INTERNATIONAL MONETARY FUND

Staff Country Reports

June 1996

IMF Staff Country Report No. 96/52

Ethiopia—Selected Issues

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INTERNATIONAL MONETARY FUND

ETHIOPIA

Selected Issues

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April 15, 1996

<u>Contents</u>	<u>Page</u>
Basic Data	iv
Selected Social and Demographic Indicators	vi
I. Introduction	1
II. Performance and Policies, 1992/93-1994/95	1
1. Overall developments and performance	1
2. Financial and structural policies	4
III. Money, Exogenous Shocks, and Prices	7
1. Introduction	7
2. Theoretical considerations	8
3. Empirical analysis	9
4. Summary	14
IV. The Coffee Boom--Economic Effects and Policies	15
1. Introduction	15
2. Coffee price and export developments in 1994/95	15
3. Macroeconomic effects of the coffee windfall	15
4. Policies to address the coffee boom	17
5. The incidence of the benefits of the windfall	20
6. The outlook	20
V. Developments in Regionalization Policy and Fiscal Implications	21
1. Introduction	21
2. Fiscal devolution from 1991/92 to 1994/95	21
3. Devolution in the Federal Democratic Republic of Ethiopia	26

	<u>Contents</u>	<u>Page</u>
Text Tables		
1.	Stationarity Tests	11
2.	Granger-Causality Tests	12
3.	Distribution of Powers of Taxation	23
4.	Central and Regional Allocation of Revenue and Expenditure, 1994/95	25
Appendix I. Tables		
I.	Gross Domestic Product by Sector at Constant 1980/81 Factor Cost, 1990/91-1994/95	29
II.	Expenditure on Gross Domestic Product at Current Market Prices, 1990/91-1994/95	30
III.	Estimates of Agricultural Production and Cultivated Area of Major Crops, 1990/91-1994/95	31
IV.	Estimates of Coffee Production, Marketing, and Stocks, 1990/91-1994/95	32
V.	Monthly Export and Arrival Volumes, and Coffee Prices, January 1992-December 1995	33
VI.	Summary of Investment Projects, July 1992-April 8, 1995	34
VII.	Ex Refinery and Retail Prices of Petroleum Products, 1989-95	35
VIII.	Addis Ababa Retail Price Index (Excluding Rent), January 1992-December 1995	36
IX.	Addis Ababa Retail Price Index and Its Components (Excluding Rent), January 1992-December 1995	37
X.	Registered Unemployed and Reported Vacancies by Occupational Classification, 1990/91-1993/94	38
XI.	Summary of Government Finances, 1990/91-1994/95	39
XII.	General Government Revenue and Grants, 1990/91-1994/95	40
XIII.	General Government Current Expenditure, Economic Classification, 1990/91-1994/95	41
XIV.	General Government Current and Capital Expenditure by Functional Classification, 1990/91-1994/95	42
XV.	Monetary Survey, June 1991-June 1995	43
XVI.	Loan Portfolio of the Banking System, June 1991-June 1995	44
XVII.	Sectoral Breakdown of Commercial Bank Claims, June 1991-June 1995	45
XVIII.	Commercial Bank Lending and Deposits, June 1991-June 1995	46
XIX.	The Commercial Bank of Ethiopia, Reserve and Liquidity Position, June 1991-June 1995	47
XX.	Structure of Interest Rates as of June 1995	48
XXI.	Balance of Payments, 1990/91-1994/95	49
XXII.	Exports, 1990/91-1994/95	50
XXIII.	Value of Imports, c.i.f., by End-Use, 1989/90-1993/94	51
XXIV.	Merchandise Trade Unit Values and Volumes, 1990/91-1994/95	52

	<u>Contents</u>	<u>Page</u>
XXV.	Selected Effective Exchange Rates, 1990/91-1994/95	53
XXVI.	Recorded Imports by Country of Origin, 1990-94	54
XXVII.	Exports by Country of Destination, 1990-94	55
XXVIII.	External Arrears, June 1993-June 1995	56
Appendix II.	Summary of the Tax System as of June 1995	57
Charts		
1.	Developments in Exchange Rates	5
2.	Relationship Between Money and Prices	10
3.	Selected Indicators	16

Ethiopia - Basic Data

Area, population, and GDP per capita

Area	1.1 million square kilometers
Population:	
Total (1992/93 estimate)	51.9 million
Annual growth rate	3 percent
GDP per capita (1992/93)	SDR 83.1

	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>	<u>1994/95 1/</u>
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Gross domestic product (GDP)

(In millions of birr)

GDP at current market prices	19,815.5	20,310.9	25,958.7	27,922.1	33,306.0
GDP at constant factor cost (at 1980/81 prices)	10,927.5	10,575.8	11,842.9	12,042.6	12,627.2

(In percent of GDP, unless otherwise specified)

Agriculture	51.6	57.2	54.2	50.8	50.2
Manufacturing	3.0	2.8	3.9	4.3	4.5
Distribution services	11.2	11.1	12.5	13.3	13.4
Public administration and defence	9.0	8.0	9.3	10.1	10.2
Annual real growth					
rate of GDP (in percent)	-3.2	-3.2	12.0	1.7	4.9
Investment (percent of GDP)	7.1	9.4	12.7	15.0	15.6

Prices

(Annual percent change)

GDP deflator	19.5	14.5	12.9	1.0	13.5
Consumer prices (period average)	20.9	21.0	10.0	1.2	13.4

Government finances

(Fiscal year beginning July 8)

(In millions of birr)

Revenue	2,706.3	2,208.1	3,091.6	3,827.2	6,114.8
Foreign grants	463.3	543.0	1,067.1	1,847.2	1,657.9
Expenditure and net lending	5,065.2	4,315.4	6,055.1	8,578.1	8,793.6
Current	3,813.3	3,331.8	3,878.1	5,157.2	5,731.7
Capital	1,251.9	983.6	2,177.0	3,420.9	3,061.9
Overall balance	-1,895.6	-1,564.3	-1,896.4	-2,903.7	-1,020.9
External interest arrears	82.7	78.3	11.2	53.8	33.7
Overall balance (cash basis)	-1,812.9	-1,486.0	-1,885.2	-2,849.9	-987.2
External financing (net)	420.7	299.2	1,047.4	2,105.2	1,130.2
Domestic financing (net)	1,191.6	1,162.0	1,107.0	935.0	-173.1
Banking system	1,191.6	1,162.0	1,107.0	935.0	-435.7
Residual financing	200.6	24.8	-269.2	-190.3	30.1

Money and credit

(In millions of birr at end of period)

Domestic credit	8,999.4	10,167.7	11,633.6	12,789.6	13,898.0
Claims on Government (net)	6,021.6	7,033.6	9,128.0	9,615.9	9,046.3
Other credit	2,977.8	3,134.1	2,505.6	3,173.7	4,851.7
Money and quasi-money	7,934.8	8,992.1	10,136.7	11,598.7	13,990.0

Ethiopia - Basic Data (concluded)

	<u>1990/91</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>	<u>1994/95</u> ^{1/}
<u>Balance of payments</u> ^{2/}					
	(In millions of SDRs, unless otherwise specified)				
Exports, f.o.b.	199.0	112.1	157.6	199.7	316.3
of which: coffee	(93.4)	(59.1)	(89.1)	(113.1)	(201.1)
Imports, c.i.f.	-741.0	-636.3	-745.3	-653.3	-739.1
Trade balance	-542.0	-524.2	-587.7	-453.6	-422.8
Services (net)	-2.6	9.6	-16.3	7.0	40.6
Private unrequited transfers	146.2	229.7	175.7	176.4	174.2
Current account balance (net)	-398.5	-284.9	-428.4	-270.2	-208.0
Official unrequited transfers	210.2	313.9	283.7	203.6	285.8
Capital account (net)	156.0	-83.7	-57.7	164.6	-4.5
Errors and omissions	32.2	-97.1	131.4	23.3	-30.8
Overall balance	-0.1	-151.8	-70.9	121.3	42.5
Current account deficit, excluding official transfers (in percent of GDP)	-5.8	-4.0	-9.9	-6.9	-4.6
<u>Exchange rate</u>					
Birr/SDR (period average)	2.876	2.847	6.023	7.109	8.413
<u>Gross liquid official foreign reserves</u>					
End of period	67.3	117.0	190.7	354.5	392.1
In months of imports	1.1	2.2	3.3	6.4	5.8
<u>External public debt</u>					
Outstanding (end of period) ^{2/}	2,355.7	2,435.4	2,702.3	2,857.2	2,879.0
Ruble-denominated debt to Russia (in millions of rubles)	...	...	...	...	2,986.0
Service payments (as percent of exports of goods and nonfactor services) ^{2/}	62.3	82.1	68.3	42.3	30.1
Arrears (end of period) ^{2/}	182.7	328.4	291.1	386.9	449.9

Sources: Data provided by the Ethiopian authorities; and staff estimates.

^{1/} Preliminary estimates.

^{2/} Excluding ruble-denominated debt/debt service to Russia.

Ethiopia - Selected Social and Demographic Indicators 1/

	1975	1985	Most recent estimate
Population characteristics			
Total population (thousands)	32,221	41,137	51,859
Urban population (percent of total)	9.5	11.5	13.0
Population growth rate (percent)			
Total	2.3	2.5	3.0
Urban	4.2	4.2	4.7
Life expectancy (years)	41	40	48
Food, health, and nutrition			
Index of food production per capita (1987 = 100)	113.4	99.2	84.0
Population per physician (thousands)	84.2	75.2	...
Population per nurse (thousands)	...	5.4	...
Population per hospital bed (thousands)	3.5	3.4	4.1
Access to safe water (percent of population):			
Total	8	16	18
Urban	58	69	70
Rural	1	9	11
Labor force			
Total labor force (thousands)	15,912	19,182	22,643
Agriculture (percent)	82	80	...
Industry (percent)	7	8	...
Female (percent)	40	38	37
Education			
Enrollment ratio			
Primary: Total	24	36	22
Female	15	28	18
Secondary: Total	6	12	12
Female	4	9	11
Pupil-teacher ratio:			
Primary	44	48	30
Secondary	34	43	34
Illiteracy ratio	96	38	...

Source: IBRD, Social Indicators of Development, 1995.

1/ In cases where data for 1975 or 1985 were not available, data pertain to the most recent previous year. The most recent estimate is, in general, for 1993.

I. Introduction

In mid-1992, the Government of Ethiopia began implementing significant economic reforms aimed at stabilizing the economy and deregulating economic activity. The progress made with respect to both objectives is described in Section II. Over the 1992/93-1994/95 period, ^{1/} there was a marked moderation in the rate of inflation, compared with that in the immediately preceding several years, reflecting, in part, relatively restrained monetary growth. From a longer-term historical perspective, the key role of changes in the money supply, along with the importance of exogenous shocks in influencing price behavior in Ethiopia, is examined in Section III. Although Ethiopia generally benefited in 1994/95 from the surge in world market coffee prices, the policy response to the windfall export earnings was less than fully adequate. A discussion of the issues involved is presented in Section IV. The devolution of governmental responsibilities to elected local and regional entities was substantially advanced by the ratification of the Constitution of the Federal Democratic Republic of Ethiopia in December 1994. Section V summarizes the effects of moving to a more truly federal system, and the implications for fiscal and macroeconomic management.

Tables on recent economic and financial developments are presented in Appendix I, and a summary of the tax system as of June 1995 is provided in Appendix II.

II. Performance and Policies, 1992/93-1994/95

Throughout the 1980s, the Ethiopian economy suffered a marked deterioration that stemmed from the effects of the prolonged civil war, recurrent droughts, and inappropriate--mainly centrally planned--economic policies. In mid-1992, the Government began implementing significant economic reforms aimed at stabilizing the economy and deregulating economic activity. Since that time, substantial progress has been made with respect to both objectives. Policy measures have aimed at correcting price distortions, lifting restrictions on the private sector, deregulating the labor market, reducing macroeconomic imbalances, realigning the exchange rate, and liberalizing the external exchange and trade system. Moreover, the decentralization of the political system and reform of the civil service have been initiated.

1. Overall developments and performance

The end of hostilities, coupled with measures to liberalize prices and improve access to production inputs, contributed to a strengthening of the real economy. After contracting at an annual rate of 3½ percent in 1990/91 and 1991/92, real GDP expanded on average by 6½ percent during 1992/93-1994/95 (Appendix I, Table I). In 1992/93, agricultural production

^{1/} Fiscal data pertain to the period July 8-July 7 and other data to the period July 1-June 30.

rebounded, which, combined with a surge in activity in other sectors, brought about a 12 percent increase in real GDP. The particularly strong performance of the industrial, transportation, and construction sectors was underpinned by the increased availability of foreign exchange. While a subsequent drought in 1993/94 led to a contraction in agricultural output, a further expansion of the industrial and service sectors resulted in overall real GDP growth of 1½ percent. Official estimates for 1994/95 suggest real economic growth of 5 percent, despite erratic rainfall, as the expansion of the industrial and service sectors has been sustained.

The annual rate of inflation (as measured by the Addis Ababa retail price index on a period-average basis) dropped from 21 percent in 1990/91 and 1991/92 to an average rate of 8½ percent during the 1992/93-1994/95 period (Appendix I, Table VIII). Important contributory factors included relatively restrained monetary growth--the money supply increased by a cumulative 56 percent, compared with an expansion of 64 percent in nominal GDP--and the increased availability of foreign exchange for imports.

Ethiopia's fiscal performance during 1992/93-1994/95 reflected mainly the postwar availability of external capital financing, major reforms to the tax system, and efforts to restrain and reorient the allocation of expenditure. Government revenue performance improved within a context of significant tax reforms that included sharp reductions in key rates. As a result, government revenue increased from 11 percent of GDP in 1991/92 to 13½ percent by 1993/94 and, owing to increased receipts from coffee export and direct taxes, as well as profits from financial institutions, to 18½ percent in 1994/95 (Appendix I, Tables XI and XII).

While the compression of defense outlays provided some room for expenditure switching, the overall infrastructure and reconstruction needs precluded a reduction in the ratio of government expenditure to GDP over the 1992/93-1994/95 period. Capital spending nearly doubled in 1992/93 to 8½ percent of GDP, which more than offset a compression of recurrent outlays (Appendix I, Tables XIII and XIV). The surge in total expenditure in 1993/94 to 30½ percent of GDP reflected further increases in both capital and recurrent outlays for reconstruction. In keeping with the Government's priorities, capital spending--which increased to 12½ percent of GDP--was reoriented toward economic development (transportation and communications) and social objectives (public health and education). In 1994/95, total expenditure dropped back to 26½ percent of GDP as recurrent spending--including wages and salaries--was contained, and capital expenditure declined to 9½ percent of GDP, owing to a reduction in the implementation rate and to lower levels of external financing. However, total expenditure was still higher than the 21½ percent of GDP recorded in 1991/92.

The overall fiscal deficit (excluding grants) increased to 11½ percent of GDP in 1992/93, from 10 percent in 1991/92, and to 16½ percent in 1993/94, before narrowing to about 8 percent in 1994/95. Bank financing of the deficit declined in both 1992/93 and 1993/94 and, in 1994/95, the Government made substantial net repayments to the banking system.

Monetary developments over the period 1992/93-1994/95 largely reflected outturns in the fiscal and external sectors, as the scope for autonomous monetary policy was limited by the paucity of available instruments. The growth in broad money over the three-year period resulted from the accommodation of an increased demand for credit by the private sector, which was needed to support the private sector recovery; the continued--albeit declining--financing needs of the government budget; and substantial increases in net foreign assets, owing to high export earnings and other generally favorable balance of payments developments (Appendix I, Tables XV, XVI, XVII, and XVIII). In the event, despite the limited scope for monetary policy, the expansion in domestic liquidity was held in check, as the dominant commercial bank carried large excess reserves, reflecting the narrow spread on its lending operations (Appendix I, Tables XIX and XX). In addition, as indicated above, the more favorable fiscal situation in 1994/95 permitted the repayment of government debt to the banking system. Moreover, steps were taken to develop financial markets and introduce new monetary instruments. Importantly, in January 1995, an auction for 90-day treasury bills was introduced.

Ethiopia's overall balance of payments position started to improve in 1992/93, and continued to strengthen in 1993/94 and 1994/95, associated in part with a significant cumulative depreciation in the real effective exchange rate (63 percent) (Appendix I, Table XXV). The current account (excluding grants) recorded a deficit of about 10 percent of GDP in 1992/93, as imports recovered to 1990/91 levels in response to the incipient liberalization (Appendix I, Tables XXI, XXIII, and XXVI). A marked rebound in the level of coffee exports and a sharp rise in exports of leather and leather products mitigated to some extent the impact of higher imports in that year (Appendix I, Tables IV, V, XXII, and XXVII). In 1992/93, the overall balance of payments deficit was about halved to SDR 71 million. The current account deficit declined to 7 percent of GDP in 1993/94, owing to a further large increase in coffee and leather and leather product exports and a decline in imports, which, coupled with a sharp improvement in the capital account, led to an overall balance of payments surplus of some SDR 121 million, notwithstanding a decline in official transfers. External developments in 1994/95 were dominated by the exceptionally favorable world market coffee prices, and coffee export receipts were almost twice their 1993/94 level. This increase, combined with continued strong growth of leather and leather product exports, more than offset a recovery in import levels. Thus, with a large improvement in the services account, and despite the easing of restrictions on invisible transactions noted below, the external current account deficit was narrowed to 4 percent of GDP. Moreover, despite a large deterioration in the capital account, an overall balance of payments surplus of SDR 43 million was recorded. Gross liquid official foreign reserves rose from 3½ months of imports in 1992/93 to 6½ months in 1993/94, before declining to 5½ months in 1994/95.

With regard to exchange rate policy and developments, in October 1992, the official exchange rate for the Ethiopian birr (Br) was changed from US\$1 = Br 2 to US\$1 = Br 5, and, in May 1993, biweekly auctions for foreign exchange were introduced. The marginal auction market rate subsequently

depreciated gradually through mid-1994, but then stabilized at about Br 6.25 per US\$1 in 1994/95 (Chart 1). On May 15, 1995, the official exchange rate was set at Br 6.26 per US\$1, the average of the auction market rates of the preceding month, and thus these two rates were, in practice, unified; in July 1995, the rates were unified de jure. After the auction market was introduced, the spread between the auction market and parallel market rates steadily narrowed from 52 percent to 15 percent through December 1994. Subsequently, the parallel market premium rose to about 21 percent at end-June 1995.

In order to reduce its external debt burden, in 1992 Ethiopia obtained debt relief from Paris Club creditor countries on London terms, estimated at US\$371 million. As a result, Ethiopia's total debt service ratio (excluding ruble-denominated debt to Russia) declined from 82 percent in 1991/92 to 65½ percent in 1992/93, 42½ percent in 1993/94, and 30 percent in 1994/95.

2. Financial and structural policies

The generally improved macroeconomic performance of the Ethiopian economy over the 1992/93-1994/95 period was underpinned by a wide range of fiscal, monetary, and external policies, as well as important structural reforms, which aimed at fostering a stable economy that would be both market based and oriented toward the private sector.

The changing economic climate was reflected in the implementation of a number of important tax policy reforms. In the first instance, the direct tax system was revised with a view to increased efficiency and equity. The personal income tax system was progressively simplified over the period: the number of bands was reduced from 18 to 5, while the top marginal rate was lowered in 1992/93 from 85 percent to 50 percent, and further to 40 percent in 1994/95. The tax scheme for unincorporated business income was similarly streamlined; the top marginal rate was aligned with the flat tax on corporate income, and in 1994/95 both rates were reduced from 50 percent to 40 percent. Several important reforms were also taken with regard to indirect taxation. Taxes on international trade were simplified: export taxes were abolished for all goods other than coffee, and the import tariff system was streamlined and the top rate sharply reduced. To offset the revenue effects of these reforms, other measures were implemented to broaden the tax base and improve collections. Specifically, the sales and excise tax systems were simplified; the coverage of the sales tax was extended to a broader range of services; and taxes were introduced for capital gains and rental income. As for the improvement of revenue collections, tax administration was further strengthened with external technical support; an independent Revenue Board was established, comprising the Customs and Inland Revenue Administrations; and the management and monitoring of counterpart funds from external assistance was improved. Other measures, including an expansion of presumptive taxation and rural land taxation, as well as reform of the agricultural income tax, were in progress by end-1994/95.

Chart 1

ETHIOPIA Developments in Exchange Rates

Trade-Weighted Exchange Rates, 1990-95 1/
(Indices, 1980=100)

Birr per Dollar Rates, May 1993 - February 1996
(End of period)

Sources: IMF, Information Notice System; National Bank of Ethiopia; and staff estimates.

1/ Based on marginal rate of foreign exchange auction since May 1993.

On the expenditure side, outlays were redirected to essential infrastructure and social services, and expenditure for the military and for government production activities was sharply scaled back. Upward pressures arising from a revision of the civil service pay scale were substantially offset by a rationalization of the civil service (which is still ongoing). The allocation of capital outlays for the period 1992/93-1994/95 reflects the priority accorded to infrastructure, energy, public health, and education.

As for structural reforms in the financial sector during 1992/93-1994/95, important monetary and financial sector legislation was promulgated, which, among other things, codified the authority of the National Bank of Ethiopia (NBE) regarding the oversight of commercial banks, and permitted the start-up of private banking and insurance activities. In 1994/95, the first private bank started operations, two banks were restructured, and five private insurance companies were licensed. Also, a more active interest rate policy was pursued and, as noted, auctions for treasury bills were introduced. Nevertheless, most previously outstanding government debt is long term in nature, and only a relatively small volume of treasury bills is available through the auctions to meet asset demand. Sector-specific interest rates administered by the NBE were terminated in 1994/95, and a minimum deposit rate (10 percent) and a maximum lending rate (15 percent) were established by the NBE.

As indicated above, following the large initial depreciation of the birr, a foreign exchange auction was introduced on May 1, 1993, to determine the exchange rate applicable to most transactions. The negative list that limits the activities for which foreign exchange may be purchased in the biweekly auctions was subsequently pared to products restricted for security and health reasons and used items; restrictions on payments for invisible transactions were considerably liberalized; and foreign exchange was made available in between exchange auctions for imports of capital goods. In addition to the reform of the exchange system, a duty-drawback scheme was introduced and, as noted above, the import tariff system was significantly rationalized. Specifically, tariff rates were cut, and the number of brackets and the scope of exemptions were reduced. For example, the maximum tariff rate was slashed from 230 percent to 80 percent, and the number of tax-exempt categories was reduced from 327 to 138.

As for the principal domestic structural reforms, direct price controls were almost completely eliminated, the distribution and transport of most commodities were liberalized, and new investment and labor laws were enacted. A market-oriented land-lease system in the urban areas was introduced, and an autonomous agency was established for the privatization of public enterprises. Through mid-1995, there was a limited public auctioning of urban land leases; and 7 state farms, 15 manufacturing firms, 24 hotels, and 71 retail stores were put up for divestiture. The divestiture process was modified to allow for sales, leases, employee buyouts, and management contracts to facilitate the privatization of state-owned enterprises. In addition, following revisions to the tender process, the reservation price was included with the tender offer to avoid unacceptably low bids. In

addition to procedural issues, the divestiture process has also been affected by restitution claims based on ownership prior to nationalization under the Dergue regime. Meanwhile, most state-owned enterprises are now managed as autonomous commercial entities, with the Government's role limited to participation on the management boards.

Finally, social and demographic indicators point to some favorable developments over the past decade or so. As indicated in the table on page vi, life expectancy has risen modestly; population per physician has declined; and access to safe water has expanded. In addition, the overall illiteracy ratio has fallen sharply; and both the secondary education enrollment and pupil-teacher ratios have improved. These developments broadly reflect the Governments' long-standing aim of promoting health and education as a means of accelerating economic development. However, over the same period, the index of food production per capita has declined; population per hospital bed has increased; and the primary education enrollment ratio has fallen. In this context, to redress these and other deficiencies, the current Government, as noted above, is reorienting public spending from defense toward social objectives.

III. Money, Exogenous Shocks, and Prices

1. Introduction

Over the last 30 years, Ethiopia has experienced moderate, albeit sometimes volatile, inflation, with an annual average rate of increase of consumer prices of some 7 percent. Given the benefits of low inflation in establishing a predictable macroeconomic environment conducive to sustainable growth and development, policymakers in Ethiopia have made low inflation a key objective. Over the same period, dramatic changes in macroeconomic policy have occurred, and the Ethiopian economy has been buffeted by a number of large exogenous shocks. This section empirically investigates the importance of both these factors--policy and shocks--in influencing the price level. Specifically, the scope for monetary policy in achieving a low-inflation objective and the impact of exogenous demand and supply shocks are examined.

The key role of changes in the money supply in determining prices has consistently been documented in empirical studies of other countries. Its limited financial asset market would lead one to also expect an important role for money supply changes in the determination of prices in Ethiopia. Apart from policy, the importance of rain-fed agriculture in the economy--accounting for more than half of GDP--and the dominant role of coffee export receipts in the balance of payments--more than half of all export earnings--make the Ethiopian economy directly susceptible to the adverse effects of periodic droughts and the volatility of world coffee prices. Both such shocks could have a significant feedback into the price level, the former through a supply contraction, and the latter through changing disposable income and thus domestic expenditure.

2. Theoretical considerations

Econometric studies of the money-inflation link have traditionally applied regression models for the study of time series data, paying little attention to the specification of the dynamic structure of the time series (see Kennedy, 1992). Furthermore, those models implicitly sometimes failed to control for the nonstationarity of the economic data. 1/ A number of studies have shown that if economic data are nonstationary, serious problems could arise with respect to the validity of the results. A wide variety of tests have been developed in order to test for the stationarity of a variable. Among those, the following are the most commonly used in the literature: (a) Dickey-Fuller (DF) (see Fuller, 1976); (b) augmented Dickey-Fuller (ADF) (see Dickey and Fuller, 1979); and (c) Phillips-Perron (PP) (see Phillips, 1987, and Phillips and Perron, 1988).

Once stationarity has been established, the relationship between money, prices, and other variables can be tested, and the question of whether movements in the dependent variable (money or the price level) are caused by movements in the independent variable(s) can be addressed. For this purpose, the statistical concept of "causality" is often applied. 2/ This involves regressing the dependent variable Y on past and current values of the independent variable X , and establishing whether the estimated coefficients for the independent variable are significantly different from zero. 3/

1/ The term stationarity indicates that the stochastic properties of a variable are invariant with respect to time (i.e., that the mean, variance, and covariance of the variable with its past values do not depend on time).

2/ A variable X is said to cause (or "Granger-cause") another variable Y , if the prediction of the current value of Y is enhanced by using current and past values of X (Granger, 1969). Alternatively, Granger-causality indicates that, given past values of Y , past values of X provide additional significant information for predicting Y .

3/ Specifically, testing for causality (or Granger-causality) patterns between two variables X and Y , for which stationarity has been established, involves two steps (see Granger, 1969 and 1981): first, the following type of dynamic specification is estimated:

$$Y_t = \mu_1 + \beta_1 t + \sum_{i=1}^q \gamma_{1i} Y_{t-i} + \sum_{i=0}^q \delta_{1i} X_{t-i} + u_{1t}$$

$$X_t = \mu_2 + \beta_2 t + \sum_{i=1}^q \gamma_{2i} X_{t-i} + \sum_{i=0}^q \delta_{2i} Y_{t-i} + u_{2t}$$

where: μ_1 , μ_2 , β_1 , β_2 , γ_1 's, γ_2 's, δ_1 's, and δ_2 's denote parameters to be estimated; q denotes the number of lags, not necessarily the same for all variables; and u_{1t} and u_{2t} are assumed to be mutually uncorrelated white

(continued...)

3. Empirical analysis

The broad measure of money supply (M2) is employed, which is defined as the sum of money and quasi-money, and was obtained from the International Financial Statistics (IFS) database. The price index (P) data are realizations of the Addis Ababa retail price index. Data on coffee prices (COFFEE) are quotations for African coffee in New York and were obtained from IFS. Rainfall (RAIN) data are based on readings by weather stations located across Ethiopia. These are indicated in millimeters and were obtained from the Famine Early Warning System (FEWS) database. The natural logarithms of all variables were used in the empirical analysis, and all data are quarterly and cover the period 1966-95, with the exception of rainfall data, which are quarterly but cover only the period 1966-90. Chart 2 depicts developments in the price level and broad money over the sample period.

The first step is to control for potential nonstationarity of the data on M2, P, COFFEE, and RAIN. Table 1 presents the results of stationarity tests using the DF, ADF, and PP procedures. All procedures indicate that both M2 and P are not stationary, while COFFEE and RAIN were found to be stationary. The nonstationarity of money and prices is in line with estimates for many other countries; the estimated stationarity of coffee prices is consistent with results obtained in the literature on commodity prices (see Deaton and Laroque, 1992); and the stationarity of the rainfall data accords with the intuition that climatic conditions are unlikely to change significantly over only a 25-year period. Table 1 also indicates, however, that data on M2 and P can be treated as stationary around a deterministic time trend (trend-stationary). ^{1/}

As money and the price level were found to be trend-stationary, and the price of coffee and rainfall were found to be stationary, causality tests can be conducted in order to identify the direction of causality between money, consumer prices, coffee price, and rainfall. ^{2/} Test results for two models explaining Ethiopian consumer prices are presented in Table 2. Specifically, Model 1 covers the period 1966-95 and regresses consumer

^{3/} (...continued)
noise processes. Then, causality patterns can be identified with conventional F-tests. Specifically, if $\beta_1 = \beta_2 = 0$ and some δ_1 's and δ_2 's have non-zero values, the above relationship implies a simple causal relationship with feedback (i.e., *simple bidirectional Granger-causality*). If $\beta_1 = \beta_2 = 0$ and some δ_1 's and δ_2 's have non-zero values, then the above relationship implies *instantaneous bidirectional Granger-causality*. Finally, *unidirectional Granger-causality* is implied if the above relations hold for one equation only.

^{1/} It should be noted that the results presented in Table 1 are based on a linear trend, while experimentation with other deterministic trend functional forms (e.g., quadratic) yielded similar results.

^{2/} The stationarity of the series implies that cointegration analysis is not necessary.

Table 1. Ethiopia: Stationarity Tests

	DF	ADF	PP
A. Levels			
M2	1.01	1.32	1.27
P	0.45	0.23	0.33
COFFEE	-2.62*	-2.75*	-1.85
RAIN	-10.40***	-10.77***	-10.90***
B. Levels with Trend			
M2	-3.45**	-3.70**	-3.61***
P	-2.10	-2.97**	-2.64*

Source: Staff calculations.

Notes: The sample covers the period 1966-95 (120 quarterly observations), with the exception of rainfall, which covers the period 1966-90 (100 quarterly observations). The critical values for the test statistics are: -3.51 (1 percent); -2.89 (5 percent); and -2.58 (10 percent). The number of lags in the ADF and the PP tests was determined on the basis of the Akaike information criterion (see Akaike, 1973). One asterisk (*) denotes significance at the 10 percent level, two asterisks (**) significance at the 5 percent level, and three asterisks (***) significance at the 1 percent level.

Table 2. Ethiopia: Granger-Causality Tests

Null Hypothesis	F-statistic	Implication
<u>Model 1 (1966-95):</u>		
Regression of P on T, M2 lags, P lags, COFFEE lags		
M2 does not cause P	3.58***	M2 => P
Lags of P do not cause P	165.75***	Past P => P
COFFEE does not cause P	1.45	COFFEE => P
<u>Model 2 (1966-90):</u>		
Regression of P on T, M2 lags, P lags, RAIN lags		
M2 does not cause P	3.52***	M2 => P
Lags of P do not cause P	502.14***	Past P => P
RAIN does not cause P	4.94***	RAIN => P
<u>Model 3 (1966-95):</u>		
Regression of M2 on T, Post-Dergue Dummy, P and lags, M2 lags, COFFEE lags		
P does not cause M2	2.41*	P => M2
Lags of M2 do not cause M2	54.27***	Past M2 => M2
COFFEE does not cause M2	2.14**	COFFEE => M2

Source: Staff calculations.

Notes: One asterisk (*) denotes rejection of the null hypothesis of "does not Granger-cause" at the 10 percent level of significance; two asterisks (**), rejection at the 5 percent level; and three asterisks (***), rejection at the 1 percent level. The number of lags was determined on the basis of the Akaike information criterion. The symbol "=>" indicates the direction of causality.

prices on a constant, a time trend (T), five lags of money supply, four lags of consumer prices, and eight lags of the coffee price. Model 2 covers the period 1966-90 (owing to the lack of data on rainfall since the end of 1990) and regresses consumer prices on a constant, a time trend, five lags of money supply, two lags of consumer prices, and eight lags of rainfall. In addition, Table 2 presents a third model, which covers the entire 30-year period, and sets out determinants of money supply. Model 3 regresses money supply on a constant, a time trend, a post-Dergue regime dummy variable, consumer prices and two of its lags, six lags of money supply, and nine lags of the coffee price.

Models 1 and 2 provide strong evidence that money supply changes cause changes in the price level, and that lagged values of prices (and especially the first lag) are significant determinants of current prices (both results are significant at the 1 percent level). It is important to note that money supply changes have an almost instantaneous effect on prices; the first lag of money supply turned out to be positive and highly significant, indicating that increases in money supply lead to price increases in the following quarter. However, longer lags have smaller additional effects on prices.

The results of Model 1 indicate no statistically significant (at the 10 percent significant level) causal relationship between coffee and consumer prices. On the other hand, the results for Model 2 indicate that rainfall is a highly statistically significant causal factor in affecting consumer prices. Specifically, the first few lags of rainfall (lags one, two, and four) have a negative impact on prices, indicating that an agricultural season already affected by a drought leads to gradually higher prices in the following quarters. It should be noted at this point that the inclusion, in Model 1, of a post-Dergue-regime dummy, which takes the value of one for the period since the third quarter of 1991 and zero for the earlier part of the sample period, yielded an insignificant coefficient. This result is consistent with the notion that the initial increases in prices after the liberalization in 1991/92 of the prices of certain commodities that were subject to administrative controls under the Dergue regime did not have a lasting effect on the overall price level, and they are not expected to recur in the future.

Turning to the determinants of money supply, test results based on Model 3 point to strong causality between past values of money supply and current money supply (significant at the 1 percent level), but also show that coffee prices exhibit strong causality with money (significant at the 5 percent level). With regard to the latter result, it should be noted that causality is mostly driven by the strong positive impact of the first lag of

the coffee price, while other lags have less significant effects. ^{1/} The null hypothesis of no causality from prices to money could be rejected only at the 10 percent level of significance, indicating a relatively weak causality pattern from prices to money. A post-Dergue-regime dummy was positive and significant, pointing to the conclusion that the post-Dergue liberalization of the economy led to higher money growth. In the context of the result that the post-Dergue period did not have a significant effect on the price level, this finding indicates that the more stable and market-based environment after 1991 has induced a positive shift in money demand.

4. Summary

In this section an attempt was made to estimate the causal relationship between money, prices, and other supply- and demand-side variables for the Ethiopian economy over the 30-year period extending from 1966 to 1995. The objective was to provide evidence on whether money supply affects prices or vice versa, and on whether other supply-side factors could affect the determination of prices and thus the monetary policy stance.

The results obtained provide insights on the dynamics of price level determination in Ethiopia. Importantly, it is found that both macroeconomic policy and exogenous shocks are significant determinants of the price level, with money growth having an almost instantaneous effect. Therefore, the monetary authorities have an important role to play in the pursuit of their low-inflation objective. The pertinence of monetary policy is further highlighted by the finding that coffee price developments feed their way into prices only indirectly through monetization effects. Given the volatility of coffee prices and the importance of coffee exports, this outcome points to the need for a vigilant policy to contain the monetary effects of surges in coffee prices in order to realize the inflation objective. ^{2/} The same argument extends to the role of monetary policy in offsetting other types of demand shocks.

Finally, the above analysis is less optimistic with respect to the possibility of eradicating price volatility. This is due, inter alia, to the importance of agriculture for the Ethiopian economy, periodic droughts, pest infestation, and changes in fertilizer availability, and reflects the demonstrated significance of supply shocks in influencing the price level. On the other hand, while there might be little scope for direct monetary policy intervention in response to harvest shortfalls, in the more

^{1/} Given the strong causality of the coffee price on the money supply obtained in Model 3, it might be suggested that the null hypothesis of no causality from the coffee price to the price level in Model 1 can not be rejected, due to potential multicollinearity between the money supply and coffee price. However, multicollinearity does not appear to be a problem in Model 1, as the coefficient of one of the variables, in this case, the money supply, is highly significant and its standard error is small.

^{2/} Section IV analyzes the policy response to the 1994/95 coffee boom.

liberalized economy of recent years, it might be possible to mitigate the price effects of such shortfalls through increased imports.

IV. The Coffee Boom--Economic Effects and Policies

1. Introduction

Increases in commodity prices in the recent past have offered economic benefits to a number of low-income countries, including Ethiopia. Ethiopia witnessed an approximate doubling in the price for coffee--the country's major export item--during 1994/95. While yielding a welcome increase in export earnings, the resultant windfall gain also posed challenges for the Government's overall policy goal of development led by the private sector in a noninflationary macroeconomic environment. In this section, the magnitude of the windfall is estimated, the policy options available and those pursued are discussed, and the distribution of the windfall gain between the public and private sectors is reviewed. The section concludes with a discussion of some policy implications for the future.

2. Coffee price and export developments in 1994/95

In response to the harvest shortfall in Brazil, coffee prices in the world market rallied after May 1994, with the average composite price calculated by the International Coffee Organization increasing by 110 percent. Ethiopia's earlier liberalization of agricultural marketing allowed for the full pass-through of world prices into domestic producer prices (Chart 3) and thus put coffee farmers in a position to increase their earnings in line with the higher world market prices. In the event, a price-related windfall gain of 2½ percent of GDP was realized during 1994/95. The actual increase in earnings from coffee exports was even somewhat larger because coffee farmers--in response to the Government's efforts to improve price information via daily radio broadcasts of producer prices--depleted their stocks, and sales for domestic consumption declined. As a result, the exported quantity increased by 7½ percent over the previous year's level, further boosting coffee export receipts by about ½ percent of GDP.

3. Macroeconomic effects of the coffee windfall

The significant windfall gain from higher coffee prices, as well as the higher export earnings from the ensuing supply response, afforded the economy an opportunity to increase savings and investment and thereby lay the foundations for higher sustainable growth in the years after the coffee boom. Based on empirical work for other countries, it would be expected that the propensity to save out of windfall gains would be significantly larger than that out of a steady income stream (see Collier and Gunning, 1996). On the other hand, windfall gains of the size estimated above, with the associated large inflows of foreign exchange, may risk large monetary expansions that put at risk inflation and exchange rate objectives.

Chart 3

ETHIOPIA Selected Indicators

Sources: Data provided by the Ethiopian authorities; and staff estimates.

Therefore, depending on the choice of policies adopted, such windfalls have the potential to boost the future growth potential of the economy through increased savings, or to undermine macroeconomic stability.

The monetary effects of the coffee boom in Ethiopia result from an accumulation of net foreign assets of the banking system. A connection between coffee prices and the stock of net foreign assets would be expected, given that coffee exports account for more than half of total exports. Moreover, this connection is particularly close in Ethiopia as a result of a 100 percent export earnings surrender requirement (i.e., exporters must surrender all export proceeds to the banking system in exchange for domestic currency). This regulation prevented exporters from immediately using their foreign exchange proceeds for imports--for example, to finance capital goods imports--which could have dampened the buildup of net foreign assets. Furthermore, other restrictions on the purchase of foreign exchange for imports supported the accumulation of net foreign assets. Ethiopia's much improved net foreign asset position thus posed the risk of a large increase in money supply which, other things being equal, would not have been met by a matching shift in money demand. Based on the analysis of the money-price link in Ethiopia presented in Section III, developments in Ethiopia strongly suggested the risk of a significant and rapid acceleration of inflation.

4. Policies to address the coffee boom

For the Ethiopian authorities, several policies were available to contain the inflationary pressures from the excess money supply. The "sterilization" policy options that could have been adopted can be broadly divided into three sets: (1) policies to dampen and contain the buildup of net foreign assets; (2) policies to reduce the level of domestic assets and thus offset the monetary impact of the buildup in foreign assets; and (3) policies to increase money demand and encourage financial deepening, thereby reducing the inflationary consequences of the increases in money supply. These options and the policies actually pursued are now discussed in turn.

First, if the Government had opted for the policies aimed at limiting the buildup of net foreign assets during the coffee boom, Ethiopia could have taken advantage of the high demand for capital goods imports, reflecting the urgent need to rebuild the capital stock that had been destroyed during the 1980s. Under these policies, the National Bank of Ethiopia (NBE) would have accommodated the economy's demand for foreign exchange for such imports in a period during which so doing would not have threatened the balance of payments position. In the institutional context of Ethiopia, such a policy stance would have entailed larger allocations in the biweekly foreign exchange auctions--technically equivalent to a relaxation of the export proceeds surrender requirement--which would have been reinforced by more frequent auctions, as well as by a further narrowing of the negative

list of goods for which bidding at the auction was not permitted. ^{1/} Alternatively, the import regime would have been liberalized further through various measures such as more tariff reductions, additional streamlining of licensing procedures, and permitting a wider group of bidders at the auctions.

In fact, the allocations of foreign exchange in the biweekly auctions were increased, but not in line with the higher export earnings from the coffee boom. Furthermore, the export proceeds surrender requirement was not relaxed, and access to the auction--though expanded by a reduction of the negative list--continued to be limited, notably with respect to bidding for imports of used goods. All these factors worked to ration the demand for foreign exchange. Thus, while significantly more foreign exchange was made available to private sector bidders through the auction, not all of the import demand was accommodated and, on an average monthly basis, an excess demand of US\$6 million developed at the auctions. In order to meet this excess demand and to prevent any increase in the net foreign assets, the NBE would have needed, on average, to make 30 percent more foreign exchange available to private bidders at the auction.

Coupled with such a rationing of import demand, Ethiopia's constrained capacity to meet a real demand shock by increasing domestic supply led to upward pressures on prices. This in turn provided a strong disincentive for exporters and coffee farmers to store their wealth in birr-denominated assets. In the absence of alternative assets, however, such portfolio diversification could only be into foreign exchange, thereby further boosting the demand for foreign exchange. On the other hand, supply in the only other market for foreign exchange, the sizable parallel market, did not increase. The stronger overall demand for foreign exchange resulted in a near doubling of the parallel market premium, from about 12 percent in April 1994 to about 21 percent at end-June 1995. While the policies pursued did contain the rise in net foreign assets somewhat, the coffee boom contributed to an increase of net foreign assets of about 15½ percent of beginning-of-period broad money, and additional measures would have been needed to prevent an equivalent monetary expansion.

The second set of possible policy options would have aimed at checking the monetary impact of the increase in net foreign assets by lowering the stock of net domestic assets. Importantly, the Government could have attempted to boost its savings and reduce the fiscal deficit through a policy of revenue enhancement and expenditure restraint. This would have allowed for a reduction of the Government's indebtedness to the banking system.

In the event, the Government's role in checking at least part of the monetary expansion associated with the increase in net foreign assets was

^{1/} This latter measure would, for example, have opened the foreign exchange auction to imports of used capital goods, an increasingly important source of capital goods for low-income countries.

facilitated by aspects of the Ethiopian tax system that provided for the automatic taxation of part of the windfall gains. As a result, the Government effectively received additional revenue of ½ percentage point of GDP from the direct and indirect taxation of the coffee boom through additional revenue from coffee export taxes, the taxation of the increased imports in response to the boom, and the direct taxation of the additional incomes of coffee farmers and exporters. Apart from the taxation of the coffee windfall, revenue collection was enhanced, and the Government's overall financing needs were further curtailed, by a reduction in expenditure equivalent to some 4 percentage points of GDP, so that the fiscal deficit (excluding grants) in 1994/95 was some 7 percentage points of GDP lower than in 1993/94. Owing to all these factors, net repayments to the banking system by the Government were equivalent to some 5 percent of beginning-of-period broad money. This was well short of the increase in net foreign assets. Taking into account a large rise in credit to the nongovernment sector--discussed below--a monetary expansion of 20% percent ensued.

Containment of the inflationary effects of monetary expansion, the aim of the third set of possible policies, would have sought to encourage financial deepening. Under these policies, the development of alternative domestic financial assets and an asset market would have been hastened, providing the private sector with alternative, high-yielding assets into which financial savings would have been channeled. Substantial sales of short-term treasury bills to the nonbank public would have absorbed some of the excess liquidity in the economy (and also allowed the Government to further reduce its indebtedness to the banking system). Moreover, the demand for broad money would have been increased through an interest policy that succeeded in maintaining positive real rates of return.

In the event, the authorities did take some important steps toward effecting financial deepening in Ethiopia, mainly by introducing in 1995 an auction for 90-day treasury bills. However, the treasury bill sales were limited in volume and taken up mostly by the Pension Fund, which used the bills as an alternative to its unremunerated excess cash holdings, thereby depressing returns on the bills. The resulting low nominal return on treasury bills, far short of the rate of inflation, significantly lowered their attraction as a store of wealth for the private sector. Moreover, over 1994/95, deposit interest rates were not adjusted, and then the nominal return on holdings of broad money fell increasingly short of the rate of inflation, actually dampening money demand.

Thus, while the policies pursued over 1994/95 contained elements of an appropriate policy response, they were less than fully adequate. In particular, net foreign assets grew sharply, the increase was largely monetized, and, with the generally quick pass-through of money supply changes into the price level, inflation increased. The actual acceleration in inflation from some 1 percent in 1993/94 to about 13½ percent in 1994/95 was, however, also driven by the lagged effects of the harvest failure in 1993/94.

5. The incidence of the benefits of the windfall

As the economic development program of the Ethiopian Government is premised on growth led by the private sector, the Government's aim in 1994/95 was to have the benefits of the windfall accrue to the private sector--in the first instance, mainly to coffee farmers and exporters. The policies pursued to achieve this objective included a predictable tax regime that was not adjusted in order to reap additional receipts for the public sector during the coffee boom, as well as large increases in the banking system's loans to the private sector.

The direct and indirect taxation of the coffee windfall (% percentage point of GDP) was fully compatible with the Government's objective of channeling the windfall gains to the private sector, that is, no discretionary or unforeseen taxation was imposed on the private sector in response to the coffee boom. To provide additional resources to the private sector, the earlier rationing of credit--an important impediment to private sector growth--was significantly relaxed in 1994/95. Other things being equal, the increase in credit contributed further to excess liquidity in the Ethiopian economy. This, combined with the accumulation of net foreign assets in response to the coffee boom, spurred inflationary pressures, and the associated receipts from the inflation tax amounted to 2% percent of GDP. Of this amount, based on the analysis in Section III, at least % percent of GDP--about one fourth of the entire windfall gain to the Ethiopian economy--can be attributed to the inflationary impact of the monetization of the coffee boom. In the event, and taking receipts from the inflation tax into account, more than half of the coffee windfall accrued to the Government.

6. The outlook

Although world market prices for coffee are tapering off and are projected to decline over the medium term, a reversal could occur at any point and thus pose a policy challenge for the Ethiopian Government similar to that in 1994/95. The policy choices would remain the same as in 1994/95, and, based on the experience of that year, some lessons may be drawn.

Most importantly, while significant parts of the windfall gain were indeed transferred to the private sector, the resultant demand expansion gave rise to inflationary pressures. Such pressures in the future could be checked, but only through a comprehensive set of policies comprising fiscal vigilance, liberalization of the exchange and trade regime, and a quickened development and deepening of financial markets. While these challenges remain, the benefits of higher receipts from coffee earnings for the Ethiopian economy cannot be overstated. In particular, the unique opportunity to increase savings and imports of essential capital goods in a manner that does not put the balance of payments at risk offers long-term rewards in the form of higher sustainable growth.

V. Developments in Regionalization Policy and Fiscal Implications

1. Introduction

The right of self-determination by the "nations, nationalities, and peoples" of Ethiopia within their territories, and the right to effectively participate in the Central Government were integral features of the reform agenda put forth in late 1991 by the Transitional Government of Ethiopia (TGE). ^{1/} This principle was subsequently reaffirmed with the ratification of the Constitution for the Federal Democratic Republic of Ethiopia in December 1994. An important aspect of this principle is the right of the nations or nationalities to alter a particular federal structure and merge with contiguous units, divide into smaller units, or secede if the envisaged right to self-determination is not adequately protected. ^{2/}

The structures and responsibilities articulated in the Constitution build on those promulgated by the TGE, albeit with significant modifications that reflect both the experience of the past several years, and the continued transformation from a centrally planned to a market-based economy. In particular, the Constitution establishes a considerably more advanced form of federalism and, accordingly, substantially reformulates the allocation of fiscal authority. As a result, the definition and codification of the fiscal responsibilities of the different layers of government has taken on an increased importance.

2. Fiscal devolution from 1991/92 to 1994/95

The 63 identified nationalities that constitute Ethiopia provided the basis for structuring the official Regions as the foundation for a federal type of government. ^{3/} Following the merger of five of the original Regions, a structure of nine Regions and two provisional administrations (Addis Ababa and Dire Dawa) has emerged. The relationship between the Central and Regional Governments was defined by legislation that established the original composition of the Regions, and the basis for altering their composition; articulated the structure of the government at the central

^{1/} A nation or nationality is defined as a people living in the same geographical area, sharing a common language and a common makeup of identity.

^{2/} The basis for a system comprised of layers of representative government in the context of Ethiopia's diverse population is described in SM/93/102 and SM/94/234.

^{3/} The official Regions, and their numbering are: Tigray (1), Afar (2), Amhara (3), Oromiya (4), Somali (5), Benshangul/Gumuz (6), Southern Ethiopian Peoples' Administrative Region (formed by the merger of the former Regions 7-11), Gambela (12), Harar (13), and Addis Ababa (14). Addis Ababa and Dire Dawa have been designated as provisional administrations, while the other Regions have become the National States under the Constitution.

and regional levels; and articulated the rights, obligations, and responsibilities of the various levels of government. ^{1/}

The allocation of fiscal responsibilities during this phase of the devolution reflected the principle that the Regional Governments were "in every respect, entities subordinate to the Central Transitional Government." ^{2/} As a result, the Central Government was given the authority to set not only monetary and financial policies, but also to determine economic and social development strategies, education and public health standards, civil service pay scales and benefits for the Regions and Central Government, and revenue policies. The regions were initially assigned subordinate authority to implement these policies. In this context, the Regions were allocated the responsibility for submitting recurrent and capital budgets to the Ministry of Economic Development and Cooperation (MEDC) and the Ministry of Finance, respectively, as part of the preparation of a consolidated budget. ^{3/}

Revenue sources were classified into three categories: those that belong to the Regions; those that belong to the Central Government; and those designated as belonging jointly to the Regions and the Central Government--to be distributed according to the determination of the Central Government (Table 3). ^{4/} In addition to determining the policies applied to its own and joint revenue sources, the Central Government was also charged with ensuring that measures enacted by the Regions and the Central Government were consistent with a unified tax policy base. This, combined with the explicitly subordinate status of the Regions, provided a limited basis for the Regions to pursue independent revenue policies, even within the specified subset of revenue sources at their disposal.

The devolution of expenditure to the Regions followed functional lines, and was not reflective of their widely differing revenue capacities. ^{5/} With regard to recurrent spending, the Regions acquired responsibility for

^{1/} These include Proc. No. 7/1992, which provides for the establishment of regional self-governments; Proc. No. 33/1992, which defines the sharing of revenue between the Central and Regional Governments; Proc. No. 31/1992, which extends the Investment Code to the Regions; and Proc. No. 41/1993, which defines the duties and powers of the Central and Regional Governments.

^{2/} Proc. No. 7/1992, Article 3.3.

^{3/} The Ministries of Planning and Economic Development and External Cooperation, initially charged with the responsibility for the capital budget, have been merged to form the MEDC.

^{4/} The allocation specified by Proc. No. 31/1992 was carried over to the Constitution, with only minor changes. The initial proclamations did not, however, clearly allocate to the Regions the right to determine the tax rates and/or bases of those revenue sources allocated to them.

^{5/} The initiating proclamation (Proc. No. 41/1993) defined a structure for the Central Government, which comprised 20 Ministries, and an equivalent array of Regional Bureaus, accountable to both the Regional Government, and to the relevant central Ministry.

Table 3. Ethiopia: Distribution of Powers of Taxation

Taxation Powers of the Federal Government

To levy and collect:

customs duties, taxes, and other payments on imports and exports;
income taxes on Ethiopian employees of international organizations;
income, profit, and sales taxes on government enterprises;
taxes on the proceeds of air, rail, water, and sea transport services;

and:

fix and collect government license fees and government stamp duties;
tax rental incomes of government houses and properties;
fix and collect rents on government houses and properties;
tax proceeds of national lotteries and other games of chance; and
tax and collect income of government monopolies.

Taxation Powers of the States

To levy and collect taxes on:

incomes of state and private enterprise employees;
incomes of private farmers and incorporated farms;
profits and sales of merchants that are state residents;
income from private properties within the state;
profits, income, and sales of state government enterprises;
income from mining operations;

and:

collect rent on houses owned by the State Governments;
fix and collect fees for land use and water transport within the State;
levy fees for state licenses and services;
fix and collect royalty fees for use of forest resources; and
collect land rents, and royalty fees from mining operations.

Concurrent Powers of Taxation

The Federal Government and States jointly levy and collect taxes on:

incomes, profits, and sales of enterprises jointly established;
profits of corporations and dividends paid to shareholders;
incomes from large-scale mining, petroleum, and gas operations;

and:

determine and collect royalties from large-scale mining, petroleum, and
gas operations.

personnel costs associated with their administrations, including health and education, albeit with pay scales, benefits, and grading defined by the Central Government. ^{1/} Responsibility for a significant share of capital outlays, particularly in the areas of agriculture, health, education, and road construction, devolved quickly to the Regions.

There was a predictable imbalance between expenditures and revenues for the combined Regions. External resources comprised an increasingly important source of public finance for Ethiopia, and the Central Government had also been allocated historically important revenue sources, including duties and charges on imports and exports, and tax revenue from enterprises owned by the Central Government. In contrast, the resources allocated to the Regions--which included personal income taxes (excluding employees of the Central Government), taxes on the profits of individual merchants, and some sales taxes--were difficult to collect, particularly in the context of the wide variation in institutional capacity at the Regional level. The imbalance was magnified by including as part of the Central Government's total revenue collections those sources designated as belonging jointly to the Central Government and the Regions. On the expenditure side, the extent of externally financed capital projects, and the devolution to the Regions of most civil service personnel provided the basis for a substantial structural deficit.

While about one-half of the Regions required substantial assistance from the Central Government in preparing their budgets for 1992/93, owing in part to the wide disparity in institutional capacity, budget submissions were prepared on a largely independent basis by 1994/95. By this time, the regions accounted for about 38 percent of recurrent spending and about 40 percent of capital outlays financed from domestic sources (Table 4). The bulk of capital expenditure in the areas of health, education, agriculture, and road construction had devolved to the Regions. Recurrent spending by the Regions on economic services grew rapidly, owing to the devolution of civil service personnel and their responsibilities for agriculture and natural resources, industry, trade and tourism. While there appears to be a considerable disparity in the composition of expenditure among the various regions, a lower share for capital outlays in a particular Region may reflect the omission of donor-supported projects that have been shifted to the Regions from the consolidated budget.

The revenue contribution from the Regions was highly concentrated, with four Regions accounting for more than 80 percent of receipts. Overall, the Regions accounted for about 37 percent of receipts from income and profits taxes, but only 17 percent of tax receipts overall, owing to the substantial contribution from sales and import tax revenues. In terms of nontax revenues, increases in receipts to the regions from sales of goods and

^{1/} In 1992, the Central Government employed an estimated 240,000 civil servants. By January 1995, the total number of civil servants was estimated at 277,000, of which only about 45,000 were employed by the Central Government.

Table 4. Ethiopia: Central and Regional Allocation of Revenue and Expenditure, 1994/95

	Federal State	Region 1 Tigray	Region 2 Afar	Region 3 Amhara	Region 4 Oromiya	Region 5 Somali	Region 6 Benishangul Gumuz	Region 7 Southern	Region 12 Gambella	Region 13 Harare	Region 14 Addis Ababa	Region 15 Dire Dawa	Total National States	Total General Government
(In percent of total)														
Total revenue	85.3	1.0	0.1	2.1	4.3	0.7	0.1	1.7	0.1	0.1	4.3	0.3	14.7	100.0
Tax revenue	83.4	1.1	0.1	2.1	5.0	1.0	0.1	1.9	0.1	0.1	4.8	0.4	16.6	66.9
Direct taxes	19.7	0.7	0.1	1.9	4.2	1.0	0.1	1.6	0.1	0.1	3.5	0.3	13.4	22.2
Sales and excise taxes	20.7	0.4	--	0.2	0.8	--	--	0.2	--	--	1.3	0.1	3.1	15.9
Customs revenue	43.1	--	--	--	--	--	--	--	--	--	--	--	--	28.8
Nontax revenue	89.2	0.8	0.1	2.1	2.8	--	0.1	1.3	0.1	--	3.4	0.2	10.8	33.1
Total expenditure	61.1	5.8	0.5	10.3	16.9	1.9	1.3	9.4	1.1	0.5	7.2	0.5	38.9	100.0
Recurrent expenditure 1/	61.7	3.1	0.2	7.7	13.3	1.2	0.7	6.2	0.6	0.5	4.3	0.4	38.3	70.2
General services	19.9	0.7	0.1	1.5	3.5	0.6	0.2	1.3	0.3	0.1	1.7	0.1	10.2	21.2
Economic services	3.7	0.7	0.1	1.6	2.0	0.2	0.1	1.3	0.1	--	0.5	0.1	6.7	7.3
Social services	6.0	1.5	0.1	3.8	6.5	0.4	0.4	3.3	0.2	0.2	2.1	0.2	18.5	17.2
Other	32.1	0.2	--	0.8	1.3	--	--	0.3	--	0.1	--	0.1	2.9	24.5
Capital expenditure 2/	59.6	6.3	0.7	6.3	8.4	1.7	1.3	7.6	1.0	0.1	6.9	0.2	40.4	29.8
General services	6.3	--	--	0.3	0.3	0.1	0.1	0.8	0.1	--	0.1	--	1.7	2.4
Economic services	49.3	3.7	0.5	3.7	5.8	0.9	0.3	3.1	0.5	0.1	2.0	0.1	20.7	20.9
Social services	4.0	2.7	0.1	2.3	2.4	0.7	0.9	3.6	0.4	--	4.9	0.1	18.1	6.6

Sources: Ministry of Finance; and staff estimates.

1/ Recurrent spending excludes external grants of aid in kind.

2/ Capital expenditure excludes outlays financed from external grants and loans.

services, as well as fees and charges, were more than offset by higher receipts from enterprises owned by the Central Government, particularly financial institutions. Moreover, land fees--which accrue to the Regions--were low, reflecting difficulties with regard to the auctioning of urban land-use leases.

The bulk of regional spending, therefore, was supported by transfers from the Central Government, which include the allocation of joint tax receipts as well as foreign assistance. Beginning in 1994/95, allocations from the Central Government to the Regions reflected a range of factors intended to capture the extent of existing expenditure needs as well as absorptive capacity. Initially, allocations were made separately for recurrent and capital budgets, and the distribution of external resources reflected the decentralization of ongoing projects to the Regions. While the Regions were granted the right to borrow from domestic sources, this was effectively precluded by separate legislation that disallows the commercial banks and the Central Bank from lending to the Regions. ^{1/}

3. Devolution in the Federal Democratic Republic of Ethiopia

The Constitution, ratified in December 1994, articulates a more advanced federal framework, compared with the earlier proclamations. In keeping with this transition, the Constitution also provides for a change in nomenclature: the Regions are now known as National States; the Central Government has become the Federal Government; and the consolidation of the States and Federal Government is termed the General Government.

The relationship between the States and the Federal Government is substantially different from that between the previous Regions and the Central Government. Foremost, all powers not explicitly given to the Federal Government--either separately or concurrently with the States--automatically devolve to the States. ^{2/} Moreover, while the Federal Government is granted authority for policy formulation in several areas, ^{3/} the Constitution also accords the States a substantial role in policy setting.

^{1/} The Monetary and Banking Proclamation (Proc. No. 83/1994) disallows the National Bank of Ethiopia from extending credit to entities other than the Central Government, banks, and financial institutions. The Licensing of Bank Businesses Proclamation (Proc. No. 84/1994) precludes the commercial banks from extending credit to the Regional or Central Governments.

^{2/} Article 52.1 of the Constitution of the Federal Democratic Republic of Ethiopia. The Amharic original is designated as the source of final authority, and the English translation is unofficial.

^{3/} These include defense; foreign policy; financial, monetary, and foreign investment policies; the development and regulation of transportation, postal, and telecommunications services; and inter-state and foreign commerce.

In terms of revenue policies, the authority to determine the rates, bases, and allocation of revenue sources belonging to the States is clearly vested with the States themselves, while the allocation of those sources described as joint now falls under the jurisdiction of the Federal Council and the Council of the People's Representatives that comprise the Federal Government. 1/ Moreover, undesignated revenue sources can be allocated only with the consent of two-thirds of both Councils, with more stringent conditions for the reallocation of revenue sources included in the Constitution. In general terms, the resources allocated to the States and to the category of joint revenues are likely to be more buoyant over the medium term, particularly with improved administrative capacity and expanded private sector activity.

Provisions regarding expenditure are considerably less detailed than those for revenue, particularly regarding the responsibility for providing services. The requirement that the States implement conditions of service for their employees equivalent to those for the federal employees has been eliminated, and replaced by the requirement that educational and training requirements for civil servants employed by the States approximate national standards. The Federal Government does retain a more narrowly defined authority to establish broad policies, including national standards for public health and education. The further decentralization of expenditure, however, is limited, owing to the Federal Government's continued responsibility for defense, interstate commerce, the administration and regulation of all forms of transportation, postal services, and telecommunications. While, state revenue resources are expected to become more buoyant, transfers will remain important as a means of offsetting the sharp differences between States both in terms of revenue capacity and expenditure needs.

The need to ensure that fiscal decentralization is consonant with the overarching objective of macroeconomic stability will be important in the further definition of the roles accorded to the States and to the Federal Government. 2/ Transfers and grants from the Federal Government to the States will continue to be substantial. As a result, the budget process

1/ The Council of the Peoples' Representatives (500 seats) is to be elected by districts, with 20 seats reserved for minority nations, nationalities, or peoples. The Federal Council has one seat per nation, nationality or people, with an additional seat for each 1 million constituents. The members of the Federal Council may be elected either by the State Councils, or by popular vote in the State.

2/ The changes at the institutional level are highlighted by the increased role of the States in dealing with nongovernmental relief organizations (NGOs). Until recently, this was accomplished entirely through the Relief and Rehabilitation Commission (RRC), which maintained a staff of 4,000 that interacted with all levels of government. By September 1995, however, the RRC had been reduced to a central staff of about 347, and the States had acquired the responsibility for organizing the efforts of the NGOs, and for evaluating, appraising, and monitoring the related projects.

would need to encompass the full range of capital expenditures, including those financed directly by donors, to ensure a balance with regard to the development of key infrastructure, the implementation of national standards for public health and education, and sufficient allocations for operations and maintenance. In this context, the consolidation of the strategies and policies of the various States and those of the Federal Government into a single document could provide an appropriate basis for future allocations of both domestic and external resources, within a framework that ensures continued macroeconomic stability.

The increased scope for state policies with regard to both revenues and expenditures underscores the importance of defining the mechanisms for adjusting in a timely manner any discrepancies between budget allocations and actual revenue receipts and outlays. Because the allocation of revenues indicated in the Constitution is not readily alterable, the main source of flexibility for offsetting revenue shortfalls or expenditure overruns is in the allocation of the joint revenue pool and external assistance. Simultaneously, the expanded scope for policymaking at the state level has heightened the difficulty in projecting revenues and expenditures. In this context, the advancing federal structure emphasizes the importance of adequate institutional capacity at the state level for providing an appropriate basis for policy determination, and for meeting the need for accurate projections for budget preparations, as well as later revisions.

The potential for destabilizing competition among the States is largely limited by the allocation of revenue responsibilities: the Federal Government retains authority over import tariffs and related exemptions, while the taxation of corporations is the joint responsibility of the State and Federal Governments. Nevertheless, the movement to a Federal Government emphasizes the role of coordination between state and federal policies so as to avoid an undue burden on some revenue sources to offset shortfalls in other areas. In a similar manner, the allocation of responsibility to the States and Federal Government to adjust to economic developments will be important for the stability of Ethiopia's macroeconomy.

Table I. Ethiopia: Gross Domestic Product by Sector at
Constant 1980/81 Factor Cost, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	1994/95 Est.
<u>(In millions of birr)</u>					
GDP at constant factor cost	<u>10,927.5</u>	<u>10,575.8</u>	<u>11,842.9</u>	<u>12,042.6</u>	<u>12,627.2</u>
Agriculture and allied activities	6,190.4	6,051.5	6,424.2	6,122.0	6,344.9
Of which: agriculture	(5,407.4)	(5,252.9)	(5,604.8)	(5,316.2)	(5,510.5)
Other commodity sectors	1,031.4	943.8	1,215.4	1,301.8	1,406.0
Of which: manufacturing	(332.5)	(297.6)	(458.2)	(516.2)	(564.7)
handicrafts	(191.8)	(190.6)	(226.2)	(229.5)	(247.8)
building and construction	(286.3)	(242.8)	(287.6)	(314.8)	(337.5)
Distribution services	1,225.8	1,174.3	1,484.0	1,603.4	1,691.8
Other services	2,479.9	2,406.3	2,719.3	3,015.4	3,184.5
Of which: public administration and defense	(985.7)	(842.0)	(1,105.9)	(1,213.7)	(...)
education	(271.3)	(278.5)	(271.1)	(278.2)	(...)
health	(90.8)	(100.0)	(114.7)	(136.8)	(...)
<u>Memorandum item:</u>					
Nonagricultural GDP	4,737.1	4,524.3	5,418.7	5,920.6	6,282.3
<u>(Annual percent change)</u>					
GDP at constant factor cost	<u>-3.2</u>	<u>-3.2</u>	<u>12.0</u>	<u>1.7</u>	<u>4.9</u>
Agriculture and allied activities	7.1	-2.2	6.2	-4.7	3.6
Of which: agriculture	(7.8)	(-2.9)	(6.7)	(-5.1)	(3.7)
Other commodity sectors	-19.1	-8.5	28.8	7.1	8.0
Of which: manufacturing	(-39.2)	(-10.5)	(54.0)	(12.7)	(9.4)
handicrafts	(-14.5)	(-0.6)	(18.7)	(1.5)	(8.0)
building and construction	(-9.9)	(-15.2)	(18.5)	(9.5)	(7.2)
Distribution services	-24.4	-4.2	26.4	8.0	5.5
Other services	-5.1	-3.0	13.0	10.9	5.6
Of which: public administration and defense	(-14.1)	(-14.6)	(31.3)	(9.7)	(...)
education	(9.0)	(2.7)	(-2.7)	(2.6)	(...)
health	(-3.6)	(10.1)	(14.7)	(19.2)	(...)
<u>Memorandum item:</u>					
Nonagricultural GDP	-14.0	-4.5	19.8	9.3	6.1

Source: Data provided by the Ethiopian authorities.

Table II. Ethiopia: Expenditure on Gross Domestic Product at Current Market Prices, 1990/91-1994/95

	1990/91	1991/92	1992/93	1993/94	1994/95 Est.
(In millions of birr)					
Gross domestic expenditure	<u>21,229.2</u>	<u>21,596.6</u>	<u>28,315.5</u>	<u>30,518.3</u>	<u>36,313.8</u>
Consumption	19,818.8	19,685.3	25,027.5	26,330.0	31,111.1
Private	16,771.0	17,577.7	22,208.7	23,174.8	27,022.8
Public	3,047.8	2,107.6	2,818.8	3,155.2	4,088.3
Gross fixed capital formation	1,410.4	1,911.3	3,288.0	4,188.3	5,202.7
Private	560.6	1,222.8	1,655.2	1,622.6	2,906.3
Public	849.8	688.5	1,632.8	2,565.7	2,296.4
Resource gap	<u>-1,413.7</u>	<u>-1,285.7</u>	<u>-2,356.8</u>	<u>-2,596.2</u>	<u>-3,007.8</u>
Exports	1,124.0	937.4	2,356.3	3,223.0	4,725.6
Imports	2,537.7	2,223.1	4,713.1	5,819.2	7,733.4
GDP at current market prices	<u>19,815.5</u>	<u>20,310.9</u>	<u>25,958.7</u>	<u>27,922.1</u>	<u>33,306.0</u>
Memorandum items :					
Net factor income from abroad	-340.8	-178.7	-348.7	-431.8	-354.6
GNP at current market prices	19,474.7	20,132.2	25,610.0	27,490.3	32,951.4
Gross domestic savings	-3.3	625.6	931.2	1,592.1	2,194.9
Of which: public	(-344.1)	(100.5)	(272.8)	(295.5)	(1,998.7)
(In percent of GDP)					
GDP at current market prices	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Gross domestic expenditure	<u>107.1</u>	<u>106.3</u>	<u>109.1</u>	<u>109.3</u>	<u>109.0</u>
Consumption	100.0	96.9	96.4	94.3	93.4
Private	84.6	86.5	85.6	83.0	81.1
Public	15.4	10.4	10.9	11.3	12.3
Gross fixed capital formation	7.1	9.4	12.7	15.0	15.6
Private	2.8	6.0	6.4	5.8	8.7
Public	4.3	3.4	6.3	9.2	6.9
Resource gap	<u>-7.1</u>	<u>-6.3</u>	<u>-9.1</u>	<u>-9.3</u>	<u>-9.0</u>
Exports	5.7	4.6	9.1	11.5	14.2
Imports	12.8	10.9	18.2	20.8	23.2
Memorandum items :					
Net factor income from abroad	-1.7	-0.9	-1.3	-1.5	-1.1
GNP at current market prices	98.3	99.1	98.7	98.5	98.9
Gross domestic savings	--	3.1	3.6	5.7	6.6
Of which: public	(-1.7)	(0.5)	(1.1)	(1.1)	(6.0)

Source: Data provided by the Ethiopian authorities; and staff estimates.

Table III. Ethiopia: Estimates of Agricultural Production and Cultivated Area of Major Crops, 1990/91–1994/95

	1990/91		1991/92		1992/93		1993/94		1994/95 3/	
	Cultivated Area 1/	Total Production 2/	Cultivated Area 1/	Total Production 2/	Cultivated Area 1/	Total Production 2/	Cultivated Area 1/	Total Production 2/	Cultivated Area 1/	Total Production 2/
Cereals	3,899	53,202	3,833	45,672	...	...	7,076	60,913	5,733	62,254
Teff	1,263	18,045	1,351	11,750	...	...	1,710	12,127	1,841	13,044
Barley	551	7,114	593	7,043	...	...	1,180	10,307	877	8,626
Wheat	487	6,995	538	7,447	...	...	1,210	10,541	766	10,460
Maize	909	11,589	751	12,345	...	...	1,092	13,541	1,101	17,072
Sorghum	489	6,706	421	5,479	...	...	1,557	11,893	885	11,153
Millet	163	2,210	151	1,279	...	...	286	2,229	229	1,537
Oats	37	543	28	329	...	...	41	275	34	362
Pulses	675	9,587	701	6,241	...	...	2,054	7,293	880	8,017
Horsebeans	243	3,666	295	3,250	...	...	445	2,746	342	3,947
Chick peas	117	1,719	110	762	...	...	231	1,522	155	1,482
Haricot beans	92	1,271	38	388	...	...	913	587	70	366
Field peas	117	1,502	139	1,042	...	...	287	1,423	175	1,231
Lentils	41	624	43	256	...	...	100	415	58	368
Vetch	65	805	76	543	...	...	78	600	80	623
Other	244	3,133	208	870	...	...	475	1,975	...	...
Neug	159	2,036	139	512	...	...	162	523	197	447
Linseed/Flax	63	840	58	271	...	...	149	646	110	539
Fenugreek	10	117	6	34	...	...	17	74	13	67
Rapeseed	12	140	5	53	...	...	28	160	15	119
Sunflower	--	--	--	--	...	...	9	22	...	...
Groundnuts	--	--	--	--	...	...	9	25	...	...
Sesame	--	--	--	--	...	...	101	525	...	...
Total	4,818	65,922	4,742	52,783	...	...	9,605	70,181	...	...
(Annual percent change)										
Cereals	2.2	4.9	-1.7	-14.2	...	...	...	...	-19.0	2.2
Pulses	23.2	61.5	3.9	-34.9	...	...	...	...	-57.2	9.9
Other	22.0	279.3	-14.8	-72.2	...	...	...	...	...	...
Total	5.6	14.7	-1.6	-19.9	...	...	...	...	...	...

Source: Central Statistical Authority.

1/ In thousands of hectares.

2/ In thousands of quintals.

3/ Preliminary estimates.

Table IV. Ethiopia: Estimates of Coffee Production, Marketing, and Stocks, 1990/91–1994/95 ^{1/}

(In thousands of metric tons)

Coffee year (October/September)	1990/91	1991/92	1992/93	1993/94	1994/95
Opening stocks	168	220	237	239	253
Production	210	216	210	222	228
Domestic consumption	72	72	78	78	75
Exports ^{2/}	51	40	70	80	79
Unwashed	40	33	60	71	69
Washed	11	7	10	9	10
Adjustments ^{3/}	35	87	60	50	76
Closing stocks	220	237	239	253	251

Source: Ministry of State Farms and Coffee and Tea Development.

^{1/} Estimates (except for exports) based on Coffee Sector Survey.

^{2/} As recorded on loading at port rather than at customs stations.

^{3/} Represents, among other factors, unofficial exports and handling losses.

Table V. Ethiopia: Monthly Export and Arrival Volumes, and Coffee Prices, January 1992–December 1995

	Export volume (Metric tons)	Arrival volume	Estimated producer price 1/ (Birr per metric ton)	Auction price 2/ (Birr per metric ton)	Domestic price 3/ (Birr per metric ton)	Export unit value 2/	Premium 4/	ICO composite price 5/
1992: January	3,228	5,554	2,505	2,845	10,670	5,496	275.0	61
February	2,182	8,926	2,399	2,739	10,920	6,851	298.7	56
March	4,147	8,024	2,431	2,771	10,500	4,657	278.9	57
April	3,337	8,297	2,392	2,732	10,880	5,011	298.2	52
May	1,999	9,090	2,351	2,691	10,280	5,639	282.0	49
June	7,300	5,986	2,344	2,684	10,780	5,234	301.6	48
July	4,794	2,293	2,351	2,691	11,640	4,855	332.6	49
August	4,355	2,010	2,284	2,624	11,890	4,472	353.1	46
September	4,259	1,278	2,288	2,628	11,950	7,020	354.7	48
October	351	3,222	3,915	4,255	14,400	14,540	238.4	53
November	6,026	4,413	4,729	5,069	14,330	11,469	182.7	58
December	2,089	5,892	5,355	5,695	14,090	9,602	147.4	65
1993: January	4,701	8,096	5,642	5,982	14,180	10,607	137.0	58
February	6,724	9,918	5,645	5,985	14,270	9,509	138.4	58
March	4,274	13,859	5,873	6,213	14,000	11,511	125.3	55
April	8,336	13,825	5,787	6,182	14,670	9,075	137.3	51
May	8,948	9,783	5,647	6,045	14,180	7,257	134.6	54
June	12,508	10,510	5,605	6,003	14,440	9,089	140.5	55
July	8,241	7,805	7,071	7,469	14,600	8,547	95.5	61
August	2,321	5,256	9,397	9,795	14,400	8,746	47.0	68
September	5,091	3,077	9,003	9,401	16,130	10,290	71.6	72
October	4,410	3,874	7,921	8,319	15,500	10,664	86.3	68
November	2,331	6,026	7,558	7,956	15,200	10,915	91.1	70
December	2,121	8,990	7,467	7,865	15,330	12,433	94.9	71
1994: January	1,948	10,431	6,731	7,129	16,200	12,309	127.2	69
February	1,793	11,001	7,632	8,031	15,000	13,333	86.8	72
March	8,420	14,048	7,914	8,312	16,000	10,114	92.5	76
April	10,020	14,210	9,348	9,746	16,000	10,091	64.2	81
May	10,140	16,072	13,871	14,270	16,130	10,922	13.0	109
June	12,276	12,720	14,043	14,441	17,900	10,645	24.0	128
July	13,226	12,283	17,690	18,088	21,200	11,451	17.2	191
August	4,996	8,194	18,825	19,223	25,200	16,578	31.1	180
September	8,240	5,197	19,177	19,516	27,300	19,406	39.9	202
October	8,868	3,372	17,822	18,220	27,500	26,931	50.9	185
November	6,291	1,802	14,521	14,919	26,900	27,356	80.3	167
December	2,304	6,255	15,261	15,659	26,400	27,356	68.6	149
1995: January	1,155	6,374	15,875	16,279	25,700	24,727	57.9	152
February	2,295	8,229	18,463	18,861	26,400	23,337	40.0	152
March	5,771	14,530	19,491	19,889	28,500	23,187	43.3	163
April	7,791	11,695	19,020	19,418	28,400	24,821	46.3	159
May	9,471	12,452	18,794	19,192	30,000	24,641	56.3	155
June	11,793	12,204	17,204	17,602	29,100	23,907	65.3	141
July	9,213	6,174	15,997	16,395	29,000	21,936	76.9	132
August	6,375	8,592	16,167	16,565	27,100	20,862	63.6	141
September	7,918	5,197	12,442	12,840	26,400	20,948	105.6	124
October	4,683	4,567	12,887	13,285	25,100	20,261	88.9	120
November	6,013	7,871	12,464	12,862	22,400	18,753	74.2	118
December	...	...	...	...	22,900	...	...	...

Source: Data provided by the Ethiopian authorities.

1/ Auction price less estimated transport and handling costs.

2/ For unwashed and washed coffee combined (mostly unwashed) at Addis Ababa, weighted by same month's arrivals.

3/ Domestic retail price in Addis Ababa.

4/ Excess of the domestic price over the auction price in percent.

5/ ICO, International Coffee Organization; U.S. cents per pound.

Table VI. Ethiopia: Summary of Investment Projects, July 1992–April 8, 1995 1/

	Number of projects	Capital cost 2/	Number of employees	Capital- labor ratio 3/	Average project employment
Industry					
Certified	625	2,785.60	37,162	74.96	59
Implementation phase	86	354.80	4,694	75.59	55
Operational	62	166.70	2,275	73.27	37
Agriculture					
Certified	337	1,681.50	20,356	82.60	60
Implementation phase	71	649.00	4,773	135.97	67
Operational	46	353.30	3,641	97.03	79
Real estate					
Certified	234	1,418.00	7,690	184.40	33
Implementation phase	7	45.40	665	68.27	95
Operational	1	1.70	6	283.33	6
Hotel and tourism					
Certified	139	890.50	8,795	101.25	63
Implementation phase	28	250.40	1,888	132.63	67
Operational	2	3.40	83	40.96	42
Social service					
Certified	43	158.80	2,191	72.48	51
Implementation phase	1	11.4	96	118.75	96
Operational	--	--	--	...	...
Construction					
Certified	30	1,113.4	14,048	79.26	468
Implementation phase	1	0.7	15	46.67	15
Operational	7	175.7	3,420	51.37	489
Trade					
Certified	58	267.8	4,059	65.98	70
Implementation phase	3	10.2	62	164.52	21
Operational	2	5.3	74	71.62	37
Transport					
Certified	27	282.9	2,715	104.20	101
Implementation phase	1	6.0	103	58.25	103
Operational	5	70.3	726	96.83	145
Mining					
Certified	9	199.0	636	312.89	71
Implementation phase	2	128.3	308	416.56	154
Operational	1	44.5	99	449.49	99
Total					
Certified	1502	8,797.5	97,652	90.09	65
Implementation phase	200	1,456.2	12,604	115.53	63
Operational	126	820.9	10,324	...	...
Memorandum items:					
Projects in implementation phase (in percent of certified projects)	13.3	16.6	12.9	128.2	96.9
Projects in operation (in percent of certified projects)	8.4	9.3	10.6	...	...

Source: Investment Office of Ethiopia.

1/ Data do not include projects approved by the Tigray Investment Office.

2/ As stated in the project application, in millions of birr.

3/ Thousands of birr per employee.

Table VII. Ethiopia: Ex Refinery and Retail Prices of Petroleum Products, 1989-95 ^{1/}

(In birr per liter)

	Regular gasoline	Premium gasoline	Gas oil	Fuel oil	Lighting kerosene
<u>1989</u>					
Ex refinery	0.8850	0.9520	0.5275	0.3850	0.4775
Addis Ababa	1.5000	1.2900	0.7900	0.5400	0.6500
Change (in percent)	26.1	--	--	--	--
<u>1990</u>					
Ex refinery	0.8850	0.9520	0.5275	0.3850	0.4775
Addis Ababa	1.5000	1.2900	0.7900	0.5400	0.6500
Change (in percent)	--	--	--	--	--
<u>1991</u>					
Ex refinery	0.8850	0.9520	0.5275	0.3850	0.4775
Addis Ababa	1.5000	1.2900	0.7900	0.5400	0.6500
Change (in percent)	--	--	--	--	--
<u>1992</u>					
<u>March</u>					
Ex refinery	0.8850	0.9520	0.5275	0.3850	0.4775
Addis Ababa	1.5800	1.6800	0.8700	0.6300	0.7350
Change (in percent)	5.3	30.2	10.1	16.7	13.1
<u>October</u>					
Ex refinery	0.9820	0.9520	0.8413	0.5500	0.5100
Addis Ababa	1.8500	1.6800	1.4200	0.8780	0.9000
Change (in percent)	17.1	--	63.2	39.4	22.4
<u>1993</u>					
<u>March</u>					
Ex refinery	0.9820	0.9520	0.8413	0.5500	0.5100
Addis Ababa	1.8500	1.6800	1.4200	0.8780	0.9000
Change (in percent)	--	--	--	--	--
<u>October</u>					
Ex refinery	0.9820	0.9520	0.8413	0.5500	0.5100
Addis Ababa	1.8500	1.6800	1.4200	0.8780	0.9000
Change (in percent)	--	--	--	--	--
<u>1994</u>					
<u>March</u>					
Ex refinery	0.9820	0.9520	0.8413	0.5500	0.5100
Addis Ababa	1.8500	1.6800	1.4200	0.8780	0.9000
Change (in percent)	--	--	--	--	--
<u>October</u>					
Ex refinery	1.1909	...	1.0511	0.6550	0.6694
Addis Ababa	2.0000	...	1.5000	1.0000	1.0000
Change (in percent)	8.1	...	5.6	13.9	11.1
<u>1995</u>					
<u>March</u>					
Ex refinery	1.1909	...	1.0511	0.6550	0.6694
Addis Ababa	2.0000	...	1.5000	1.0000	1.0000
Change (in percent)	--	...	--	--	--

Source: Ethiopian Petroleum Corporation.

^{1/} Retail prices vary across country depending on transportation costs.

Table VIII. Ethiopia: Addis Ababa Retail Price Index (Excluding Rent)
January 1992 – December 1995

	General index	12-month moving average	Monthly	Annual	Annual average
			(Percent change)		
1992					
January	731.5	747.5	-1.3	16.9	35.4
February	783.3	757.6	7.1	18.4	34.5
March	781.2	762.5	-0.3	8.2	31.3
April	803.7	767.4	2.9	7.9	28.1
May	798.5	770.5	-0.6	4.9	24.8
June	810.3	771.9	1.5	2.1	21.0
July	824.4	776.2	1.7	6.7	18.1
August	854.5	783.7	3.7	11.7	16.0
September	857.0	792.2	0.3	13.5	14.5
October	863.2	801.8	0.7	15.5	13.2
November	852.6	808.4	-1.2	10.2	11.3
December	836.4	816.4	-1.9	12.9	10.5
1993					
January	834.8	825.0	-0.2	14.1	10.4
February	836.0	829.4	0.1	6.7	9.5
March	837.2	834.1	0.1	7.2	9.4
April	887.5	841.0	6.0	10.4	9.6
May	855.9	845.8	-3.6	7.2	9.8
June	848.5	849.0	-0.9	4.7	10.0
July	853.0	851.4	0.5	3.5	9.7
August	853.9	851.3	0.1	-0.1	8.6
September	850.2	850.8	-0.4	-0.8	7.4
October	854.8	850.1	0.5	-1.0	6.0
November	815.9	847.0	-4.6	-4.3	4.8
December	815.9	845.3	--	-2.5	3.5
1994					
January	833.1	845.2	2.1	-0.2	2.4
February	843.4	845.8	1.2	0.9	2.0
March	858.6	847.6	1.8	2.6	1.6
April	905.5	849.1	5.5	2.0	1.0
May	920.6	854.5	1.7	7.6	1.0
June	901.9	858.9	-2.0	6.3	1.2
July	910.2	863.7	0.9	6.7	1.4
August	936.0	870.5	2.8	9.6	2.3
September	949.9	878.8	1.5	11.7	3.3
October	947.2	886.5	-0.3	10.8	4.3
November	951.3	897.8	0.4	16.6	6.0
December	955.7	909.5	0.5	17.1	7.6
1995					
January	931.1	917.6	-2.6	11.8	8.6
February	973.5	928.5	4.6	15.4	9.8
March	1,003.3	940.5	3.1	16.9	11.0
April	1,040.5	951.8	3.7	14.9	12.1
May	1,048.8	962.5	0.8	13.9	12.6
June	1,035.7	973.6	-1.2	14.8	13.4
July	1,015.6	982.4	-1.9	11.6	13.7
August	1,034.1	990.6	1.8	10.5	13.8
September	1,020.7	996.5	-1.3	7.5	13.4
October	964.4	997.9	-5.5	1.8	12.6
November	966.0	999.1	0.2	1.5	11.3
December	974.0	1,000.6	0.8	1.9	10.0

Sources: Central Statistical Authority; and National Bank of Ethiopia.

Table IX. Ethiopia: Addis Ababa Retail Price Index and its Components (Excluding Rent), January 1992 – December 1995
(1963 = 100)

	Group Indices								Other goods and services
	General Index	Food	Household items	Clothing	Transport	Medical care	Personal care	Reading and recreation	
Weights 1/	85.4	49.0	14.6	6.7	4.5	1.8	0.8	2.6	5.4
1992									
January	731.5	881.6	818.5	331.0	179.7	364.2	743.9	352.5	398.6
February	783.3	939.9	925.5	337.4	179.7	365.7	664.3	352.5	404.5
March	781.2	947.5	882.7	346.6	179.7	386.7	664.3	343.5	403.6
April	803.7	1,013.3	783.3	363.0	179.7	407.6	731.6	335.0	398.4
May	798.5	979.7	850.9	390.9	179.7	397.0	729.9	335.0	407.7
June	810.3	1,005.1	814.7	435.5	179.7	393.1	694.9	338.9	410.7
July	824.4	1,006.4	848.1	491.9	194.1	394.0	937.0	338.9	413.5
August	854.5	1,039.7	865.6	524.5	194.1	478.3	1,083.8	329.3	452.3
September	857.0	1,046.7	846.1	529.2	194.1	526.9	1,124.8	331.4	452.3
October	863.2	1,048.9	857.3	531.0	224.0	546.0	1,150.0	331.4	462.6
November	852.6	1,036.8	826.2	517.3	227.4	567.8	1,318.5	330.0	470.7
December	836.4	1,009.3	828.7	509.7	227.4	565.3	1,330.6	333.8	463.7
1993									
January	834.8	1,005.2	812.2	516.9	227.4	677.7	1,407.1	333.8	461.4
February	836.0	1,001.5	811.9	573.0	227.4	668.5	1,318.6	333.8	461.0
March	837.2	1,003.9	804.9	575.2	247.9	666.8	1,258.1	344.3	462.2
April	887.5	1,082.4	818.7	594.9	247.9	700.7	1,309.3	348.6	463.3
May	855.9	1,027.6	826.6	579.7	247.9	709.9	1,258.8	348.6	461.8
June	848.5	1,022.3	800.6	567.5	247.9	718.8	1,320.7	348.6	466.9
July	853.0	1,018.6	816.3	583.7	265.3	776.4	1,357.4	348.6	469.9
August	853.9	1,000.1	891.8	567.0	265.3	769.0	1,360.5	345.4	470.5
September	850.2	1,007.8	837.8	570.8	265.3	778.5	1,354.4	368.2	470.5
October	854.8	1,020.8	876.7	453.1	265.3	771.7	1,346.7	368.2	471.5
November	815.9	967.8	831.2	455.6	263.4	756.9	1,303.3	364.3	471.3
December	815.9	966.3	825.8	463.1	263.4	781.1	1,342.6	361.6	476.3
1994									
January	833.1	990.6	842.2	471.6	263.4	794.1	1,297.7	361.6	476.3
February	843.4	1,016.5	815.1	468.5	263.4	768.3	1,322.2	361.6	486.5
March	858.6	1,031.4	841.6	481.0	268.7	765.4	1,314.6	391.6	487.5
April	905.5	1,110.3	855.0	482.1	268.7	764.2	1,345.2	365.5	483.9
May	920.6	1,133.8	839.7	479.2	268.7	959.1	1,388.1	365.5	483.9
June	901.9	1,088.5	865.7	494.2	268.7	1,063.9	1,314.6	365.5	483.9
July	910.2	1,113.4	834.0	490.3	263.7	1,062.7	1,314.6	365.5	484.8
August	936.0	1,162.0	811.8	497.0	263.7	1,143.6	1,294.7	364.0	481.5
September	949.9	1,180.0	825.5	490.7	263.7	1,214.9	1,314.6	364.0	481.5
October	947.2	1,175.6	812.4	495.6	263.7	1,253.2	1,314.6	364.0	494.0
November	951.3	1,184.2	817.4	491.3	269.8	1,177.6	1,314.6	364.0	493.8
December	955.7	1,176.4	869.2	488.5	274.0	1,178.9	1,314.6	363.9	492.9
1995									
January	931.1	1,153.2	801.2	492.8	274.0	1,181.6	1,314.6	363.9	492.9
February	973.5	1,223.7	838.7	488.6	269.5	994.3	1,314.6	364.0	493.7
March	1,003.3	1,267.3	868.0	487.5	279.3	933.4	1,314.6	388.7	493.6
April	1,040.5	1,325.6	881.9	499.1	279.3	928.6	1,314.6	393.8	500.2
May	1,048.8	1,335.9	890.3	499.6	276.9	939.2	1,405.0	393.8	500.2
June	1,035.7	1,312.0	888.5	501.7	279.3	956.0	1,405.0	393.8	505.0
July	1,015.6	1,284.2	863.7	502.9	276.2	959.8	1,405.0	393.8	505.5
August	1,034.1	1,290.2	948.8	512.1	276.2	964.9	1,405.0	389.0	502.7
September	1,020.7	1,271.6	926.6	508.9	276.2	965.4	1,405.0	426.9	502.7
October	964.4	1,186.4	884.1	509.9	276.2	963.2	1,405.0	425.5	501.8
November	966.0	1,177.5	921.9	508.4	281.5	968.8	1,405.0	422.1	506.8
December	974.0	1,186.0	938.9	504.2	281.5	969.0	1,405.0	448.8	498.7

Sources: Central Statistical Authority ; and National Bank of Ethiopia, Quarterly Bulletin.

1/ The weights reflect the consumption pattern of households with monthly income of Br 400 or less in 1963. They only add up to 85.4 because rent is excluded from the index.

Table X. Ethiopia: Registered Unemployed and Reported Vacancies by Occupational Classification,
1990/91 – 1993/94

(In number of persons)

	1990/91		1991/92		1992/93		1993/94	
	Registered unemployed	Reported vacancies	Registered unemployed	Reported vacancies	Registered unemployed	Reported vacancies	Registered unemployed	Reported vacancies
Professional, technical, and related workers	576	142	1,122	155	1,470	151	1,307	190
Administrators and managers	31	23	145	57	123	98	87	54
Clerical workers	31,632	1,206	35,474	480	38,567	655	44,455	492
Sales workers	14	50	17	3	254	14	217	10
Service workers	572	1,520	2,210	577	668	561	1,244	454
Agricultural workers	605	43	510	14	604	11	1,451	43
Production and related workers	10,883	5,540	31,384	4,549	21,255	1,116	15,921	896
Skilled	3,733	1,620	7,647	1,163	4,098	589	2,564	401
Laborers	7,150	3,920	23,737	3,386	17,157	527	13,357	495
Total	<u>44,313</u>	<u>8,524</u>	<u>70,862</u>	<u>5,835</u>	<u>62,941</u>	<u>2,606</u>	<u>64,682</u>	<u>2,139</u>
Of which: female								
(total number)	(19,396)	(2,371)	(18,817)	(1,338)	(22,560)	(682)	(27,163)	(488)
(percent of total)	(43.8)	(27.8)	(26.6)	(22.9)	(35.8)	(26.2)	(42.0)	(22.8)

Source: Ministry of Labor and Social Affairs.

Table XI. Ethiopia: Summary of Government Finances, 1990/91 – 1994/95

Fiscal year ending July 7	1990/91	1991/92	1992/93	1993/94	1994/95 Prel.
(In millions of birr)					
Total revenue and grants	<u>3,169.6</u>	<u>2,751.1</u>	<u>4,158.7</u>	<u>5,674.4</u>	<u>7,772.7</u>
Revenue	2,706.3	2,208.1	3,091.6	3,827.2	6,114.8
Tax revenue	2,053.4	1,618.4	2,135.3	2,994.0	4,167.7
Nontax revenue	652.9	589.7	956.3	833.2	1,947.1
Grants	463.3	543.0	1,067.1	1,847.2	1,657.9
Expenditure	<u>5,065.2</u>	<u>4,315.4</u>	<u>6,055.1</u>	<u>8,578.1</u>	<u>8,793.6</u>
Current expenditure	3,813.3	3,331.8	3,878.1	5,157.2	5,731.7
Capital expenditure	1,251.9	983.6	2,177.0	3,420.9	3,061.9
Change in arrears on external interest	82.7	78.3	11.2	53.8	33.7
Overall balance (cash basis)	<u>-1,812.9</u>	<u>-1,486.0</u>	<u>-1,885.2</u>	<u>-2,849.9</u>	<u>-987.2</u>
Excluding grants	-2,276.2	-2,029.0	-2,952.3	-4,697.1	-2,645.1
Financing	<u>1,812.9</u>	<u>1,486.0</u>	<u>1,885.2</u>	<u>2,849.9</u>	<u>987.2</u>
External (net)	420.7	299.2	1,047.4	2,105.2	1,130.2
Gross borrowing	466.6	350.8	1,133.7	2,212.7	1,299.0
Amortization paid	45.9	51.6	86.3	107.5	168.8
Scheduled payments	378.7	473.4	443.0	545.1	676.4
Arrears increase	332.8	421.8	356.7	437.6	507.6
Domestic	1,392.2	1,186.8	837.8	744.7	-143.0
Banking system	1,191.6	1,162.0	1,107.0	935.0	-435.7
Other and residual	200.6	24.8	-269.2	-190.3	292.7
(In percent of GDP)					
Total revenue and grants	<u>16.0</u>	<u>13.5</u>	<u>16.0</u>	<u>20.3</u>	<u>23.3</u>
Revenue	13.7	10.9	11.9	13.7	18.4
Tax revenue	10.4	8.0	8.2	10.7	12.5
Nontax revenue	3.3	2.9	3.7	3.0	5.8
Grants	2.3	2.7	4.1	6.6	5.0
Expenditure	<u>25.6</u>	<u>21.2</u>	<u>23.3</u>	<u>30.7</u>	<u>26.4</u>
Current expenditure	19.2	16.4	14.9	18.5	17.2
Capital expenditure	6.3	4.8	8.4	12.3	9.2
Overall balance (cash basis)	<u>-9.1</u>	<u>-7.3</u>	<u>-7.3</u>	<u>-10.2</u>	<u>-3.0</u>
Excluding grants	-11.5	-10.0	-11.4	-16.8	-7.9
Financing	<u>9.1</u>	<u>7.3</u>	<u>7.3</u>	<u>10.2</u>	<u>3.0</u>
External (net)	2.1	1.5	4.0	7.5	3.4
Domestic	7.0	5.8	3.2	2.7	-0.4
Of which: banking system	(6.0)	(5.7)	(4.3)	(3.3)	(-1.3)

Sources: Ministry of Finance; and staff estimates.

Table XII. Ethiopia: General Government Revenue and Grants, 1990/91 – 1994/95

(In millions of birr)

Fiscal year ending July 7	1990/91	1991/92	1992/93	1993/94	1994/95 Prel.
Tax revenue	2,053.4	1,618.4	2,135.3	2,994.0	4,167.7
Income and profit tax	797.9	660.1	670.5	880.9	1,210.4
Personal income	267.7	269.1	251.8	266.8	285.5
Rental income	--	--	--	0.1	8.2
Business profits	474.0	386.7	376.8	557.3	846.1
Agricultural income	54.7	3.5	40.9	55.5	67.7
Other income	1.5	0.8	1.0	1.2	2.9
Rural land use fee	33.5	3.6	37.9	47.0	57.7
Domestic production, sales, and excise taxes ^{1/}	757.8	534.5	711.2	813.5	1,116.5
Petroleum products	71.9	0.2	59.1	54.0	56.9
Alcohol and tobacco	272.1	210.2	276.3	261.2	316.3
Other goods	352.5	266.2	290.1	382.3	587.5
Services	25.1	22.5	28.9	44.4	67.8
Stamp duties	36.2	35.4	56.8	71.6	88.0
Import duties	443.3	410.8	697.0	1,202.7	1,551.7
Customs duties	259.7	217.0	348.8	610.7	850.4
Sales and other taxes ^{2/}	183.6	193.8	348.2	592.0	701.3
Petroleum products	16.8	10.0	23.5	28.2	47.0
Alcohol and tobacco	2.1	1.8	2.7	36.3	6.6
Other imports	164.7	182.0	322.0	527.5	647.7
Export taxes	20.9	9.4	18.7	49.9	231.4
Customs taxes	15.0	5.6	11.0	37.6	220.1
Coffee	4.5	2.2	6.3	12.9	11.5
Coffee surtax	5.4	1.4	2.7	17.4	201.4
Other	5.1	1.9	2.0	7.3	7.2
Transactions taxes	5.9	3.8	7.7	12.3	11.3
Nontax revenue	652.9	589.7	956.3	833.2	1,947.1
Charges and fees	34.8	46.9	60.8	54.9	90.9
Sales of goods and services	48.8	37.0	61.6	80.6	88.0
Surplus, capital charges, interest payments and state dividends	350.6	299.4	437.9	476.8	1,402.3
Pension contributions	64.1	47.8	51.6	71.7	79.2
Reimbursement and property sales	36.6	24.1	54.7	52.8	118.7
Fines and miscellaneous	91.8	82.8	69.7	96.4	146.2
Extraordinary	26.2	51.7	220.0 ^{3/}	--	21.8
Total revenue	2,706.3	2,208.1	3,091.6	3,827.2	6,114.8
External grants	463.3	543.0	1,067.1	1,847.2	1,657.9
Grants in kind/earmarked	442.0	543.0	950.0	1,082.2	873.0
Untied cash and counterpart funds/grants	21.3	--	117.1	765.0	784.9
Total revenue and grants	3,169.6	2,751.1	4,158.7	5,674.4	7,772.7

Sources: Ministry of Finance; and staff estimates.

^{1/} Sales tax until 1992/93; and excise taxes thereafter.^{2/} Sales taxes until 1992/93; sales and excise taxes thereafter.^{3/} Includes transfer for evacuation of Felashas.

Table XIII. Ethiopia: General Government Current Expenditure, Economic Classification, 1990/91–1994/95

Fiscal year ending July 7	1990/91	1991/92	1992/93	1993/94	1994/95 Prel.
(In millions of birr)					
Wages and operating expenses	2,805.2	1,799.4	2,220.6	2,762.3	3,361.4
Wages and salaries	1,637.7	1,176.8	1,516.0	1,731.5	2,102.7
Materials	1,167.5	622.6	704.6	1,030.8	1,258.7
Grants and contributions	165.9	485.6	286.9	205.8	354.5
Subsidies	61.9	59.8	4.8	67.5	149.8
Pensions	145.7	194.3	224.3	279.9	287.7
Interest and charges	345.9	385.6	541.5	1,005.3	888.9
Internal debt	212.7	246.0	408.9	806.2	611.8
External debt	133.2	139.6	132.6	199.1	277.1
External assistance	288.7	407.1	600.0	629.1	623.0
Safety net measures	--	--	-- 1/	207.3	66.4
Total current expenditure (commitment basis)	3,813.3	3,331.8	3,878.1	5,157.2	5,731.7
Increase in external interest arrears	82.7	78.3	112	53.8	33.7
(In percent of total)					
Wages and operating expenses	73.6	54.0	57.3	53.6	58.6
Wages and salaries	42.9	35.3	39.1	33.6	36.7
Materials	30.6	18.7	18.2	20.0	22.0
Grants and contributions	4.4	14.6	7.4	4.0	6.2
Subsidies	1.6	1.8	0.1	1.3	2.6
Pensions	3.8	5.8	5.8	5.4	5.0
Interest and charges	9.1	11.6	14.0	19.5	15.5
External assistance	76.0	12.2	15.5	12.2	10.9
Safety net measures	--	--	--	4.0	1.2
(In percent of GDP)					
Wages and operating expenses	14.2	8.9	8.6	9.9	10.1
Wages and salaries	8.3	5.8	5.8	6.2	6.3
Materials	5.9	3.1	2.7	3.7	3.8
Grants and contributions	0.8	2.4	1.1	0.7	1.1
Subsidies	0.3	0.3	--	0.2	0.4
Pensions	0.7	1.0	0.9	1.0	0.9
Interest and charges	1.7	1.9	2.1	3.6	2.7
External assistance	1.5	2.0	2.3	2.3	1.9
Safety net measures	--	--	--	0.7	0.2
Total current expenditure (commitment basis)	19.2	16.4	14.9	18.5	17.2

Sources: Ministry of Finance; and staff estimates.

1/ Expenditure on social safety net measures of Br 36.9 million is included elsewhere.

Table XIV. Ethiopia: General Government Current and Capital Expenditure by Functional Classification, 1990/91 - 1994/95

Fiscal year ending July 7	1990/91	1991/92	1992/93	1993/94	1994/95 Prel
(In millions of birr)					
Current expenditure	3,813.3	3,331.9	3,878.1	5,157.2	5,731.7
General services	2,010.3	1,070.5	1,182.0	1,458.2	1,566.8
Defense	1,646.0	634.0	697.0	709.3	672.5
Public order and security	108.1	93.1	165.1	226.0	289.5
General services 1/	256.2	343.4	319.9	522.9	604.8
Economic services	212.8	233.9	321.1	447.2	573.3
Agriculture and natural resources	121.4	135.1	164.4	261.3	366.0
Industry	6.3	6.4	9.2	13.8	15.1
Mines and energy	14.5	6.8	19.2	19.1	14.9
Commerce and tourism	13.2	14.1	14.5	21.5	22.3
Transportation and communications	2.1	0.9	29.3	23.9	7.9
Urban development and construction 2/	55.3	70.6	84.5	107.6	147.1
Social services	646.4	791.1	876.9	1,224.9	1,520.3
Education	447.1	490.3	583.3	742.0	936.0
Health	128.4	151.5	185.8	279.3	354.7
Culture and sports	13.4	14.2	18.1	26.2	29.6
Labor and social welfare	33.1	32.5	40.5	48.0	47.3
Relief and rehabilitation	24.4	102.6	49.2	129.4	152.7
Pension payments	145.7	194.3	224.3	279.9	287.7
Interest and charges	345.9	385.6	541.5	1,005.3	888.9
Miscellaneous 3/	163.5	249.4	132.3	112.6	271.7
External assistance (grants) 4/	288.7	407.1	600.0	629.1	623.0
Capital expenditure 5/	1,251.9	983.6	2,177.0	3,420.9	3,061.9
Economic development	1,070.5	812.1	1,477.4	2,177.7	1,928.3
Agriculture, water, and natural resources	448.4	394.2	532.6	732.3	636.2
Mining and industry	364.7	220.1	315.2	358.8	289.4
Commerce and tourism	--	--	7.4	3.8	1.4
Electric power	113.0	69.1	78.7	115.8	206.7
Roads, transportation, and communications	144.4	128.7	543.5	967.0	794.6
Social development	99.5	91.2	269.7	669.1	524.2
Education	42.6	38.2	94.9	248.3	207.1
Public health	32.1	37.4	66.9	142.7	137.3
Urban development and housing 2/	24.8	15.6	107.9	278.1	179.8
General services and compensation	81.9	80.3	79.9	121.0	359.4
External assistance (grants) 4/	--	--	350.0	453.1	250.0
Total expenditure	5,065.2	4,315.4	6,055.1	8,578.1	8,793.6
(In percent of GDP)					
Current expenditure	19.2	16.4	14.9	18.5	17.2
General services	10.1	5.3	4.6	5.2	4.7
Economic services	1.1	1.2	1.2	1.6	1.7
Social services	3.3	3.9	3.4	4.4	4.6
Interest and charges	1.7	1.9	2.1	3.6	2.7
Other	3.0	4.2	3.7	3.7	3.6
Capital expenditure	6.3	4.8	8.4	12.3	9.2
Economic development	5.4	4.0	5.7	7.8	5.8
Social development	0.5	0.4	1.0	2.4	1.6
Other	0.4	0.4	1.7	2.1	1.8
Total expenditure	25.6	21.2	23.3	30.7	26.4

Sources: Ministry of Finance; and staff estimates.

1/ Includes Organs of State and Judiciary, as well as allocations for economic development studies.

2/ Includes housing and community services.

3/ Includes safety net measures of Br 66.4 million for 1994/95; in 1993/94, Br 207.3 million in safety net measures is included elsewhere.

4/ Imputed value of goods and services provided in kind.

5/ Includes outlays other than investment proper, such as operating expenses of certain development agencies.

Table XV. Ethiopia: Monetary Survey, June 1991-June 1995 ^{1/}

	1991	1992	1993	1994	1995
	June 30				
	(In millions of birr)				
Foreign assets (net)	270.7	407.0	1,663.9	3,916.9	5,697.7
National Bank of Ethiopia	140.5	108.4	961.9	2,292.6	3,003.0
Assets	183.2	346.7	1,342.6	3,193.4	3,893.7
Liabilities	42.8	238.2	380.7	900.7	890.7
Commercial banks	130.2	298.5	702.0	1,624.3	2,694.7
Assets	269.3	387.1	968.9	2,093.5	3,494.3
Liabilities	139.1	88.6	266.9	469.2	799.6
Domestic credit	8,999.4	10,167.7	11,633.6	12,789.7	13,898.0
Claims on Government (net)	6,021.6	7,033.6	9,128.0	9,615.9	9,046.3
National Bank of Ethiopia	3,556.5	4,647.2	6,810.7	7,438.4	7,034.1
Commercial banks	2,465.1	2,386.4	2,317.2	2,177.5	2,012.2
Claims on other sectors	2,977.8	3,134.1	2,505.6	3,173.7	4,851.7
National Bank of Ethiopia	2,072.8	2,091.7	449.6	463.4	467.5
Commercial banks	905.0	1,042.4	2,056.0	2,710.3	4,384.2
Broad money	7,934.8	8,992.1	10,136.7	11,598.7	13,990.0
Money	6,123.3	6,840.1	7,580.7	8,373.1	9,896.2
Currency outside banks	3,817.4	4,315.8	4,886.4	5,160.6	5,833.8
Demand deposits	2,305.9	2,524.3	2,694.2	3,212.6	4,062.4
Quasi-money	1,811.5	2,152.0	2,556.0	3,225.5	4,093.8
Savings deposits	1,676.7	1,999.1	2,246.8	2,844.3	3,649.3
Time deposits	134.8	152.9	309.2	381.2	444.5
Other items (net)	1,335.2	1,582.5	3,160.8	5,107.9	5,605.7
National Bank of Ethiopia	1,952.3	2,531.4	3,335.8	5,031.8	4,670.8
Commercial banks	-617.1	-948.9	-175.0	76.1	934.9
Memorandum items:					
Net domestic assets	7,664.1	8,585.1	8,472.8	7,681.7	8,292.3
Velocity	2.57	2.27	2.49	2.57	2.60
Quasi-money / Broad money	22.8	23.9	25.2	27.8	29.3
	(Percent change over 12 months)				
Domestic credit	11.9	13.0	14.4	9.9	8.7
Claims on Government (net)	19.8	16.8	29.8	5.3	-5.9
Claims on other sectors	-1.2	5.2	-20.1	26.7	52.9
Broad money	18.6	13.3	12.7	14.4	20.6
Money	22.9	11.7	10.8	10.5	18.2
Currency outside banks	39.5	13.1	13.2	5.6	13.0
Demand deposits	2.7	9.5	6.7	19.2	26.5
Quasi-money	6.2	18.8	18.8	26.2	26.9
Savings deposits	6.5	19.2	12.4	26.6	28.3
Time deposits	3.0	13.4	102.2	23.3	16.6

Source: National Bank of Ethiopia.

^{1/} Excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.

Table XVI. Ethiopia: Loan Portfolio of the Banking System, June 1991–June 1995 ^{1/}

	1991	1992	1993	1994	1995
	June 30				
	(In millions of birr)				
Claims on the Government	6,917.8	8,062.8	9,096.5	11,400.2	11,323.9
Advances to AIDB 2/	2,072.8	2,091.7	2,109.6	462.8	465.1
Other sectors	1,116.6	1,281.5	2,502.1	3,107.3	4,877.3
Nonfinancial public enterprises 3/	710.0	843.8	1,396.4	1,521.2	1,715.8
Financial public enterprises	15.0	14.1	96.3	95.4	179.5
Cooperatives	9.7	22.2	33.0	65.7	256.6
Private sector	381.9	401.4	976.4	1,425.0	2,725.4
Total	10,107.2	11,436.0	13,708.2	14,970.3	16,666.3
	(Percent of total)				
Claims on the Government	68.4	70.5	66.4	76.2	67.9
AIDB advances	20.5	18.3	15.4	3.1	2.8
Other sectors	11.0	11.2	18.3	20.8	29.3
Nonfinancial public enterprises	7.0	7.4	10.2	10.2	10.3
Financial public enterprises	0.1	0.1	0.7	0.6	1.1
Cooperatives	0.1	0.2	0.2	0.4	1.5
Private sector	3.8	3.5	7.1	9.5	16.4
Total	100.0	100.0	100.0	100.0	100.0
	(Percent of total increase)				
Claims on the Government	101.0	86.2	45.5	182.5	-4.5
Advances to AIDB 2/	5.2	1.4	0.8	-130.5	0.1
Other sectors	-6.2	12.4	53.7	48.0	104.4
Nonfinancial public enterprises	-7.0	10.1	24.3	9.9	11.5
Financial public enterprises	-0.1	-0.1	3.6	-0.1	5.0
Cooperatives	-0.3	0.9	0.5	2.6	11.3
Private sector	1.1	1.5	25.3	35.5	76.7
Total	100.0	100.0	100.0	100.0	100.0

Source: National Bank of Ethiopia.

^{1/} Includes provision for doubtful debts; excludes the account of the Djibouti branch of the Commercial Bank of Ethiopia.^{2/} Advances for onlending by the Agricultural and Industrial Development Bank, which in 1994/95 was restructured into the Development Bank of Ethiopia.^{3/} Excludes equity investment.

Table XVII. Ethiopia: Sectoral Breakdown of Commercial Bank Claims, June 1991–June 1995 1/

	1991	1992	1993	1994	1995
	June 30				
	(In millions of birr)				
Agriculture	<u>49.6</u>	<u>43.6</u>	<u>43.6</u>	<u>75.8</u>	<u>162.8</u>
Manufacturing	<u>198.4</u>	<u>234.3</u>	<u>548.7</u>	<u>496.2</u>	<u>451.1</u>
Large-scale industry	<u>193.1</u>	<u>224.6</u>	<u>536.2</u>	<u>483.5</u>	<u>429.1</u>
Small-scale industry	<u>5.3</u>	<u>9.7</u>	<u>12.5</u>	<u>12.7</u>	<u>22.0</u>
Exports	<u>211.7</u>	<u>296.7</u>	<u>413.0</u>	<u>567.1</u>	<u>729.5</u>
Coffee	<u>104.6</u>	<u>142.9</u>	<u>237.9</u>	<u>433.4</u>	<u>582.4</u>
Noncoffee	<u>107.1</u>	<u>153.8</u>	<u>175.1</u>	<u>133.7</u>	<u>147.1</u>
Imports	<u>184.1</u>	<u>199.1</u>	<u>540.4</u>	<u>490.6</u>	<u>822.0</u>
Construction	<u>202.8</u>	<u>195.4</u>	<u>207.8</u>	<u>226.9</u>	<u>306.4</u>
Domestic trade and services	<u>231.8</u>	<u>276.7</u>	<u>620.8</u>	<u>1,109.6</u>	<u>2,157.6</u>
Domestic trade	<u>136.6</u>	<u>183.7</u>	<u>429.8</u>	<u>783.6</u>	<u>1,245.7</u>
Transport	<u>66.5</u>	<u>66.0</u>	<u>134.2</u>	<u>227.5</u>	<u>493.2</u>
Hotel and tourism	<u>13.9</u>	<u>17.5</u>	<u>44.6</u>	<u>73.3</u>	<u>175.6</u>
Other services	<u>14.8</u>	<u>9.5</u>	<u>12.2</u>	<u>25.2</u>	<u>243.1</u>
Personal	<u>13.1</u>	<u>12.7</u>	<u>17.3</u>	<u>13.1</u>	<u>12.8</u>
Other 2/	<u>25.1</u>	<u>23.0</u>	<u>110.6</u>	<u>128.0</u>	<u>235.1</u>
Total reported	<u>1,116.6</u>	<u>1,281.5</u>	<u>2,502.1</u>	<u>3,107.3</u>	<u>4,877.3</u>
	(Percent of total)				
Agriculture	<u>4.4</u>	<u>3.4</u>	<u>1.7</u>	<u>2.4</u>	<u>3.3</u>
Manufacturing	<u>17.8</u>	<u>18.3</u>	<u>21.9</u>	<u>16.0</u>	<u>9.2</u>
Large-scale industry	<u>17.3</u>	<u>17.5</u>	<u>21.4</u>	<u>15.6</u>	<u>8.8</u>
Small-scale industry	<u>0.5</u>	<u>0.8</u>	<u>0.5</u>	<u>0.4</u>	<u>0.5</u>
Exports	<u>19.0</u>	<u>23.2</u>	<u>16.5</u>	<u>18.3</u>	<u>15.0</u>
Coffee	<u>9.4</u>	<u>11.2</u>	<u>9.5</u>	<u>13.9</u>	<u>11.9</u>
Noncoffee	<u>9.6</u>	<u>12.0</u>	<u>7.0</u>	<u>4.3</u>	<u>3.0</u>
Imports	<u>16.5</u>	<u>15.5</u>	<u>21.6</u>	<u>15.8</u>	<u>16.9</u>
Construction	<u>18.2</u>	<u>15.2</u>	<u>8.3</u>	<u>7.3</u>	<u>6.3</u>
Domestic trade and services	<u>20.8</u>	<u>21.6</u>	<u>24.8</u>	<u>35.7</u>	<u>44.2</u>
Domestic trade	<u>12.2</u>	<u>14.3</u>	<u>17.2</u>	<u>25.2</u>	<u>25.5</u>
Transport	<u>6.0</u>	<u>5.2</u>	<u>5.4</u>	<u>7.3</u>	<u>10.1</u>
Hotel and tourism	<u>1.2</u>	<u>1.4</u>	<u>1.8</u>	<u>2.4</u>	<u>3.6</u>
Other services	<u>1.3</u>	<u>0.7</u>	<u>0.5</u>	<u>0.8</u>	<u>5.0</u>
Personal	<u>1.2</u>	<u>1.0</u>	<u>0.7</u>	<u>0.4</u>	<u>0.3</u>

Source: National Bank of Ethiopia.

1/ Excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia; includes provisions for bad loans.

2/ Cofinancing of special housing projects, and loans to the Construction and Business Bank.

Table XVIII. Ethiopia: Commercial Bank Lending and Deposits, June 1991–June 1995

(In millions of birr)

	1991	1992	1993	1994	1995
	June 30				
Lending ^{1/}					
Central Government	<u>2,629.7</u>	<u>2,629.7</u>	<u>2,617.4</u>	<u>2,617.1</u>	<u>2,573.7</u>
Other sectors	<u>1,116.6</u>	<u>1,281.5</u>	<u>2,502.1</u>	<u>3,107.3</u>	<u>4,877.2</u>
Nonfinancial public enterprises ^{2/}	710.0	843.8	1,396.4	1,521.2	1,594.1
Financial public enterprises	15.0	14.1	96.3	95.4	179.5
Cooperatives	9.7	22.2	33.0	65.7	107.7
Private sector	381.9	401.4	976.4	1,425.0	2,995.9
Total lending	<u>3,746.3</u>	<u>3,911.2</u>	<u>5,119.5</u>	<u>5,724.4</u>	<u>7,450.9</u>
Deposits ^{3/}					
Demand deposits	<u>2,484.6</u>	<u>2,791.8</u>	<u>3,151.6</u>	<u>3,469.0</u>	<u>5,478.8</u>
Private sector	530.2	704.0	799.4	1,040.8	1,419.9
Cooperatives	275.3	230.2	235.0	231.0	209.1
Public enterprises	1,084.6	1,278.4	1,391.3	1,341.1	1,953.5
Central Government	164.6	243.3	300.2	439.6	561.5
Other ^{4/}	429.9	335.9	425.7	416.5	1,334.8
Savings deposits	<u>1,676.7</u>	<u>1,999.1</u>	<u>2,246.8</u>	<u>2,844.3</u>	<u>3,649.4</u>
Private sector	1,661.9	1,983.8	2,228.3	2,820.6	3,601.3
Cooperatives	14.8	15.3	18.5	23.7	29.8
Other ^{4/}	--	--	--	--	18.3
Time deposits	<u>134.8</u>	<u>152.9</u>	<u>309.2</u>	<u>381.2</u>	<u>444.5</u>
Private sector	129.9	148.1	304.4	369.0	435.1
Cooperatives	4.2	4.2	4.2	4.4	1.0
Public enterprises	--	--	--	7.2	7.8
Other ^{4/}	0.7	0.6	0.6	0.6	0.6
Total deposits	<u>4,296.1</u>	<u>4,943.8</u>	<u>5,707.6</u>	<u>6,694.5</u>	<u>9,572.7</u>

Source: National Bank of Ethiopia.

^{1/} Includes provision for doubtful debts; excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.^{2/} Excludes equity investment.^{3/} Excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.^{4/} Includes domestic banks and other financial agencies, and nontransferable accounts of nonresidents.

Table XIX. Ethiopia: The Commercial Bank of Ethiopia, Reserve and Liquidity Position
June 1991 – June 1995 ^{1/}

(In millions of birr, unless otherwise specified)

	1991	1992	1993	1994	1995
			June		
Net deposits ^{2/}	4,039.7	4,753.2	5,906.4	6,921.2	8,997.3
Reserve requirement ^{3/}	202.0	237.7	295.3	346.1	449.9
Actual reserves	896.4	1,247.2	1,344.3	1,768.6	1,500.9
Excess reserves	694.4	1,009.5	1,049.0	1,422.5	1,051.0
Actual reserve ratio (in percent)	<u>22.2</u>	<u>26.2</u>	<u>22.8</u>	<u>25.6</u>	<u>16.7</u>
Net current deposits ^{4/}	3,912.6	4,606.7	5,684.1	6,921.2	8,552.8
Liquidity requirement ^{5/}	782.5	921.3	1,136.8	1,384.2	1,710.6
Actual liquidity assets	1,234.6	1,786.5	2,348.1	3,432.2	4,676.6
Actual liquidity ratio (in percent)	<u>31.6</u>	<u>38.8</u>	<u>41.3</u>	<u>49.6</u>	<u>54.7</u>

Source: National Bank of Ethiopia.

^{1/} Position on the last business day of the last week of the month.

^{2/} Demand, savings, and time deposits, less uncleared checks paid, less uncleared effects (foreign).

^{3/} 5 percent of net deposits.

^{4/} Net deposits less deposits at notice (able to withdraw after 30 days' notice).

^{5/} 20 percent of net current deposits.

Table XX. Ethiopia: Structure of Interest Rates as of June 1995
(In percent per annum)

	Through September 30, 1992	October 1, 1992 – January 2, 1995	Since January 2, 1995		
A. Deposit rates					
1. <u>Time deposits</u>			10.0 <u>1/</u>		
30 days' notice	--	10.5			
3 months to less than 6 months	--	10.5			
6 months to less than 12 months	--	11.0			
1 year to less than 2 years	Differed by	11.5			
2 years and above	ownership and maturity	12.0			
<u>Memorandum items:</u>					
Rate differentials for 1 year and over (Through September 30, 1992)					
Financial institutions (1 year):	1.0				
Government-owned undertakings (1 year):	1.0				
Individuals, savings and credit cooperatives, self-help organizations:					
1 year	6.0				
2 years	6.5				
3 years	7.0				
5 years	7.5				
Others:					
1 year	4.0				
2 years	4.5				
3 years	5.0				
5 years	5.5				
2. <u>Savings deposits</u>	Differed by				
	ownership and sector	10.0	10.0 <u>1/</u>		
<u>Memorandum items:</u>					
Rate differentials (Through September 30, 1992)					
Individuals, savings and credit cooperatives, self-help organizations:					
Up to Br 100,000	6.0				
In excess of Br 100,000	2.0				
Others:	Not allowed to maintain savings deposits				
<hr/>					
	<u>Through September 30, 1992</u>				
	Cooperatives	State	Private		
<hr/>					
B. Lending rates (by CBE and specialized banks)					
				15.0 <u>2/</u>	
Sector					
Agriculture	5.0	6.0	7.0	11.0–12.0	...
Industry, mining, power, and water resources	6.0	8.0	9.0	13.0–14.0	...
Domestic trade	6.0	8.0	9.5	14.0–15.0	...
Transport and communications	6.0	8.0	8.0	13.0–14.0	...
Export trade	6.0	6.0	6.0	13.0–14.0	...
Import trade (agricultural inputs)	5.0	6.0	7.0	14.0–15.0	...
Import trade (other)	6.0	8.0	9.5	14.0–15.0	...
Hotels and tourism	6.0	8.0	9.0	14.0–15.0	...
Construction	6.0	8.0	9.0	11.0–12.0	...
Housing (1) purchase	6.0	6.0	8.0	11.0–12.0	...
(2) construction	4.5	4.5	7.0	11.0–12.0	...
Central Government	...	3.0–5.0	...	12.0–13.0	12.0
Banks and financial institutions	...	2.5–4.5	...	10.5	...
Personal loans	...	...	10.0	14.0–15.0	...

Source: National Bank of Ethiopia.

^{1/} Minimum rate.

^{2/} Maximum rate.

Table XXI. Ethiopia: Balance of Payments, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	1994/95 Est.
(In millions of SDRs)					
Trade balance	-542.0	-524.2	-587.7	-453.6	422.9
Exports	199.0	112.1	157.6	199.7	316.3
Coffee	93.4	59.1	89.1	113.0	201.1
Other	105.6	52.9	68.5	86.6	115.2
Imports	741.0	636.3	745.3	653.3	739.2
Regular imports	485.4	294.8	353.2	358.7	408.5
Of which: airplanes	(98.5)	(82.3)	(72.3)	(0.9)	(1.0)
External aid in kind	215.9	246.9	238.9	204.6	330.7
Franco valuta imports	39.7	94.6	77.4	90.0	99.4
Services (net) ^{1/}	-2.6	9.6	-16.3	7.0	40.6
Private transfers	146.2	229.7	175.7	176.4	208.0
Official transfers (net) ^{2/}	210.2	313.9	283.7	203.6	285.8
Current account balance	-188.3	29.0	-144.7	-66.6	111.5
Capital account ^{1/}	156.0	-83.7	-57.7	164.6	-4.5
Of which: Official long-term (net)	(146.1)	(-14.9)	(41.2)	(174.0)	(39.4)
Short-term (net)	(9.9)	(-74.1)	(-92.9)	(33.5)	(-2.5)
Errors and omissions (net)	32.2	-97.1	131.4	23.3	-64.6
Overall balance	-0.1	-151.8	-70.9	121.4	42.5
Financing	0.1	151.8	70.9	-121.4	-42.5
Central Bank	-92.5	15.0	-57.9	-160.0	-48.0
Reserves (- increase)	-50.8	-49.7	-73.7	-163.8	-37.6
Liabilities	-41.7	64.7	15.8	3.8	-10.3
Commercial banks ^{3/}	-19.2	-52.9	0.6	-80.1	-91.9
Arrears (change)	109.2	189.7	-52.9	79.0	66.7
Debt relief	2.6	--	181.1	39.7	30.7
(In percent of GDP)					
Exports	2.9	1.6	3.7	5.1	8.4
Imports	10.8	8.9	17.3	16.6	19.5
Excluding external aid in kind	7.6	5.4	11.7	11.4	10.8
Current account					
Including official transfers	-2.7	0.4	-3.4	-1.7	2.9
Excluding official transfers	-5.8	-4.0	-9.9	-6.9	-4.6
Net capital inflows	2.3	-1.2	-1.3	4.2	-0.1
Net capital plus official transfers	5.3	3.2	5.2	9.4	7.4
Memorandum item:					
GDP (in millions of SDRs)	6,892.2	7,160.9	4,312.1	3,927.7	3,784.8

Sources: National Bank of Ethiopia; Ministry of Finance; Ministry of Economic Cooperation and Development; and staff estimates.

^{1/} Excludes ruble-denominated debt service to Russia.

^{2/} Excluding technical assistance and similar transfers recorded in the budget.

^{3/} Excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.

Table XXII. Ethiopia: Exports, 1990/91-1994/95 ^{1/}
(Value in millions of birr; volume in thousands of metric tons)

	1990/91	1991/92	1992/93	1993/94	1994/95 Est.
Coffee	268.50	168.32	536.98	919.80	1,880.76
Volume	58.20	32.20	63.38	73.00	78.42
Price	4.61	5.23	8.47	12.59	23.98
Pulses	15.70	0.39	4.05	27.70	70.16
Volume	14.80	1.40	1.53	9.80	23.97
Price	1.06	0.28	2.65	2.70	2.93
Oilseeds	3.60	0.38	1.19	44.20	124.81
Volume	2.60	0.18	0.39	10.40	25.98
Price	1.38	2.11	3.05	3.10	4.80
Sugar and molasses	16.40	1.76	5.09	25.70	--
Volume	30.70	2.50	13.12	15.20	--
Price	0.53	0.70	0.39	1.90	--
Leather and leather products	92.20	58.65	134.52	203.60	403.33
Volume	5.70	3.68	5.57	...	...
Price	16.18	15.95	24.15	...	...
Live animals	5.20	0.47	1.32	10.60	9.64
Volume	1.90	0.12	0.31	...	...
Price	2.74	3.92	4.26	...	...
Meat, canned and frozen	1.00	0.02	0.42	0.70	10.73
Volume	0.30	0.01	0.04	0.45	0.79
Price	3.33	3.26	10.50	7.40	13.58
Fruits and vegetables	12.00	6.40	2.73	6.90	31.03
Volume	13.00	7.19	6.05	17.20	24.77
Price	0.92	0.89	0.45	0.90	1.25
Oilseed cake	0.04	--	0.01	--	--
Volume	0.30	--	--	--	--
Price	0.13	0.20	0.01	--	--
Petroleum products	27.07	18.83	30.31	72.40	94.70
Volume	118.57	78.68	108.78	--	168.25
Price	0.23	0.24	0.28	--	0.56
Gold	73.86	39.90	148.35	180.51	...
Volume	3.50	2.04	3.54	2.35	...
Price	21.00	19.60	41.91	78.70	...
Other exports ^{2/}	56.80	23.80	84.20	127.60	332.41
Total exports	<u>572.14</u>	<u>318.92</u>	<u>949.16</u>	<u>1,619.71</u>	<u>2,957.57</u>

Source: National Bank of Ethiopia.

^{1/} Data based on customs records, except for gold, which is reported by the National Bank of Ethiopia.

^{2/} Including textiles, kat, and spices.

Table XXIII. Ethiopia: Value of Imports, c.i.f., by End-Use, 1989/90-1993/94 ^{1/}

(In millions of birr, unless otherwise specified)

	1989/90	1990/91	1991/92	1992/93	1993/94
Raw materials	57.90	56.91	35.30	70.90	86.45
Semifinished goods	321.80	237.23	233.50	326.50	751.06
Fuel	225.10	210.40	249.30	820.80	1,132.42
Crude petroleum	188.60	185.36	105.80	485.50	725.56
Volume (thousand barrels)	5,689.60	3,620.00	...	...	...
Price (birr/barrel)	33.10	51.20	...	...	...
Products	36.30	25.00	143.50	330.20	406.51
Capital goods	703.46	964.30	661.70	1,265.50	1,385.50
Transport ^{2/}	144.70	453.00	421.90	842.20	636.50
Agricultural	17.64	15.00	4.40	9.40	7.16
Industrial	541.12	496.30	235.40	413.90	715.30
Consumer goods	512.30	642.49	625.80	1,132.90	1,691.40
Durable	217.30	212.49	175.90	262.20	462.67
Nondurable	295.00	430.00	449.90	870.70	1,228.73
Miscellaneous	3.61	19.03	5.30	2.20	105.71
Total imports, c.i.f.	<u>1,824.17</u>	<u>2,130.36</u>	<u>1,810.90</u>	<u>3,618.70</u>	<u>5,152.54</u>
Memorandum items:					
Subtotals					
External aid in kind	454.70	620.70	702.70	1,438.20	1,499.40
Imports, excluding fuel	1,599.10	1,920.00	1,561.60	2,797.90	4,020.12
Imports, excluding external aid in kind	1,369.50	1,509.70	1,108.20	2,180.50	3,653.14
Imports, excluding fuel and external aid in kind	1,144.40	1,299.30	858.90	1,359.70	2,520.72

Source: National Bank of Ethiopia.

^{1/} Based on customs records.^{2/} Includes Br 283.2 million in 1990/91, Br 233.3 million in 1991/92, and Br 510.0 million in 1992/93 for imports of airplanes by Ethiopian Airlines.

Table XXIV. Ethiopia: Merchandise Trade Unit Values and Volumes,
1990/91-1994/95

	1990/91	1991/92	1992/93	1993/94	<u>1994/95</u> Est.
	<u>(1989/90 = 100)</u>				
Unit value indices					
Imports	98.0	99.6	96.8	97.1	98.9
Exports	93.1	101.2	76.2	68.6	94.9
Terms of trade	95.0	101.7	78.8	70.7	96.0
Volume indices					
Imports	110.7	93.2	111.8	97.6	108.6
Exports	76.2	40.5	74.6	106.1	117.1
	<u>(Percentage change from previous year)</u>				
Unit value					
Imports	-2.0	1.7	-2.8	0.4	1.8
Exports	-6.9	8.7	-24.7	-10.0	38.3
Terms of trade	-5.0	7.0	-22.5	-10.3	35.8
Volume					
Imports	10.7	-15.8	19.9	-12.7	11.3
Exports	-23.8	-46.8	83.9	42.3	10.4
<u>Memorandum items :</u>					
Value of imports	8.7	-14.1	17.1	-12.3	13.2

Sources: National Bank of Ethiopia; and staff estimates.

Table XXV. Selected Effective Exchange Rates, 1990/91–1994/95

	1990/91	1991/92	1992/93	1993/94	1994/95
Effective exchange rates	(Trade-weighted, period average, 1979/80 = 100)				
Nominal	255.9	293.4	184.0	151.7	146.1
Real	109.5	131.4	77.1	51.7	48.6
<u>Memorandum items:</u> 1/					
Birr per U.S. dollar, end of period	2.070	2.070	5.100	6.220	6.330
Birr per U.S. dollar, period average	2.070	2.070	4.269	5.788	6.254
Birr per SDR, end of period	2.721	2.963	7.181	8.446	9.936
Birr per SDR, period average	2.876	2.847	6.023	8.130	9.351

Sources: IMF, International Financial Statistics and staff estimates.

1/ Since May 1993, based on marginal rates at foreign exchange auctions.

Table XXVI. Ethiopia: Recorded Imports by Country of Origin, 1990-94

	(In millions of birr)				
	1990	1991	1992	1993	1994
European Union	<u>976.6</u>	<u>364.7</u>	<u>701.0</u>	<u>1,388.5</u>	<u>2,002.8</u>
Italy	368.2	99.4	143.8	397.7	627.5
Germany, Federal Republic of	209.9	111.2	196.1	398.5	450.7
United Kingdom	168.9	54.8	139.5	148.8	271.2
Netherlands	62.9	32.5	98.6	141.6	235.4
France	63.8	28.7	24.6	59.8	134.6
Belgium-Luxembourg	42.7	19.9	37.6	103.4	111.5
Other	60.2	18.2	60.8	138.7	171.8
Eastern Europe	<u>376.6</u>	<u>27.2</u>	<u>13.4</u>	<u>33.2</u>	<u>37.7</u>
Russia	288.9	9.3	4.6	4.3	3.9
Former Czechoslovakia	26.9	6.9	3.6	1.9	4.3
Hungary	4.0	0.9	1.6	9.4	1.5
Other	56.8	10.1	3.6	17.6	27.9
Other Europe	<u>162.1</u>	<u>44.0</u>	<u>139.9</u>	<u>198.2</u>	<u>277.2</u>
Sweden	40.0	20.9	45.5	93.9	103.6
Switzerland	45.4	11.6	66.2	61.8	54.6
Austria	12.9	6.4	20.2	10.5	15.1
Other	63.8	5.1	8.0	32.0	103.9
Western Hemisphere	<u>145.5</u>	<u>139.3</u>	<u>145.6</u>	<u>439.5</u>	<u>833.4</u>
United States	119.7	128.1	106.0	366.2	694.5
Canada	20.2	11.1	38.2	73.1	136.8
Brazil	3.8	--	0.1	0.2	0.7
Other	1.8	0.1	1.3	--	1.4
Asia and Middle East	<u>349.4</u>	<u>282.0</u>	<u>0.0</u>	<u>1,325.0</u>	<u>1,848.7</u>
Japan	145.8	93.9	103.9	156.5	296.5
Saudi Arabia	35.5	96.8	342.2	726.1	848.4
China, People's Republic of	15.9	4.3	5.9	58.6	107.3
Israel	4.9	2.1	1.8	6.1	2.3
Hong Kong	1.6	0.5	1.9	7.4	6.9
Taiwan, Province of China	1.7	3.0	2.8	3.2	--
India	54.7	6.9	25.5	53.7	101.0
South Korea	28.3	--	8.8	8.0	74.0
Iran	0.5	--	--	0.7	1.6
Kuwait	0.2	--	--	--	28.1
Other	60.3	74.5	176.4	304.7	382.5
Africa	<u>79.7</u>	<u>93.4</u>	<u>215.7</u>	<u>320.1</u>	<u>453.1</u>
Kenya	39.1	42.1	67.2	104.9	144.3
Djibouti	29.3	45.2	129.9	172.3	239.5
Other	11.3	6.1	18.6	42.9	69.3
Australia	<u>2.6</u>	<u>1.0</u>	<u>1.4</u>	<u>27.2</u>	<u>34.7</u>
Other	<u>135.0</u>	<u>25.0</u>	<u>101.0</u>	<u>93.2</u>	<u>198.4</u>
Total imports, c.i.f.	<u>2,227.5</u>	<u>976.6</u>	<u>1,987.8</u>	<u>3,852.3</u>	<u>5,658.0</u>

Source: National Bank of Ethiopia; based on customs records.

Table XXVII. Ethiopia: Exports by Country of Destination, 1990-94 ^{1/}

(In millions of birr)

	1990	1991	1992	1993	1994
European Union	<u>236.6</u>	<u>180.7</u>	<u>203.3</u>	<u>412.5</u>	<u>1,088.5</u>
Germany, Federal Republic of	104.9	96.7	48.9	198.4	654.3
Italy	46.2	23.4	32.5	76.4	166.8
France	16.6	23.5	25.1	37	102.0
Netherlands	15.9	8.1	7.2	21.1	44.1
United Kingdom	17.8	11.1	82.0	46.4	71.8
Belgium-Luxembourg	18.4	16.6	6.6	30.1	37.8
Other	16.8	1.3	1.0	3.1	11.8
Eastern Europe	<u>29.5</u>	<u>2.2</u>	<u>1.1</u>	<u>3.0</u>	<u>9.0</u>
Former Yugoslavia	2.3	--	--	--	5.7
Russia	21.8	2.1	0.1	0.2	0.1
Other	5.4	0.1	1.0	2.8	3.2
Other Europe	<u>8.9</u>	<u>4.5</u>	<u>10.0</u>	<u>9.8</u>	<u>17.2</u>
Switzerland	0.2	0.2	3.0	0.9	2.1
Finland	7.8	3.4	5.0	6.2	11.9
Sweden	0.5	0.2	--	1.1	1.1
Other	0.4	0.7	2.0	1.6	2.0
Western Hemisphere	<u>83.2</u>	<u>21.1</u>	<u>23.3</u>	<u>100.7</u>	<u>156.7</u>
United States	65.8	16.9	19.6	92.1	133.2
Other	17.4	4.2	3.7	8.6	23.5
Asia and Middle East	<u>169.1</u>	<u>117.1</u>	<u>229.5</u>	<u>345.2</u>	<u>601.6</u>
Saudi Arabia	66.9	29.2	101.1	99.5	110.2
Japan	90.5	79.3	108.4	191.7	300.0
China, People's Republic of	--	1.1	0.2	0.3	0.7
Israel	0.8	0.4	0.1	0.6	7.6
Other	10.9	7.1	19.7	53.1	183.1
Africa	<u>77.4</u>	<u>18.0</u>	<u>36.4</u>	<u>135.5</u>	<u>188.1</u>
Djibouti	73.1	15.1	35.8	121.7	153.0
Kenya	1.8	1.4	0.1	--	0.1
Other	2.5	1.5	0.5	13.8	34.9
Other	<u>6.9</u>	<u>0.3</u>	<u>0.4</u>	<u>0.8</u>	<u>1.6</u>
Total exports, f.o.b.	<u>611.6</u>	<u>343.9</u>	<u>504.0</u>	<u>1,007.5</u>	<u>2,062.6</u>

Source: National Bank of Ethiopia.

^{1/} Includes re-exports.

Table XXVIII. Ethiopia: External Arrears, June 1993-June 1995 ^{1/}

(In millions of birr)

	June 30, 1993			June 30, 1994			June 30, 1995		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Central Government	<u>1,538.0</u>	<u>238.2</u>	<u>1,776.2</u>	<u>2,252.7</u>	<u>293.6</u>	<u>2,546.3</u>	<u>2,961.9</u>	<u>388.8</u>	<u>3,350.7</u>
Algeria	87.8	3.7	91.5	102.5	9.3	111.8	104.9	10.2	115.0
Austria	--	--	--	17.7	3.0	20.7	27.6	4.1	31.8
Bulgaria	142.8	19.7	162.5	173.1	22.7	195.8	233.4	28.8	262.2
Canada	10.4	--	10.4	--	--	--	--	--	--
China, People's Rep. of	--	11.2	11.2	134.1	13.3	147.4	178.8	16.5	195.2
Former Czechoslovakia	133.1	37.8	170.9	140.7	52.4	193.1	194.0	71.7	265.8
Hungary	8.8	2.0	10.8	11.4	2.6	14.0	16.5	3.5	20.0
India	13.8	6.5	20.3	20.7	8.3	29.1	32.3	11.2	43.5
Italy	--	--	--	8.5	--	8.5	10.0	--	10.0
Japan	19.7	0.8	20.5	13.7	0.7	14.4	18.2	1.2	19.4
Korea, D.R.	5.6	--	5.6	260.2	--	260.2	347.5	--	347.5
Libya	191.4	17.7	209.1	309.6	18.9	328.4	364.0	22.3	386.3
Poland	4.8	2.2	7.0	--	4.8	4.8	25.3	7.1	32.3
Spain	--	1.7	1.7	--	1.7	1.7	--	1.8	1.8
Russia ^{2/}	721.6	69.3	790.9	797.2	75.8	873.0	982.0	91.1	1,073.1
Former Yugoslavia	198.2	65.6	263.8	263.2	80.0	343.3	427.4	119.4	546.8
Other public sector	<u>229.6</u>	<u>37.0</u>	<u>266.6</u>	<u>331.8</u>	<u>56.0</u>	<u>385.6</u>	<u>476.0</u>	<u>75.4</u>	<u>654.1</u>
Canada	5.1	0.5	5.6	--	0.4	0.4	2.5	0.5	3.0
Former Czechoslovakia	21.0	1.7	22.7	17.6	3.3	20.8	23.0	3.9	26.9
India	8.0	3.6	11.6	10.8	4.5	15.3	15.2	6.0	21.3
Israel	--	0.4	0.4	0.5	--	0.6	0.6	--	0.7
Italy	--	--	--	14.7	2.7	17.4	16.8	3.0	19.8
Japan	120.5	17.6	138.1	142.0	23.1	165.1	217.5	33.2	250.7
Korea, D.R.	3.6	--	3.6	48.5	--	48.5	68.9	--	68.9
United Kingdom	--	--	--	1.7	0.3	2.0	2.0	0.3	2.4
Russia ^{2/}	8.2	0.5	8.7	9.8	0.5	10.3	11.6	0.6	12.2
Former Yugoslavia	63.2	12.7	75.9	86.1	19.0	105.2	204.0	44.3	248.3
Total	<u>1,767.6</u>	<u>275.2</u>	<u>2,042.8</u>	<u>2,496.7</u>	<u>345.9</u>	<u>2,931.9</u>	<u>3,350.1</u>	<u>460.6</u>	<u>4,004.8</u>

Source: Ministry of Finance.

^{1/} Outstanding at end of period.

^{2/} Excludes ruble-denominated debt.

Ethiopia: Summary of the Tax System as of June 1995

Tax	Nature of Tax	Deductions and Exemptions	Rates																																													
1. <u>Taxes on income and profits</u>																																																
1.1 <u>Income tax on employment</u> (Proclamation No. 30/1992; Proclamation No. 107/1994)	Tax on income from employment, including without limitations, salaries, wages, allowances, directors' fees, and other personal emoluments. Tax is withheld by employers.	The first Br 120 of monthly income is exempt.	The tax rate is progressive for all income according to Schedule A: <table><tr><th>No.</th><th>Taxable income per month (birr)</th><th>Tax rate on additional income (%)</th></tr><tr><td>1</td><td>121 - 600</td><td>10</td></tr><tr><td>2</td><td>601 - 1,200</td><td>15</td></tr><tr><td>3</td><td>1,201 - 2,000</td><td>20</td></tr><tr><td>4</td><td>2,001 - 3,000</td><td>30</td></tr><tr><td>5</td><td>3,301 and more</td><td>40</td></tr></table>	No.	Taxable income per month (birr)	Tax rate on additional income (%)	1	121 - 600	10	2	601 - 1,200	15	3	1,201 - 2,000	20	4	2,001 - 3,000	30	5	3,301 and more	40																											
No.	Taxable income per month (birr)	Tax rate on additional income (%)																																														
1	121 - 600	10																																														
2	601 - 1,200	15																																														
3	1,201 - 2,000	20																																														
4	2,001 - 3,000	30																																														
5	3,301 and more	40																																														
1.2 <u>Rural land and agricultural activities income tax</u> (Proclamation No. 77/1976 and amendment; Proclamation No. 152/1978)																																																
1.21 <u>Rural land use fee</u>	Fee payable for rural land use under the Public Ownership of Rural Lands Proclamation No. 31/1975 by any individual or state farm. For lower income farmers, the fee is collected by the peasant associations.	Agricultural research stations with legal identity are exempt.	1. Members of agricultural producers' cooperatives: Br 5.00 2. Other farmers: Br 10.00 3. State farms: 2 Br/hectare																																													
1.22 <u>Income tax</u>	Tax payable on annual income derived from agricultural activities. Tax on income lower than Br 600 per annum is collected by peasant associations. Farmers with income higher than Br 600 per annum must have their income assessed by the tax office, which collects the tax.	None.	1. Income lower than Br 600 per annum: Br 10.00 2. Income over Br 600/year; tax rates on all additional income are progressive: <table><tr><th>No.</th><th>Annual taxable income (birr)</th><th>Tax rate on additional income (%)</th></tr><tr><td>1</td><td>601 - 1,200</td><td>10</td></tr><tr><td>2</td><td>1,201 - 3,000</td><td>11</td></tr><tr><td>3</td><td>3,001 - 6,000</td><td>14</td></tr><tr><td>4</td><td>6,001 - 9,000</td><td>20</td></tr><tr><td>5</td><td>9,001 - 12,000</td><td>26</td></tr><tr><td>6</td><td>12,001 - 15,000</td><td>33</td></tr><tr><td>7</td><td>15,001 - 18,000</td><td>40</td></tr><tr><td>8</td><td>18,001 - 21,000</td><td>47</td></tr><tr><td>9</td><td>21,001 - 24,000</td><td>54</td></tr><tr><td>10</td><td>24,001 - 27,000</td><td>61</td></tr><tr><td>11</td><td>27,001 - 30,000</td><td>68</td></tr><tr><td>12</td><td>30,001 - 33,000</td><td>75</td></tr><tr><td>13</td><td>33,001 - 36,000</td><td>82</td></tr><tr><td>14</td><td>36,001 and more</td><td>89</td></tr></table> 3. State farms or corporate bodies with income higher than Br 1,200: 50 percent of taxable income.	No.	Annual taxable income (birr)	Tax rate on additional income (%)	1	601 - 1,200	10	2	1,201 - 3,000	11	3	3,001 - 6,000	14	4	6,001 - 9,000	20	5	9,001 - 12,000	26	6	12,001 - 15,000	33	7	15,001 - 18,000	40	8	18,001 - 21,000	47	9	21,001 - 24,000	54	10	24,001 - 27,000	61	11	27,001 - 30,000	68	12	30,001 - 33,000	75	13	33,001 - 36,000	82	14	36,001 and more	89
No.	Annual taxable income (birr)	Tax rate on additional income (%)																																														
1	601 - 1,200	10																																														
2	1,201 - 3,000	11																																														
3	3,001 - 6,000	14																																														
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13	33,001 - 36,000	82																																														
14	36,001 and more	89																																														
1.23 <u>Rental income tax</u> (Proclamation 62/1993)	Tax on income derived from the rent of houses, buildings for office or manufacturing, materials & goods. The tax is computed on the basis of annual rent income after deducting allowable expenses.	Annual depreciation and allowable expenses are deducted from gross income. The first Br 1,200 of annual income are exempt.	<table><tr><th>No.</th><th>Annual taxable income (birr)</th><th>Tax rate on additional income (%)</th></tr><tr><td>1</td><td>1,201 - 6,000</td><td>10</td></tr><tr><td>2</td><td>6,001 - 12,500</td><td>15</td></tr><tr><td>3</td><td>12,501 - 21,500</td><td>21</td></tr><tr><td>4</td><td>21,501 - 33,500</td><td>28</td></tr><tr><td>5</td><td>33,501 - 50,000</td><td>36</td></tr><tr><td>6</td><td>50,001 and more</td><td>45</td></tr></table>	No.	Annual taxable income (birr)	Tax rate on additional income (%)	1	1,201 - 6,000	10	2	6,001 - 12,500	15	3	12,501 - 21,500	21	4	21,501 - 33,500	28	5	33,501 - 50,000	36	6	50,001 and more	45																								
No.	Annual taxable income (birr)	Tax rate on additional income (%)																																														
1	1,201 - 6,000	10																																														
2	6,001 - 12,500	15																																														
3	12,501 - 21,500	21																																														
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5	33,501 - 50,000	36																																														
6	50,001 and more	45																																														

Ethiopia: Summary of the Tax System as of June 1995 (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rates																		
1.3 <u>Tax on business and other profits</u>																					
1.31 <u>Unincorporated business</u> (Proclamation No. 18/1990; Proclamation No. 107/1994)	Tax on income from all sources other than those mentioned elsewhere, including casual rental property.	The first Br 1,200 of annual taxable income are exempt.	The tax rate is progressive for all income according to the following schedule: <table><tr><th>No.</th><th>Annual taxable income (birr)</th><th>Tax rate on additional income (%)</th></tr><tr><td>1</td><td>1,201 – 6,000</td><td>10</td></tr><tr><td>2</td><td>6,001 – 15,600</td><td>15</td></tr><tr><td>3</td><td>15,601 – 30,000</td><td>20</td></tr><tr><td>4</td><td>30,001 – 50,000</td><td>30</td></tr><tr><td>5</td><td>50,001 and more</td><td>40</td></tr></table>	No.	Annual taxable income (birr)	Tax rate on additional income (%)	1	1,201 – 6,000	10	2	6,001 – 15,600	15	3	15,601 – 30,000	20	4	30,001 – 50,000	30	5	50,001 and more	40
No.	Annual taxable income (birr)	Tax rate on additional income (%)																			
1	1,201 – 6,000	10																			
2	6,001 – 15,600	15																			
3	15,601 – 30,000	20																			
4	30,001 – 50,000	30																			
5	50,001 and more	40																			
1.32 <u>Incorporated businesses</u>	Tax on profits.	Cooperative societies and Ethiopian Maritime Corporation are exempt.	40 percent of taxable income.																		
1.33 <u>Tax on income from mining activities</u> (Proclamation No. 53/1993)	Tax on income received or credited from mining operations within Ethiopia by the holder of large-scale and small-scale mining licenses.	Artisanal mining is exempt.	Small scale mining: 35 percent. Large scale mining: 45 percent.																		
1.4 <u>Members of Cooperative Societies (organized under the Cooperative Societies Proclamation)</u>	Annual income received from a cooperative society by an individual.	Annual income up to Br 500 is exempt.	Same as under 1.31.																		
1.5 <u>Capital gains tax</u> (Proclamation No. 108/1994)	Annual tax on gains realized from the increase in value upon the sale of shares, bonds, and real estate.	Inflation adjusted amount and capital losses in the preceding year are deductible. Annual gains up to Br 10,000 are exempt.	30 percent.																		
1.6 <u>Other sources of income</u>	a. Income from dividends paid to shareholders.	None.	10 percent																		
	b. Income from chance winnings and lottery.	Income not exceeding Br 100 is exempt.	10 percent																		
	c. Income from royalties.	None.	40 percent																		
	d. Income of nonresident persons or organizations for services rendered to persons or organizations in Ethiopia.	None.	10 percent																		

Tax	Nature of Tax	Deductions and Exemptions	Rates
2. <u>Taxes on goods and services</u>			
2.1 <u>Excise tax</u> (Proclamation No. 68/1993)	Excise tax is levied on selected locally produced and imported goods. The tax is collected within three days of production for local goods and at the time of clearing of the goods at customs area. The rates are based on the cost of production and cif value for imports.	None.	9 rates, ranging from 10-200 percent: Textiles, TV receivers 10 Tobacco leaf, autom. (up to 1300cc), Land Rovers, Jeeps & 4WD, leather (tanned or dressed) 20 Petroleum and its products, Washing machines, TVs, video decks, video cameras 30 Sugar (excl. molasses), mineral water, wine, salt, fur skins (tanned or dressed), personal adornment, automobiles (1300-1800cc) 50 Other alcohol 75 Soft drinks, dish washers. 80 Beer and stout, perfumes, automobiles (above 1800cc) 100 Tobacco and tobacco products 150 Pure alcohol 200
2.2 <u>Sales tax on goods</u>	Levied on locally produced goods at the manufacturing level, and on imported goods at the import gate. Collected by Inland Revenue Administration and Customs, respectively. The tax bases are the producer's wholesale price plus excise tax, and the cif value plus customs duty and excise tax for imports, as the case may be. There is a refund of sales tax paid for raw materials used in the production of local goods; no refund for pure alcohol as raw material. The tax is payable within three to five days.	Exemptions and concessions granted according to appropriate tax laws or international agreements. Persons engaged in informal production activity whose daily sales income does not exceed Br 25. Goods produced for export. Exemptions may also be granted under directives from the Minister. The following items are exempt: (1) Food: Bread and 'njera'; (2) Fertilizer; (3) Aviation fuel and lubricants, kerosene; (4) Containers, packing and wrapping materials; (5) Equipment and requisites for aircraft, railway and tramway, marine transport and for national defense and public order purposes; (6) Fire fighting appliances for public use and ambulances; (7) Equipment for handicapped; (8) Imported bullion for National Bank and coins; (9) Photographs (incl. enlarged or reproduced) intended not for sale; (10) Traveler's checks, revenue stamps, etc; (11) Works of art for public exhibition.	5% on sales of live animals and their products, vegetables and fruits, unprocessed cereals, other food products, pharmaceuticals, books and printed matter, hides and skins, cotton. 12 % on sales of other goods. Specific tax on local sales of chat: Br 2/kilogram.
2.3 <u>Sales tax on services</u>	Sales tax is levied on selected local services. The tax is paid by the person or organization rendering services and computed on the basis of the service charge. 16 services are subject to sales tax: Telecommunications, garage, laundry, tailoring, legal services, translation, photography and photocopying, auditing, works contract, lodging consultancy, commission agent, cinema, hair dressing and beauty saloon, tourism and rents of goods.	Services with daily income less than Br 25.	5% for work contracts and for those whose daily earning is Br 25-50. 10% on the sales of all other services.

Ethiopia: Summary of the Tax System as of June 1995 (concluded)

Tax	Nature of Tax	Deductions and Exemptions	Rates
3. <u>Taxes on international trade</u>			
3.1 <u>Taxes on imports</u>			
3.11 <u>Customs duty</u> (Tariff Regulation No. 122/1993 Proclamation No. 67/1993)	The customs tariff applies to all imports. Items are classified according to a schedule of 97 chapters based on the Harmonized System of Tariff Classification Code.	Diplomatic and consular missions, personal effects, grants and gifts to Ethiopia, fire-fighting instruments and appliances, trade samples, defense and public security equipment, materials and equipment for handicapped. Exemptions and concessions are granted to certain organizations and items.	Ad valorem duty on imports consisting of 10 rates, ranging from 0 - 80 percent. (in percent) Raw materials, capital goods, pharmaceuticals, chemicals 0 - 20 Durable and nondurable consumer goods 20 - 50 Luxuries and goods that can be produced locally 60 - 80
3.12 <u>Import excise tax</u>	Levied on selected imported goods.	None.	As specified in (2.1)
3.13 <u>Import sales tax</u>	Sales tax levied on imports, the tax base being the cif value plus the customs duty and excise tax paid.	See items in (2.2) for exemptions.	As specified in (2.2)
3.2 <u>Taxes on exports</u>	All export duties and taxes except those on coffee and chat are abolished. A duty drawback and a duty-free import scheme have been introduced. Under duty drawback scheme, goods produced for export, re-exporting or raw materials imported upon payment of duties are subject to refund of the duty paid. 95% of the duty drawn back is refunded for raw materials or commodities if re-exported and 100% if exported after being processed or used for packing or containing. Under duty-free import scheme, persons or organizations wholly engaged in supplying their products to foreign markets are allowed a duty-free purchase of local or imported raw material for their production, and the product should be exported within one year of purchase of such raw materials.		
3.21 <u>Export duty on coffee</u>	Payable by the exporter on the basis of quantity exported.	None.	Br 15/quintal.
3.22 <u>Coffee export cess</u> Proclamation No. 310/1973	Payable by exporters of Ethiopian-grown coffee, collected by customs at time of export.	None.	Br 5/quintal.
3.23 <u>Coffee surtax</u> Coffee Surtax (Amendment) Regulation No. 62/1978 Regulation No. 65/1979 Regulation No. 4/1989	Specific tax per 100-kg bag on all coffee exported from Ethiopia, payable at the time of export by exporter to customs. The tax is graduated according to the composite daily price pursuant to the International Coffee Agreement of 1975 ex dock New York, prevailing at the close of business on the last day of the payment of the surtax. When a forward contract has been made, the price in force at the time contract is registered is used as the reference point.	None.	Surtax reference price (U.S. cents per pound) Amount (Br 100/kg) 0 - 50 Na 51 - 75 Br 0.5 76 - 100 Br 1.0 101 - 125 Br 2.0 126 - 150 Br 3.0 151 or more Br 4.0 For example, if the reference price is US\$ 2.00, the surtax is 0+12.5+25+50+75+200 (Br 362.5 per quintal).
3.24 <u>Coffee transaction tax</u> (Proclamation No. 17/1956)	Tax payable by exporters at the point of exit.	The rate is levied after deducting other coffee export taxes; re-exports are exempt.	2 percent.
3.25 <u>Chat export tax</u>	Payable by exporters, on value inclusive of local sales tax on chat.	None.	Br 5/kilogram.
4. <u>Other taxes</u>			
4.1 <u>Stamp duties</u> (Decree No. 26/1975, as amended by Proclamation No. 334/1987)	Obligatory use of stamped paper for many legal documents, such as contracts or papers in court proceedings; requirement that stamps be affixed to other documents, such as bills of exchange, lease, and insurance policies, as well as tickets of admission to public entertainment.	Stamps duties are not levied on documents where the Ethiopian Government, foreign embassies, consulates, etc., would be the party subject to duty.	Various, according to the type of document of transaction.

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