

June 12, 1982 - 82/90

Statement by Mr. Kiingi on Ethiopia  
Executive Board Meeting 82/81  
June 11, 1982

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The Article IV consultation with Ethiopia comes at a time when the stand-by arrangement is coming to an end and, therefore, provides an excellent opportunity for a thorough review of the programme. It will be recalled that when the Executive Board approved this stand-by arrangement with Ethiopia in May 1981 the economy was experiencing a slowdown in growth of real output, a weakening in the financial position of the public sector, and a deteriorating balance of payments position. Agricultural production which accounts for about half of GDP was affected by adverse weather conditions, while in the manufacturing sector output was constrained by the near full utilization of capacity. In some cases agro-based industries experienced shortages of inputs. At the same time, export prices for coffee and other commodities declined considerably while import prices continued to rise.

It was against this background that the authorities adopted the stabilization programme which received support from the Fund under the current stand-by arrangement. The objective of the programme was to improve fiscal performance and achieve a sustainable balance of payments position. Measures were taken to restrain the growth in expenditure and to raise revenue. In this connection, prices for petroleum products, transportation, and fertilizers were increased in order to reduce subsidies, while tax collection procedures were strengthened to reduce tax arrears and increase the contributions to the budget by public enterprises. It is pleasing to note that the authorities have observed all performance criteria under the programme to date. The overall fiscal deficit, smaller than the programme target, was equal to 4 per cent of GDP. More than 60 per cent of this deficit was financed by external borrowing and increased bond sales. As a result, domestic bank financing was well below the programme ceiling. The current account deficit which was 5.7 per cent of GDP and the overall balance of payments deficit (1.4 per cent of GDP) were substantially lower than projected under the programme.

An improvement in economic performance for the 1981/82 fiscal year is expected. Indeed, GDP in real terms is to grow by 4.5 per cent compared with 3.3 per cent in 1980/81. With improved weather conditions agricultural output is expected to rise more rapidly than in 1980/81. The growth of manufacturing production also will increase as a result of the completion of ongoing industrial projects. The fiscal deficit is expected to increase slightly, but will remain well within the programme ceiling. Furthermore, overall bank credit is expected to be below the programme ceiling at the end of June 1982, despite slight increases in credit to both the Government and to the economy as a whole. However, the deterioration in the terms of trade of about 8.4 per cent will continue to put pressure on the balance of payments.

To deal with this situation, the authorities are making efforts to mobilize on concessional terms larger amounts of foreign capital. Hence a surplus of SDR 20.5 million is now projected for the overall balance of payments instead of a deficit of SDR 79.1 million expected in the programme.

The authorities recognize that they will need to continue their efforts in order to achieve higher and sustainable rates of growth. To this end, the Ten-Year Development Plan (1980/81-1989/90) aims at removing infrastructural bottlenecks and laying the foundation for profitable investments in such areas as agriculture, manufacturing, mining and energy.

The authorities are implementing projects in the agricultural sector to increase both export and foodcrops. Under the Minimum Package Programme, which is being supported by the World Bank, the authorities are providing inputs and credit with a view to improving the production of peasant farmers. Priority is also being given to improving extension services to coffee farmers and to extending spraying programmes in order to eliminate the coffee berry disease. Meanwhile, steps are being taken to expand and rejuvenate 10,000 hectares of coffee plantation under the Bebeke project and another 45,000 hectares is envisaged for development at a later stage. In addition, the authorities have increased the price of washed coffee from Br 1,000 to Br 1,146 per ton to provide incentive to the farmers in order to obtain better prices on the export market. A livestock development programme is also being implemented. In the industrial sector, various projects aiming at achieving a greater degree of import substitution have been identified. With regard to the mining sector, the authorities intend to exploit the country's mineral resources with emphasis on copper, potash, and platinum. Efforts are also under way to explore for petroleum and natural gas in the Ogaden region. In the energy sector, the authorities intend to expand hydro-electric power generation and exploit the country's geothermal potential with a view to reducing dependence on imported fuel.

The financing of the Plan will require a large inflow of external capital as well as an increase in domestic savings, and will require sizable external assistance on concessional terms. On the domestic front, the authorities are exercising tight restraint on expenditure with a view to generating savings. This is being complemented by measures to raise more revenue. To this end, the authorities intend to reform the indirect tax system from specific to ad valorem rates. They are also considering ways of improving the assessment of profit and rural income taxes. Meanwhile, a study is to be made in the financial structures of the state farms and some enterprises with a view to improvement. The authorities anticipate an increase in revenue from coffee exports as a result of providing incentives to producers.

Monetary policy has aimed at limiting credit expansion in line with the balance of payments objectives and the need to reduce domestic inflationary pressures. To this end, the authorities have sought to

restrain credit to Government while credit to nongovernment sectors has been limited to productive investment. In the present circumstances, with the rate of inflation at 1.8 per cent, the authorities feel that deposit rates are adequate. They are, however, considering a study of the structure of interest rates together with proposals to increase the resource base of the Agricultural and Industrial Development Bank.

The authorities intend to monitor closely developments in external indebtedness with a view to keeping debt service within 8-10 per cent of exports. In this regard, they will continue to mobilize external loans on concessional terms. Furthermore, loans will be used to implement productive projects that have prospects of generating a net saving in terms of foreign exchange. It is also the firm desire of the Government to relax the remaining trade and transfer restrictions as soon as circumstances permit.