

TRENDS IN DEVELOPING ECONOMIES 1992



A WORLD BANK BOOK

TRENDS IN DEVELOPING ECONOMIES 1992

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Introduction

The fourth edition of *Trends in Developing Countries* (TIDE) provides brief reports on most of the World Bank's borrowing countries as of May 1992. This compendium of individual country economic complements the World Bank's *World Development Report*, which looks at major global and regional economic trends and their implications for the future prospects of the developing economies. TIDE digests information from national sources and adds staff commentary to explain recent developments for the benefits of readers who are familiar with macroeconomics but not, perhaps, with every country under review.

TIDE is not intended to and cannot replace comprehensive country studies published by the Bank. Nor should TIDE be regarded as the definitive source of evaluations of an economy. Some World Bank borrowers disseminate their own economic reports, which may provide more current information or more authoritative evaluation. TIDE aims for the middle ground of reasonably uniform and current discussions of trends in many individuals economies.

Assessments of economic development, especially in the recent past, are subject to interpretation. Legitimate concerns can be expressed about the accuracy of such assessments, whether from TIDE or other sources. The World Bank views publication of TIDE as a significant contribution to a better and more universal understanding of development issues. Nevertheless, readers should pay more than usual attention to admonitions about the provisional character of data and commentary reported here. In many instances, the data for the most recent years are World Bank staff estimates that are preliminary and subject to revision; they may not conform to data published by national authorities.

The text is descriptive. It is mainly concerned with current events and the recent past in each country, but also places events in context by bringing out the

distinguishing characteristics of a country's economy, its problems and prospects, and the principal elements of its development strategy. While the choice of topics may vary from one country text to another, recurrent themes are government initiatives in progress or under consideration, economic and social factors affecting development, and the external debt situation.

Each country text is followed by tables of economic indicators. An effort has been made to ensure consistency between the text and the table but this has not always been achieved. Differences 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. Readers are urged to exercise caution in interpreting the numbers. The Socio-Economic Data Division of the World Bank's International Economics Department welcomes comments and corrections to the data.

The fourth edition covers most World Bank borrowers, arranged in alphabetical order. Texts were prepared in April-May 1992, consequently, events and developments occurring thereafter are not included. TIDE was edited by Joost Polak.

Efforts have been made to avoid or at least explain country-specific terminology. Abbreviations and acronyms with wider application are noted at the end of the book, after the technical notes. Readers interested in more detailed descriptions of the economic indicators should refer to other Bank publications, notably *World Development Reports*, *World Tables*, and *World Debt Tables*. These publications are available on diskette, using the ☆STARS☆ retrieval system for easy access to the data. Readers interested in the comprehensive country studies referred to above 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*.

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Albania

After 40 years of almost complete isolation enforced by a totalitarian regime, Albania held its first fully democratic elections in March 1992. The newly elected government commands a strong parliamentary majority, is committed to an open market economy, but faces a challenge without precedent, even when compared to the trying experiences of the other post-communist societies.

Income per capita in 1992 is likely to be below \$400 in rough purchasing power parity terms, a 30 percent cumulative decline from the low level prevailing in the mid-1980s. With a population of 3.3 million, Albania is a predominantly agricultural society. Agriculture provides half of employment and a third of value added; two-thirds of the population live in the countryside. Industry accounts for about 40 percent of GDP and provides one-fourth of employment. Albania has mineral wealth — until 1990 it was the world's third largest producer of chromium — and energy resources, including oil, and substantial hydro-electric power potential.

Agricultural output is estimated to have declined by about 30 percent since 1983. Some 70 percent of the land of cooperative farms has been privatized and turned into about 300,000 small farms. The 150 state farms, situated mainly in the coastal plains and covering 24 percent of good arable land, have not been privatized. The supply of inputs and marketing of output for small farmers is severely limited, as most state enterprises that previously managed input and output distribution are barely functional, and the rural infrastructure and transportation systems are grossly inadequate to support the development of private marketing channels.

In industry and mining, the breakdown of the old allocation system and a lack of foreign exchange for imported inputs have resulted in an estimated 55 percent cumulative output decline during 1990-91. This decline has been most pronounced in textiles and other light industry, where production has fallen two-thirds since 1989. Enterprises had very little contact with each other, as they dealt only with ministries responsible for setting production targets and allocating inputs. When central planning disappeared, firms were unable to

cope: they could not find spare parts, inputs, or even the means to transport goods destined for export to the port.

Because 90 percent of electricity comes from hydro resources, the environment has not suffered from the adverse effect of thermal power generation seen in other Eastern European countries, but there is widespread pollution of lakes, rivers, and the coastline as a result of mining and industrial activities, obsolete oil production and refining technologies, and a lack of sewage treatment facilities. A shortage of fuel and electricity for cooking and heating has also brought deforestation to a critical stage.

Recent Economic Developments

Central planning in Albania was the most extreme in Eastern Europe: all productive units, including agricultural land, were state owned, and, until the late 1980s, all reforms of the planning system were in the direction of further centralization. When the political system disintegrated in 1991, the plan was abolished, but no alternative allocation mechanism replaced it. As a result, the economy collapsed.

With production declining in all sectors, GDP contracted by 10 percent in 1990 and 30 percent in 1991. In agriculture, the breakdown in the marketing and transportation system and low administratively set prices for the main crops resulted in a 24 percent production decline in 1991. In industry, the lack of spare parts and raw materials, and the payment of 80 percent of wages to workers at state enterprises closed for lack of inputs, a measure now repealed, led to an output decline of 37 percent in 1991. Convertible currency exports are expected to decline from \$133 million in 1989 to about \$65 million in 1992.

After the closure of many state enterprises government revenues collapsed: current receipts declined by 14 percentage points of GDP in 1991 and by a further 21 percentage points in the first half of 1992. Expenditures, on the other hand, remained constant in 1991 relative to 1990 and increased by 40 percent in the first half of 1992 relative to the same period in 1991, as deep cuts in investment spending were more than

offset by a higher wage bill and higher subsidies to state enterprises. As a result, the budget deficit increased to the equivalent of 33 percent of GDP in 1991; the imbalance grew even larger in the first half of 1992. The financing of this deficit by the domestic banking system pushed inflation to an annual rate close to 300 percent in the first few months of 1992, from 35 percent in 1991.

The Government's New Economic Program

Shortly after taking office in April 1992 the government announced the outline of a comprehensive program of reforms. The key objectives of the program are stabilizing the economy and establishing institutions necessary for the functioning of markets. The program's priority is to improve the fiscal situation and halt the slide into hyperinflation. Because immediate progress is difficult on the revenue side, most short-run measures will consist of expenditures cuts, including a sharp curtailment of defense spending. A reduction in domestic bank financing of the budget from 40 percent to about 15 percent of GDP is expected to result from these measures. The government has also floated the lek and moved toward external convertibility of the currency. Except for a few strategic commodities, all price controls have been removed. Liberalization of domestic prices was accompanied by opening external trade by removing export and import licenses. The government also intends to implement measures to prompt a quick supply response in agriculture, to restart industrial production, and to restore activity in export-oriented state enterprises.

The government is committed to pursuing the privatization process: besides the privatization of co-operative farm land, substantial progress has been made on privatizing small retail shops, communal services, and transport enterprises.

Albania's financial sector has to be built essentially from scratch. A two-tier banking system has been introduced with a law separating the central banking and the commercial banking functions of the State Bank of Albania. Three publicly owned banks are expected to perform commercial banking functions. Monetary control will have to rely on credit ceilings, and interest rates will be regulated for some time. In the medium term, once the economy is stabilized and well

capitalized banks with trained personnel are established, monetary policy will be implemented through indirect instruments.

External Debt

Albania has been in arrears to commercial banks since 1990. Its external debt amounts to over \$500 million, representing half of GDP at the official exchange rate and more than four times convertible currency exports in 1991. This debt was mostly incurred over 1988-90 as a result of ill-advised foreign exchange transactions.

The current disruption of agricultural production and the virtual halt of activity in the exporting sectors have created a large and immediate need for external assistance. Albania has been able to mobilize substantial international support, including \$80 million from the EC and \$70 million from bilateral donors, although the timing of disbursements, which are not expected to be large before the end of the year, remains a problem.

Albania's dependency on external assistance can be expected to decrease once some degree of financial control is reestablished and the decline in production is halted. However, Albania will need to invest large amounts of resources to replace its obsolete capital stock. For this reason, ensuring adequate continued external financing, although at much lower levels than presently, is likely to remain a critical issue in the medium term, and restoration of a viable external position will require a normalization of relations with commercial banks.

Medium-Term Prospects

Notwithstanding its very low level of income, Albania has good economic potential. Its land is rich and fertile; the country is well endowed with mineral and energy resources; the climate and the potentially inviting coastline are ideal for developing tourism, and wages are a fraction of those in neighboring countries. If concerted international assistance can be delivered soon, and a realistic strategy put in place to stabilize the economy and generate an early supply response, Albania could achieve high rates of growth in the second half of the decade.

Albania

Mid-1990 Population (mils.) 3.2583
1990 Per Capita GNP in US\$..

	Share of Gross Domestic Product (from current price data)						Growth Rates (% per year) (from constant price data)				
	1980	1985	1988	1989	1990	1991	1980-85	1985-90	1989	1990	1991
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	2.0	0.4	9.9	-10.0	-29.9
Net Indirect Taxes	..	..	..	..	..	..	..	..	..	..	..
Agriculture	33.6	34.6	31.5	32.3	35.9	39.6	2.6	0.3	14.5	-4.4	-23.7
Industry	45.0	43.3	46.3	44.8	41.8	38.2	1.5	-0.5	8.1	-19.6	-36.9
of which Manufacturing	..	..	..	..	..	..	..	..	..	..	..
Services	21.4	22.1	22.2	22.9	22.3	22.2	0.2	0.1	15.1	-15.8	-31.4
Resource Balance	0.1	-0.7	-1.7	-1.5	-7.4	..	..	..	..	..	..
Exports of Goods & NFS	..	..	..	..	..	..	..	..	..	..	..
Imports of Goods & NFS	..	..	..	..	..	..	..	..	..	..	..
Total Expenditures	99.9	100.7	101.7	101.5	107.4	..	2.2	0.7	9.7	-4.8	..
Total Consumption	65.4	67.9	72.8	69.8	82.9	..	2.6	4.0	5.4	6.9	..
Private Consumption	56.4	58.6	63.3	61.0	72.7	..	5.7	4.3	5.8	7.3	..
General Government	9.0	9.3	9.5	8.8	10.2	..	2.3	2.0	2.3	4.2	..
Gross Domestic Investment	34.5	32.8	28.9	31.7	24.5	..	1.3	-4.4	20.5	-30.7	..
Fixed Investment	33.9	32.3	31.5	31.3	34.6	..	1.4	2.8	9.2	-0.8	..
Changes in Stocks	0.6	0.5	-2.6	0.4	-10.1	..	..	..	..	..	..
Gross Domestic Saving	34.6	32.1	27.2	30.2	17.1	..	0.8	-10.6	21.8	-49.1	..
Net Factor Income	0.2	0.1	0.0	0.0	-0.1	..	..	..	..	..	..
Net Current Transfers	0.4	0.3	0.3	0.4	0.7	..	..	..	..	..	..
Gross National Saving	35.2	32.5	27.5	30.6	17.7	..	0.6	-10.2	21.9	-48.1	..

	In billions of LCU's (at constant 1986 prices)										
	1980	1985	1988	1989	1990	1991	1980-85	1985-90	1989	1990	1991
Gross Domestic Product	15	16	17	19	17	12	2.0	0.4	9.9	-10.0	-29.9
Capacity to Import	..	..	..	..	..	..	..	..	..	..	..
Terms of Trade Adjustment	..	..	..	..	..	..	..	..	..	..	..
Gross Domestic Income	..	..	..	..	..	..	..	..	..	..	..
Gross National Product	15	17	17	19	17	..	2.0	0.4	9.9	-10.1	..
Gross National Income	..	..	..	..	..	..	..	..	..	..	..

Price Indices 1/	Index (1987 = 100)						Inflation Rate (% per year)				
	1980	1985	1988	1989	1990	1991	1970-80	1980-85	1985-90	1990	1991
Consumer Prices	101.3	100.0	100.0	100.0	100.0	135.5	..	..	..	..	35.5
Wholesale Prices	108.2	105.0	100.0	100.0	100.0	..	..	..	..	..	..
Implicit GDP Deflator	104.4	102.4	100.0	100.0	100.0	135.5	..	..	..	..	35.5
Implicit Expenditures Defl.	104.4	101.3	100.0	100.0	100.0	..	..	..	..	..	..

Other Indicators	Growth Rate (% per year)		
	1975-80	1980-85	1985-90
Population	2.2	2.1	2.0
Labor Force	3.9	3.1	2.7
Gross National Income p.c.	..	-0.1	-1.5
Private Consumption p.c.	..	0.5	2.0

Import Elasticity
Imports (Goods & NFS) / GDP

Marginal Savings Rates
Gross National Saving
Gross Domestic Saving

ICOR (period averages) .. 17.2 72.3

	Share of Labor Force (%)					
	1975	1980	1985	1989	1990	1991
Employment	100.0	100.0	100.0	100.0	100.0	..
Agriculture	51.2	49.8	49.7	49.4	47.3	..
Industry	20.2	21.2	21.6	22.7	23.3	..
Services	28.6	29.0	28.7	27.9	29.4	..

Albania

Merchandise Exports	Volume Index (1987 = 100)						Value at Current Price (US\$ mill. of)					
	1980	1985	1988	1989	1990	1991	1985	1987	1988	1989	1990	1991
Food	..	..	..	..	..	..	..	..	..	..	..	..

Manufactures	..	..	..	..	..	..	..	..	..	..	..	..
Residual	..	..	..	..	..	..	..	..	..	..	..	..
Total Exports f.o.b.	100.0	73.9	67.7	59.1	51.4	..	245	311	319	379	286	104
Merchandise Imports												
Food	..	..	..	..	..	..	..	..	..	..	..	..
Fuel and Energy	..	..	..	..	..	..	..	..	..	..	..	..
Other Consumer Goods	..	..	..	..	..	..	..	..	..	..	..	..
Other Intermediate Goods	..	..	..	..	..	..	..	..	..	..	..	..
Capital Goods	..	..	..	..	..	..	..	..	..	..	..	..
Total Imports c.i.f.	100.0	163.6	195.8	203.7	191.1	..	294	331	402	474	474	339
Merchandise Terms of Trade												
Export Price Index	100.0	122.9	133.0	176.1	142.2	..						
Import Price Index	100.0	68.5	58.6	64.0	71.2	..						
Terms of Trade	100.0	179.4	227.0	275.2	199.7	..						
Balance of Payments												
Exports of Goods & NFS	378	319	348	419	318	..						
Merchandise (f.o.b.)	367	304	319	379	286	104						
Non-Factor Services	11	15	30	40	32	..						
Imports of Goods & NFS	371	363	409	484	485	..						
Merchandise (f.o.b.)	354	345	382	456	456	339						
Non-Factor Services	18	18	26	28	29	..						
Resource Balance	7	-44	-60	-65	-167	..						
Net Factor Income	4	1	0	0	-2	..						
(interest on MLT)	4	1	1	1	2	..						
Net Current Transfers	6	6	7	9	15	..						
(workers' remittances)	..	..	..	..	..	..
Curr. A/C Bal. before Off. Transfers	16	-37	-53	-56	-154	..						
Net Official Transfers	..	..	..	..	..	..
Curr. A/C Bal. after Off. Transfers	16	-37	-53	-56	-154	..						
Long-Term Capital Inflow	-10	-3	-2	-1	27	..						
Direct Investment	..	..	..	..	..	..
Net MLT Loans	-10	-3	-2	-2	27	15						
Other LT Inflow (Net)	..	..	..	2	..	..				
Total Other Items (net)	-3	22	-76	-178	-79	..						
Net Short-Term Capital	-8	15	40	-8	96	48						
Capital Flows N.E.I.	16	0	-140	-175	-178	..						
Errors and Omissions	-11	6	24	5	3	..						
Change in Net Reserves	-3	18	131	234	206	..						
Net Credit from the IMF	..	..	..	..	..	..
Other Reserves Changes	..	..	..	..	..	..
Share of GDP (%)												
Resource Balance	0.4	-2.2	-2.8	-2.8	-8.0	..						
Interest Payments	0.2	0.1	0.0	0.0	0.1	..						
Current Account Balance	1.0	-1.9	-2.5	-2.4	-7.3	..						
Memorandum Items												
Reserves Excluding Gold (US\$ mil.)	51	14	157	423	221	9						
Reserves Including Gold (US\$ mil.)	60	25	165	430	223	11						
Official X-Rate (LCU/US\$)	9.50	8.58	8.00	8.00	8.00	15.00						
GDP (millions of current US\$) 4/	1,636	1,965	2,126	2,335	2,101	1,065						

Albania

Government Finance	Share of GDP (%)						Growth Rate (% per year)					
	1982	1986	1988	1989	1990	1991	1982-86	1988	1989	1990	1991	
Current Receipts	52.0	48.7	53.2	48.2	46.8	32.4	-0.4	7.0	-0.5	-12.6	-34.3	
Current Expenditures	23.9	23.3	28.0	27.5	43.2	59.3	0.6	10.4	7.9	40.6	30.4	
Current Budget Balance	28.1	25.4	25.2	20.7	3.6	-26.9	
Capital Receipts	
Capital Expenditures	28.0	25.5	26.4	29.3	18.8	6.3	-1.1	1.3	21.9	-42.2	-62.4	
Overall Deficit (commitment) 5/	-0.1	0.1	1.2	8.6	15.2	33.2	
Official Capital Grants	
External Borrowing (net)	
Accumulation of Arrears	0.6	-0.1	1.0	3.1	11.5	-14.2	
Domestic Bank Financing	-0.7	0.2	0.2	5.5	3.7	47.5	
External Capital Flows, Debt and Debt Burden Ratios	Net Disbursement (US\$ millions)						Debt Outstanding & Disbursed					
	1980	1985	1988	1989	1990	1991	1985	1987	1988	1989	1990	1991
Public & Publicly Guar. LT
Official Creditors
Multilateral
of which IBRD
of which IDA
Bilateral
Private Creditors
Suppliers
Financial Markets
Private Nonguaranteed
Total LT	13	6	4	2	29	44
IMF Credit
Net Short-Term Capital	-3	17	53	119	393	468
Total, Including IMF & Net ST	10	23	57	121	422	512
Bank and IDA Ratios	Ratio						Notes:					
	1980	1985	1988	1989	1990	1991						
Share of Total Long-Term DOD							1/ All prices were administratively set until 1991, when they were partially liberalized; the decline in the price indices from 1980 to 1990 reflects an administrative decision rather than a decrease in the underlying inflation rate. 2/ These figures may differ from those shown in the balance of payments tables because of multiple exchange rates used for conversion. 3/ Value of exports (fob) and imports (cif) according to the CMEA trade nomenclature, expressed at the average exchange rate of the period. 4/ Converted at official exchange rate. 5/ -=surplus 1991 data are preliminary					
IBRD as % of Total	..	..	..	..	..	..
IDA as % of Total	..	..	..	..	..	..
IBRD+IDA as % of Total	..	..	..	..	..	..
Share of LT Debt Service												
IBRD as % of Total	..	..	..	..	..	..
IDA as % of Total	..	..	..	..	..	..
IBRD+IDA as % of Total	..	..	..	..	..	..
DOD-to-Exports Ratios												
Long-Term Debt/Exports	8.57	4.17	1.12	0.48	9.16	..						
IMF Credit/Exports	..	..	..	..	..	..
Short-Term Debt/Exports	-4.31	-1.07	15.27	28.38	123.76	..						
LT+IMF+ST DOD/Exports	4.26	3.10	16.39	28.85	132.92	..						
DOD-to-GDP Ratios												
Long-Term Debt/GDP	1.98	0.68	0.18	0.09	1.38	4.13						
IMF Credit/GDP	..	..	..	..	..	..
Short-Term Debt/GDP	-1.00	-0.17	2.50	5.09	18.71	43.96						
LT+IMF+ST DOD/GDP	0.98	0.50	2.69	5.18	20.10	48.09						
Debt Service /Exports												
Public & Guaranteed LT	..	..	..	..	..	..
Private Nonguaranteed LT	..	..	..	..	..	..
Total Long-Term Debt Service	1.03	0.31	0.20	0.12	0.60	..						
IMF Repurchases+Serv. Chgs.	..	..	..	..	..	..
Interest only on ST Debt	..	..	..	..	..	..
Total (LT+IMF+ST Int.)	..	..	..	..	..	..

Algeria

Algeria faces difficult challenges in the years ahead. Despite significant reforms in recent years, its economy continues to suffer from inefficient resource allocation, a legacy of over 20 years of central planning. Demographic trends are aggravating unemployment and overstretching Algeria's social infrastructure. The economy is heavily dependent on hydrocarbons and vulnerable to fluctuations in world petroleum prices. While high oil prices in the 1970s and early 1980s masked growing economic deficiencies, the crisis that followed the oil price collapse in 1986 brought these deficiencies to the fore. In response, the authorities launched a reform program, aimed at transforming Algeria into a market-based economy. Although significant challenges — notably a wholesale restructuring of public enterprises and banks — have yet to be overcome, the program has already decentralized many economic decisions, reduced relative price distortions, improved macroeconomic balances, and dismantled a number of legal barriers to private sector development. In the short term, growth prospects will be limited by Algeria's heavy debt-service burden and a need to restructure its parastatal sector. Growth prospects are more favorable in the medium term if reforms are pursued vigorously and oil prices remain near current levels in real terms.

For more than two decades following independence in 1962 Algeria was largely a centrally planned economy. The distorted incentives and inefficiency arising from centralized management and price controls inflated resource requirements. While rapid industrialization in the 1970s produced average annual GDP growth of 6-7 percent, this required investment rates of around 42 percent of GDP, limiting per capita consumption growth to about 2 percent a year. In addition, an overvalued exchange rate and administered foreign exchange allocation led to inflated import requirements. Poor agricultural sector policy stifled production so that by 1982 food imports reached 19 percent of merchandise imports, compared with less than 10 percent in the late 1960s. While these defects were largely hidden by high oil revenues in the past, GDP has stagnated and per capita consumption has fallen sharply since the collapse of oil prices in 1986.

Economic stagnation and high population growth have exacerbated unemployment and other social problems. Algeria has a population of some 25 million, three-quarters under the age of 30. As a result, the labor force is growing at about 4 percent a year, creating severe labor absorption problems and overstretching social services, especially public housing. Official open unemployment is above 20 percent. The number of persons per housing unit is estimated to have risen from 6.1 in 1966 to 7.8 in 1985. Rapid industrialization and population growth have also taxed the environment. Water resource management and pollution control, in particular, have experienced growing problems.

Algeria is richly endowed with hydrocarbon reserves, but has become overly reliant on petroleum exports. Its gas reserves are nearly 4 percent of proven world reserves, enough to sustain current rates of production for some 100 years, and the oil production-to-reserves ratio stands at around 20 years. The importance of the hydrocarbon sector, which has provided 30-35 percent of value added in constant prices since 1980, can be seen in both the fiscal and the external trade accounts where they account for 60 percent of Treasury tax revenue and 97 percent of merchandise exports, respectively.

Reforms Since 1986

The economic reform program Algeria launched in the wake of the 1986 oil price collapse focused initially on modifying its legal and institutional framework in an attempt to create decentralized economic agents capable of responding to market signals. The large collective farms were dissolved in 1987. Most of this land is now farmed by small groups of private farmers with permanent usufruct rights. Although the state still owns the land, farmers have autonomy in production and investment decisions, including the right to keep profits. In 1988 a program was initiated to grant autonomy to most public enterprises in the industrial, construction, and transport sectors. The program's objective was to surrender direct state control of enterprise production, pricing and investment decisions to management, while retaining state ownership and instituting

checks on enterprise profitability through a system of eight holding companies acting as fiduciary agents for the state. Autonomous status was also extended to Algeria's five commercial banks in 1989.

Structural reforms on the supply side include regulatory changes to remove impediments to private entrepreneurs, a restructuring program for parastatals and banks, including opening their capital to private investors, and institutional reforms in the financial sector. To promote private sector development, legal constraints on private sector access to domestic credit and foreign exchange have been eliminated. A new commercial code adopted in mid-1992 authorizes a wide range of forms of private ownership, and provides a comprehensive framework for liquidating non-viable public enterprises that will further ensure that the legal and regulatory framework is favorable to private sector development.

The principal elements of the public enterprise and bank restructuring program include action plans to reduce losses, restructure, or liquidate the 22 largest non-autonomous loss-making parastatals based on recently completed diagnostic studies. Loss-making autonomous public enterprises will be restructured under the auspices of their holding companies, and bank portfolios are to be restructured by replacing non-performing loans to parastatals with zero-coupon Treasury bonds or parastatal-issued bonds. A recent government decision authorizes a full range of restructuring options for public enterprises and banks including opening their capital to domestic and foreign private investors, and selling or leasing their assets to the private sector. Measures are also being prepared to strengthen the holding companies, in particular, to provide a single holding company with a majority share in each autonomous public enterprise.

A restructuring fund was created by the 1991 Finance Law to support this restructuring effort. In 1991, DA 17 billion (2.6 percent of GDP) was allocated from the budget for restructuring and an additional DA 42.5 billion has been allocated in 1992.

Measures to reform the financial sector and improve financial intermediation include new accounting and auditing procedures and establishing prudential regulations and capital adequacy ratios. In addition to restructuring existing public banks, the authorities are actively promoting the establishment of new foreign and domestic banks.

As structural reform has progressed, measures to correct relative price distortions have been initiated. Between end-1988 and end-1991, the value of the Algerian dinar was reduced by more than half in real effective terms. Interest rates were raised and made more flexible in May 1989. In May 1990 interest rates were raised again, and the pre-existing structure replaced by a single ceiling rate of 20 percent. A framework for liberalizing goods and services prices was

formalized in a July 1989 price law. Products accounting for about 60 percent by weight of the consumer price index are free of controls, compared with an estimated 10 percent in early 1988. Algeria is also progressively eliminating price subsidies on energy products and basic foodstuffs. To protect the purchasing power of vulnerable groups, a system of targeted direct transfers was introduced in April 1992. Price liberalization has been reflected in an increase in consumer price inflation, from less than 6 percent in 1988 to about 17 percent in 1990 and 25 percent in 1991.

The authorities have made efforts to redress macroeconomic imbalances to support the reform effort and restrain inflation. In particular, the Treasury's borrowing requirement was moved from a decade-high 11.8 percent of GDP in 1988 to a surplus of 3.2 percent in 1990 and 4.4 percent in 1991, largely as a result of cuts in Treasury loans to the parastatal sector as the burden of financing these firms shifted to the financial system. In turn, fiscal adjustment enabled a drop in Bank of Algeria advances to the Treasury and, in 1990, a substantial repayment of Treasury debt to the Central Bank. As a result of these measures, the M2 to GDP ratio dropped from an end-1988 high of 93 percent to 53 percent by end-1991. In addition, the March 1990 Law on Money and Credit, which extended autonomy to the Bank of Algeria and established its jurisdiction over monetary and exchange policy, instituted legal safeguards against deficit monetization by limiting Treasury borrowing from the Central Bank to the shorter of a 240-day or year-end maturity and imposing a 15-year deadline for full repayment of outstanding Treasury liabilities to the Central Bank.

Political Developments

Reform implementation has been taking place against a tumultuous background of transition to democracy. The origins of this transition lie in Algeria's new constitution, which was adopted by popular referendum in February 1989, following austerity-induced rioting in October 1988. The new constitution ended the National Liberation Front's 25-year monopoly on political representation and led to the formation of a number of political parties, including the Islamic Salvation Front. During Algeria's first multi-party local elections in June 1990 the Salvation Front gained control of a large number of local assemblies. The climate of political transition also fostered a rift between opposing groups in the Liberation Front, giving the upper hand to the party's reformist wing. As a result of social disorder national legislative elections scheduled for June 1991 were postponed, a state of emergency was declared and a new prime minister appointed.

The state of emergency was lifted in late September, and the first round of national legislative elections

was held in December 1991. The Islamic Front scored an overwhelming victory and seemed assured of winning the second and final round of elections, scheduled for January 1992. However, the January elections were canceled following the resignation of President Bendjedid.

A High Council of State was established to replace the president, and a period of social unrest ensued resulting in over 50 deaths, the internment of some 6,000 militants in southern camps, and the outlawing of the Islamic Salvation Front. The President of HCE, President Mohamed Boudiaf, was assassinated on June 29, 1992. His assassination caused renewed unrest. A new head of HCE was selected, President Ali Kafi, and the Prime minister and his cabinet resigned to give way to a new cabinet lead by Prime minister Belaid Abdesselam. The Government has managed to restore order despite occasional isolated attacks on security forces. The High Council has declared its commitment to the democratic process and presidential elections are to be held before the end of 1993. The economic program of the new Government is expected to be announced shortly.

Recent Economic Developments

Due mainly to very tight external financing constraints, macroeconomic performance in 1991 was well below expectations. External debt service was a higher than expected at \$9.5 billion. Algeria also encountered unforeseen difficulties in mobilizing external finance, particularly during the first half of the year, including delays in renewing some official credit lines. As a result, imports were 24 percent below target, which contributed to weak GDP growth, estimated at only 1.6 percent despite a record 35 percent increase in agricultural output. Efforts to mobilize external financing were more successful during the second half of the year, with IMF purchases under a standby arrangement and the approval by the European Economic Community of about \$450 million equivalent for balance of payments support. In late September an agreement was concluded with a syndicate of banks to mount a \$1.6 billion facility to refinance financial credits coming due over the next 18 months.

Debt service is expected to remain above \$9 billion in 1992, although higher capital inflows are projected to underpin a stable reserve level of some \$1.6 billion and a balanced current account, compared with a \$2.6 billion surplus in 1991. Consequently, despite a projected drop in the average price for Algerian crude oil to about \$19.50 per barrel from \$20.44 in 1991, a moderate increase in imports to \$11 billion over 1991's \$9.4 billion is projected. This increase, together with continued structural adjustment, is expected to underpin moderately higher GDP growth. Almost all of

the Treasury's projected 1992 budget surplus of some 4 percent of GDP will be used to finance public enterprise restructuring.

A new Economic Action Plan was drawn up by the authorities in early 1992 to address the continuing social and economic crisis. The plan focuses on ways to alleviate social distress and increase GDP growth. It commits the government to completing some 60,000 social housing units by the spring of 1993. The new Government is to announce a new action plan within the coming weeks. Housing is expected to remain a priority for the new Government.

Development Issues

Algeria's medium-term objective is to achieve growing, sustainable, and equitably distributed per-capita consumption. Primary proximate goals are to induce a supply response, defray social tension, and sustain macroeconomic balance.

Comprehensive measures of poverty in Algeria not available as there are no data on income distribution or the incidence of absolute poverty. The social safety net system in Algeria is generous but poorly targeted, and is gradually being reformed. Health care, which is financed by the social security system, is provided without charge, and the state provides free education. Other benefits provided by the state include transfers for each child for workers employed in the formal economy and general price subsidies covering basic food items, rent, energy, and transport. The government is removing price subsidies and replacing them with well-targeted transfers to the needy. As structural adjustment continues and the economy undergoes substantial reform, poverty assessment may become a more pressing issue. The authorities have recognized the need to assess living standards more accurately and plan to undertake a study to this effect.

Medium-Term Prospects

The economic outlook for 1993 and the medium term is sensitive to three factors: politics, oil prices, and future progress in adjustment and reform. The government will need some time to address the economic issues and avoiding social unrest will be important. Despite the efficiency gains from import liberalization, Algeria's import capacity and growth prospects will remain dependent on movements in world oil prices, and sustained growth will depend on the completing the adjustment and reform program and the development of Algeria's growing private sector.

Given progress on these key fronts, renewed growth of around 3 percent is feasible over the next several years. While a return to growth will raise import requirements, planned increases in hydrocarbon export

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volumes and projected stability in real world oil prices should provide additional resources.

However, restored growth also depends on a sustainable strategy for managing Algeria's \$26 billion medium- and long-term external debt. While annual debt service will remain above \$9 billion in the near term, further progress in lengthening average maturities would lead to a gradual improvement in the debt service ratio from its extremely high level of 70 percent in 1992. In the medium term, balance of payments stability will be enhanced by growth in non-traditional exports if real exchange rate policy continues to be supportive. With projected export revenue growth of over 9 percent in the next few years and a gradual

reserve buildup to 2.4 months of imports from 1.8 months in 1992, the debt service ratio is projected to fall to about 35 percent by 1996.

A principal source of downside risk involves the possibility of lower-than-projected oil prices. While unlikely, a scenario with sharply lower petroleum prices cannot be entirely ruled out. At current export volumes, a \$1 dip in oil prices over one year would entail a loss of roughly \$500 million in export earnings. Consequently, a substantial fall in oil prices without offsetting actions to increase capital inflows would trigger a significant decline in per capita consumption, which could derail reform efforts by creating a popular perception that the reform program had failed.

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Mid-1990 Population (mln.) 25.1
1990 Per Capita GNP in US\$ 2,330

	Share of Gross Domestic Product (from current price data)						Growth Rate (% per year) (from constant price data)				
	1965	1973	1980	1989	1990	1991	1965-73	1973-80	1980-91	1990	1991
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	..	6.6	2.1	-2.5	1.6
Net Indirect Taxes	..	5.9	18.7	19.3	21.4	22.6	..	..	..	..	..
Agriculture	..	7.9	8.2	12.2	9.7	10.4	..	8.4	4.8	-17.0	35.0
Industry	..	46.1	43.7	33.2	37.1	38.6	..	3.9	1.1	-2.9	-3.2
of which Manufacturing	..	13.8	7.7	8.7	8.5	8.1	..	10.5	-2.5	-23.0	-3.7
Services	..	40.1	29.5	35.3	31.8	28.4	..	5.9	2.3	-3.9	-3.9
Resource Balance	..	-6.3	4.0	-10.6	-2.2	5.5	..	..	..	..	..
Exports of Goods & NFS	..	25.3	34.3	18.1	23.8	29.2	..	1.0	3.6	2.7	1.2
Imports of Goods & NFS	..	31.6	30.4	28.7	26.0	23.7	..	8.1	-5.9	-9.7	-21.4
Total Expenditurea	..	106.3	96.0	110.6	102.2	94.5	..	7.9	0.0	-4.7	-2.7
Total Consumption	..	66.0	56.9	80.3	69.8	63.0	..	6.5	1.3	-7.0	2.9
Private Consumption	..	51.4	43.2	62.1	53.3	48.6	..	9.3	1.5	-5.9	9.4
General Government	..	14.5	13.8	18.2	16.4	14.4	..	10.6	4.2	3.5	2.2
Gross Domestic Investment	..	40.3	39.1	30.3	32.5	31.4	..	10.4	-2.6	0.7	-14.7
Fixed Investment	..	35.9	33.8	27.3	29.1	27.4	..	10.6	-2.6	0.6	-14.9
Changes in Stock	..	4.4	5.3	3.0	3.3	4.0	..	..	..	..	..
Gross Domestic Savings	..	34.0	43.1	19.7	30.2	37.0	..	..	..	-4.0	-5.0
Net Factor Income	..	-0.7	-2.8	-3.4	-1.4	-2.6	..	..	..	..	..
Net Current Transfers	..	2.6	0.6	0.9	0.8	0.9	..	..	..	..	..
Gross National Savings	..	35.9	40.8	17.2	29.6	35.2	..	..	..	..	..
In billions of LCUs (at constant 1987 prices)											
	1965	1973	1980	1989	1990	1991					
Gross Domestic Product	..	165	252	325	317	322	..	6.6	2.1	-2.5	1.6
Capacity to Import	..	37	97	44	58	61	..	9.3	-8.6	31.0	6.0
Terms of Trade Adjustment	..	-2	-63	5	-8	-10	..	..	..	..	..
Gross Domestic Income	..	164	189	330	309	311	..	4.6	5.8	-6.2	0.7
Gross National Product	..	170	245	312	305	305	..	5.9	1.9	-2.4	-0.1
Gross National Income	..	168	182	317	297	294	..	3.8	5.8	-6.2	-1.1
Index (1987 = 100)											
	1980	1986	1988	1989	1990	1991					
Price Indices											
Consumer Prices (IFS 64)	53.5	93.1	105.9	115.8	135.0	..	..	11.0	..	16.6	..
Wholesale Prices (IFS 63)	..	..	..	..	..	..	..	..	..	0.0	0.0
Implicit GDP Deflator	64.4	91.4	111.6	129.3	168.2	252.2	5.8	14.5	10.4	30.1	50.0
Implicit Expenditure Deflator	51.3	88.9	115.0	134.3	165.2	239.1	3.8	12.8	13.5	23.0	44.8
Growth Rate (% per year)											
Other Indicators	1965-73	1973-80	1980-91								
Population	3.1	3.1	2.9								
Labor Force	..	..	2.6								
Gross National Income p.c.	3.4	0.7	2.8								
Private Consumption p.c.	5.6	6.0	-1.4								
Import Elasticity											
Imports (Goods & NFS) / GDP	..	1.2	-2.8								
Marginal Savings Rates											
Gross National Savings	52.3	48.7	-42.5								
Gross Domestic Savings	53.2	55.9	-47.3								
ICOR (period averages)	5.0	7.4	18.2								
Share of Labor Force (%)											
	1965	1973	1980	1990							
Labor Force	..	100.0	100.0	100.0							
Agriculture	..	40.1	30.7	23.4							
Industry	..	20.0	28.5	30.0							
Services	..	39.9	40.7	46.6							

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Merchandise Exports	Volume Index (1987 = 100)						Value at current prices (US\$ millions)					
	1980	1987	1988	1989	1990	1991	1980	1987	1988	1989	1990	1991
X.FUEL	297.9	100.0	89.2	110.3	120.6	116.0	9,689	1,718	1,340	1,894	2,730	2,207
X.FUEL.X	42.6	100.0	108.2	99.6	101.6	99.7	1,967	2,416	2,200	2,371	3,293	3,058
X.FUEL.Y	24.9	100.0	90.6	102.6	104.4	107.1	1,315	2,383	1,744	2,535	3,549	3,220
X.FUEL.Z	24.9	100.0	101.7	114.5	117.7	130.9	786	2,014	2,069	2,296	2,776	3,490
Manufactures	7.5	100.0	445.7	425.7	380.2	461.1	3	36	165	157	142	173
Residual	133.5	100.0	142.1	132.6	118.9	144.5	243	213	421	396	357	435
Total Exports f.o.b.	85.5	100.0	100.3	108.0	111.3	114.5	14,000	8,745	7,773	9,491	12,705	12,410
Merchandise Imports												
Food	72.1	100.0	106.3	140.4	116.6	138.0	1,986	1,773	1,814	2,896	1,906	1,747
Fuel and Energy	118.7	100.0	90.9	56.4	53.0	45.0	259	179	193	218	212	198
Other Consumer Goods	312.6	100.0	72.1	85.5	134.6	39.4	1,830	1,694	1,707	1,845	1,952	1,268
Other Intermediate Goods	118.0	100.0	96.6	104.4	98.1	83.3	3,185	2,319	2,496	2,816	2,743	2,556
Capital Goods	210.5	100.0	91.5	99.6	115.5	104.4	3,299	2,114	2,141	2,525	2,944	1,927
Total Imports c.i.f.	134.9	100.0	97.0	113.4	109.5	102.4	10,559	8,079	8,351	10,300	9,757	7,696
Merchandise Terms of Trade												
	Index (1987 = 100)											
Export Price Index	187.1	100.0	88.6	100.5	130.5	123.9						
Import Price Index	96.9	100.0	106.6	112.4	110.3	93.0						
Terms of Trade	193.2	100.0	83.2	89.4	118.3	133.2						
Balance of Payments												
	Value at Current Prices (US\$ millions)											
Exports of Goods & NFS	14,257	9,675	8,162	10,086	13,444	12,875						
Merchandise (f.o.b.)	13,652	9,031	7,626	9,564	12,929	12,455						
Non-factor services	606	643	536	522	515	420						
Imports of Goods & NFS	13,061	9,648	9,745	11,073	11,691	9,410						
Merchandise (f.o.b.)	9,596	7,647	7,692	9,472	9,775	7,711						
Non-factor services	3,465	2,002	2,052	1,601	1,916	1,699						
Resource Balance	1,196	27	-1,583	-987	1,753	3,465						
Net Factor Income	-1,198	-1,534	-2,012	-1,893	-856	-1,156						
(interest per DRS)	1,552	1,641	2,083	2,004	2,162	2,217						
Net Current Transfers	243	473	354	505	456	375						
(workers' remittances)	334	434	332	306	524	431						
Curr. A/C Bal. before Off. Transfers	242	-1,034	-3,242	-2,375	1,353	2,684						
Net Official Transfers	0	0	0	0	0	0						
Curr. A/C Bal. after Off. Transfers	242	-1,034	-3,242	-2,375	1,353	2,684						
Long Term Capital Inflow	899	21	969	191	-437	-1,322						
Direct Investment	281	-109	-48	-25	-39	60						
Net LT Loans (DRS data)	916	799	955	376	-253	-1,246						
Other LT inflows (Net)	-298	-669	62	-160	-145	-136						
Total Other Items (Net)	201	737	1,537	1,542	-1,002	-833						
Net Short-term Capital	-1,127	315	339	342	-456	-300						
Capital Flows N.E.I.	1,340	410	1,175	1,162	-314	-410						
Errors and Omissions	-12	12	22	38	-232	-123						
Changes in Net Reserves	1,341	-276	-737	-642	-86	529						
Net Credit from IMF	0	0	0	604	0	310						
Other Reserve Changes	1,341	-276	-737	-1,246	-86	219						
Share of GDP (%)												
	Share of GDP (%)											
Resource Balance	2.8	0.0	-2.7	-1.8	2.9	7.9						
Interest Payments	3.7	2.5	3.5	3.6	3.6	5.0						
Current Account Balance	0.6	-1.6	-5.5	-4.3	2.3	6.1						
Memorandum Items												
Reserves Excluding Gold (US\$ mil.)	3,773	1,641	900	847	725	1,486						
Reserves Including Gold (US\$ mil.)	7,062	4,341	3,207	3,071	2,930	3,630						
Official X-Rate (LCU/US\$)	3.84	4.85	5.91	7.61	8.96	18.47						
GDP (millions, current US\$)	42,347	65,056	58,734	55,188	59,466	43,940						

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Government Finance	Share of GDP (%)						Growth Rate (% per year)					
	1980	1987	1988	1989	1990	1991	1980-88	1988	1989	1990	1991	
Current Receipts	37.9	29.5	26.9	27.7	28.6	30.7	4.5	0.5	24.6	31.0	63.2	
Current Expenditures	17.0	20.8	21.9	19.1	16.7	18.9	12.7	16.4	5.3	10.7	73.2	
Current Budget Balance	20.9	8.7	5.0	8.6	12.0	11.7	-7.4	..	..	..	..
Capital Receipts	..	..	..	..	..	..	..	..	..	..	..
Capital Expenditures	29.3	18.1	19.6	15.9	10.6	10.6	3.5	19.5	-1.9	-15.8	52.2	
Overall Deficit	-8.4	-9.4	-14.7	-7.3	1.4	1.2	..	..	..	..	..
Official Capital Grants	..	..	..	..	..	..	..	..	..	..	..
External Borrowing (net)	0.1	0.7	1.4	0.6	0.6	0.1	..	119.7	-52.1	23.9	-59.9	
Dom. Non-Bank Borrowing	4.4	1.6	6.3	-0.7	0.2	-0.1	4.8	321.4	-114.2	..	-173.3	
Domestic Bank Financing	3.9	7.0	6.9	7.5	-2.2	-1.2	..	9.1	30.0	-136.9	..	
External Capital Flows, Debt and Debt Burden Ratios	Net Disbursement (US\$ millions)						Debt Outstanding & Disbursed (US\$ mill.)					
	1980	1987	1988	1989	1990	1991	1980	1987	1988	1989	1990	1991
Public & Publicly Guar. LT	916	799	955	376	-253	-1,246	17,052	22,943	24,436	24,551	25,918	24,746
Official Creditors	322	-455	-174	86	600	271	3,513	4,657	4,725	4,704	5,627	5,951
Multilateral	13	80	262	231	353	416	284	1,204	1,396	1,600	2,073	2,541
of which IBRD	26	50	58	92	170	171	253	924	895	960	1,208	1,413
of which IDA	0	0	0	0	0	0	0	0	0	0	0	0
Bilateral	309	-536	-436	-146	247	-144	3,229	3,453	3,329	3,104	3,553	3,410
Private Creditors	595	1,254	1,130	291	-853	-1,517	13,539	18,286	19,711	19,847	20,292	18,795
Suppliers	606	735	-172	619	174	-885	7,596	11,048	10,697	11,437	12,590	11,583
Financial Markets	-12	519	1,301	-328	-1,027	-632	5,943	7,238	9,014	8,409	7,701	7,211
Private Nonguaranteed	0	0	0	0	0	0	0	0	0	0	0	0
Total LT	916	799	955	376	-253	-1,246	17,052	22,943	24,436	24,551	25,918	24,746
IMF Credit	0	0	0	604	0	323	0	0	0	619	669	998
Net Short-Term Capital	-1,127	315	339	342	-456	-300	806	1,315	1,621	1,840	1,384	1,084
Total, Including IMF & Net ST	-211	1,114	1,294	1,322	-709	-1,223	17,858	24,259	26,057	27,009	27,971	26,828
Bank and IDA Ratios	Ratio											
	1980	1987	1988	1989	1990	1991						
Share of Total Long-Term DOD												
IBRD as % of Total	1.48	4.03	3.66	3.91	4.66	5.71						
IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00						
IBRD+IDA as % of Total	1.48	4.03	3.66	3.91	4.66	5.71						
Share of LT Debt Service												
IBRD as % of Total	0.99	2.61	2.84	2.68	2.43	3.17						
IDA as % of Total	0.00	0.00	0.00	0.00	0.00	0.00						
IBRD+IDA as % of Total	0.99	2.61	2.84	2.68	2.43	3.17						
DOD-to-Exports Ratios												
Long-Term Debt/Exports	113.96	224.53	285.30	233.75	169.68	172.24						
IMF Credit/Exports	0.00	0.00	0.00	5.89	4.38	6.95						
Short-Term Debt/Exports	5.39	12.87	18.93	17.52	9.06	7.54						
LT+IMF+ST DOD/Exports	119.35	237.40	304.22	257.16	183.12	186.73						
DOD-to-GDP Ratios												
Long-Term Debt/GDP	40.27	35.27	41.60	44.49	43.58	56.32						
IMF Credit/GDP	0.00	0.00	0.00	1.12	1.12	2.27						
Short-Term Debt/GDP	1.90	2.02	2.76	3.33	2.33	2.47						
LT+IMF+ST DOD/GDP	42.17	37.29	44.36	48.94	47.04	61.06						
Debt Service /Exports												
Public & Guaranteed LT	26.18	52.86	75.55	64.84	54.70	62.08						
Private Nonguaranteed LT	0.00	0.00	0.00	0.00	0.00	0.00						
Total Long-Term Debt Service	26.18	52.86	75.55	64.84	54.70	62.08						
IMF Repurchases+Serv. Chgs.	0.00	0.00	0.00	0.37	0.44	0.58						
Interest only on ST Debt	0.77	0.65	4.27	2.06	2.32	1.04						
Total (LT+IMF+ST Int.)	26.95	53.52	79.82	67.27	57.47	63.70						