# I Introduction

This paper reviews recent experience of African countries in the design and implementation of adjustment programs supported by use of Fund resources.[1] The aggregate analysis covers primarily 1980 and 1981, while the case studies include results through the end of 1983. The paper is divided into seven parts. The first part outlines the economic background leading to the emergence or aggravation of financial imbalances in Africa before 1980. The second part reviews the role of the Fund in financing and adjustment. The third part examines the objectives of programs supported by use of Fund resources. Against this background, the fourth part analyzes the design of programs. The fifth part assesses the experience in implementing adjustment programs, with a view to determining the reasons for the difficulties that these countries encountered. The sixth part provides case studies of the recent adjustment programs of Somalia and Mali, which were supported by use of Fund resources. The conclusion summarizes the study's main findings.

## Economic Background

The economic and financial problems facing African countries before 1980 were manifested in sluggish economic growth, rising inflation rates, and widening deficits on the current accounts of their balances of payments. Economic growth, which averaged about 5 percent during 1974–76, fell to about 2 percent during 1977–79. Accordingly, during this period, per capita real income declined. The rate of inflation, which picked up from about 10 percent in 1973 to an annual rate of about 16 percent during 1974–76, continued to increase, averaging more than 18 percent during 1977–79. The combined current account deficit rose from about US$4 billion in 1974 to about US$7 billion a year during 1975–77, and widened still further, reaching nearly US$10 billion annually during 1978–79. These deficits were, for the most part, financed by foreign borrowing, while countries attempted to contain the reduction in reserves in absolute terms. As a result, external debt increased dramatically. It rose from US$15 billion at the end of 1974 to US$45 billion at the end of 1979. The debt service ratio more than doubled, rising from 8.0 percent in 1974 to 16.6 percent in 1979 (Table 1). Even so, international reserves as a proportion of goods and services declined from 13.4 percent of annual imports in 1974 to 10.0 percent in 1979.

## Contributory Factors

These deteriorating economic conditions reflected a number of external and domestic factors. During this period, the international economic and financial environment tended to affect African countries negatively. Following the sharp increase in oil prices in 1973–74, industrial countries experienced a sharp decline in economic activity accompanied by a substantial acceleration in the rate of inflation. These factors tended to reduce the demand for exports from African countries and to contribute to a softening in export prices, while prices of imports from industrial countries increased considerably. Furthermore, increases in oil prices directly affected the import bill of African countries. With a reduced demand for exports, declining terms of trade, and an inelastic demand for imports, African countries faced widening current account deficits. Some resorted to direct import restrictions, which resulted in shortages of consumer goods as well as intermediate and capital goods. The shortage of consumer goods tended to fuel domestic inflationary pressures, while the shortage of intermediate and capital goods contributed to a slowdown in economic activity.

The adverse international economic environment also affected domestic financial policies, which were not promptly adapted to the emerging situation. In particular, many countries were already embarked on ambitious public investment programs and were rapidly

[1] Unless otherwise noted, the countries discussed in this paper are those covered by the African Department of the International Monetary Fund. They exclude Egypt, the Socialist People's Libyan Arab Jamahiriya, Sudan, and South Africa. The paper does not attempt to draw a distinction between stand-by and extended arrangements. Rather, it focuses on the calendar year during which adjustment programs were implemented.

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**Table 1. Africa: Selected Economic Indicators, 1973–83[1]**

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *(Percent)* | | | | | |
| Economic growth | 2.39 | 6.27 | 2.75 | 5.85 | 1.80 | 2.20 | 2.80 | 4.50 | 2.90 | 0.30 | −1.40 |
| Inflation | 9.86 | 17.07 | 15.84 | 16.63 | 19.40 | 15.90 | 19.40 | 20.10 | 23.60 | 16.90 | 16.70 |
| Terms of trade | 8.30 | 7.63 | −12.19 | 7.00 | 18.10 | −8.70 | 2.40 | −2.50 | −4.30 | −4.10 | −5.60 |
| Ratio of external debt to GDP | 24.90 | 25.87 | 27.50 | 32.82 | 35.80 | 36.60 | 38.00 | 35.70 | 41.50 | 49.50 | 59.60 |
| Debt service ratio | . . . | 8.00 | 9.50 | 9.50 | 11.90 | 15.50 | 16.60 | 17.40 | 19.70 | 23.70 | 25.10 |
| | | | | | | *(Billion U.S. dollars)* | | | | | |
| Current account | −4.50 | −4.00 | −7.20 | −6.50 | −6.60 | −9.40 | −9.90 | −12.90 | −14.00 | −12.50 | −10.80 |
| Net official transfers | 1.10 | 1.50 | 1.70 | 2.00 | 2.30 | 2.50 | 2.90 | 3.30 | 3.30 | 3.20 | 3.30 |
| Net capital inflows | 3.80 | 2.60 | 4.90 | 4.40 | 5.00 | 6.40 | 6.60 | 8.40 | 8.40 | 7.90 | 5.70 |
| Overall balance of payments | 0.50 | 0.30 | −0.60 | −0.10 | 0.70 | −0.40 | −0.30 | −1.20 | −2.30 | −1.40 | −1.80 |
| Total outstanding debt | 11.60 | 14.75 | 18.40 | 23.40 | 30.80 | 36.90 | 45.30 | 50.90 | 55.50 | 62.50 | 66.30 |

Source: International Monetary Fund, *World Economic Outlook: A Survey by the Staff of the International Monetary Fund,* Occasional Paper No. 9 (Washington, April 1982); and Fund staff estimates.

[1] This table follows the Fund's *International Financial Statistics* classification of the African countries. These include all the African member countries, except Algeria, Egypt, Nigeria, and the Socialist People's Libyan Arab Jamahiriya, which are classified under different headings. In this table, South Africa is also excluded.

expanding government current expenditures. In a number of countries, improving prices of primary products in the late 1960s and early 1970s had contributed to an increase in government revenues and export proceeds that allowed for such expansion. With the tapering off in demand for such exports and the decline in the terms of trade, budgetary receipts started to lag behind the growth in expenditures. This led to a widening in budgetary deficits, which were increasingly financed by domestic bank borrowing and external borrowing. The expansion in credit to the government sector, accompanied in some instances by an accommodating stance on credit to the private sector, increased the pressures on domestic prices and the balance of payments.

Rather than dealing with the roots of the problems, countries generally focused on their symptoms. Price controls were intensified, consumer subsidies were increased, producer prices were kept low, and administrative controls on imported goods were widened in scope. Many countries also retained exchange rates that were incompatible with financial stability. Under the circumstances, parallel markets for goods and foreign exchange widened, generating considerable distortions and slowing down economic activity.

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