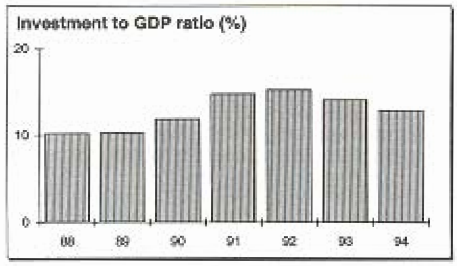
In 1992 Uganda adopted a well-articulated strategy for managing its debt. The strategy has five components: year-by-year rescheduling of eligible Paris Club bilateral debt incurred before June 1981 and maximum annual deferral of all Paris Club bilateral debt accumulated thereafter; write-off or long-term rescheduling of all non-OECD bilateral debt; extension of bilateral balance-of-payments support to nonconcessional multilateral debt service; buy-back of uninsured commercial debt; and virtual cessation of government or government-guaranteed external borrowing on all but highly concessional terms. There has been progress in implementing all aspects of the strategy.

Uganda

Population mid-1993 *(millions)*	**18.0**	Income group:	**Low**
GNP per capita 1993 *(US$)*	**180**	Indebtedness level:	**Severely indebted**

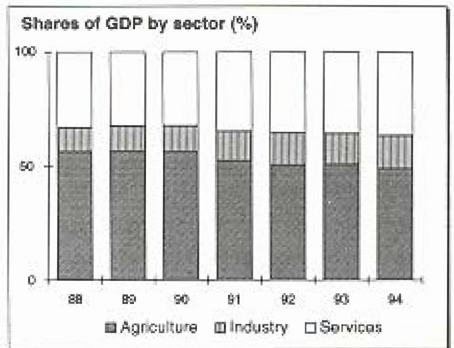
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	7.6	11.9	15.2	14.1	12.9
Exports of goods and nfs/GDP	11.6	6.0	7.2	5.5	6.1
Gross domestic savings/GDP	6.7	1.0	-0.5	-1.2	1.1
Gross national savings/GDP	6.7	1.6	2.0	4.6	..
Current account balance/GDP	-2.3	-9.9	-11.7	-10.8	-8.6
Interest payments/GDP	0.5	0.4	0.9	1.5	1.2
Total debt/GDP	31.6	61.5	104.7	93.0	79.2
Total debt/exports	303.6	1,086.1	1,553.4	1,453.0	973.8



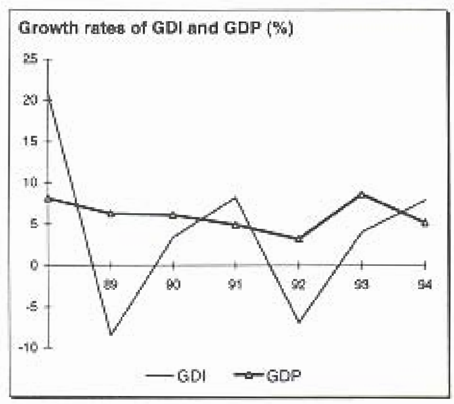
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	57.7	56.3	50.6	50.8	49.0
Industry	9.2	11.5	14.0	13.6	14.3
Manufacturing	5.3	5.7	6.5	6.2	6.8
Services	33.1	32.2	35.4	35.6	36.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.2	3.3	-1.1	9.5	1.7
Industry	8.8	10.2	11.2	7.5	12.9
Manufacturing	7.2	12.3	18.9	6.6	14.7
Services	5.2	7.6	7.9	7.7	6.9
GDP	5.2	5.5	3.2	8.6	5.2



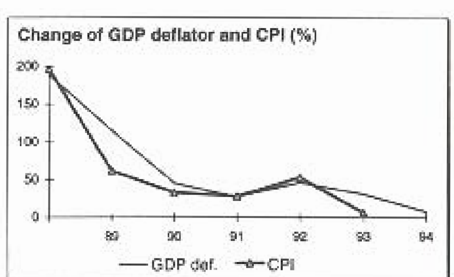
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	80.2	88.8	86.4	88.7	86.3
General government consumption	13.1	10.2	14.2	12.5	12.6
Gross domestic investment	7.6	11.9	15.2	14.1	12.9
Exports of goods and nfs	11.6	6.0	7.2	5.5	6.1
Imports of goods and nfs	12.5	16.9	22.9	20.8	17.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.1	5.3	0.9	11.9	2.1
General government consumption	4.1	3.4	24.0	-11.0	5.0
Gross domestic investment	11.8	2.1	-6.9	4.0	7.8
Exports of goods and nfs	2.3	8.6	17.1	-7.7	46.0
Imports of goods and nfs	6.6	2.3	-2.7	9.1	1.5
Gross national product	5.1	5.6	2.6	9.4	5.0
Gross national income	3.7	5.2	1.9	9.8	3.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	157.7	33.1	52.4	6.1	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	108.8	45.4	45.9	30.7	7.2
Government finance					
(% of GDP)					
Current budget balance	0.3	-0.3	-4.9	-1.1	-1.8
Overall surplus/deficit	-3.9	-5.8	-14.2	-11.1	-11.4



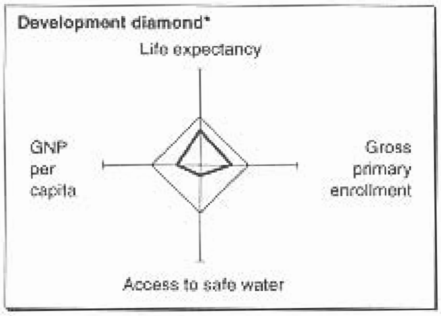
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Uganda

POVERTY and SOCIAL

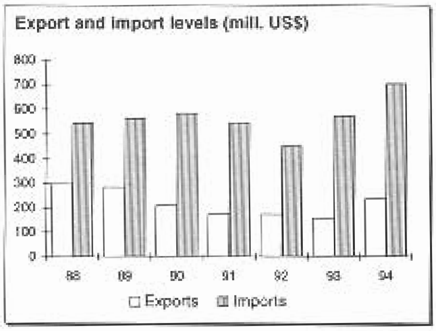
	1985-90	1990-94
(annual growth rates)		
Population	2.4	2.4
Labor force	2.8	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	55.0
Life expectancy at birth	44.5
Infant mortality *(per 1,000 live births)*	114.2
Child malnutrition *(% of children under 5)*	23.3
Access to safe water *(% of population)*	15.2
Energy consumption per capita *(kg oil equivalent)*	23.4
Illiteracy *(% of population age 15+)*	51.7
Gross primary enrollment *(% of school-age population)*	71.0



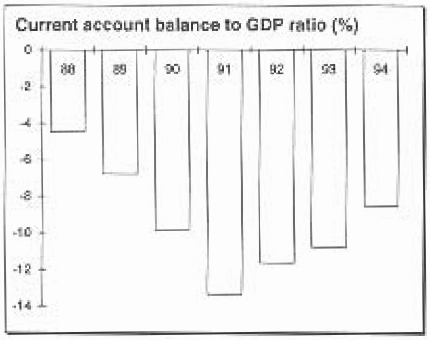
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	383	210	172	157	237
Coffee	353	159	117	99	152
Cotton	13	..	10	5	5
Manufactures	..	..	..	..	..
Total imports (cif)	404	584	451	573	703
Food	..	..	..	32	46
Fuel and energy	76	78	57	58	66
Capital goods	..	..	..	199	251
Export price index *(1987=100)*	104	43	38	38	48
Import price index *(1987=100)*	80	115	123	126	126
Terms of trade *(1987=100)*	129	38	31	30	38
Openness of economy *(trade/GDP,%)*	24	23	30	26	24



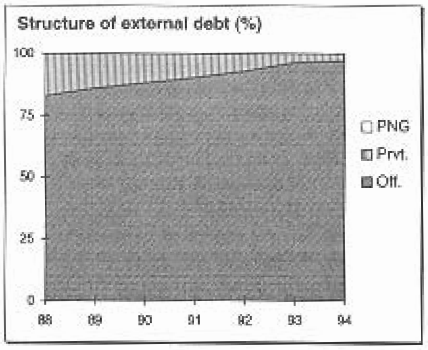
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	408	246	195	206	317
Imports of goods and nfs	484	676	582	753	872
Resource balance	-76	-430	-387	-547	-555
Net factor income	-53	-77	-87	-49	-60
Net current transfers	40	78	136	241	270
Current account balance					
Before official transfers	-89	-429	-338	-355	-345
After official transfers	-25	-276	-132	-96	-87
Long-term capital inflow	73	221	40	131	185
Total other items (net)	-9	46	93	-7	-20
Changes in net reserves	-39	10	-2	-29	-79
Memo:					
Reserves excluding gold *(mill. US$)*	27	44	94	146	..
Reserves including gold *(mill. US$)*	27	44	94	146	..
Conversion rate *(local/US$)*	5.1	319.6	960.8	1,201.8	1,103.4



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	218.9	909.2	1,292.1	1,244.2	860.1
IMF credit/exports	74.7	114.8	176.3	158.7	106.1
Short-term debt/exports	10.0	62.1	85.0	50.1	7.6
Total debt service/exports	38.4	57.7	54.6	143.6	57.6
GDP ratios					
Long-term debt/GDP	22.7	51.5	87.0	79.7	70.0
IMF credit/GDP	7.8	6.5	11.9	10.2	8.6
Short-term debt/GDP	1.0	3.5	5.7	3.2	0.6
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.1
Public and publicly guaranteed					
Private creditors/long-term	18.6	11.8	7.3	3.7	3.2
Official creditors/long-term	81.4	88.2	92.7	96.3	96.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ukraine

Ukraine declared its independence from the Soviet Union in August 1991. Its land mass is the largest in Europe after the European part of Russia, and its population of 52 million ranks fifth in Europe. GNP per capita was estimated at $2,210 in 1993, down from $2,340 in 1991. The economy rests on industry and agriculture, which together account for more than 70 percent of GDP. Ukraine, despite its size, is heavily dependent on trade, notably with the other former Soviet countries.

Recent Political Developments

Major changes occurred in the functioning of Ukraine's government in 1994. In July a former prime minister and state enterprise manager was elected president and a new team of reformers he appointed drafted a comprehensive economic reform program that was introduced in a speech to parliament in October.

The president has gained the backing of a number of parliamentarians for the reform process. A high-level Economic Reform Committee, chaired by the first deputy prime minister, is working hard to keep the reforms on track. The government won parliamentary approval of the stabilization program and the structural reform measures in separate votes in October and December 1994. Parliament's approval of Ukraine's accession to the Nuclear Non-Proliferation Treaty and the country's agreement to destroy its arsenal of nuclear warheads over the next two years was another major breakthrough in Ukraine's relations with the West.

Recent Economic Developments

Ukraine's economy continued to shrink in 1994, with a particularly sharp contraction in the first semester. Although the rate of decline slowed in the second half of the year, it is estimated that real GDP may have fallen 20 percent in 1994, bringing the cumulative fall in output since 1990 to 50 percent, although these figures overstate the decrease in output as they do not cover the expanding unofficial economy. Inflation, which had reached unprecedented levels in the past few years — prices rose about 65 percent a month in the last quarter of 1993 — came down markedly by mid-1994 to monthly rates of 4 to 5 percent after a drastic squeeze in credit in the autumn of 1993 and a freeze in administered prices, particularly of energy.

The subsequent relaxation of credit policy, the adjustment in administered prices, and unification of the exchange rate contributed to a large price increase in the last quarter of the year, with inflation for the year as a whole at 400 percent. The general government deficit (on a cash basis) was brought down substantially in 1993 to 10 percent of GDP (from 30 percent in 1992), but its financing, met entirely by central bank credit, was still excessive in relation to the economy's need for liquidity given the public's dwindling confidence in the domestic currency. Moreover, budget cuts proved difficult to sustain; the underlying fragility in the fiscal situation became evident as expenditure pressures mounted by mid-1994. The external situation became increasingly tenuous as the trade deficit with other former Soviet countries widened, in part because of the shift in energy prices toward world levels, and large payment arrears of about $2.7 billion accumulated.

While external shocks, mostly brought on by the dissolution of the Soviet Union and the movement of energy import prices to world levels, contributed to the economic decline, so too did the past policies of the government. Through 1993 and the first half of 1994 these policies were marked by piecemeal and uncoordinated attempts at stabilization and, increasingly, recourse to administrative measures to manage the economy. These policies failed to prevent a sharp deterioration in living conditions.

The continuing sharp fall in production, combined with the rapid increase in prices, has significantly eroded living standards of the population, especially of those at the lower end of the income distribution. Real wages fell by 60 percent over 1993 and remained broadly unchanged for most of 1994. While open unemployment remained negligible, as much as 15 percent of the labor force is estimated to be underemployed in some form.

The Economic Reform Program

In October 1994 Ukraine began to lay the foundations for macroeconomic stabilization and structural reforms, supported by the World Bank and the IMF's Systemic Transformation Facility. The program focused on immediate measures to reduce the budget deficit, limit credit expansion, and improve international competitiveness. The government's structural reform program has three main components: creating a competitive environment; hardening the enterprise budget constraints, through privatization, improved corporate governance, and strict financial discipline; and strengthening the social safety net.

Toward the end of 1994 the government took several bold actions to liberalize domestic prices and the foreign exchange and trade regimes. It lifted most price controls — including eliminating ceilings on profit margins and trade markups — unified the exchange rate, eliminated most export quotas, reduced subsidies on bread and on public utilities sharply, and adjusted imported energy prices to full cost recovery levels. At the producer level, price controls now remain only for natural monopolies and a small number of artificial monopolies. At the retail level, price controls remain on bread, public utility charges, fares for public transportation, household fuels, and housing rents. For prices that remain controlled at subsidized levels, cost-recovery ratios will be increased. The state order system is also being dismantled to liberalize domestic trade.

The pace of privatization, which had been disappointing until recently, is being accelerated. Ambitious goals have been set for small-scale privatization covering 90 percent of small enterprises, and for mass privatization of 8,000 medium and large enterprises in 1995. To enable this, the procedures for mass privatization have been greatly simplified, an extensive public information campaign has been launched, and the distribution of paper certificates is under way. Over 50 private investment funds have been created, and they will be encouraged to participate in the certificate auctions as a means of concentrating share ownership and enhancing corporate governance of privatized enterprises. Shares in privatized enterprises will be immediately tradable, and secondary market infrastructure is being developed.

Financial discipline in enterprises will be strengthened by exposing the enterprise sector to competition and the provisions of the bankruptcy law. The government intends to eliminate open-ended subsidies and transfers to enterprises, and the central bank has eliminated directed credits and ceased issuing credit to settle interenterprise arrears. Financial sector reform, which is critical to enforcing financial discipline and efficient credit allocation, is also being initiated.

The third plank of the program is to protect the population groups most likely to suffer during the adjustment process. Accordingly, the social safety net is being strengthened and made sustainable, primarily through better targeting. The government has adopted measures to protect three targeted groups of particular concern: low-income families with children, low-income pensioners, and the unemployed.

Medium-Term Prospects

Resolute implementation of the reform program backed by strong external financial and technical support would set the stage for economic recovery. An immediate recovery cannot be expected though, given the tight domestic demand policies and the time it takes to restructure production to meet new patterns of export demand. Indeed, even with satisfactory implementation of the economic reforms, the best that could be achieved in 1995 would be to slow the decline in production. However, a reallocation of resources in response to changes in relative price and trade patterns and the restructuring (including privatization and closure) of unprofitable enterprises would lay the basis for sustained gains in international competitiveness and a resumption in economic growth in 1996.

Ukraine has a significant economic potential to exploit. It has a highly educated labor force, fertile agricultural land, and a variety of mineral resources; it also has a strategic location close to European markets. During the transition period, agriculture and services, together with exports, could make a substantive contribution to economic recovery, and over the longer run, a number of industries, including machinery and electric products, could prove viable.

External Debt

Ukraine's external financing requirements in the coming years will be large, particularly given the need for imports to restructure its economy. Medium-term financing requirements are estimated at about \$4 billion annually to finance an average annual current account deficit of about \$2 billion, and smaller amounts of reserves buildup and amortization payments. In the next one to two years, as Ukraine seeks to regain commercial creditworthiness, the bulk of these resources would need to come from official sources as multilateral finance and bilateral loans and grants, with a significant portion of this assistance taking the form of balance of payments support aimed at financing critical imports and mitigating the decline in living standards.

As confidence in the Ukrainian economy grows and the external position strengthens, financing from private creditors and foreign private investors is expected to play an important role.

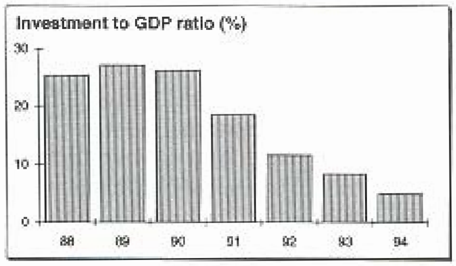
Ukraine's external debt has grown considerably since independence, even though Ukraine has recently agreed to the "zero option" with Russia and has no responsibility for the external debt of the former Soviet Union. At end-September 1994, the external liabilities of Ukraine totaled some $6.5 billion. Still the level of external indebtedness is quite low relative to both exports (about 50 percent) and GDP (about 7 percent). While Ukraine's external debt is projected to increase significantly, the debt burden should remain within manageable limits, with the debt-to-GDP ratio rising to about 20 percent over 2000-03. The overall debt service ratio is projected to increase from 9 percent in 1994 to a peak of 15 percent in 2001 and decline thereafter. Even if export growth is much slower than projected, the debt service ratio should remain within prudent limits. In January 1995 Ukraine reached an agreement on rescheduling its arrears on gas imports from Turkmenistan, and discussions with Russia are expected to be finalized shortly.

Ukraine

Population mid-1993 *(millions)*	**51.6**	Income group:	**Lower-middle**
GNP per capita 1993 *(US$)*	**2,210**	Indebtedness level:	**Less indebted**

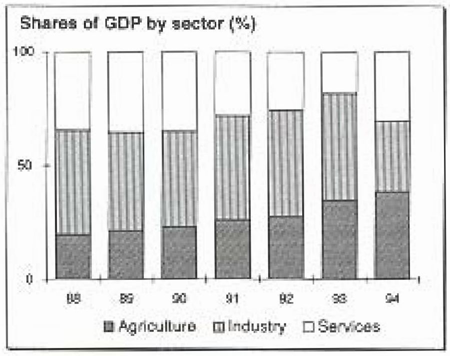
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	27.3	26.3	11.6	8.4	5.0
Exports of goods and nfs/GDP	..	..	9.5	16.6	19.9
Gross domestic savings/GDP	28.4	25.2	11.3	7.4	3.0
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-0.3	-0.9	-2.4
Interest payments/GDP	..	..	0.0	0.0	0.2
Total debt/GDP	..	..	0.5	3.3	4.2
Total debt/exports	..	..	4.7	22.6	21.4



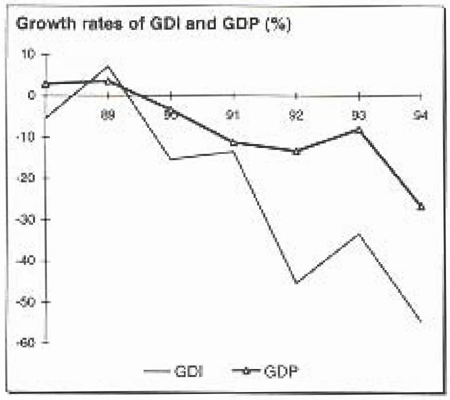
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	19.3	23.0	27.5	34.7	38.5
Industry	45.6	42.2	46.8	47.1	31.3
Manufacturing	38.0	34.7	..	..	..
Services	35.2	34.8	25.7	18.1	30.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.6	-5.4	-3.3	2.6	-5.7
Industry	4.1	-20.9	-22.2	-19.0	-31.1
Manufacturing	4.3	..	..	..	..
Services	0.7	-11.7	-6.0	-1.2	-34.1
GDP	2.4	-14.3	-13.3	-8.1	-26.7



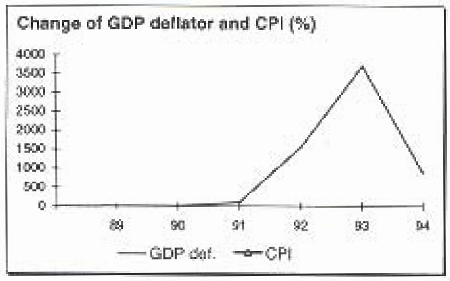
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	53.7	57.4	72.1	80.0	84.5
General government consumption	17.9	17.4	16.5	12.6	12.5
Gross domestic investment	27.3	26.3	11.6	8.4	5.0
Exports of goods and nfs	..	..	9.5	16.6	19.9
Imports of goods and nfs	..	..	9.8	17.5	21.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.4	-6.2	-3.1	3.0	-20.0
General government consumption	1.0	-20.1	-21.8	-29.4	-24.8
Gross domestic investment	-0.5	-38.7	-45.2	-33.3	-54.6
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	2.4	-14.3	-13.3	-8.1	-26.7
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-1.3	10.6	1,547.4	3,691.2	870.4
Government finance					
(% of GDP)					
Current budget balance	..	..	-25.7	-0.4	-6.1
Overall surplus/deficit	..	..	-27.8	-2.2	-9.1



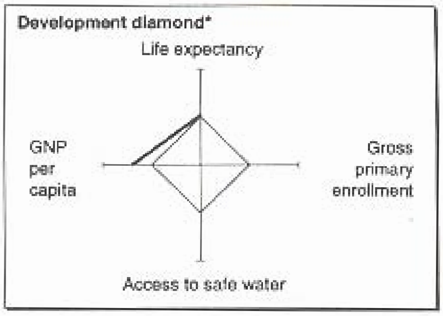
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Ukraine

POVERTY and SOCIAL

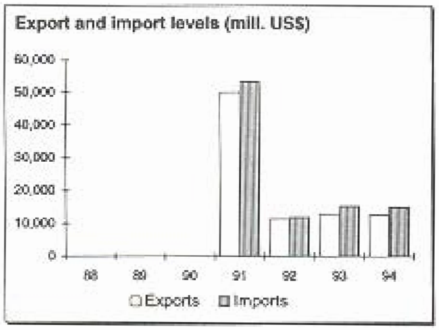
	1985-90	1990-94
(annual growth rates)		
Population	0.3	*-0.1*
Labor force	-0.1	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.1
Infant mortality *(per 1,000 live births)*	16.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	3,960.1
Illiteracy *(% of population age 15+)*	1.6
Gross primary enrollment *(% of school-age population)*	..



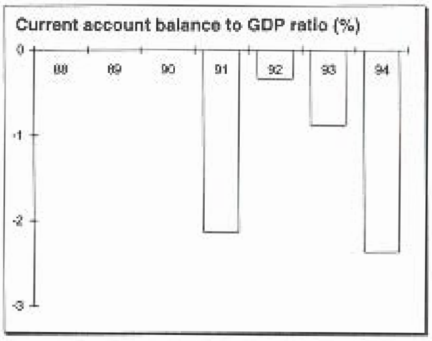
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	11,308	12,800	12,480
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	11,930	15,320	15,060
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	19	34	42



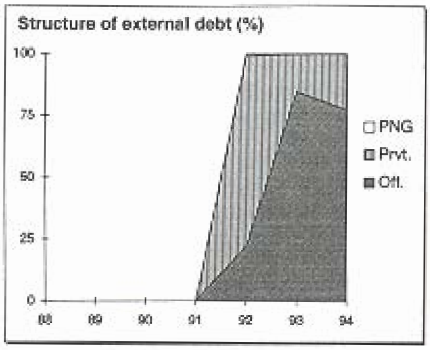
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	11,707	15,850	15,090
Imports of goods and nfs	..	..	12,101	16,760	16,640
Resource balance	..	..	-394	-910	-1,550
Net factor income	..	..	-7	-60	-250
Net current transfers	..	..	0	0	0
Current account balance					
Before official transfers	..	..	-401	-970	-1,800
After official transfers	..	..	-401	-863	-1,600
Long-term capital inflow	..	..	696	3,258	-919
Total other items (net)	..	..	-200	-2,299	3,514
Changes in net reserves	..	..	-96	-97	-995
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	1.1	35.6	1,341.6	13,735.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	3.9	21.8	20.8
IMF credit/exports	..	..	0.0	0.0	0.0
Short-term debt/exports	..	..	0.8	0.8	0.6
Total debt service/exports	..	..	0.1	1.3	4.9
GDP ratios					
Long-term debt/GDP	..	..	0.4	3.2	4.1
IMF credit/GDP	..	..	0.0	0.0	0.0
Short-term debt/GDP	..	..	0.1	0.1	0.1
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.9	0.2	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	77.3	15.3	22.8
Official creditors/long-term	..	..	21.8	84.5	77.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Uruguay

Uruguay is a relatively small country in both area (176,000 square kilometers) and population (3.1 million). Its per capita GNP of $3,830 is high by Latin American standards, and income distribution compares favorably with that of many developed countries. The population is mostly urban (86 percent) and well educated. Demographic characteristics are atypical for a developing country: Uruguay has an aging population, low population growth rates (0.6 percent a year), and high life expectancy (seventy-two years). The population's structure and the tradition of extensive social services create a substantial demand for education, health, and social security benefits that significantly burden the working population.

Uruguay had one of the most developed economies in Latin America earlier this century but has lost substantial ground to the rest of the region. Economic growth has been well below the regional average since the 1950s as the country's development strategy, based on import substitution and social solidarity, ran out of steam. Now, Uruguay must deal with the leftovers of that strategy: a private sector ill-suited to compete in international markets and unable to pay for the bloated public sector. Sizable inflation has been the result, but Uruguay has avoided the hyperinflation that plagued most of South America. Progress has been made since the mid 1970s; and in the last five years, Uruguay has had good macroeconomic management, although much remains to be done.

Recent Economic Developments

The government that took office in March 1990 concentrated on restoring short-term stability, obtaining debt relief, furthering financial sector reforms and trade liberalization — including Uruguay's entry into MERCOSUR — and modernizing and reducing the size of the state. Building on earlier positive changes, the authorities cut the public-sector deficit and significantly opened the goods markets. Stabilization efforts were built around tax increases and public investment reductions. The government also acted to reduce the cost of public-sector debt service and improve macroeconomic management. In 1991 a debt and debt-service reduction operation was carried out. The economic authorities also took steps to lengthen the terms and reduce the cost of the treasury's domestic bonds, which amounted to almost 30 percent of GDP. The program succeeded in reducing the deficit from 7.8 percent of GDP in 1989 to virtual equilibrium in 1992. However, preliminary estimates for 1994 show a deficit equivalent to 3.0 percent of GDP reemerging largely as a result of higher social security expenditures and a transitory outburst in investment.

Annual GDP growth, which had averaged less than 1 percent between 1988 and 1990, increased to 4 percent over 1991-94. The high growth was fueled by strong capital inflows — particularly from Argentina — that helped finance a significant growth in consumption and imports. In 1992, despite a growth of merchandise imports by 26 percent, and an overall current account deficit of $207 million (about 2 percent of GDP), the overall balance of payments surplus reached $120 million. This pattern continued in 1993-94. Despite the further deterioration of the current account deficit, which reached close to 4.0 percent of GDP in 1994, there was a modest surplus of $20 million in the balance of payments Gross reserves, including Uruguay's large gold holdings, were about 7 months of imports over 1992-1994.

Reducing the fiscal deficit has helped ease inflationary pressures; annual inflation (on a year-end basis), which was almost 60 percent in 1992, dropped to 44 percent in 1994. Underlying this is monetary growth triggered by a balance of payments surplus, in the context of Uruguay's managed exchange-rate regime. The latter is based on a 7 percentage point band within which the exchange rate can freely float, while the band is allowed to depreciate in line with an inflation target (set at about 27 percent). Inflation exceeded exchange rate depreciation in 1993 because of the monetization of capital inflows; in 1994 the Plan Real in Brazil generated a strong increase in demand for Uruguayan products. Inflation in Uruguay would likely accelerate if the real exchange rate in Brazil or Argentina recovered historical levels and capital flows stabilized, because the current account would grow too large and Uruguay would need to increase the devaluation rate.

Despite the progress made, important problems remain. Social security expenses are extremely high and are not being financed by contributions; the ensuing tax burden is among the highest in the region. Productivity remains low, investment is weak, and reflecting the exchange rate policy, inflation remains stubbornly high; about a fourth of the large increase in public revenues after 1990 is not sustainable; and the balance of payments strength is based on the appreciation of the currencies in neighboring Argentina and Brazil.

Several factors indicate that the improvement in public finances may be short-lived. Economic growth has been high in the last few years, and growth is likely to decline as GDP growth returns to the normal trend. Expenditures, especially imports, have increased faster than output, and taxes linked to them may be trimmed as output returns to its historical path, and the domestic currency has appreciated in real terms so that expenditures in foreign exchange will decline as the next exchange rate returns to normal levels.

Uruguay's trade regime has been simplified, and tariff and nontariff barriers reduced. From a four-tier tariff system at rates of 40-30-20-10 percent, introduced in 1990, tariffs have been reduced to a 20-15-6 percent schedule. Although the number of goods with nontariff protection has also been reduced, there are still some 200 tariff positions, concentrated in five sectors, benefiting from high nontariff barriers. Under the MERCOSUR schedules these barriers should be eliminated before the end of 1995; however, there is a list with 300 exempted tariff items that will be eliminated only over five years. Reforms also contributed to constructive changes in the financial sector. Prudential banking regulations have been brought to international standards, a central bank restructuring has strengthened financial sector supervision and control, especially over the two official banks, which have had a long history of poor performance based on weak portfolios, subsidizing interest rates, and very high operating costs. Despite progress, Uruguay's banks still have far to go to compete effectively in the region.

In May 1992 a reform proposal that would have yielded a fully financed social security system in the medium term was rejected by Congress. And although agreement was later reached on a less ambitious program, even this was overturned in a plebiscite in November 1994. Comprehensive efforts to downsize the public sector work force have not been fully successful, although many public enterprises, some municipalities, and the central government have taken selective actions in that direction. Since 1988 employment has declined by some 15,000 jobs, equivalent to about 5 percent of total public employment. Still, the public sector includes 257,000, or 18 percent of total employment, and the voting public seems disinclined to sanction more drastic reforms.

Some success in public-enterprise reform was attained through congressional approval of a privatization law and the privatization of services at Montevideo's port. However, the drive for privatization suffered an important setback when a law that allowed privatization of the telephone company was overturned in a referendum in December 1992. The administration then focused, with some success, on a less ambitious agenda that included the privatization of some smaller companies — Montevideo Gas, the national airline, and the Pan de Azucar Bank — and introduced regulatory reforms to reduce the monopoly power of public enterprises (already successfully in place in the insurance sector, and in process in electricity and oil-related products).

Medium-Term Outlook

Uruguay has yet to adopt a development strategy that would put its economy on a high growth path. Policy reforms have confronted strong popular reluctance to relinquish long-cherished social benefits. In recent years, because of prudent macroeconomic management and some fortuitous external developments, Uruguay has been able to achieve reasonable per capita growth rates, a fact that itself has tended to undermine the stimulus for reform. Complacency and conservatism could prevent Uruguay from maximizing its opportunities to become a dynamic economy.

Moderate success has been attained in implementing measures that have increased investment efficiency and investment rates. However, with a public sector that accounts for roughly 37 percent of GDP, and a social security system that significantly burdens the relatively small working population (and capital), these achievements may not be long-lasting. Investment rates are expected to reach about 16.5 percent of GDP, up from 11.2 percent in 1989, with public investment accounting for about 5 percent of GDP. These higher investment rates depend on the sustainability of a prudent public-sector deficit (including transfers to the social security system) of less than 2 percent of GDP, and domestic saving ratios exceeding 13 percent of GDP. Uruguay would have to finance a small current account deficit of 2 percent of GDP in coming years.

Based on the higher level and increased efficiency of investment, GDP growth might exceed 3 percent in the next few years. This scenario assumes that Argentina's annual GDP growth during the same period is about 4 percent, while Brazil's economy grows at an annual rate of over 2 percent. GDP growth would likely be slower if meaningful reforms are not implemented or Argentina's growth drops following the drying up of financial capital inflows after the Mexican crisis. However, more favorable short-term prospects might emerge from MERCOSUR and the new GATT agreement. Annual inflation is unlikely to fall below 35 percent because of the structural nature of the fiscal deficit, which cannot be remedied without reforming the social security system.

External Debt

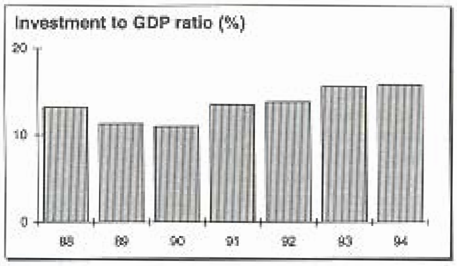
Uruguay's total debt outstanding was $7.3 billion at the end of 1993, of which $5 billion was medium- and long-term debt, 90 percent of which was public and publicly guaranteed. Total debt service in 1993 was only 20.6 percent of exports of goods and services, reflecting low world interest rates.

Uruguay

Population mid-1993 *(millions)*	3.1	Income group: **Upper-middle**
GNP per capita 1993 *(US$)*	3,830	Indebtedness level: **Severely indebted**

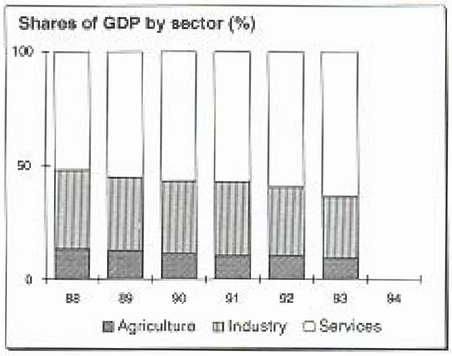
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	11.4	11.0	13.8	15.6	15.8
Exports of goods and nfs/GDP	26.8	26.2	21.7	19.5	17.9
Gross domestic savings/GDP	17.0	17.0	14.2	14.1	13.9
Gross national savings/GDP	9.6	13.2	12.5	13.0	..
Current account balance/GDP	-16.6	1.9	-2.0	-2.6	-2.8
Interest payments/GDP	6.2	4.9	2.9	2.6	2.0
Total debt/GDP	83.1	70.0	57.0	55.2	45.1
Total debt/exports	293.7	242.0	259.8	258.2	229.8


Investment to GDP ratio (%)

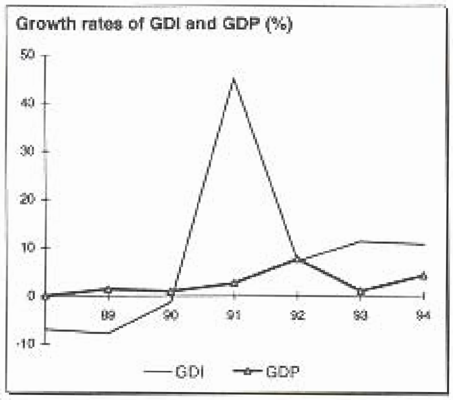
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	13.6	11.3	10.2	9.0	..
Industry	35.9	32.0	30.5	27.3	..
Manufacturing	29.4	26.3	23.0	18.8	..
Services	50.5	56.6	59.3	63.7	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.1	*5.0*	11.0	0.4	..
Industry	3.7	*0.3*	4.7	-6.1	..
Manufacturing	3.3	*-2.4*	1.5	-9.0	..
Services	4.0	*6.4*	8.8	5.8	..
GDP	3.4	4.0	7.7	1.1	4.2


Shares of GDP by sector (%)

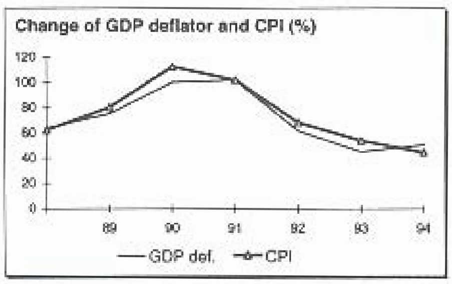
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	68.5	69.1	76.6	76.1	76.2
General government consumption	14.4	13.9	9.3	9.8	9.8
Gross domestic investment	11.4	11.0	13.8	15.6	15.8
Exports of goods and nfs	26.8	26.2	21.7	19.5	17.9
Imports of goods and nfs	21.1	20.1	21.3	21.0	19.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.9	7.3	11.6	0.8	4.7
General government consumption	2.5	0.1	10.5	8.3	5.3
Gross domestic investment	2.3	15.9	7.2	11.3	10.7
Exports of goods and nfs	5.9	6.9	15.1	9.0	4.8
Imports of goods and nfs	7.6	21.7	27.5	15.9	9.7
Gross national product	3.9	4.7	1.5	7.8	5.9
Gross national income	4.5	5.9	1.9	6.7	6.6


Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	72.2	112.5	68.5	54.1	44.7
Wholesale prices	76.6	107.7	58.3	33.4	..
Implicit GDP deflator	73.9	100.2	61.9	45.2	51.0
Government finance					
(% of GDP)					
Current budget balance	-1.4	1.9	17.4	17.5	17.8
Overall surplus/deficit	..	1.9	5.0	3.7	2.4


Change of GDP deflator and CPI (%)

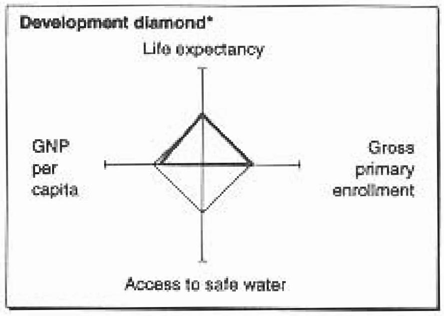
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Uruguay

POVERTY and SOCIAL

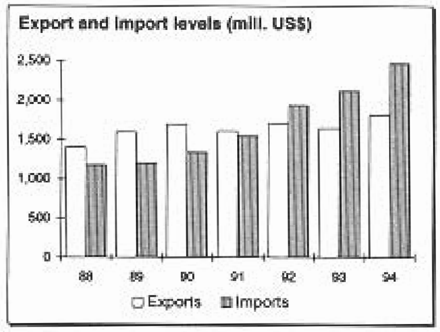
(annual growth rates)	1985-90	1990-94
Population	0.6	0.6
Labor force	0.8	1.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	72.5
Infant mortality *(per 1,000 live births)*	19.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	714.8
Illiteracy *(% of population age 15+)*	3.8
Gross primary enrollment *(% of school-age population)*	108.0



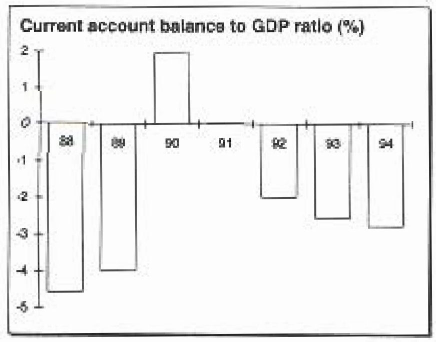
TRADE

(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	854	1,693	1,703	1,645	1,810
Textiles	164	308	267	218	261
Meat	111	247	163	152	193
Manufactures	260	607	617	657	709
Total imports (cif)	708	1,343	1,937	2,118	2,467
Food	22	46	78	111	139
Fuel and energy	224	202	223	183	210
Capital goods	65	179	339	383	429
Export price index *(1987=100)*	78	138	127	118	122
Import price index *(1987=100)*	61	105	93	88	94
Terms of trade *(1987=100)*	127	131	137	134	131
Openness of economy *(trade/GDP,%)*	48	46	43	40	38



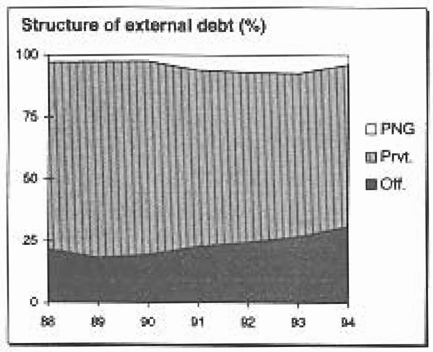
BALANCE of PAYMENTS

(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	1,257	2,159	2,338	2,562	2,864
Imports of goods and nfs	1,689	1,676	2,386	2,759	3,159
Resource balance	-432	483	-48	-197	-295
Net factor income	-351	-321	-187	-141	-158
Net current transfers	0	0	0	0	0
Current account balance					
Before official transfers	-783	162	-235	-338	-453
After official transfers	-773	170	-207	-313	-427
Long-term capital inflow	-8	-45	568	479	-267
Total other items (net)	981	-64	-241	27	669
Changes in net reserves	-66	-61	-120	-193	25
Memo:					
Reserves excluding gold *(mill. US$)*	174	524	509	758	..
Reserves including gold *(mill. US$)*	1,031	1,446	1,185	1,423	..
Conversion rate *(local/US$)*	0.1	1.2	3.0	3.9	5.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	206.5	191.7	188.6	177.5	154.3
IMF credit/exports	26.2	4.2	2.0	1.4	0.9
Short-term debt/exports	61.0	46.1	69.2	79.3	74.6
Total debt service/exports	42.6	45.6	27.5	28.6	34.8
GDP ratios					
Long-term debt/GDP	58.4	55.5	41.4	38.0	30.3
IMF credit/GDP	7.4	1.2	0.4	0.3	0.2
Short-term debt/GDP	17.2	13.3	15.2	17.0	14.6
Long-term debt ratios					
Private nonguaranteed/long-term	2.2	2.4	6.9	7.3	3.6
Public and publicly guaranteed					
Private creditors/long-term	81.8	78.3	68.8	66.2	65.6
Official creditors/long-term	16.0	19.3	24.2	26.5	30.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Uzbekistan

Uzbekistan lies along the famous ancient silk road between Europe and the Far East. It has an area of 447,000 square kilometers and is slightly smaller than France. It is landlocked, and almost three-fifths of its area consists of steppe, desert, and semi-arid terrain; the remainder consists of fertile valleys that skirt two major rivers, the Amu Darya and Syr Darya. A part of the northern border between Kazakhstan and Uzbekistan includes the inland Aral Sea, most of which is situated between the two rivers.

Uzbekistan has the largest population of the four Central Asian republics and is the third most populous republic in the former Soviet Union. Of its 21.9 million people, 60 percent live in rural areas and about half the population is under 19 years of age. The majority of the population is Uzbek (71 percent); other major ethnic groups include Russians (9 percent), Tajiks and Kazakhs (about 4 percent each), Tatars, and Karakalpaks. It has a high birth rate of about 3.5 percent a year.

Uzbekistan is rich in natural resources — primarily gold, oil, natural gas, coal, silver, and copper. Its annual gold production is approximately 65 tons, about one-third of the former Soviet Union's annual production. It is among the ten largest natural gas suppliers in the world. In 1993 natural gas production was estimated at 45.8 billion cubic meters. Although most of this production was consumed domestically, and only about 8 percent was exported, most of it through a pipeline stretching from Bukhara to the Urals, the export potential of natural gas is significant. A large proportion of local industry uses gas for energy. In contrast, although oil potential could be significant, current production levels are below domestic requirements. The republic produced an estimated 4.0 million tons in 1993. This is likely to increase substantially as the newly discovered fields in the Namangan and Ferghana regions are developed.

Despite this potential, Uzbekistan is one of the poorest countries in the former Soviet Union. Approximately 36 percent of 1993 GDP was generated in agriculture, 33 percent in industry, and the rest in mining, construction, and services. Cotton is the most important crop, accounting for 40 percent of gross value of agricultural production. Uzbekistan is also the former Soviet Union's largest producer of fruits and vegetables. While agricultural production has increased rapidly in recent years, this has been due to expansion of irrigated areas — which has caused serious environmental problems by reducing the volume of the Aral Sea — rather than increasing productivity.

Industrial production revolves largely around processing agriculture-based raw materials. Light industry, including cotton, accounted for about 39 percent of industrial production in 1990, food and agroprocessing for about 13 percent, heavy industry about 41 percent. The machinery sector includes many products linked to agriculture as production inputs, such as cotton harvesters, textile machinery, and fertilizers.

Exports represented an estimated 60 percent of GDP in 1993 and imports about 68 percent of GDP. Almost half of Uzbekistan's export trade in 1993 was conducted with countries outside the former Soviet Union, and those countries supplied a third of imports.

Uzbekistan inherited an extensive system of social protection characterized by child allowances, old age pensions, disability benefits, and subsidies on consumer goods and services. Uzbekistan also inherited a high literacy rate but with a school system that had suffered prolonged underinvestment in physical plant, and was isolated from the mainstream of practices outside the Soviet bloc. The health status of the population started deteriorating in the 1990s as the health service system inherited from the Soviet Union collapsed.

The country's infrastructure is of variable quality. Uzbekistan has a relatively well developed transport system that is adapted to its geography, but the economy is unusually transport-intensive, which requires high levels of investment for maintenance and upgrading of the network. Uzbekistan inherited a telecommunications network, organized centrally with international routing via Moscow, with obsolete equipment and poor service that continues to deteriorate.

The new parliament is composed of reformists, which should expedite the pace of reforms.

Recent Economic Developments

After the breakup of the Soviet Union, Uzbekistan faced a legacy of production inefficiencies, the breakdown of the inter-republican trade and payments mechanism, highly monopolistic market structures, increasing budget deficits and distorted price and incentive systems. Inflation averaged 915 percent in 1993, compared to 700 percent in 1992. Domestic credit to enterprises increased drastically, interest rates remained highly negative in real terms, and the budgetary deficit rose to about 12 percent of GDP in 1993. A substantial part of the fiscal deficit was due to large budgetary transfers to enterprises and direct consumer subsidies. Consumer subsidies amounted to around 9 percent of GDP, mostly for bread and flour, sugar and vegetable oil, while residential gas, heating, electricity, and public transportation were also heavily subsidized.

Despite the unstable macroeconomic situation, the overall cumulative decline in Uzbekistan's real GDP over 1992-94 was limited to about 15 percent, compared to an average of 40 percent in other former Soviet countries. Disruptions in the availability of imports particularly hampered manufactured output, which fell by over 15 percent in 1993 and declined further in 1994. The largest drop occurred in the heavy industrial sector, which was most closely linked to other republics, with whom trade and payments were disrupted. However, these factors were to a large extent offset by limited decline in agriculture in 1993-94, significant expansion of domestic oil and gas production over the last two years, and Uzbekistan's ability to diversify export markets away from former Soviet countries.

Uzbekistan's initial approach to economic reform was very cautious. Although it partially liberalized prices, privatized most small shops and residential housing, and enacted preliminary banking, property, and foreign investment legislation, the government retained control of most economic activities. The deterioration of the economic situation and withdrawal from the ruble zone in late 1993 prompted the government to consider a more comprehensive set of reforms.

In January 1994 a presidential decree was issued calling for broader reforms, including acceleration of privatization and enterprise reform, development of the private sector, reduction of the state orders, and liberalization of foreign exchange controls. Along with the appointment of reformers to key policymaking positions, recent policy measures, including unification of the exchange rate, cuts in consumer subsidies, and an increase in interest rates, confirm the government's shift toward a more substantive reform program. In January 1995 the government began an IMF Systemic Transformation Facility program.

In November 1993 Uzbekistan left the ruble zone and introduced an interim currency — the sum-coupon. The government tried to maintain an unrealistic official exchange rate and the free market rate of the sum-coupon depreciated rapidly. In early 1994 inflation accelerated and the government slowly started to shift away from expansionary fiscal and monetary policy. In July it introduced a national currency, the sum. This measure was accompanied by further tightening of fiscal and monetary policies and institutional changes in the foreign exchange market. According to initial estimates, 1994's overall budget deficit remained below 4 percent. The improvement in the 1994 fiscal position was due to the government's decision to eliminate the enterprise sector's access to special budgetary transfers and, to a lesser extent, to curtail direct budgetary consumer subsidies. The central bank discount rate was increased to 225 percent on October 1, and a three-month fixed-term deposit was introduced in the savings bank, with a quarterly interest rate of 30 percent. Inflation at the retail price level, which had persisted at a monthly rate of over 20 percent in the first half of 1994, fell dramatically to a monthly average of 2 percent during July-September 1994, partly reflecting seasonal factors and a good harvest.

Along with reducing the fiscal deficit and curtailing monetary expansion, the government introduced an interbank foreign exchange auction in April 1994. After the sum was introduced progress was also made in institutionalizing weekly auctions of foreign exchange — although the volumes traded in the auctions are still limited. The exchange rate system was temporarily unified in October 1994.

The external current account deteriorated to about 3.3 percent of GDP in 1994. This came mainly as a result of a sharp increase in transportation costs in trade with the Commonwealth of Independent States when financing for these services became required in convertible currencies. A small trade surplus for 1994 was due to the increase in world prices for cotton and to the introduction of world prices for cotton trade with former Soviet countries. Imports of energy products and foodstuffs declined slightly in 1994, reflecting an increase in domestic production.

During 1994 the government began to translate its broad reform and stabilization objectives into a more comprehensive set of consistent economic policy initiatives. Key stabilization objectives and policies for 1995 have been specified, and details of priority structural reforms measures have been, or are being, worked out in the context of a medium-term program.

The main objectives of the government's reform program are to stabilize the macroeconomic situation, reverse output decline, improve productivity and attain sustainable development over the medium term, and protect vulnerable groups.

The government's immediate task is to maintain momentum in lowering inflation and to avoid large macroeconomic imbalances in the budget and the balance of payments. Its stabilization program seeks to reduce the monthly inflation rate to 2 percent a month at the end of

1995 by implementing tight monetary and fiscal policies. The consolidated budget deficit is to be limited to 3.5 percent of GDP. All subsidies and support to state-owned enterprises during the transition will be made explicit and channeled through the budget. Budgetary support to these enterprises will be on a very limited scale and will eventually be phased out. An increasing share of central bank credit to the commercial banks will be auctioned, reaching 50 percent by the end of June 1995. Domestic bank financing of the budget is expected to be limited to 2 percent of GDP during 1995

In 1994 the government was able to manage a stringent fiscal policy. In 1995 further actions are expected to improve the fiscal situation. The revenue base will be broadened by eliminating tax deductions and exemptions and extending the value-added and excise taxes. Personal income tax, land tax, and property tax rates will be increased; Reforms in expenditure management and tax policy are designed to reach the budgetary targets under the IMF program.

The structural reform process could temporarily decrease tax revenues by contracting the revenue base, since it takes time to tax an emerging private sector and it is expected that economic activities will decline, at least temporarily. The government realizes that meeting critical expenditure needs will require controlling wages, salaries, and social expenditures. It plans to limit the wage bill of budget-financed organizations to 15 percent of GDP in 1995. Additional expenditure pressures will arise for the social safety net and temporary transfers to support the passive restructuring of the largest loss-making enterprises that remain in the public sector. Consumer subsidies will not exceed 2 percent of GDP. Recourse to extrabudgetary onlending has been eliminated, and the interest rate on overdue loans will be at the Central Bank of Uzbekistan's refinance rate.

Uzbekistan has made reforming state-owned enterprises a priority. The government understands that the transition to a market economy depends, to a large extent, on the growth of a successful private sector and intends to foster this growth through rapid privatization, identification and isolation of large loss-making enterprises, and attracting foreign investment.

The government's program for enterprise reform and privatization has two phases. The first, which started in 1992 and focused on privatizing small firms and housing; the second, introduced in January 1994, provided for the competitive sale of small enterprises and assets, and conversion of most large and medium enterprises into open stock companies, with blocks of shares being transferred to employees, the state, the public, and foreigners. While this was a significant improvement, it was deficient in meeting the objectives of speed, equity, and improved governance, and the government announced an action plan in February 1995 extending the scope of privatization, accelerating its pace, expanding public participation by creating private investment funds, and announcing transparent and competitive procedures for foreign investment in privatization.

Uzbek banks are the major creditors of state-owned enterprises, and claims on these enterprises dominate the banks' asset portfolios. To address this problem, the government has established a credit bureau in the central bank to build a data base on aggregate and enterprise-level arrears, report on outstanding arrears to major creditors, and provide information, analysis, and recommendations to the Cabinet of Ministers to inform their credit and restructuring decisions. The government has also decided to isolate the 30 to 50 enterprises with the largest arrears and will identify a subset of 10 to 15 large enterprises to participate in a pilot restructuring scheme, based on their potential operational and financial viability. As a result of the viability assessment, enterprises that can return to profitability after a passive restructuring program will resume their relations with the banks and be privatized. Enterprises that cannot become profitable will be liquidated unless they provide an essential public and social service. This exercise will make budgetary support to enterprises transparent and facilitate financial sector reform by improving the bank portfolios.

Enterprise restructuring will make it necessary for the government to assume some of the social expenditure formerly undertaken by the state enterprises. Assets not directly related to production will have to be divested although some social assets can be privatized, many will be transferred to local governments.

The government recognizes the importance of a well-functioning foreign exchange market and intends to expand substantially the availability of foreign exchange through the interbank foreign exchange market and ensure current account convertibility. It has decided that foreign exchange earnings for centralized exports will be made available to the foreign exchange pool. The auction-determined exchange rate is now used for all foreign exchange transactions by individuals, enterprises, banks, and the government. It is the policy of the government and the central bank to limit intervention in the foreign exchange market to smooth sharp fluctuations in the exchange rate, with no attempt to set a particular exchange rate. As foreign exchange availability improves, the government intends to reduce and later abolish the current temporary 30 percent surrender requirement.

Over the medium term, Uzbekistan will have significant external financing requirements. Total external financing requirements will gradually decline from around $1 billion for 1995 if the reform program is fully implemented. External financing will be required to cover the current account deficit, meet debt service obligations and, to a lesser extent, build foreign reserves. Uzbekistan's reserve position currently covers over 4 months of imports and is expected to stay at about 4 months of import requirements until 1998.

If reforms proceed at the pace envisaged by the government, yearly foreign direct investment flows are expected to grow up to $250 million. Initial joint venture commitments have been concluded in the mining, textile and tobacco sectors, and there is some potential to attract investment in oil and gas.

External Debt

After independence, Uzbekistan accepted the zero debt option and signed an agreement with Russia relinquishing claims on Soviet assets in return for Russia's accepting responsibility for Uzbekistan's share of the Union's external debt. Therefore, Uzbekistan started out with no external debt and this has had a positive impact on its creditworthiness. Assuming that the full reform program continues to be carried out, total external debt is expected to grow from about 14 percent of GDP in 1994 to around 25 percent of GDP by 1998. The debt service burden may rise modestly over the medium term. Debt service payments are expected to reach 16 percent of total exports in 1996, declining thereafter to 13 percent by 1998. Debt service in 1994 is particularly high because of the short-term nature of Uzbekistan's initial borrowings.

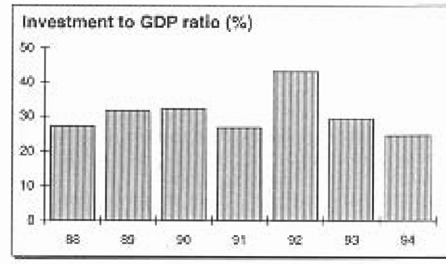
Uzbekistan

Population mid-1993 *(millions)*	**21.9**
GNP per capita 1993 *(US$)*	**970**

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.4	32.2	43.2	29.4	24.5
Exports of goods and nfs/GDP	..	..	..	..	..
Gross domestic savings/GDP	21.1	13.2	34.0	34.0	22.8
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-1.8	-1.9	-1.9
Interest payments/GDP	..	..	0.0	0.0	0.6
Total debt/GDP	..	..	0.0	3.4	9.4
Total debt/exports	..	..	..	26.1	62.0

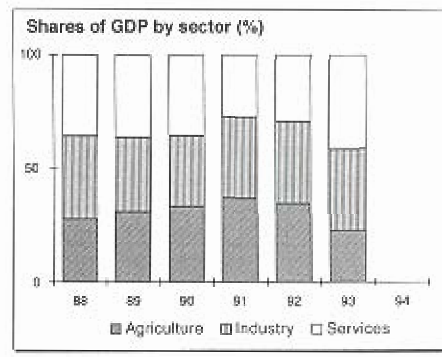


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	28.0	33.3	35.1	23.0	..
Industry	39.8	31.1	35.9	36.0	..
Manufacturing	29.4	20.5	26.5	2.7	..
Services	32.2	35.6	29.0	41.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	2.1	..	..	..	..
Industry	5.1	..	..	..	..
Manufacturing	6.1	..	..	..	..
Services	3.1	..	..	..	..
GDP	3.7	-5.2	-11.1	-2.4	-4.5

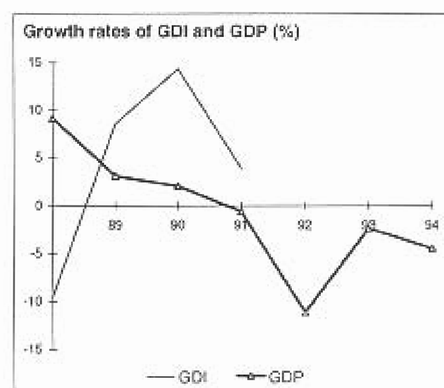


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.7	81.0	44.9	44.1	..
General government consumption	21.2	5.8	21.1	21.9	..
Gross domestic investment	32.4	32.2	43.2	29.4	24.5
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..

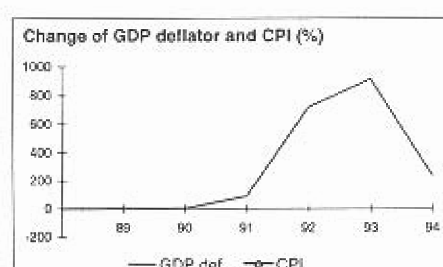
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.2	..	..	..	..
General government consumption	3.0	..	..	..	..
Gross domestic investment	1.5	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	3.7	-5.2	-11.1	-2.4	-4.5
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-7.9	3.5	717.6	914.5	234.9
Government finance[a]					
(% of GDP)					
Current budget balance	..	-0.9	-18.0	-12.0	-3.6
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

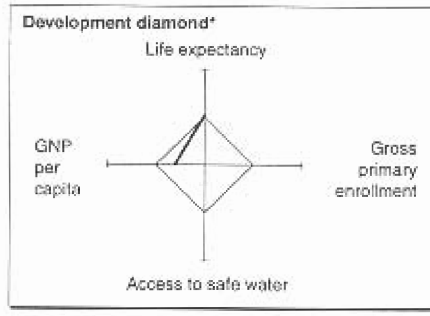
Note: Estimates for economies of the former Soviet Union are subject to more than the usual range of uncertainty. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Uzbekistan

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.4	2.3
Labor force	3.6	..

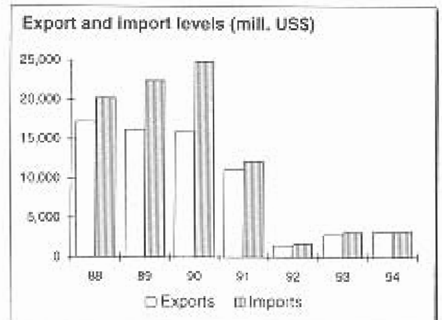
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	69.3
Infant mortality *(per 1,000 live births)*	40.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	2,033.3
Illiteracy *(% of population age 15+)*	2.8
Gross primary enrollment *(% of school-age population)*	..



Development diamond*

TRADE

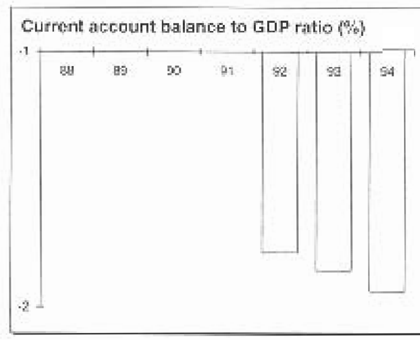
	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	15,850	1,497	2,838	3,235
Cotton	..	2,184	..	1,162	1,335
Fuel	..	1,886	..	155	245
Manufactures	..	2,245	..	..	..
Total imports (cif)	..	24,851	1,756	3,180	3,203
Food	..	966	..	632	567
Fuel and energy	..	3,955	..	493	522
Capital goods	..	..	..	794	855
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	..	..	..	..



Export and import levels (mill. US$)

BALANCE of PAYMENTS

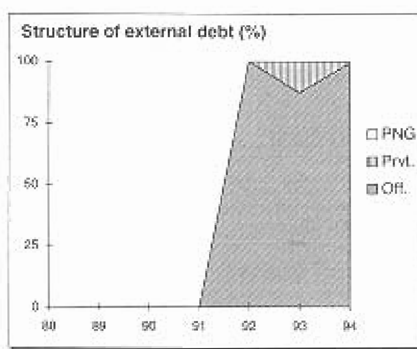
	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	15,850	1,497	2,838	3,235
Imports of goods and nfs	..	24,851	1,756	3,229	3,621
Resource balance	..	-9,001	-259	-391	-386
Net factor income	..	..	-110	-14	-26
Net current transfers	..	..	0	0	0
Current account balance					
Before official transfers	..	..	-369	-405	-412
After official transfers	..	..	-369	-405	-412
Long-term capital inflow	..	..	165	1,001	418
Total other items (net)	..	..	199	21	30
Changes in net reserves	..	..	5	-617	-36
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	1.4	21.7	203.0	666.4



Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	25.9	62.0
IMF credit/exports	..	..	..	0.0	0.0
Short-term debt/exports	..	..	..	0.1	0.0
Total debt service/exports	..	..	..	1.2	12.9
GDP ratios					
Long-term debt/GDP	..	..	0.0	3.4	9.4
IMF credit/GDP	..	..	0.0	0.0	0.0
Short-term debt/GDP	..	..	0.0	0.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	..	..	0.0	12.7	0.8
Official creditors/long-term	..	..	100.0	87.3	99.2



Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Including balance of extrabudgetary funds (net of transfers).

Venezuela

Venezuela made progress in 1992-93 in raising public utility prices and implementing long-pending tax and financial sector reform legislation. However, for the most part the period was characterized by congressional gridlock and a refusal by the government to pursue increasingly unpopular reforms, especially in the election year of 1993.

The government now confronts a difficult economic situation. Failure to push through fiscal reforms and address the fiscal deficit during 1992/93 created a precarious situation. This was exacerbated by a banking crisis set off by the failure of Venezuela's second largest bank in January 1994. In response to the banking crisis and the resulting run against the domestic currency, the government imposed foreign exchange and price controls on June 27, 1994. The economic response to these policies has been a severe contraction of economic activity in 1994 and higher inflation levels than in the early 1990s. At the same time the external accounts show a large current account surplus in 1994 and foreign exchange reserves stood at about $12 billion — about 18 months of 1994 imports — at the end of the year.

The government that took office in 1989 inherited a mature statist economy and an economic crisis that had been building for the past 15 years owing to economic mismanagement. By the end of 1988 foreign reserves were rapidly dwindling, inflation stood at 60 percent, the fiscal deficit was 9.4 percent of GDP, and Venezuela could not service its external obligations. Living standards had also eroded; between 1980 and 1985 income per capita fell every year. Throughout the 1980s income distribution deteriorated and the percentage of the population living in poverty increased.

The government responded to the crisis with a comprehensive structural reform program. A unified floating exchange rate replaced multiple rates and exchange controls, and nontariff barriers were removed. Venezuela also concluded a debt and debt-service reduction agreement covering $19.7 billion of commercial bank debt. Interest rates were freed, and most preferential rates and portfolio requirements eliminated. Price controls were largely eliminated, and increases in gasoline and electricity prices scheduled. Seven major state enterprises were privatized, generating about $2.3 billion in revenue while government transfers to state enterprises were reduced. Several public utilities were restructured or privatized. Finally, the government replaced costly general food subsidy programs with nutritional and health care programs targeted at poor and at-risk populations.

The president's declining popularity and two 1992 coup attempts made it impossible to push through the remainder of the reform agenda, especially fiscal reforms. The value-added tax languished in Congress until October 1993, the income tax reform was neutralized by inclusion of exemptions, and gasoline and electricity tariffs were frozen after the first coup attempt. Failure to implement fiscal reforms coupled with falling international petroleum prices resulted in a fiscal deficit of 5.7 percent of GDP in 1992.

The unsettled political situation in 1993 and December presidential elections blocked most reform initiatives. The interim president did use the extraordinary powers granted to him by Congress to implement the value-added tax and a new banking law while maintaining the adjustment program intact. Nevertheless, the economic situation worsened. Inflation increased from an annualized rate of 32 percent in 1992 to 46 percent in 1993. Oil prices fell and growth tailed off to -0.4 percent. International reserves declined but at year's end still stood at a healthy $12.6 billion, or roughly 11 months of imports.

Recent Economic Developments

The administration that took office in February 1994 faced an economy in recession that soon plunged into crisis. In mid-January Venezuela's second largest bank, Banco Latino, was taken over by the government. In the first half of 1994 eight other banks received massive financial assistance from the government to keep them afloat, and others received assistance afterwards. The banking crisis has cost the government an estimated $8.1 billion. The root causes of the banking problems are high interest rates, bad loans, lack of regulation, and corruption. The several institutions charged with resolving the crisis are ill-equipped, underfunded and understaffed for the job, and the government is still struggling to develop a strategy for dealing with the crisis.

In 1993, when the 1994 budget was formulated, the export price of oil was $14.50 a barrel. By mid-May 1994 it had fallen to $11.50. Oil revenues have traditionally accounted for 70 to 80 percent of government revenues.

The banking crisis coupled with eroding oil prices and building devaluation expectations caused a run on the bolivar. This was exacerbated when the independent president of the central bank resigned in early May 1994 over a proposal to reverse the central bank's policy of maintaining market-determined interest rates to protect foreign exchange reserves. In the first half of 1994 losses of foreign exchange reserves were about $3 billion, with perhaps $900 million losses in April alone.

In response to the deteriorating economic environment, the government started implementation of the Sosa Plan, named after the then-finance minister, in mid-1994. This fiscal plan contributed to closing the fiscal deficit by replacing the value-added tax with wholesale and luxury taxes, a bank-transaction tax that expired at year's end, reform of income taxes and tax administration, cuts in government spending, and new legislation allowing public works to be contracted out to private firms in exchange for concessions. The central administration fiscal deficit was only about 2.0 percent in 1994. However, when the cost of the banking crisis is included, the total public sector deficit amounts to about 16 percent of GDP.

This huge imbalance, coupled with general uneasiness over the administration's policies, led to capital flight and substantial pressure on the exchange rate. The government responded by imposing universal foreign exchange controls on June 27, 1994, along with price controls on about 100 items. But the time required to set up the exchange control system, plus an underestimation of the complexities involved, meant that almost no foreign exchange was allocated for close to two months. Imports fell sharply in 1994 from levels that were already low because of economic recession.

Another consequence of the exchange controls was an increase in liquidity. Bolivars that would have been used to buy dollars for imports previously, no longer could be so used because of the exchange controls. With no alternative investments, the nominal and real interest rates on government paper fell sharply, while inflation accelerated to an annual rate of 71 percent.

Preliminary data indicate that the economy contracted in 1994 for the second year in a row, with GDP falling about 3.3 percent. Inflation, which had been stable at 30 to 32 percent from 1990, increased to 45 percent in 1993 and 71 percent in 1994. The devaluation has helped nonoil exports, while the recession and the foreign exchange controls reduced imports from the 1993 level of $11.1 billion. The 1994 current account shows a large surplus of about $4 billion, and there was an accumulation of foreign exchange reserves in the second part of the year. At the end of 1994 the government had accumulated arrears to foreign creditors. However, a large placement of bonds in the domestic market and the large stock of foreign exchange reserves made it possible for the government to start clearing these arrears in early 1995.

The government is considering increasing nonoil taxes and gasoline prices in 1995. Privatization of the giant government conglomerate, Corporación Venezolana de Guayana, which controls most aluminum, metallurgy, and mining operations, is also being studied. At the same time, Congress is likely to approve important new ways of private involvement in the oil sector. However, it will be difficult for the government to make the best out of the privatization efforts without a serious stabilization program that includes the removal of foreign exchange and price controls.

Medium-Term Prospects

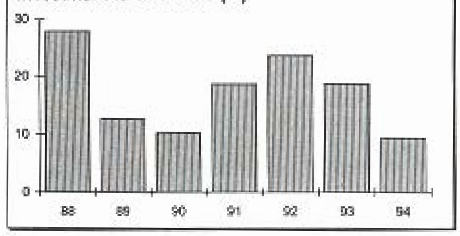
Venezuela is rich in natural resources and has enormous potential. It also still remains among the more open economies in the hemisphere. However, unless the government can quickly stabilize the economy and deepen reforms, Venezuela's prospects will remain wholly linked to the petroleum market. Petroleum prospects are not that buoyant, and strong economic growth will be depend on Venezuela's ability to stimulate a more competitive nonoil economy.

Venezuela

Population mid-1993 *(millions)*	**20.9**	Income group:	**Upper-middle**
GNP per capita 1993 *(US$)*	**2,840**	Indebtedness level:	**Moderately indebted**

KEY RATIOS

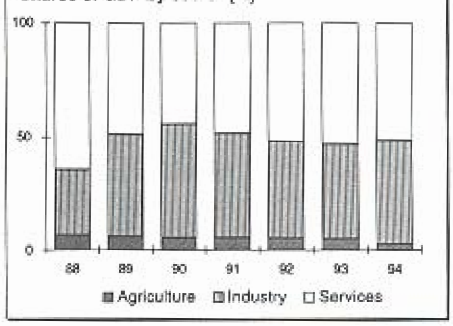
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.5	10.2	23.7	18.7	9.4
Exports of goods and nfs/GDP	25.0	39.4	26.4	26.2	29.2
Gross domestic savings/GDP	27.7	29.5	21.2	18.1	18.7
Gross national savings/GDP	24.1	26.0	17.5	14.6	16.4
Current account balance/GDP	6.0	17.1	-6.2	-3.7	7.0
Interest payments/GDP	2.9	6.2	2.7	2.9	3.0
Total debt/GDP	57.0	68.3	62.5	62.4	63.9
Total debt/exports	198.7	155.9	220.4	216.8	203.0



Investment to GDP ratio (%)

GDP: PRODUCTION

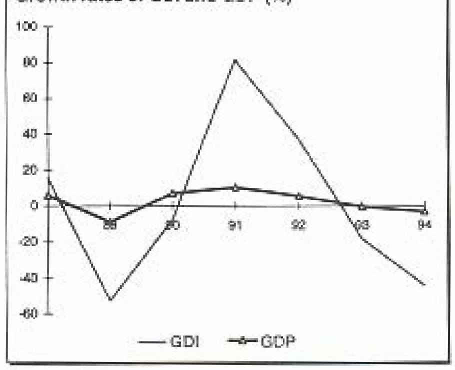
	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	5.8	5.4	5.3	5.0	2.5
Industry	43.0	50.2	42.9	41.9	46.0
Manufacturing	21.9	14.7	14.6	14.4	15.4
Services	51.3	44.4	51.8	53.0	51.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.7	*0.6*	1.3	-2.7	..
Industry	1.5	*6.2*	5.5	1.5	..
Manufacturing	-5.4	*4.5*	4.5	-1.4	..
Services	2.2	*4.6*	5.9	-1.7	..
GDP	2.0	2.8	5.4	-0.4	-3.3



Shares of GDP by sector (%)

GDP: EXPENDITURE

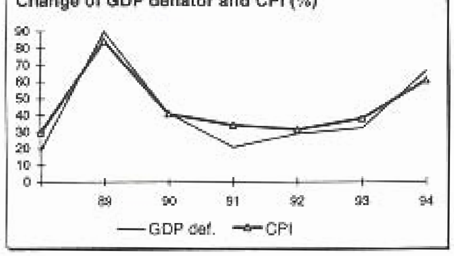
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	61.8	62.1	69.7	73.2	71.3
General government consumption	10.4	8.4	9.2	8.7	10.0
Gross domestic investment	18.5	10.2	23.7	18.7	9.4
Exports of goods and nfs	25.0	39.4	26.4	26.2	29.2
Imports of goods and nfs	15.8	20.2	28.9	26.8	19.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.2	2.6	6.9	1.1	-6.7
General government consumption	4.5	3.6	4.9	-4.6	8.8
Gross domestic investment	-10.3	3.8	37.2	-18.4	-44.1
Exports of goods and nfs	5.7	4.7	-2.8	8.8	10.2
Imports of goods and nfs	-3.0	6.4	29.3	-7.7	-28.4
Gross national product	1.9	2.9	4.5	-0.2	-2.8
Gross national income	1.2	1.2	5.3	-2.6	-3.8



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	11.4	40.8	31.4	38.1	60.8
Wholesale prices	15.2	27.2	23.6	35.0	78.2
Implicit GDP deflator	10.4	41.2	29.0	32.4	66.4
Government finance					
(% of GDP)					
Current budget balance	..	4.3	1.7	1.3	1.2
Overall surplus/deficit	..	-1.2	-3.6	-3.3	-2.6



Change of GDP deflator and CPI (%)

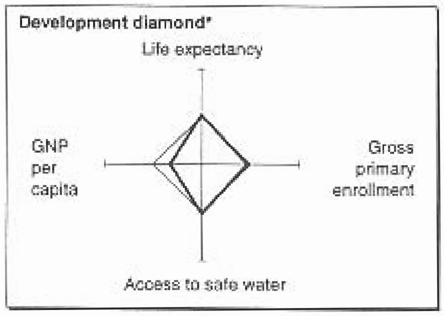
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Venezuela

POVERTY and SOCIAL

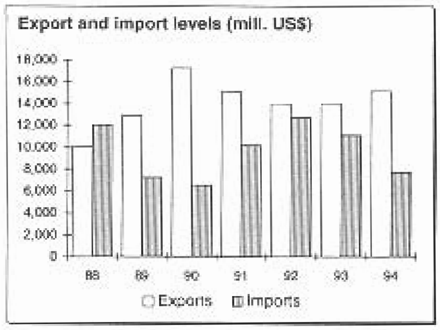
	1985-90	1990-94
(annual growth rates)		
Population	2.6	2.3
Labor force	3.1	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	31.3
Life expectancy at birth	71.9
Infant mortality *(per 1,000 live births)*	22.6
Child malnutrition *(% of children under 5)*	5.9
Access to safe water *(% of population)*	89.3
Energy consumption per capita *(kg oil equivalent)*	2,369.3
Illiteracy *(% of population age 15+)*	7.3
Gross primary enrollment *(% of school-age population)*	99.0



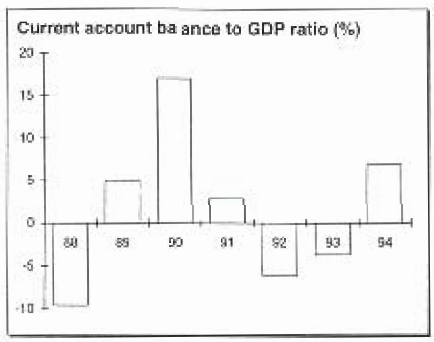
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	14,660	17,278	13,988	14,006	15,147
Fuel	13,144	13,912	11,014	10,390	10,992
Aluminum	..	661	667	566	750
Manufactures	997	786	484	732	808
Total imports (cif)	7,304	6,543	12,714	11,117	7,716
Food	..	..	1,291	1,318	..
Fuel and energy	..	939	936	716	746
Capital goods	2,464	2,231	3,416	2,753	1,408
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	41	60	55	53	49



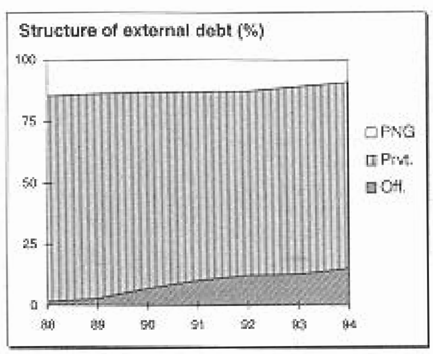
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	15,863	18,723	15,532	15,593	17,177
Imports of goods and nfs	9,930	9,284	17,187	15,908	11,729
Resource balance	5,933	9,439	-1,655	-315	5,448
Net factor income	-2,137	-877	-1,745	-1,604	-1,322
Net current transfers	-102	-259	-347	-310	-5
Current account balance					
Before official transfers	3,694	8,303	-3,747	-2,229	4,121
After official transfers	3,668	8,279	-3,762	-2,236	..
Long-term capital inflow	-600	13,236	333	161	-2,453
Total other items (net)	-1,341	-19,317	2,284	573	-2,254
Changes in net reserves	-1,727	-2,199	1,145	703	586
Memo:					
Reserves excluding gold *(mill. US$)*	10,251	8,321	9,562	9,216	8,067
Reserves including gold *(mill. US$)*	13,998	12,733	13,381	13,693	12,459
Conversion rate *(local/US$)*	7.5	46.9	68.4	90.8	148.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	148.4	132.3	172.4	174.2	163.4
IMF credit/exports	0.0	14.2	17.2	15.5	13.8
Short-term debt/exports	50.3	9.4	30.8	27.1	25.7
Total debt service/exports	24.2	23.5	19.4	22.8	21.7
GDP ratios					
Long-term debt/GDP	42.6	57.9	48.9	50.2	51.4
IMF credit/GDP	0.0	6.2	4.9	4.5	4.4
Short-term debt/GDP	14.4	4.1	8.7	7.8	8.1
Long-term debt ratios					
Private nonguaranteed/long-term	32.8	13.0	12.6	10.8	9.0
Public and publicly guaranteed					
Private creditors/long-term	65.6	80.1	75.2	76.5	76.0
Official creditors/long-term	1.6	6.9	12.2	12.7	14.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Viet Nam

Viet Nam is a densely populated country with about 70 million people. With a per capita income below $200, it is one of the poorest countries in Asia. The population is overwhelmingly rural and is concentrated in the two main deltas, the Red River in the north and the Mekong River in the South. In 1994 agriculture and industry each accounted for about 30 percent of GDP, while the balance was produced by the service sector. Within agriculture, rice is the main crop.

Viet Nam's economy performed poorly throughout the 1980s despite large amounts of Soviet assistance. Overall investment remained low relative to GDP. With weak investment performance and a highly distorted incentive regime, growth was unsatisfactory throughout the 1976-85 period. The government was also not able to control its expenditures and resorted to excessive money creation to fund its activities. By 1985, inflation had reached hyperinflationary levels. What little economic growth had been achieved over the decade had been absorbed by rapid population growth, so that per capita incomes were stagnant. The government experimented with different kinds of piecemeal reform efforts throughout the 1980s without major positive impact on macroeconomic instability and weak growth performance.

Faced with a worsening crisis, Viet Nam launched an ambitious program of "renovation" in 1986 and accelerated its implementation in 1989. The central thrust of the reform was to liberalize prices and decentralize economic decisionmaking. Specific measures included unifying and devaluing the exchange rate, raising interest rates to levels above the rate of inflation, decontrolling the prices of food and most other commodities, and decollectivization of agriculture. There were parallel efforts to devolve decisionmaking in industry to the enterprise level.

The immediate results of this reform program were very positive. Monthly inflation dropped from 30 percent in the spring of 1988 to slightly negative levels by the summer of 1989. After years of being a rice importer, Viet Nam became the world's third largest rice exporter in 1989. Total exports nearly doubled in 1989 in response to trade liberalization and devaluation, and the availability of foreign exchange dramatically improved. Real GDP growth in 1989 was 8 percent, Viet Nam's best performance in years.

Viet Nam struggled over 1990-92 to consolidate its stabilization and reform program while facing difficult external circumstances. Soviet assistance declined, while new sources of financing did not materialize. Viet Nam felt the full impact of the collapse of the Soviet Union in 1991. Not only did aid disappear, but trade between the two economies halted almost totally. Growth decelerated during the 1990-91 period to a range of 5 to 6 percent. This resulted in a sharp decline in public investment and a return to excessive financing of the budget through credit creation. As a result of credit financing of the public sector, inflation climbed to an annual rate of 68 percent in 1990 and 83 percent in 1991.

Recent Economic Developments

Viet Nam's macroeconomic performance recovered strongly during 1992 and continued to be satisfactory in 1993 and 1994, though substantial foreign aid did not resume until 1994. Real GDP growth was 8.3 percent in 1992, 8 percent in 1993, and 8.7 percent in 1994. Agriculture had a good year in 1992, with the rice crop reaching a historic high. This sector grew at 3.8 percent in 1993 and 5.5 percent in 1994. But industry was the real engine of growth at 13.3 percent in 1992. It continued to grow at 12.9 percent in 1993, and 12.6 percent in 1994. This reflected developments in the oil sector and the rapid expansion of labor-intensive manufacturing, much of it for export. Inflation (December to December) dropped to 17 percent in 1992, and decreased further to 5.2 percent in 1993. However, food price increases due to natural disasters in 1994 drove it to 14.4 percent.

Viet Nam has also reduced its fiscal deficit, a major source of inflation. The overall deficit was reduced from 10.4 percent of GDP in 1989 to 3.7 percent in 1992. Unfortunately, most of this reduction came from cutting capital expenditures, which left large unmet needs for improvement and expansion of infrastructure. In 1993, despite improvement in revenues, the fiscal deficit increased to 6.2 percent. Current expenditures increased from 14 percent of GDP in 1992 to 18.8 percent in 1993, while capital expenditures jumped to 7 percent in 1993, reflecting some unmet needs in the past years, including a hike in civil service salaries and increases in the public investment program. The government quickly recognized that its policies were too expansionary and introduced measures in 1994 that resulted in a sharply lowered deficit, now estimated at 2.7 percent of GDP (accrual basis). These policies were supported by a 1993 IMF standby arrangement.

Export growth has been another notable achievement in Viet Nam's economic performance, with particularly dramatic increases in 1989 and 1990, largely in response to structural reforms in exchange rates and decollectivization of agriculture. Since then, export growth has settled to around 15 percent (constant prices), a rate that can be sustained in the medium term. Oil and rice are the two main primary exports, accounting for over one-third of $3.6 billion in exports in 1994. But Viet Nam has also achieved a fair amount of diversification with growing exports of labor-intensive manufactures, marine products, and processed agricultural goods. Manufactured exports exceeded $1 billion in 1994.

Major aid flows to Viet Nam resumed in 1993. In 1994 Viet Nam adopted a broad structural adjustment program supported by the IMF and the World Bank. The program aims to keep the fiscal and external deficits in line with reliable sources of finance and lay a solid foundation for sustained long-term growth through structural reforms of the financial system, state enterprises, legal infrastructure, and the regime for foreign trade and investment.

In summary, the economy has responded well to the initial reforms implemented by the government. The agricultural sector benefited most from price liberalization, and investment has been encouraged by relatively low and stable inflation. Recent rates of economic growth reflect response to the first wave of economic reform and improved utilization of existing capacity.

While Viet Nam has adjusted quite well to recent shocks, it faces some serious short-term problems, notably high unemployment. The labor force is growing rapidly because of population growth in an earlier period. Unemployment was aggravated by the demobilization of half a million troops, the release of 800,000 people from state enterprises, the return of several hundred thousand guest workers from Eastern Europe and the Gulf states, and the repatriation of refugees. Finally, people from rural areas are now beginning the process of internal migration to the cities in search of employment. Given Viet Nam's low per capita income, the society has meager resources to deal with this situation. The initial spurt of growth in the private sector helped absorb a proportion of this labor. In the medium term rapid growth is the best solution for solving the unemployment problem. At the same time, greater amounts of foreign assistance could help ease the social costs of this adjustment and assist the government to make the infrastructure investment necessary to support economic development.

Despite the external difficulties that it has faced, the government of Viet Nam has maintained the momentum of reform. A new constitution was promulgated in 1992. This constitution is supportive of the shift to a market system and should help to make government more effective. In 1992 and 1993 the government also launched some important initiatives including tax reform and state enterprise reform. The Foreign Investment Law was further amended in 1992. A Land Law giving clear land use rights to peasant households was passed by the National Assembly in 1993, followed by a series of implementing regulations in 1994. The Bankruptcy Law took effect on July 1, 1994, establishing for the first time a comprehensive legal framework for restructuring or liquidating insolvent enterprises. The Labor Code was enacted in June 1994. Its objectives include, among other things, protection of employer and employee rights and obligations, regulations of labor contracts, social insurance, and provision of the right to strike.

Poverty and the Environment

Enthusiasm over Viet Nam's recent economic success should not cloud an accurate perception of the country's absolute status: Viet Nam is still a very poor country. A recently completed poverty assessment shows that the overall incidence of poverty (51 percent) is extremely high, with significant regional disparities in living standards throughout the country and between urban and rural areas. The development strategy being undertaken in Viet Nam — creating an environment conducive to a market economy and investing in infrastructure — will enable the economy to grow more rapidly, which is the best strategy for alleviating poverty quickly. However, there are also poor and vulnerable groups in Viet Nam for whom rapid aggregate growth alone is likely to provide little benefit in the next few years absent a social safety net.

Viet Nam's natural resources, especially its forests, have long been under strong environmental stress both because of war damage and because of mounting population pressures. In the past 25 years, the total area of national forests (both upland and lowland-coastal) has declined at an estimated rate of 350,000 hectares a year from about 40 percent to 25 percent of total land area. The government has accorded priority to restoring these "barren hills" to sustainable uses to meet the twin objectives of poverty reduction and environmental protection.

Medium-Term Prospects

Despite recent difficulties, the medium-term prospects for the Vietnamese economy are good, if investment and savings rates can be improved and the reform program kept on track. While the country is densely populated, it is reasonably well endowed with natural resources, such as petroleum and gas reserves, good land for rice and tree crops, and a long coastline for fishing and aquaculture. More important, the human resource base in Viet Nam is strong. The education level is high, despite the fact that Viet Nam is one of the poorest countries in Asia.

The stated objective of Viet Nam's renovation program is to develop a mixed economy in which the private and state sectors can compete on an equal footing. Much progress has been made in this direction, with the liberalization of private sector activities and the implementation of a liberal law for direct foreign investment. It is not a simple matter, however, to foster the development of the private sector after years of suppression. There is still much that needs to be done concerning development of legal institutions and protection of private property rights. The country's very poor investment and savings performance in the past has been partly the result of weak incentives, and improving the incentives for private saving and investment is an important goal of reform.

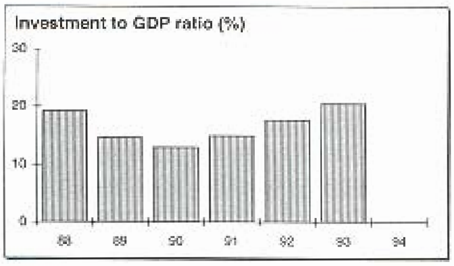
For the rest of this decade the government has a growth target of around 8 percent a year. It will be a challenge for the government to create an environment in which this target can be met. Viet Nam has good prospects for exporting processed primary products and labor-intensive manufactures and is attractive to foreign investors from the region in particular.

Viet Nam

Population mid-1993 *(millions)*	71.3	Income group:	**Low**
GNP per capita 1993 *(US$)*	170	Indebtedness level:	**Severely indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	13.0	17.6	20.5	..
Exports of goods and nfs/GDP	..	26.4	32.4	28.2	..
Gross domestic savings/GDP	..	6.0	20.2	16.0	..
Gross national savings/GDP	..	..	20.8	16.5	..
Current account balance/GDP	-2.8	-5.4	-0.8	-8.3	-4.8
Interest payments/GDP	0.0	0.8	0.8	0.6	0.6
Total debt/GDP	0.7	341.6	240.1	188.7	146.4
Total debt/exports	..	1,132.1	730.9	663.1	498.9

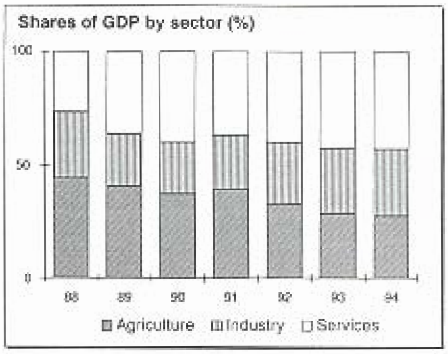


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	37.5	33.0	28.8	27.7
Industry	..	22.7	27.3	28.9	29.6
Manufacturing	..	18.8	21.7	21.5	22.0
Services	..	39.9	39.7	42.3	42.7

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.8	4.5	7.2	3.8	3.9
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	6.8	7.9	8.6	8.1	8.6

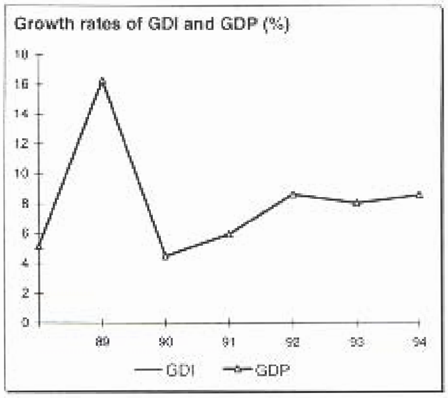


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	86.5	73.2	..	..
General government consumption	..	7.5	6.6	..	..
Gross domestic investment	..	13.0	17.6	20.5	..
Exports of goods and nfs	..	26.4	32.4	28.2	..
Imports of goods and nfs	..	33.4	29.9	32.7	..

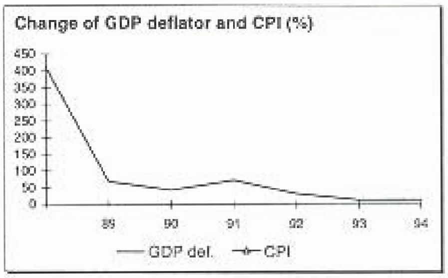
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	..	..	..	..	..
Gross national income	..	..	..	..	..



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	94.2	42.9	32.6	14.3	14.8
Government finance					
(% of GDP)					
Current budget balance	..	-0.7	4.1	2.3	..
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

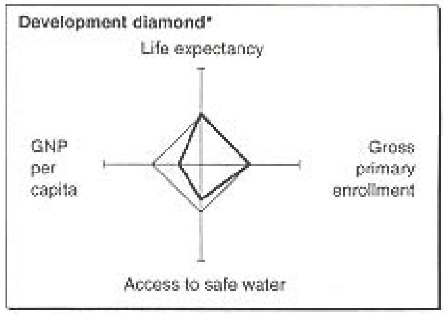
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Viet Nam

POVERTY and SOCIAL

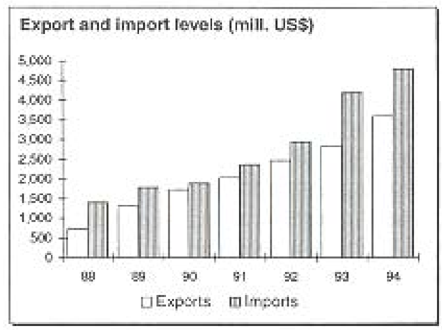
	1985-90	1990-94
(annual growth rates)		
Population	2.1	2.2
Labor force	2.7	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	65.5
Infant mortality *(per 1,000 live births)*	41.0
Child malnutrition *(% of children under 5)*	41.9
Access to safe water *(% of population)*	50.2
Energy consumption per capita *(kg oil equivalent)*	76.5
Illiteracy *(% of population age 15+)*	12.4
Gross primary enrollment *(% of school-age population)*	108.0


Development diamond*

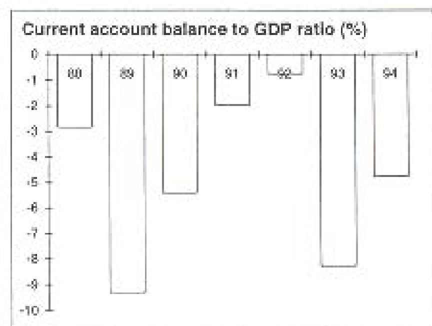
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	507	1,731	2,475	2,850	3,600
Rice	..	272	300	340	394
Fuel	..	390	756	844	899
Manufactures	..	..	..	..	..
Total imports (cif)	930	1,901	2,950	4,199	4,804
Food	..	86	82	84	101
Fuel and energy	..	356	616	650	799
Capital goods	..	561	950	1,441	1,717
Export price index *(1987=100)*	..	97	98	99	101
Import price index *(1987=100)*	..	103	116	113	115
Terms of trade *(1987=100)*	..	94	84	88	88
Openness of economy *(trade/GDP,%)*	..	60	62	61	..


Export and import levels (mill. US$)

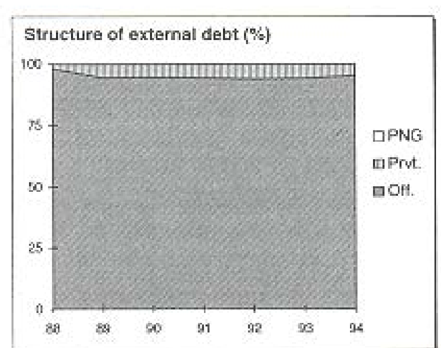
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	1,913	3,199	3,622	4,530
Imports of goods and nfs	..	1,901	2,950	4,199	4,805
Resource balance	..	12	249	-577	-275
Net factor income	-90	-412	-384	-554	-469
Net current transfers	32	49	59	69	0
Current account balance					
Before official transfers	-473	-351	-76	-1,062	-744
After official transfers	-453	-263	-12	-868	-643
Long-term capital inflow	136	74	312	-103	463
Total other items (net)	48	348	162	463	265
Changes in net reserves	269	-159	-462	488	-85
Memo:					
Reserves excluding gold *(mill. US$)*	0	0	0	7	16
Reserves including gold *(mill. US$)*	225	0	0	7	16
Conversion rate *(local/US$)*	8.3	6,482.8	11,202.2	10,641.0	10,935.0


Current account balance to GDP ratio (%)

EXTERNAL DEBT[a]

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	1,054.8	655.7	590.0	479.7
IMF credit/exports	..	5.7	3.0	2.7	5.3
Short-term debt/exports	..	71.6	72.1	70.4	14.0
Total debt service/exports	..	10.7	15.4	13.6	8.2
GDP ratios					
Long-term debt/GDP	0.7	318.3	215.4	167.9	140.7
IMF credit/GDP	0.0	1.7	1.0	0.8	1.5
Short-term debt/GDP	0.0	21.6	23.7	20.0	4.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	25.6	5.4	5.9	5.8	4.7
Official creditors/long-term	74.4	94.6	94.1	94.2	95.3


Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Excludes non-convertible currency debt.

Republic of Yemen

The formation of the Republic of Yemen brought together two very different economies. The economy of the Yemen Arab Republic was based largely on market principles, while that of the People's Democratic Republic of Yemen was organized on socialist lines. The unified country has a population of 13 million, and the latest available per capita GNP estimate is that for 1991, which was $540. Various social indicators place Yemen among low-income countries: life expectancy of 50 years, a primary school enrollment rate of 67 percent, and an adult literacy rate of 38 percent. These indicators, to a great extent, reflect Yemen's late start in modern development and point to the challenging development task ahead for the new country. Unification has created greater potential for long-term development than if the two parts had remained separate. The new country has modest oil and gas reserves, large fishery resources, and unexploited tourism potential. Oil has been extracted since 1987 with output amounting recently to about 200,000 barrels a day; exports of the government's share generated about $250 million a year over 1992-93. There is also limited natural gas production.

The unified government designated 1990-92 as the transition period during which it would concentrate on the difficult task of merging two sets of administrative machinery and realigning two economic systems. The transition period culminated in country-wide parliamentary elections in April 1993. No party won a majority, and a coalition government was formed by the three leading parties. Serious differences, however, arose between two of these parties, culminating in open warfare between the northern and southern armies from May to July 1994. The merging of the two public administrations (except for the military) had been virtually completed on paper, although many implementation details remained — and still remain — to be worked out. Rationalization of administrative functions, however, has been slow, partly because a difficult economic situation and rising unemployment have prevented the government from restructuring its civil service.

Recent Economic Developments

Before unification the two parts of Yemen faced serious macroeconomic imbalances, which were severely complicated by the Persian Gulf crisis and the dissolution of the Soviet Union, traditionally Yemen's largest aid source. The massive return of migrant workers has resulted in a sharp decline in remittances, a principal source of foreign exchange. The loss of remittances, estimated at $1 billion a year, has sharply depressed imports and domestic economic activity. Other sources of finance have either declined sharply or dried up altogether, including grants and oil refinery fees that the People's Republic earned by refining Iraqi and Kuwaiti crude at the Aden Refinery.

An 8 percent increase in population due to returning migrant workers and their families significantly increased the need for imports of essential goods, such as food; the returnees have also created a burden on government finances in terms of emergency assistance and impact on infrastructure and social services. Yemen's high unemployment level worsened further as a large number of returnees joined the ranks of the jobless, complicating a social environment already made volatile by unification, high inflation, and falling real incomes.

A sharp decline in external financial inflows, the additional needs to finance the unification, and delays in domestic adjustment have had serious adverse effects on the economy. Real per capita GNP is estimated to have declined by at least 15 percent over 1990-92, and growth averaged only 0.5 percent in 1993/94. Budget deficits have been high at more than 20 percent of GDP, financed mostly by bank credit. The excess demand created by the deficit and additional monetary expansion has added to inflationary pressures. As a result, the consumer price index for urban areas rose an estimated 34 percent in 1990, and over 45 percent in 1991, compared to 15 percent in 1989. Preliminary data indicate that inflation was over 50 percent in 1992 and may have exceeded that rate in 1993. Estimates for 1994 put inflation at over 100 percent.

The government adopted a number of corrective measures to deal with the deteriorating economic and financial situation, but these were limited in scope and magnitude and were not part of an overall systematic and sustained adjustment strategy to tackle the fundamental problems facing the economy. All nongovernment imports, including those by public companies, are now being conducted at the market exchange rate, and importers are allowed to find their own foreign exchange in the free market. Using the market rate, in the first few months of 1994, the Yemeni riyal had depreciated to around YRLs 60 to 70 to the dollar, compared to the central bank rate of YRLs 12. The currency continued to depreciate, and misguided attempts in late 1994 to fix the rate at 84 to 85 riyals to the dollar failed. By early February 1995 the currency was trading at around 115 to the dollar in the parallel market. The widening gap between the official rate and the parallel rate has resulted in rising price distortions.

Yemen's trade regime bans imports of about 60 items, and import licensing is still in effect. During the summer of 1991 the price of gasoline was doubled and the price of diesel fuel increased 50 percent, raising them to the levels comparable to international prices at that period. Because of the continued depreciation of the Yemeni riyal, however, the prices of these products are now considerably below international prices. While some success was achieved in containing the budget deficit in 1991, government finances deteriorated sharply, with the budget deficit rising to over 23 per cent of GDP in 1993 and 1994 owing mainly to sharp wage increases and large military outlays. Total expenditures averaged about 42 percent of GDP over 1992-94, with current expenditures averaging over 37 percent of GDP. The government wage bill alone accounted for more than 60 percent of current expenditures. This and military expenditures continued to compress development expenditures in 1993 and 1994. The share of development expenditures — 3 percent of GDP — is low by all international standards. Reflecting structural weaknesses, total government revenue as a share of GDP fell by 6 percentage points since 1992, to reach an estimated 19 percent in 1994.

Environment and Social Indicators

Work on an environmental action plan is substantially completed and was awaiting a final government review just before the hostilities began; the dominant environmental issues in Yemen relate to resource conservation with particular emphasis on water, land, and wood biomass, and safeguards needed for the rapidly developing oil and gas sector. Rapid urban growth has also had an adverse environmental impact.

With population growing at over 3 percent a year, life expectancy of about 50 years, an infant mortality rate of 109 per 1,000 live births, an adult literacy rate of only 38 percent, and a less than solid economic and financial base, Yemen faces a daunting task in developing its human resources. One major aspect of population policy relates closely to the need to focus health services on primary health care, with emphasis on prevention, maternal and child care, and nutrition. A young population puts a tremendous pressure on education and training.

Knowledge of the poverty situation in Yemen is limited; scattered evidence, however, indicates that although the level of income is relatively low, income distribution is not highly skewed. The fact that until recently Yemenis from all parts of the country emigrated to work in neighboring countries and sent a substantial part of their earnings home significantly contributed to this favorable situation. The most pertinent social issue has historically not been lack of income, but access to basic necessities such as safe water, health care, and education. Government efforts have focused on making supplies of such goods and services available to all segments of the country at subsidized prices. Some limited transfers have also been made from the budget to needy families. These efforts, however, have been complicated by the decline in economic activities in general and the massive return of Yemeni workers from the Gulf and Africa in particular. Families that depended heavily on worker remittances have lost their most important source of income, and the government budget constraints have rendered the subsidy programs unsustainable.

Medium-Term Prospects

Yemen's medium-term prospects depend to a large extent on the ability of the government to follow adequate adjustment policies. Given political normalcy, a bold comprehensive financial and structural adjustment program would enable the country to restore stability, attract additional external resources, increase investment, and achieve growth rates of 5 to 6 percent in the medium term. If the government does not take timely actions, the present imbalances and instability will continue, capital inflows and investment will stagnate, and restoration of growth will be difficult. Creditworthiness has substantially eroded, and donors are unlikely to be willing to provide new financing in the face of unresolved arrears. While additional oil revenues will ease the current foreign exchange shortage, they cannot eliminate the structural constraints to growth, and Yemen will need substantial assistance from external sources as well as restructuring of the existing debt.

External Debt

Yemen's debt obligations in 1993 were about 40 percent of exports. Yemen, however, does not service over half of its debt, which is owed to the former Soviet Union and socialist Eastern European countries. The actual debt-service ratio, therefore, is much lower, about 28 percent. Negotiations to settle debts to the former Soviet Union have been repeatedly postponed. The stock of debt as a percentage of GDP was about 200 percent in 1993 and rose to 207 percent in 1994.

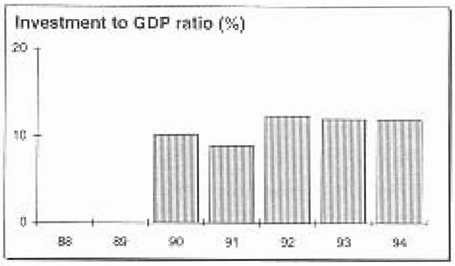
Republic of Yemen

Population mid-1993 *(millions)* 13.2
GNP per capita 1993 *(US$)* ..

Income group: **Low**
Indebtedness level: **Severely indebted**

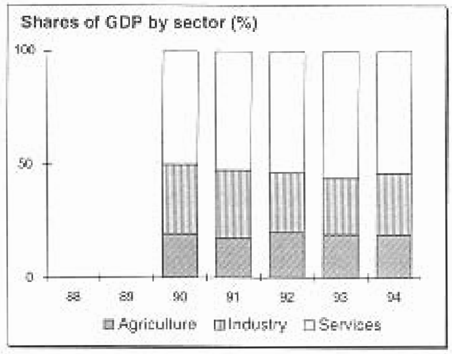
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	10.2	12.3	12.0	11.9
Exports of goods and nfs/GDP	..	21.6	26.7	31.4	47.9
Gross domestic savings/GDP	..	2.1	-11.7	-16.9	4.9
Gross national savings/GDP	..	..	-24.0	-35.0	-9.4
Current account balance/GDP	..	5.7	-23.9	-30.3	-1.5
Interest payments/GDP	..	0.4	0.4	0.5	0.8
Total debt/GDP	..	92.4	140.6	139.2	121.5
Total debt/exports	..	213.0	289.9	249.3	186.4



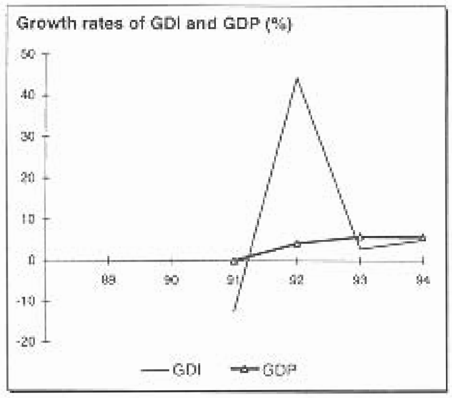
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	19.1	19.9	18.9	18.8
Industry	..	31.0	26.6	25.1	27.4
Manufacturing	..	9.1	12.0	12.3	13.2
Services	..	50.0	53.6	56.0	53.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	*6.4*	26.6	2.2	..
Industry	..	*3.2*	-1.8	12.1	..
Manufacturing	..	*3.3*	5.6	3.0	..
Services	..	*2.5*	4.5	2.9	..
GDP	..	4.1	4.2	5.9	5.7



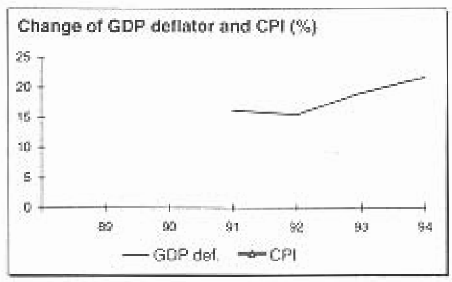
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	74.5	83.9	89.5	67.6
General government consumption	..	23.3	27.8	27.4	27.5
Gross domestic investment	..	10.2	12.3	12.0	11.9
Exports of goods and nfs	..	21.6	26.7	31.4	47.9
Imports of goods and nfs	..	29.6	50.8	60.4	54.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	-1.6	-0.7	5.9	-18.7
General government consumption	..	8.2	11.6	4.4	6.0
Gross domestic investment	..	10.7	44.4	2.9	4.9
Exports of goods and nfs	..	13.8	-6.2	17.8	56.1
Imports of goods and nfs	..	5.1	2.1	10.7	-12.7
Gross national product	..	-0.4	-6.3	0.4	13.0
Gross national income	..	-2.3	-4.9	-2.0	8.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	15.5	19.1	21.7
Government finance					
(% of GDP)					
Current budget balance	..	-3.1	-10.1	-13.9	..
Overall surplus/deficit	..	-17.4	-17.3	-19.0	..



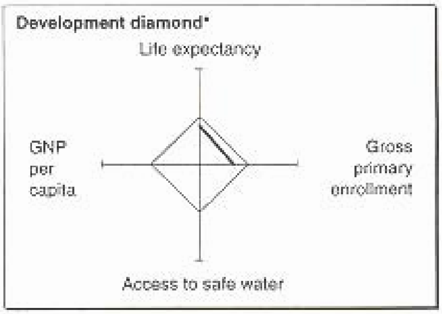
Note: Data before 1990 came from Yemen Arab Republic and the People's Democratic Republic of Yemen, which were unified in 1990. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Republic of Yemen

POVERTY and SOCIAL

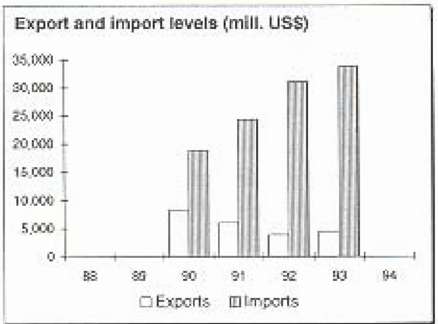
	1985-90	1990-94
(annual growth rates)		
Population	3.3	*5.1*
Labor force	3.7	0.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.5
Infant mortality *(per 1,000 live births)*	117.0
Child malnutrition *(% of children under 5)*	30.0
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	285.2
Illiteracy *(% of population age 15+)*	61.5
Gross primary enrollment *(% of school-age population)*	76.0


Development diamond*

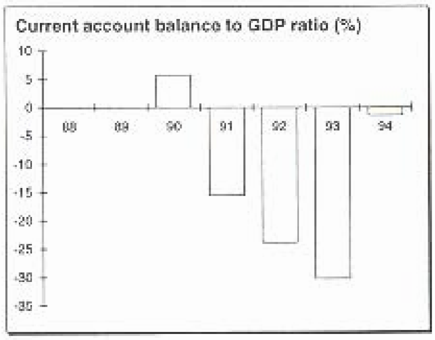
TRADE[a]

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	8,316	3,951	4,495	..
Fuel	..	7,381	2,940	3,423	..
Food	..	452	473	591	..
Manufactures	..	39	32	84	..
Total imports (cif)	..	18,867	31,076	33,883	..
Food	..	7,455	9,408	9,607	..
Fuel and energy	..	1,690	1,884	2,258	..
Capital goods	..	3,073	6,779	7,663	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	51	78	92	103


Export and import levels (mill. US$)

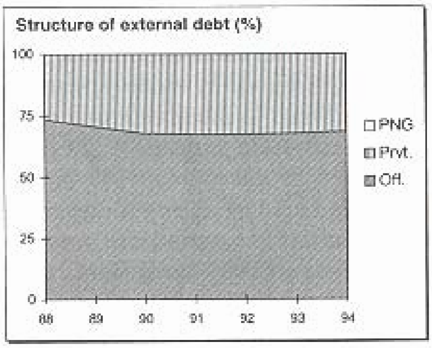
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	1,481	1,249	1,337	1,975
Imports of goods and nfs	..	2,032	2,374	2,568	2,264
Resource balance	..	-551	-1,125	-1,231	-289
Net factor income	..	0	0	0	0
Net current transfers	..	1,474	993	1,014	1,044
Current account balance					
Before official transfers	..	393	-1,119	-1,288	-69
After official transfers	..	513	-1,123	-1,289	-71
Long-term capital inflow	..	-47	97	282	-529
Total other items (net)	..	-204	636	894	741
Changes in net reserves	..	-262	390	113	-141
Memo:					
Reserves excluding gold *(mill. US$)*	..	422	320	..	..
Reserves including gold *(mill. US$)*	..	441	337	..	..
Conversion rate *(local/US$)*	..	14.0	28.8	39.9	46.9


Current account balance to GDP ratio (%)

EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	173.0	231.7	224.8	179.6
IMF credit/exports	..	0.0	0.0	0.0	0.0
Short-term debt/exports	..	40.0	58.1	24.5	6.8
Total debt service/exports	..	5.7	5.9	5.0	5.8
GDP ratios					
Long-term debt/GDP	..	75.0	112.4	125.6	117.1
IMF credit/GDP	..	0.0	0.0	0.0	0.0
Short-term debt/GDP	..	17.3	28.2	13.7	4.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	13.6	32.2	32.5	32.1	31.5
Official creditors/long-term	86.4	67.8	67.5	67.9	68.5


Structure of external debt (%)

* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Foreign oil companies' shares are not included in exports.

Zaire

Zaire has the third largest population (40 million) and the second largest area (2.35 million square kilometers) in Sub-Saharan Africa. About 40 percent of its population is urban. The aggregate density of population is low at 17 people per square kilometer. In some regions, such as Kivu, demographic growth (sometimes aggravated by the influx of immigrants and refugees from neighboring countries, particularly following last year's events in Rwanda and Burundi) is putting pressure on land, with serious consequences for the ecology. Zaire has ample underutilized economic potential, including an industrious work force. Natural resources include the second largest rain forest in the world, fertile soils, ample rainfall, and considerable and varied mineral resources. Mining and processing of copper, zinc, cobalt, gold, and diamonds, and petroleum extraction, accounted until 1990 for about one-fifth of GDP and the bulk of export earnings.

Zaire's economy is below the country's potential and declining. Per capita GNP was estimated at $220 in 1990 and has since fallen by at least 30 percent. After a difficult period of civil turmoil and severe economic decline following independence in 1960, production expanded at an average rate of 4.9 percent in real terms over 1965-73, fueled by favorable terms of trade and foreign investment. The current account balance was in steady surplus, inflation was relatively low, and social indicators improved. Over 1974-82, deteriorating terms of trade and disruptions caused by the "zairianization" and nationalization of foreign-owned businesses led to an average yearly decline in GDP of 1.5 percent and persistent current account deficits. Expansionary public spending financed by money creation and heavy external borrowing — much of it on nonconcessional terms and for nonviable projects — failed to stimulate growth and fueled inflation. Over 1983-89 the government carried out a stabilization and adjustment program, marked by hesitations and lapses, that produced mixed results.

Since early 1990 political instability has been accompanied by declining production, investment and fiscal mobilization, unrestrained public spending financed by monetary creation, resulting in hyperinflation and currency depreciation, rising current account deficits, and mounting external arrears. This accelerated the loss of Zaire's creditworthiness and investor confidence, the rapid degradation of the country's productive assets and infrastructure, and the decline in living standards and social indicators. The true extent of economic decline is difficult to capture as economic activities have increasingly shifted to the informal sector. Zaire's modern economy, its institutions, and its human capital have suffered seriously and are rapidly eroding. Over 1989-93 GDP declined by at least 30 percent. Copper production declined by about 90 percent, cement production by 70 percent, the consumption of petroleum products by 50 percent, and road and river traffic by about 80 percent; the national railways have de facto ceased operation. Agricultural production has been hit especially hard by the collapse of the transport system. The only notable exception is diamonds, whose production has continued at about the same pace and has even increased in the informal sector. The short-term outlook for recovery is poor, and medium-term prospects are uncertain.

Social Indicators

Zaire's dismal economic performance affected social standards, once ahead of those in many countries in Sub-Saharan Africa. Even before the current crisis, social indicators were declining because of inappropriate public spending policies. In 1989 under-five mortality was close to 200 per 1,000 live births; maternal mortality was 6 per 1,000 live births; 25 percent of children and 13 percent of pregnant women were undernourished; enrollment in primary education was 76 percent, down from 92 percent in 1978; 77 percent of infants were not immunized before their first birthday, and more than 30 percent of children were never immunized; half of the children lacked access to antimalaria treatment; malnutrition, particularly of lactating mothers and children, was widespread; and adult illiteracy was 45 percent. The crisis that has gripped Zaire since 1990 has accelerated the decline in social indicators. With the exception of limited humanitarian aid, virtually all external financing in the social sectors has been discontinued, and many operations have been canceled; the already insufficient budgetary financing of social sectors has been greatly reduced, and the ability of users and enterprises to pay for social services has been sharply curtailed. Occasional surveys indicate a worsening of infant mortality, child malnutrition, and other critical social indicators. Contagious diseases once contained, such as trypanosomiasis, have returned due to shortages of preventive programs and medication. Zaire is facing serious risks of widespread endemic diseases and further deterioration of its human capital, which will constrain development for many years.

Traditional external assistance flows have ceased due Zaire's failure to complete a transition to democracy, the deteriorating economic and financial environment, and the accumulation of payment arrears. Official assistance is currently limited to humanitarian aid. The country was about $6 billion in arrears at end-1994. Foreign private investment has essentially ceased.

Failed Adjustment, 1983-89

Between 1983 and 1989 Zaire took on-again, off-again stabilization and adjustment measures that built on the economy's traditional market orientation and supported initiatives to strengthen public resource management, liberalize prices and trade, and improve investment and export incentives. Initially, the program held promise. Over 1984-86, GDP growth averaged 3.3 percent, up from 0.7 percent in the preceding three years; copper mining regained profitability, and more coffee, diamond and gold exports started to flow through official channels, allowing export earnings to grow by 4.8 percent a year. Increased production of foodstuffs and manufactured goods helped reduce annual imports by 1.1 percent, the government's net recourse to domestic credit declined to 1.1 percent of GDP, from 3 percent in the preceding three-year period; annual inflation decelerated from 76 percent to 24 percent; and the overall fiscal deficit (on a cash basis, after debt relief) averaged 0.3 percent of GDP, compared with 2.1 percent during the previous three-year period.

In late 1986 stabilization and adjustment efforts weakened. Public spending increased, and progress in exchange rate and price liberalization was partially reversed. Inability to contain public spending and improve its composition and quality also derailed a short-lived stabilization effort in 1989. Over 1987-89, despite higher exports and external transfers, GDP growth declined to 0.6 percent a year, and government nondebt expenditure — mostly nondevelopmental — increased from 6.2 percent of GDP to 10.3 percent. Outlays in foreign exchange (excluding debt service and externally financed projects) increased six-fold to $550 million in 1988; budgetary revenue other than from the national copper mining company GECAMINES, which traditionally supplied up to one-third of the budget revenue, declined to 6.4 percent of GDP, from 8.5 percent in 1984-86; the external current account deficit averaged 6.9 percent of GDP, 64 percent higher than in the preceding three-year period; and inflation averaged 86 percent, compared with 31 percent over 1984-86.

Zaire's adjustment effort failed because of poor management of the economy, not for want of external support. Over 1987-89, net official transfers totaled $1.1 billion, without taking into account substantial debt relief.

Recent Political and Economic Developments

Zaire's current economic debacle, rooted in long-standing inappropriate policies, has accelerated during the political crisis that has gripped the country since April 1990, and whose end is not yet in sight. Single-party rule has been challenged by a broad-based opposition, by increasingly assertive regional and local interests, and by a vocal press. Military-led looting in late 1991 and early 1993 left behind a shattered economy and a tense social and political climate. The political situation is unstable, and pits the president against the most visible leader of a fractured opposition, who was named prime minister by a national conference in August 1992, then dismissed three months later after a confrontation with the president over the control of the central bank and its monetary policies. He contested his dismissal and formed an opposition government. An alternative government designated in April 1993 did not gain national or external acceptance.

In April 1994 the presidential coalition and the opposition reached agreement on constitutional arrangements during a transition period until elections in July 1995, and on a transition government. Under this agreement a new prime minister appointed in June 1994 formed a new government that was recognized by the international community. This government has taken steps to assume control over Zaire's public finances to address urgent stabilization measures. It is too early to say whether these efforts will succeed.

Political gridlock has led to unprecedented economic and social decay. Since renouncing adjustment efforts in early 1990, Zaire has been caught in a downward spiral of collapsing production, investment; and exports; inappropriate fiscal policies resulting in hyperinflation and accumulation of arrears; widespread unemployment and increased poverty; and rapidly declining living and social standards. Zaire's human capital has been eroded by dwindling personal incomes, greatly reduced public spending for education and health, and civil strife. The exodus of expatriates and vanishing employment opportunities in the formal sector further aggravated the situation. The dynamism of Zaire's informal economy — not adequately captured by official statistics — mitigated to some extent the impact of fiscal laxity and modern-sector decline, as did Zaire's legacy of nongovernmental delivery of social services. This has slowed down somewhat the economic and social decline, without, however, compensating fully for the shrinking formal economy.

Between 1989 and 1993 GDP is estimated to have contracted by 30 percent, exports (in SDR terms) by 52 percent, and imports by 72 percent. The destruction of capital assets due to riots and looting has been estimated at up to one-fourth of GDP. Compared with the 1987-89 period, in 1993 copper production declined from 460,000 to 48,000 tons, cement production from 490,000 to 149,000 tons, and crude oil production from 10 million to 8.3 million barrels. Consumption of petroleum products declined from 876,000 to about 400,000 cubic meters, and beer sales (an acceptable proxy for the monetary income of urban households) from 3.8 million to 1.4 million hectoliters.

Fiscal policy, spun out of control, is largely responsible for the extraordinary financial deterioration since 1990. While the tax base shrank gradually from 10 to 11 percent of GDP during the 1980s to about 3 percent of GDP in 1992/93, government spending surged to the point where receipts cover barely 10 percent of the its obligations and 20 percent of its cash outlays. The fiscal deficit has been financed by accumulating arrears and monetary expansion. Zaire has suspended all external debt service payments. External arrears reached $6 billion at end-1994, including about $700 million in arrears to multilateral creditors. In 1992 and 1993 issuance of currency was equivalent on average to more than 25 times the broad money stock at the beginning of each of these two years. As a result, inflation averaged more than 3,800 percent during 1991-93 and is estimated to have reached 9,800 percent in 1994. Despite rapidly expanding monetary financing of its spending, the government accumulated sizable domestic payment arrears, including arrears on wages and salaries. By September 1993 arrears on wages and salaries to public sector employees (except for some the military personnel) reached up to 12 months. Moreover, the expenditure surge was concentrated on nonwage outlays of political institutions and the military. In 1993 civil service wages in dollar terms were about 20 percent lower than in 1989, while nonwage current expenditure was 64 percent higher.

Since 1989 the domestic currency has depreciated by over 230,000 times, from Z455 to the dollar at end-1989 to Z105 million per dollar (in old zaires) at end-1993. In an attempt to contain the prohibitive cost of issuing and handling currency, alleviate the critical shortage of bank notes, and allow the government to meet its payroll and other domestic financial obligations, the Bank of Zaire introduced a new zaire in October 1993. The initial parity of NZ3 per dollar was rapidly eroded by an acceleration of government spending. Two months after its introduction, the new zaire was trading at NZ35 per dollar in the interbank market, and at over NZ100 per dollar on the parallel market. The two main diamond-producing regions have refused to accept it, and have de facto created an independent monetary zone where the old Zaire has remained in circulation and has maintained its value against the dollar.

The weakened government; adverse social, economic, and financial environment; shortage of local counterpart funds; and default on debt obligations have resulted in a rapid decline in investment. Official external capital disbursements were $35 million in 1993, less than 10 percent of the $367 million disbursed in 1989. Since 1990 externally financed investment has virtually ceased, and private investment dried up in the wake of the riots of September-October 1991. The Association of Zairian Employers estimated the damage caused by these riots at about $1 billion to enterprises alone. Subsequent civil unrest and degradation of the economic and social environment have further eroded investor confidence.

Short-Term Outlook

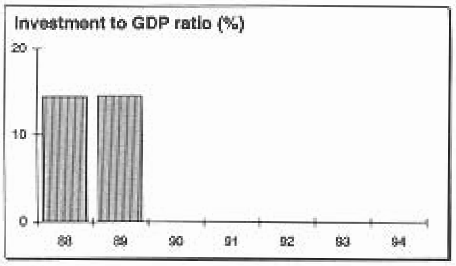
Zaire's short-term outlook is poor. Drastic stabilization measures are urgently needed, a difficult proposition even if a strong government were in place. Though aware of the urgent need to impose fiscal discipline, the current administration appears unable to act, because of its contested political legitimacy and fearing social unrest. Medium-term prospects are uncertain and hinge, in particular, on the outcome of the political transition and the policies of the successor government.

Zaire

Population mid-1993 *(millions)*	41.2	Income group:	**Low**
GNP per capita 1993 *(US$)*	..	Indebtedness level:	**Severely indebted**

KEY RATIOS

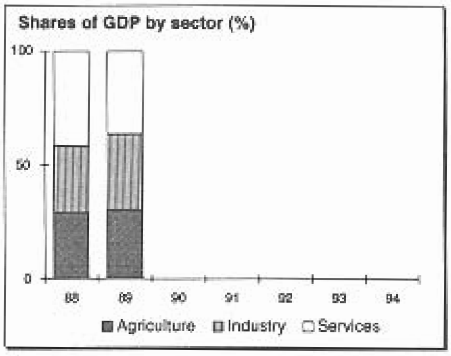
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.5	..	..	..	..
Exports of goods and nfs/GDP	27.5	..	..	..	..
Gross domestic savings/GDP	14.4	..	..	..	..
Gross national savings/GDP	6.5	..	..	..	..
Current account balance/GDP	-6.8	..	..	..	..
Interest payments/GDP	2.7	..	..	..	..
Total debt/GDP	85.8	..	..	..	..
Total debt/exports	307.6	444.7	..	..	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.9	..	..	..	..
Industry	29.2	..	..	..	..
Manufacturing	9.9	..	..	..	..
Services	40.9	..	..	..	..

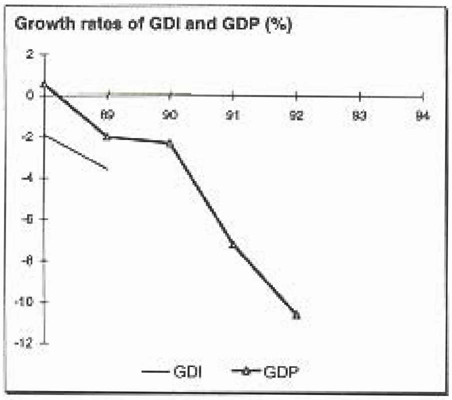
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	*2.5*	..	..	..	..
Industry	*-0.5*	..	..	..	..
Manufacturing	*-1.5*	..	..	..	..
Services	*2.0*	..	..	..	..
GDP	0.6	..	-10.6	..	..



GDP: EXPENDITURE

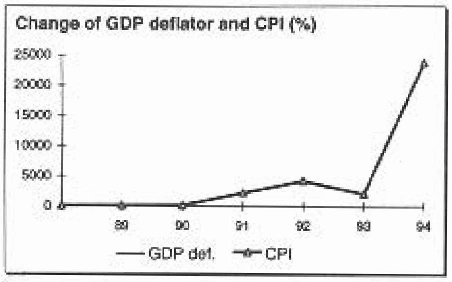
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	77.9	..	..	..	..
General government consumption	7.7	..	..	..	..
Gross domestic investment	12.5	..	..	..	..
Exports of goods and nfs	27.5	..	..	..	..
Imports of goods and nfs	25.6	..	..	..	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	*2.5*	..	..	..	..
General government consumption	*6.3*	..	..	..	..
Gross domestic investment	*-3.6*	..	..	..	..
Exports of goods and nfs	-1.6	..	..	..	..
Imports of goods and nfs	3.3	..	..	..	..
Gross national product	2.6	..	..	..	..
Gross national income	3.1	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	23.8	81.3	4,129.2	1,986.9	23,773.1
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	25.8	..	..	..	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



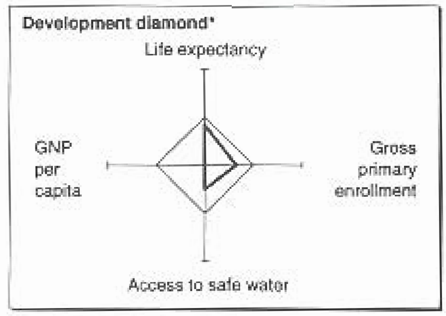
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Zaire

POVERTY and SOCIAL

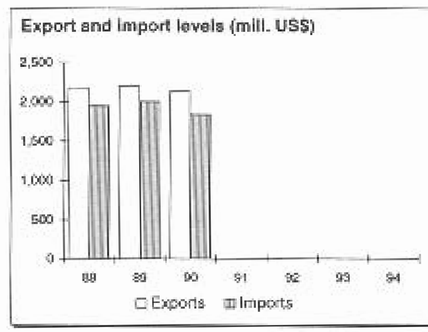
	1985-90	1990-94
(annual growth rates)		
Population	3.3	3.2
Labor force	2.3	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	52.0
Infant mortality *(per 1,000 live births)*	91.6
Child malnutrition *(% of children under 5)*	25.0
Access to safe water *(% of population)*	34.2
Energy consumption per capita *(kg oil equivalent)*	48.1
Illiteracy *(% of population age 15+)*	28.2
Gross primary enrollment *(% of school-age population)*	70.0



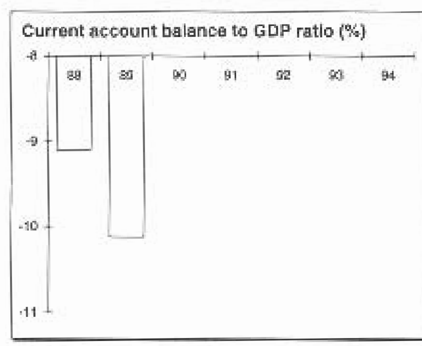
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,853	2,139	..	..	..
Copper	712	956	..	..	..
Coffee	154	56	..	..	..
Manufactures	..	11	..	..	..
Total imports (cif)	1,484	1,834	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	112	137	..	..	..
Import price index *(1987=100)*	81	112	..	..	..
Terms of trade *(1987=100)*	137	122	..	..	..
Openness of economy *(trade/GDP,%)*	53	..	..	..	..



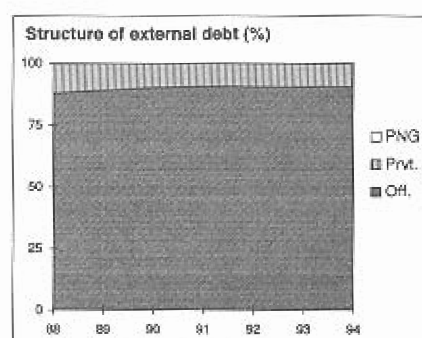
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,979	2,296	..	..	..
Imports of goods and nfs	1,844	2,447	..	..	..
Resource balance	135	-151	..	..	..
Net factor income	-569	-628	..	..	..
Net current transfers	-55	-81	..	..	..
Current account balance					
Before official transfers	-488	-861	..	..	..
After official transfers	-289	-644	..	..	..
Long-term capital inflow	-297	-31	..	..	..
Total other items (net)	550	756	..	..	..
Changes in net reserves	36	-82	26	111	-4
Memo:					
Reserves excluding gold *(mill. US$)*	190	219	157	46	121
Reserves including gold *(mill. US$)*	335	261	166	55	131
Conversion rate *(local/US$)*	49.9	718.6	6.5E+05	..	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	247.1	389.9	..	..	..
IMF credit/exports	40.2	22.6	..	..	..
Short-term debt/exports	20.2	32.2	..	..	..
Total debt service/exports	24.8	15.1	..	..	..
GDP ratios					
Long-term debt/GDP	68.9	..	..	..	..
IMF credit/GDP	11.2	..	..	..	..
Short-term debt/GDP	5.6	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	17.9	9.9	9.5	9.5	9.4
Official creditors/long-term	82.1	90.1	90.5	90.5	90.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Zambia

Zambia's economy suffers from severe and long-standing distortions that will require a major long-term structural adjustment effort. Its major characteristics are a very high debt-service burden, heavy reliance on a single export product — copper — and a history of excessive public sector direction of, and direct participation in, the production of goods and services. Soon after independence in 1964 the United National Independence Party government sought to gain control of the economy through widespread nationalization. The economy became dominated by parastatals, and a one-party state was introduced. Rising copper prices helped the economy grow at an average rate of 2.5 percent in the first decade after independence. Since 1975, however, falling world prices of copper and the general deterioration in Zambia's terms of trade, coupled with the failure to develop a dynamic, diversified economy, have caused overall economic decline. Attempts to support continued consumption through borrowing failed to contribute to economic growth and created a severe debt problem.

As a result, Zambia faces particularly difficult constraints as it attempts to turn the economy around and achieve sustainable economic growth. In particular, Zambia carries an exceptionally large external debt burden. Total debt at end-1994 amounted to $6.2 billion, of which $3.1 billion was multilateral and $2.7 billion bilateral. Excluding short-term debt, Zambia's external debt represents nearly $650 per capita, one of the highest ratios anywhere. A rescheduling of Zambia's Paris Club debt was agreed in July 1992, and further Paris Club discussions are expected later this year. In 1994, a commercial debt buy-back operation reduced Zambia's debt by over $600 million.

Another major constraint on Zambia's potential for economic growth is its heavy dependence on copper. Copper (including cobalt) accounts for nearly 85 percent of exports, contributes over 15 percent of GDP, and is an important source of budgetary revenue. In recent years copper production has stagnated, and unless new operations are undertaken, a sharp decline in copper output is projected by the end of this decade.

The third major constraint is the dominance of the parastatal sector and the consequent stifling of competition and initiative. In addition, many parastatals have had an effective monopoly, resulting in high prices and low quality. The manufacturing parastatals have not kept up with product developments elsewhere. The tourism sector has attracted only a fraction of the potential market. The gemstone parastatal has exploited only a small portion of Zambia's tremendous potential, with most exports avoiding official channels. In the public utility sector, the position is not much better. The railways are unreliable and have lost much potential traffic to roads, the power company has been unable to maintain sufficiently steady voltage for the operation of sensitive industrial plants, and the telecommunications service is substandard in areas important to business.

As a result of this combination of poor policies and adverse external developments, the Zambian economy faced many problems in 1990. Inflation had been over 100 percent for three years; external debt was not being serviced, creating large arrears to multilateral and bilateral institutions; business and consumer confidence had disappeared; a parallel market in foreign exchange was flourishing; the budget deficit was large and increasing; the money supply was rising rapidly; asset holders were shifting their capital abroad and switching to foreign currency for local transactions; many parastatal companies were heavily indebted and making large losses; private investment had collapsed; military expenditures were rising and social sector expenditures declining; the physical infrastructure was deteriorating; tax compliance was low; basic goods and services were in short supply; and Zambia had neither food reserves nor financial resources to deal with natural disasters or other emergencies.

Recent Economic Developments

The structural adjustment program begun in fiscal 1990 combined trade policy reforms, deregulation, and exchange rate adjustment with stabilization policies designed to restore fiscal and balance of payment equilibrium and price stability. Policy achievements have been impressive. Among a host of measures, the government has eliminated subsidies on maize and fertilizer, decontrolled prices, and revised investment laws, rules, and regulations. Zambia has completely decontrolled the exchange rate, freed interest rates, reduced the budget deficit (excluding grants and interest) from about 7 percent of GDP in 1991 to below 1 percent in 1994, and embarked on an ambitious privatization program. These achievements were made despite a devastating drought in 1992.

Zambia maintained good economic policy performance in 1994, particularly on fiscal and monetary policy. The consumer price index, which had increased at an average annual rate of over 100 percent in the previous four years, rose only at an annualized rate of 50 percent in the first half of 1994, and at 22 percent in the second half. Interest rates also fell sharply; the annualized rate on treasury bills fell from over 200 percent in April to 25 percent in December. Inflation and interest rates increased sharply in the first two months of 1995 because of increases in the price of maize and foreign exchange.

The improved fiscal performance has been aided by the successful operation of a cash budget system adopted in 1993 and the establishment of the Zambia Revenue Authority in April 1994. Improved collection performance increased the revenue-GDP ratio in 1994 by two full percentage points over 1993. The rapid decline in inflation and interest rates has bolstered the private sector's confidence in government and reduced expectations of future inflation. This should set the stage for a renewed pace of economic activity in 1995.

Significant progress has also been made on structural reforms, although the pace of change has often been slower than expected. In privatization, legal transfers have occurred for ten companies, and sales agreements have been signed for an additional four. Receipts by end-March are estimated to be $15 million. To facilitate a uniform policy direction in privatization and improve the transparency of parastatal management, the government has decided to close the parastatal holding company and transfer its remaining responsibilities to the Ministry of Finance and the Zambia Privatization Agency. Parastatals that cannot cover their costs are not being supported by public funds. Liquidation proceedings were begun in 1994 for both Zambia Airways and the United Bus Company. The politically difficult decision to close Zambia Airways demonstrated again the government's strong commitment to the economic reform program. In the public sector management area, considerable progress has been made in decentralizing service provision (particularly in health) and in developing reorganization plans for individual ministries.

Despite these policy reforms, output response has been uneven. After a decrease in real GDP of 2.5 percent in 1992 because of a severe drought, and an increase of 6.5 percent in 1993 as agriculture recovered, preliminary estimates are that real GDP declined by 5.1 percent in 1994. This was a result of declines in agricultural output due to poor rains early in the year, in mining because of technical and managerial production problems, and related manufacturing activities. There is evidence of some pickup in economic activity late in 1994. Local cement sales rose as construction activity expanded; electricity, gas, and water production grew at 9.6 percent in 1994; and new businesses were being formed. There also were modest gains in real estate and business services, and restaurants and hotels.

Medium-Term Prospects

Despite significant improvements in the policy environment and frequent demonstrations of political will to maintain the reform program, Zambia faces two major difficulties in both the short and the medium run. First, achieving sustainable economic growth, given Zambia's debt burden, will require very large inflows of foreign aid. The balance of payment position, even under the most optimistic scenarios, is expected to be so tight that under the most generous Paris Club terms currently implemented, Zambia will continue to transfer nearly 10 percent of its domestic production abroad as debt service for the remainder of this decade and beyond. Thus, while Zambia needs to reduce its dependence on external assistance, the phaseout will need to be gradual, and significant levels of support will still be needed in the medium term. Second, given the tightness of the resource constraints, the political demands for improvements in living standards, and the many competing demands expected as Zambia moves toward national elections in 1996, the ability of the government to adhere to the reform program will be tested.

Thus, the key to success is sustainable economic growth. Domestic policies to reduce inflation and improve public sector implementation capacity remain central to improving the prospects for growth. The most challenging macroeconomic policy issue will be to achieve economic growth without reigniting inflation. This will require a concerted and sustained effort. If Zambia can make this adjustment and hold to its current course, it should be able to break inflationary expectations and initiate a virtuous circle of lower interest rates and higher investment and exports, leading to lower inflation and increased growth.

The pace of privatization should pick up in 1995 with the closing of the parastatal holding company, the strengthening of the privatization agency, and public flotation of the assets of some of the larger parastatals. In public-sector management, the first 18 ministerial reorganization plans should be completed and approved by end-June, and implementation of at least six of those should be begun. Decentralization of services will continue in health and education and will be started in agriculture. Road maintenance should take a major step forward with the proceeds of the new 30 kwacha-per-liter fuel levy going directly to the recently established Roads Board. An important aspect of this program will be placing road maintenance on a more commercial basis and making greater use of the private sector in carrying out the work.

Given the substantial deterioration in the living standards of the average Zambian over the past 18 years, the government has recognized that it cannot continue to undertake the stringent measures necessary to stabilize the economy and establish the other preconditions for economic growth without also ensuring that the bulk of the population begins to experience an improvement in welfare. While the measures taken to promote agriculture, exports, and the private sector generally should lead to sustainable and, indeed, rapid growth in key subsectors of the economy, this impact will be neither widespread nor dramatically apparent in the short term. In contrast, a welfare safety net that builds on the successful approach to alleviating the impact of the 1992/93 drought, combined with a reorientation of social services to meet widespread basic needs at the level of the health center, the primary school, and the community water system, will offer tangible evidence that less government can also mean better government in precisely those areas that are critical to the welfare and economic prospects of the poor in Zambia.

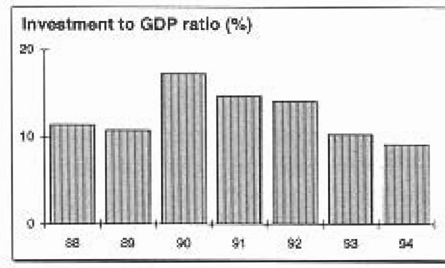
The government has been working to reverse the negative trends in social indicators and restructure the delivery of social services. The thrust of the restructuring is decentralization of service delivery, recovery of budgetary allocations, and greater delegation of authority, including for policy development. Initiatives include district management in health and education; devolution of safety-net measures to local groups, including NGOS; and restructuring of the water supply and sanitation sector. This approach complements the reforms designed to move Zambia toward a free-market economy. Budget allocations to the social sectors increased from 28 percent of the budget in 1993 to over 33 percent in 1994 and 1995.

Zambia

Population mid-1993 *(millions)*	8.9	Income group: **Low**
GNP per capita 1993 *(US$)*	380	Indebtedness level: **Severely indebted**

KEY RATIOS

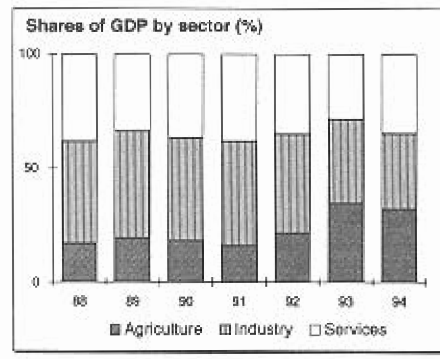
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	14.9	17.3	14.0	10.3	9.2
Exports of goods and nfs/GDP	38.8	37.3	36.1	30.3	32.7
Gross domestic savings/GDP	15.4	17.8	2.2	4.6	6.3
Gross national savings/GDP	3.5	8.1	-9.0	-3.1	..
Current account balance/GDP	-14.4	-11.8	-23.7	-13.1	-11.2
Interest payments/GDP	1.9	2.2	3.1	2.7	2.6
Total debt/GDP	203.2	220.2	218.1	188.2	184.5
Total debt/exports	477.6	539.4	582.0	638.0	549.9



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	13.1	18.1	21.3	34.4	31.9
Industry	42.0	45.3	43.7	37.1	33.4
Manufacturing	22.9	31.9	33.2	23.0	21.6
Services	44.9	36.6	35.0	28.4	34.7

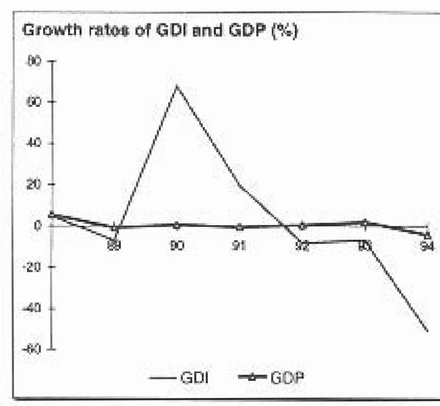
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	3.3	2.1	-33.1	79.8	-19.9
Industry	3.1	-1.3	9.7	-8.5	-5.5
Manufacturing	7.6	-1.3	12.0	-10.5	-6.5
Services	0.5	0.4	-0.4	0.4	2.9
GDP	2.0	-0.2	0.5	2.1	-4.1



GDP: EXPENDITURE

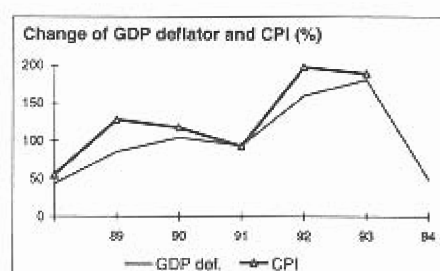
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	60.7	63.2	85.6	87.7	84.0
General government consumption	23.9	19.0	12.2	7.7	9.7
Gross domestic investment	14.9	17.3	14.0	10.3	9.2
Exports of goods and nfs	38.8	37.3	36.1	30.3	32.7
Imports of goods and nfs	38.2	36.8	48.0	36.0	35.6

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	5.4	10.7	79.0	14.0	10.1
General government consumption	-0.4	-9.8	-27.9	-24.6	10.4
Gross domestic investment	1.1	-14.2	-8.1	-6.8	-50.8
Exports of goods and nfs	-4.0	2.4	3.5	1.1	0.6
Imports of goods and nfs	-2.6	-1.1	28.0	-13.6	0.1
Gross national product	4.5	1.0	4.3	5.2	-4.4
Gross national income	5.7	-1.9	-1.6	4.7	-2.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	37.3	117.5	197.4	189.0	..
Wholesale prices	47.2	115.6	121.3	..	..
Implicit GDP deflator	41.1	104.4	159.7	180.9	49.1
Government finance					
(% of GDP)					
Current budget balance	..	-5.8	-5.4	-7.7	..
Overall surplus/deficit	..	-12.0	-9.2	-10.6	..

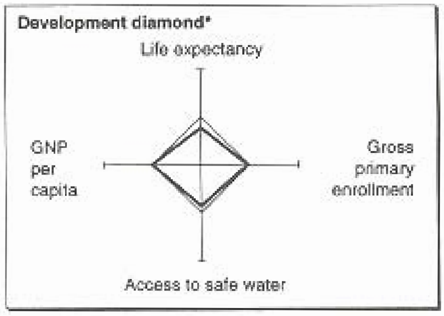


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

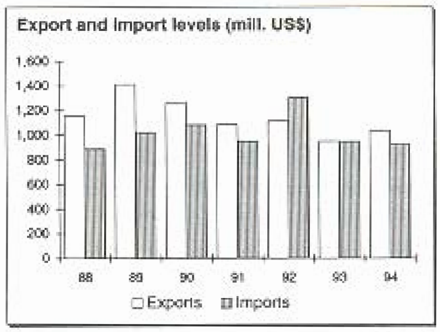
	1985-90	1990-94
(annual growth rates)		
Population	3.4	3.1
Labor force	3.3	3.5

	most recent estimate
Poverty level: headcount index *(% of population)*	86.0
Life expectancy at birth	48.3
Infant mortality *(per 1,000 live births)*	103.0
Child malnutrition *(% of children under 5)*	26.8
Access to safe water *(% of population)*	58.9
Energy consumption per capita *(kg oil equivalent)*	145.7
Illiteracy *(% of population age 15+)*	27.2
Gross primary enrollment *(% of school-age population)*	104.0



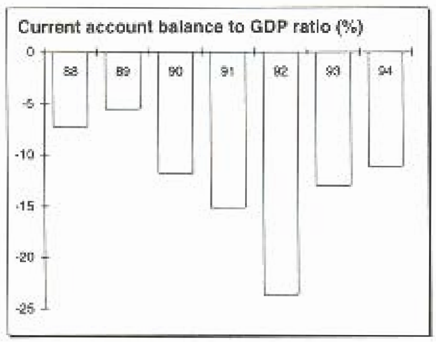
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	871	1,263	1,111	949	1,035
Copper	401	1,055	867	734	..
Zinc	17	17	8	7	..
Manufactures	..	..	..	..	..
Total imports (cif)	834	1,084	1,302	950	926
Food	23	9	..	..	..
Fuel and energy	122	119	53	47	..
Capital goods	163	455	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	77	74	84	66	68



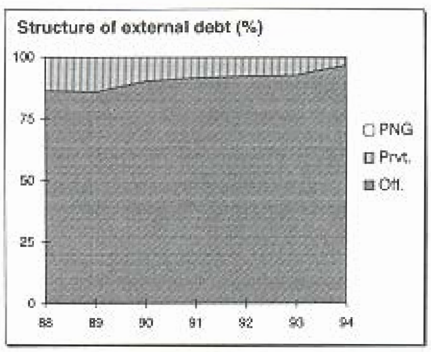
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	950	1,343	1,193	1,064	1,168
Imports of goods and nfs	969	1,369	1,585	1,261	1,557
Resource balance	-19	-26	-392	-197	-389
Net factor income	-267	-319	-328	-255	..
Net current transfers	-38	-43	-33	-19	..
Current account balance					
Before official transfers	-324	-388	-753	-471	-389
After official transfers	-271	-93	-117	-87	-36
Long-term capital inflow	281	-308	-169	-185	-122
Total other items (net)	-467	46	381	310	269
Changes in net reserves	456	355	-95	-38	-111
Memo:					
Reserves excluding gold *(mill. US$)*	200	193	..	192	..
Reserves including gold *(mill. US$)*	201	201	..	192	..
Conversion rate *(local/US$)*	3.1	34.5	178.9	452.8	670.8



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	323.6	361.5	396.8	439.7	421.7
IMF credit/exports	83.6	70.7	71.0	73.0	66.5
Short-term debt/exports	70.5	107.2	114.2	125.2	61.6
Total debt service/exports	14.4	15.1	29.5	32.8	19.1
GDP ratios					
Long-term debt/GDP	137.6	147.6	148.7	129.8	141.5
IMF credit/GDP	35.5	28.8	26.6	21.6	22.3
Short-term debt/GDP	30.0	43.8	42.8	36.9	20.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.3	0.3	0.5
Public and publicly guaranteed					
Private creditors/long-term	18.5	9.8	7.5	7.1	2.7
Official creditors/long-term	81.5	90.1	92.2	92.6	96.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Zimbabwe

Zimbabwe is a landlocked country of about 390,000 square kilometers bordered by Mozambique on the east, Botswana on the southwest, Zambia on the northwest, and the Republic of South Africa on the south. Estimated GNP per capita was $520 in 1993. The population reached 10.7 million in mid-1993, with a growth rate of about 2.8 percent a year.

At independence in 1980 Zimbabwe faced a number of difficult issues as the population expected rapid progress in redressing severe inequalities in income, capital, land holding, and access to social services. The economy was diversified and had good potential for growth, but physical infrastructure and the capital stock were depleted because of foreign exchange shortages during the previous 15 years and the effects of the war of liberation. On the human capital side, there were significant shortages of skilled labor, largely because of the emigration of white Zimbabweans and the educational policies of the pre-independence government. Finally, the government faced internal and external security problems that affected both business confidence and the transport of exports and imports.

Government effectively left intact the inherited economic structure, with predominantly private ownership of productive sectors, and maintained an extensive system of economic controls. To promote growth, it sharply increased foreign exchange allocations in 1980 and 1981, raised agricultural producer prices, and invested heavily in infrastructure. To promote equity, it expanded education and health services, increased minimum wages, reoriented agricultural services toward communal smallholder areas, and introduced an agricultural resettlement program. The combination of these policies and very favorable weather conditions resulted in bumper crops and an economic boom in 1980 and 1981, with GDP growth averaging 10 percent each year, but then unsustainable external and internal imbalances developed.

Zimbabwe's development strategy produced mixed results during the 1980s. While it made great strides in education, health and smallholder agriculture, per capita income remained stagnant because of disappointing economic growth that averaged about 3.2 percent. Private investment as a share of GDP fell to below 10 percent in the mid-1980s before recovering. Labor-force growth outpaced the expansion of employment opportunities so that by the end of the 1980s only one in three school leavers was being absorbed into the formal sector each year. Most of the growth in formal employment during the 1980s was in the public sector. After a period of large foreign borrowing in the early 1980s, the current account deficit of the balance of payments was kept in check through a strict system of direct foreign exchange allocations to avoid excessive foreign borrowing and debt buildup. The debt-service ratio rose to around 35 percent for the period 1985-88, due to a hump in repayment obligations to commercial banks and the IMF, before falling back to the low 20s for 1989 and 1990. However, the resulting shortages of imported goods constrained investment and productivity.

The Move to Adjustment — 1990 and 1991

Toward the end of the 1980s it became increasingly clear that sustained income growth would require fundamental changes in economic management. In particular, the fiscal deficit had to be reduced to a sustainable level, trade policy had to be liberalized, and domestic regulations had to be greatly reduced. Bolstered by the successful elections of 1990, government prepared a wide-ranging program of policy reform outlined in a "Framework for Economic Reform, 1991-1995." This document was distributed widely within the country and presented to the country's donors in early 1991. The adjustment program addresses the key policy constraints that have hampered Zimbabwe's development in the 1980s and will increase public sector efficiency, private sector development, and employment creation. Its main components are fiscal deficit reduction and monetary policy reform, trade liberalization, deregulation of private-sector activities, sector-specific policy initiatives, and measures to alleviate the impact of reforms on vulnerable groups. The program constitutes a movement from pervasive direct controls to market forces and is an appropriate blend of structural reforms and macroeconomic stabilization measures. Its fundamental objective is the improvement of living conditions, especially for the poorest segments of society.

There was a good beginning to structural adjustment in 1991. First, a system of open general import licensing, amounting to 15 percent of imports, was established, and the export retention scheme was increased to 15 percent of export earnings to provide additional incentives to exports and access to license-free imports. To support demand management measures in maintaining a reasonable balance of payments position, the real depreciation of the exchange rate was accelerated. Second, the government accelerated its program of fiscal reform by adopting a budget that would reduce the deficit from 10.7 percent of GDP in fiscal 1991 to 7.1 percent of GDP for fiscal 1992. Third, initial steps were taken to liberalize marketing and pricing, and the Labor Relations Act was amended to formalize a transparent and quick mechanism for retrenching labor.

While good progress was thus made in initiating the adjustment process, macroeconomic balances deteriorated during the later part of 1991. The current account of the balance of payments deteriorated, from 4.2 percent of GDP in 1990 to 8.7 percent of GDP in 1991. Export receipts remained sluggish, due to disappointing agricultural export performance, resulting from below-average rainfall and the world economic slowdown, aggravated by the Persian Gulf crisis. Imports grew rapidly because of a large pent-up demand for newly freed imports and speculation about further exchange rate movements. The authorities initially hesitated in tightening monetary policy, but when pressure on foreign exchange mounted, decisive steps were taken during the second half of 1991 to contain aggregate demand. Money supply growth was slowed, interest rates were liberalized and became positive in real terms, and an aggressive exchange rate policy resulted in a 35 percent real depreciation of the Zimbabwe dollar between July and September 1991.

Despite the emergence of these stabilization problems, there were indications that structural improvements were taking hold in 1991. Investment increased, and nontraditional exports, such as horticultural products, textiles, and garments, showed a significant increase in real terms, albeit from a relatively low base. However, the supply response was less than expected. Continued investment licensing and excessive regulation of marketing and pricing were recognized as impediments to reaping the full benefits of foreign trade liberalization and fiscal reform. It was also felt that further action needed to be taken to shield the poor and other vulnerable groups from transitional hardships, partly to improve the longer-term sustainability of the reform program.

Dealing with Drought in 1992

Southern Africa was hit in 1992 by the worst drought this century, and this more than offset the economic benefits arising from the policy adjustments undertaken in 1991 and 1992. That the program was continued, despite the adverse economic circumstances, provides an indication of the government's commitment to adjustment.

As a result of the drought, Zimbabwe's GDP fell by 8 percent in 1992, with agricultural sector output falling by 25 percent. Manufacturing output also fell because of the combined effect of agricultural input shortages, a drastic decline in domestic demand, shortages of power and water, and the tight credit policies implemented to contain inflation and support the balance of payments. Despite this, inflation continued at about 40 percent, fueled by agricultural commodity shortages and the government's decision to pass on to consumers increases in producer and import prices for agricultural foodstuffs. Real incomes and consumption fell, as wages did not keep pace with the much higher cost of living. At the end of 1992 about 4 million people, 40 percent of Zimbabwe's population, were receiving free food, imposing a major burden on the budget.

Because of the unprecedented need for food imports and much lower exports of agricultural products, external balances deteriorated sharply during 1992. The current account deficit rose to 15 percent of GDP, and the accumulation of external debt was much higher than anticipated, rising from $2.9 billion at the end of 1990 to $3.5 billion, 62 percent of GDP, at the end of 1992. The fiscal deficit did not fall as expected in fiscal 1993, in part because the government undertook to provide every small-scale farmer with a minimum amount of seed and fertilizer with which to grow a crop in the 1992/93 season. Monetary and credit policy remained tight, and interest rates remained positive in real terms at around 35 percent. After the major depreciation of the Zimbabwe dollar in the third quarter of 1991, the nominal exchange rate was held constant during 1992, before falling by another 20 percent between December 1992 and February 1993. Large amounts of bilateral and multilateral financial support were disbursed during 1992 to assist Zimbabwe in its drought relief and recovery program and to ensure that its economic reform program remained on track.

Recovery in 1993 and 1994

The 1992/93 rainy season was a good one, and this outcomes, together with supportive prices and a program to ensure that farmers had the necessary inputs, resulted in substantial recovery. The maize crop was about 2.5 million tons, more than enough to meet current needs, cotton production returned to predrought levels, and water resources were replenished. The 1993-94 rainy season was also good, though there were patches of drought, with the result being another maize crop in excess of 2 million tons. The recovery of livestock, sugar, and tree-crop industries has been spread over the two seasons, but with the exception of cattle numbers in communal areas is back to pre1992 levels.

However, while the agricultural sector rebounded from the drought, overall GDP growth remained modest at an estimated 2 percent in 1993. This was largely due to continued depression in manufacturing caused by slowly recovering domestic demand, compounded by the continued tight monetary policy and the resulting high interest rates. Inflation fell from about 46 percent late in 1992 to about 20 percent during the second half of 1993 and has remained there. The fiscal deficit for fiscal 1993 exceeded 11 percent of GDP as drought-related expenditures continued until the harvesting of the 1993 crop in April-May, and revenues remained depressed on account of the economic recession. The planned containment of expenditure yielded a projected fiscal deficit for fiscal 1994 of 5.8 percent of GDP. This was designed to reduce domestic borrowing by government, ease pressure on interest rates, and support the needed recovery of private sector investment.

The balance of payments improved dramatically in 1993 despite a sharp fall in the prices of Zimbabwe's main exports — chrome, other minerals, and tobacco. Stagnant export earnings, combined with severely depressed import levels on account of the domestic recession, resulted in a reduction of the current account deficit to about 5 percent of GDP. The improvement in the balance of payments continued into 1994, as there was a sharp recovery in the value of agricultural and mining exports, with increases recorded in the prices of tobacco, coffee, gold, nickel, copper, and tin. Preliminary estimates indicate a 16 percent increase in the U.S. dollar value of merchandise export earnings. Merchandise imports grew at about 7 percent in U.S. dollar terms. As a result, the current account deficit narrowed to $210 million, or an estimated 3.8 percent of GDP. The improvement in the current account, together with a significant increase in portfolio and direct investment, has resulted in a substantial accumulation of external reserves, estimated at $680 million, or about five months of merchandise import cover.

Despite the serious economic and social difficulties created by the devastating drought, Zimbabwe continued with structural adjustment in 1993 and 1994. Import liberalization proceeded in line with program targets. The Export Retention Scheme rate was increased to 50 percent in April 1993 and then replaced by Foreign Currency Accounts in January 1994 and exporters retaining 60 percent of their foreign exchange earnings. In July 1994 the exchange rate was unified, and exporters were allowed to retain 100 percent of export earnings. Decontrol and adjustment of prices proceeded more quickly than targeted. Cabinet approval for price increases is now confined to only three commodities: maize meal, vegetable oil, and some fertilizer compounds.

Investment licensing was relaxed in April 1993 so investments made with "own foreign exchange funds," including Export Retention Scheme entitlements, are no longer subject to investment sanctioning. To further encourage foreign investment, government now allows automatic and unrestricted remittance of dividends accruing to any foreign investment made in Zimbabwe after May 1, 1993, provided such dividends are remitted through the Export Retention Scheme market. Foreign investment made after September 1979 is eligible for unrestricted repatriation of the foreign exchange injected as capital in the project, provided the Foreign Currency Accounts or Export Retention Scheme market is used for repatriation. Significant real cuts in non-drought-related expenditures were effected during fiscal 1993. Government's successful drought relief program created a major burden on public resources, in terms of both budgetary expenses and manpower needs. This resulted in specific programs dealing with the social dimensions of adjustment receiving less attention than originally expected. Nevertheless, an effective program for exempting the poor from school fees was introduced in 1992, as well as an appropriate income threshold established for the exemption of health fees. Unfortunately, the health exemption system has not operated as effectively as planned.

Employment and Poverty

Average per capita incomes have been stagnant since the early 1980s, but there have been significant poverty-related improvements in two areas. A supportive policy on agricultural pricing and a reorientation of agricultural services toward the communal areas have improved smallholder incomes, apart from in drought years. There has also been a substantial expansion of basic services in health, family planning, education, and urban services.

Inadequate employment growth has become a major concern in Zimbabwe. Although there are 200,000 new entrants to the work force each year, formal employment has expanded very slowly. This problem will be eased somewhat as structural reforms and deregulation lead to an expansion of small and medium enterprises.

External Debt

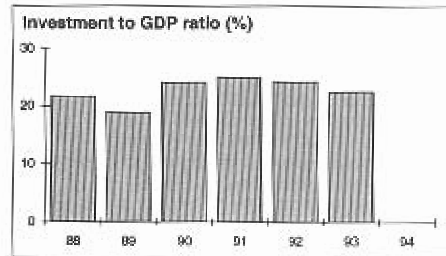
Assuming that gradual but decisive structural reforms take place, Zimbabwe's outstanding debt is projected to increase to between 70 and 75 percent of GDP in 1994 and 1995 and to decline thereafter. Long-term debt servicing rose to 28 percent of exports in 1992 and is projected to rise to 31 percent in 1993 before falling back to about 23 percent by 1995, provided a large share of the external finance needed is provided on a concessional and long-term basis. Some commercial borrowing will be needed, although most of the financial requirement is expected to come from multilateral and bilateral donors.

Zimbabwe

Population mid-1993 *(millions)*	**10.7**	Income group: **Low**
GNP per capita 1993 *(US$)*	**520**	Indebtedness level: **Moderately Indebted**

KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.8	24.2	24.3	22.5	..
Exports of goods and nfs/GDP	28.8	29.4	36.4	34.3	38.7
Gross domestic savings/GDP	21.0	24.9	12.4	16.8	..
Gross national savings/GDP	17.2	20.3	7.6	12.7	..
Current account balance/GDP	-3.4	-3.8	-16.8	-5.1	-3.9
Interest payments/GDP	2.8	2.2	3.1	3.0	3.4
Total debt/GDP	53.4	47.9	79.6	73.8	80.4
Total debt/exports	186.9	159.1	215.5	207.0	192.9

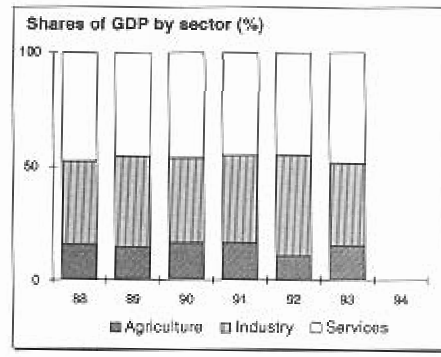


Investment to GDP ratio (%)

GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.2	16.4	10.7	15.2	..
Industry	32.6	37.5	44.4	36.4	..
Manufacturing	22.9	26.4	31.1	29.8	..
Services	47.2	46.2	44.9	48.4	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	-0.8	*1.6*	-24.4	48.5	..
Industry	4.2	*-3.6*	-6.8	-5.0	..
Manufacturing	4.4	*-5.6*	-9.5	-8.3	..
Services	4.0	*1.7*	-1.5	1.9	..
GDP	4.0	1.1	-5.3	4.6	4.4

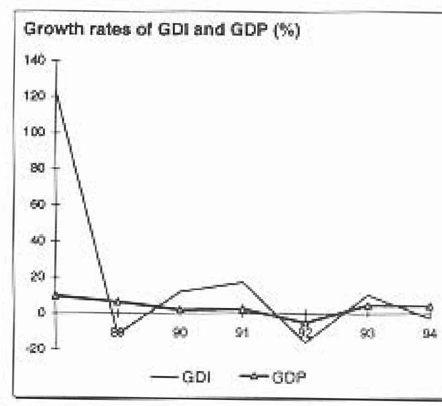


Shares of GDP by sector (%)

GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.5	51.4	64.9	64.4	..
General government consumption	21.5	23.7	22.7	18.8	..
Gross domestic investment	19.8	24.2	24.3	22.5	..
Exports of goods and nfs	28.8	29.4	36.4	34.3	38.7
Imports of goods and nfs	27.6	28.7	48.3	40.0	36.4

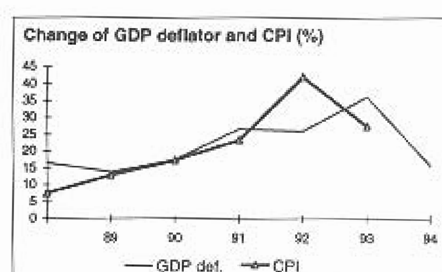
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.8	*1.3*	8.9	-11.8	..
General government consumption	3.4	*-3.7*	-11.0	-0.4	..
Gross domestic investment	7.6	0.2	-16.3	10.2	-2.6
Exports of goods and nfs	3.2	4.5	-2.8	13.7	12.7
Imports of goods and nfs	4.7	-0.7	3.1	-12.7	-3.2
Gross national product	3.9	0.7	-5.9	5.6	2.3
Gross national income	4.2	-0.7	-8.8	1.5	4.3



Growth rates of GDI and GDP (%)

PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	8.5	17.4	42.1	27.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	5.3	17.6	26.1	36.2	15.8
Government finance					
(% of GDP)					
Current budget balance	-4.8	-0.5	-2.5	-2.5	..
Overall surplus/deficit	..	..	..	..	..



Change of GDP deflator and CPI (%)

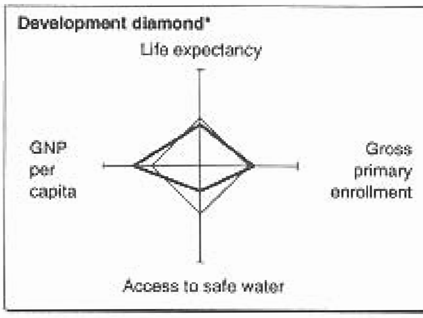
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Zimbabwe

POVERTY and SOCIAL

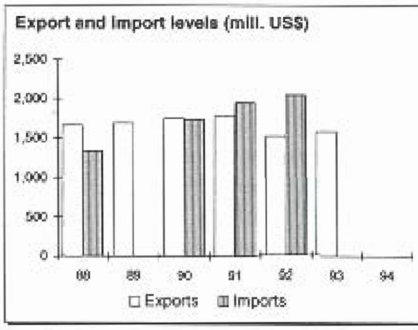
	1985-90	1990-94
(annual growth rates)		
Population	3.3	2.7
Labor force	2.8	3.0

	most recent estimate
Poverty level: headcount index *(% of population)*	25.5
Life expectancy at birth	53.1
Infant mortality *(per 1,000 live births)*	66.6
Child malnutrition *(% of children under 5)*	10.0
Access to safe water *(% of population)*	35.5
Energy consumption per capita *(kg oil equivalent)*	471.3
Illiteracy *(% of population age 15+)*	33.1
Gross primary enrollment *(% of school-age population)*	119.0



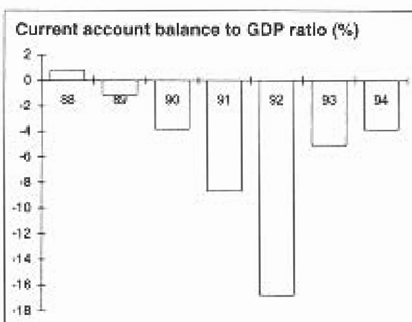
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,124	1,753	1,531	1,584	..
Cotton	225	395	450	366	..
Gold	124	239	164	234	..
Manufactures	315	648	580	..	..
Total imports (cif)	1,060	1,739	2,048	..	..
Food	37	42	318	..	..
Fuel and energy	226	275	251	..	..
Capital goods	298	690	808	..	..
Export price index *(1987=100)*	84	150	142	129	..
Import price index *(1987=100)*	80	110	107	..	..
Terms of trade *(1987=100)*	105	137	133	..	..
Openness of economy *(trade/GDP,%)*	56	58	85	74	75



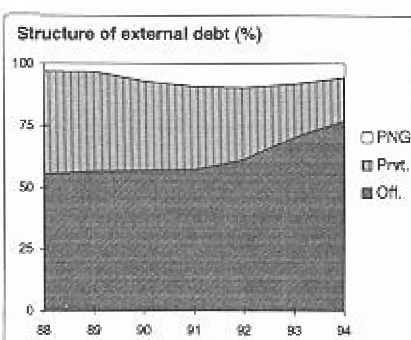
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,229	2,018	1,836	1,952	2,224
Imports of goods and nfs	1,211	2,002	2,437	2,011	2,089
Resource balance	18	16	-601	-59	135
Net factor income	-126	-272	-283	-255	-366
Net current transfers	-45	-2	40	26	22
Current account balance					
Before official transfers	-153	-258	-844	-288	-209
After official transfers	-98	-150	-602	-107	-24
Long-term capital inflow	50	165	387	287	364
Total other items (net)	148	-34	88	-6	38
Changes in net reserves	-100	19	127	-174	-378
Memo:					
Reserves excluding gold *(mill. US$)*	93	149	222	432	405
Reserves including gold *(mill. US$)*	345	295	404	628	585
Conversion rate *(local/US$)*	1.6	2.4	5.1	6.5	8.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	142.6	129.9	165.9	163.2	148.4
IMF credit/exports	20.4	0.3	11.6	14.0	14.0
Short-term debt/exports	23.8	29.0	36.0	29.8	30.5
Total debt service/exports	32.7	23.1	32.2	31.1	27.6
GDP ratios					
Long-term debt/GDP	40.8	39.1	61.2	58.2	61.9
IMF credit/GDP	5.8	0.1	4.3	5.0	5.8
Short-term debt/GDP	6.8	8.7	14.0	10.6	12.7
Long-term debt ratios					
Private nonguaranteed/long-term	3.5	7.0	9.6	8.1	5.5
Public and publicly guaranteed					
Private creditors/long-term	58.7	36.1	29.0	21.7	17.5
Official creditors/long-term	37.8	56.9	61.4	70.3	76.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Technical Notes

The tables and graphs that follow each country text provide a uniform statistical framework for analyzing country economic performance. Most data are consistent with other World Bank publications, such as *World Tables*, *World Debt Tables*, and the *World Development Report*. Some data are recent estimates from national publications that may not conform to international concepts and definitions, but are considered to be useful in placing country policy decisions in context. These differences are generally not considered analytically significant for a particular country.

Population

Population numbers for mid-1993 are from a variety of sources, including the UN Population Division, national statistical offices, and World Bank country departments. Note that refugees not permanently settled in the country of asylum are generally considered to be part of the population of their country of origin.

Gross National Product (*GNP*)

GNP measures the total domestic and foreign value added claimed by residents. It comprises GDP (defined below) plus net factor income from abroad, which is the income residents receive from abroad for factor services (labor and capital) less similar payments made to nonresidents who contributed to the domestic economy. *GNP per capita* figures in U.S. dollars are calculated according to the *World Bank Atlas* method of conversion from national currency to U.S. dollar terms. The *Atlas* conversion factor for any year is the average of a country's exchange rate for that year and for the two preceding years, adjusted for differences in relative inflation between the country and the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States). This three-year average smooths fluctuations in prices and exchange rates for each country. To derive GNP per capita, the resulting GNP in U.S. dollars is divided by the midyear population for the relevant year.

For *income group* and *indebtedness level* definitions, see the two classification tables at the back of the book.

Key Ratios

Key ratios are calculated as percentage shares of GDP or exports at current prices. The numerator of each ratio is defined below. The denominators (GDP and exports) are defined in the sections on production and balance of payments.

Gross domestic investment consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories.

Exports (imports) of goods and nonfactor services represent the value of all goods and nonfactor services provided to (and from) the rest of the world; they include merchandise, freight, insurance, travel, and other nonfactor services. The value of factor services, such as investment income, interest, and labor income, is excluded. Current transfers are also excluded.

Gross domestic savings are calculated by deducting total consumption from GDP.

Gross national savings equal gross domestic savings plus net factor income and net current private transfers from abroad.

Current account balance after official transfers is the difference between (a) exports of goods and services (factor and nonfactor) as well as inflows of unrequited transfers (private and official) and (b) imports of goods and services as well as all unrequited transfers to the rest of the world. *Current account balance before official transfers* is the current account balance that treats net official unrequited transfers as akin to official capital movements. The difference between the two balance of payment measures is essentially foreign aid in the form of grants, technical assistance, and food aid, which, for most developing countries, tends to make current account deficits smaller than the financing requirement. The key ratio presented here is the current account balance before official transfers.

Interest payments (on long-term debt) are the actual amounts of interest paid in foreign currency, goods, or services by the borrower during the year.

Total debt includes total outstanding external debt (long- and short-term debt and the use of IMF credit).

GDP: Production

In the sections on production and expenditure, ratios of GDP are calculated from data in current prices, and growth rates are calculated from data in constant prices. Shares in production indicate the ratios of each sector's value added to GDP at basic or purchaser values (market prices).

Agriculture covers forestry, livestock, hunting, and fishing, as well as agriculture. In developing countries with high levels of subsistence farming, much agricultural production is either not exchanged or not exchanged for money. This increases the difficulty of measuring the contribution of agriculture to GDP and reduces the reliability and comparability of such numbers.

Industry comprises mining and quarrying; manufacturing (also reported as a separate subgroup); construction; and electricity, gas, and water.

Services comprise all other branches of economic activity. The share for services includes imputed bank service charges, import duties, and any statistical discrepancies noted by national compilers.

GDP at purchaser values (market prices) measures the total output of goods and services for final use produced by residents and nonresidents, regardless of the allocation to domestic and foreign claims. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.The estimate of GDP used for ratio calculations in the section *GDP production* is on the same basis as the components at purchaser values or at factor cost.

GDP: Expenditure

Private consumption is the market value of all goods and services, including durable products (such as cars, washing machines, and home computers) purchased or received as income in kind by households and nonprofit institutions, as well as self-consumed products. It excludes purchases of dwellings but includes the imputed rent for owner-occupied dwellings.

General government consumption includes all current expenditure for purchases of goods and services by all levels of government. All expenditure on national defense and security is regarded as consumption expenditure.

Gross domestic investment — see *Key Ratios.*

Exports/imports of goods and nonfactor services — See *Key ratios.*

GNP — see above.

GNY, or gross national income in constant prices is derived as the sum of GNP and the terms of trade adjustment. The latter is equal to capacity to import (value of exports of goods and nonfactor services deflated by the import price index) less actual exports of goods and services in constant prices.

Prices and Government Finance

Consumer prices refer to prices of goods and services used for private consumption of households.

Wholesale prices (or producer prices for some countries) refer to prices of items at the first important commercial transaction. Preference is given to producer prices because the concept, weighting pattern, and coverage are more consistent with accounting and industrial production statistics. The price index covers a mixture of prices of agricultural and industrial goods at various stages of production and distribution.

Implicit GDP deflator is an overall measure of price performance in the economy, derived by dividing the current price estimate of GDP at market prices by the constant price estimate of GDP.

Current budget balance is the excess of current revenue over current expenditure.

Overall surplus/deficit is total revenue and all grants received, less the sum of total expenditure and government lending minus repayment.

Poverty and Social Indicators

Population — see above.

Labor force comprises "economically active" persons, including armed forces and unemployed but excluding homemakers and other unpaid caregivers and students.

Poverty level headcount index is estimated as the proportion of population under the poverty line. The poverty lines are country-specific and are not comparable across countries.

Energy consumption per capita is the annual consumption of commercial primary energy (coal, lignite, petroleum, natural gas, and hydro-, nuclear, and geothermal electricity) in kilograms of oil equivalent per capita.

Infant mortality rate is the number of deaths of infants under one year of age per 1,000 live births in a given year. The data are from the UN Population Division. The rate for 1993 is a linear interpolator between the projected 1990-94 and 1995-99 rates.

Access to safe water is the percentage of population with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from springs, sanitary wells, and protected boreholes). In an urban area this may be a public fountain or standpost not more than 200 meters away. In rural areas it implies that members of the household do not have to spend a disproportionate part of the day fetching water. The definition of *safe* has changed over time.

Child malnutrition (under 5) is the percentage of children under five years with a deficiency or an excess of nutrients that interferes with health and genetic potential for growth. Methods of assessment vary, but the most commonly used are: less than 80 percent of the standard weight for age; less than minus two standard deviations from the 50th percentile of the weight-for-age reference population; or the Gomez scale of malnutrition.

Illiteracy (% of population age 15+) is the proportion of the population 15 years of age and older who cannot, with understanding, both read and write a short simple statement of everyday life. This is only one of the three widely accepted definitions, and its application is subject to significant qualifiers in a number of countries. The data for the most recent estimates are from the illiteracy estimates and projections prepared in 1989 by UNESCO. More recent information and a modified model have been used; therefore, the data for 1990 are not strictly consistent with those published in previous years.

Gross primary enrollment (% school-age population) is the gross enrollment of all ages at the primary level as a percentage of school-age children as defined by each country. Although many countries consider primary school-age to be 6-11 years, others use different age groups. Gross enrollment may be reported in excess of 100 percent if some pupils are younger or older than the country's standard range of primary school age.

The *development diamond* portrays relationships among four socioeconomic indicators for a given country and compares them with the average of the country's income group. Life expectancy, gross primary enrollment, access to safe water, and GNP per capita are presented, one on each axis, and then connected (with a bold line) to form a polygon—the "diamond." The shape of the diamond can thus easily be compared with the income group to which it belongs. The averages for each income group are indexed, and the reference diamond represented by a fine line. Any point outside the reference diamond represents a value better than the group average, and any point inside the reference diamond represents a value below the group average. Where data are not available, only part of the diamond appears. Since the reference diamond represents different values in different income groups, comparisons should be limited to the same income group.

Life expectancy at birth is the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life. The data are from the UN Population Division. As an infant mortality rate, the most recent estimate is a linear interpolation between projected 1990-94 and 1995-99 rates.

GNP per capita — see above.

Trade

The section includes information on export and import values and prices, with additional value data on the two main export commodities and major categories of imports. The categorization of exports and imports follows the Standard International Trade Classification (SITC), Series M, No. 34, Revision 1. Note that in some cases, (for example, fuel), the export subcategory may be listed more than once. These represent different forms of the commodity and are therefore shown separately.

Total exports (f.o.b.)/*imports* (c.i.f.) cover, with some exceptions, international movements of goods across customs borders. Exports are valued f.o.b. (free on board) and imports c.i.f. (cost, insurance, and freight) unless otherwise specified in the foregoing sources.

Food covers the commodities in SITC Sections 0, 1, and 4 and Division 22 (food and live animals, beverages and tobacco, animal and vegetable oils and fats, oilseeds, oil nuts, and oil kernels).

Manufactures comprise commodities in SITC Sections 5 through 9 (chemicals and related products, basic manufactures, machinery and transport equipment, other manufactured articles and goods not elsewhere classified) excluding Division 68 (nonferrous metals).

Fuel and energy comprise commodities in SITC Section 3 (mineral fuels and lubricants and related materials).

Capital goods comprise commodities in SITC Section 7 (machinery and transport equipment).

Export/import price indexes are price indexes for measuring changes in the aggregate price level of a country's merchandise exports and imports over time.

Terms of trade is the relative level of export prices compared with import prices, calculated as the ratio of a country's index of average export price to the average import price index.

Openness of economy is the sum of exports and imports of goods and nonfactor services as a share of GDP.

Balance of Payments

Exports/imports of goods and nonfactor services — see *Key Ratios*.

Resource balance is exports of goods and nonfactor services minus imports of goods and nonfactor services.

Net factor income is the income received from abroad for factor services (labor and capital) less similar payments made to nonresidents who contributed to the domestic economy.

Net current transfers are private net transfer payments—between private persons and nonofficial organizations of the reporting country and the rest of the world—that carry no provisions for repayment. Included are workers' remittances; transfers by migrants; gifts, dowries, and inheritances; and alimony and other support remittances. Net current transfers are equal to the unrequited transfers of income from nonresidents to residents minus the unrequited transfers from residents to nonresidents.

Current account balance — see *Key Ratios*.

Long-term capital inflow comprises changes, apart from valuation adjustments, in residents' long-term foreign liabilities less their long-term assets, excluding any long-term items classified as reserves.

Total other items (net) comprise the sum of short-term capital, errors and omissions, and capital transactions not included elsewhere.

Changes in net reserves comprise the net change in a country's holdings of international reserves resulting from transactions on the current and capital accounts. These include changes in holdings of monetary gold, SDRs, reserve position in the International Monetary Fund, foreign exchange assets, and other claims on nonresidents that are available to the central authority. The measure is net of liabilities constituting foreign authorities' reserves, and counterpart items for valuation of monetary gold and SDRs, which are reported separately in IMF sources.

Reserves excluding gold comprise a country's monetary authorities' (central bank, currency boards, exchange stabilization funds, and treasuries) holdings of SDRs, reserve position in the International Monetary Fund, and foreign exchange.

Reserves including gold comprise international reserves including gold and official holdings of gold valued at year-end London market price.

Conversion rate (local currency units/US$) is the official exchange rate as reported in the *International Financial Statistics* (line rf/wf — period average), expressed in units of national currency per U.S. dollar, although an alternative rate is used when the official exchange rate is judged to diverge by an exceptionally large margin from the rate actually applied in international transactions.

External Debt

Debt indicators presented in this section are ratios used to assess the external situation of developing countries. They are compiled on a consistent basis as reported to the World Bank's Debtor Reporting System by member countries.The ratios offer various measures of the cost of, or capacity for, servicing debt in terms of the foreign exchange or output forgone. External debt indicators are shown for the end of the year specified. The exports reported in this section include goods and all services and workers' remittances.

Long-term debt is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services. Long-term external debt has three components:

- *Public debt* is an external obligation of a public debtor, including the national government, a political subdivision (or an agency of either), and autonomous public bodies.
- *Publicly guaranteed debt* is an external obligation of a private debtor that is guaranteed for repayment by a public entity.
- *Private nonguaranteed debt* is an external obligation of a private debtor that is not guaranteed for repayment by a public entity.

Private creditors include bonds that are either publicly issued or privately placed; loans from private banks and other private commercial institutions; credits from manufacturers—exporters, for example; and bank credits covered by a guarantee of an export credit agency.

Official creditors include loans from international organizations (multilateral loans), loans from governments and their agencies, loans from autonomous bodies, and direct loans from official export credit agencies.

IMF credit denotes repurchase obligations to the IMF with respect to all uses of IMF resources, excluding those resulting from drawings in the reserve tranche. It comprises purchases outstanding under the credit tranches, including enlarged access resources and all the special facilities (the buffer stock, compensatory financing, extended fund, and oil facilities), Trust Fund loans, and operations under the Structural Adjustment and Enhanced Structural Adjustment facilities.

Short-term debt is defined as debt that has an original maturity of one year or less. Available data permit no distinction between public and private nonguaranteed short-term debt.

Total debt service is the debt service payment (principal repayments and interest payments) on total long-term debt, use of IMF credit, and interest on short-term debt.

Table 1 Classification of economies by income and region, 1995

		Sub-Saharan Africa		*Asia*		*Europe and Central Asia*		*Middle East and North Africa*		
Income group	*Subgroup*	*East and Southern Africa*	*West Africa*	*East Asia and Pacific*	*South Asia*	*Eastern Europe and Central Asia*	*Rest of Europe*	*Middle East*	*North Africa*	*Americas*
Low-Income		Burundi Comoros Eritrea Ethiopia Kenya Lesotho Madagascar Malawi Mozambique Rwanda Somalia Sudan Tanzania Uganda Zaire Zambia Zimbabwe	Benin Burkina Faso Central African Republic Chad Côte d'Ivoire Equatorial Guinea Gambia, The Ghana Guinea Guinea-Bissau Liberia Mali Mauritania Niger Nigeria São Tomé and Principe Sierra Leone Togo	Cambodia China Lao PDR Mongolia Myanmar Viet Nam	Afghanistan Bangladesh Bhutan India Nepal Pakistan Sri Lanka	Albania Armenia Bosnia and Herzegovina Georgia Tajikistan		Yemen, Rep.	Egypt, Arab Rep.	Guyana Haiti Honduras Nicaragua
Middle-income	*Lower*	Angola Botswana Djibouti Namibia Swaziland	Cameroon Cape Verde Congo Senegal	Fiji Indonesia Kiribati Korea, Dem. Rep. Marshall Islands Micronesia Fed. Sts. N. Mariana Is. Papua New Guinea Philippines Solomon Islands Thailand Tonga Vanuatu Western Samoa	Maldives	Azerbaijan Bulgaria Croatia Czech Republic Kazakhstan Kyrgyz Republic Latvia Lithuania Macedonia FYR[a] Moldova Poland Romania Russian Federation Slovak Republic Turkmenistan Ukraine Uzbekistan Yugoslavia, Fed. Rep.	Turkey	Iran, Islamic Rep. Iraq Jordan Lebanon Syrian Arab Rep. West Bank and Gaza	Algeria Morocco Tunisia	Belize Bolivia Colombia Costa Rica Cuba Dominica Dominican Republic Ecuador El Salvador Grenada Guatemala Jamaica Panama Paraguay Peru St. Vincent and the Grenadines Suriname
	Upper	Mauritius Mayotte Reunion Seychelles South Africa	Gabon	American Samoa Guam Korea, Rep. Macao Malaysia New Caledonia		Belarus Estonia Hungary Slovenia	Gibraltar Greece Isle of Man Malta Portugal	Bahrain Oman Saudi Arabia	Libya	Antigua and Barbuda Argentina Aruba Barbados Brazil Chile French Guiana Guadeloupe Martinique Mexico Netherlands Antilles Puerto Rico St. Kitts and Nevis St. Lucia Trinidad and Tobago Uruguay Venezuela
Subtotal:	170	27	23	26	8	27	6	10	5	38

(Table continues on the following page)

Table 1 *(continued)*

		Sub-Saharan Africa		*Asia*		*Europe and Central Asia*		*Middle East and North Africa*		
Income group	*Subgroup*	*East and Southern Africa*	*West Africa*	*East Asia and Pacific*	*South Asia*	*Eastern Europe and Central Asia*	*Rest of Europe*	*Middle East*	*North Africa*	*Americas*
High-income	*OECD Countries*			Australia Japan New Zealand			Austria Belgium Denmark Finland France Germany Iceland Ireland Italy Luxembourg Netherlands Norway Spain Sweden Switzerland United Kingdom			Canada United States
	NonOECD Countries			Brunei French Polynesia Hong Kong Singapore OAE[b]			Andorra Channel Islands Cyprus Faeroe Islands Greenland San Marino	Israel Kuwait Qatar United Arab Emirates		Bahamas, The Bermuda Cayman Islands Virgin Islands (US)
Total:	210	27	23	34	8	27	28	14	5	44

a. Former Yugoslav Republic of Macedonia.
b. Other Asian economies—Taiwan, China.

For operational and analytical purposes the World Bank's main criterion for classifying economies is gross national product (GNP) per capita. Every economy is classified as low-income, middle-income (subdivided into lower-middle and upper-middle), or high-income. Other analytical groups, based on geographic regions, exports, and levels of external debt, are also used.

Low-income and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status.

Definitions of groups

These tables classify all World Bank member economies, and all other economies with populations of more than 30,000.

Income group: Economies are divided according to 1993 GNP per capita, calculated using the *World Bank Atlas* method. The groups are: low-income, $695 or less; lower-middle-income, $696–$2,785; upper-middle-income, $2,786–$8,625; and high-income, $8,626 or more.

The estimates for the republics of the former Soviet Union are preliminary and their classification will be kept under review.

Table 2 Classification of economies by major export category and indebtedness, 1995

Group	*Low- and middle-income*							*High-income*	
	Low-income			*Middle-income*					
	Severely indebted	*Moderately indebted*	*Less indebted*	*Severely indebted*	*Moderately indebted*	*Less indebted*	*Not classified by indebtedness*	*OECD*	*nonOECD*
Exporters of manufactures			Armenia China Georgia	Bulgaria Poland	Hungary Russian Federation	Belarus Estonia Korea, Rep. Korea, Dem. Rep. Kyrgyz Republic Latvia Lebanon Lithuania Macao Moldova Romania Ukraine Uzbekistan		Canada Finland Germany Ireland Italy Japan Sweden Switzerland	Hong Kong Israel Singapore OAE[a]
Exporters of nonfuel primary products	Afghanistan Burundi Côte d'Ivoire Equatorial Guinea Ethiopia Ghana Guinea Guinea-Bissau Guyana Honduras Liberia Madagascar Mali Mauritania Myanmar Nicaragua Niger Rwanda São Tomé and Principe Somalia Sudan Tanzania Uganda Viet Nam Zaire Zambia	Albania Chad Malawi Togo Zimbabwe	Mongolia	Argentina Bolivia Cuba Peru	Chile Papua New Guinea	Botswana Guatemala Namibia Paraguay Solomon Islands St. Vincent and the Grenadines Suriname Swaziland	American Samoa French Guiana Guadeloupe Reunion	Iceland New Zealand	Faeroe Islands Greenland
Exporters of fuels (mainly oil)	Nigeria			Angola Congo Iraq	Algeria Gabon Venezuela	Bahrain Iran, Islamic Rep. Libya Oman Saudi Arabia Trinidad and Tobago Turkmenistan			Brunei Qatar United Arab Emirates
Exporters of services	Yemen, Rep.	Benin Egypt, Arab Rep. Gambia, The Nepal	Bhutan Burkina Faso Cambodia Haiti Lesotho	Jamaica Jordan Panama	Antigua and Barbuda Dominican Republic Greece Western Samoa	Barbados Belize Cape Verde Djibouti El Salvador Fiji Grenada Kiribati Maldives Malta Seychelles St. Kitts and Nevis St. Lucia Tonga Vanuatu	Aruba Cayman Islands Martinique	United Kingdom	Bahamas, The Bermuda Cyprus French Polynesia Kuwait

(Table continues on the following page)

Table 2 *(continued)*

Group	Low- and middle-income							High-income	
	Low-income			Middle-income					
	Severely indebted	*Moderately indebted*	*Less indebted*	*Severely indebted*	*Moderately indebted*	*Less indebted*	*Not classified by indebtedness*	*OECD*	*nonOECD*
Diversified exporters[b]	Central African Rep. Kenya Lao PDR Mozambique Sierra Leone	Bangladesh Comoros India Pakistan	Sri Lanka Tajikistan	Brazil Cameroon Ecuador Morocco Syrian Arab Rep. Uruguay	Colombia Costa Rica Indonesia Mexico Philippines Senegal Tunisia Turkey	Azerbaijan Dominica Kazakhstan Malaysia Mauritius Netherlands Antilles Portugal South Africa Thailand Yugoslavia, Fed. Rep.		Australia Austria Belgium Denmark France Luxembourg Netherlands Norway Spain United States	
Not classified by export category					Gibraltar	Croatia Czech Republic Macedonia FYR[c] New Caledonia Slovak Republic Slovenia	Bosnia and Herzegovina Eritrea Guam Isle of Man Marshall Islands Mayotte Micronesia Fed. Sts. Northern Mariana Islands Puerto Rico West Bank and Gaza		Andorra Channel Islands San Marino Virgin Islands (US)
Number of economies 210	33	13	11	18	20	59	17	21	18

a. Other Asian economies—Taiwan, China.
b. Economies in which no single export category accounts for more than 50 percent of total exports.
c. Former Yugoslav Republic of Macedonia.

Definitions of groups

These tables classify all World Bank member economies, plus all other economies with populations of more than 30,000.

Major export category: Major exports are those that account for 50 percent or more of total exports of goods and services from one category, in the period 1988–92. The categories are: nonfuel primary (SITC 0,1,2, 4, plus 68), fuels (SITC 3), manufactures (SITC 5 to 9, less 68), and services (factor and nonfactor service receipts plus workers' remittances). If no single category accounts for 50 percent or more of total exports, the economy is classified as *diversified.*

Indebtedness: Standard World Bank definitions of severe and moderate indebtedness, averaged over three years (1991–93) are used to classify economies in this table. *Severely indebted* means either of the two key ratios is above critical levels: present value of debt service to GNP (80 percent) and present value of debt service to exports (220 percent). *Moderately indebted* means either of the two key ratios exceeds 60 percent of, but does not reach, the critical levels. For economies that do not report detailed debt statistics to the World Bank Debtor Reporting System, present-value calculation is not possible. Instead the following methodology is used to classify the non-DRS economies. *Severely indebted* means three of four key ratios (averaged over 1991–93) are above critical levels: debt to GNP (50 percent); debt to exports (275 percent), debt service to exports (30 percent); and interest to exports (20 percent). *Moderately indebted* means three of four key ratios exceed 60 percent of, but do not reach, the critical levels. All other classified low- and middle-income economies are listed as *less-indebted.*

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