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SM/85/151
Correction 1

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June 3, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Ethiopia - Staff Report for the 1985 Article IV Consultation

The following correction has been made in SM/85/151 (5/23/85):

Page 1, para. 1, line 10: for "Mr. G. Gondwe (AFR) participated"
read "Mr. G. Gondwe (AFR) and Mr. A. Abdallah,
Ethiopia's Alternate Executive Director,
participated"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

ETHIOPIA

Staff Report for the 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Consultation
with Ethiopia

Approved by G.E. Gondwe and S. Kanesa-Thasan

May 22, 1985

I. Introduction

A staff mission visited Addis Ababa during the period March 19-April 2, 1985 to conduct the Article IV consultation discussions with Ethiopia. The Ethiopian representatives included Mr. Mersie Ejigu, Head of Macroplanning in the Office of the National Committee for Central Planning with the rank of Minister; Mr. Tadesse Gebre-Kidan, Governor of the National Bank of Ethiopia, Mr. Bekele Tamirat, Vice-Minister of Finance, and other officials dealing with economic and financial matters. The staff team consisted of Messrs. J.M. Jiménez (Head-AFR), D. Scheuer (AFR), J. Modi (FAD), W. Nahr (BUR), and Ms. A. Wood (Secretary-AFR). Mr. G. Gondwe (AFR) and Mr. A. Abdallah, Ethiopia's Alternate Executive Director, participated in the policy discussions.

Ethiopia continues to avail itself of the transitional arrangements of Article XIV. 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 respectively.

II. Background

1. Structural and institutional features of the economy

Since 1974 the Government has made great strides to institute a socialist system with a centrally planned economy. The Government has acquired ownership of all financial institutions, major industrial enterprises, and large sections of urban and rural property. The Government's influence on economic decisions is extensive. Production in the large agricultural sector remains principally within the private sector, being dominated by smallholders with user rights on state-owned land. Peasants in the rural area are organized into peasants' associations and some of these into service and producer cooperatives. State farms account for about 5 percent of the estimated value of agricultural output, though a much higher proportion of marketed output. They are expected to grow in importance over the medium term. The Government also has control over the marketing of foodstuffs, exports, and imports.

It operates a marketing, distribution, and a price support system for food grains, pulses, and oilseeds through the Agricultural Marketing Corporation (AMC), which according to the present guidelines handles about 50 percent of the marketed surplus, through the use of obligatory delivery quotas from cooperatives and wholesalers.

2. Medium-term retrospective

Between 1978/79 and 1979/80 the economy expanded by 5.6 percent per year. A strong improvement in Ethiopia's terms of trade in the late 1970s, in conjunction with several years of good weather conditions, the introduction of annual development campaigns, and a more stable environment promoted a rapid recovery of the industrial and agricultural sectors, generating an improved growth performance. In the early 1980s, with the gains from the recovery of industrial capacity utilization fully realized, and with a major deterioration in the terms of trade, the growth performance deteriorated. In the three years ending 1982/83 the terms of trade declined by about 12.7 percent, and growth fell to an average of 3.1 percent per year. At the same time, the current account deficit of the balance of payments increased.

During these years the overall government deficit was kept within manageable limits. Between fiscal years 1979/80 and 1981/82 the deficit averaged 4.8 percent of GDP, with the equivalent of 2.1 percent of GDP financed domestically. However, domestic credit rose by the equivalent of 15.8 percent of the initial broad money stock per year. About 40 percent of the total expansion ^{1/} was taken up by the public enterprises, with credit to the private sector remaining stagnant. An overall balance of payments deficit was recorded in all but one year of this period. The exception was 1981/82 when an exceptional loan was secured late in the fiscal year. Broad money expanded by an average of about 8.7 percent.

During this period, prices rose by 7.1 percent per year, largely reflecting improved supply conditions, price controls, an appreciation of the birr, and a rise in imports exceeding the growth of nominal income. The Government maintained a cautious incomes policy during this period.

3. The current drought

The failure of the main 1984 harvest in particular created a significant food shortfall, estimated to affect about 8 - 10 million people or almost one quarter of Ethiopia's population. Accumulated grain stocks from a good crop in 1982/83 provided the basis for initial

^{1/} Including bank credit to nonbanks, which was relent to public enterprises.