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To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 84/90

Page 35 of the final minutes of EBM/84/90 (6/8/84) is reissued to include the text of the decision concluding the 1984 Article IV consultation with Ethiopia. A new page 36 is attached to include paragraph 2 of that decision.

Att: (2)

Other Distribution:
Department Heads

While welcoming the reduction in the overall deficit in FY 1984, Directors considered that the deficit remained excessively large. They urged the adoption of measures to reduce the deficit to a more sustainable size and to strengthen tax administration. Directors welcomed the policy of strictly limiting budgetary subsidies generally and the overall profitability of the parastatal sector in particular. They commended the authorities on the flexible pricing policy that had contributed to this outcome and urged a continuation of appropriate price flexibility.

Directors viewed with some concern the rising trend in the external current account deficit. The continued appreciation of the effective value of the birr, as a result of the peg to the U.S. dollar, was seen as difficult to reconcile with the need to strengthen incentives to produce tradable goods and thereby strengthen the balance of payments position. Directors urged that a more active and flexible exchange rate policy, including the possibility of a different peg for the currency, be considered. They were of the view that the adoption of such an exchange rate policy, supplemented by other measures to strengthen the balance of payments, would reduce Ethiopia's reliance on restrictions on the making of payments for current international transactions and, thus, could assist in attracting capital from abroad.

Directors welcomed the authorities' intention to reduce the debt service ratio. In that regard, while the need for foreign financing and assistance to support the investment and adjustment effort was recognized, careful attention needed to be paid to the terms of the financing. The hope was expressed that the authorities would draw up a stabilization program that could be supported by the Fund.

The next Article IV consultation with Ethiopia will be held on the regular 12-month cycle.

The Executive Board then adopted the following decision:

Decision Concluding 1984 Article XIV Consultation

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/84/122. 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.

Decision No. 7727-(84/90), adopted
June 8, 1984

APPROVED: January 28, 1985

LEO VAN HOUTVEN
Secretary