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THE ROLE OF AN EAST AFRICAN CENTRAL BANK IN ACCELERATING DEVELOPMENT*

The proposal to establish an East African central bank has been hanging fire for several years, amid the continuing uncertainty about political federation, operating principles of the common market, and lines of economic cooperation among the three governments. Statements of political leaders have been almost universally favourable to a central bank, and have repeatedly indicated that its formation is in the offing, yet it has not actually been established. The purpose of this paper, then, is to re-examine the possible role of a central bank in East Africa. In particular, does it have any significant contributions to make which are not already being provided by the present liberalised currency board system, and would it be practicable to change the monetary system independently of decisions about political federation?

A. Potential Contributions of a Central Bank

In the present economic circumstances of the three East African countries, it seems to me that there are four key contributions which a central bank might make to accelerating the development process. They are: (1) a more expansionary monetary policy, (2) leadership and control of the commercial banks, (3) promotion of government security markets, (4) exchange control on residents' capital transactions. In the following discussion I shall focus on these four functions, and simply neglect various other functions, such as serving as banker to the governments, which a central bank would also perform.

(1) Expansionary monetary policy. The most fundamental contribution of a central bank to accelerating development in East Africa today would be to carry through a more expansionary monetary policy. Specifically, both by direct purchase of government securities and by its indirect influence on commercial banks and financial institutions, a central bank should enable the three governments to expand domestic borrowing for development, and thus help to finance the markedly enlarged development budgets now being planned. More generally, it should ease credit for private investment.

In considering the scope for a more expansionary monetary policy, let us note certain features of recent economic trends, as summarised in Table 1. Though there are some significant differences among the three countries, the general picture is that rates of growth of gross domestic product slowed down markedly in the years 1958-62 compared to 1954-58, that shares of total investment in GDP fell sharply, and that opportunities for non-agricultural employment declined. In 1963 an abrupt rise in exports raised GDP sharply, particularly in Uganda and Tanganyika, but unfortunately this impetus has not yet spread throughout the economies, and the investment and employment situations have not improved. This is a picture of economies troubled by insufficient demand and slack in utilization of capacity. Excess capacity is clear in an industry like cement, in which capacity is well-defined, but I think we can be confident that most enterprises in manufacturing, transport, commerce, and construction could readily expand output at least ten or twenty per cent if demand increased. At the same time import prices, which represent many producers' goods, have been falling; retail prices of goods consumed by the general population have been broadly stable; and the cost of living for higher-income groups, including duties on imported goods and rising wages in services, has been creeping up. This is a

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picture of economies without inflationary pressure, with more stable prices than most countries of the world, but altering their relative prices of different goods and services.

In this economic environment the three governments have embarked on notably more ambitious development plans than in the recent past, as summarised in Table 2. All three of the plans envision that government investment and other public investment must take the lead in generating more rapid growth, and project substantial increases in development budgets over the next three years or so -- from £9 million (excluding resettlement) to £13 million for Kenya, from £8 to £20 million (including government financing of other public investment) for Tanganyika, and from £6 to £9 million (to complete the existing plan) for Uganda. I have discussed elsewhere* four possible constraints on enlarging development budgets in this way -- generalised saving, foreign exchange, government finance, and specialised manpower -- and concluded that the most critical constraint in East Africa today is government finance. That is, it seems to me the evidence indicates that if additional finance could be obtained from foreign aid or domestic sources, government development expenditures could be expanded without being promptly checked by lack of generalised saving, froreign exchange, or specialised manpower. If this conclusion is sound, additional domestic borrowing permitted by an expansionary central bank policy could be a key factor in enabling present plans to be carried out. Even if the other constraints, such as foreign exchange, become tighter in the future, easier domestic borrowing today would help to initiate the planned expansion of development budgets.

It is essential to avoid the fallacy that government borrowing from a central bank and the commercial banks is intrinsically inflationary. In economies characterised by sluggish growth, slack in use of capacity, and broadly stable prices, increased development expenditures however financed will almost surely call forth expanding GDP, consumption, saving, imports, and tax revenues, without generally rising prices. In short, increased supply rather than inflation will be the normal response to the increased demand. Indeed, continued creation of additional currency and demand deposits, which is the counterpart of the government borrowing, is needed by the economy to carry out conveniently its rising value of monetary transactions. A rising supply of money (currency and demand deposits) is a normal feature of an expanding economy. The proper standard for monetary policy is not to avoid government borrowing and money creation, but to carry out as much as is compatible with the economy's ability to expand GDP at broadly stable prices, and with rising needs for money for transactions. I shall discuss the application of this standard in section B below.

(2) Leadership and Control of commercial banks. A second function of an East African central bank would be to establish its leadership and control of the commercial banks, and then to enlist their participation in a broad program of diversified credit extension. The commercial banks operating in East Africa are both few and foreign-owned; Barclays, Standard, and National & Grindlays together have about 85% of the total branches.** The fact of foreign ownership is of course quite compatible with provision of valuable credit services to the domestic economy, and during the private capital flight of recent years it permitted an offsetting inflow of bank capital without which there would surely have been a financial crisis. Nonetheless in order to make monetary policy an instrument of domestic development planning, is desirable that a central bank have power to guide commercial bank credit activities.

* P. Clark, "Foreign Aid, Domestic Finance, and the Development Plan", E.A. Inst. of Social Research, 30.6.64, paper prepared for University of East Africa Conference on Foreign Aid, Dar es Salaam, September, 1964.

** See G. Lomoro, "Methods of Monetary Control in an East Africa Federation", E.A. Inst. of Social Research, 3.6.64.

The formal device to establish control would doubtless be to set reserve requirements for commercial banks operating in East Africa. An interesting form for such reserve requirements might be to permit them to be held partly in deposits in the central bank, obtained by depositing foreign exchange, and partly (up to some maximum proportion) in government securities. This would enable the banks to continue earning income on part of their required reserves, and at the same time be one step in broadening the market for government securities. Once such reserve requirements were established the central bank would have a formal technique for influencing the banks to ease or tighten credit to domestic borrowers.

However, as long as East African branches are in a position to vary imports and exports of capital in dealings with their parent banks, they could conceivably evade central bank actions -- for example, by importing capital when the central bank raised reserve requirements, and vice versa. Thus in practice the central bank's influence on domestic credit conditions would have to be exerted by a combination of leadership and formal control. In this connection an important objective would doubtless be to encourage extension of somewhat longer-term credit to a wider range of borrowers than in traditional commercial banking practice. In addition to encouraging present commercial banks to move in this direction, organisation of domestically owned banks might introduce a constructive new element of competition.

(3) Promotion of government security markets. A third contribution of an East African central bank would be to provide stimuli to development of financial markets, in the first instance for government securities. In part this would be a consequence of exercising the first two functions. The central bank itself would be purchasing securities as the means of implementing an expansionary monetary policy. The commercial banks would also be doing so, in the course of establishing reserves (if the device of permitting a certain proportion of government securities were adopted) or expanding their portfolios.

In addition, it would involve encouraging expansion over time of private and institutional dealings in government securities. The central bank's contribution here would consist essentially in assuring a ready and active market. Creation and gradual growth of new forms of saving institutions with funds to invest, such as national provident funds and national insurance companies, ought to go hand in hand with the central bank's actions.

(4) Exchange control. The fourth contribution of a central bank to accelerating development in East Africa today would be to check at least a substantial part of the private capital outflow of recent years, by introducing a moderate system of exchange control on residents' capital transactions. As summarised in Table 3, the fundamental balance of payments position of the East African countries has been quite sound in years. Balances of merchandise trade and balances on current account have been either improving or stable, and foreign aid has been expanding. However, the large outflow of private capital, largely in unrecorded forms, even though offset in good part by inflow of capital on account of the commercial banks, has led to some decline in reserves. (Fortunately the export boom in 1963 has led to further recovery.) It is generally recognised that the motivation for this capital outflow has not been fear of inflation and devaluation, but political uneasiness. If it were checked by a combination of moderate exchange control and successful renewed expansion of the economies, the fundamental strength of the balance of payments would again be revealed.

To be effective exchange control designed to limit the capital outflow would have to permit some degree of checking on all kinds of transactions. The normal channels for evasion are after all overstatement of payments for imports and services, and understatement of receipts for exports. The administrative system would doubtless require close cooperation between the central bank and the commercial banks. But since the objective would be only to control capital transfers by residents, the system should permit virtually automatic approval of regular trade transactions, and guaranteed approval of capital transfers by recognised foreign enterprises and the commercial banks. Thus in practice the system ought to try to prevent large and repeated capital transfers by residents, but accept some evasion in order to avoid more than minimal interference with normal transactions.

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Could the present currency board, operating on the liberalised lines of the last several years, make these contributions without establishing an actual central bank? Larger annual increases of the fiduciary issue, by which recently an average of about £2 million per year of government securities have been purchased as a substitute for foreign exchange backing of the currency, could be an element of a more expansionary monetary policy. However, it would still be preferable to do so as part of the normal operations of a central bank, subject to the bank's discretion, rather than as an exceptional departure from currency board principles, subject to a defined limit which has to be periodically raised. On the other hand, it would require a major modification of the present currency board to permit it to establish reserve requirements for the commercial banks, and then by a combination of leadership and control to guide their activities in a program of diversified credit extension and promotion of government security markets. Finally, exchange control could hardly be made a responsibility of the present currency board as long as foreign exchange convertibility is effectively left to the commercial banks. Thus while something more could be done within the present liberalised currency board system, it seems apparent that the full range of potential contributions to development could only be provided by an actual central bank.

B. Monetary Criteria for an East African Central Bank

There are two main criteria which a central bank would have to set for itself in carrying through a more expansionary monetary policy. First, how large an increase in currency and demand deposits would the East African economies need, if they grow as projected in the development plans, to conduct the rising value of monetary transactions? Second, how large a holding of foreign exchange reserves would the monetary system, based on the new central bank, need to keep? Let me at least suggest a first approach to these questions.

(1) Monetary expansion. An expanding economy normally needs a rising supply of money in order to carry out its transactions conveniently. However, the amount of increase in money is not rigidly determined, and depends not only on how rapidly the GDP and monetary transactions are growing, but also on how readily the banking system provides additional money in the course of extending credit and on how readily business firms and individuals adapt their practices in using money. In particular, we should keep in mind that a larger value of transactions can be carried out either with a larger amount of money or with a higher rate of turnover of money -- though usually it is a combination of the two. Moreover, an increase in the total money supply is typically divided between an increase in currency, provided by the central bank in the course of receiving foreign exchange or buying government securities, and an increase in demand deposits, provided by the commercial banks in the course of receiving foreign exchange or expanding their loans. Thus various combinations of an increase in currency, an increase in demand deposits, and an increase in rate of turnover are possible.

We may be able to get some idea of desirable monetary expansion to accompany accelerated economic growth by examining past trends in the East African economies.* As summarised in Table 4, both GDP and money grew quite rapidly from 1946 to 1954, though rising prices were a major factor at that time, and then more slowly from 1954 to 1962, when prices stabilised and then later the real rate of growth slowed down. The patterns of change were interestingly different in the two periods, however. In the first period the money supply increased at 63% of the rate of growth of GDP, while the index of debits to current accounts (representing at least approximately the rate of turnover of money) increased at 113% of the rate of growth of GDP. In the latter period, by contrast, the money supply increased at only 27%, while the index of debits to current accounts increased at 189%, of the rate of growth of GDP. Moreover, in the first period currency increased in nearly the same proportion as total money, whereas in the latter period it increased nearly twice as fast. The pattern of change in the latter period suggests to me an insufficiently expansionary monetary policy, particularly in creation of additional demand deposits by the commercial banks, and an adjustment by business firms and individuals through an unduly high rate of turnover.

Looking to the future, we may consider the effects of two alternative monetary policies -- one leading to the pattern actually observed from 1954 to 1962, and the other leading to a higher rate of increase of money relative to GDP, a lower rate of increase of debits to current accounts relative to GDP, and equal rates of increase of currency and demand deposits (which is approximately the pattern of the entire period 1946 to 1962). If GDP doubles in East Africa between 1962 and 1970, the "cautious" policy would imply an increase in the total money supply of about £29 million, of which currency would provide fully £23 million, and a rise of 3½ times in debits to current accounts. On the other hand, the "ambitious" policy would imply an increase in total money of nearly £80 million, of which currency would provide about £30 and demand deposits about £50 million, and only a little more than doubling of debits to current accounts. Thus the "cautious" policy might permit the governments to borrow about £3 million a year from the central bank, as it supplied the need for additional currency, but almost nothing from the commercial banks. On the other hand, the "ambitious" policy might permit government borrowing of about £4 million a year from the central bank, plus perhaps £2 million from the commercial banks, if they expanded demand deposits on the basis of one-third government and two-thirds private loans. Even the "ambitious" policy would still leave the bulk of development budgets to be financed by foreign aid and domestic taxes, but an additional £4 million a year, compared to the recent past, would surely come in handy.

It will be recognised that these estimates are uncertain, because of variability in the monetary reactions both of the banks and of business firms and individuals as GDP expands. Nonetheless I think they suggest the right orders of magnitude for the more expansionary monetary policy which an East African central bank would be able to provide. In practice a central bank could initiate monetary creation at a planned rate of this sort, and then raise or lower the planned rate in the light of trends which emerge in production, prices, and the balance of payments.

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* The following analysis depends entirely on the work of my colleague, George Lomoro, to whom I am greatly indebted. For a more through discussion see: G. Lomoro, "Monetary Expansion in East African Economic Development", E.A. Institute of Social Research, forthcoming.

(2) <u>Foreign exchange reserves.</u> A central bank would also have to make a judgment about the amount of foreign exchange reserves which ought to be held as a normal practice by the banking system. There is no presumption that the reserves inherited from the currency board and the reserves initially held by the commercial banks are just the right amount. In recent years the market value of foreign exchange held by the currency board has been about £50 million, while that held by the commercial banks has varied sharply in a range of about £0 to £20 million. (It should be remembered that the commercial banks can also draw on their home offices abroad. Additional foreign exchange held by other financial institutions, such as savings banks, and by government agencies and funds are also not counted here.)

Though it is conventional to think of these reserves as backing for the currency and demand deposits outstanding, there is really no necessary ratio between them in a system with a central bank. The real function of foreign exchange reserves is to enable the central bank to meet fluctuations in the balance of payments, letting its reserves increase or decrease temporarily, while continuing to maintain currency and demand deposits in the line with the needs of the domestic economies. Thus we can get some idea of necessary holdings of foreign exchange reserves by looking at past fluctuations in East Africa's trade and payments balances. Over the years 1946 to 1962, the maximum two-year cumulative deterioration in the balance of exports and imports was £30 million, in the two-year interval 1953-55. The next largest deterioration was £23 million. Looking at the complete balance of payments, including capital transactions, over the years 1956 to 1962, the largest two-year cumulative drain on the currency board and the commercial banks was £20 million, in 1959 and 1960. A moderate system of exchange control on residents' capital transfers would of course limit the risk that the experience of these years might be repeated. Using a somewhat different approach based on year-to-year and seasonal fluctuations in the money supply, W.T. Newlyn has suggested that a reserve of £30 million would have been more than adequate in the past.*

Thus it seems to me a reasonable estimate that the necessary foreign exchange reserves for an East African monetary system based on a central bank would be about £50 million. This implies something like an equivalent amount of excess reserves recently, and might permit additional government borrowing in the order of £3 million a year if the excess were gradually absorbed over a decade. It should be stressed, however, that the rate of government borrowing which would actually be practicable -- that is, the rate at which excess reserves could be drawn down -- would have to be judged by the central bank in the light of general economic trends.

There is also a tricky question of confidence here. Since the fallacy that government borrowing from a central bank is intrinsically inflationary is widespread, and since drawing down foreign exchange reserves may be interpreted as a harbinger of inflation and devaluation, a central bank would have to try in every way possible to allay worries about its expansionary policy. Even a moderate system of exchange control would unfortunately be an irritant on this score. There is no simple solution, but a firm commitment to maintaining ready convertibility of East African money at the present exchange rate, full participation by the commercial banks and other financial institutions as well as the central bank, and clear coordination of monetary policy with other aspects of implementing the development plans would surely help.

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* W.T. Newlyn, "Monetary Systems and Integration", <u>E.A. Economics Review</u>, June 1964.

C. A Central Bank, Economic Cooperation, and Political Federation

Even if it is accepted that a central bank could make important contributions to accelerating development, and that there is considerable scope for monetary expansion and economy of foreign exchange reserves in East Africa today, the question of practicability must still be faced. In view of uncertainty about political federation, operation of the common market, and fields of economic cooperation among the three governments, would it be practicable to change the monetary system independently of these other decisions?

It is important to recognise that there are a variety of possible arrangements for establishing a central bank, or several central banks, in East Africa. Four major possibilities can be distinguished. (a) The arrangement which has been implicit in this paper is a single East African central bank, with branches in each of the three capitals, run by a board of governors representing the three governments, EACSO, and the central and branch bank management. The three governments would have to agree to convert the currency board into the central bank, and then direct it to pursue a more expansionary monetary policy effective in all three countries. (b) Blumenthal has suggested a two-tier system consisting of one central bank, performing the essential functions discussed in this paper, and three independent state banks, actually carrying out transactions with commercial banks and treasuries in the three countries.* The three governments would join in governing the central bank as in (a), and would have to agree that the state banks must operate within central directives. (c) Newlyn has suggested a system of three central banks, performing nearly all the functions discussed here, but subject to the control of an East African reserve board in setting minimum foreign exchange reserves for the central banks, and agreeing to maintain the three currencies convertible at par and to have a joint system of exchange control.** The three governments would have to agree to these constraints on the central banks, and would participate in the reserve board. (d) The three governments might proceed independently to withdraw from the currency board and establish three central banks, having separate foreign exchange reserves and currencies and performing all the functions discussed here, subject to whatever coordination and cooperation is mutually acceptable. Let us examine the merits first of the two extreme arrangements, which bring out the main points of principle, and then of the intermediate ones.

(1) Three separate central banks. The possibility of independent central banks is a serious one. There are many smaller countries than Kenya, Uganda, and Tanganyika which operate central banks -- a notable recent example being Malawi. A separate central bank in one of the three countries could at least initiate more rapid monetary expansion, control of its commercial banks, promotion of government security markets, and exchange control on capital transfers outside East Africa. Monetary policy would become formally an additional instrument of national development planning. Indeed, if the three governments cannot agree on a common alternative to the present currency board system, the motivation to establish separate central banks will be very strong.

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* E. Blumenthal, The Present Monetary System and its Future: Report to the Government of Tanganyika, Dar es Salaam, 1963.

** W.T. Newlyn, loc. cit.

Nonetheless there is a serious limitation on the practicability of three separate central banks. It would not be possible for one of the three East African countries to pursue a markedly more expansionary monetary policy than the others, while at the same time maintaining convertibility of the three currencies at par, no exchange control on inter-territorial transactions, and free trade in goods and services within the common market. If it tried to do so, beyond a moderate degree of policy divergence, it would run into rising inter-territorial imports, loss of its separate-held foreign exchange reserves to the other partners, and probably substantial private capital flight to them. This raises a dilemma. On the one hand, if a single country wishes to pursue a markedly divergent monetary policy from the other two, it ought to be prepared to envision restraints on inter-territorial trade, inter-territorial exchange control, and if necessary devaluation. On the other hand, if a country wishes to maintain easy transactions within the common market, it can pursue its separate monetary policy only if its policy is roughly in line with those being independently pursued by the two partners.

(2) A single East African central bank. The principal advantage of a single central bank, from this standpoint, is that it would permit a more expansionary common monetary policy, shared among all three countries, without generating strain in inter-territorial transactions. The three governments would have to agree on the common policy, but this would simply recognise their intrinsic interdependence within the common market, and provide an explicit organisational arrangement for obtaining agreement.

Two further advantages may also be noted. First, a single central bank would preserve the present ease of making payments within the common market. The value to East African business firms of convenient means of payment, without currency conversion risk or exchange loss, and subject to uniform banking practices, may possibly be taken for granted today, but would become uncomfortably apparent if altered. Second, a single central bank is the most economical of the four arrangements. It would save something in general operating costs, by avoiding duplication of certain staff and services, and thereby help to sustain distribution of profits to the governments. More important, it would economise on the specialised manpower needed to carry out technical central banking functions effectively. Finally, a single pool of foreign exchange reserves would not have to be as large as three separate ones, because balance of payments fluctuations in the three countries are to some degree offsetting.

As far as I can see an East African central bank is equally compatible either with the present pattern of economic cooperation within the common market or with a future evolution toward closer cooperation and political federation. In the present setting, a single central bank would replace a monetary system which is already operating in a unified fashion, but comparatively passively, with a different unified system suitable to a more active monetary policy, and redounding to the benefit of all three countries. The three governments would not give up any powers which they now exercise, but would assume new powers to be exercised jointly. Moreover, more expansionary monetary policy could be conducted independently of agreement on any other steps toward closer cooperation. Increased government borrowing from the central bank could be readily shared on a one-third formula, and other aspects of monetary policy are so pervasive in their effects that they are not likely to generate difficult disputes. Thus it seems to me an East African central bank is quite viable independently of decisions, now apparently in abeyance, about political federation.

(3) The Blumenthal and Newlyn proposals. The two intermediate proposals in essence attempt to attain the economic benefits of a single central bank while conceding something to political separatism. They are both technically imaginative, but I fear they are both unstable compromises. The Blumenthal proposal is not far removed from a central bank with branches; if it were to succeed essential authority would still rest in the central board of governors, and the system would simply operate at higher costs because of duplication. However, the state banks do offer a misleading suggestion of independent authority, and would provide a ready framework for disputes. The Newlyn proposal is much closer to a system of completely separate central banks, and I fear would rapidly deteriorate into it. Separate currency and reserves would make even temporary imbalances in inter-territorial transactions highly conspicuous, and it is hard to envision the joint reserve board succeeding in imposing higher reserve requirements on a determined national central bank. Thus though compromises are the normal stuff of political decisions, in this case it seems prudent to move directly to a more stable arrangement.

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All things considered, formation of an East African central bank is probably the most practicable measure of more effective economic cooperation immediately open to the three East African governments. It would contribute significantly to accelerating development in all three countries, as projected in their plans, and would remove the risk that independent monetary action might seriously disrupt the common market. A single central bank could pursue a common policy of more rapid monetary expansion and economy in foreign exchange reserves without generating difficult inter-governmental disputes. A decision about forming a central bank therefore does not need to wait until the tangled problem of political federation is resolved.

TABLE 1.

Indicators of Economic Trends in East Africa

(£ million, unless otherwise indicated)

	1954	1958	1962	1963	Rate of Growth 54-58(%)	Rate of Growth 58-62(%)
A. Kenya.						
GDP, monetary	112.4	155.5	180.0	193.3	+8.4	+3.7
GDP volume [a]	111.2	156.4	178.9	192.3	+8.9	+3.4
Agricultural product	28.4	34.6	39.6	44.2	+5.1	+3.4
Non-agric.product	84.0	120.9	140.4	149.1	+9.5	+3.8
Gross investment	35.3	40.0	33.3	29.0	+3.2	-1.4
Investment/GDP volume	32%	26%	19%	15%		
Non-agric.employment (th)	321.3	343.7	335.8	315.4	+1.7	-0.6
Exports, foreign	20.3	29.3	37.9	43.8	+9.6	+6.7
Imports,foreign	60.3	60.9	69.5	73.7	+0.2	+3.3
Trade balance [j]	-37.6	-27.6	-24.3	-22.7		
Govt.curr.expend. [h]		32.8	37.5			+3.4
Tax revenue [h]		33.5	35.5			+1.4
Curr.budget surplus [h]		.7	- 2.0			
Import prices(index)	100	106	91		+1.4	-3.3
Retail prices(index) [i]		100	108	108		+1.9
Cost of living (index) [i]	100	116	127	128	+3.5	+1.7

a. Agricultural exports at 1960-62 prices.

b. For fiscal year beginning in calendar year, excluding financial transfers.

c. 28% in 1955.

d. 1955

f. June

g. 1961

h. For fiscal year beginning in calendar year, unadjusted

i. December

j. Including re-exports

k. Increase in new series added to old series for 1962.

m. Decrease.

TABLE 1.

Indicators of Economic Trends in East Africa

(£ million, unless otherwise indicated)

	1954	1958	1962	1963	Rate of Growth 54-58(%)	Rate of Growth 58-62(%)
B. Tanganyika.						
GDP, monetary	79.1	97.9	123.3	140.3[k]	+5.5	+5.9
GDP volume[a]	74.8	101.8	124.7	131.3	+8.0	+5.2
Agricultural product	35.1	39.2	48.5	60.4[k]	+2.8	+5.5
Non-agric.product	44.0	58.7	74.8	79.9[k]	+7.5	+6.2
Gross investment	21.8	22.7	24.4	25.1	+1.0	+4.2
Investment/GDP volume	29%	22%	20%	19%		
Non-agric.employment(th)	221.0	217.5	195.8[g]	m	+0.4	-3.2
Exports, foreign	36.2	41.7	51.2	63.6	+3.5	+5.3
Imports, foreign	32.0	33.6	39.8	40.4	+1.2	+4.3
Trade balance [j]	5.8	10.3	13.6	24.5		
Govt curr.expend.[b]	14.3	17.3	19.6		+4.9	+3.2
Tax revenue[b]	18.5	20.5	23.4		+2.6	+3.3
Curr.budget surplus[b]	4.2	3.2	3.8			
Import prices(index)	100	95	89		-1.2	-1.5
Retail prices(index)[f]	100	103	100	100	+0.7	-0.7

a. Agricultural exports at 1960-62 prices.

b. For fiscal year beginning in calendar year, excluding financial transfers.

c. 28% in 1955

d. 1955

f. June

g. 1961

h. For fiscal year beginning in calendar year, unadjusted,

i. December

j. Including re-exports.

k. Increase in new series added to old series for 1962.

m. Decrease.

TABLE 1.

Indicators of Economic Trends in East Africa

(£ million, unless otherwise indicated)

	1954	1958	1962	1963	Rate of Growth 54-58(%)	Rate of Growth 58-62(%)
C. Uganda.						
GDP, monetary	93.0	106.3	106.4	128.7	+3.4	+0.0
GDP volume[a]	79.1	95.1	105.6	125.7	+4.7	+2.6
Agriculture product	56.6	57.2	50.7	65.5	+0.0	-2.7
Non-agric.product	36.4	49.1	56.5	63.2	+7.8	+3.6
Gross investment	18.5	19.6	16.5	19.4	+1.4	-5.0
Investment/GDP volume	23%[c]	18%	15%	15%		
Non-agric.employment(th)	178.5	171.4	159.9	m	-1.0	-1.6
Exports, foreign	40.6	45.4	37.8	51.5	+2.8	-4.0
Imports, foreign	25.2	27.0	26.2	30.9	+1.7	-0.7
Trade balance[j]	15.8	19.4	14.5	23.6		
Govt.current expend.[b]	13.3	19.1	22.0		+9.5	+3.6
Tax revenue[b]	19.8	21.8	21.8		+2.4	+0.0
Curr.budget surplus[b]	6.5	2.7	- .2			
Import prices(index)	100	97	96		-0.7	-0.2
Retail prices(index)[f]	100[d]	96	85	87	-1.3	-2.8
Cost of living(index)[f]	100	115	125	130	+3.6	+2.1

a. Agricultural exports at 1960-62 prices
b. For fiscal year beginning in calendar year, excluding financial transfers.
c. 28% in 1955
d. 1955
f. June
g. 1961
h. For fiscal year beginning in calendar year, unadjusted.
i. December
j. Including re-exports
k. Increase in new series added to old series for 1962.
m. Decrease.

TABLE 2.

Features of Development Plans in East Africa.

A. Kenya.

	Recent Past[a]	Future Plan[b]
GDP volume, growth rate (%)	+3.4	+5.7
Agricultural product, growth rate (%)	+3.4	+6.8
Non-agric.product, growth rate (%)	+3.8	+5.4
Non-agric.employment, growth rate (%)	-0.6	+2.5
Gross investment share (% of GDP)	15% [c]	23%
Govt investment (£ million)	6.9	10.9[e]
Other public investment (£ million)	5.9	13.0[e]
Private investment (£ million)	20.5	30.7[e]
Govt.devel.budget, ann.ave. (£ million)	11.6[d]	13.4
Actual devel.expend., ann.ave. (£ million)	10.6	
Foreign finance, devel.budg., ann.ave. (£ mil.)	8.7	12.2[e]
Domes.finance, devel.budg., ann.ave. (£ mil.)	1.9	1.2[e]

n.s. Not specified.

a. Recent past is 58-62 for all countries' growth rates, 1962 for all countries' investment, 61/62-62/63 for Uganda devel.budget and actual and finance, 61/62-63/64 for Tanganyika devel.budget, 61/62-62/63 for Tanganyika actual and finance, 60/61-63/64 for Kenya budget, 60/61-62/63 for Kenya actual and finance.

b. Plan is 61-66 for Uganda growth rates, approx.1966 for investment, 63/64-65/66 for budget and finance in order to complete 5-year totals; 61-62 ave.to 1970 for Tanganyika growth rates, approx. 1967 for investment, 64/65-68/69 for budget and finance; 62-70 for Kenya growth rates, approx. 1967 for investment, 64/65-69/70 for budget and finance.

c. 1963.

d. Budget 60/61-62/63 plus settlement 60/61-62/63 plus budget including settlement 63/64. Settlement share is £2.6 million, general development £9.0.

e. Estimated from projected 1967 GDP, gross investment share, gov. and public investment in 66/67, financing plans 64/65-66/67.

f. Estimated from gov.and gov.financed public investment in 66/67, investment plans 64/65-68/69, projected 1967 GDP.

g. Estimated from projected 1966 GDP, gov. and public investment plans 61/62-65/66, private investment estimates 1961-65, financing plans 61/62-65/66.

TABLE 2.

Feature of Development Plans in East Africa.

	Recent Past[a]	Future Plan[b]
B. Tanganyika.		
GDP volume, growth rate (%)	+5.2	+8.5
Agricultural product, growth rate (%)	+5.5	+7.3
Non-ag.product, growth rate (%)	+6.2	+9.2
Non-ag.employment, growth rate (%)	-3.2	n.s.
Gross investment share (% of GDP)	20%	26%[f]
Gov.investment (£ million)	6.6	14.2
Other public investment (£ million)	2.9	14.9[f]
Private investment (£ million)	14.9	18.6[f]
Gov.devel.budget, ann.ave. (£ million)	8.0	20.4
Actual devel.expend., ann. ave (£ mil.)	6.7	
Foreign finance, dev.budg., ann.ave. (£ mil)	4.5	15.9
Domes.finance, dev.budg., ann.ave. (£ mil.)	2.2	4.5

n.s. Not specified.

a. Recent past is 58-62 for all countries' growth rates, 1962 for all countries' investment, 61/62-62/63 for Uganda devel.budget and actual and finance, 61/62-63/64 for Tanganyika devel.budget, 61/62-62/63 for Tanganyika actual and finance, 60/61-63/64 for Kenya budget, 60/61-62/63 for Kenya actual and finance.

b. Plan is 61-66 for Uganda growth rates, approx. 1966 for investment, 63/64-65/66 for budget and finance in order to complete 5-year totals; 61-62 ave. to 1970 for Tanganyika growth rates, approx. 1967 for investment, 64/65-68/69 for budget and finance; 69-70 for Kenya growth rates, approx. 1967 for investment, 64/65-69/70 for budget and finance.

c. 1963.

d. Budget 60/61-62/63 plus settlement 60/61-62/63 plus budget including settlement 63/64. Settlement share is £2.6 million, general development £9.0.

e. Estimated from projected 1967 GDP, gross investment share, gov. and public investment in 66/67, financing plans 64/65-66/67.

f. Estimated from gov.and gov. financed public investment in 66/67, investment plans 64/65-68/69, projected 1967 GDP.

g. Estimated from projected 1966 GDP, gov. and public investment plans 61/62-65/66, private investment estimates 1961-65, financing plans 61/62-65/66.

TABLE 2.

Features of Development Plans in East Africa.

	Recent Past[a]	Future Plan[b]
C. Uganda.		
GDP volume, growth rate (%)	+2.6	+4.0
Agricultural product, growth rate (%)	-2.7	n.s.
Non-ag.product, growth rate (%)	+3.6	n.s.
Non-ag.employment,growth rate (%)	-1.6	n.s.
Gross investment share(% of GDP)	15%	14% [g]
Govt. investment (£ million)	4.9	9.1[g]
Other public investment (£ million)	6.0	5.2[g]
Private investment (£ million)	5.6	5.1[g]
Govt. devel. budget, ann.ave.(£ mil.)	5.6	9.3
Actual devel.expend.,ann.ave.(£ mil.)	4.8	
Foreign finance, dev.budg.,ann.ave.(£ mil)	2.5	6.8[g]
Domes.finance,dev.budg.,ann.ave (£ mil.)	2.3	2.5[g]

n.s. Not specified

a. Recent past is 58-62 for all countries growth rate, 1962 for all countries' investment, 61/62 - 62/63 for Uganda devel.budget and actual and finance, 61/62-63/64 for Tanganyika devel.budget, 61/62-62/63 for Tanganyika actual and finance, 60/61-63/64 for Kenya budget, 60/61-62/63 for Kenya actual and finance.

b. Plan is 61-66 for Uganda growth rates, approx.1966 for investment, 63/64-65/66 for budget and finance in order to complete 5 year totals; 61-62 ave. to 1970 for Tanganyika growth rates, approx.1967 for investment, 64/65-68/69 for budget and finance; 62-70 for Kenya growth rates, approx. 1967 for investment, 64/65-69/70 for budget and finance

c. 1963.

d. Budget 60/61-62/63 plus settlement 60/61-62/63 plus budget including settlement 63/64. Settlement share is £2.6 mil., general development £9.0.

e. Estimated from projected 1967 GDP, gross investment share, gov. and public invest in 66/67, financing plans 64/65-66/67.

f. Estimated from gov. and gov.financed public investment in 66/67, investment plans 64/65-68/69, projected 1967 GDP.

g. Estimated from projected 1966 GDP, gov. and public investment plans 61/62-65/66, private investment estimates 61-65, financing plans 61/62-65/66.

TABLE 5.

Balance of Payments Estimates for East Africa

(£ million)

	1958	1959	1960	1961	1962	1963	1970
East Africa Bal. of Payments[a]							
Merchandise, incl. gold.	+ 0.5	+ 5.9	+ 2.1	- 0.9			
Invisibles	-17.5	-18.0	-12.7	- 7.8			
Current account.	-17.0	-12.1	-10.6	- 8.7			
Grants & public capital	+15.3	+ 4.3	+20.7	+29.9			
Long-term private capital	+10.2	+10.4	+21.0	+ 6.1			
Short-term private & omissions.	- 7.8	- 6.9	-47.0	-21.0			
E.A.C.B. and banks, (gain-)	- 0.8	+ 4.2	+15.9	- 6.4			
Sterling Assets, June 30							
E.A.C.B.	51.2	48.6	47.7	49.6	51.6		
Commercial banks	14.2	19.2	- 2.1	7.0	2.4		

a. A.G.T. Carter, "The Balance of Payments of East Africa 1956-61", E.A. Econ. Rev., Dec. 1963.

b. Peter Newman, "Description of Data Used in 'Foreign Investment and Economic Growth: The Case of East Africa, 1963-1970.'"

TABLE 5.

Balance of Payments Estimates for East Africa.

(£ million)

	1958	1959	1960	1961	1962	1963	1970
Kenya.							
Foreign trade balance	-27.6	-23.1	-29.9	-27.2	-24.3	-22.7	
Current account, incl. inter-territorial[b]	-18.6	-15.8	-18.3	- 7.9	- 6.5	+ 1.5	
Current account, per plan					- 5.0		- 9.4
Grants + public capital					+12.6		+ 9.4
Private capital + omissions					- 7.6		
Tanganyika.							
Foreign trade balance	+10.3	+12.8	+18.8	+10.9	+13.6	+24.5	
Current account, incl. inter-territorial[b]	- 5.4	- 0.8	+ 4.1	- 5.9	- 7.0	+ 6.4	
Current account, per plan				- 5.9			-25.3
Grants + public capital				+11.9			+21.0
Private capital & omissions.				- 3.4			+ 5.3
Reserves change (gain-)				- 2.6			- 1.0
Uganda							
Foreign trade balance	+19.4	+17.8	+16.9	+14.8	+14.5	+23.6	
Current account, incl. inter-territorial[b]	+ 7.8	+ 4.0	+ 5.0	+ 2.1	- 2.2	+ 5.7	

(Kenya 1970: the figure + 9.4 is bracketed across "Grants + public capital" and "Private capital + omissions".)

a. A.G.T. Carter, "The Balance of Payments of East Africa 1956-61", E.A. Econ.Rev., December 1963.

b. Peter Newman, "Descrition of Data Used in 'Foreign Investment and Economic Growth: The case of East Africa , 1963-1970'"

TABLE 4.

MONETARY TRENDS IN EAST AFRICA*

A. Values (£ mil.)	1946	1950	1954	1958	1962
GDP, monetary	79.3	181.2	285.1	371.2	409.7
Currency[a]	20.9	25.6	45.5	52.2	53.7
Demand deposits[b]	33.3	57.6	80.5	68.9	83.8
Total money	54.2	83.3	126.1	121.0	137.4
Debits to current accounts (index)	44	100	186	266	351
Curr.board reserves[c]	23.4	29.9	48.3	51.2[d]	51.6[e]
Comm.bank reserves[f]				14.2	2.4[g]
Curr.board holdings of gov.securities			0.0	6.3	15.0

B. Elasticities	1946-1954	1954-1962	1946-1962
Money, rel. to GDP	.63	.27	.55
Debits to current accounts, rel. to GDP	1.13	1.84	1.28
Currency, rel. to money	.91	1.92	1.00

* G. Lomoro, "Monetary Expansion in East African Development," E.A. Institute of Social Research, forthcoming.

a. June 30

b. December 31.

c. 54-62 market value of sterling assets; 46-50 currency board reserve fund.

d. 57.5 in 1957.

e. 47.7 in 1960.

f. Market value of sterling assets.

g. 19.2 in 1959, -2.1 in 1960.