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IMF Executive Board Approves US$50 Million Disbursement to the Federal Democratic Republic of Ethiopia Under the Exogenous Shocks Facility

The Executive Board of the International Monetary Fund (IMF) approved today a disbursement in an amount equivalent to SDR 33.425 million (about US$50 million) to the Federal Democratic Republic of Ethiopia under the rapid-access component of the Exogenous Shocks Facility (ESF).

In September 2008, the Executive Board approved modifications to the ESF, which make it faster to access, easier and more flexible to use, and capable of providing more financing. Those modifications came info effect in late November 2008. The disbursement to Ethiopia under the rapid-access component of the ESF helps mitigate the impact of higher fuel, food and fertilizer prices experienced by Ethiopia on its balance of payments in 2008.

Following the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“Ethiopia’s economy has been adversely affected by high commodity prices. Last year’s steep increases in international prices of fuel, fertilizers, and cereals have considerably weakened Ethiopia’s international reserves position and contributed to inflationary pressure. The more recent reversal of the commodity price hikes should help Ethiopia to replenish its international reserves and lower inflation. However, balance of payments pressures are likely to remain in the face of the severe global economic slowdown.

“The Ethiopian authorities have adopted an appropriate macroeconomic policy package to address the strains on the balance of payments and to reduce inflation. The package includes domestic fuel price adjustments, substantial fiscal and monetary policy tightening, and measures to protect vulnerable groups. To ensure a tight fiscal stance, the government is committed to avoiding net domestic financing for the current fiscal year and improving control over public enterprise borrowing. Monetary growth is to be slowed to under 20 percent.

“The authorities are urged to continue to implement their adjustment policies forcefully. This would enhance the basis for sustainable economic growth. In the current global economic environment, there are significant risks that exports, remittances, and foreign direct investment may fall short of expectations. If this proves to be the case, additional policy tightening will be needed to preserve the viability of the balance of payments.

“Together with stepped-up assistance from Ethiopia’s other international partners, the IMF’s financial support under the Exogenous Shocks Facility will help to mitigate the risk of an erosion of Ethiopia’s gains in poverty reduction in recent years,” Mr. Kato said.

ANNEX

Recent Economic Developments

Ethiopia’s ambitious development policies have helped sustain average growth of 11.5 percent since 2003/04, consistent with the goal of reducing poverty. However, demand has been running ahead of the expansion in the capacity of the economy, contributing to high inflation and strong import growth. Twelve-month inflation eased to 40 percent in December 2008 as earlier food price increases are reversing. International reserves are equivalent to just one month of imports of goods and services.

International prices of oil and fertilizers rose from early 2007 to mid-2008 by 150 percent and 75 percent, respectively. This contributed to a doubling of the oil and fertilizer import bill in 2007/08 to almost US$2 billion (about 8 percent of GDP). The exogenous shocks have been responsible for pushing the balance of payments into a position of immediate and serious vulnerability. Soaring food prices have adversely impacted low-income households.

Policies to Address Shocks

The IMF’s support under the rapid access component of the ESF will help smooth adjustment to a sizeable terms of trade shock, contribute to the rebuilding of international reserves and catalyze financing from Ethiopia’s other international partners. To mitigate the impact of the exogenous shocks on the balance of payments and address domestic economic imbalances while protecting the most vulnerable, the authorities have adjusted domestic fuel prices, introduced measures to alleviate the adverse impact of high food prices, and are tightening monetary and fiscal policies significantly.

The authorities intend to take advantage of the reversal of the commodity price shock to rebuild foreign exchange reserves to 1.8 months of imports by end-2008/09 in line with their medium-term objective of bringing reserve cover to 3 months of imports.

Key measures are: the elimination of domestic fuel subsidies in October 2008 by adjusting regulated domestic prices to the import parity level; mitigating the impact of high food prices on low-income families through targeted assistance; significantly tightening fiscal policy by eliminating domestic borrowing; reducing public enterprises domestic borrowing to 1.1-2.2 percent of GDP in 2008/09, compared to 4.4 percent of GDP in 2007/08; and tightening monetary policy by targeting to reduce broad money growth to below 20 percent in 2008/09 from about 23 percent at end-2007/08.

Ethiopia: Selected Economic and Financial Indicators, 2004/05–2009/10[1]

	2005/06	2005/06	2006/07	2007/08 Est.	2008/09 Proj.	2009/10 Proj.
	(Annual percentage change)					
National income and prices						
GDP at constant prices (at factor cost)	12.6	11.5	11.5	11.6	6.5	7.0
Consumer prices (period average)	6.8	12.3	15.8	25.3	42.2	13.3
Consumer prices (end period)	13.0	11.6	15.1	55.3	15.7	12.1
External sector						
Exports (In U.S. dollars, f.o.b.)	41.1	18.1	18.8	23.3	10.6	8.9
Imports (In U.S. dollars, c.i.f.)[2]	40.4	29.5	12.5	33.2	3.4	8.1
Export volume	21.1	5.1	11.5	1.0	12.1	9.2
Import volume[2]	28.6	21.2	3.5	13.8	10.8	11.1
Terms of trade (deterioration -)	7.3	4.4	-1.6	2.5	6.3	2.8
	(Percent of beginning-period stock of broad money, unless otherwise indicated)					
Money and credit						
Net foreign assets	-0.3	-1.6	1.4	-3.1	10.6	11.2
Net domestic assets (including other items)	19.9	19.0	18.3	25.8	7.7	7.6
Net claims on the government (net)	9.3	7.1	9.0	6.8	0.0	1.5
Claims on public enterprises	11.3	4.9	6.1	19.0	9.3	5.3
Claims on private sector	8.9	8.8	9.2	7.9	4.3	6.1
Broad money	19.6	17.4	19.7	22.7	18.3	18.8
Velocity (GDP/broad money)	2.63	2.77	3.01	3.52	4.40	4.51
	(In percent of GDP, unless otherwise indicated)					
Financial balances						
Gross domestic saving	3.0	3.7	5.6	3.2	1.8	0.8
Government saving	2.4	2.7	1.4	1.5	2.8	2.7
Private saving	0.6	0.9	4.2	1.7	-0.9	-1.8
Gross domestic investment	23.0	24.2	25.0	21.2	19.9	16.7
Government investment	14.7	16.7	18.2	15.3	14.5	12.8
Private investment	8.3	7.6	6.7	5.9	5.4	4.0
Resource gap	-20.0	-20.6	-19.3	-18.0	-18.1	-15.9
External current account balance, including official transfers	-6.3	-9.1	-4.5	-5.6	-5.8	-5.2
Government finances						
Revenue	14.6	14.8	12.7	12.1	12.6	12.4
External grants	4.3	3.6	4.4	4.0	3.9	3.1
Expenditure and net lending	23.3	22.3	20.7	19.1	17.9	16.8
Fiscal balance, excluding grants (cash basis)	-8.7	-7.4	-8.0	-7.0	-5.4	-4.5
Fiscal balance, including grants (cash basis)	-4.4	-3.9	-3.6	-2.9	-1.5	-1.4
Total financing (including residual)	4.4	3.9	3.6	2.9	1.5	1.4
External financing	2.2	1.1	1.1	1.0	1.3	1.1
Domestic financing (not including privatization)	3.3	2.1	3.6	2.7	0.0	0.3
Public debt	79.6	68.1	40.7	35.9	31.4	31.7
Domestic debt[3]	30.7	30.9	28.9	24.0	17.0	14.1
External debt (including to Fund)	48.9	37.3	11.8	11.9	14.5	17.6
Net present value (NPV) of external debt-to-exports ratio (including to Fund)[4]	n.a.	n.a.	48.5	57.3	94.2	128.3
External debt-service ratio[5]	4.0	3.7	3.7	1.2	3.0	6.1
Overall balance of payments (in millions of U.S. dollars)	-102	-316	21	-174	416	544
Gross official reserves (in millions of U.S. dollars)[6]	1,555	1,158	1,326	906	1,372	1,916
(in months of imports of goods and nonfactor services of following year)	3.4	2.2	1.9	1.2	1.8	2.3
GDP at current market prices (in billions of birr)	106.5	131.7	170.9	245.6	363.0	441.8

Sources: Ethiopian authorities; and IMF staff estimates and projections.

1. Except for data on external sector which is based on July 1–June 30, data pertain to the period July 8–July 7.
2. Excluding aircraft and telecom purchases.
3. Whole series was revised.
4. Including debt of major public enterprises.
5. After enhanced HIPC and MDRI relief.
6. From 2005/06, data is on end-June basis.