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The Federal Democratic Republic of Ethiopia: Request for a 14-Month Arrangement under the Exogenous Shocks Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Federal Democratic Republic of Ethiopia

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on August 26, 2009, with the officials of the Federal Democratic Republic of Ethiopia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 3, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- Supplements to the staff report.

- A Press Release summarizing the views of the Executive Board as expressed during its August 26, 2009 discussion of the staff report.

- A statement by the Executive Director for the Federal Democratic Republic of Ethiopia.

The document(s) listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of the Federal Democratic Republic of Ethiopia *
Memorandum of Economic and Financial Policies by the authorities of the Federal Democratic Republic of Ethiopia *
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Request for a 14-Month Arrangement under the Exogenous Shocks Facility

(In consultation with the Finance, Legal, Monetary and Capital Markets, and Strategy, Policy, and Review Departments)

Approved by Mark Plant and Dominique Desruelle

August 3, 2009

Context: Ethiopia is facing a difficult external environment: pressures on export receipts, remittances, and foreign direct investment are occurring at a time when reserves remain quite low (1.8 months of import cover) in the wake of the commodity price shocks of 2007–08. The provision of IMF financing, supporting the sizeable inflows of donor aid in the past two years, would help maintain macroeconomic stability, smoothen the adjustment process, and mitigate risks to the growth and poverty reduction achievements of recent years.

Request for support under the high-access component of the Exogenous Shocks Facility (ESF): The authorities are requesting a 14-month arrangement in the amount of SDR 153.755 million (115 percent of quota), equivalent to about $240 million. SDR 73.535 million (55 percent of quota, equivalent to about $115 million) would become available upon Board approval.

Discussions: Discussions were held in Addis Ababa on June 9–19, 2009. The mission met with Prime Minister Meles Zenawi, Minister of Finance and Economic Development Sufian Ahmed, National Bank Governor Teklewold Atnafu, other senior officials, and representatives of the donor community. The mission team comprised Messrs. Nolan (head), Honda, Zhan (all AFR), and Thomas (SPR); Mr. Singh, resident representative, assisted. Staff collaborate closely with the World Bank, the African Development Bank, and local representatives of the donor community.

IMF relations: The last arrangement under the Poverty Reduction and Growth Facility (in the amount of SDR 100.28 million) expired on September 24, 2004. Ethiopia reached the completion point for the enhanced HIPC Initiative in April 2004 and received further debt relief under the Multilateral Debt Relief Initiative in January 2006. The Board concluded the 2008 Article IV consultation on July 14, 2008. Ethiopia made a drawing under the rapid-access component of the ESF in February 2009. Ethiopia is still under the Article XIV regime and maintains several exchange restrictions that are inconsistent with Article VIII.

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EXECUTIVE SUMMARY

- Ethiopia has faced a turbulent external environment during 2008–09, with commodity price surges, and later the global recession, producing a series of shocks to the balance of payments.

- Facing declining reserves and high inflation, the authorities, from late-2008, have implemented an effective macroeconomic adjustment package supported by the Fund under the rapid-access component (RAC) of the Exogenous Shocks Facility (ESF).

- The global recession is putting renewed pressure on the external position, via weaker export receipts and remittances and slowing inward direct investment. The authorities have fleshed out their economic program for the 2009/10 fiscal year and are seeking support in the form of a Fund arrangement under the high-access component (HAC) of the ESF.

- The authorities' program for 2009/10 includes: a) limits on the domestic borrowing of the public sector, which are eased slightly from 2008/09 levels; b) some easing of the fiscal stance, tightened sharply under the 2008/09 adjustment program; c) further slowing of the pace of monetary expansion; and d) modest real exchange rate adjustment, aided by a step depreciation of the birr on July 10th. Supporting structural measures focus on tax reform, the control of public enterprise borrowing, and the control of liquidity through indirect instruments.

- The policies supported under the proposed arrangement, coupled with the proposed Fund financial support and Ethiopia's increased allocation of SDRs, would contribute to the rebuilding of international reserves to 2½ months of imports by 2010/11, while maintaining a sound macroeconomic environment for growth and poverty reduction. Ethiopia receives substantial support from its development partners, who welcome the reassurance regarding macroeconomic policies provided by a Fund arrangement.

- The staff supports the authorities' request for a 14-month HAC ESF arrangement. The global recession has created an immediate balance of payments need in 2009/10, while the authorities' policy commitments appropriately address the impact of the external shocks. Risks to the program include the uncertain external environment and the always-present potential for adverse supply shocks to Ethiopia's large agricultural sector.

I. Background

1. **Ethiopia has faced a turbulent external economic environment of late, as commodity price movements and, later, global recession produced a series of shocks to the balance of payments**. Rapid import growth, fueled in part by public spending, created pressure on reserve levels even prior to the surge in world food and fuel prices in 2007–08. The price surge then helped push reserves down to some $0.9 billion (1.2 months of imports) by mid-2008, while also contributing to an exceptional jump in consumer price inflation.

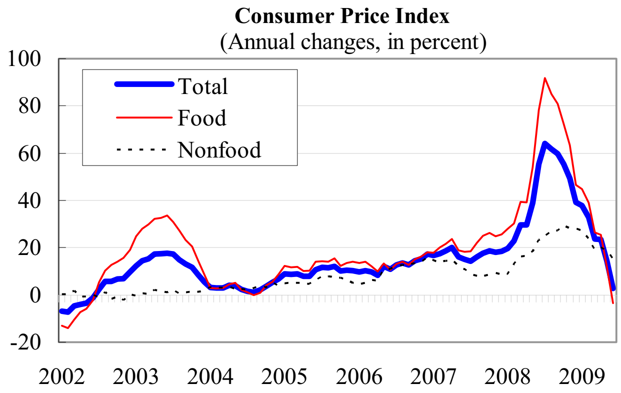
2. **Concerns about declining reserve levels and rising inflation led the authorities to implement a macroeconomic adjustment package from late-2008**, focused on fiscal and monetary tightening and the elimination of fuel subsidies. The package of policy adjustments was supported by a drawing in February 2009 under the rapid access component (RAC) of the Exogenous Shocks Facility (ESF), with ESF access based on the balance of payments impact of the commodity price surge.

3. **The track record of both policy implementation and performance under the adjustment program has been strong**:

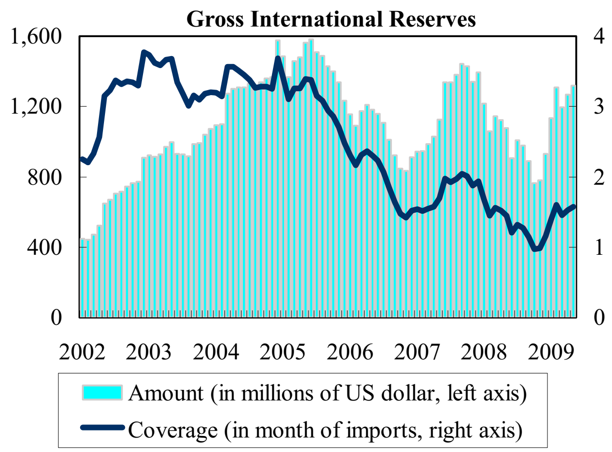
- Key policy targets—zero domestic borrowing by the general government, limits on public enterprise borrowings, elimination of fuel subsidies, exchange rate adjustment —are expected to have been met, although effective monetary control remains a challenge (see Box 1).

- Key policy objectives—bringing inflation down sharply and partially rebuilding reserves—have been achieved, with inflation in the 12 months to June declining to 3 percent, aided by falling food price levels, and foreign reserves, helped by increased donor assistance, ending the year at some $1.5 billion (1.8 months of import cover).

With good harvests and declining world food prices, inflation is subsiding.



International reserves picked up modestly with donor aid.



4. **The authorities anticipate that real GDP increased by some 10 percent in FY 2008/09, down only marginally from the 11.6 percent recorded in 2007/08**: agricultural output is expected to have risen by some 6 percent, industrial output by some 9 percent, and tertiary sector output by 15 percent. Staff believe that underlying growth was on the order of 7–8 percent, with the recorded growth in tertiary output (averaging 15 percent over the past three years) likely overstating the true expansion of such activity.[1]

II. THE NEAR-TERM OUTLOOK

5. **The global recession is constraining export growth and limiting key external resource inflows, but the impact of these pressures on aggregate output is modest given the central role of subsistence agriculture**. The authorities expect GDP to grow by at least 9 percent in 2009/10, with agriculture and industry, aided by weather conditions and progress with key infrastructure projects, growing at 6.2 and 8.7 percent, respectively. Staff believe that the underlying expansion in GDP is more likely to be around 7 percent: the financial program described below has been constructed around this more cautious growth assumption.

6. **Following the dramatic movements in price indices over the past two years, single-digit inflation looks to be achievable over the current (fiscal) year**, although high food price volatility and stubborn non-food price inflation (15 percent as of June 2009) are significant risk factors. The links between CPI movements and macroeconomic aggregates have not been stable (IMF Country Report No. 08/264, July 31, 2008), so further volatility cannot be ruled out—although the buildup of grain reserves should help to limit speculative price surges.

7. **The balance of payments outlook for 2009/10 is troubling**, as global recession takes a toll on remittances, exports, and direct foreign investment, oil prices move upward again, and the exceptional assistance provided by donors during 2008/09 falls away.[2] Staff estimates suggest that, absent policy changes, reserves would decline by some $250 million this year, reversing about one-half of the rebuilding of reserves achieved in 2008/09.

III. THE AUTHORITIES' PROGRAM

8. **The authorities are framing their macroeconomic program for FY 2009/10 around the twin objectives of maintaining price stability and building a stronger reserve position (Table 1).**[3] They have been encouraged by the results achieved with the

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[1] GDP statistics are characterized by some weaknesses; there is also a paucity of high-frequency output indicators, making it difficult to assess current sectoral trends in a timely manner.

[2] Data for the first six months of the year indicate that individual remittances are down 6 percent from the corresponding period of 2008, merchandise exports are down 11 percent. The number of foreign investment projects approved for the first quarter of the year is down by 9 percent.

[3] The fiscal year runs from July 8 to July 7.

FY 2008/09 adjustment program, but see important trade-offs between the two objectives, intensified by their intention to meet spending needs squeezed in last year's adjustment program and to press ahead with their investment program. They see the appropriate resolution of these trade-offs as involving a combination of some easing of the fiscal stance, continued tight limits on public enterprise borrowing, maintenance of a cautious monetary policy, and gradual real depreciation of the birr.

9. **The authorities' program for FY 2009/10 is outlined in the attached Memorandum of Economic and Financial Policies (Attachment I of the Appendix) and summarized below**. Key quantitative objectives are: a) GDP growth of at least 7 percent; b) 12-month consumer price inflation of not more than 10 percent; and c) raising international reserves, inclusive of the financial support requested here from the IMF, to some $1.85 billion, equivalent to 2.1 months of import coverage by end-2009/10.[4] The authorities are seeking Fund financial support for this program in the form of an arrangement supported under the high-access component (HAC) of the ESF.

A. Policies for the Public Sector

10. **A surge in public sector borrowing levels was an important factor in contributing to widening macroeconomic imbalances during 2005–08**: the authorities' policy framework of 2009/10 therefore envisages continued tight control of domestic borrowing levels, combined with careful scrutiny of external borrowing and its associated implications for debt sustainability (see below). Public sector domestic borrowing will be kept to 3 percent of GDP in 2009/10, up somewhat from the 2008/09 level, but considerably less than the levels of previous years (see Text Table 1).

Text Table 1. Ethiopia: Public Sector Domestic Financing
(In percent of GDP)

	2005/06	2006/07	2007/08	2008/09 Est.	2009/10 Proj.
Federal government	2.1	3.6	2.7	0.0	1.4
Public enterprises	1.5	1.7	4.4	2.1	1.6
EEPCo (Bond Sales)	0.8	1.5	1.8	0.8	…
Oil Stabilization Fund	1.3	0.1	1.7	-0.3	…
Others	-0.6	0.1	0.9	1.6	…
Total	3.6	5.3	7.1	2.1	3.0

Note. ETC and EAL are not planning any domestic financing in coming years.

[4] The projected reserve level is inclusive of the proposed general and special allocations of SDRs (which amount to about $180 million, equivalent to 0.2 months of import cover).

11. **The general government budget for 2009/10 envisages some easing of the tight limits on public spending imposed last year (see Tables 2 and 3)**. Revenues should rise by some 0.5 percent of GDP, aided by the elimination of the temporary VAT exemption for foodstuffs and the delayed impact of the past high inflation on income taxes; domestically-funded capital outlays would rise while recurrent outlays are maintained under tight control. The authorities underscored that the budget was heavily pro-poor in its orientation and that the rise in Treasury-funded capital outlays would be focused on the provinces, benefiting mainly smaller population centers and the rural population. The budget deficit is set to rise from 2.3 percent to 3 percent of GDP, financed by a mix of external and domestic borrowing; if aid inflows, whether in the form of loans or grants, exceed budgetary projections, the authorities intend to reduce domestic borrowing levels.

12. **The gradual erosion of the tax-GDP ratio in recent years is placing significant constraints on the government's ability to finance its spending objectives**. The authorities attach central importance to boosting revenue collections and are set to receive, in the coming months, technical assistance from the Fund's Fiscal Affairs Department in evaluating current tax policies and tax administration. They intend to use the outputs from these missions in developing a new tax strategy, and are committed to preparing a time-bound plan by the time of the first program review. *Development of a tax reform strategy is a structural reform priority for the proposed arrangement.*

13. **Public enterprises play a key role in several sectors of the Ethiopian economy, notably the provision of infrastructure**. Government policy is that enterprise pricing should be based on the principle of full cost-recovery: an exception to this policy, now eliminated, was the subsidy on petroleum products via the Oil Stabilization Fund in place through late-2008.[5] Borrowing levels of public enterprises are now subject to regular scrutiny to evaluate their macroeconomic impact, via an interagency committee that reviews enterprise borrowing on a monthly basis. Large public enterprises submit annual investment and financing plans to the committee, which reviews plans and their implementation and, where warranted, brings proposed remedial policy actions to senior policy makers. The committee is working to extend coverage of its operations to all significant borrowing units and will soon issue a formal notification to that effect to all agencies. *Effective working of this oversight mechanism is a structural reform priority for the proposed arrangement.*

B. Monetary Policy

14. **Monetary policy is to focus on achieving the inflation objective (see Table 4)**. The monetary program is framed around controlling broad money growth, with reserve money as the operational target. For 2009/10, money growth will be limited to 17 percent, equivalent in size to the combined increase in real economic activity and the (end-of-period) price level: given the public sector borrowing program and the foreign reserve targets, this would make room for real growth in credit to the private sector on the order of 6 percent. The policy

[5] Prices of petroleum products are now set at levels that allow gradual repayment of the Oil Stabilization Fund's debt to the banking system.

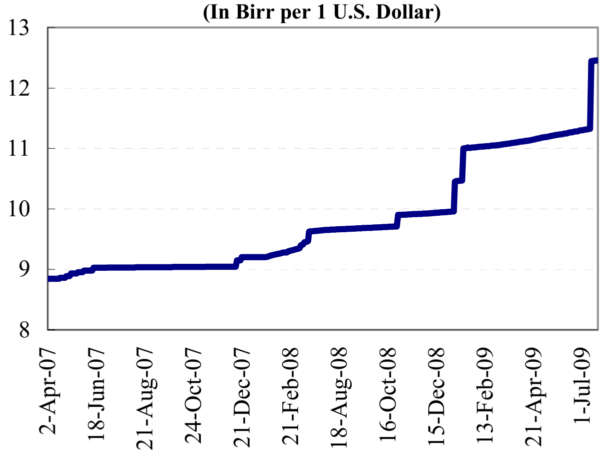
settings for the first semester of FY 2009/10 have been calibrated tightly to help entrench single-digit inflation against a backdrop of exchange rate adjustment; the full-year targets will be reviewed at mid-fiscal year in light of the inflation experience in the coming months.

15. **Limiting the pace of monetary growth to the programmed level will require effective control of reserve money (see Box 2)**. The authorities intend to make systematic use of the regular auctions of Treasury bills to control liquidity, setting sales volumes on the basis of what is needed to meet reserve money targets. Effective liquidity forecasting will entail close cooperation and regular information-sharing between the National Bank of Ethiopia (NBE) and the Ministry of Finance and Economic Development (MoFED). These changes represent a significant break from past practice, and will require that interest rates on Treasury bills adjust to allow the target sales volumes to be realized. The authorities noted that excess liquidity has been a recurrent problem for them, only partially addressed through adjustments in reserve requirements; they therefore expected to face initial challenges in achieving smooth operation of the proposed approach. Assistance in support of this reform agenda is to be obtained from the World Bank's financial sector capacity-building project.

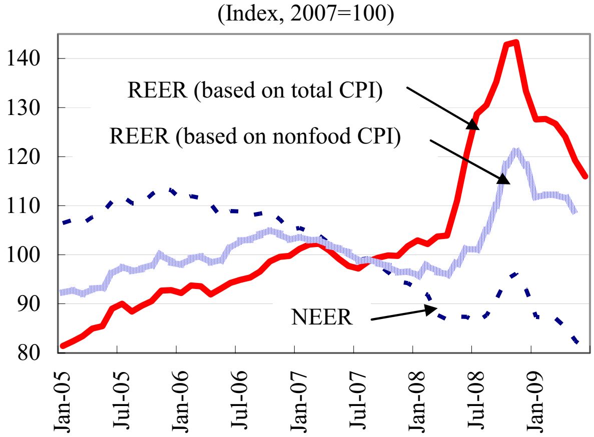
C. Exchange Rate Policy

16. **Ethiopia has a tightly managed exchange rate, classified by staff as a de facto crawl-like arrangement**; the authorities describe their exchange rate regime as a managed float with no pre-determined path for the exchange rate. The pace of depreciation has been modest, partly to anchor price expectations, but there have been occasional discrete jumps in the exchange rate aimed at restoring tradable sector competitiveness. The most recent such move was on July 10th, when the birr was allowed to depreciate by some 9 percent.

Exchange Rates
(In Birr per 1 U.S. Dollar)



Real and Nominal Effective Exchange Rates
(Index, 2007=100)



17. **High inflation in the past two years has been accompanied by significant real exchange rate appreciation, measured either in terms of the full consumer price index or the non-food price index** (which may better track wage and other input costs, and hence competitiveness). Measured against the benchmark of average levels in 2003–07, the real effective exchange rate (all products) had appreciated by some 35 percent as of June 2009,

having fallen from more elevated levels during the first 6 months of 2009; the corresponding net real appreciation based only on non-food prices was some 15 percent.[6]

18. **The authorities agreed with staff that the exchange rate was overvalued at its June 2009 level**; they viewed a real level closer to that observed in 2007 as being broadly appropriate from a medium-term perspective. Price competitiveness needed to be improved, but they argued that this could be achieved only gradually: they ruled out rapid adjustment via a large step devaluation on the grounds that it would revive inflation, only recently brought under control. They saw a step adjustment on the scale of that implemented on July 10th as an important move towards correcting overvaluation. They underscored their commitment to achieving, over the medium-term, an appropriate level for the real exchange rate and would not hesitate to adjust the nominal exchange rate for this purpose, if needed. Staff emphasized the overarching importance of boosting Ethiopia's production of tradable goods and services, arguing that some further real exchange depreciation would likely be needed over time to achieve this objective.

D. External Debt Issues

19. **Ethiopia's external debt levels are rising significantly as major public enterprises borrow externally to finance infrastructure investment**. The stock of debt (in NPV terms) is set to rise from $1.3 billion at end-June 2008 to $6.0 billion by end-June 2011, with almost 70 percent of the increase accounted for by the state-owned electric power (EEPCo) and telecom (ETC) companies. Given infrastructure weaknesses, the case for large-scale investment in these sectors is compelling but the sizeable and rapid build-up of debt underscores the need to ensure that borrowed funds are being put to effective use, that a supportive business environment is being put in place to ensure full take-up of infrastructure outputs, and that public enterprise pricing policy will ensure the full recovery of costs needed to facilitate debt service in the future.

Text Table 2. Ethiopia: NPV of External Public Debt
(In billions of U.S. Dollars)

	June 2008 1/	June 2009	June 2010	June 2011
Total	1.3	2.7	4.9	6.0
(in percent of exports)	42.8	84.8	136.8	139.0
Government	0.7	1.2	1.7	2.2
Public Enterprises	0.6	1.5	3.2	3.7

1/ based on 2008 DSA

[6] Staff analysis as part of the 2008 Article IV Consultation concluded that the real exchange rate was at a broadly appropriate level in late-2007—a level not significantly different from the average level for 2003–07.

20. **An updated external debt sustainability analysis (DSA) yields similar conclusions to the DSA conducted as part of the 2008 Article IV Consultation process**: Ethiopia is at moderate risk of debt distress: debt burden indicators are projected to remain below the policy-dependent thresholds but one threshold (the NPV of debt-to-exports ratio) is breached under four stress tests. While the conclusions are similar to those of the 2008 DSA, the debt profile shows significantly higher levels for debt indicators in the 2009/12 period, reflecting a combination of a) faster-than-projected disbursements on existing loans to ETC; b) additional new borrowings by EEPCo; and c) weaker export performance over the near term in light of weak global demand. Debt sustainability hinges on reaping strong returns, in the form of expanded output of tradables, from the large infrastructure investments.

21. **The authorities currently envisage contracting, either directly or by providing a government guarantee, a number of new loans in 2009/10**. Some of the loans under discussion may be extended on non-concessional terms—including a possible loan to Ethiopian Shipping Lines for the purchase of new ships and some further borrowing by EEPCo for investment projects. The authorities have indicated that the amount of nonconcessional loans contracted will not exceed $500 million during the program period; they have agreed to discuss in advance with staff the contracting of any sizeable new loans within this ceiling.

22. **The authorities emphasized their commitment to carefully overseeing the evolution of public external debt, including that incurred by public enterprises**. They indicated that they will keep debt levels under close review and will make every effort to ensure that new borrowings are contracted at concessional terms and that large foreign-financed projects are subject to rigorous economic appraisal before being approved. *The mechanisms utilized to scrutinize the investment and external borrowing program of the public enterprises will be a topic covered, in coordination with the World Bank, as part of the first program review.*

IV. Program Issues

A. Access and Capacity to Repay the Fund

23. **Ethiopia is facing a difficult external environment**. With low reserves and pressure on the balance of payments, there is a strong case for provision of Fund financial support under the Exogenous Shocks Facility (ESF). But Ethiopia also faces deep-rooted economic challenges as it pursues its development strategy and, while supporting the ESF request, staff advises the authorities to develop a medium-term reform program focusing on more entrenched balance of payments difficulties.

24. **Staff calculations of the effects of the changing global environment on the balance of payments in 2009/10 yield an estimated adverse impact in the range of $260–300 million (125–140 percent of quota) (see Box 3)**. The estimates are based on comparisons of projected outturns in 2009/10 (on unchanged policies and a constant real exchange rate) with the 2008/09 outcome. The authorities argued that these estimates

underestimate the net impact of the global crisis on Ethiopia, suggesting that a more appropriate measure would be to compare projected levels in 2009/10 with the levels that would have prevailed in the counterfactual where the global recession had not taken place.[7]

25. **Staff is proposing access under the arrangement in the amount of 115 percent of quota (SDR 133.7 million)**, to be disbursed in three disbursements. Given the difficult external environment and the low levels of international reserves, it is proposed that 55 percent of quota be made available on approval of the arrangement, with two ensuing disbursements of 30 percent of quota. Front-loaded drawings under the ESF would support a more comfortable international reserve position for 2009/10 and enhance the credibility, and hence feasibility, of the authorities' macroeconomic program.[8] In conjunction with the proposed SDR allocation (totaling SDR 117 million, inclusive of both the general and special allocations), the provision of Fund support along these lines would raise import cover to some 2.1 months by June 2010 and to near 2.5 months of imports by June 2011.

26. **The proposed financing from the Fund would complement substantial inflows from donors to Ethiopia**. Donor aid flows jumped to $2.4 billion (7.2 percent of GDP) in 2008/09, as donors provided exceptional assistance to Ethiopia in responding to commodity price shocks. Aid flows are set to rise slightly in 2009/10, and would be up some 46 percent on 2007/08 levels. Proposed Fund assistance under the ESF, inclusive of the initial RAC-ESF drawing, would amount to some $290 million, equivalent to some 6 percent of donor aid flows during 2008/09 and 2009/10.

27. **Ethiopia has adequate capacity to repay the Fund (see Table 6)**. Notwithstanding the high growth in public enterprise borrowings cited above, the DSA indicates that the various debt thresholds are observed in the baseline scenario and Ethiopia's debt to the Fund would remain at modest levels throughout the projection period. The proposed access of 115 percent of quota would amount to about ½ percent of GDP; with full disbursement under the arrangement, debt to the IMF would amount to 2 percent of total public debt in 2010/11. Access under the proposed arrangement would raise the ratio of the NPV of debt to exports by 4 percentage points at its peak (from 135 percent to 139 percent), and does not affect the rating of moderate debt distress recorded in the DSA. Future repayments to the Fund would be modest in relation to exports of goods and services, peaking at some 0.6 percent of exports in 2016.

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[7] Staff noted that the methodology employed in the case of Ethiopia was similar to that employed for other countries seeking assistance under the ESF.

[8] The authorities expect a significant drop in the NBE's NFA position during the first half of the fiscal year (see MEFP Table 1); frontloading of Fund support, combined with the SDR allocation, would ensure a gradual increase in the gross reserve position over the course of the year.

B. Risks to the Program

28. **The immediate risks to the program stem from the uncertain external environment and from Ethiopia's dependence on rain-fed agriculture**; the election cycle, with national elections slated for mid-2010, could also affect developments. Weaker exports, remittances, and inward investment would put pressure on reserves or the exchange rate, the latter threatening the inflation objective. Any significant erosion of donor support would undermine both the external payments and budgetary positions. Ethiopia's narrow export base and dependence on agriculture leave it vulnerable to weather shocks; the authorities are confident that near-term output goals will be achieved but a significant agricultural supply shock cannot be ruled out. Over the medium-term, output diversification and technical progress in agriculture will be key to limiting vulnerabilities: in the near-term, the authorities will need to move flexibly, supported by donors, to handle further adverse shocks.

C. Program Monitoring and Conditionality

29. **Program implementation and its economic results will be subject to two reviews** based on end-December 2009 and end-2009/10 performance criteria (Table 7). The program will be monitored on the basis of (a) quantitative performance criteria and benchmarks, set out in Table I.1 of the attached MEFP and defined in the technical memorandum of understanding; and (b) structural benchmarks, as specified in Table I.2 of the MEFP. The first review would be scheduled for completion by March 2010.

30. **A safeguards assessment update is currently underway**, and a safeguards mission visited Addis Ababa during July 6–14.

V. Staff Appraisal

31. **The Ethiopian authorities face a challenging immediate macroeconomic situation**, notwithstanding the strong growth performance over several years and the important progress made in raising living standards and reducing poverty. The low level of foreign reserves constrains the room for maneuver in handling adverse shocks, underscoring the importance of building reserves towards their target level of 3 months import cover as soon as is feasible.

32. **The adjustment package adopted in late-2008 has been implemented vigorously**, providing key support for controlling inflation and rebuilding still-low reserves. The fiscal squeeze needed to halt domestic borrowing by general government and the elimination of fuel subsidies were important measures, helping to contain domestic monetary growth.

33. **The authorities' program for 2009/10 seeks a balance among conflicting objectives**—maintaining low inflation, rebuilding reserves, allowing some easing of tight expenditure constraints, and unwinding some of the real exchange rate appreciation recorded during the past two years. The package chosen reflects national priorities and is adequate to achieve program targets, although implementation will need to be appropriately cautious with

a bias towards tight control of discretionary fiscal outlays and of reserve money until the desired trajectories for inflation and the balance of payments are assured.

34. **The authorities recognize the need to limit domestic borrowing by the public sector if inflation is to be contained and private sector growth to be fostered**. The strong performance in containing borrowing levels in 2008/09 provides confidence that the limit set for 2009/10—some 3 percent of GDP—can be observed, but this will require careful monitoring and control of budget implementation and effective operation of the inter-agency committee established to monitor borrowing by the public enterprises. This oversight process has received high-level support from policy-makers to date, and it will be important that this support is maintained throughout the current fiscal year.

35. **Budget revenue targets are achievable but ambitious**, viewed against the backdrop of the poor trajectory of revenue collection over the past several years. The authorities are fully cognizant of the need both to achieve revenue targets in the near-term and to put in place the reforms needed to boost the revenue-GDP ratio over the medium-term. For this fiscal year, vigilance will be needed to monitor monthly revenue collections and to initiate a mix of remedial measures and/or expenditure tightening where needed. Looking ahead, it will be important that the authorities make effective use of the upcoming technical assistance from the Fiscal Affairs department to flesh out a medium-term reform strategy.

36. **Controlling the monetary aggregates has been a challenge for the NBE**, given the rudimentary state of the money markets and the lack of instruments to fine-tune control of liquidity. Building money markets and developing central bank open market operations are medium-term development objectives; in the near-term, liquidity control can be enhanced by focusing the regular fortnightly auctions of Treasury bills on achieving liquidity targets. This will require that interest rates be allowed to adjust to achieve the target auction volumes, implying likely upward movement in T-bill interest rates over time. Making effective use of technical assistance will be of importance in developing liquidity forecasting capabilities.

37. **The authorities' policy thinking envisages gradual real depreciation of the birr over an extended period to promote domestic production of tradables and ease external payments constraints**. The step adjustments of the birr in January and again in July represent important steps in implementing this approach and in correcting currency overvaluation. The case for further adjustment over the fiscal year will depend on inflation performance and the extent of any erosion of depreciation-induced gains in competitiveness. Looking ahead, staff urge the authorities to rely more on domestic demand management tools and give less weight to the exchange rate in pursuing their inflation objectives.

38. **The sharp growth in external debt levels underway during 2008–12 reflects heavy investment in public sector-provided infrastructure**, notably electricity and telecommunications. Existing infrastructure is inadequate to sustain current levels of growth, with availability of power already a binding constraint on producers, but it is important that

expansion of infrastructure be appropriately aligned to projected demand growth if public enterprise profitability is not to be undermined by excess capacity. Full cost recovery by public enterprises is an imperative if the debt build-up is not to be converted into public sector deficits; there is likely also a solid case for setting current prices at levels that allow greater contributions from enterprise resources to meet their investment financing needs.

39. **Looking beyond the program period, Ethiopia's macroeconomic policy context remains challenging**, given the competing pressures on domestic credit availability from the public and private sectors, the need to build budgetary revenues to meet spending pressures, the large trade imbalance and the associated heavy dependence on aid flows and remittances, the modest level of foreign reserves, and the fast build-up of external debt levels. Staff will work closely with the authorities on fleshing out the issues and policy options available, using for this purpose the Article IV consultation, the regular visits to Addis between consultations, and, potentially, further program engagement with Ethiopia.

40. **Staff support the authorities' request for an arrangement under the HAC ESF**. The authorities' policy package represents a measured response to the adverse impact of global recession for the period ahead and the policies, if implemented vigorously, are appropriately calibrated to meet the program objectives. Addressing Ethiopia's sizeable medium-term challenges will require the fleshing out of a comprehensive reform agenda, which could possibly be supported by a Fund program, and staff stand ready to work with the authorities on such an endeavor.

Box 1. Ethiopia: The Status of the Policy Package Supported under the RAC ESF

Policy commitments under the RAC ESF have, in the main, been effectively implemented.

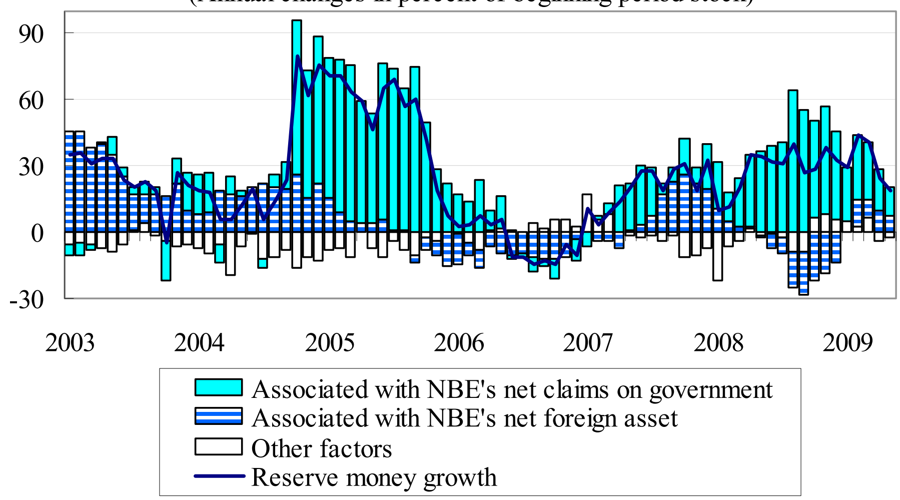
Status of Key Policy Commitments under the RAC ESF Policy Package

Policy commitments	Status
Eliminate the entire fuel subsidy	The fuel subsidy was eliminated in October 2008, and prices have been reset since then on a monthly basis.
Contain the broad money growth below 20 percent in 2008/09	Broad money growth through end-May, at 21 percent (annualized), was above the FY (end-June) target, but the target remained achievable.
Maintain net claims of the domestic banking system on the general government at zero over the course of 2008/09.	Net general government borrowing from the banking system declined over the first 11 months of the fiscal year to -2.8 billion birr, but end-year movements will need to be kept under control.
Reduce public enterprise domestic borrowing to between 4–8 billion birr (no more than 2½ percent of GDP) in 2008/09.	Borrowing through end-May stood at 7.5 billion birr, within the end-year limit.
Establish a committee comprising officials from the Ministry of Finance and Economic Development and the NBE to monitor public enterprise borrowing.	Done.
Introduce greater flexibility in the foreign exchange market	For 2008/09, the exchange rate depreciated by 10 percent in January, and by end-June had depreciated by some 16 percent since September 2008.
Request an update of the safeguards assessment for the NBE.	Done. Following the NBE's response to the data request by FIN, the safeguard assessments mission took place in July 2009.

Box 2. Ethiopia: Liquidity Control

The National Bank of Ethiopia (NBE) has faced significant challenges in maintaining effective control over the stock of reserve money, which has fluctuated significantly as a result of surges in NBE financing of the government (through an advances account) and the foreign exchange operations of the NBE. The NBE does not itself have instruments to conduct offsetting sterilization operations, and has instead relied on changes in reserve requirements and moral suasion to influence growth of the monetary aggregates.

Contributions to Reserve Money Growth
(Annual changes in percent of beginning period stock)



For the period ahead, **the NBE, with support from the Treasury, will make use of the existing auctions of Treasury bills (held every two weeks) as the tool to control liquidity**, setting sales volumes on the basis of the amounts needed to meet reserve money targets. The setting of auction volumes will require the development of a basic liquidity forecasting capability, in turn requiring close collaboration and information-sharing between the NBE and MoFED. Effective use of the mechanism will also require a willingness to allow interest rates adjust to the levels needed to achieve target sales volumes—rather than limiting sales volumes to achieve a specific "cost of funds" target of the government. Technical assistance in support of this reform agenda is being obtained under the World Bank's financial sector capacity building project.

The medium-term challenge will be to develop NBE open market operations using government paper, but this will first require significant developments in both the instruments used for government finance and in money and financial markets.

Box 3. Ethiopia: Balance of Payments Impact of the Global Slowdown

Ethiopia is facing a difficult external environment in 2009/10: the balance of payments position is being adversely affected by pressures on remittances, inward direct investment, and key export items, with resurgent oil prices an additional burden. As a corollary, the trajectory for foreign reserves is now substantially weaker than envisaged at the time of Board approval of the RAC-ESF drawing in January 2009 (IMF Country Report No. 09/34).

Staff have sought to quantify the effects of the changing global environment on the balance of payments in 2009/10, measured against the outturn in 2008/09, excluding the impact of the drop-off in donor flows (as exceptional financing ends), and under the assumption of a constant real exchange rate. The aggregate size of the shock is projected in the range of $260–297 million—equivalent to 125–143 percent of quota—with key components being declining remittances and direct foreign investment and higher oil prices.

Ethiopia: Estimated Impact of Exogenous Shocks on the BoP
(In millions of US$)

	2007/08	2008/09	2009/10 [1]	Estimated shock (changes)	
	(Act.)	(Est.)	(Proj.)		
		A	C	C-A [2]	C-A [3]
Commodity Exports					
Coffee	525	371	419	48	-21
Oil seeds	219	325	317	-8	-8
Flowers	112	126	150	24	-4
Commodity Imports (selected)					
Fuel	1,621	1,282	1,468	-186	-52
Private Transfers	2,393	2,350	2,225	-125	-125
Foreign Direct Investment [4]	815	805	705	-50	-50
Total shock impact	…	…	…	-297	-260
Other, residual	…	…	…	-433	
Overall balance of payments	-263	476	-254	-730	
MEMO ITEM					
Change in stock of gross reserves (with no real exchange rate adjustment) [5]	-420	616	-254		
Foreign Reserves (with no real exchange rate adjustment) [5]	906	1,523	1,269		
Change in stock of gross reserves (with real exchange rate adjustment and IMF disbursements) [6]	-420	616	327		
Foreign Reserves (with real exchange rate adjustment and IMF disbursements) [6]	906	1,523	1,850		
(months of GNFS imports)	1.2	1.8	2.1		

1/ Based on projections without real exchange rate change in 09/10
2/ Changes in values for all items.
3/ For commodity exports and imports, shock estimates represent impact from price changes only (using 2008/09 volumes).
4/ Shock estimates assume 50 percent import content.
5/ Based on projections without real exchange rate change in 09/10. Assuming no disbursements of IMF financial resources.
6/ Based on projections with real exchange rate change in 09/10. Assuming disbursements of the ESF and new SDR allocations.

Table 1. Ethiopia: Selected Economic and Financial Indicators, 2005/06–2010/11 1/

	2005/06	2006/07	2007/08	2008/09 Est.	2009/10 Proj.	2010/11 Proj.
	(Annual percentage change)					
National income and prices						
GDP at constant prices (at factor cost)	11.5	11.5	11.6	7.5	7.0	8.0
GDP deflator	11.6	17.4	28.4	35.8	6.3	8.2
Consumer prices (period average)	12.3	15.8	25.3	36.4	5.1	8.6
Consumer prices (end period)	11.6	15.1	55.3	3.1	9.8	9.5
External sector						
Exports, (In U.S. dollars, f.o.b.)	18.1	18.7	23.1	-1.1	11.8	11.0
Imports, (In U.S. dollars, c.i.f.) 2/	25.9	13.4	22.6	17.3	19.3	6.2
Export volume	5.1	11.4	0.8	0.7	12.3	12.4
Import volume 2/	21.8	6.9	9.6	16.9	26.3	4.6
Terms of trade (deterioration –)	3.5	-1.3	2.1	6.7	4.1	-4.2
Nominal effective exchange rate (end of period)	-1.8	-7.5	-13.0	...	...	...
Real effective exchange rate (end of period)	6.0	3.8	24.2	...	...	...
	(Percent of beginning-period stock of broad money, unless otherwise indicated)					
Money and credit						
Net foreign assets	-1.6	1.4	-3.1	10.8	2.9	8.6
Net domestic assets (including other items)	19.0	18.3	26.0	9.1	14.2	8.9
Net claims on the government (net)	7.1	9.0	6.8	0.0	7.0	5.1
Claims on public enterprises	4.9	6.1	19.0	8.3	7.5	4.9
Claims on private sector	8.8	9.2	7.9	4.5	5.3	4.4
Broad money	17.4	19.7	22.9	19.9	17.1	17.5
Velocity (GDP/broad money)	2.77	3.02	3.52	4.22	4.11	4.09
Lending rates (maximum rate)	14.0	15.0	15.0	…	…	…
Treasury bill (91-day maturity)	0.04	0.79	0.58	…	…	…
	(In percent of GDP, unless otherwise indicated)					
Financial balances						
Gross domestic saving	3.7	6.1	3.2	2.5	2.6	4.8
Government saving	2.7	1.4	1.5	2.1	2.5	2.7
Private saving	0.9	4.7	1.7	0.4	0.1	2.1
Gross domestic investment	24.2	24.8	21.2	20.8	22.6	22.9
Government investment	16.7	18.1	15.3	14.8	16.3	16.4
Private investment	7.6	6.7	5.9	6.0	6.3	6.5
Resource gap	-20.6	-18.7	-18.0	-18.3	-20.0	-18.1
External current account balance, including official transfers	-9.1	-4.5	-5.7	-5.6	-9.3	-6.5
Government finances						
Revenue	14.8	12.7	12.1	11.7	12.2	12.5
Tax revenue	10.8	10.1	9.7	8.1	8.7	9.1
Nontax revenue	4.1	2.6	2.4	3.6	3.4	3.4
External grants	3.6	4.4	4.0	3.7	3.2	3.5
Expenditure and net lending	22.3	20.7	19.1	17.7	18.4	18.7
Fiscal balance, excluding grants (cash basis)	-7.4	-8.0	-7.0	-6.0	-6.3	-6.2
Fiscal balance, including grants (cash basis)	-3.9	-3.6	-2.9	-2.3	-3.0	-2.7
Total financing	3.9	3.6	2.9	2.3	3.0	2.7
External financing	1.1	1.1	1.0	2.2	1.6	1.7
Domestic financing (not including privatization)	2.1	3.6	2.7	0.0	1.4	1.1
Public debt	68.1	40.7	36.5	32.8	37.5	39.3
Domestic debt	30.9	28.9	24.6	18.0	18.0	16.6
External debt (including to Fund)	37.3	11.7	11.9	14.8	19.5	22.7
Net present value (NPV) of external debt-to-exports ratio (including to Fund) 3/	n.a.	48.5	57.3	84.8	136.7	138.9
External debt-service ratio 4/	3.7	3.7	1.2	3.0	6.1	9.4
Overall balance of payments (in millions of U.S. dollars)	-316	-3	-263	476	-30	354
Gross official reserves (in millions of U.S. dollars)	1,158	1,326	906	1,523	1,493	1,847
(in months of imports of goods and nonfactor services of following year)	2.2	1.9	1.2	1.8	1.7	2.0
GDP at current market prices (in billions of birr)	131.7	171.8	245.6	353.4	403.2	472.0

Sources: Ethiopian authorities; and IMF staff estimates and projections.

1/ Except for data on external sector which is based on July 1-June 30, data pertain to the period July 8-July 7.
2/ Excluding aircraft and telecom purchases.
3/ Including debt of major public enterprises.
4/ After enhanced HIPC and MDRI relief.

Table 2. Ethiopia: General Government Operations, 2005/06–2010/11
(Millions of birr)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Act.	Act.	Act.	Est.	Proj.	Proj.
Total revenue and grants	24,251	29,381	39,705	54,147	61,984	75,434
Revenue	19,530	21,797	29,794	41,227	49,044	58,972
Tax revenue	14,159	17,354	23,801	28,580	35,184	42,745
Direct taxes	4,461	5,168	6,628	9,075	11,751	14,227
Indirect taxes	9,698	12,186	17,173	19,505	23,433	28,518
Domestic indirect taxes	3,111	3,997	5,480	7,119	8,426	10,201
Import duties and taxes	6,587	8,189	11,693	12,385	15,008	18,317
Nontax revenue	5,371	4,444	5,993	12,647	13,860	16,226
Grants	4,721	7,583	9,911	12,921	12,940	16,462
Emergency assistance (food and nonfood aid)	586	411	401	640	724	878
Program grants 1/	950	4,091	5,477	7,871	7,599	9,229
Multilateral Debt Relief Initiative 2/	989	...	...	...	...	...
Project grants	2,196	3,081	4,034	4,409	4,617	6,355
Total expenditure and net lending (cash basis) 3/	29,325	35,607	46,915	62,387	74,257	88,379
Recurrent expenditure 3/	15,234	17,165	22,794	29,124	33,637	39,714
Defense spending	3,009	3,005	3,453	4,000	4,000	4,000
Poverty-reducing expenditure 4/	6,493	7,795	10,627	13,656	16,197	19,513
Interest payments	1,054	1,207	1,133	1,570	1,880	2,637
Domestic interest and charges	621	727	908	1,140	1,542	2,175
External interest payments 5/	433	480	225	430	338	462
Emergency assistance (food and other emergency aid)	586	411	401	640	724	878
Other recurrent expenditure	4,091	4,748	7,181	9,257	10,836	12,686
Capital expenditure 3/	14,041	18,398	24,121	33,263	40,620	48,665
Central treasury	10,785	13,832	18,277	22,058	29,218	33,961
External project grants	2,196	3,081	4,034	4,409	4,617	6,355
External project loans	1,061	1,484	1,810	6,795	6,785	8,349
Special programs 6/	50	44	0	0	0	0
Overall balance						
Including grants	-5,074	-6,227	-7,210	-8,240	-12,273	-12,945
Excluding grants	-9,795	-13,810	-17,121	-21,160	-25,213	-29,408
Excluding MDRI	-6,063	...	...	...	...	...
Financing	3,259	8,159	9,984	8,240	12,273	12,945
Net external financing	1,512	1,913	2,396	7,780	6,450	7,945
Gross borrowing	1,520	1,774	1,810	8,072	6,785	8,349
Capital budget	1,061	1,484	1,810	6,795	6,785	8,349
Special program (World Bank's fertilizer project)	459	290	0	1,276	0	0
HIPC debt relief 5/	926	1,057	988	165	119	0
Amortization 5/	-934	-919	-402	-457	-454	-404
Total net domestic financing	1,747	6,246	6,580	0	5,823	5,000
Domestic (net)	2,736	6,246	6,580	0	5,823	5,000
Banking system	2,876	4,259	3,879	0	5,823	5,000
Nonbank sources	-141	1,988	2,701	0	0	0
MDRI, account held at NBE 2/	-989	...	...	...	...	...
Privatization	0	0	1,008	460	0	0
Float/unidentified financing	1,816	-1,932	-2,775	0	0	0
Memorandum items:						
Poverty-reducing expenditure	18,290	22,366	30,051	45,661	52,699	62,247
External grants and loans (US dollars per capita)	10	14	16	25	19	21
Primary fiscal balance, including grants	-4,020	-5,020	-6,077	-6,670	-10,393	-10,308
Domestic fiscal balance, including grants	-5,520	-8,354	-10,651	-8,885	-12,749	-13,363
Gross domestic government debt	38,841	45,088	51,668	51,668	57,491	62,491

Sources: Ethiopian authorities; and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.

1/ Including the disbursements under the PBS operations starting from 2005/06.

2/ Debt relief from the IMF under the MDRI is recorded in 2005/06. Withdrawal from the special account at the NBE is assumed to take place from FY2006/07 and FY2007/08.

3/ Excluding special programs (demobilization and reconstruction).

4/ Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

5/ External interest and amortization are presented after HIPC debt relief from the World Bank and African Development Bank.

6/ Demobilization and reconstruction.

Table 3. Ethiopia: General Government Operations, 2005/06–2010/11
(In percent of GDP)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Act.	Act.	Act.	Est.	Proj.	Proj.
Total revenue and grants	18.4	17.1	16.2	15.3	15.4	16.0
Revenue	14.8	12.7	12.1	11.7	12.2	12.5
Tax revenue	10.8	10.1	9.7	8.1	8.7	9.1
Direct taxes	3.4	3.0	2.7	2.6	2.9	3.0
Indirect taxes	7.4	7.1	7.0	5.5	5.8	6.0
Domestic indirect taxes	2.4	2.3	2.2	2.0	2.1	2.2
Import duties and taxes	5.0	4.8	4.8	3.5	3.7	3.9
Nontax revenue	4.1	2.6	2.4	3.6	3.4	3.4
Grants	3.6	4.4	4.0	3.7	3.2	3.5
Emergency assistance (food and nonfood aid)	0.4	0.2	0.2	0.2	0.2	0.2
Program grants 1/	0.7	2.4	2.2	2.2	1.9	2.0
Multilateral Debt Relief Initiative 2/	0.8	0.0	0.0	...	...	...
Project grants	1.7	1.8	1.6	1.2	1.1	1.3
Total expenditure and net lending (cash basis) 3/	22.3	20.7	19.1	17.7	18.4	18.7
Recurrent expenditure 3/	11.6	10.0	9.3	8.2	8.3	8.4
Defense spending	2.3	1.7	1.4	1.1	1.0	0.8
Poverty-reducing expenditure 4/	4.9	4.5	4.3	3.9	4.0	4.1
Interest payments	0.8	0.7	0.5	0.4	0.5	0.6
Domestic interest and charges	0.5	0.4	0.4	0.3	0.4	0.5
External interest payments 5/	0.3	0.3	0.1	0.1	0.1	0.1
Emergency assistance (food and other emergency aid)	0.4	0.2	0.2	0.2	0.2	0.2
Other recurrent expenditure	3.1	2.8	2.9	2.6	2.7	2.7
Capital expenditure 3/	10.7	10.7	9.8	9.4	10.1	10.3
Central treasury	8.2	8.0	7.4	6.2	7.2	7.2
External project grants	1.7	1.8	1.6	1.2	1.1	1.3
External project loans	0.8	0.9	0.7	1.9	1.7	1.8
Special programs 6/	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance						
Including grants	-3.9	-3.6	-2.9	-2.3	-3.0	-2.7
Excluding grants	-7.4	-8.0	-7.0	-6.0	-6.3	-6.2
Excluding MDRI	-4.6	…..	...	...	...	...
Financing	2.5	4.7	4.1	2.3	3.0	2.7
Net external financing	1.1	1.1	1.0	2.2	1.6	1.7
Gross borrowing	1.2	1.0	0.7	2.3	1.7	1.8
Capital budget	0.8	0.9	0.7	1.9	1.7	1.8
Special programs	0.3	0.2	0.0	0.4	0.0	0.0
HIPC debt relief 5/	0.7	0.6	0.4	0.0	0.0	0.0
Amortization 5/	-0.7	-0.5	-0.2	-0.1	-0.1	-0.1
Total net domestic financing	1.3	3.6	2.7	0.0	1.4	1.1
Domestic (net)	2.1	3.6	2.7	0.0	1.4	1.1
Banking system	2.2	2.5	1.6	0.0	1.4	1.1
Nonbank sources	-0.1	1.2	1.1	0.0	0.0	0.0
MDRI, account held at NBE 2/	-0.8	0.0	0.0	0.0	0.0	...
Privatization	0.0	0.0	0.4	0.1	0.0	0.0
Float/unidentified financing	1.4	-1.1	-1.1	0.0	0.0	0.0
Memorandum items:						
Poverty-reducing expenditure	13.9	13.0	12.2	12.9	13.1	13.2
Primary fiscal balance, including grants	-3.1	-2.9	-2.5	-1.9	-2.6	-2.2
Domestic fiscal balance, including grants	-4.2	-4.9	-4.3	-2.5	-3.2	-2.8
Gross domestic government debt	29.5	26.2	21.0	14.6	14.3	13.2

Sources: Ethiopian authorities; and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.
1/ Including the disbursements under the PBS operations starting from 2005/06.
2/ Debt relief from the IMF under the MDRI is recorded in 2005/06. Withdrawal from the special account at the NBE is assumed to take place from FY2006/07 and FY2007/08.
3/ Excluding special programs (demobilization and reconstruction).
4/ Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.
5/ External interest and amortization are presented after HIPC debt relief from the World Bank and African Development Bank.
6/ Demobilization and reconstruction.

Table 4. Ethiopia: Monetary Survey, 2005/06–2010/11 1/

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
				Est.	Proj.	Proj.
	(Millions of birr)					
Net foreign assets	13,251	13,927	12,141	19,668	22,135	30,603
National Bank of Ethiopia (NBE)	7,312	8,179	6,472	14,141	15,806	23,357
Assets	9,389	11,807	9,233	17,839	20,040	28,204
Liabilities	2,077	3,628	2,761	3,697	4,234	4,847
Commercial banks	5,939	5,748	5,670	5,527	6,329	7,246
Assets	7,684	7,719	8,075	10,621	12,161	13,924
Liabilities	1,745	1,971	2,405	5,094	5,832	6,678
Net domestic assets	34,235	42,915	57,711	64,097	75,964	84,664
Domestic credit	50,044	61,595	80,773	89,719	106,214	120,336
Claims on government (net) 2/	26,040	30,297	34,169	34,169	39,992	44,992
NBE	18,804	24,065	34,716	34,716	41,680	45,311
Commercial banks	7,236	6,232	-547	-547	-1,688	-319
Claims on nongovernment	24,003	31,297	46,604	55,550	66,222	75,344
NBE	0	0	0	0	0	0
Commercial banks	24,003	31,297	46,604	55,550	66,222	75,344
Public enterprises	7,936	10,845	21,654	27,468	33,738	38,568
Private sector	16,069	20,452	24,950	28,082	32,484	36,776
Other items (net)	-15,810	-18,680	-23,061	-25,622	-30,250	-35,672
Broad money	47,486	56,842	69,853	83,765	98,099	115,267
Money	24,701	29,755	36,810	44,367	51,756	60,813
Currency outside banks	11,360	13,704	17,613	21,477	24,831	29,176
Demand deposits	13,341	16,051	19,197	22,890	26,925	31,637
Quasimoney	22,784	27,087	33,042	39,398	46,343	54,454
Savings deposits	20,688	23,759	29,847	35,588	41,862	49,188
Time deposits	2,097	3,328	3,195	3,810	4,482	5,266
	(Annual percent change, unless otherwise indicated)					
Net foreign assets	-4.6	5.1	-12.8	62.0	12.5	38.3
Net domestic assets	28.9	25.4	34.5	11.1	18.5	11.5
Domestic credit	20.1	23.1	31.1	11.1	18.4	13.3
Claims on government (net)	12.5	16.3	12.8	0.0	17.0	12.5
Claims on nongovernment	29.8	30.4	48.9	19.2	19.2	13.8
Public enterprises	33.0	36.7	99.7	26.8	22.8	14.3
Private sector	28.3	27.3	22.0	12.6	15.7	13.2
Broad money	17.4	19.7	22.9	19.9	17.1	17.5
Money	15.3	20.5	23.7	20.5	16.7	17.5
Quasimoney	19.8	18.9	22.0	19.2	17.6	17.5
Memorandum items:						
Reserve money growth	-10.2	27.4	32.3	21.9	15.6	17.5
Money multiplier	2.3	2.2	2.0	2.0	2.0	2.0
Velocity (GDP/broad money)	2.77	3.02	3.52	4.22	4.11	4.09
Excess reserves (percent of deposits)	16.2	19.4	10.4	9.7	8.3	8.0

Sources: National Bank of Ethiopia; and IMF staff estimates and projections.

1/ Year ending July 7. Including commercial bank claims and liabilities to Eritrea.
2/ Claims on general government (federal and regional governments and other public agencies) by the banking system less deposits of the general government with the banking system.

Table 5 (a). Ethiopia: Balance of Payments, 2006/07–2010/11 1/
(Millions of U.S. dollars, unless otherwise indicated)

	2006/07	2007/08	2008/09	2009/10	2010/11
Trade balance	**-3,940**	**-5,348**	**-6,105**	**-7,015**	**-6,954**
Exports of goods	1,188	1,462	1,446	1,616	1,795
Imports of goods	5,128	6,811	7,552	8,631	8,749
Oil	895	1,621	1,282	1,444	1,665
Capital goods	1,869	1,908	2,270	3,284	3,103
PE investment imports		357	603	1,518	1,063
Cereals	161	208	595	495	250
Other	2,204	3,074	3,406	3,408	3,731
Nonfactor services (net)	**161**	**126**	**249**	**373**	**654**
Exports of nonfactor services	1,301	1,597	1,756	1,982	2,498
Imports of nonfactor services	1,140	1,472	1,506	1,608	1,845
Factor income (net)	**14**	**33**	**-32**	**-212**	**-190**
Private transfers (net)	**1,696**	**2,393**	**2,350**	**2,225**	**2,558**
Official transfers (net) 2/	**1,199**	**1,306**	**1,653**	**1,529**	**1,659**
Current account balance	**-871**	**-1,491**	**-1,885**	**-3,099**	**-2,274**
Capital account balance	**867**	**1,228**	**2,362**	**3,069**	**2,627**
Foreign direct investment (net)	**482**	**815**	**805**	**705**	**910**
Official long-term loans	**239**	**704**	**1,483**	**2,364**	**1,717**
Disbursements	345	759	1,533	2,441	1,899
Public Enterprises (non-concessional)		357	748	1,477	832
Amortization	106	55	50	77	182
Other Capital Flows (net)	**-24**	**-89**	**0**	**0**	**0**
Errors and omissions	**195**	**-112**	**74**	**0**	**0**
Overall balance	**-3**	**-263**	**476**	**-30**	**354**
Financing	**3**	**263**	**-476**	**30**	**-354**
Change in Cent. Bank Foreign Reserves	-39	244	-577	30	-354
Change in Comm Bank Foreign Reserves	-45	19	100	0	0
Exceptional financing and others	88	0	0	0	0
MEMO ITEMS:					
Foreign Reserves (A)	1,326	906	1,523	1,493	1,847
Import Cover (in months of next year's imports)	1.9	1.2	1.8	1.7	2.0
IMF lending (B)				177	63
SDR allocation (C)				180	
Foreign Reserves (with IMF disbursements, A+B+C)				1,850	2,267
Import Cover (in months of next year's imports)				2.1	2.4
Import Volume Growth Rate (excluding Oil, Capital goods Investments and Cereals)	-1.1	19.5	9.0	7.6	7.9
Donor Aid Flows	1,544	1,708	2,437	2,493	2,726

Sources: Ethiopian authorities, and IMF staff estimates and projections.

1/ Data pertain to the period July 1-June 30.
2/ The 2009/10 PBS II disbursed by the World Bank in June 2009 is reflected in the 2008/09 balances.