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Statement by Mr. Kiingi on Ethiopia
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It will be recalled from our recent discussions on Ethiopia that the authorities had been confronted with serious budgetary and foreign exchange constraints. Depressed world demand and falling prices of coffee and most other Ethiopian exports had considerably reduced foreign exchange earnings from exports. Higher import bills reflecting, among other factors, the effect of higher oil prices coupled with reduced inflow of foreign loans and grants compounded the situation. Consequently, by the first half of 1980/81 the external payments position had worsened with the overall balance of payments deficit running at an annual rate of about Br 233 million or about 5.1 per cent of GDP. Net foreign assets had dropped to a critical level that could hardly cover one month imports.

With a view to correcting the deterioration in economic performance, the authorities adopted, on May 8, 1981, an 18-month stabilization program supported by the Fund covering the period between January 1981 to June 1982. The program aimed at achieving an average growth rate of about 5 per cent, improving fiscal performance, reducing inflation and restoring balance of payments equilibrium. The overall fiscal deficit/GDP ratio is to be reduced from 4.5 per cent in 1979/80 to 4 per cent in 1980/81 and 2.5 per cent in 1981/82. The program also aimed at containing the overall balance of payments deficit to SDR 115 million in 1980/81 and SDR 67 million in 1981/82.

As noted in the staff paper, performance under the program has been broadly satisfactory although the rate of growth in real GDP in 1980/81 was 4 per cent lower than the 5 per cent envisaged in the stabilization program. The performance criteria for the period ending June 30, 1981 were observed. A 15 per cent fall in receipts from taxes on foreign trade notwithstanding, total revenue rose by about 2.3 per cent. With the total elimination of subsidy on petroleum and petroleum products in March, sharp reductions in other subsidies coupled with continued restraint in other current expenditure items and a 5.6 per cent cut in capital expenditure, my authorities were able to narrow overall budget deficit from Br 377.4 million or 4.5 per cent of GDP in 1979/80 to about Br 330.5 million or 3.8 per cent of GDP in 1980/81. The deficit was covered partly by net foreign borrowing of Br 89.5 million. Net borrowing from the domestic banking system was Br 205 million. The remaining Br 36 million was financed through bond sales to the Pension Commission.

Despite the deterioration in the terms of trade which led to a widening of the current account deficit from SDR 144 million in 1979/80 to SDR 237 million in 1980/81, the authorities were also able to narrow the overall balance of payments deficit to SDR 75 million or about 2.2 per cent of GDP and to maintain net external assets at a level sufficient to finance about 1.4 months imports. This compares favorably with the 0.5 month import cover projected for 1980/81.

Against this background of improving economic conditions, my authorities consulted with Fund staff in June 1981 and agreed on the performance criteria for the 1981/82 fiscal year. During this period the authorities intend to complement measures already taken in 1980/81 with some additional ones to ensure that the objectives of the program are achieved.

The authorities feel that agriculture must remain the focus of development effort. In order to reduce dependence on coffee for export revenue, the authorities intend to intensify their diversification policy with increased emphasis being put on the production of cotton, sugar and oil seeds. They are taking measures to improve the quality and increase the quantity of hides and skins and expand exports of processed meat products.

In the industrial sector, emphasis is to be placed on small- and medium-size labor-intensive industrial projects. In order to reduce the pressure on the external payments position, priority will continue to be put on import substitution industries including foodstuffs, beverages, textiles, cement, and sugar, which rely mostly on domestic raw materials.

On the budgetary front, my authorities are fully aware of the implications on government revenue of the continuing depressed prices for Ethiopia's main exports, particularly coffee, in the world market. They therefore intend to increase domestic tax revenue by 18 per cent through improved tax administration and collection and by overhauling the indirect tax structure with a view to raising total revenue by about 4 per cent to Br 1.7 billion in 1981/82. However, despite this commendable attempt to raise revenue, the budgetary picture, as the authorities point out, is expected to be less favorable. With total expenditure estimated at Br 2.2 billion, the overall budget deficit is likely to widen to Br 564 million or about 5.6 per cent of GDP compared with the 1981/82 deficit/GDP ratio of 2.5 per cent originally assumed in the program. The authorities hope to meet about Br 300 million of the fiscal deficit from long-term external borrowing and credits, about Br 228 million by recourse to the domestic banking system. This will be within the agreed ceiling. Bond sales to the Pension Commission will account for the remaining Br 36 million. The expansion in domestic credit is to be designed to allow for an increase in real GDP of 5 per cent.

In order to further harness domestic savings, my authorities plan to continue to expand the banking and other financial institutions. They are constantly reviewing the interest rate structure and will effect changes as need may arise.

In the external sector, the authorities have stated that they will continue to reduce the rate of import growth and expand the volume of coffee and noncoffee exports. They are currently reviewing producer prices with a view to increasing production and export. Furthermore, they have commissioned a study on the possibility of determining the exchange rate of the birr through a basket of currencies. They intend to discuss the outcome of the study with the staff before a final decision is taken.

The staff agrees that the policies of my authorities are sufficient to achieve the objectives of the program. My authorities have indicated that should developments call for further corrective measures, they will not hesitate to take appropriate action after due consultation with the Fund. I therefore hope that the Executive Directors will agree with the staff assessment and approve the draft decision on the stand-by arrangement.