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November 15, 2010

**The Acting Chair's Summing Up  
The Federal Democratic Republic of Ethiopia—Second Review  
of the Arrangement Under the Exogenous Shocks Facility  
Executive Board Meeting 10/109  
November 12, 2010**

Executive Directors commended the authorities for their successful implementation of the ESF-supported program, which has helped reduce inflation and rebuild external reserves. Continued progress toward macroeconomic stability and the mild impact of the global recession on the Ethiopian economy have allowed for better performance on external targets and the near term outlook is favorable. To preserve the momentum of growth and reduce poverty, it is essential that policies ahead focus on improving the investment climate, trade and exchange liberalization, and financial sector development, anchored by sound fiscal and monetary policies.

Directors welcomed the recent strong fiscal performance. To further strengthen revenues, they encouraged the authorities to continue the pace of tax reform as this would create fiscal space for the ambitious public investment plans and for the increase in social spending while supporting macroeconomic stability. Directors called for continued recurrent expenditure restraint and effective control of public enterprise borrowing. They underscored the importance of further strengthening debt management capacity and relying mostly on concessional financing to preserve the low risk of external public debt distress.

Directors endorsed the authorities' monetary policy objective of containing inflation and supporting monetization of the economy, while continuing to rebuild official reserves. The recent reframing of monetary policy to adopt a reserve money nominal anchor, backed by a phasing out of direct credit to government, holds out the prospect of ending financial repression. Directors emphasized the need to maintain low reserve money growth to allow for the early elimination of bank-by-bank credit ceilings. This should set the stage for monetization, financial deepening, and faster economic growth through increased mobilization of domestic savings and support for higher rates of investment.

Directors welcomed the authorities' commitment to adjusting the nominal exchange rate to preserve competitiveness. At the same time, they stressed that decisive structural reforms are critical for improving competitiveness and diversifying the economy. Unification of the official and parallel exchange markets would yield significant efficiency gains. Strengthening financial sector supervision and regulation, particularly in the context of an

expected monetization, is crucially important. In this regard, Directors considered that an FSAP would provide a useful guide. They also highlighted the need for creating more room for private sector activity that would leverage the growth impact of the large public investment outlays on infrastructure. Directors looked forward to Ethiopia's continued engagement with the Fund to assist the authorities in meeting their macroeconomic objectives over the medium term.