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October 8, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Ethiopia - Request for Arrangements Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is Ethiopia's request for arrangements under the structural adjustment facility. A draft decision appears on page 17.

This subject, together with the policy framework paper for Ethiopia (EBD/92/238, 10/6/92), is tentatively scheduled for discussion on Friday, October 30, 1992.

Mr. Heller (ext. 38353) or Ms. Calika (ext. 36948) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

ETHIOPIA

Request for Arrangements Under the Structural Adjustment Facility

Prepared by the African and Policy Development and Review Departments

(In consultation with the Fiscal, Legal, Monetary and Exchange Affairs, and Treasurer's Departments)

Approved by E. L. Bornemann and A. Basu

October 7, 1992

I. Introduction

Discussions on a three-year arrangement under the structural adjustment facility (SAF) and the first annual arrangement thereunder were initiated in Addis Ababa during the period May 23-June 6, 1992 and completed during August 25-September 5, 1992. The Ethiopian representatives included the Minister of Finance, Mr. Alemayehu Daba; the Governor of the National Bank of Ethiopia (NBE), Mr. Leykun Berhanu; the Minister of Planning and Economic Development, Dr. Duri Mohammed; several key economic advisers to the President; and other senior economic officials. 1/

In the attached letter dated September 12, 1992 (Appendix I), the Government of Ethiopia requests a three-year arrangement under the SAF in an amount equivalent to SDR 49.42 million (70 percent of quota), and the first annual arrangement thereunder, in an amount equivalent to SDR 14.12 million (20 percent of quota) (Appendix II, Table 1). The Ethiopian authorities have prepared, in close collaboration with the staffs of the Fund and the World Bank, a policy framework paper (PFP) that sets forth the Government's basic economic objectives for 1992/93-1994/95 (fiscal years beginning July 8) and the macroeconomic and structural adjustment policies designed to

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1/ The staff representatives during the May-June and August-September mission were Messrs. P.S. Heller (head), T.T. Gibson, M.C. Niebling, and M. Kitahara, and Ms. N. Calika (all AFR), together with Mr. P. Mathieu (PDR), and Ms. L.M. Knauseder and Ms. D. Heflin (assistants-ADM, AFR). World Bank staff also participated actively in these missions.

achieve these objectives (EBD/92/238). The PFP, which was transmitted to both the Managing Director of the Fund and the President of the World Bank on October 2, 1992, is scheduled to be considered by the Bank's Executive Directors at a meeting of the Committee of the Whole on October 23, 1992.

To help restart economic activity and rebuild essential social and physical infrastructure, on March 31, 1992 the World Bank approved SDR 104.9 million (US$150 million equivalent) under the Emergency Recovery and Reconstruction Project (ERRP) for Ethiopia. Together with cofinancing and the reallocation of existing IDA credits, the ERRP is expected to provide Ethiopia with some US$600 million over a 30-month period.

Summaries of Ethiopia's relations with the Fund and the World Bank Group and selected social and demographic indicators are provided in Appendices III through V, respectively.

II. Background and Economic Performance

1. Background, 1974/75-1990/91

Ethiopia's economic performance since the mid-1970s has been adversely affected by social and institutional transformations, centralization of economic management, suppression of market forces, environmental degradation and recurrent drought, deterioration in the terms of trade, unsettled domestic security conditions, and particularly in the late 1980s, a weakening of financial discipline. Real GDP growth averaged about 1.5 percent annually during the period 1974/75-1990/91, while the population grew by about 2.9 percent per annum. Gross domestic savings were low and with some growth in the ratios of gross fixed capital formation and public consumption to GDP, the resource gap widened.

Owing primarily to cautious fiscal and income policies as well as pervasive controls, the fiscal deficit, monetary expansion, and the rate of inflation were generally held to moderate levels from the mid-1970s to the mid-1980s. Mounting budgetary pressures, stemming from rising military expenditures and relatively high capital outlays, were contained through tax and other revenue measures, such as the drought and war levies and mandatory transfers to the Treasury of public enterprise surpluses. However, the peak revenue performance (over 30 percent of GDP) could not be sustained; the overall deficit and domestic bank financing rose sharply in 1989/90 and remained high in 1990/91 despite the suspension of defense and capital outlays near the end of the civil war. As a result--and despite continuing weak credit demand from nongovernment sectors--the rate of monetary growth almost doubled at the end of the decade, from the 9-10 percent range to about 18 percent. Inflation, which on an annual average basis had been held well below 9 percent a year, jumped to 21 percent in 1990/91 (45 percent, June-to-June), as partial price decontrol coincided with tightening supply and excess demand. 1/ Interest rates, which had been positive in real terms through the 1980s, became generally negative thereafter since no changes in interest rate level or structure were introduced after July 1986.

During this period, the external current account deficit was confined to about 4 percent of GDP annually (about 5 percent excluding official transfers), primarily through a growing reliance on exchange and trade restrictions. Exports stagnated, reflecting in part the increasingly overvalued exchange rate, and debt service payments rose. 2/ With the collapse of world coffee prices in mid-1989 and a reduction in aid inflows, official foreign exchange reserves were drawn down. During 1989/90, Ethiopia began to accumulate external payments arrears and its external current account deficit deteriorated through 1990/91. By end-June 1991 Ethiopia's stock of external debt amounted to SDR 6.4 billion, 127 percent of GDP, of which SDR 2.5 billion was economic and SDR 3.9 billion military; these figures include SDR 4.2 billion in credits from the former Soviet Union (FSU) (SDR 0.5 billion economic and SDR 3.6 billion military, with most of the debt mainly denominated in rubles and, for these estimates, valued at the mid-1991 official ruble exchange rate). 3/

2. Developments in 1991/92

The Transitional Government of Ethiopia (TGE) assumed power in July 1991. It immediately began the process of establishing a democratic political system, with free national elections to be held before end-1993. 4/ Regional boundaries have been redrawn to reflect linguistic majorities, and

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1/ Inflation is measured by the average Addis Ababa retail price index. The surge in early 1991 reflected the encirclement of the city late in the war.

2/ The birr was pegged to the U.S. dollar at Br 2.07 = US$1 in February 1973 (which at the time was set to maintain the SDR equivalence of the initial par value) and held fixed until September 30, 1992.

3/ The FSU provided Ethiopia with economic development loans (mainly goods), credits to public enterprises, commercial defense loans, and state (bilateral) defense credits. The commercial defense loans were denominated in U.S. dollars but all others were denominated in rubles and were to be repaid in most cases at "the rate of the State Bank of the U.S.S.R. as of the day preceding the day of payment." At the end of June 1991 total loans and credits from the FSU (including accumulation of interest arrears) valued at an official ruble rate equivalent to about rub 1 = SDR 1.293 amounted to SDR 4.163 billion. Of this total, ruble-denominated credits amounted to SDR 4.030 billion, and of this amount, state defense credits were SDR 3.497 billion (rub 2.7 billion). At a more recent market-related exchange rate for the ruble, the SDR and birr values of these ruble amounts would, of course, be substantially lower.

4/ In late May 1991, by mutual agreement between the ruling factions, a separate administration was established in Eritrea pending a referendum on secession scheduled for April 1993.

local and regional elections were held in most areas in mid-1992. Ethnic-based separatist pressures have continued, but thus far overt hostilities have been contained. On the economic side, the TGE adopted a policy document in November 1991 outlining steps to revitalize the economy and to create a conducive environment for future market-oriented development. The policy significantly limits the role of Government to selected industries and services and encourages private enterprise, investment, the mobilization of external resources, and reliance on sound macroeconomic management rather than detailed administrative control. Initial reforms, which are expected to endure beyond the transitional period, have included the adoption of a new investment code, and public enterprise and labor laws; the elimination of the centralized transport allocation system; and the upward revision of transport and road tariffs.

Economic activity deteriorated further in 1991/92 (Appendix II, Table 2). The effects of drought, unsettled domestic security conditions in some areas, the foreign exchange shortage, and the decline in public consumption arising from the demobilization of the previous regime's army of 750,000 troops caused real GDP to decline by more than 5 percent. Gross fixed investment continued to fall, but with an even greater erosion in domestic savings, the resource gap widened. Price increases decelerated sharply after the inflationary surge in the first half of 1991, leaving the average for 1991/92 up some 21 percent but the June-on-June increase at only 2 percent. Consumer prices have been increasingly market determined, given both the greater importance of free markets, and the dominant role of the illegal parallel exchange rate market as a source of much of the foreign exchange used to purchase franco valuta (own-foreign-exchange) imports. 1/

The fiscal deficit (including grants) fell by 3 percentage points, to 10.0 percent of GDP in 1991/92, even though most of the potential "peace dividend" was offset by further revenue shortfalls (Appendix II, Table 3). Revenues dropped to a little over 15 percent of GDP (half the past high), owing to the adverse effect of security conditions on tax collections, the sharp drop in industrial output, and the shift of economic activity to unofficial channels. Total expenditure fell below 29 percent of GDP, from 36 percent in the previous year, with the bulk of the decline attributable to defense outlays (cut by more than two thirds from their 1989/90 peak level). Bank financing of the deficit fell only slightly relative to GDP (to 8.1 percent of GDP), and accounted for 87 percent of total credit extended during the year (Appendix II, Table 4). The growth of broad money declined to 13 percent, from almost 19 percent in the previous year.

Official export earnings declined by a further 30 percent (Appendix II, Table 5), as coffee exports fell 38 percent in volume terms owing to smuggling, on-farm stockbuilding, and reduced harvesting. Imports through official channels, although still constrained by the scarcity of foreign

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1/ The exchange rate in the illegal parallel market fluctuated during the course of 1991/92 around Br 7 = US$1.

exchange, rose 4.5 percent, reflecting a more than doubling of franco valuta imports. The current account deficit (excluding official transfers) declined to 8 percent of GDP, from 9 percent in 1990/91. However, the overall balance of payments deficit more than doubled, to SDR 150 million, owing to stagnant official transfers and a net outflow of official and private capital. The deficit was financed through a further accumulation of external payments arrears (SDR 188 million). By end-June 1992, Ethiopia had accumulated a stock of external payments arrears amounting to SDR 500 million. Relative to exports of goods and nonfactor services, debt service obligations rose slightly to 81 percent, but actual cash payments amounted to only 16.3 percent.

III. Medium-Term Objectives and the Policy Framework for 1992/93-1994/95

1. Overall objectives

As outlined in the PFP, during 1992/93-1994/95 emphasis will be placed on removing cost-price distortions, improving incentives, promoting private enterprise and exports, and progressively liberalizing the economy. This will require a continued shifting of the Government's role in the economy from central control to the promotion of a market-oriented environment and the adoption of measures to mitigate the social costs of adjustment. The Government's economic and financial objectives are to attain, by 1994/95, a sustainable real GDP growth rate of about 5.5 percent; an inflation rate of no more than 7.0 percent; and an external current account deficit (including official transfers) of about 8.6 percent of GDP. The Government expects the improvement of current external earnings, in conjunction with prudent debt management and debt cancellation/rescheduling, to result by 1994/95 in a reduction in the debt service ratio, and with the remaining projected financing gaps being filled, a buildup of gross official reserves to about three months of imports.

The achievement of these objectives will require a market-oriented exchange rate as well as measures to reduce exchange and trade restrictions; a phasing out of the remaining price distortions by eliminating most official price controls and allowing a flexible administration of the remaining controlled prices; a reduction of the budget deficit through revenue measures and expenditure restraint and rationalization; and a monetary policy aimed at absorbing excess liquidity and containing inflationary pressures while supporting the growth of private sector activity. These financial measures are essential for the success of the structural and institutional measures cited in the PFP.

Key quantitative assumptions for the realization of the macroeconomic targets of the program include: (1) a recovery in coffee prices to an average of US$1.15 per pound during the period 1993/94-1994/95, compared with US$1.13 per pound realized in 1991/92 and US$1.00 per pound expected in 1992/93; (2) only moderate increases in import prices (averaging about 2.8 percent in SDR terms); (3) relatively large inflows of external assistance, averaging SDR 570 million a year, including SDR 187 million from new commitments by the World Bank and the African Development Bank (AfDB); and (4) substantial debt relief, as discussed in Section IV below. 1/

2. Macroeconomic and structural policies

One of the major aims of the program is to improve Ethiopia's international competitiveness and thereby induce export recovery and growth, encourage efficient import substitution, reverse capital flight, and attract remittances and private investment from overseas. Achievement of these objectives is predicated upon the adoption and maintenance of an appropriate level of the exchange rate throughout the program period. Other measures (as cited in paragraphs 27-30 of the PFP) will also be implemented to further diversify and promote exports and liberalize imports.

Fiscal policy will aim at meeting basic needs for public services and infrastructure, while eliminating inflationary domestic financing. The fundamental shift away from military to productive outlays that has already taken place will be maintained, while measures are taken to expand progressively the revenue base and adapt the revenue structure to the characteristics of a market economy. Because of exchange rate effects, increases in official prices and large foreign-financed reconstruction outlays, a considerable initial bulge in total expenditures and the overall deficit is inevitable; the latter is expected to increase from 10.0 percent of GDP in 1991/92 to 11.8 percent in 1992/93 (and from 13.2 percent to 23.3 percent excluding grants). A slight decline is foreseen for expenditure thereafter (to some 42 percent of GDP for 1994/95), while revenues rise to a stronger but sustainable level (22 percent), so that the deficit is reduced to 8.0 percent of GDP by 1994/95 (20 percent before grants). Revenue measures (prepared in part with Fund technical assistance) will aim to rationalize the existing tax structure, broaden the tax base, improve equity, enhance efficiency, and ensure adequate incentives for investors. The authorities also expect the restoration of security in the countryside and the devolution of authority to the regions to facilitate a strengthening of regional revenue collections. With the assistance of the World Bank, a thorough review of public expenditures will be conducted in the first year of the program and the public investment program will be streamlined during the second year.

Domestic bank financing of the deficit will be eliminated by 1994/95, so that monetary policy can ensure reasonable credit growth to meet the needs of the productive sectors while reducing domestic inflation and pressures on the balance of payments. To improve the mobilization and allocation of financial resources, interest rates have been substantially

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1/ The program assumes rescheduling based on enhanced concessional terms throughout the program period from Paris Club creditors and equivalent terms from other official bilateral creditors (with a cutoff date of end-June 1988).

liberalized, and key rates for both lenders and depositors will be adjusted regularly to ensure that they are kept positive in real terms throughout the program period. Institutional reforms will adapt the financial system to serve a competitive market-oriented economy, including enhanced autonomy for the central bank, improved banking supervision, financial restructuring of weak institutions, and the licensing of private banks.

Price liberalization will be accelerated during the program period by the formal removal of most price controls and a fostering of competitive markets. Public enterprises are being placed on a commercial competitive basis and their role is being reduced through rationalization and divestiture. The new investment and labor codes provide improved incentives and transparency for foreign and domestic investors. Agricultural policy will emphasize raising foreign exchange earnings through the further liberalization of the coffee trade and diversification into new markets for other exportable goods. Adequate food security will be sought through the development of rural institutions, improved access to credit, research and extension services, the liquidation and divestiture of state farms, investment in improved transportation and irrigation infrastructure. Security of land use has been strengthened and measures governing land tenure are being studied with due regard paid to historical precedents and the diversity of cultural practices throughout Ethiopia. In the transportation sector, the Government will eliminate restrictions on road transport, dismantle the monopolies of the parastatal transport enterprises, and introduce gradual privatization.

3. Social and environmental policies

More than half of Ethiopia's population of 52 million is categorized as suffering from chronic or transitory poverty. Improving the living standards of these people will require many years of labor-absorbing growth and improvements in basic social services. Moreover, the reform program may temporarily affect some of these and other groups negatively. Programs are being designed, with donor assistance, to alleviate the extremes of poverty as well as some of the costs of adjustment. Fully budgeted programs to mitigate the short-run social costs of adjustment include highly tapered public service pay adjustment designed to cover the increase in food costs induced by the recent exchange rate action, assistance to retrenched public sector employees, a food/kerosene cash voucher scheme targeted toward the poorest urban groups, and a pilot labor-based public works programs. Efforts in the social sector will seek to improve access to safe water and effective sanitation, liberalize the housing and construction markets, improve access to primary and secondary education, strengthen primary health care programs, and implement the National Population Policy. With respect to the environment, the Government intends to formulate and begin implementing a national strategy for conservation and management of natural resources, and to implement a National Disaster Preparedness strategy to deal with drought.

4. Balance of payments prospects

With the removal of cost-price and exchange distortions and the implementation of other structural measures, Ethiopia's export earnings are projected to rise steadily throughout the period. Coffee exports through official channels are projected to rebound to their 1990/91 level in 1992/93 and to their 1988/89 level by 1996/97 (Appendix II, Table 6). Other exports are projected to recover in 1992/93 and rise by an annual average of about 20 percent through 1996/97, reflecting strong growth from nontraditional exports--gold, textiles, beverages, and other manufactures. A strong increase is also projected in the net surplus in the services account, stemming mainly from growth in tourism and transportation earnings. Owing to the easing of demand suppression and a largely donor-financed rebuilding of the war-damaged infrastructure, imports are projected to jump by almost 24 percent in 1992/93 and increase by an average of 10.5 percent in 1993/94-1994/95. By 1996/97, however, import growth is projected to slow, reflecting a decline in relief- and reconstruction-related imports, while export growth would remain strong, leading to a progressive and sizable reduction in the current account deficit (before official transfers).

Large financing gaps are expected initially, but would gradually decline; external viability (entailing the elimination of recourse to exceptional financing) is foreseen during the period 1997/98-1999/2000 (see Section IV.1 below). The gaps through 1996/97 are anticipated to be covered by concessional assistance from multilateral creditors, in particular the World Bank and the AfDB, other bilateral assistance, and a possible stock of debt operation from Paris Club creditors in 1995/96 in conjunction with a rescheduling in late 1992 on terms incorporating enhanced concessions. The debt service ratio (scheduled basis) is expected to decline from 81 percent in 1991/92 to 51 percent in 1994/95, and to fall further (before debt relief), to 41 percent in 1996/97.

Ethiopia's medium-term balance of payments prospects are dependent on further improvements in domestic security, a progressive rehabilitation of the basic transport and port infrastructure, and normal rainfall. The country will continue to depend heavily on highly concessional external assistance for the balance of the decade, reflecting reconstruction needs and the time necessary for export-led recovery to be felt. Over the long term, Ethiopia appears to have considerable external earnings potential from nontraditional exports, including minerals and tourism, while its relatively large domestic market should provide some opportunity for efficient import-substitution activities by the private sector. It can also be expected that the recently approved new investment and labor codes as well as the liberalization of domestic and foreign trade will improve the investment climate and begin to attract foreign inflows, which could be sizable over the medium term. However, the country's external prospects will remain fragile and vulnerable, especially until a greater degree of export diversification can be achieved and financing gaps requiring exceptional financing, including debt relief, can be eliminated.

The medium-term balance of payments projections also assume adherence to the programmed adjustment effort and the earlier-cited underlying assumptions with respect to exports and external financing. If the recovery in coffee prices does not materialize as projected in the baseline scenario for 1993/94-1994/95 (Alternate Scenario I), the current account deficit (including official transfers) would remain above 10 percent of GDP before narrowing to 8.2 percent in 1996/97 (see Appendix II, Table 6). Similarly, if coffee export volumes recover only to about their 1990/91 level of 60,000 metric tons (Alternate Scenario II), the current account deficit would rise to about 11 percent of GDP, before falling to 8.5 percent in 1996/97. Moreover, if there is less debt relief than envisaged, then a substantial strengthening of the adjustment effort as well as additional concessional external financing would be required.

5. Capacity to repay the Fund

Until 1989/90, Ethiopia had an excellent record in remaining current on its external obligations. Even today, Ethiopia continues to service its debt to multilateral creditors on a timely basis. At present, Ethiopia has no outstanding Fund credit. Indicators of Ethiopia's capacity to repay the Fund show that under the program to be supported by SAF arrangements, peak debt service to the Fund will occur in 2000/01 at 15 percent of quota, or 1.0 percent of exports of goods and nonfactor services (about 2 percent of gross official reserves), while the total debt service ratio is projected to decline to 27.3 percent (Appendix II, Table 7). Under either alternative balance of payments scenario described above, debt service to the Fund would increase to no more than 1.2 percent of exports of goods and nonfactor services in 2000/01.

IV. The Program for 1992/93

In the context of the medium-term framework outlined in the PFP, the macroeconomic objectives for 1992/93 are to: (i) achieve a rate of real GDP growth of 6.5 percent; (ii) contain the rate of inflation at 24.2 percent, despite the exchange rate correction; (iii) limit the external current account deficit (including official transfers) to 4.1 percent of GDP (16.2 percent excluding official transfers); and (iv) increase gross official reserves to about 7.2 weeks of imports. To attain these objectives, as outlined in the Government's policy memorandum (Appendix I), the overvaluation of the official exchange rate has been substantially corrected and other appropriate external sector policies are being pursued, the overall fiscal deficit will be held to 11.8 percent of GDP (23.3 percent before grants), and the growth of broad money will be confined to 19.6 percent, compared with nominal GDP growth of 34 percent.

1. External sector

On September 30, 1992, the birr was devalued by 58.6 percent in foreign currency terms, to US$1 = Br 5.00. The new exchange rate applies to all foreign exchange transactions other than franco valuta imports, which are likely to continue to reflect the still illegal parallel market exchange rate. The appropriateness of the new official exchange rate for the birr will be closely monitored and assessed by the authorities and the Fund staff during the program period, with due regard paid to movements in relative prices and developments in the balance of payments. As outlined in Appendix I, additional export and import liberalization measures are being implemented. These include the automatic granting of export licenses and permits, the elimination of all noncoffee export taxes and all export subsidies from the time of exchange rate adjustment, the application of the export verification system on an ex post basis, and the automatic granting of licenses to importers (except for goods on a short negative list), even though exchange permits remain restricted.

The external current account deficit target of 16.2 percent of GDP (excluding official transfers) in 1992/93 appears to represent a significant deterioration from the 8 percent recorded in 1991/92. The widening, however, results in large part from the effect of the overvalued exchange rate on the 1991/92 ratio, 1/ as well as from a 24 percent increase in imports that primarily reflects donor-financed rehabilitation efforts connected with the ERRP (including cofinancing); the ERRP is expected to result in grant and loan disbursements amounting to SDR 112 million in 1992/93. On the other hand, exports are projected to rise 43 percent from the depressed level of 1991/92, reflecting a partial recovery of coffee export volumes (by 66 percent, to the 1990/91 level) and in the value of other exports (by 44 percent). The services account (excluding interest) is expected to improve further, owing to increased receipts from Ethiopian Airlines and other transportation services. Reflecting to a large extent the inflow of assistance under the ERRP, official transfers are expected to rise by almost 50 percent. The capital account is projected to shift into a surplus (of SDR 55 million), owing to ERRP-related assistance and new project financing.

The financing gaps for 1992/93 of SDR 667 million and for the program period (1992/93-1994/95) of SDR 1.265 billion (after identified financing) are expected to be covered in large part by debt relief from Paris Club and other official bilateral creditors (Appendix II, Tables 6 and 8). The authorities are requesting a debt rescheduling of current maturities and arrears on terms incorporating enhanced concessions from Paris Club creditors. They will also initiate bilateral discussions with non-Paris Club official creditors at an early stage seeking comparable treatment.

The balance of payments (as shown in Appendix II, Tables 6 and 8) includes all debt service to the FSU, except for the state defense debts described earlier in Section II. The authorities have taken the view that considering the purpose of these debts to the previous regime, the burden of

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1/ At the average exchange rate assumed for 1992/93 and a roughly corresponding domestic price level, the ratio in 1991/92 would have been some 15.1 percent.

these debts is extremely onerous. Taking account of the scheduled debt service on the state defense debt adds an estimated SDR 370 million per annum to Ethiopia's debt service (if calculated at an official exchange rate of rub 0.59 = US$1), and almost doubles the financing gaps and debt service ratios. This suggests that Ethiopia would require a comprehensive treatment of its debt to the former Soviet Union, going well beyond the concessions expected from Paris Club creditors, in order to achieve external viability over the medium term.

Any residual financing gaps (after expected debt relief), which are estimated to amount to SDR 14 million for 1992/93 and SDR 304 million for the program period, will be mobilized through additional bilateral and multilateral concessional assistance in the context of Consultative Group meetings, the first of which is scheduled for late 1992. 1/ The residual financing gap for 1992/93 is well within the concessional assistance that Ethiopia is expected to receive in the context of the forthcoming Consultative Group meeting.

The program also restricts new external borrowing on nonconcessional terms to only that relating to the normal fleet maintenance and renewal of Ethiopian Airlines and normal import-related short-term credits. Also, no new external arrears are to be accumulated beyond those accounted for in the program.

2. Fiscal policy

Although expenditures and the overall deficit before grants rise substantially in 1992/93, a substantial upturn is also expected in revenues (from 15.3 percent of GDP in 1991/92 to 19.8 percent in 1992/93). As grant and loan receipts rise sharply in volume and local currency value as well, the increase in the overall deficit after grants is to be contained (from 10.0 percent of GDP in 1991/92 to 11.8 percent) and recourse to domestic bank financing is to be reduced sharply (from 8 percent of GDP to 3 percent). The differential growth in the major budget aggregates reflects mainly the varying impact of exchange rate and domestic price changes (both official and free-market). For example, outlays on current materials and external interest are heavily affected by the exchange rate correction, as are most capital outlays.

Essentially one half of the tax revenue increase of 90 percent in the program projections is directly attributable to the effect of the exchange rate adjustment on tax receipts from imports and exports. The rest is attributable to official price rises as well as to increases in imports, production and sales, and exports, owing mainly to the ERRP. Domestic sales taxes (which are ad valorem) alone account for a third of the projected tax revenue increase, reflecting partial production/sales recoveries in most industries and the coming on stream of a new brewery and a new textile

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1/ See also Table 2 of the PFP for financing sources and requirements.

plant. Initial tax measures (see Appendix I, paragraph 10) are at best revenue-neutral in the short run, although longer-term effects are expected to be positive, through rationalization and improved compliance. 1/ In the meantime, the large inflows of counterpart funds to be generated from import support as well as other aid--all of which are directly affected by the exchange rate action--permit a sharp reduction in domestic bank financing in 1992/93. Measures are being taken in cooperation with donors (and with EC technical assistance) to ensure effective collection, monitoring, and allocation through the budget process, of the counterpart inflow (see Appendix I, paragraph 13). While shortfalls in project aid are automatically offset in expenditures, the authorities are establishing a unified ERRP counterpart fund to ensure that outlays to be financed from this source do not take place until the amounts are collected.

On the expenditure side, despite new outlays for the establishment of regional police forces, the authorities will continue to hold defense and security spending to the minimum necessary, so as to free resources permanently for economic and social development. Wage policy seeks to cushion the impact of adjustment, but only for essentials, so as to limit demand pressures and second-round effects. While recognizing the eventual need to decompress the public service pay structure, the authorities are limiting initial wage adjustments essentially to the amounts needed to cover the program-induced increases in household food costs (with an expected budget cost of Br 278 million for ten months). 2/ Full-year regularization of the former rebel army (which replaced the much larger one of the former regime in 1991), and regional devolution account for the bulk of the remaining anticipated rise in the wage bill. In addition to the wage adjustment, "safety net" measures in the budget to cushion the social effects of adjustment measures include provisions for compensation of laid-off public enterprise employees (Br 98 million), a targeted food/kerosene cash voucher scheme for the urban poorest (Br 170 million), and a pilot urban public works program (Br 10 million). Expenditure reviews to begin in late 1992 in cooperation with the World Bank are expected to lead to a further redefinition of priorities, including an increasing reorientation toward smallholder agriculture and community development, improved provisions for adequate operations and maintenance, and reliance on smaller-scale, labor-using activities to achieve more useful investment at less expense.

Throughout the program period, central government and regional budgets, together with counterpart operations, are to be consolidated for financial

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1/ Among these measures, on September 30, tax rates on personal income were reduced, with the highest marginal rate lowered from 85 percent to 50 percent.

2/ The measure approved on September 30, 1992 entails pay increases of Br 55 to Br 95 per month, representing a 110 percent increase of the lowest wage but only a 5 percent increase for the highest wage groups. At the same time, longstanding caps on increases at higher levels have been removed.

programming purposes. On this basis, net domestic bank credit expansion to Government is to be held to no more than Br 575 million (3.0 percent of GDP) in 1992/93, down from Br 1,115 million (8.1 percent of GDP) the year before.

3. Public enterprises

To expedite orderly and effective public enterprise reform, the Government has established a policy-level economic task force and a technical unit to oversee and implement rehabilitation, restructuring, and divestiture. Industrial subsector holding companies have been abolished to devolve management responsibility and restore competition to the factory level. The new public enterprise law places most public enterprises on a normal commercial basis. The new labor code allows enterprises the right to both hire and fire labor more freely.

4. Monetary and financial sector policies

With a view to containing any second-round price effects of adjustment and to reducing the current rate of inflation, credit policy will be geared to achieving a monetary growth rate well below that of nominal GDP. To this end, the expansion of net credit to the Government will be confined in 1992/93 to 6.4 percent of beginning broad money. On the other hand, to provide adequate financing of imports for the recovery under the ERRP and increased private investment, credit to the nongovernment sector will be allowed to expand by 34 percent. Broad money expansion of 19.6 percent in 1992/93 is viewed as sufficient to accommodate only the real recovery of the economy and part of the increase in transaction values resulting from the exchange rate adjustment and increases in official prices.

On September 30, the authorities announced that a new interest rate structure will go into effect shortly, which will eliminate discrimination in the rates with respect to ownership and sector, as well as raise deposit and lending rates. Exclusive of the effects of the price increases arising from the recent exchange rate adjustment, the new nominal interest rate structure should ensure positive real interest rates. Financial sector reform is also proceeding as outlined in Appendix I (paragraph 17).

5. Price adjustments

Concurrent with the recent exchange rate adjustment, the authorities announced several adjustments in administered prices. Specifically, energy prices have been increased by varying amounts (17 percent for gasoline, 22 percent for kerosene, 43 percent for liquified petroleum gas, and 63 percent for diesel). Taxi and bus fares have been increased in line with these increases. Public sector trading corporations have also increased prices for the major export crops (coffee, haricot beans, and sesame), which they procure in competition with the private sector.

6. Quantitative and structural benchmarks and monitoring of the program

The implementation of the program through June 1993 will be monitored with reference to the quantitative and structural benchmarks contained in Table 1 of Appendix I. In addition, the Government will not impose new or intensify existing restrictions on payments and transfers for current international transactions; will not impose new or intensify existing import restrictions for balance of payments purposes; and will not enter into new bilateral payments agreements that are inconsistent with Article VIII. Monitoring of program implementation will be carried out by a committee chaired by the Prime Minister and a technical committee.

V. Staff Appraisal

In mid-1991, the Transitional Government of Ethiopia (TGE) inherited an economy devastated by years of civil conflict, recurrent drought, and inappropriate policies. During its first year, the TGE took steps to introduce a democratic and decentralized political system, begin major structural reforms, and establish a consensus for its reoriented economic policy. The authorities have recently prepared a policy framework paper for 1992/93-1994/95 describing the policies that aim at accelerating the introduction of a market-based economy in order to increase growth and reduce poverty. The staff welcomes the macroeconomic and structural reforms that are being introduced to remove cost-price distortions, improve incentives, promote the role of the private sector, progressively liberalize the economy, and contain internal and external imbalances.

In line with this reorientation, the TGE has recently effected major policy changes including a substantial exchange rate correction, an easing of remaining constraints on exports, and an opening up of the licensing of importers. Prices, already largely freed de facto, have been liberalized on a de jure basis for most goods. Military spending has been slashed and other outlays are being contained. A system to manage counterpart generation is being put in place so as to reduce domestic bank financing of the deficit. Initial tax reform measures are being directed toward improving incentives and removing anomalies, and these measures should have a positive longer-term revenue effect. Interest rates are to be adjusted upward, and the new structure eliminates subsidies and discrimination with respect to ownership and sector. Steps to reform the institutional and legal framework have included the passage of an investment code, the adoption of a public enterprise law to permit the physical rehabilitation and restructuring of public enterprises, and the issuance of a labor code that gives management flexibility in hiring and firing. It is also important that the authorities move expeditiously to preclude further additions to public service rolls, release redundant employees, and carry out a thorough civil service reform. Regional devolution will need to be structured in a way that avoids any additional financial pressures.

An important aspect of the authorities' agenda has been the adoption of measures to cushion the impact of the adjustment program. These measures include the introduction of a food/kerosene voucher scheme, the provision of assistance to retrenched public sector employees, the tapered adjustment of public sector wages to compensate for increased food costs, and the initiation of a labor-based public works program. These measures demonstrate the authorities' concern for protecting the poor and building public support for the adjustment program, within the constraints of a sound macroeconomic policy.

The modern sector of the Ethiopian economy has long been dominated by public enterprises. A key and welcome feature of the reform program is the intention to reduce the role of the state in the economy, through the restructuring and privatization of public enterprises. The authorities' recent decision to grant more autonomy to the individual enterprises and to operate them on commercial lines is an encouraging first step. However, the key to success in this area lies in an accelerated pace of privatization, and efficient and expeditious progress on this undertaking is necessary.

The authorities are determined to implement tight fiscal and monetary policies during the program period. To this end, reduced budgetary recourse to bank credit will provide scope for providing adequate credit to the nongovernment sector while curbing the growth of the money supply. The policy of maintaining positive interest rates and liberalizing the structure of interest rates is strong testimony to the seriousness of the authorities' commitment to strengthening the role of market forces in the mobilization of financial savings and the allocation of capital. The authorities' intention to modernize the financial sector is important and technical assistance will be needed to support the formulation of an appropriate legislative underpinning, the introduction of new institutions, and the reform of existing institutions. Technical assistance will also be necessary to assist the authorities in their efforts to strengthen the tax and customs systems and, subsequently, budgeting and treasury functions.

The recent major adjustment of the exchange rate sends a forceful message of the strength of the authorities' resolve and should provide powerful incentives to return trade to official channels, increase the production of tradable goods, and repatriate capital. The balance of payments should also benefit from recent measures to improve the climate for foreign investors, as provided in the new investment and labor codes. The staff believes that the authorities should move swiftly to streamline procedures faced by prospective investors, both foreign and local. Given the uncertainties associated with correcting a long-standing large disequilibrium in the exchange rate, monitoring and assessment of the appropriateness of the new exchange rate will also be critical to ensure that external competitiveness is maintained over the period of the program and beyond.

In the years ahead, the authorities will face many challenges. The fragility and vulnerability of the country's external prospects have been underscored above. While the success of the new policy program rests ultimately with the authorities, substantial international assistance will also be necessary for its successful implementation. To this end, it is vital that the authorities' efforts to obtain debt rescheduling and forgiveness be fully supported by the international community. Assuming that such support will become available, the projected strengthening of Ethiopia's export performance, debt-servicing capacity, and external reserve position would enable Ethiopia to progress toward external viability and to maintain its excellent past repayment record vis-à-vis the Fund.

As is apparent from the heavy debt service burden, especially if the state defense debt is included, the debt to the former Soviet Union will require particularly comprehensive treatment going well beyond the terms from Paris Club creditors. This is especially true considering the exceptionally large stock of that debt (if valued at the former official exchange rate), and that no new aid flows from the former Soviet Union are expected to be forthcoming.

The medium-term balance of payments projections show large financing gaps throughout the program period and beyond. It is essential that these gaps be filled with concessional assistance to enable the economy to become viable through rehabilitation and export-led growth. Given the enormous recovery requirements, the prospective large needs of the private sector, and the importance of a comprehensive safety net, the authorities feel that in the next few years, there is a need for even more grants and loans than have been projected by the staff, and that a higher associated import bill could be productively absorbed. The staff recognizes that in the next few years, the demands for reconstruction will be great and that initial estimates of Ethiopia's absorptive capacity may be underestimated. This issue also underscores the importance of the scheduled review by the World Bank and the authorities of public expenditures and, in particular, of the public investment program. Moreover, if it should evolve that increased resources can be effectively absorbed, it is extremely important that they be secured on terms sufficiently concessional to avoid any debt service problems in the future.

The staff believes that the policies outlined in the authorities' memorandum of economic and financial policies, if implemented fully and reinforced by additional measures when necessary, are adequate to achieve the Government's objectives. Accordingly, the staff recommends Executive Board approval of Ethiopia's request for a three-year structural adjustment arrangement under the SAF, and the first annual arrangement thereunder.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Government of Ethiopia has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility.

2. The Fund notes the policy framework paper for Ethiopia (EBD/92/238).

3. The Fund approves the arrangements set forth in EBS/92/160.

Ethiopia: Three-Year and First Annual Arrangements Under the Structural Adjustment Facility

Attached hereto is a letter dated September 12, 1992 with an annexed memorandum on economic and financial policies from the Minister of Finance and the Governor of the National Bank, requesting from the Fund a three-year structural adjustment arrangement and the first annual arrangement thereunder, and setting forth:

(i) the objectives and policies of the program to be supported by the three-year arrangement; and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the administration of the Structural Adjustment Facility.

1. For a period of three years from   1992, Ethiopia will have the right to obtain three successive loans from the Fund under the structural adjustment facility in a total amount equivalent to SDR 49.42 million.

2. The first loan, in an amount equivalent to SDR 14.12 million, is available for disbursement at the request of Ethiopia.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Ethiopia. The amount of the second loan will be equivalent to SDR 21.18 million, and the amount of the third loan will be equivalent to SDR 14.12 million.

4. Before approving the second annual arrangement, the Fund will appraise the progress of Ethiopia in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

a. the benchmarks specified in Table 1 annexed to the memorandum on economic and financial policies;

b. imposition of restrictions on payments and transfers for current international transactions;

c. introduction of multiple currency practices;

d. conclusion of bilateral payments agreements which are inconsistent with Article VIII; and

e. Imposition or intensification of import restrictions for balance of payments reasons.

6. In accordance with the fourth paragraph of the attached letter, Ethiopia will provide the Fund with such information as the Fund requests in connection with the progress of Ethiopia in implementing the policies and reaching the objectives supported by the first annual arrangement.

7. In accordance with the third paragraph of the attached letter, Ethiopia will consult with the Managing Director on the adoption of any measures which may be appropriate, at the initiative of the Government or whenever the Managing Director requests consultation because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Ethiopia or of representatives of Ethiopia to the Fund.

Addis Ababa, September 12, 1992

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

The attached memorandum on the economic and financial policies of Ethiopia sets out the objectives and measures that the Government of Ethiopia intends to pursue and implement during the three-year period 1992/93-1994/95, and the objectives and policies for the first annual program covering fiscal year 1992/93. This program was formulated in conformity with the policy framework paper, which was prepared in close collaboration with the staffs of the Fund and the World Bank, and which was sent to you today.

In support of these objectives and policies, the Government of Ethiopia hereby requests a three-year arrangement under the structural adjustment facility in an amount equivalent to SDR 49.4 million, of which SDR 14.1 million would be for the first year. The Government will also be requesting support from the World Bank and from bilateral and multilateral donors and creditors, especially in the context of the Special Program of Assistance.

The Government believes that the policies set forth in the attached memorandum are adequate to achieve the program's objectives, but will take any further measures that may prove necessary for this purpose. The Government of Ethiopia will consult with the Managing Director on the adoption of any measures that might affect the program, either at the initiative of the Government of Ethiopia or at the request of the Managing Director.

The Government of Ethiopia will provide the Fund with such information as the Fund requests to monitor Ethiopia's progress in implementing the economic and financial policies and achieving the objectives of the program.

Sincerely yours,

Leykun Berhanu
Governor
National Bank of Ethiopia

Alemayehu Daba
Minister
of
Finance

Attachments

Memorandum of Economic and Financial
Policies of the Government of Ethiopia
for the Period 1992/93-1994/95

1. Ethiopia's economic performance over the past decade and a half has reflected the impact of environmental degradation, recurrent drought, adverse shifts in the terms of trade, inappropriate economic and financial policies, regional conflicts, and civil war. The Transitional Government of Ethiopia (TGE)--established in mid-1991 following the collapse of the regime that assumed power after 1974--aims to establish both a democratic political system and a market-oriented economy to replace the former authoritarian system of central planning and control. In line with this orientation, in late 1991 the TGE adopted an economic policy framework that sought to revitalize the economy and create a conducive environment for rapid economic development. The intention is to limit the role of the state to selected economic and social services, encourage private investment, mobilize external resources, and pursue sound macroeconomic policies. To facilitate the implementation of these reforms, the TGE has elaborated a structural adjustment program, as reflected in a policy framework paper (PFP). The following two paragraphs summarize the overall objectives and policies of the program outlined in the PFP and describe in further detail the adjustment program to be implemented in 1992/93 (fiscal year ending July 7, 1993).

2. As noted in the PFP, the TGE's economic and financial objectives for 1992/93-1994/95 are to effect a rapid initial recovery and attain an annual average rate of growth of real GDP of about 5.8 percent (about 9 percent per capita over the period); to reduce the rate of inflation, as measured by the retail price index of Addis Ababa on an average annual basis, from about 21 percent in 1991/92 to 7 percent by 1994/95; limit the rise in the external current account deficit (including official transfers) from 4.1 percent of GDP in 1992/93 to 10.1 percent in 1993/94, with a subsequent decline to 8.6 percent in 1994/95; build up gross official reserves to over three months of imports by end-1994/95; and reduce the debt service ratio from 80.9 percent 1/ in 1991/92 to 28.5 percent in 1994/95 of exports of goods and services (after debt relief). The realization of these targets will entail (i) moving swiftly to adjust the exchange rate to a market-oriented level, along with measures to reduce trade and exchange restrictions; (ii) phasing out the remaining price distortions by eliminating most official price controls and allowing a flexible administration of the remaining controlled prices; (iii) reducing the budget deficit through revenue measures that broaden the tax base and improve the elasticity of the tax system as well as through expenditure restraint and rationalization (by tight control of the wage bill, military outlays, and subsidies, as well as by the prioritization of capital expenditure); and

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1/ Excludes state defense debt to the former Soviet Union of approximately rub 2.8 billion (which gave rise to scheduled debt service in 1991/92 of approximately rub 315 million).

(iv) conducting a tight monetary policy, with the aim of absorbing excess liquidity, containing inflationary pressures, and supporting the expansion of private productive activity. These measures will be essential for the success not only of the structural and institutional reforms envisaged for public enterprises, but also of the measures addressing health and education, population growth, the environment, and the needs of the war-affected populations. In view of the likelihood of a widening external financial gap, even after debt relief has been secured, Ethiopia's external prospects must be considered as fragile and requiring considerable concessional assistance.

3. The macroeconomic targets of the reform program for 1992/93-1994/95 are contingent on the following principal assumptions: (i) an increase in the volume of coffee exports through official channels from an average of 61,000 metric tons (MT) during 1989/90-1991/92 to an average of 76,700 MT during 1992/93-1994/95; (ii) an average unit value of coffee exports of US$1.10 per pound during the period 1992/93-1994/95 compared with US$1.13 per pound realized in 1991/92; (iii) an annual increase in import prices averaging about 2.8 percent in SDR terms during 1992/93-1994-95; (iv) disbursements of official grants and long-term loans averaging SDR 570 million a year during 1992/93-1994/95, including a total of SDR 187 million from new commitments over the period by the World Bank and the African Development Bank (AfDB); and (v) debt relief (Paris Club rescheduling, and other bilateral rescheduling and debt cancellation) amounting to an estimated SDR 960 million (including arrears reduction).

The Program for 1992/93 (July 8, 1992-July 7, 1993)

4. In 1992/93, the realization of the overall objectives of the program will entail an increase in real GDP of about 6.5 percent, compared with a decline of 5.2 percent in 1991/92, and a significant strengthening of the external position. The latter will include a sharp recovery in the volume of exports through official channels; an increase in gross official reserves to about 7.2 weeks of imports, from 4.1 weeks at the end of 1991/92 (excluding presently blocked Stabex funds); and a reduction of the outstanding stock of external payments arrears by cash payments, rescheduling, and debt relief by SDR 527 million in the context of a Paris Club rescheduling and bilateral debt renegotiations. As a consequence of the need for a sharp adjustment in the exchange rate at the outset of the program, and for its full pass-through to the remaining controlled official retail prices, a brief initial surge in the recorded inflation rate is anticipated, but its extent will be dampened by the fact that a large number of consumer prices already reflect a depreciated parallel market rate; second-round effects will be contained by tight financial and incomes policies. The average price rise (as measured by the Addis Ababa retail price index) is projected to be slightly more than in 1991/92, but by midyear, the monthly rate is targeted to fall well below 1 percent.

External sector policies

5. The aim of external policies during 1992/93 will be to remove cost price distortions, encourage exports and efficient import substitution, liberalize the trade and exchange regimes, regularize relations with creditors, and reduce the debt service ratio and attract foreign investment. An appropriate level of the official exchange rate is a key element for the success of the program in order to reduce smuggling, restore Ethiopia's external and domestic competitiveness, eliminate export subsidies, enhance customs revenues, and encourage capital repatriation. Until recently, the birr was sharply overvalued, owing primarily to inflation stemming from supply shortages and overly expansionary financial policies in recent years. In order to eliminate the overvaluation, effective September 30, 1992, the official rate was adjusted to Br 5.0 per US$1. This represents an adjustment of 59 percent in foreign currency terms and applies to all official foreign exchange transactions. The new exchange rate for the birr will be closely monitored and assessed during the program period, with due regard paid to movements in relative prices and developments in the balance of payments. Private imports financed from unofficial sources of foreign exchange will continue to be allowed under the parallel market exchange rate.

6. To further promote and diversify exports, directives have been issued by the Ministry of Trade and the National Bank of Ethiopia (NBE) allowing for the automatic granting of export licenses and permits. By early 1993, all noncoffee export taxes and all export subsidies will be eliminated and the export verification system will be applied ex post. In addition, during the course of 1992/93, the duty drawback system will be streamlined and widened in scope to include supplies of intermediate inputs to exporters. On the import side, legislation providing for automatic nondiscriminatory and transparent granting of business licenses for importers has recently been issued. Import trade licenses are automatically granted for all goods except those specified in a short negative list. With a view to rationalizing rates of effective protection, by March 31, 1993 the TGE will revise the tariff structure by reducing the highest rates, increasing the lowest rates (replacing the zero rate with a minimum rate of 5 percent), and substantially reducing the number of tariff bands and the extent of import-duty exemptions. Import surcharges were eliminated in tandem with the introduction of the new exchange rate for the birr. Work will continue with World Bank technical assistance to ensure a rationalization of the rates of effective protection by end-1993/94. These reforms--along with the pursuit of appropriate monetary, fiscal, and exchange rate policies and the programmed structural reforms--are expected to promote foreign and domestic private investment. To enhance external investment flows, a new Investment Code was promulgated in mid-1992.

7. To deal with Ethiopia's high debt service ratio, and the external payments arrears that have accumulated since 1989/90, the Government is making its best efforts to regularize financial relations with creditors. In particular, the Government is taking definitive steps to obtain debt relief from Paris Club and other bilateral official creditors at an early

stage. In this regard, the Government is actively seeking to begin discussions on debt relief with Russia, the other states of the former U.S.S.R., and non-Paris Club official bilateral creditors. During the program period, the Government will avoid the contracting and guaranteeing of nonconcessional public sector external borrowing with maturities up to 12 years, except for normal short-term (less than one year) import financing. The normal longer-term financing operations (for fleet renewal and maintenance) of Ethiopian Airlines will not be included in the foreign financing ceiling in view of its high credit rating, its access to nonconcessional finance, and the Government's policy of not interfering in its operations. No additional external payments arrears will be accumulated and existing arrears will be completely eliminated by the end of the program period.

8. The balance of payments projections for 1992/93 indicate a large financing need of SDR 667 million, which is expected to be filled in part through anticipated disbursements from the World Bank, the AfDB, and bilateral financial assistance. The remaining gap could be filled through debt relief from Paris Club and other bilateral official creditors. A Consultative Group meeting is anticipated for the last quarter of 1992.

Fiscal policy

9. Fiscal policy is being reoriented to meet basic needs for public services and infrastructure while eliminating inflationary domestic financing. Over the three-year program period, the Central Government's overall fiscal deficit (on a cash basis) before grants will be reduced from 23.3 percent of GDP in 1992/93 to 20 percent in 1994/95, and after grants, from 11.8 percent of GDP to 8 percent, respectively. The first year of the program will witness a rise in the deficit (especially before grants) relative to 1991/92, reflecting the effects of exchange rate correction and large rehabilitation outlays, financed by correspondingly enlarged external grant and loan inflows. Given the projected foreign financing and the envisaged debt rescheduling, domestic bank financing of the deficit will be confined to Br 575 million (3.0 percent of GDP and 6.4 percent of beginning broad money stock) as indicated in attached Table 1, substantially less than in 1991/92 (Br 1,159 million, or 8.1 percent of GDP). If the anticipated foreign financing and rescheduling proves less than envisaged, the programmed domestic bank financing of the deficit will not be increased; instead, additional revenue measures and/or expenditure cuts will be introduced before end-1992; given the importance of high growth in the Ethiopian economy, this underscores the importance of realizing the programmed level of external assistance. On the other hand, should non-project external financing/rescheduling exceed program projections, domestic financing will be reduced commensurately.

10. During 1992/93, efforts will be made, with the assistance of an IMF/UNDP project, to rationalize the existing tax and customs duties structure and increase revenue, broaden the tax base, improve equity, enhance efficiency, and ensure adequate incentives for investors. In particular, by December 31, 1992 new revenue measures will include (i) for

the personal income tax, an increase in the minimum monthly taxable income to Br 100, a reduction in the number of brackets and a reduction in the highest marginal personal income tax rate from 89 percent to 50 percent; (ii) for business taxes, the tax on corporate profits will remain unchanged at 50 percent, but a dividends policy for public enterprises will be adopted by their Boards, replacing profit transfers; (iii) for the sales tax, the uniform application of a 12 percent rate, including on imports; (iv) for imports, a substantial reduction in exemptions from import duties and sales tax, the elimination of the zero sales tax rate on imports, the institution of a minimum 5 percent customs duty rate, and a streamlining of the tariff structure, including an offset for the reduction in the sales tax rate on imports from 24 percent to 12 percent; and (v) for exports, the elimination of export taxes on all commodities but coffee. The benefits from these changes will be enhanced by a major strengthening of the tax and customs administrations. In 1992/93, this effort will include major improvements in conditions of service; restructuring of the Inland Revenue and Customs Administrations; alleviation of warehousing bottlenecks; measures to reduce tax fraud; computerization; and a crash training program. These measures, along with the adjustment of the exchange rate and the effects of economic recovery, are expected to raise the revenue/GDP ratio from 15.3 percent in 1991/92 to 19.8 percent in 1992/93.

11. Recurrent expenditure in 1992/93 is expected to be about 27 percent of GDP. Reflecting the sharp past deterioration in funding for economic and social services, there are enhanced allocations for the operation and maintenance of existing programs and government infrastructure. With donor assistance, the Government is also attempting to address the problems arising from the political upheaval and drought of recent years. The expenditure estimates in the program reflect some adjustment in civil service wages to offset the impact of devaluation on the cost of foodstuffs and essentials, the elimination of the coffee and across-the-board wheat subsidies (the latter through the Agricultural Marketing Corporation (AMC)), and the introduction of a limited and targeted safety net scheme (costing no more than Br 278 million) to cushion the impact of adjustment measures on certain groups of the poor (see para. 19). Expenditure policy will seek to continue to curtail outlays with little economic or social benefit while increasing the efficiency of the public service. Defense appropriations have been slashed by more than two thirds in real terms from recent levels. Outlays on general government (inclusive of defense and security), which reached nearly 62 percent of the current budget in 1989/90, were reduced to some 26 percent in 1991/92. Some increase in such outlays will be required in 1992/93 to support the establishment of the new regional administrations and police forces. However, the Government intends to prevent further real increases in outlays on general government in subsequent years of the program. Personnel policies will need to be carefully evaluated; during 1992/93, a large number of civil servants will be reassigned to the regions to take up their responsibilities under the TGE's policy of devolution. Thereafter, in 1993/94, a public service census will be conducted so as to lay the basis for rationalizing the size and structure of civil service employment. A review of civil service salaries will also be carried out aimed at introducing in the 1994/95 budget a revised pay structure to better

reward productivity. Also effective July 8, 1993, the Government's automatic hiring of graduates will be discontinued.

12. Capital expenditure in 1992/93 has been limited, after prioritization and streamlining, largely to ongoing projects for which external financing is fully secured, to labor-intensive public works, recovery and rehabilitation projects, and to complementary local currency costs borne by the Treasury. For the purpose of formulating the 1993/94 budget, by May 31, the Government will prepare, with the assistance of the World Bank and other donors, the first round of an ongoing public expenditure review, with emphasis on appraising the composition and efficiency of the recurrent budget, streamlining the public investment program, and incorporating the operations and maintenance implications of the capital budget. By July 7, 1993 the Government will adopt, within the framework of the national development strategy, a three-year rolling public investment program.

13. The Government anticipates that in the course of 1992/93, substantial counterpart funds will be generated from the sale of commodities imported under the Emergency Recovery and Reconstruction Project (ERRP) and some other programs; the fiscal program for 1992/93 is inclusive of all such projected counterpart receipts. To facilitate the efficient and coordinated use of these funds, by December 31, 1992, the Government will have centralized its management and monitoring of their receipt and use in the Ministry of Finance; the timely allocation of all counterpart funds will be strictly enforced and monitored, and once received, their allocation will be transparently included in the budget process. The Government will invite all involved donors to conclude a standard agreement to ensure a common approach to the use, management, and monitoring of counterpart funds so as to ensure that counterpart funds are utilized in a manner consistent with the Government's economic and social policy objectives, and taking account of the conclusions that emerge from the public expenditure review. In addition to key economic and social programs funded under the recurrent and capital budgets, budgeted counterpart funds will also be used to finance parts of a safety net program, the costs of public enterprise restructuring, and reform of the tax system to further economic growth. The amount of counterpart deposits to be spent will also take account of the need to ensure compliance with the overall ceilings on net bank credit to the Government and net domestic assets of the banking system associated with the stabilization program.

14. Following elections in June 1992, new regional administrations are in the process of being established. These regions will eventually be given considerable fiscal autonomy, including the devolution of some tax and expenditure authority from the Central Government. Time will be needed to design a balanced, equitable, and efficient process of fiscal devolution. For financial programming purposes, in 1992/93 the budgets of the Central Government and the regions will remain consolidated, with the Central Government retaining control over total government borrowing from the banking system. Thereafter, a national financial plan will integrate all federal levels. In designing the new system in the course of 1992/93, the Government will seek technical assistance to benefit from international

experience with federal systems, and will ensure that any system adopted allows for adequate central control and discipline over the domestic borrowing authority of the regions.

Public enterprise reform

15. The Government is committed to undertaking an orderly and effective reform of the public enterprise sector as outlined in the PFP. This entails the establishment of an economic reform task force to finalize the Government's overall policy in this area and to oversee the reform and divestiture process; a technical unit has simultaneously been established to plan and implement rehabilitation, restructuring, and divestiture measures. The new public enterprise law provides for the operation of most state enterprises as commercial entities under regular company law. Moreover, during 1992/93, privatization and liquidation of certain enterprises for which preliminary studies have already been completed or are not needed, will commence. By end-December 1992, some enterprises--including hotels, state farms, some retail outlets, and manufacturing industries--will be put up for sale and all remaining public enterprises will be classified according to whether they are to be retained in the public sector, rehabilitated and privatized, directly privatized, or closed. The Government will also formulate, by end-1992, a program to mitigate the social impact of public enterprise reform, possibly through the provision of severance payments and accrued pension benefits to retrenched workers.

Monetary and financial sector policies

16. The objective of monetary policy in 1992/93 will be to contain any second-round impact of price and exchange rate adjustments and thereafter reduce the current high rate of inflation. High priority will be accorded to bank financing for the productive sectors, and limits placed on credit expansion to the Government. The credit targets will be as indicated in Table 1. These benchmarks are consistent with an increase in broad money of about 20 percent in 1992/93, sufficient to accommodate only the real recovery of the economy and part of the increase in transaction values resulting from devaluation and increases in prices; that is, the overhang of excess domestic liquidity will be reduced. A new, more market-oriented structure of interest rates has been adopted. The minimum interest rate on time and savings deposits has been raised to 10 percent and the maximum lending rate to 24 percent. Subsidies and discrimination in the rates with respect to ownership and sector will be eliminated and lending rates will henceforth reflect risk. The Treasury bill rate has been raised to 12 percent. The NBE will monitor interest rates for both depositors and lenders through periodic quarterly reviews, maintaining them positive in real terms relative to the expected rate of inflation, as measured in terms of recent and prospective inflation (the latter excluding the initial price adjustment anticipated as a result of the devaluation of the birr).

17. Reform of the financial system will also begin in 1992/93, taking into account the measures recommended by recent IMF and World Bank technical assistance missions. Although credit allocation through administrative

means will continue in the course of 1992/93, indirect instruments of monetary control will begin to be developed and strengthened in consultation with the IMF. Moreover, legislation pertaining to the NBE and financial institutions (providing increased autonomy for both, an enhanced supervisory capacity for the NBE, and the legal authority for the establishment of domestic private banks and insurance companies) will be enacted by December 31, 1992. Following the auditing of the Agricultural and Industrial Development Bank (AIDB), its balance sheet will be restructured through the use of a debt swap of Treasury bonds for the nonperforming debts of the state farms by March 31, 1993; a debt unit will be established, possibly within the NBE, to pursue the collection of these debts.

Pricing and other structural measures

18. In tandem with the recent adjustment of the exchange rate, prices of goods and services that are or can become competitive over the short term (i.e., other than those of monopolistic public enterprises and a few essential goods) have been liberalized on a de jure basis; a list of remaining price-controlled items has been issued. At the same time, prices of monopoly goods will be adjusted to ensure cost recovery and encourage efficiency; public utility tariffs are being set on the basis of opportunity costs, taking into account the ability to pay of the poorest segments of the population; and the Ethiopian Domestic Distribution Corporation's (EDDC) monopoly role will be eliminated. Moreover, to encourage private sector participation in trade, in 1992/93 the restructuring of the AMC will commence, and the private sector has been allowed to participate in both the wholesale as well as the retail trade. The new Labor Code has also been enacted, providing for the right of employers to hire and terminate employment, compatible with norms of the International Labor Organization.

19. The Government is acutely conscious of the extreme poverty experienced by at least half of the population. It recognizes that economic growth, particularly if it increases the participation and productivity of the poor, is ultimately the most efficient and powerful engine for raising real per capita incomes and reducing the extent of poverty. Therefore, in formulating economic and social policy measures, consideration of the impact and opportunities offered for the poor will be essential. The Government also intends to provide targeted assistance to the poor who are the most vulnerable to the adjustment measures. Working with the World Bank and other donors, it intends to move quickly to design and put these measures in place, the cost of which will be compatible with the overall fiscal program targets. Such measures will also be designed to minimize the leakage of benefits to the nonpoor, limit the administrative costs of implementation, and include a substantial element of work in return for assistance. Rural labor-intensive public works programs, though considered vital to the economic policies being initiated as well as to a safety net program, have not been adequately budgeted for in 1992/93, owing to a lack of funds. It is hoped that foreign assistance will be forthcoming for such purposes in the future.

20. Other structural reforms will be implemented in 1992/93 as outlined in the PFP.

Program monitoring and implementation

21. The Government has established a steering committee, chaired by the President, to oversee the implementation of this economic reform package. An economic reform task force to follow up implementation has been established and is chaired by the Prime Minister. A technical committee will meet monthly to review progress in policy implementation and, if necessary, to recommend remedial actions that may be needed to address slippages and delays. The Government will keep the IMF regularly informed on key aggregate economic variables and structural policy actions so as to facilitate the monitoring of developments under the program. To facilitate further cooperation with the IMF, the authorities have agreed to an IMF Resident Representative being posted in Addis Ababa.

Benchmarks

22. Quantitative and structural benchmarks, for the purpose of monitoring the program supported by a first annual arrangement under the structural adjustment facility, are set out in Table 1.

Table 1. Ethiopia: Quantitative and Structural Benchmarks for the First Annual Arrangement Under the Structural Adjustment Facility, 1992/93

	1992			1993	
	June Est. Stock	Sept. Est.	Dec.	March	June
		Program			
		(In millions of birr)			
A. Quantitative benchmarks					
Net domestic assets of the banking system 1/	8,585.1	-449.8	-249.4	36.4	643.1
Net credit to Central Government 1/ 2/	7,033.6	65.0	165.0	275.0	575.0
		(In millions of SDRs)			
External payments arrears 1/	500.4	61.9	-43.5	-8.5	-527.2
New nonconcessional external borrowing contracted or guaranteed by the public sector:					
1-5 year maturity 3/	--	--	--	--	--
5-12 year maturity 3/	--	--	--	--	--
Less than 1 year maturity (other than import-related)	--	--	--	--	--
Minimum official international reserves 4/	192.7 5/	...	210.0	230.0	260.6
B. Structural benchmarks	Target Dates				
Completion of public expenditure review	May 31, 1993				
Issuance of banking reform legislation	December 31, 1992				
Development and beginning of implementation of a program to rationalize customs tariffs as agreed with World Bank	March 31, 1993				
Introduction of tax reform measures	December 31, 1992				
Restructuring AIDB	March 31, 1993				
Centralization of counterpart management	December 31, 1992				

1/ Cumulative change from outstanding stock at end-June 1992 valued at an exchange rate of US$1.4175 = SDR 1.

2/ As measured by the National Bank of Ethiopia. If external nonproject financing/rescheduling is more than projected, net credit to the Government will be reduced accordingly.

3/ Excluding normal longer-term financing operations of Ethiopian Airlines.

4/ National Bank of Ethiopia and Commercial Bank of Ethiopia. Gross international reserves less liabilities to the Fund valued at US$1.4175 = SDR 1.

5/ Excluding blocked Stabex funds.

Table 1. Ethiopia: Projected Payments to the Fund as of August 31, 1992

(In millions of SDRs)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Remaining Period	Total
Obligations from existing drawings												
1. Principal	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	0.2	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	--	6.5
Total obligations	0.2	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	--	6.5
(percent of quota)	0.2	0.9	0.9	0.9	1.0	0.9	0.9	0.9	1.0	0.9	--	9.2
Obligations from prospective drawings												
1. Principal SAF repayments	--	--	--	--	--	--	2.8	7.1	9.9	9.9	19.8	49.4
2. Charges and interest 1/	--	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	1.9
Total obligations	--	0.1	0.2	0.2	0.2	0.2	3.1	7.3	10.1	10.0	19.9	51.3
(percent of quota)	--	0.1	0.2	0.3	0.3	0.3	4.3	10.3	14.2	14.1	28.1	72.7
Cumulative (existing and prospective)												
1. Principal SAF repayments	--	--	--	--	--	--	2.8	7.1	9.9	9.9	19.8	49.4
2. Charges and interest 1/	0.2	0.8	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.1	8.4
Total obligations	0.2	0.8	0.9	1.0	1.0	1.0	3.8	8.0	10.8	10.7	19.9	57.9
(percent of quota)	0.2	1.1	1.2	1.3	1.3	1.3	5.3	11.3	15.2	15.1	28.1	81.9

Source: Treasurer's Department.

1/ Projections are based on current rates of charge, including burden-sharing adjustments where applicable, for purchases in the GRA; and on current interest rates for SAF, ESAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

Table 2. Ethiopia: Selected Economic and Financial Indicators, 1989/90-1994/95

(Fiscal year ending July 7)

	1989/90	1990/91	1991/92 Prov.	1992/93	1993/94 Projections	1994/95
			(Annual percent change, unless otherwise specified)			
National income and prices						
GDP at constant prices	-1.5	-0.3	-5.2	6.5	5.5	5.5
GDP deflator	2.4	10.7	10.1	26.1	10.6	4.8
Consumer prices 1/	5.2	20.9	21.0	24.2	10.0	7.0
External sector (on the basis of SDRs)						
Exports, f.o.b.	-16.7	-29.6	-29.9	42.9	43.7	19.1
Coffee	(-34.6)	(-38.3)	(-29.9)	(41.5)	(49.1)	(25.5)
Noncoffee	(21.7)	(-19.6)	(-30.1)	(44.3)	(39.1)	(13.1)
Imports, c.i.f.	-2.1	-2.9	4.5	23.7	15.5	5.6
Export volume	-5.4	-25.2	-33.4	56.6	34.5	8.7
Import volume	-8.1	-0.9	0.2	21.3	12.6	2.6
Terms of trade (deterioration -)	-17.0	-12.2	-6.1	...	...	...
Nominal effective exchange rate (depreciation -)	24.1	9.3	17.8	...	...	...
Real effective exchange rate (depreciation -)	-1.4	7.6	19.4	...	...	...
Government budget						
Revenue (excluding grants)	-20.6	-12.7	-19.5	74.5	22.4	16.9
Total expenditure	-3.0	-11.7	-18.1	103.4	15.6	8.8
Money and credit 2/						
Domestic credit	20.7	14.3	14.7	18.3	10.4	4.8
Credit to Government	(20.1)	(14.9)	(12.8)	(6.4)	(3.3)	(--)
Money and quasi-money	17.6	18.6	13.3	19.6	15.9	11.0
Interest rate						
Savings deposit (minimum)	2.0	2.0	2.0	10.0	...	...
Lending rate (maximum)	10.0	10.0	10.0	24.0	...	...
			(In percent of GDP)			
Government budget						
Revenue (excluding grants)	24.9	19.8	15.3	19.8	20.8	22.0
Total expenditure	45.2	36.3	28.5	43.1	42.7	42.0
Overall fiscal deficit (-) 3/						
Including grants	-16.5	-13.0	-10.0	-11.8	-10.0	-8.0
Excluding grants	-20.3	-16.5	-13.2	-23.3	-21.9	-20.0
Foreign financing	5.5	3.2	1.7	8.8	8.4	8.0
Domestic financing	11.1	9.8	8.3	3.0	1.6	--
External current account deficit (-)						
Including public transfers	-4.0	-3.4	-2.9	-4.1	-10.1	-8.6
Excluding public transfers	-6.7	-8.9	-8.0	-16.2	-21.1	-20.9
External debt (including outstanding Fund credit) 4/	60.4	57.6	58.7	...	...	...
Debt service ratio 4/ 5/						
Commitment basis	58.2	79.7	80.9	72.6	58.2	51.2
Cash basis	27.0	32.9	16.3	...	...	...
			(In millions of SDRs, unless otherwise specified)			
Overall balance of payments	-200.0	-66.5	-149.7	-71.8	-191.8	-251.6
Gross official reserves (In weeks of imports)	1.1	4.7	4.1	7.2	10.0	13.0
External payments arrears	142.1	312.8	500.4	...	...	...

Sources: Data provided by the Ethiopian authorities; and staff estimates.

1/ Addis Ababa retail price index average.

2/ Changes expressed in percent of M2 at the beginning of the year.

3/ On a cash basis.

4/ Excludes rub 2.8 billion in state defense credits from the former U.S.S.R.

5/ Expressed in percent of exports of goods and nonfactor services; before debt relief.

Table 3. Ethiopia: Summary of Government Finance, 1987/88-1992/93

Fiscal year ending July 7	1987/88 Actual	1988/89 Actual	1989/90 Prelim.	1990/91 Prelim.	1991/92 Budget	1991/92 Prelim	1992/93 Budget	1992/93 Program
				(In millions of birr)				
Total revenue and grants	4,103.0	4,698.2	3,559.6	3,179.0	2,935.1	2,633.1	3,988.9	5,995.4
Revenue	3,467.1	3,899.2	3,097.8	2,703.7	2,292.0	2,176.1	3,114.0	3,797.9
Tax revenue	2,317.4	2,371.1	2,162.3	2,114.0	1,718.0	1,583.2	2,413.5	3,009.3
Nontax revenue	1,149.7	1,528.1	935.5	589.7	574.0	592.9	700.5	788.6
Grants	635.9	799.0	461.8	475.3	643.1	457.0	874.9	2,197.5
Grants in kind/earmarked	621.5	655.1	451.1	456.0	565.1	457.0	824.9	1,496.3
Untied counterpart/cash	14.4	143.9	10.7	19.3	78.0	--	50.0	701.2
Expenditure	4,923.3	5,787.9	5,615.6	4,957.3	4,886.4	4,060.7	6,253.6	8,261.1
Current expenditure	3,464.2	3,848.3	4,220.7	3,740.2	3,399.6	3,124.3	3,485.7	5,221.9
Wage and salaries	1,065.8	1,537.8	1,580.5	1,489.0	1,198.3	1,216.8	1,509 6 1/	1,711.6 1/
Materials 2/	1,278.8	1,213.7	1,727.3	1,313.8	764.1	538.1	761.4	1,104.6
Grants and contributions	197.9	182.0	228.6	205.0	561.7	500.0	260.5	309.6
Subsidies	69.2	105.3	91.9	56.3	117.5	60.8	85.0	95.0 3/
Pensions	129.5	140.2	157.3	154.2	170.0	197.4	187.0	247.0
Domestic interest	156.9	168.9	175.6	214.1	232.8	245.5	261.0	302.7
External interest paid	99.3	95.2	58.4	51.8	48.2	58.7	53.2	248.9
Scheduled interest	99.3	95.2	102.5	133.2	130.0	139.6	132.2	354.0
Arrears increase/relief	--	--	44.1	81.4	81.8	80.9	79.0	105.1
External assistance 4/	466.8	405.2	201.1	256.0	307.0	307.0	368.0	924.4
Safety net measures	--	--	--	--	--	--	--	278.0 5/
Capital expenditure	1,459.1	1,939.6	1,394.9	1,217.1	1,486.8	936.4	2,767.9	3,039.3
Central Treasury	765.2	940.9	683.9	616.5	572.2	486.3	1,114.8	970.3
External assistance (grants) 4/	154.7	249.9	250.0	200.0	258.1	150.0	456.9	571.9
External loans	539.2	748.8	461.0	400.6	656.5	300.1	1,196.2	1,497.2
Overall balance (cash)	-820.3	-1,089.7	-2,056.0	-1,778.3	-1,951.3	-1,427.6	-2,264.7	-2,265.7
Before grants (cash)	-1,456.2	-1,888.7	-2,517.8	-2,253.6	-2,594.4	-1,884.6	-3,139.6	-4,463.2
Accrual, after grants	-820.3	-1,089.7	-2,100.1	-1,859.7	-2,033.1	-1,508.5	-2,343.7	-2,370.8
Accrual, before grants	-1,456.2	-1,888.7	-2,561.9	-2,335.0	-2,676.2	-1,965.5	-3,218.6	-4,568.3
Financing	820.4	1,089.7	2,056.0	1,778.3	1,951.2	1,427.6	2,264.7	2,265.7
External (net)	443.8	663.6	681.8	443.1	584.1	249.3	1,149.9	1,690.7
Gross borrowing	668.5	851.6	756.8	502.6	656.5	300.1	1,196.2	2,231.6
Capital budget	539.2	748.8	461.0	400.6	656.5	300.1	1,196.2	1,497.2
Untied counterpart/cash 6/	129.3	102.8	295.8	102.0	--	--	--	734.5
Amortization paid	224.7	188.0	75.0	59.5	72 4	50.8	46.3	540.9
Scheduled repayment	224.7	188.0	406.5	392.3	399.9	473.4	441.7	921.4
Arrears increase/relief	--	--	-331.5	-332.8	-327.5	-422.6	-395.4	-380.4 7/
Domestic	376.6	426.1	1,374.2	1,335.2	1,367.1	1,178.3	1,114.8	575.0
Banking system	335.7	421.7	1,266.2	1,220.9	1,367.1	1,159.0	1,114.8	575.0
Other and residual	40.9	4.4	108.0	114.3	--	19.3	--	--
Memo: Defense expenditure 2/	1,480.0	1,776.8	2,321.6	1,852.1	681.2	666.7	660.3	900.0 8/
				(In percent of GDP)				
Total revenue and grants	34.6	37.8	28.6	23.3	22.0	18.5	25.1	31.3
Revenue	29.3	31.4	24.9	19.8	17.2	15.3	19.6	19.8
Tax revenue	19.6	19.1	17.4	15.5	12.9	11.1	15.2	15.7
Nontax revenue	9.7	12.3	7.5	4.3	4.3	4.2	4.4	4.1
Grants	5.4	6.4	3.7	3.5	4.8	3.2	5.5	11.5
Expenditure	41.5	46.6	45.2	36.3	36.7	28.5	39.4	43.1
Current expenditure	29.2	31.0	34.0	27.4	25.5	21.9	22.0	27.3
Capital expenditure	12.3	15.6	11.2	8.9	11.2	6.6	17.4	15.9
Overall balance (cash)	-6.9	-8.8	-16.5	-13.0	-14.7	-10.0	-14.3	-11.8
Before grants (cash)	-12.3	-15.2	-20.3	-16.5	-19.5	-13.2	-19.8	-23.3
Financing	6.9	8.8	16.5	13.0	14.7	10.0	14.3	11.8
External (net)	3.7	5.3	5.5	3.2	4.4	1.7	7.2	8.8
Domestic	3.2	3.4	11.1	9.8	10.3	8.3	7.0	3.0
Banking system	2.8	3.4	10.2	8.9	10.3	8.1	7.0	3.0

Sources: Ministry of Finance; and staff estimates.

1/ Wage bill for 1992/93 reflects full-year wages of new armed forces (vs. nine months) and establishment of regional councils. program also reflects food price related adjustment of Br 333 million prorated for ten months.
2/ Adjusted for extrabudgetary outlays financed from commercial external borrowing before 1991/92.
3/ Includes Br 25 million subvention for Housing and Savings Bank but no coffee price subsidy.
4/ Goods and services provided in kind through external grants; current is mainly drought relief.
5/ Retrenchment compensation for state employees Br 98 million, food/kerosene vouchers Br 170 million, and urban public works Br 10 million.
6/ In 1992/93 program, includes external gap financing; before 1991/92, covers financing for extrabudgetary outlays.
7/ Possible debt relief (Br 677.7 million) net of payments of post-cutoff-date arrears (Br 297.3 million).
8/ Staff estimate representing real level of budgeted amount under program price and exchange rate assumptions

Table 4. Ethiopia: Monetary Survey, June 1988-June 1993 1/

	1988	1989	1990	1991	1992	1993
			June 30			
			(In millions of birr)			
Foreign assets (net)	140.7	117.7	-33.6	270.7	407.0	1,524.3
National Bank	51.9	-26.8	-112.2	140.5	108.5	...
Assets	(242.2)	(169.0)	(45.3)	(183.2)	(346.7)	(...)
Liabilities	(190.3)	(195.8)	(157.5)	(42.8)	(238.2)	(...)
Commercial Bank	88.8	144.5	78.6	130.2	298.5	...
Assets	(195.9)	(247.4)	(150.1)	(269.3)	(387.1)	(...)
Liabilities	(107.1)	(102.9)	(71.5)	(139.1)	(88.6)	(...)
Domestic credit	6,372.4	6,865.2	8,041.5	8,999.3	10,167.7	11,817.7
Claims on Government (net)	3,502.3	3,886.9	5,027.4	6,021.5	7,033.6	7,608.6
National Bank	(2,129.0)	(2,162.8)	(2,955.5)	(3,556.5)	(4,647.2)	(...)
Commercial Bank	(1,373.3)	(1,724.1)	(2,071.9)	(2,465.1)	(2,386.4)	(...)
Claims on other sectors	2,870.1	2,978.3	3,014.1	2,977.8	3,134.1	4,209.1
National Bank	(1,690.1)	(1,859.5)	(2,008.8)	(2,072.8)	(2,091.7)	(...)
Commercial Bank	(1,180.0)	(1,118.8)	(1,005.3)	(905.0)	(1,042.4)	(...)
Broad money	5,223.0	5,687.9	6,687.9	7,934.8	8,992.1	10,752.5
Money	3,903.2	4,165.5	4,982.6	6,123.3	6,840.1	...
Currency outside banks	(1,908.3)	(2,181.8)	(2,736.3)	(3,817.4)	(4,315.8)	(...)
Demand deposits	(1,994.9)	(1,983.7)	(2,246.3)	(2,305.9)	(2,524.3	(...)
Quasi-money	1,319.8	1,522.4	1,705.3	1,811.5	2,152.0	...
Savings deposits	(1,208.0)	(1,367.1)	(1,574.5)	(1,676.7)	(1,999.1)	(...)
Time deposits	(111.8)	(155.3)	(130.8)	(134.8)	(152.9)	(...)
Other items (net)	1,290.2	1,295.0	1,319.9	1,335.2	1,582.6	2,589.4 2/
National Bank	1,962.8	1,813.7	2,115.8	1,952.3	2,531.6	...
Commercial Bank	-672.6	-518.7	-795.9	-617.1	-949.0	...
Memo: Net domestic assets	5,082.3	5,570.2	6,721.5	7,664.1	8,585.1	9,228.3
			(Percentage change over 12 months)			
Domestic credit	13.8	7.7	17.1	11.9	13.0	16.2
Government	9.2	11.0	29.3	19.8	16.8	8.2
Other sectors	20.0	3.8	1.2	-1.2	5.2	34.3
Broad money	9.0	8.9	17.6	18.6	13.3	19.6
Money	9.8	6.7	19.6	22.9	11.7	...
Currency	(9.5)	(14.3)	(25.4)	(39.5)	(13.1)	(...)
Demand deposits	(10.0)	(-0.6)	(13.2)	(2.7)	(9.5)	(...)
Quasi-money	6.8	15.4	12.0	6.2	18.8	...
Savings deposits	(14.7)	(13.2)	(15.2)	(6.5)	(19.2)	(...)
Time deposits	(-38.7)	(38.9)	(-15.8)	(3.0)	(13.5)	(...)
Memo: Net domestic assets	19.3	9.6	20.7	14.0	12.0	7.5
Velocity (ratio)	2.27	2.18	1.86	1.72	1.59	1.78

Source: National Bank of Ethiopia.

1/ Excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia. Banks in Eritrea as of May 1991.

2/ Of which Br 904 million is valuation adjustment.

Table 5. Ethiopia: Balance of Payments, 1988/89-1994/95

(In millions of SDRs)

Fiscal year 1/	1988/89	1989/90	1990/91	1991/92 Est.	1992/93	1993/94 Program	1994/95
Exports, f.o.b.	339.6	282.8	199.0	139.4	199.2	286.3	341.0
Coffee	231.7	151.5	93.4	65.5	92.7	138.2	173.5
Other	107.9	131.3	105.6	73.8	106.5	148.1	167.5
Imports	779.6	763.2	741.0	774.7	958.3	1,106.4	1,168.7
Trade balance	-440.0	-480.4	-542.0	-635.3	-759.1	-820.0	-827.7
Services, net	36.0	34.5	-23.2	2.9	10.5	17.0	30.3
Interest (net) 2/	-61.2	-57.2	-73.4	-78.1	-89.1	-96.6	-100.9
Others	97.2	91.7	50.2	81.0	99.6	113.6	131.2
Private transfers	143.9	132.5	143.9	230.0	241.5	247.8	268.3
Current account balance excluding official transfers	-260.1	-313.4	-421.2	-402.5	-507.1	-555.2	-529.0
(percent of GDP)	(-5.7)	(-6.7)	(-8.9)	(-8.0)	(-16.2)	(-21.1)	(-20.9)
Official transfers	160.1	125.3	261.1	255.3	380.0	289.2	310.0
Current account balance	-100.0	-188.1	-160.1	-147.2	-127.1	-266.0	-219.0
(percent of GDP)	(-2.2)	(-4.0)	(-3.4)	(-2.9)	(-4.1)	(-10.1)	(-8.6)
Capital account	165.7	84.1	113.1	-73.7	55.3	74.1	-32.6
Official long-term capital	237.9	168.1	54.3	-62.2	55.3	147.9	30.1
Disbursements	306.9	316.8	190.2	103.7	205.8	294.6	178.1
Amortization 2/	69.1	148.7	135.9	165.8	150.5	146.8	148.0
Other public long-term capital	-31.2	-32.9	48.9	1.0	0.1	-73.7	-62.7
Disbursements	50.0	42.0	135.1	48.1	85.5	--	--
Amortization	81.2	75.0	86.3	47.1	85.4	73.7	62.7
Short-term and private capital (net)	-41.0	-51.1	9.9	-12.5	--	--	--
Errors and omissions	-71.9	-96.0	-19.5	71.1	--	--	--
Overall balance	-6.3	-200.0	-66.5	-149.7	-71.8	-191.8	-251.6
Financing	6.3	200.0	66.5	149.7	-595.1	-73.8	-80.9
National Bank	29.5	30.6	-92.5	15.0	-57.9	-58.8	-65.9
Reserves (-: increase)	23.8	49.0	-50.8	5.3	-72.0	-80.0	-80.0
Liabilities	5.7	-18.4	-41.7	9.7	14.1	21.2	14.1
IMF (net)	-9.2	-17.6	-13.2	--	14.1	21.2	14.1
Disbursements	--	--	--	--	14.1	21.2	14.1
Repayments	9.2	17.6	13.2	--	--	--	--
Commercial Bank (net)	-23.3	27.3	-19.2	-52.9	-10.0	-15.0	-15.0
Arrears (change)	...	142.1	170.7	187.6	-527.2	--	--
Debt rescheduling	--	--	--	--	...	...	...
Of which: arrears	(--)	(--)	(--)	(--)	(...)	(...)	(...)
Debt cancellation	--	-	7.5	--	...	...	...
Financing gap	--	--	--	--	666.8	265.7	332.5
Memorandum items:							
Estimated debt service on state defense debt to the former Soviet Union	--	--	398.0	394.5	375.2	370.5	371.0
Interest	--	--	75.2	68.4	58.9	51.9	45.4
Amortization	--	--	322.8	326.1	316.3	318.6	325.6
Reserves in weeks of imports	4.4	1.1	4.7	4.1	7.2	10.0	13.0
Outstanding payments arrears (end of period)	...	142.1	312.8	500.4	--	--	--
Total external debt 3/	2,594.8	2,739.7	2,896.0	2,828.0	3,033.0	3,229.5	3,344.8

Source: National Bank of Ethiopia; Ministry of Finance; and staff estimates.

1/ Data cover year ended July 7, where available; otherwise June 30.
2/ Includes debt service to the former Soviet Union, except for state defense debt.
3/ Includes interest arrears and excludes state defense debt to the former Soviet Union.

Table 6 Ethiopia: Medium-Term Balance of Payments, 1991/92-2000/01

(In millions of SDRs)

Fiscal year 1/	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	2000/01
	Est.		Program			Projections	
Exports, f.o.b	139.4	199.2	286.3	341.0	389.9	452.3	736.7
Coffee	65.5	92.7	138.2	173.5	204.2	229.5	306.6
Other	73.8	106.5	148.1	167.5	185.7	222.7	430.1
Imports	774.7	958.3	1,106.4	1,168.7	1,251.2	1,275.1	1,315.3
Trade balance	-635.3	-759.1	-820.0	-827.7	-861.3	-822.8	-578.6
Services, net	2.9	10.5	17.0	30.3	37.6	50.7	113.8
Interest (net) 2/	-78.1	-89.1	-96.6	-100.9	-104.7	-97.5	-60.6
Other	81.0	99.6	113.6	131.2	142.3	148.2	174.4
Private transfers	230.0	241.5	247.8	268.3	276.4	284.7	300.0
Current account balance excluding official transfers	-402.5	-507.1	-555.2	-529.0	-547.4	-487.5	-164.7
(percent of GDP)	(-8.0)	(-16.2)	(-21.1)	(-20.9)	(-20.6)	(-16.6)	(-4.0)
Official transfers	255.3	380.0	289.2	310.0	325.5	325.5	175.0
Current account balance	-147.2	-127.1	-266.0	-219.0	-221.8	-162.0	10.3
(percent of GDP)	(-2.9)	(-4.1)	(-10.1)	(-8.6)	(-8.3)	(-5.5)	(0.2)
Capital account	-73.7	55.3	74.1	-32.6	31.8	11.8	18.4
Official long-term capital	-62.2	55.2	147.9	30.1	36.6	15.0	-0.8
Disbursements	103.7	205.8	294.6	178.1	181.0	161.0	181.2
Amortization 2/	165.8	150.5	146.8	148.0	144.4	146.0	182.0
Other public long-term capital	1.0	0.1	-73.7	-62.7	-9.9	-13.2	7.2
Disbursements	48.1	85.5	--	--	50.0	40.0	40.0
Amortization	47.1	85.4	73.7	62.7	59.9	53.2	32.8
Short-term and private capital, net	-12.5	--	--	--	5.0	10.0	12.0
Errors and omissions	71.1	--	--	--	--	--	--
Overall balance	-149.7	-71.8	-191.8	-251.6	-190.0	-150.2	28.7
Financing	149.7	-595.1	-73.8	-80.9	-80.0	-80.0	-28.7
National Bank	15.0	-57.9	-58.8	-65.9	-80.0	-80.0	-28.7
Reserves (-: increase)	5.3	-72.0	-80.0	-80.0	-80.0	-80.0	-18.8
Liabilities	9.7	14.1	21.2	14.1	--	--	-9.9
IMF (net)	--	14.1	21.2	14.1	--	--	--
Disbursements	--	14.1	21.2	14.1	--	--	--
Repayments	--	--	--	--	--	--	-9.9
Commercial banks (net)	-52.9	-10.0	-15.0	-15.0	--	--	--
Arrears (change)	187.6	-527.2	--	--	--	--	--
Debt rescheduling	--	...	...	...	...	...	--
Of which: arrears	(--)	(...)	(--)	(--)	(--)	(--)	(--)
Debt cancellation	--	...	...	...	...	...	--
Financing gap	--	666.8	265.7	332.5	270.0	230.2	--
Memorandum items:							
Estimated debt service on state defense debt to the former Soviet Union	394.5	375.2	370.5	371.0	371.7	371.7	--
Interest	68.4	58.9	51.9	45.4	38.6	31.5	--
Amortization	326.1	316.3	318.6	325.6	333.1	340.2	--
Reserves in weeks of imports	4.1	7.2	10.0	13.0	15.5	18.5	20.7
Outstanding payments arrears (end of period)	500.4	--	--	--	--	--	--
Total external debt 3/	2,828.0	3,033.0	3,229.5	3,344.8	3,591.2	3,870.3	5,209.7
Sensitivity analysis							
Debt service ratio 2/ 4/							
Baseline	80.9	72.6	58.2	51.2	46.4	41.2	27.3
Scenario I	...	...	60.1	54.7	51.1	45.9	30.9
Scenario II	...	...	62.1	56.1	51.9	46.3	31.0
Current account balance 2/ 5/							
Baseline	-2.9	-4.1	-10.1	-8.6	-8.3	-5.5	0.2
Scenario I	...	...	-10.8	-10.3	-10.7	-8.2	-3.0
Scenario II	...	...	-11.5	-10.9	-11.1	-8.5	-3.1

Source: National Bank of Ethiopia; Ministry of Finance; and staff estimates.

1/ Data cover year ended July 7, where available; otherwise June 30.

2/ Includes debt service to the former Soviet Union, except for state defense debt.

3/ Includes interest arrears and excludes state defense debt to the former Soviet Union.

4/ In percent of exports of goods and nonfactor services.

5/ Including official transfers; in percent of GDP.

Table 7. Ethiopia: Indicators of Fund Credit and Debt Servicing, 1990/91-2000/01

(In percent)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
	Estimates		Program			Projections					
Outstanding Fund credit to											
Quota 1/	--	--	20.0	50.0	70.0	70.0	70.0	68.0	61.0	49.0	35.0
GDP 1/	--	--	0.5	1.3	1.9	1.9	1.8	1.6	1.4	1.0	0.5
Exports 1/ 2/	--	--	3.1	6.2	7.6	7.0	6.6	5.7	4.8	3.6	2.4
Gross Fund financing/ Financing needs 1/ 3/	--	--	1.0	2.4	1.7	--	--	--	--	--	--
Debt service to the Fund to 1/											
Exports 2/	3.7	0.2	0.2	0.3	0.4	0.5	0.4	0.5	0.8	1.1	1.0
Total debt service	4.7	0.3	0.3	0.5	0.8	1.1	0.9	1.8	3.1	4.3	4.5
Gross official reserves	21.5	1.5	0.7	0.8	0.9	0.9	0.7	1.0	1.6	2.1	2.1
Total debt service ratio before debt relief 4/ 5/	79.7	80.9	72.6	58.2	51.2	46.6	41.2	38.1	30.9	28.9	27.3
Memorandum item:											
External current account balance including official transfers (in percent of GDP)	-3.4	-2.9	-4.1	-10.1	-8.6	-8.3	-5.5	-3.1	-1.3	-0.4	0.2

Sources: IMF, Treasurer's Department; and staff estimates.

1/ End period. It is assumed that the first tranche of the SAF arrangement will be disbursed in November 1992.
2/ Exports of goods and nonfactor services.
3/ Financing needs are defined as the sum of the current account deficit, excluding grants, amortization of gross official long-term debt, external arrears reductions, Fund SAF repayments, and the targeted accumulation of gross official reserves.
4/ Debt service as a percentage of exports of goods and nonfactor services.
5/ Excluding State defense debt to the former Soviet Union.

Table 8. Ethiopia: External Debt Service Obligations, 1989/90-1994/95

Fiscal year 1/	Outstanding debt stock at June 30, 1992	1989/90	1990/91	1991/92 Est.	1992/93	1993/94 Program	1994/95
		(In millions of SDRs)					
Scheduled debt service payments 2/		302.4	709.7	689.9	706.9	700.4	702.3
Interest		61.0	151.5	150.9	154.6	161.3	166.1
Amortization		241.4	558.2	539.1	552.3	539.1	536.3
Multilateral	952.9	36.9	32.9	30.0	35.9	43.0	48.5
IMF	--	19.8	14.5	0.9	0.9	1.6	2.7
Interest		(2.1)	(1.2)	(0.9)	(0.9)	(1.6)	(2.7)
Repurchases and repayment		(17.6)	(13.2)	(--)	(--)	(--)	(--)
World Bank	631.3	10.0	11.6	12.8	14.3	16.9	17.2
Interest		(5.3)	(6.2)	(6.9)	(7.2)	(8.0)	(8.7)
Amortization		(4.7)	(5.4)	(6.0)	(7.1)	(8.9)	(8.5)
African Development Bank	220.4	2.7	2.2	12.8	15.4	17.1	20.4
Interest		(1.6)	(1.6)	(9.3)	(9.6)	(10.9)	(10.8)
Amortization		(1.0)	(0.6)	(3.5)	(5.8)	(6.2)	(9.6)
Other	101.3	4.5	4.7	3.5	5.3	7.4	8.2
Bilateral	5,147.2	265.6	676.8	659.9	671.0	657.4	653.9
Paris Club	707.5	109.1	122.0	96.6	139.2	133.9	129.0
Others	4,439.6	156.6	554.9	563.2	531.8	523.5	524.9
Of which: former Soviet Union 2/	(3,908.8)	(114.0)	(500.7)	(503.9)	(462.0)	(451.8)	(451.0)
Total	6,100.0						
		(In percent of exports of goods and nonfactor services)					
Total debt service payments 2/		58.2	181.6	189.0	154.6	123.5	108.6
Interest		11.7	38.8	41.3	33.8	28.4	25.7
Amortization		46.4	142.8	147.7	120.8	95.1	82.9
Multilateral		7.1	8.4	8.2	7.9	7.6	7.5
IMF		3.8	3.7	0.2	0.2	0.3	0.4
Interest		(0.4)	(0.3)	(0.2)	(0.2)	(0.3)	(0.4)
Repurchases and repayment		(3.4)	(3.4)	(--)	(--)	(--)	(--)
World Bank		1.9	3.0	3.5	3.1	3.0	2.7
Interest		(1.0)	(1.6)	(1.9)	(1.6)	(1.4)	(1.3)
Amortization		(0.9)	(1.4)	(1.6)	(1.5)	(1.6)	(1.3)
African Development Bank		0.5	0.6	3.5	3.4	3.0	3.1
Interest		(0.3)	(0.4)	(2.6)	(2.1)	(1.9)	(1.7)
Amortization		(0.2)	(0.2)	(1.0)	(1.3)	(1.1)	(1.5)
Other		0.9	1.2	1.0	1.2	1.3	1.3
Bilateral		51.1	173.1	180.8	146.8	115.9	101.1
Paris Club		21.0	31.2	26.5	30.4	23.6	19.9
Others		30.1	142.0	154.3	116.3	92.3	81.1
Of which: former Soviet Union 2/		(21.9)	(128.1)	(138.1)	(101.0)	(79.7)	(69.7)
Memorandum items:		(In millions of SDRs)					
Exports of goods and nonfactor services		519.7	390.9	365.0	457.2	567.0	646.9
Debt service on state defense debt to former Soviet Union		--	398.0	394.5	375.2	370.5	371.0
		(In percent of exports of goods and nonfactor services)					
Debt service on state defense to former Soviet Union		--	101.8	108.1	82.1	65.3	57.4

Sources: National Bank of Ethiopia; Ministry of Finance; and staff estimates.

1/ Fiscal year ended July 7, where available; otherwise June 30.

2/ Includes all debt to former Soviet Union (including state defense debt), valued at former official ruble exchange rate of US$1 = rub 0.5981.

Ethiopia: Relations with the Fund

(As of August 31, 1992)

I. Membership Status: Joined December 27, 1945/Article XIV

II. General Resources Account:

	SDR Million	Percent Quota
Quota	70.60	100.00
Fund holdings of currency	70.61	100.02
Reserve position in Fund	--	--
Operational budget transfers (net)	--	

III. SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	11.16	100.00
Holdings	0.12	1.04

IV. Outstanding Purchases and Loans: Nil

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
1. CFF	Feb. 1986	-	35.3	35.3
2. Stand-by arrangement	May 1981	June 1982	67.5	67.5
3. CFF	Dec. 1979	-	18.0	18.0

VI. Projected Obligations to Fund (SDR million; based on existing use of resources only):

	Overdue	Forthcoming				
	8/30/92	1992 1/	1993	1994	1995	1996
Principal	--	--	--	--	--	--
Charges/interest	--	0.18	0.71	0.71	0.71	0.71
Total	--	0.18	0.71	0.71	0.71	0.71

1/ September-December 1992.

Ethiopia: Relations with the Fund (concluded)

VII. Exchange Rate Arrangement:

The Ethiopian birr is pegged to the U.S. dollar at Br. 2.07 = US$1; the SDR/local currency equivalent on August 31, 1992 was SDR 1 = Br 3.0695. Intervention currency and rate: U.S. dollar; Br 1 = US$0.48309.

VIII. Article IV Consultation

(a) Standard 12-month cycle; last consultation concluded on January 17, 1992.

(b) Consultation discussions held on March 3-20 and November 2-19, 1991. The staff report (SM/91/99), and recent economic developments report (SM/91/122) were considered by the Executive Board on January 17, 1992 (EBM 92/6) and recorded (SUR/92/6), on January 23, 1992.

IX. Technical Assistance

Year	Department	Purpose	Time of delivery
1992	FAD	Review of tax system	Feb. 22-March 7
1992	FAD	Follow up on tax and customs reform	May 23-June 2
1992	MAE	Fact finding, advisory mission	Sept. 2-12
1993	STA	Multi-topic mission	January

X. Resident Representative: None. Establishment of post agreed.

Ethiopia: Relations with the World Bank Group

IBRD Loans and IDA Credits by Sector

(As of June 30, 1992; in millions of U.S. dollars)

	Total			Disbursed			Undisbursed		
	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA
General 1/	606.8	108.6	498.2	606.8	108.6	498.2	--	--	--
Agriculture 2/	383.0	--	383.0	134.5	--	134.5	248.5	--	248.5
Education	140.0	--	140.0	21.1	--	21.1	118.9	--	118.9
Energy 3/	62.0	--	62.0	26.2	--	26.2	35.8	--	35.8
Urban development	75.2	--	75.2	--	--	--	79.0	--	79.0
Transportation	147.5	--	147.5	64.1	--	64.1	83.4	--	83.4
Communications	40.0	--	40.0	36.1	--	36.1	3.9	--	3.9
Technical assistance	4.0	--	4.0	3.2	--	3.2	0.8	--	0.8
Health	33.0	--	33.0	4.8	--	4.8	28.2	--	28.2
Total	1,491.5	108.6	1,382.9	896.8	108.6	788.2	598.5	--	598.5

Source: Data prcvided by the World Bank.

1/ Twelve loans and 31 credits fully disbursed.
2/ Including livestock, coffee processing, agricultural research, peasant agricultural development program, small scale irrigation and construction, and ERRP.
3/ Including petroleum exploration.

Ethiopia - Selected Social and Demographic Indicators 1/

	1965	1975	Most recent estimate
Population characteristics			
Total population (thousands)	25,409	32,954	52,383 2/
Urban population (percent of total)	8	10	13
Population growth rate (in percent)			
Total	...	2.6	3.1
Urban	...	5.1	5.3
Life expectancy at birth (years)	43	44	48
Food, health, and nutrition			
Index of food production per capita (1979-81 = 100)	109	97	88.7
Per capita supply of:			
Calories (per day)	1,824	1,549	1,667
Proteins (grams per day)	62	50	50.4
Population per physician (thousands)	70.2	86.1	78.8
Population per nurse (thousands)	6.0	6.2	5.4
Population per hospital bed (thousands)	2.7	3.5	3.4
Access to safe water			
(percent of population): Total	...	8	14
Urban	...	58	69
rural	...	1	9
Labor force			
Total labor force (thousands)	12,858	15,913	20,816
Female (percent)	40	40	37.6
Participation rate (percent)			
Total	47	46	42.7
Male	57	56	53.5
Female	38	37	31.9
Education			
Enrollment rates			
Primary: Total	11	24	38
Male	16	32	46
Female	6	15	30
Secondary: Total	2	6	15
Male	3	9	18
Female	1	4	12
Pupil-teacher ratio:			
Primary	41	44	43
Secondary	20	28	48
Income and poverty			
Estimated absolute poverty income level (US$ per capita):			
Urban	...	115	190
Estimated population below absolute	...	65	...
poverty income level (percent)			
Urban	...	60	...
Rural	...	65	...

Sources: IBRD, Social Indicators of Development; IBRD, World Development Report 1992; and data provided by the Ethiopian Central Statistical Authority.

1/ Unless otherwise noted, 1965 refers to any year between 1962 and 1968; 1975 between 1972 and 1978; and most recent estimate between 1982 and 1989.
2/ 1991/92 .