

June 15, 1982 - 82/92

The Chairman's Summing Up at the Conclusion of the
1982 Article IV Consultation with Ethiopia
Executive Board Meeting 82/81
June 11, 1982

Executive Directors agreed with the thrust of the views expressed in the staff appraisal of the report for the 1982 Article IV consultation with Ethiopia.

Directors warmly commended the authorities for having implemented the current financial program which, despite a large deterioration in the terms of trade, has helped to reduce the domestic inflation rate, contain the imbalances in the fiscal and external accounts, and strengthen the foreign reserve position from an extremely low level. They noted that major factors contributing to this outcome included more flexible pricing policies, restraints on wage increases and current budgetary outlays, the improved financial position of public enterprises that have shown an overall profitability, the growth of export volume, and increased inflows of foreign aid on concessional terms, which are vital for the implementation of Ethiopia's investment plan.

For the future, Directors cautioned that the implementation of planned investments to improve overall growth prospects should continue to be supported with increased domestic resource mobilization, so as to maintain a sustainable external current account position and manageable levels of foreign debt. They emphasized that the firm pursuit of a policy of appropriate price flexibility--especially in the coffee sector--and of wage restraint, would be important for improving the profitability and savings of the government and of the public enterprise sectors. To contain fiscal deficits, it would be necessary to combine restraints on nonessential expenditure with early implementation of the proposed measures to increase revenue through indirect taxation. In addition, Directors felt that efforts to mobilize domestic resources within the banking system should be strengthened through the appropriate extension of the banking network and more remunerative interest rates.

With the reference to the significant effective appreciation of the exchange rate which was regarded as inappropriate by a number of Directors, they urged the Ethiopian authorities to adopt a flexible exchange rate policy in order to improve prospects for exports, and ensure that scarce foreign exchange was used for the more profitable opportunities of production and investment. They felt that such a policy orientation would also improve the prospects for opening up the economy more fully to beneficial foreign trade opportunities.