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May 7, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Ethiopia - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Ethiopia, which has been tentatively scheduled for discussion on Friday, June 8, 1984. A draft decision appears on page 20.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Gibson (ext. 73251) or Mr. Scheuer (ext. 72948).

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ETHIOPIA

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Consultation with Ethiopia

Approved by J.B. Zulu and S. Kanesa-Thasan

May 4, 1984

I. Introduction

A Fund mission visited Addis Ababa during the period March 3-16, 1984 to conduct the Article IV consultation discussions with Ethiopia. The Ethiopian representatives included Mr. Tesfay Dinka, Minister of Finance; Mr. Mersie Ijigu, Head of the Research and Planning Sector, Central Planning Supreme Council; Mr. Abede Kebed, Minister of Domestic Trade; Mr. Tadesse Gebre-Kidan, Governor of the National Bank of Ethiopia; Mr. Bekele Tamirat, Permanent Secretary, Ministry of Finance; Dr. Tsehai Alemayehu, Director of Research, National Bank of Ethiopia; and other senior officials. The staff team consisted of Messrs. T. Gibson (Head-AFR), D. Scheuer (AFR), J. Modi (FAD), U. Gunjal (AFR), T. Mayer (EP-ETR), and Mrs. D. Heflin (secretary-AFR).

Ethiopia continues to avail itself of the transitional arrangements of Article XIV. A stand-by arrangement in support of an 18-month program was approved by the Executive Board in May 1981. The arrangement in an amount of SDR 67.5 million was fully drawn. A summary of Ethiopia's relations with the Fund and a table of World Bank loans and IDA credits are shown in Attachments II and III.

II. Background

1. Structural and institutional features of the economy

Ethiopia is a centrally planned economy with a large private sector. The state owns all financial institutions, the major industrial enterprises, marketing corporations for foodstuffs, exports and imports, and large sections of urban property. However, production and marketing activities in the very large agricultural sector remain largely within the private sector; state farms account for 5 percent of the estimated volume of agricultural output. The agricultural sector relies principally on rainfed farming and is vulnerable to periodic drought. It contributes directly about half of gross domestic product (an additional 25 percent of GDP is agro-based), accounts for nearly 85 percent of exports, and directly supports about 85 percent of the population. Farmers are organized into peasants' associations (PAs) that receive government assistance aimed at providing material inputs and improving farming techniques. Although the Government has been encouraging members of PAs to form producer cooperatives, individual small-holder farming still predominates.

The bulk of agricultural output is produced in the south of the country, and recent food harvests have been good. However, drought has persisted in the north. This drought, along with the disturbances associated with a civil war in the same area and periodic disputes on the eastern and western borders, has given rise to a refugee problem. Despite receipt of considerable amounts of international humanitarian aid, this situation has imposed a significant burden on the budget and administrative structure.

2. Medium-term trends

The half decade to 1982/83 represented a period of consolidation of the changes subsequent to the 1974 revolution. Predominant among these changes were a massive program of land reform and the transfer of much of the nonagricultural sector to state ownership. Economic performance during this period was reasonably satisfactory, as GDP growth averaged about 3 percent and the rate of inflation and financial imbalances moderated (Table 1, Chart 1). The overall fiscal and external current account deficits amounted to about 4-5 percent of GDP. Gross international reserves remained at about 3 to 4 months of imports, and the debt service ratio was generally below 10 percent. However, toward the end of this period the overall fiscal deficit began to widen, reflecting mainly an acceleration of development expenditure and a low revenue buoyancy. The more expansionary fiscal position, coupled with poor export performance, contributed to a deterioration of the external current account deficit. These trends continued in 1982/83 and 1983/84. The overall balance of payments position was in deficit in all of the years under review, with the exception of 1981/82, when Ethiopia was the recipient of very substantial foreign assistance from Libya. The situation has been exacerbated by the peg of the birr to the U.S. dollar which has contributed to a 26 percent real appreciation vis-à-vis a trade-weighted basket of trading partners' currencies from end-1980 to end-1983. The result has been a steadily weakening external position, a mounting debt service ratio--and a sharp decline in international reserves. Ethiopia's external debt is not high as a share of GDP (26 percent) compared to other East African countries, but this reflects relatively low per capita aid inflows ($6.00 per capita in 1983).

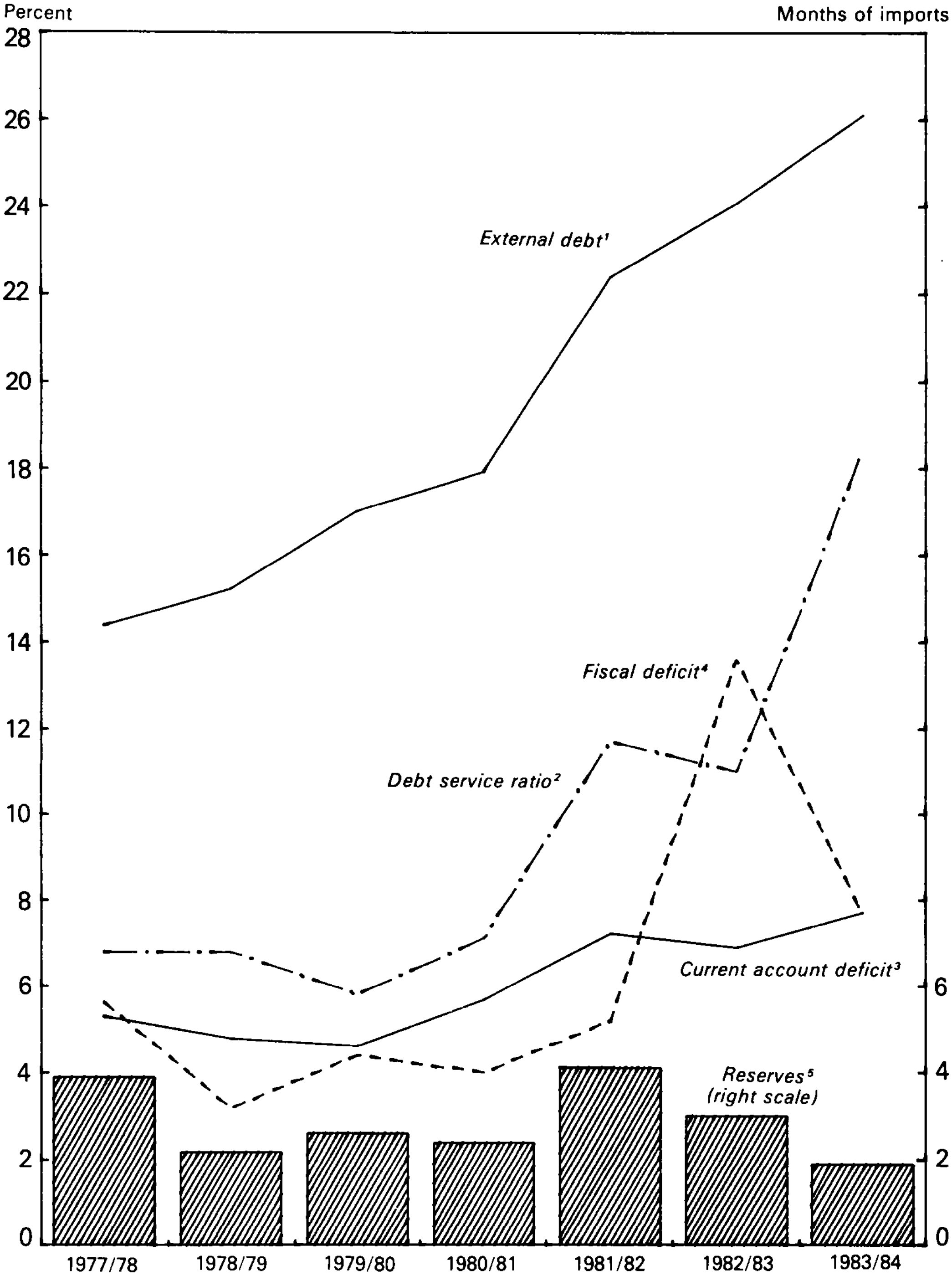
3. Economic developments in 1982/83 and 1983/84

Ethiopia's economic performance in 1982/83 and the prospects for 1983/84 are mixed. Economic growth averaged about 4 percent, as agricul-

CHART 1

ETHIOPIA

SELECTED FINANCIAL INDICATORS, 1977/78-1983/84



[1]External debt outstanding, in percent of GDP.
[2]External debt service, in percent of exports of goods and nonfactor services.
[3]External current account deficit, in percent of GDP.
[4]Overall fiscal deficit, in percent of GDP.
[5]Gross official reserves, in months of imports.

Table 1. Ethiopia: Selected Economic and Financial Indicators, 1977/78-1983/84

(Fiscal year ending July 7)

	1977/78-1979/80 Average	1980/81	1981/82	1982/83 Prov.	1983/84 Forecast
	(Annual percentage change, unless otherwise specified)				
National income and prices					
GDP at constant prices	3.2	2.0	1.9	4.5	3.7
GDP deflator	4.3	2.1	1.6	2.2	2.1
Consumer prices	14.7	1.9	7.3	3.9	...
External sector (in terms of SDRs)					
Exports, f.o.b.	16.1	-10.1	3.1	7.0	5.4
Coffee	(6.6)	(-14.1)	(0.6)	(9.5)	(4.3)
Noncoffee	(42.7)	(-2.9)	(7.1)	(3.2)	(7.2)
Imports, c.i.f.	9.7	4.4	21.1	14.8	8.4
Nonpetroleum imports	2.4	3.8	26.3	14.6	5.5
Export volume	13.4	1.9	-1.6	8.8	1.0
Import volume	-0.2	-3.6	16.2	14.6	6.0
Terms of trade (deterioration -)	-8.0	-16.1	0.5	-1.8	2.1
Nominal effective exchange rate (depreciation -)	-4.2	8.8	17.2	11.7	9.5
Real effective exchange rate (depreciation -)	-0.5	-2.6	12.8	5.7	4.3
Government budget					
Revenue (excluding grants)	15.5	11.5	6.3	7.2	9.2
Total expenditure	17.5	9.5	10.4	42.9	-9.8
Money and credit					
Domestic credit 1/	29.1	9.3	12.4	22.5	...
Credit to Government 1/	(10.4)	(6.0)	(3.1)	(30.2)	(...)
Money and quasi-money	11.8	2.0	11.2	15.0	...
	(In percent of GDP)				
Current budgetary surplus	-0.4	0.9	1.2	-2.1	0.1
Overall fiscal deficit (-)					
Including public grants	-4.5	-4.0	-5.2	-13.6	-7.7
Excluding public grants	-5.2	-5.1	-6.2	-15.1	-9.2
Foreign financing	1.6	1.4	4.2	3.9	2.7
Domestic bank financing	2.5	1.6	0.7	8.7	4.7
Gross domestic investment	8.8	10.1	11.0	10.5	11.5
Gross domestic saving	3.4	4.0	2.8	1.8	2.4
Current account deficit (-)					
Including public transfers	-3.4	-4.3	-5.7	-4.5	-5.3
Excluding public transfers	-4.9	-5.7	-7.2	-6.9	-7.7
External debt (inclusive of use of Fund credit)	15.5	17.9	22.4	24.1	26.1
Debt service ratio 2/	6.5	7.1	11.7	11.0	18.4
Interest payments 2/	2.8	3.2	5.4	5.1	6.4
	(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	-57.2	-47.5	53.2	-65.9	-40.7
Gross official reserves (weeks of imports)	12.4	10.4	17.7	13.0	8.2

1/ Changes expressed in percent of M2 at the beginning of the year.
2/ Expressed in percent of exports of goods and nonfactor services.

ture benefited from normal weather and an improved supply of imports. The good agriculture performance and rising imports improved the supply situation and contributed to a further reduction in the rate of inflation in the first half of 1983/84. By contrast, the fiscal deficit rose sharply over historical levels, as did the external current account deficit--the deficits are estimated to be equivalent to about 8 percent of GDP in 1983/84. 1/

Reflecting the level of government financing requirements, total domestic credit expansion in 1982/83 was double the average of the two previous years (Table 2). Net credit to the Government expanded by 68 percent in in 1982/83 compared with 7 percent in 1981/82. Credit to the private and public enterprise sectors declined in 1982/83, in part reflecting the substitution of credit to the Government as arrears were reduced. The impact of the high rate of credit expansion on broad money was mitigated by the sharp fall in net foreign assets; the broad money supply rose by 15 percent in 1982/83. Over the past few years there has been an acceleration in the annual rate of growth of savings deposits, to about 20 percent, and a decline in velocity. These financial trends continued in the first half of 1983/84.

The ratio of the external current account deficit to GDP fell marginally in 1982/83 to 6.9 percent but is estimated to rise to 7.7 percent in 1983/84 (Chart 2). The principal factors in this deterioration have been the poor performance of exports and a steady growth of imports (an average annual increase of 14.6 percent in SDR terms during the past four years). It should be noted that the terms of trade have improved marginally over the last three years. An important feature of the balance of payments in the two most recent fiscal years has been a very sharp increase in both private and public transfers, a total of SDR 187 million in 1983/84 compared to SDR 99 million in 1981/82. These flows have been associated in part with humanitarian aid that has some counterpart in food and other imports. Excluding private transfers, the external current account deficit amounted to 9.3 percent of GDP in 1983/84.

Net international reserves are estimated to fall from about two months of imports at the end of 1981/82 to about two weeks of imports at the end of 1983/84. Debt service payments are estimated to rise sharply

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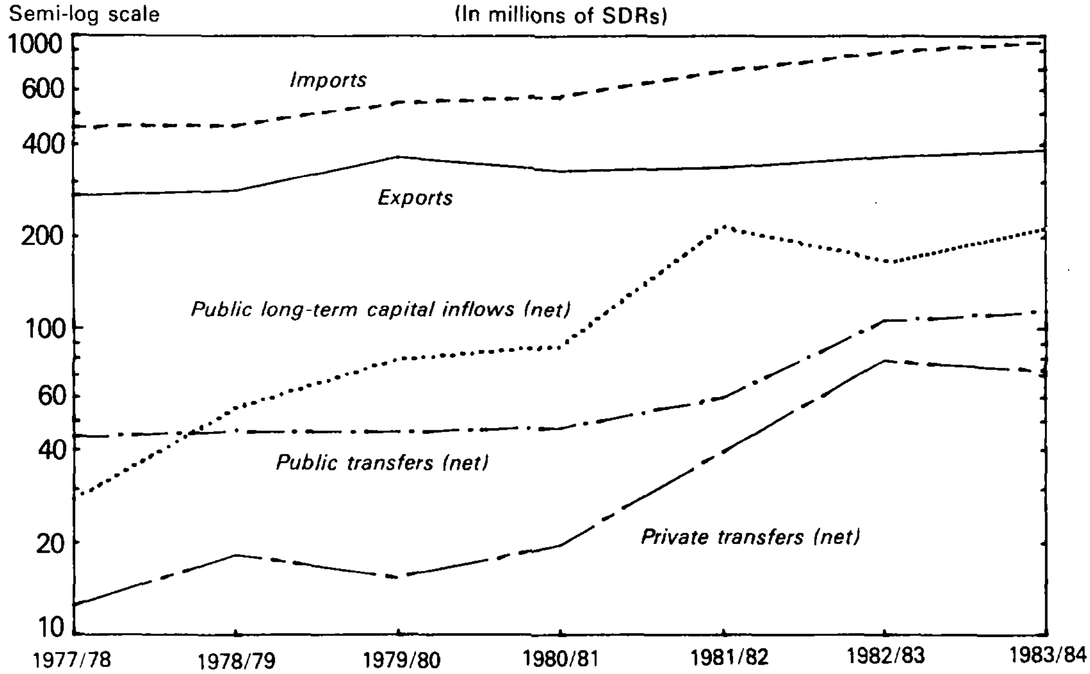
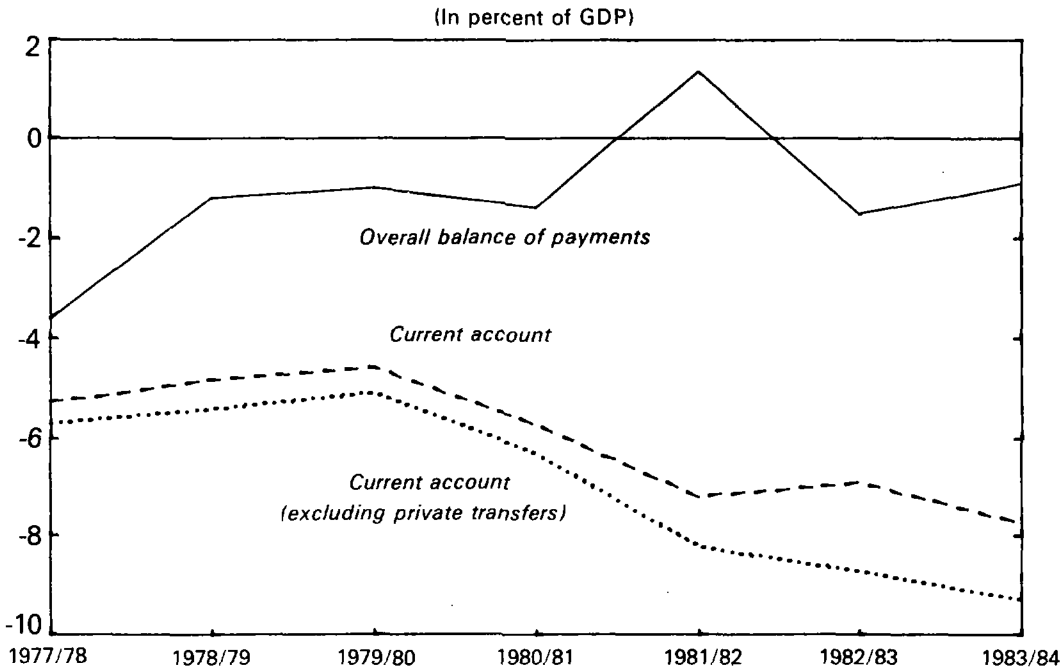
1/ In assessing the trend in the overall fiscal deficit, it must be noted that the budget deficit as presented for 1982/83, 13.6 percent of GDP, is overstated, and those of the previous years understated, by the settlement of accrued arrears of ministries to public enterprises and by a contribution to public enterprise equity. This expenditure amounted to 6 percent of 1982/83 GDP. It has not been possible to gather data that would allow an attribution of these amounts to specific years so as to derive a more precise measure of the deficit arising from normal fiscal operations during each of these fiscal years.

CHART 2

ETHIOPIA

FEATURES OF THE BALANCE OF PAYMENTS, 1977/78-1983/84





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

Table 2. Ethiopia: Monetary Survey, 1979-83

(In millions of birr)

	June					December		
	1979	1980	1981	1982	1983	1981	1982	1983
Foreign assets, net	451.7	368.1	244.5	369.8	222.1	342.5	175.8	105.0
Domestic credit	2,085.0	2,612.3	2,829.7	3,125.1	3,720.8	2,866.8	3,364.9	3,937.6
Claims on Government, net	(862.3)	(968.1)	(1,107.9)	(1,180.8)	(1,979.4)	(1,065.5)	(1,393.9)	(2,144.0)
Claims on other sectors	(1,222.7)	(1,644.2)	(1,721.8)	(1,944.3)	(1,741.4)	(1,801.3)	(1,971.0)	(1,793.6)
Money plus quasi-money	2,063.6	2,332.1	2,377.6	2,643.7	3,040.4	2,438.3	2,689.3	3,092.3
Money	1,556.9	1,722.0	1,715.3	1,892.2	2,180.3	1,719.9	1,892.2	2,171.4
Currency outside banks	(952.1)	(1,062.9)	(1,027.1)	(1,129.8)	(1,258.2)	(1,039.2)	(1,149.8)	(1,250.5)
Demand deposits	(604.8)	(659.1)	(688.2)	(762.4)	(922.1)	(680.7)	(742.4)	(920.9)
Quasi-money	506.7	610.1	662.3	751.5	860.1	718.4	797.1	920.9
Savings deposits	(371.0)	(427.9)	(472.4)	(528.1)	(609.1)	(490.0)	(548.3)	(657.2)
Time deposits	(135.7)	(182.2)	(189.9)	(223.4)	(251.0)	(228.4)	(248.8)	(263.7)
Other items, net	473.1	648.3	696.6	851.2	901.5	771.0	851.4	950.3

Source: National Bank of Ethiopia.

in 1983/84 to SDR 97 million compared with SDR 56 million in the previous year, largely due to payments falling due on suppliers' credits. Consequently, the debt service ratio is estimated to rise to 18.4 percent in 1983/84 from about 12 percent in 1981/82.

III. Report on the Discussions

At the time of the last consultation in June 1983, Executive Directors noted with concern the increasing fiscal and external current account deficits. It was suggested that fiscal deficits and domestic bank financing thereof could best be contained by restraints in nonessential outlays, and new revenue measures. Increases in domestic interest rates were recommended. Although the direction of investment to agriculture was welcomed, concern was expressed that contemplated investment levels might not be consistent with the likely availability of domestic resources and a manageable level of foreign borrowing. While recognizing the need to increase investment, importance was attached to achieving a sustainable external current account position. After noting that the birr had appreciated as a result of the peg to the U.S. dollar, it was suggested that economic and financial policies should give due consideration to a more flexible exchange rate policy; a different peg for the birr was also suggested. The scope for improving the climate for foreign investment by the full settlement of outstanding compensation claims was noted.

The concerns and policy recommendations voiced by Executive Directors during the last consultation remain valid notwithstanding progress in certain areas. As noted, the fiscal and external current account positions have not shown fundamental improvement, the rate of domestic credit expansion remains high; and the scope for reducing financial pressures through the balance of payments has been narrowed by the reduction in external reserves and a rising debt service burden. Notwithstanding some marginal improvement in the terms of trade, export performance has not been satisfactory. The birr has continued to appreciate in nominal and real terms against a trade-weighted basket of currencies of Ethiopia's trading partners.

1. Investment, planning, and output policies

The Ethiopian economy has been characterized by highly variable real rates of growth that have averaged 3 percent since 1977/78, and an inherently weak balance of payments position. Until 1981/82 Ethiopia maintained budgetary and external account deficits at manageable levels. However, in an attempt to increase the rate of economic growth, the authorities have recently accelerated capital expenditures at a time when revenues have not adequately kept abreast of the growth of current expenditure.

The authorities state that recent progress in raising living standards coupled with a rise in literacy from 40 percent of the population in 1974 to 90 percent has created expectations for further progress on improving living standards. They recognize that the required increase in investment to accomplish this objective is constrained by the availability of foreign exchange in light of the recent sharp drawdown of international reserves. It is asserted that per capita aid flows to Ethiopia are very low and that there is a strong case for increasing concessional aid flows on the grounds of both equity and a demonstrated efficiency of use. The authorities believe that there are good prospects that these flows will be forthcoming, and indicate that a recently announced joint venture proclamation was intended to help ease the external constraint.

The authorities state that the large fiscal deficit in 1982/83 was occasioned by the need to strengthen the capital base of the public enterprises. They stress that centralized planning does not imply a commitment to implement physical targets regardless of the availability of real resources. The balance of payments constraint, as well as the target for inflation are taken into account when designing investment programs.

A credit plan, consistent with the targets for GDP growth and for the external accounts, is an integral part of the overall annual plan. Each year the Central Planning Supreme Council (CPSC) issues the overall framework and targets for the annual plan, and, based on this, the various ministries prepare their projects and financing requirements. These projects and financing requirements are reviewed by the National Bank (NBE), which assesses the financial viability of the individual projects in light of macroeconomic prospects in general and, in particular, its perception of the external and fiscal situation and the appropriate rate of overall credit expansion. Based on these judgements, the NBE recommends the inclusion of the various projects in the final annual plan.

A Ten-Year Perspective Plan has recently been developed by the CPSC to provide overall guidance for annual investment decisions. The plan will be subject to revision as circumstances dictate. Agriculture is accorded the highest priority, followed by agro-based industry, energy, and manpower development. The plan aims for an average rate of growth of 6.5 percent over the ten-year period, with lower rates at the outset and higher rates in succeeding years.

Although production of foodgrains has recovered in recent years, there has been no fundamental improvement in productive capacity. Production in 1982/83 and 1983/84 averaged 15 percent above the levels of the two previous years, but this represented the combined effect of good weather conditions in the latter years and particularly poor conditions in the earlier period. The authorities believe the scope for increasing agricultural output is good. The approach to increasing agricultural output is broadly based, taking into consideration the need for institutional change, improving agricultural practices, increasing the supply of inputs and incentive goods, and paying remunerative producer prices. It was noted that productivity is very low, and the adoption of better agricultural practices could yield significant results even without additional inputs. Moreover, the use of fertilizer could be increased substantially. The fertilizer subsidy was removed several years ago, and it is current policy that inputs be priced at full cost. It is also the authorities' policy to review continuously the incentives provided by real producer prices, some of which have declined recently.

The principal institutional features of Ethiopian agriculture are peasant associations, service and producer cooperatives, and state farms. All farmers are members of Peasants' Associations. Service cooperatives are engaged in the distribution of agricultural inputs and consumer goods and the marketing of some output. Producer cooperatives are not active on a large scale, and their operations have not grown substantially in the past few years. Membership includes about 80,000 families in grain-producing areas accounting for about 3 percent of grain output. State farms were established from tracts of nationalized land subsequent to the revolution. This was done at a time of acute food shortages and a need to supply food to urban areas. Such farms comprise about 150,000 hectares of farm land compared with a total cultivated area of 6 million hectares. Production costs on state farms have proven higher than on peasant holdings and are offset by higher prices paid to them or have been financed by credit from the Agricultural and Industrial Development Bank, to which repayments are currently in arrears. The role of state farms is now being redefined, as supplies of basic goods from the peasant sector have become more reliable. In the future it is intended that they specialize in crops not produced by the peasants and undertake investments for opening new lands. Some less efficient state farms have been distributed to peasants. Over the next ten years state farms are expected to expand gradually to about 400,000 hectares.

The authorities operate a marketing, distribution, and price support system for foodgrains, pulses, and oilseeds through the Agricultural Marketing Corporation (AMC). It is estimated that 35 percent to 45 percent of the marketable surplus is handled by AMC when its storage and transport capacity permits. The balance of the trade is in the private sector. In principle private traders are allowed to market grains throughout the country, but from time to time there has been interference at the local level. The IBRD is currently financing a study of the agricultural marketing, distribution, and pricing system.

Until recently the expansion of industrial output has been hampered by shortages of raw materials and imported inputs. However, this constraint has eased somewhat as domestic agricultural raw material supplies and import volumes have increased. Noteworthy in this regard have been developments in the edible oil sector, where an increase in the producer price by about

80 percent has allowed the industry to operate at full capacity. The important leather industry continues to suffer from inadequate supplies due to the sale of cattle to neighboring countries through unofficial channels. The normalization of the power supply in Asmara, where much of industry is centered, has recently improved production performance there.

The overall profit position of the 13 industrial and manufacturing state corporations, as reflected in the ratio of profits to sales, has declined continuously in recent years, from 14.6 percent in 1979/80 to 4.3 percent in 1982/83. This decline has been associated with stagnating export earnings, which showed no increase during 1980-83. In addition to other problems, leather goods, which accounted for about half of these exports in 1983, have been hit hard by a fall in world market prices. Exports to the Italian market, an important market for Ethiopian goods, have suffered from a loss of competitiveness by the 44 percent appreciation of the birr vis-à-vis the lira since the end of 1980.

The authorities have decided to expand cement production by establishing at least one, and possibly two, new factories. The first, with a capacity of 300,000 tons, is due to commence production by August 1984. The establishment of the second factory, with a capacity of 600,000 tons, is in a very preliminary stage of consideration; the Soviet Union has expressed an interest in financing it. If implemented, the new factory would come into operation after about five years, by which time the domestic demand is expected to have grown to a level that will leave only a small surplus for exports.

A new foreign investment law to promote joint ventures was enacted about a year ago, and it is undergoing further elaboration. Prospective investors have expressed an interest in joint ventures in the areas of finished leather goods and textiles. The CPSC is examining several new projects that have reached an advanced stage of consideration; these include an integrated textile mill, a polyester-cotton factory, a metal production plant, and a spare parts manufacturing plant.

Ethiopia's electric energy requirements are met by two generation systems with a capacity of about 265 megawatts. There were no electricity tariff adjustments in 1982/83 or in 1983/84. A subsidy of approximately Br 20 million was required for the first time in 1982/83; it is estimated that the subsidy will be Br 30-35 million in 1983/84. A study of tariffs has just been completed with the assistance of the EC Development Fund. The indication is that tariffs should be increased from an average price of Br .24 per kwh to Br .40 kwh; this would increase the energy component of production costs from an average of 6 percent to 8 percent. A proposal prepared by the Ministry of Energy recommends increased tariffs and differential pricing, with prices remaining fixed for households, increasing moderately for small scale industry, and higher increases for large scale enterprises. New hydroelectric generating capacity of 152 megawatts is expected to come on-stream with the completion of a Br 450 million station in in 1986, financed by a credit from the Soviet Union. Construction of another new station is to begin in late 1985. The initial capacity will be 150 megawatts, ultimately expanding to 300 megawatts, and the financing (Br 360 million) is to be provided by North Korea.

A comprehensive regional geological mapping of the country is under way to identify the potential for mineral and hydrocarbon resource development. Pilot oil and gas exploration and geothermal development projects are being undertaken. A 1,200 square-kilometer area is under active investigation in a joint project with the Soviet Union, and three boreholes have been drilled, with a show of both oil and gas. Oil exploration results are encouraging in the Ogaden region, and IDA has provided a credit of Br 14 million for promotional work. It is anticipated that exploration and development will be carried out under joint venture agreements with foreign companies.

2. Pricing, distribution, and wage policies

The rate of inflation as measured by the Addis Ababa price index has declined dramatically in recent years; for 1983 the average of the index stood 0.4 percent below its 1982 level. Although the index is derived from a survey of consumption patterns conducted in 1963, the authorities feel that the index provides a relatively good proxy for overall price developments. Recent movements of the index have been consistent with the observed increases in domestic food production and imported supplies, and improvements in the distribution system. Moreover, import prices have declined in recent years. On the demand side wage increases have been restrained, and although in 1983 broad money increased by 15 percent, savings deposits rose at a significantly faster rate of 20 percent; the growth of currency moderated to 9 percent. Although the price of commodities in Addis Ababa and other major urban areas may be lower than in rural areas, the authorities believe there is a general trend of a decline in price inflation throughout the country.

The authorities operate a system of retail price control that is limited to foodgrains, sugar, soap, textiles, matches, kerosene, pharmaceuticals, and the like. Retail prices are determined by percentage markups. The authorities said that supplies are comfortable and that there are no parallel markets for these commodities. Pricing decisions for state corporations are made by the CPSC based on recommendations from the Ministry of Industry. The authorities feel that, while some enterprises incur losses, most operate with appropriate margins. While supporting the principle of flexibility in pricing, they consider that price increases should be granted only after it is determined that enterprises are being run efficiently. The approach followed is generally one of cost plus, and changes are routinely made in the prices of nonessential products. However, price increases in respect of essentials are sometimes granted with some delay. The last price increase for textiles was made four years ago, and an increase in the price of edible oil was made after a delay of two years. On the distribution side, households are issued ration cards setting out their quota for essential goods.

Public sector wage levels are regulated by guidelines issued by the Council of Ministers. The current guidelines, which are due to expire in June 1984, provide that central government employees earning up to Br 600 per month and public enteprise employees earning up to Br 650 per month are eligible to receive wage increases of up to 7 percent tied to production (5 percent), profits (1 percent), and productivity (1 percent). This increment can be distributed among workers, with the lower paid eligible for higher marginal increments; in 1982/83 the average government wage rose by 3 percent. A wage board, which was set up in 1979/80, is receiving assistance from the ILO and is expected to present recommendations governing wage determination soon. It is believed these will stress productivity. Although the guidelines are not binding on the private sector, they do strongly influence developments there.

3. Financial policies

The authorities strongly maintain that economic and financial policies in Ethiopia have been prudent and that these policies will continue. They take the view that the rise in the fiscal deficit in 1982/83 represented a special case that will not recur (Table 3). In view of the legal limit (that outstanding borrowings from the banking system cannot exceed 95 percent of the previous year's revenue) on government borrowing from the banking system, the authorities decided to raise Br 1,200 million through a special bond issue to the banking system; Br 1,030 was raised. The major purpose of this special financing package was to pay off the accumulated subsidies of the AMC (Br 180 million), eliminate the arrears of ministries (Br 170 million), and increase the equity of public enterprises (Br 244 million). In addition, Br 354 million was used to finance the 1982/83 budget deficit. The balance of Br 80 million was added to government deposits with the banking system. Almost Br 600 million (6 percent of GDP) of the total overall budget deficit of Br 1,333 million (13.6 percent of GDP) was accounted for by the one-time payments to improve equity and reduce arrears. The authorities believe that the decision taken in 1982/83, notwithstanding the increase in the overall fiscal deficit, was a prudent one, as it strengthened the financial position of the public enterprises. To prevent the recurrence of such a financing need on the part of ministries and enterprises, they have been instructed to observe strict financial discipline, to deal as much as possible in cash, and to settle accounts within one month and in no event later than the end of the fiscal year in which the expenditure was incurred.

The authorities emphasized their determination to contain the deficit within the domestic and external resource constraints and, therefore,

Table 3. Ethiopia: Summary of Government Finance, 1978/79-1983/84 1/

(In millions of birr)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 Budget	1983/84 Staff estimates
	Provisional actual						
Revenue and grants	1,423.6	1,623.6	1,832.8	1,945.0	2,123.9	2,474.7	2,322.8
Revenue	1,382.1	1,559.7	1,738.6	1,848.0	1,980.6	2,255.3	2,162.8
Of which: coffee surtax	(203.4)	(275.9)	(147.7)	(159.2)	(173.3)	(162.9)	(212.2)
Grants	41.5	63.9	94.2	97.0	143.3	219.4	160.0
Current expenditure	1,309.3	1,548.0	1,658.1	1,741.6	2,186.7 2/	2,192.2	2,152.4 3/
Current surplus or deficit	72.8	11.7	80.5	106.4	-206.1	63.1	10.4
Capital expenditure	368.8	453.2	532.4	677.3	1,270.5 4/	1,235.0	967.0
Total expenditure	1,678.1	2,001.2	2,190.5	2,418.9	3,457.2	3,427.2	3,119.4
Overall deficit							
Includes grants	-254.5	-377.6	-357.7	-473.9	-1,333.3	-952.5	-796.6
Excludes grants	-296.0	-441.5	-451.9	-570.9	-1,476.6	-1,171.9	-956.6
External borrowing	170.3	142.7	128.2	385.7	384.3	390.5	280.0
Drawings	185.8	158.5	145.3	405.7	405.6	422.9	312.4
Repayments	15.5	15.8	17.1	20.0	21.3	32.4	32.4
Domestic financing	84.2	234.9	229.5	88.2	949.0	562.0	516.6
Banking system (net)	62.4	199.3	142.0	62.2	850.8	...	490.0
Pension commission and other	-1.4	16.2	50.0	26.0	19.0	...	26.6
Residual	23.2	19.4	37.5	—	79.2	...	—
Total financing							
Excludes grants	254.5	377.6	357.7	473.9	1,333.3	952.5	796.6
Includes grants	296.0	441.5	451.9	570.9	1,476.6	1,171.9	956.6
Memorandum item:							
GDP at market prices	7,987.5	8,498.9	8,854.4	9,168.8	9,793.8	10,363.6	10,363.6
Ratios to GDP							
Revenue and grants	17.8	19.1	20.7	21.2	21.7	23.9	22.4
Grants	0.5	0.8	1.1	1.1	1.5	2.1	1.5
Current expenditure	16.4	18.2	18.7	19.0	22.3	21.2	20.8
Capital expenditure	4.6	5.3	6.0	7.4	13.0	11.9	9.3
Total expenditure	21.0	23.5	24.7	26.4	35.3	33.1	30.1
Overall deficit							
Includes grants	-3.2	-4.4	-4.0	-5.2	-13.6	-9.2	-7.7
Excludes grants	-3.7	-5.2	-5.1	-6.2	-15.1	-11.3	-9.2
External borrowing	2.1	1.7	1.4	4.2	3.9	3.8	2.7
Domestic financing	1.1	2.8	2.6	1.0	9.7	5.4	5.0
Domestic bank financing	0.8	2.3	1.6	0.7	8.7	...	4.7

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

1/ Fiscal year July 7-July 6.
2/ Of which Br 350.3 million was due to the payments of past years' arrears.
3/ Of which Br 140 million will be due to the payment of past years' arrears.
4/ Of which Br 243.8 million was due to the infusion of additional capital into some public enterprises.

to keep the overall fiscal and external current account deficits at sustainable levels. They believe that the current levels of their deficits, at about 8 percent of GDP, are sustainable, and necessary in light of the large role played by the state in the economy and the importance of increasing investment. Bearing in mind the low level of international reserves and the debt service constraint, the authorities intend to seek and obtain external concessional finance to cover the continued large deficits; they are confident such finance can be found.

The 1983/84 revised budget deficit reflects a Br 156 million (1.5 percent of GDP) decline from the budgeted amount of 9.2 percent of of GDP. Although a shortfall in revenue is foreseen, primarily on account of import duties, the reduction in the deficit is primarily because of a 22 percent shortfall in capital expenditure. This was largely due to constraints on project execution capacity and the availability of foreign finance.

A major weakness in fiscal performance has been the stagnation of domestic revenues as a share of GDP. A proposed package designed to simplify tax administration and add Br 100 million to Br 120 million to revenue has been submitted to the Council of Ministers and has been referred to the council's legal committee. This package incorporated changes in the corporate income and land taxes, simplification of the sales tax, and a switch-over from specific to ad valorem taxes. It is not certain when the package will be approved, but it could take effect in latter 1984. A special committee has been appointed to make recommendations to improve the low buoyancy of the tax structure. One possible new source of revenue foreseen is an increase in capital charges and transfer of surpluses from public enterprises in view of government investment in them and the emphasis placed on their profitable operation.

The growth of current expenditures excluding payment of domestic arrears and interest payments on borrowing for financing them is estimated to remain at about the same level in 1983/84 as the previous year. This reflects a policy of very close scrutiny of all current expenditures at the direction of the Council of Ministers. In addition, restraint on wages and salaries and recruitment is expected to continue to be an element of policy. It was indicated that the implication for current expenditures of development projects is an important factor in designing the development budget.

The authorities expect that broad money should expand in line with nominal GDP, although there is some scope for relatively greater expansion given the public's increased willingness to hold financial assets, as reflected in the observed decline in velocity in the past few years. As noted annual targets for money and credit are worked out as part of the annual plan. Broad money increased by about 15 percent during 1983 compared to an increase of 10 percent in the previous year. The authorities noted that in 1983 the 9 percent increase in currency had been somewhat lower than in the previous year. They attribute the 24 percent increase in demand deposits in 1983 to the improvement in the liquidity position of the state enterprise sector. The authorities note with satisfaction that private sector savings deposits increased by about 20 percent. This was attributed primarily to an increase in the size of the banking system and, to a lesser extent, to the emergence of positive real interest rates. Most quasi-money deposits are held in urban areas, where the rate of inflation is low.

4. External sector policies

Consistent with their view on the size and sustainability of the fiscal deficit, a major goal of the authorities' policies is to increase the inflow of concessional foreign assistance. They believe that the present level of the external current account deficit (about 8 percent of GDP) will be financed by concessional long-term foreign assistance, and that this can be achieved while keeping the debt service ratio below 20 percent (Table 4, Chart 2). The authorities point to the relatively low level of external debt as a share of GDP and to Ethiopia's relatively low level of per capita aid flows. In addition, they feel that Ethiopia has made good use of the assistance provided to it, and thus has a good case for increased aid flows on grounds of both equity and efficiency.

The staff discussed with the authorities a medium-term balance of payments scenario that provided, inter-alia, for a small increase in real imports, no change in the external current account deficit as a percent of GDP, some modest increase in aid flows, but no buildup of gross official reserves. This forecast indicates that there would be a substantial foreign exchange gap given the modest prospects for exports and a rising debt service ratio.

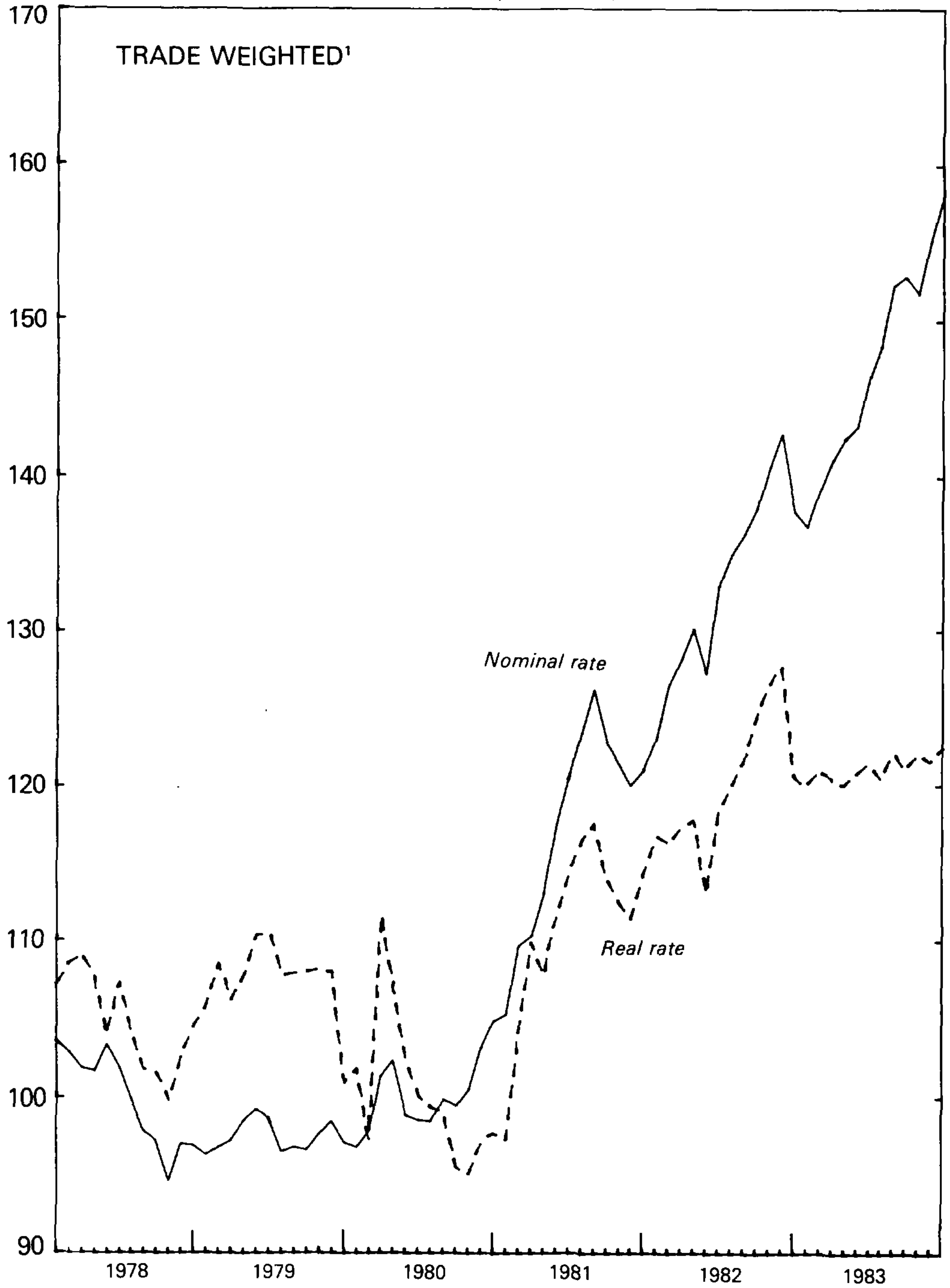
In the four fiscal years since 1979/80 export volumes have increased only modestly; the growth of noncoffee and nonpetroleum (refinery by--products) related exports has not been robust and has remained at about 30 percent of total exports. Coffee exports to nonquota markets have declined in recent years. Consideration is being given to reducing the export tax on sales to nonquota markets. Since 1980 the real trade-weighted exchange value of the birr has appreciated by about 26 percent (Chart 3). Consequently, while the SDR value of exports has increased by 5 percent, the birr value of exports has declined by 15 percent. The staff discussed with the authorities evidence that there were a number of commodities (coffee, hides and skins, and leather products) for which domestic sales were more profitable than exports. The authorities indicated that exchange rate policies, including the peg to the U.S. dollar, are under continuous review. However, they do not feel that there is clear evidence that a change in the present arrangements would improve Ethiopia's balance of payments. Because imports in Ethiopia are controlled by a foreign exchange budget, and are at a constrained level, the authorities feel a devaluation would have no effect on the level of imports. Policies to enter new export

CHART 3

ETHIOPIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, JAN. 1978 - DEC. 1983

(birr/basket; 1980 = 100)



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

[1]Upward (downward) movements signify appreciation (depreciation).

Table 4. Ethiopia: Balance of Payments, 1978/79-1983/84

(In millions of SDRs)

	Fiscal year 1/					
	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 2/
Trade balance	-179.1	-180.6	-241.5	-351.0	-429.2	-476.4
Exports, f.o.b.	280.7	364.5 3/	327.6	337.9	361.4	381.0
Coffee	204.1	234.5	201.4	202.7	221.9	231.4
Petroleum products	10.6	21.7	29.3	30.3	30.7	31.1
Other	66.0	108.3	96.9	104.9	108.8	118.5
Imports, c.i.f.	-459.8	-545.1	-569.1	-688.9	-790.6	-857.4
Consumer (nondurable)	-74.8	-68.4	-78.7	-106.3	-145.8	
Other	-385.0	-476.7	-490.4	-582.6	-644.8	
Net services	15.9	20.5	27.0	31.3	48.9	38.0
Private transfers (net)	18.2	15.3	19.6	39.8	78.4	73.0
Current account balance	-145.0	-144.8	-194.9	-279.9	-301.9	-365.4
Public transfers (net)	46.6	46.0	47.6	59.4	106.6	114.2
Nonmonetary capital (net)	40.2	68.6	83.0	232.5	168.9	210.5
Public long-term	55.1	79.6	87.8	215.8	177.7	216.2
Disbursements	69.0	94.3	105.3	244.4	197.8	259.8
Amortization	-13.9	-14.7	-17.5	-28.6	-20.1	-43.6
Short-term (net)	-14.9	-11.0	-4.8	16.7	-8.8	-5.7
Net errors and omissions	18.8	-4.5	-9.5	22.3	-39.5	--
SDR allocation	3.6	3.7	3.8	4.1	--	--
Revaluation of reserves	--	--	22.5 4/	14.8	--	--
Overall balance	-35.8	-31.0	-47.5	53.2	-65.9	-40.7
Net monetary movements 5/	35.8	31.0	47.5	-53.2	65.9	40.7
	(In percent, unless otherwise indicated)					
Memorandum items:						
GDP (millions of birr)	7,987.5	8,498.9	8,854.4	9,168.8	9,793.8	10,363.6
Trade balance/GDP	-5.95	-5.73	-7.10	-9.01	-9.83	-10.07
Current account/GDP	-4.82	-4.59	-5.73	-7.19	-6.91	-7.72
Current account (excl. private transfers)/GDP	-5.42	-5.08	-6.31	-8.21	-8.71	-9.27
Overall balance/GDP	-1.19	-0.98	-1.40	1.37	-1.51	-0.9
Terms of trade (deterioration -)	-27.8	17.2	-16.1	0.5	-1.8	2.1
Exchange rate (birr/SDR)	2.6531	2.6934	2.6030	2.3540	2.2424	2.1900

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

1/ Data cover year ended July 7, where available; otherwise June 30.
2/ Provisional.
3/ Includes SDR 9.9 million of nonmonetary gold.
4/ A profit of SDR 18.7 million from the sale of 48,430 ounces of gold, plus a revaluation gain of SDR 3.8 million.
5/ Increase in net assets denoted by minus sign.

markets, and to increase investment in export-oriented industries are perceived to lead to the required growth of exports. Their investment strategy is also perceived as reducing the rate of growth of imports.

The debt service ratio has increased in recent years and is projected to continue to rise to about 27 percent in 1985/86 (Table 5). The authorities attribute this growth to the contraction of suppliers' credits in 1982/83. They have instituted procedures to reduce reliance on such instruments and believe that these have been effective. They consider that the debt service ratio should not be more than 20 percent of exports of goods and nonfactor services and will endeavor to reduce it to that level. Their intention is to increase concessional aid flows.

The World Bank suspended new loan commitments in June 1982, pending a satisfactory conclusion of negotiations on the remaining outstanding claims of previously foreign-owned nationalized businesses. The World Bank resumed lending operations in 1983 following an agreement with the Government on the purchase of the International Finance corporation's (IFC) shares, and the shares of IFC's major partners, in the nationalized Metahara Sugar Company and the textile mills of Dire Dawa. Agreement has been reached with all other major claimants.

Ethiopia's exchange control practices were consolidated into a comprehensive set of regulations, designed to make existing practices explicit, on January 5, 1977. The new regulations entailed a number of minor modifications, but the exchange control system was left as liberal in its application as before in most respects. In the period between the consultation discussions of April 1977 and those of May 1979, the authorities resorted to a tightening of exchange controls on current payments in response to rapidly declining reserves. In early 1978, the granting of foreign exchange was denied for the importation of some foodstuffs, alcoholic beverages, and other consumer goods. In mid-1978, the NBE began granting foreign exchange licences only for essential or scarce commodities. Exchange restrictions were later relaxed for certain items, including basic consumer goods, but otherwise the restrictive system has remained broadly unchanged. However the authorities have administered the system in a flexible manner in regard to essential imports and the level of imports has increased. Moreover, payments arrears have been avoided.

IV. Staff Appraisal

Ethiopia's record in increasing output and reducing inflation has been good in recent years. This performance stems from a variety of factors, including improvements in administration and the distribution network, increased imports, and increased agricultural output partly due to good weather. The flexible administration of central planning and its focus on the agricultural sector has contributed to this favorable development; that the authorities intend to implement the Ten-Year

Table 5. Ethiopia: Medium-Term Debt Scenario, 1980/81-1987/88

(In millions of SDRs)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Debt service payments								
Long-term concessional loans (excluding IMF)	30.7 1/	27.0	11.6	32.6	43.1	51.1	58.0	65.3
Interest	13.2 1/	12.5	8.7	14.5	16.3	18.5	20.4	19.2
Amortization	17.5 1/	14.5	2.9	18.1	26.8	32.6	37.6	46.1
Suppliers' and commercial bank credits	--	19.4	24.7	38.8	53.1	57.2	53.9	47.7
Interest	--	5.3	7.5	13.3	15.4	14.0	13.3	9.6
Amortization	--	14.1	17.2	25.5	37.7	43.2	40.6	38.1
IMF	0.8	7.1	19.6	28.5	41.1	45.5	23.1	15.0
Charges	0.8	7.1	9.6	9.2	7.6	5.2	2.8	1.4
Repurchases	--	--	10.0	19.3	33.5	40.3	20.3	13.6
Total	31.5	53.5	55.9	99.9	137.3	153.8	135.0	128.0
Interest	14.0	24.9	25.8	37.0	39.3	37.7	36.5	30.2
Amortization	17.5	28.6	30.1	62.9	98.0	116.1	98.5	97.8
Debt service ratio 2/	7.1	11.7	11.0	18.9	25.0	26.9	22.9	21.1
Debt service ratio (excluding IMF) 2/	7.0	10.2	7.1	13.5	17.5	19.0	19.0	18.6
Debt service ratio (excluding suppliers' credits) 2/	--	7.5	6.1	11.6	15.3	16.9	13.8	13.2

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

1/ Includes suppliers' and commercial bank credits.
2/ Expressed as percentage of exports of goods and nonfactor services.

Perspective Plan within a framework that takes into account resource availabilities rather than the attainment of a fixed physical program is welcome. The integration of the banking system into the project appraisal and investment planning process should strengthen the implementation of the plan within an overall framework of financial balance.

Official pricing and control of specific goods is limited and administered flexibly. There are very few financial subsidies; most public enterprises are profitable. The authorities' implementation of a system of support prices for selected agricultural goods can make a significant contribution to output along with other policies to improve incentives and the availability of inputs. The real producer prices for certain commodities have declined moderately recently, and the staff welcomes the authorities' review of these prices and the intention that real producer prices should not decline. The authorities' policy of allowing the private sector to operate freely in complement to the official distribution system is sound. The IBRD-financed study of the distribution system should provide a useful basis for further improvement in this area.

The authorities state that the rise in the overall fiscal deficit in 1982/83 was attributable to the government's decision to strengthen the capital base of public enterprises and does not represent a fundamental deterioration of the public finance. The staff welcomes the policies that have been put in place to avoid recurrence of such a fiscal deficit. The authorities' concern to increase investment and provide a sound basis for growth leads them to seek increased concessional foreign assistance and to the view that the present level of the overall fiscal and external current account deficits are sustainable. The staff, however, does not regard the present level of deficits as sustainable, and feels that the deficits should be reduced. Even if foreign assistance on this scale could be found, such large reliance on external flows, which can be subject to serious fluctuation, could place efficient economic management in jeopardy. It should be stressed that the debt service ratio is already scheduled to increase to a higher level than the authorities consider acceptable. The staff welcomes the intention that, in the event such concessional resources are not found, investment expenditure will be limited to levels consistent with their policies in respect of the debt service ratio, the maintenance of an adequate level of official reserves, and prudent reliance upon domestic bank finance.

In addition to continued restraint on the growth of current expenditures the adjustment of the fiscal deficit to a sustainable level will require policies to increase the buoyancy of the tax system. A number of measures to improve the administration and yield of the system have been under consideration for some time. It is hoped that these will be implemented. The external current account deficit needs to be reduced, and, clearly, government investment policy can make a contribution to attaining a sustainable balance of payments position.

The steady appreciation of the birr over the past few years has been associated with the observed weakening of the balance of payments as reflected in the poor performance of exports, rising imports, the depletion of reserves, and the rising debt service ratio. The staff believes that a change in present exchange arrangements could increase incentives for the production of internationally tradable goods. The evidence that the exchange rate of the birr is overvalued is manifest in the consideration given to reducing the export tax on sales to non-quota coffee markets. The weakness of exports of other raw materials and manufactures also points to a serious problem. Reliance on import and exchange restrictions should be gradually reduced through the implementation of prudent demand management policies, coupled with a devaluation. Most important, a depreciation of the birr would result in a change in the relative value of imports and exports compared with non-tradable goods; such a change would have a substantial impact on the structure of incentives and could provide significant benefits through improved resource allocation.

The debt service ratio has risen sharply, and this trend is likely to continue for some time. The staff welcomes the authorities' policy to reduce reliance on suppliers' credit and to reduce the debt service ratio. The policy of seeking concessional assistance on ODA terms should be pursued in supporting prudent targets for the budget, the balance of payments, and the debt service ratio. The extent to which present and prospective donors can provide their assistance on ODA terms will strengthen the authorities' efforts to improve the performance of the economy.

Ethiopia's exchange restrictions pertaining to imports are subject to approval under Article VIII, Section 2(a). The exchange restrictions on payments and transfers for invisible transactions are maintained by Ethiopia in accordance with Article XIV. Despite the sharp decline in reserves since the last consultation, the restrictions were not intensified and no new restrictions were introduced. The authorities have continued to administer the restrictive system in a flexible manner as far as payments for essential imports are concerned, although for other international transactions the exchange and trade systems remain highly restrictive. Both the value and volume of imports rose significantly during 1983. Importantly, payments arrears have been avoided. The staff believes that the authorities should resume the process of liberalization. This would be facilitated by reinforced implementation of economic and financial policies to strengthen the balance of payments including a more flexible use of exchange rate policy. In the meantime, the staff recommends approval of the restrictions on current payments, until the completion of the next Article IV consultation with Ethiopia or May 31, 1985, whichever is earlier. It is recommended that the next Article IV consultation with Ethiopia be held on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Ethiopia's exchange measures subject to Article VIII, Section 2(a), in concluding the 1984 Article XIV consultation with Ethiopia and in the light of the 1984 Article IV consultation with Ethiopia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ethiopia continues to maintain restrictions on payments and transfers for current international transactions as described in SM/84/ . The Fund encourages the authorities to take steps to relax and to remove existing restrictions as the balance of payments situation improves. In the meantime, the Fund grants approval of the retention of the exchange restrictions subject to approval under Article VIII, Section 2(a), until the completion of the next Article IV Consultation with Ethiopia or May, 31, 1985, whichever is earlier.

ETHIOPIA - Basic Data

Area, population, and GDP per capita

Area	1.2 million square kilometers
Population:	
Total (mid-1983 estimate)	34.3 million
Growth rate	2.3 per cent
GDP per capita (1983)	SDR 128 (Br 286)

	1979/80	1980/81	1981/82	1982/83	1983/84 1/
	Fiscal year ended July 7				
Gross domestic product (GDP)	(In millions of birr)				
GDP at current market prices	8,498.9	8,854.4	9,168.8	9,793.8	10,363.6
Agriculture (percent of total)	43.8	42.1	42.3	42.0	41.8
Manufacturing (percent of total)	6.3	6.4	6.5	6.7	6.7
Distribution services (percent of total)	13.7	13.9	14.4	14.4	14.3
GDP at constant 1960/61 factor cost	4,451.6	4,568.2	4,653.8	4,851.5	5,047.6
Government finance					
Revenues and grants	1,623.6	1,832.8	1,945.0	2,123.9	2,322.8
Expenditure and net lending	2,001.2	2,190.5	2,418.9	3,457.2	3,119.4
Current	(1,548.0)	(1,658.1)	(1,741.6)	(2,186.7)	(2,152.4)
Capital	(453.2)	(532.4)	(677.3)	(1,270.5)	(967.0)
Overall deficit (-) and financing (+)	-377.6	-357.7	-473.9	-1,333.3	-796.6
External financing (net)	(142.7)	(128.2)	(385.7)	(384.3)	(280.0)
Domestic financing (net)	(234.9)	(229.5)	(88.2)	(949.0)	(516.6)
Banking system (net)	199.3	142.0	62.2	850.8	490.0

1/ Provisional estimates.

ETHIOPIA - Basic Data (continued)

	1980	1981	1982	1983	1983
	End of June				End of December
Money and credit	(In millions of birr)				
Domestic credit	2,612.3	2,829.7	3,125.1	3,720.8	3,937.6
Claims on Government (net)	(968.1)	(1,107.9)	(1,180.8)	(1,979.4)	(2,144.0)
Other credit	(1,644.2)	(1,721.8)	(1,944.3)	(1,741.4)	(1,793.6)
Money and quasi-money	2,332.1	2,377.6	2,643.7	3,040.4	3,092.3

	1979/80	1980/81	1981/82	1982/83	1983/84 1/
	Fiscal year ended July 7				
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	364.5	327.6	337.9	361.4	381.0
Of which: coffee	(234.5)	(201.4)	(202.7)	(221.9)	(231.4)
Imports, c.i.f.	-545.1	-569.1	-688.9	-790.6	-857.4
Trade balance	-180.6	-241.5	-351.0	-429.2	-476.4
Services (net)	20.5	27.0	31.3	48.9	38.0
Private unrequited transfers	15.3	19.6	39.8	78.4	73.0
Current account balance	-144.8	-194.9	-279.9	-301.9	-365.4
Official unrequited transfers	46.0	47.6	59.4	106.6	114.2
Capital account (net)	68.6	83.0	232.5	168.9	210.5
Errors and omissions	-4.5	-9.5	22.3	-39.5	--
SDR allocations	3.7	3.8	4.1	--	--
Revaluation of reserves	--	22.5	14.8	--	--
Overall balance (deficit -)	-31.0	-47.5	53.2	-65.9	-40.7
Exchange rate (Br/SDR, period average)	2.6934	2.6030	2.3540	2.2424	2.1900

1/ Provisional estimates.

ETHIOPIA - Basic Data (concluded)

	1979/80	1980/81	1981/82	1982/83	1983/84 1/
			(In millions of SDRs)		
External public debt (end of period)					
Outstanding	526.3	664.0	906.4	1,068.7	1,236.2
Debt service payments (including Fund charges)	26.1	31.5	53.5	55.9	99.9
	1979	1980	1981	1982	1983
Gross official international reserves					
(end of June)	84.9	117.9	124.7	243.7	138.2 2/

1/ Provisional estimates.
2/ End of December.

ETHIOPIA: Relations with the Fund

(As of March 31, 1984)

I. Membership Status:

(a)	Date of membership	December 27, 1945
(b)	Status	Article XIV

A. Financial Relations

II. General Department

(a)	Quota	SDR 70.6 million
(b)	Total Fund holdings of Ethiopian currency	SDR 167.37 million (237.06 percent of quota)
(c)	Fund holdings of Ethiopia's currency subject to repurchase	SDR 96.75 million (137.04 percent of quota)
	Of which: Credit tranche	SDR 34.98 million (49.54 percent of quota)
	E.A.R.	SDR 32.52 million (46.07 percent of quota)
	C.F.F.-R.	SDR 29.25 million (41.43 percent of quota)

III. Current Stand-By or Previous Arrangements and Special Facilities

(a) Current stand-by: None

(b) Previous arrangements:

Stand-by arrangement (SDR 67.5 million) approved in May 1981.

ETHIOPIA: Relations with the Fund (continued)

(c) Special facilities approved included Trust Fund loans, SFF subsidy account, and compensatory financing facilities for export shortfalls (SDR 36 million in 1979 and SDR 18 million in 1981).

IV. SDR Department

(a) Net cumulative allocation - SDR 11.16 million

(b) Holdings - SDR 1.93 million, or 17.33 percent of net cumulative allocation.

V. Administered Accounts

(a) Trust Fund loans:

(i) Disbursed - SDR 26.39 million

(ii) Outstanding - SDR 25.27 million

(b) SFF Subsidy Account:

(i) Payments by Fund - Nil

VI. Overdue Obligations to the Fund - none

B. Nonfinancial Relations

VII. Exchange system: Pegged to the US$ at Br 2.07 = US$ 1

the SDR/local currency equivalent is SDR 1 = Br 2.1945

Intervention currency and rate: U.S. dollar; Br 1 = US$ .40309

VIII. Last Article IV Consultation

Article IV, March 1-16, 1983 (SM/83/77), discussed by the Executive Board on June 8, 1983 (EBM/83/82). The following decision was adopted:

ETHIOPIA: Relations with the Fund (concluded)

1. The Fund takes this decision relating to Ethiopia's exchange measures subject to Article VIII, Section 2, and in concluding the 1983 Article XIV Consultation with Ethiopia, in the light of the 1983 Article IV consultation with Ethiopia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ethiopia continues to maintain restrictions on payments and transfers for most current international transactions as described in SM/83/92. The Fund notes the intention of the authorities to relax the existing restrictions as the balance of payments situation improves. In the meantime, the Fund grants approval for the retention of the exchange restrictions subject to Article VIII, Section 2, until the completion of the next Article IV consultation with Ethiopia or May 31, 1984, whichever is earlier.

IX. Technical Assistance: None in 1982-83.

Ethiopia: IBRD Loans and IDA Credits by Sector

(As of January 31, 1984; in millions of US dollars)

	Total			Disbursed			Undisbursed		
	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA
Agriculture	288.47	4.00	285.47	195.47	4.00	191.47	94.00	--	94.00
Education	78.86	7.20	71.66	66.14	7.2	58.94	12.72	--	12.72
Power	46.60	46.60	--	46.60	46.60	--	--	--	--
Water supply	10.98 1/	10.80	--	10.80	10.80	--	--	--	--
Roads	202.81	33.50	169.31	129.66	33.50	96.16	73.15	--	73.15
Communications	43.07 2/	13.70	29.37	43.07	13.70	29.37	--	--	--
Other 2/	35.34	--	35.34	10.00	--	10.00	25.34	--	25.34
Total	707.13	115.80	591.15	501.74	115.80	385.94	205.21	--	205.21

Source: Data provided by the World Bank.

1/ Includes Addis Ababa Water Grant and Sewerage (US$.18 million).
2/ Includes drought rehabilitation (US$10.00 million), urban development (US$6.72 million), and petroleum exploration (US$6.72 million).