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Ethiopia: Recent Economic Developments

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ETHIOPIA

Recent Economic Developments

Prepared by a staff mission consisting of P. Neuhaus (Head), P. Nagy, D. Cowen, Z. Brixiova,
J. Chai (EP) (all AFR); and A. Masuda (PDR)

Approved by the African Department

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Ethiopia: Basic Data¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Preliminary estimate
Area	1.1 million square kilometers						
Population							
Total (mid-1998 estimate)	59.9 million						
Annual growth rate	3.0						
GDP per capita (1997/98 estimate)	US\$109.6						
(In millions of birr, unless otherwise indicated)							
Gross domestic product (GDP)							
GDP at current market prices	26,671	28,329	33,885	37,938	41,465	45,035	49,082
GDP at constant factor cost (1980/81 prices)	11,724	11,910	12,645	13,987	14,710	14,631	15,613
GDP at constant factor cost (annual percentage change)	12.0	1.6	6.2	10.6	5.2	-0.5	6.7
(In percent of GDP, unless otherwise indicated)							
Agriculture	53.8	51.0	49.7	51.5	50.7	45.7	46.6
Industry	10.4	11.0	11.2	10.6	10.8	11.6	12.1
Distribution and other services	27.1	28.5	28.6	27.9	28.4	30.1	30.6
Public administration and defense	8.7	9.4	10.5	9.9	10.1	12.6	10.7
Consumption	97.9	94.6	92.0	95.3	91.4	93.7	95.5
Investment	14.2	15.2	16.4	19.1	19.1	18.2	18.6
Resource balance	-12.1	-9.8	-8.5	-14.4	-10.5	-11.9	-14.1
(Annual percentage change)							
Prices							
GDP deflator	13.2	2.6	12.7	1.0	3.2	9.7	1.9
Consumer prices (annual average) ²	10.0	1.2	13.4	0.9	-6.4	3.7	3.6
(In millions of birr)							
Government finances							
Revenue	3,191	3,939	5,913	6,966	7,877	8,413	9,330
Grants	466	987	1,132	1,097	1,504	1,273	1,082
Expenditure and net lending	5,231	7,146	8,407	10,256	10,078	11,505	12,625
Current	3,446	4,452	5,251	5,644	5,778	7,140	8,292
Capital	1,785	2,694	3,156	3,563	4,300	4,265	4,333
Net lending	0	0	0	1,049	0	100	0
Overall balance (commitment basis)	-1,573	-2,220	-1,363	-2,193	-697	-1,819	-2,213
Change in external interest arrears	11	52	35	62	61	45	117
Overall balance (cash basis)	-1,562	-2,168	-1,327	-2,131	-635	-1,774	-2,096
Overall balance (cash basis, excluding grants)	-2,028	-3,155	-2,459	-3,228	-2,140	-3,047	-3,178
Total financing (net)	1,562	2,168	1,327	2,131	635	1,774	2,096
External financing (net)	721	1,690	1,246	1,388	728	780	989
Domestic financing (net)	1,032	676	-113	33	-403	604	1,107
Of which							
Banking system	1,032	676	-375	-189	-818	574	-181
Statistical discrepancy/float	-191	-198	194	710	311	390	0
(In percent of GDP)							
Revenue	12.0	13.9	17.4	18.4	19.0	18.7	19.0
Grants	1.7	3.5	3.3	2.9	3.6	2.8	2.2
Expenditure and net lending	19.6	25.2	24.8	27.0	24.3	25.5	25.7
Change in external interest arrears	0.0	0.2	0.1	0.2	0.1	0.1	0.2
Overall balance (cash basis)	-5.9	-7.7	-3.9	-5.6	-1.5	-3.9	-4.3
Overall balance (cash basis, excluding grants)	-7.6	-11.1	-7.3	-8.5	-5.2	-6.8	-6.5
Total financing (net)	5.9	7.7	3.9	5.6	1.5	3.9	4.3
External financing (net)	2.7	6.0	3.7	3.7	1.8	1.7	2.0
Domestic financing (net, including statistical discrepancy/float)	3.2	1.7	0.2	2.0	-0.2	2.2	2.3

Ethiopia: Basic Data (concluded)¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Preliminary estimate
(In millions of birr at end of period, unless otherwise indicated)							
Money and credit							
Net foreign assets	1,689	3,864	5,974	6,170	5,551	5,724	5,555
Net domestic assets	8,696	7,974	8,740	9,792	10,960	12,891	14,041
<i>Of which</i>							
Claims on government (net)	9,503	10,180	9,805	9,616	8,798	9,372	9,191
Claims on other sectors	2,464	3,000	5,098	7,448	8,348	9,558	11,075
Money and quasi money	10,384	11,838	14,714	15,962	16,511	18,615	19,596
Net foreign assets ³	14.3	21.0	17.8	1.3	-3.9	1.0	-0.9
Net domestic assets ³	1.2	-6.9	6.5	7.2	7.3	11.7	6.2
Claims on government (net) ³	27.5	6.5	-3.2	-1.3	-5.1	3.5	-1.0
Claims on other sectors ³	-7.5	5.2	17.7	16.0	5.6	7.3	8.1
Broad money (annual percentage change)	15.5	14.0	24.3	8.5	3.4	12.7	5.3
(In millions of U.S. dollars, unless otherwise indicated)							
Balance of payments							
Exports, f.o.b.	222	280	454	410	599	602	494
<i>Of which</i>							
Coffee	126	158	288	273	355	420	279
Imports, c.i.f.	-1,052	-915	-1,063	-1,413	-1,403	-1,519	-1,509
Merchandise trade balance	-829	-635	-609	-1,003	-804	-917	-1,015
Services (net)	73	90	121	139	133	139	92
Income (net)	-96	-79	-60	-44	-42	-91	-63
<i>Of which</i>							
Official interest payments	-103	-87	-84	-84	-72	-107	-82
Private transfers (net)	248	247	311	313	258	317	372
Official transfers (net)	400	285	428	392	226	261	239
Current account balance (including transfers)	-204	-92	190	-203	-230	-292	-374
Current account balance (excluding transfers)	-605	-377	-238	-594	-456	-552	-613
Capital account (net)	160	222	-62	166	29	-152	-117
Overall balance	-44	130	128	-36	-201	-444	-492
Current account balance (in percent of GDP)							
(including transfers)	-3.3	-1.7	3.3	-3.4	-3.6	-4.4	-5.7
(excluding transfers)	-9.7	-6.8	-4.1	-9.9	-7.1	-8.4	-9.4
Exchange rate							
Birr per U.S. dollar (official rate, period average)	4.27	5.10	5.88	6.33	6.50	6.86	7.53
Gross official foreign reserves							
End of period	269	513	616	905	584	412	426
In months of imports of goods and nonfactor services	2.6	5.6	5.8	6.6	4.2	2.7	2.8
External public debt							
Outstanding (end of period)	63.2	77.4	81.1	71.6	65.3	143.5	142.4
Debt-service payments (as a percent of exports of goods and nonfactor services) ^{4,5}	77.4	51.6	35.1	36.5	42.7	44.3	65.8
Stock of external arrears ⁴	443	574	691	558	578	5,343	5,772

Sources: Ethiopian authorities; and Fund staff estimates.

¹Beginning in 1997/98, all data pertain to the period July 8-July 7; prior to that, fiscal and monetary data cover the period July 8-July 7, and other data July 1-June 30.

²Addis Ababa retail price index until 1996/97 and national consumer price index thereafter.

³Changes expressed in percent of broad money at beginning of period.

⁴Before debt relief and including ruble-denominated debt and debt service to Russia beginning in 1997/98; evaluated at US\$1 = SUR 0.6, where "SUR" denotes the former Soviet Union ruble.

⁵On a commitment basis.

Ethiopia: Selected Social and Demographic Indicators

	Most Recent Year Available		
	1970-75	1980-85	1990-97
Population characteristics			
Total population (million) ¹	33.0	43.4	59.9
Urban population (percent of total)	9.5	11.7	16.0
Population growth rate (percent)			
Total	2.6	2.8	2.2
Urban	4.5	4.6	4.6
Life expectancy (years)			
Male	41	41	43
Female	39	39	...
Female	43	43	...
Births per woman	...	6.6	6.5
Food, health, and nutrition			
Index of food production per capita (1987 = 100)	114.2	99.3	99.4
Population per physician (thousands)	86.1	78.9	...
Population per nurse (thousands)	...	5.4	...
Population per hospital bed (thousands)	3.5	3.4	4.1
Access to health services (percent of population)	...	...	46
Access to safe water (percent of population)			
Total	...	4	27
Urban	...	...	90
Rural	...	...	20
Access to sanitation (percent of population)	...	...	8
Adult HIV prevalence (percent of population aged 15 - 49)	...	...	9.3
People infected with HIV (in millions)	...	...	2.6
(percent of total population)	...	...	4.3
Labor force			
Total labor force (thousands)	14,775	19,608	26,000
Agriculture (percent)	90	83	80
Industry (percent)	2	2	2
Female (percent)	42	39	41
Education			
Gross enrollment ratio (percent of relevant age group)			
Total primary	24	37	38
<i>Of which: female</i>	...	35	36
Total secondary	...	9	12
<i>Of which: female</i>	...	...	11
Total tertiary	...	1	1
<i>Of which: female</i>	...	13	19
Pupil-teacher ratio			
Primary	44	48	30
Secondary	34	43	32
Illiteracy ratio (percent)			
Female	...	...	65
Male	...	...	75
Male	...	...	54

Sources: Ethiopian authorities; and World Bank, *World Development Indicators*, 1998 and 1999, and *Human Development Report*, 1998.

¹For 1990-97, a mid-1998 estimate.

I. RECENT ECONOMIC DEVELOPMENTS

A. Background

1. This section gives a brief overview of recent economic developments in Ethiopia. It provides an update on macroeconomic performance and structural reforms during the period FY96–FY99 (fiscal year ended July 7), when Ethiopia—as Africa’s second most populous country and one of the world’s poorest nations—continued to make strides in transitioning to a market-based economy and alleviating widespread poverty.¹ Over the past four years, the government has sought to consolidate gains made during the initial phase of structural adjustment, which followed the end to a protracted civil war, the collapse of the totalitarian Derg regime, and formation of a transitional government in 1991. Nonetheless, considerable work remains to be undertaken in some areas of structural reforms, and Sections II, III, and IV highlight the major challenges in the areas of financial sector liberalization, civil service reform, and privatization.

2. Starting in 1992, the new government began to implement an economic reform program with a view to reviving an economy in a country that had suffered from many years of civil war, food security crises, heavy central planning. Under a World Bank structural adjustment credit (SAC) and an Enhanced Structural Adjustment Facility (ESAF) arrangement (FY93-FY95) from the Fund, difficult steps were taken to liberalize the economy with an aim of rapidly accelerating economic growth, reduce inflationary pressures, correct large internal and external imbalances, and build up foreign exchange reserves, with generally favorable results (Table 1). Structural reforms concentrated on lifting most domestic price controls, introducing a system of foreign exchange auctions, and reducing import tariffs. Initial steps also were taken to liberalize the financial sector by opening it to private domestic banks in 1994 (now five of the seven commercial banks in Ethiopia) and establishing a treasury bill market in 1995. Moreover, with the establishment of the Ethiopian Privatization Agency in 1994, the government began to implement a privatization program concentrated so far on small- and medium scale state-owned enterprise, mainly in the wholesale and retail trade, light manufactures and agro-processing, and tourism sectors.

¹ The basic data table presented at the beginning of this paper updates economic performance through FY99. However, the data for FY99 are mainly preliminary estimates made by Fund staff in consultation with the authorities. Most other statistical tables at the end of this paper are updated through FY98 only, or the year of most recently available data. More recent data are provided on consumer prices, exchange and interest rate developments, and the monetary accounts.

Table 1. Ethiopia: Overview of Macroeconomic Performance, FY88-FY99¹

	FY88- FY91	FY92- FY95	FY96- FY99
(Annual percentage change, unless otherwise indicated)			
Real GDP growth (at factor cost)	0.1	4.0	5.5
Agriculture	2.0	0.8	3.6
Non-agriculture	-1.8	7.9	7.5
GDP deflator	7.0	10.0	4.0
Consumer prices (annual average) ²	9.5	11.4	0.4
Terms of trade (- deterioration)	-8.5	8.2	-4.3
External current account balance (in percent of GDP)			
(including official transfers)	-2.7	-0.3	-4.3
(excluding official transfers)	-5.2	-6.1	-8.7
Gross official reserves (in months of imports of goods and nonfactor services) ³	0.6	4.0	4.1

Sources: Ethiopian authorities; and Fund staff estimates.

¹Beginning in FY98 (fiscal year ended July 7, 1998), all data pertain to the period July 8-July 7; prior to that, fiscal and monetary data cover the period July 8-July 7, and other data July 1-June 30.

²Addis Ababa retail price index until 1996/97 and national consumer price index thereafter.

³For 1987/88-1990/91, average for 1989/90-1990/91 only.

B. Macroeconomic Performance

3. An overall improvement in macroeconomic performance was achieved during the period FY96-FY99, notwithstanding some divergent trends. Performance can be characterized as follows:

- **Output growth performance has continued to improve, despite adverse weather conditions in FY98 and, more recently, in the second half of FY99, which resulted in large downturns in seasonal agricultural output, in particular vital cereal production. Growth in non-agricultural output has remained robust across most sectors, with distribution and other services leading the way;**
- **Inflationary pressures have further abated, benefiting from mostly sound financial management by the government and liberalization of the trade regime;**
- **The external current account deficit (excluding official transfers) has widened since FY97, which illustrates Ethiopia's vulnerability to external and domestic shocks and**

highlights the need to maintain prudent macroeconomic policies and accelerate structural reforms; and

- **The coverage of gross official foreign reserves as a share of imports has declined to relatively low levels reflecting the widening current account deficit just mentioned, as well as the repayment of Ethiopian Airlines obligations in FY97 and, more recently, a drop in official foreign financing.**

Growth and inflation²

4. **Ethiopia remains heavily dependent on agriculture as its main source of output, which continues to make overall economic performance highly vulnerable to shocks.** Following real GDP growth of 10.6 percent in FY96 and 5.2 percent in FY97, output contracted by 0.5 percent in FY98 owing to the effects of the El Niño weather phenomenon on agriculture and transportation and despite an increase in non-agricultural output by 9.5 percent (Figure 1). With a rebound in the Meher (long season) harvest in FY99, total output rose by an estimated 6.7 percent. However, the recovery has been tempered by a drought in the second half of FY99, which has severely affected the Belg (short season) harvest and caused a food security crisis affecting approximately five millions persons. Moreover, the war with Eritrea, which started as a border skirmish in May 1998 and intensified into a full-fledged conflict in February 1999, has likely resulted in some slowing in nonagricultural activity, as evidenced by a slump in indirect tax collections, slowing in civilian imports, and reduction in tourist arrivals.³

5. **Underpinning Ethiopia's recent growth performance have been rapid productivity gains in the agricultural sector following the dissemination of fertilizer use and other agricultural extension activities, as well as favorable trends in saving and investment (Table 2), which can be summarized as follows:**

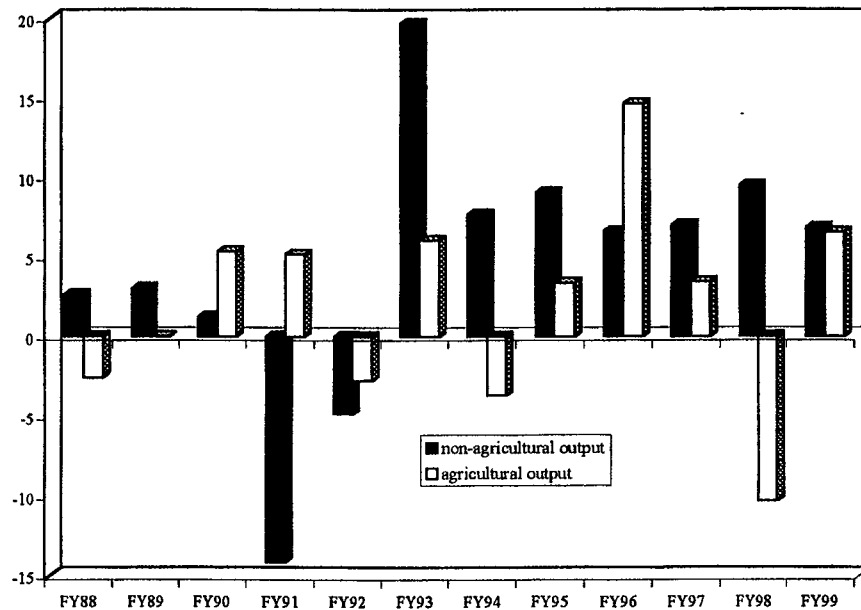
- **Foreign saving played an increasingly critical role in Ethiopia during the period FY96-FY99 filling a widening domestic resource gap brought on in part by the heavy import content of recent investment.**

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² See Tables 1-10 at end of this report on the real sector and prices.

³ An unofficial cease fire, which had been observed by both sides since mid-June 1998, ended in February 1999 when hostilities flared up again in the disputed Badme region. To date, attempts at peace mediation by the United Nations, the Organization for African Unity, and several third countries have been unsuccessful. Current estimates place the number of casualties on both sides at 50,000 (with 15,000 fatalities). In addition, around 400,000 people have been displaced in Ethiopia by the conflict. Furthermore, a number of Eritrean nationals or Ethiopians of Eritrean descent have been expelled from the country.

Figure 1. Ethiopia: Real Agricultural and Nonagricultural GDP Growth, FY88-FY99¹
(Annual percentage change)



Source: Ethiopian authorities; and Fund staff estimates.

¹For fiscal year ended July 7 of year indicated.

- In addition, **domestic saving rose from an average of 4½ percent of GDP a year (FY92-FY95) to 6 percent of GDP (FY96-FY99)**, reflecting exclusively higher public saving.⁴ However, starting in FY98, **public saving** (as well as total domestic saving) began to decline owing largely to a sharp pickup in military expenditure and a slight drop in tax revenue increases as a share of GDP. The trend continued in FY99.
- **Private saving continued to be constrained** by the low level of per capita income, large number of urban unemployed, and lack of domestic savings instruments owing to the rudimentary development of the financial sector.
- **Gross domestic investment rose from an average of 13¾ GDP (FY92-FY95) to 18¾ percent (FY96-FY99)**, with around two-thirds of the increase coming from the nascent private sector. More than one-half of recent private investment was in agriculture and industry, including manufacturing, water supply, and power generation. Nearly one-half of public investment has been concentrated on agricultural and rural development and road construction; another one-third has gone toward electricity supply, education and health facilities, and other community services.

⁴ In Ethiopia, public saving and investment refer to the general government only, which comprises the federal and regional governments.

Table 2. Ethiopia: Trends in Financial Balances¹

(In percent of GDP)

	FY88- FY91	FY92- FY95	FY96- FY99	Change ²	
				[1]	[2]
Gross domestic saving	7.3	4.6	6.0	-2.7	1.4
Private	5.7	2.0	1.2	-3.6	-0.9
Private income (disposable)	80.9	86.5	82.0	5.6	-4.5
Private consumption	75.2	84.5	80.8	9.2	-3.7
Public	1.6	2.6	4.8	0.9	2.3
Government revenue (current)	19.1	13.5	18.0	-5.6	4.5
Tax revenue	12.8	9.6	12.3	-3.2	2.7
Nontax revenue	6.3	3.9	5.7	-2.4	1.8
Government consumption	17.5	10.9	13.2	-6.6	2.3
Gross domestic investment	13.7	13.8	18.8	0.1	5.0
Private	7.5	8.0	11.1	0.5	3.1
Public	6.1	5.7	7.6	-0.4	1.9
Resource gap	-6.4	-9.1	-12.7	-2.8	-3.6
Exports of goods and nonfactor services	7.7	9.1	14.6	1.3	5.6
<i>Of which: coffee exports</i>	1.8	2.7	5.2	0.8	2.5
Imports of goods and nonfactor services	14.1	18.2	27.4	4.1	9.2
Net factor income	-0.9	-1.2	-0.9	-0.4	0.3
Net private transfers	2.0	4.2	5.0	2.2	0.7
Net official transfers	2.5	5.8	4.4	3.3	-1.4
Gross national saving	10.9	13.4	14.5	2.5	1.0
Foreign saving	5.2	6.1	8.7	0.9	2.6

Sources: Ethiopian authorities; and Fund staff estimates.

¹Beginning in FY98 (fiscal year ended July 7, 1998), all data pertain to the period July 8-July 7; prior to that, fiscal and monetary data cover the period July 8-July 7, and other data July 1-June 30.

²Change in column [1] between FY92-FY95 and FY88-FY91 and in column [2] between FY96-FY99 and FY92-FY95.

- **However, public investment began to taper off in FY98, and continued to do so in FY99, despite the start of World Bank and other donor supported sector development programs (SDPs), which now encompass more than half of the government's total capital budget (in education, health, roads, and energy).⁵**

⁵ In view of the SDPs and the government's effort to reorient capital expenditure toward areas with higher social rates of return, the drop in public investment in FY98 is partially related to lingering shortcomings in implementation capacity (i.e., poor budget planning, including accounting for recurrent costs over the medium term; lack of coordination both between donors

(continued...)

6. **Inflation has remained in the single digits since early 1996, owing to relatively tight financial policies and trade liberalization.** Temporary price shocks, in particular those related to the drop in food production in FY98, have been smoothed by the availability of cereal imports and improvements in internal distribution. The exchange rate has undergone only a modest depreciation over the past four years—in nominal and real effective terms. Following the initial devaluation of the Ethiopian birr against the U.S. dollar in 1992 and gradual opening of the economy, the real effective depreciation of the currency continued through FY96. Since then, productivity gains resulting from improvements in basic infrastructure, availability of inputs (especially in agriculture), and transfer of technology, as well as sizable inflows of official financing have slowed the rate of real depreciation (see Box 1).

Balance of payments⁶

7. **The external current account deficit began to widen sharply starting in FY97 and further weakened in FY98 and FY99.** A number of factors have contributed to this trend, including the following:

- **While exports and imports have risen steadily as a share of GDP, growth of noncoffee exports has been hampered by certain rigidities** (e.g., excessive foreign exchange and trade regulations, poor basic infrastructure, and inadequate export promotion). Overall export performance remains heavily tied to coffee exports, which are highly susceptible to domestic and external shocks. At the same time external competitiveness has steadily improved (Box 1) owing largely to prudent macroeconomic policies.
- **In recent years, the sharp volatility in the terms of trade may have increased uncertainty in the tradables sectors and dampened growth in coffee and non-coffee exports volumes.** In FY99, improvements in the external current account brought on by a sharp rebound in non-coffee export volumes (mainly leather goods and horticulture crops) were probably more than offset by a 17 percent drop in coffee export volumes. This drop was associated with poor growing conditions and a decline in world prices stemming from favorable weather in other major coffee-producing regions, the latter of which contributed to a deterioration in the terms of trade by 17 percent. Coffee exports declined from

and the Ministry of Economic Development and Cooperation, and between the ministry and regional and zonal agencies, which now implement more than one-half of the total capital budget). Moreover, heavy rains in the first half of the that year affected the government's ability to undertake new spending. In FY99, problems related to implementation capacity have persisted. Furthermore, donor concerns about the security situation have arisen, which has led to shortfalls in external financing.

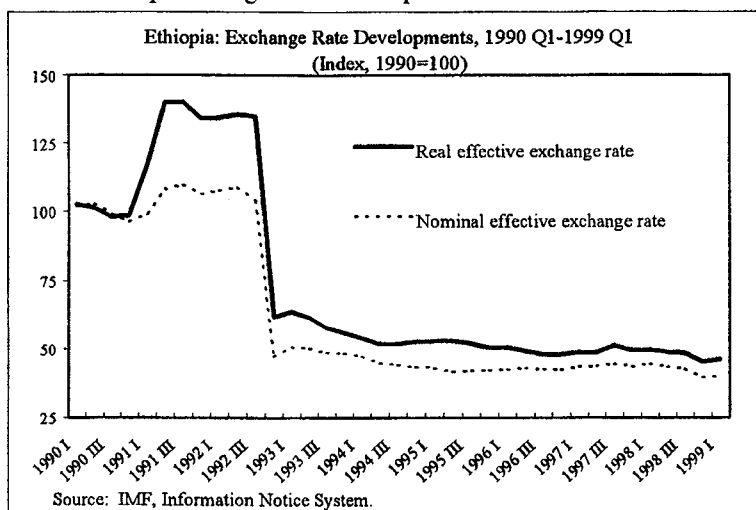
⁶ See Tables 23-30 at end of this report on the external sector.

Box 1: External Competitiveness

Under the centrally planned system during the Derg regime, the exchange rate was fixed at Birr 2.07 per U.S. dollar from 1973 to 1992, with the parallel market discount vis-à-vis the official exchange rate having widened to over 100 percent by the end of the period. Pervasive macroeconomic imbalances and trade barriers eroded Ethiopia's external competitiveness and undermined export performance. A major objective of the new government that took office in 1991 was to increase external competitiveness. After a large devaluation of the birr in October 1992, export license requirements and state trade monopolies on selected items were eliminated, and export price control was replaced with ex post export price verification. Since 1994, the official exchange rate has been determined in weekly auctions conducted by the central bank, and the spread between the official and parallel exchange rate has narrowed to less than 2 percent. All export taxes were removed in FY98, except on coffee. In August 1998, additional steps were taken to liberalize current account transactions and foreign exchange regulations (Box 2).

Since 1990, Ethiopia's external price competitiveness, measured by the consumer price index-based real effective exchange rate (REER), has undergone two distinct phases. First, in FY92 external competitiveness eroded by about 40 percent, as the new government liberalized prices while keeping the exchange rate fixed. Second, between September 1992 and the first quarter of 1999 external competitiveness improved by 66 percent owing to tight macroeconomic and incomes policies and liberalization measures. Ethiopia has managed to preserve its competitiveness gains of 55 percent that came as a result of the October 1992 devaluation, and even made further small gains owing to improvements in its relative price performance. This has also been aided by the absence of major wage pressures due to i) maintenance of relatively tight financial policies, including containment by the government of civil service wages; and ii) existence of a large informal sector that has tended to dampen wage demands.

These developments contributed to a remarkable rebound in the production of tradables and exports. During the period FY92—FY98, total export volume grew at an annual average of 16 percent, including an 18 percent growth in coffee export volumes, but total export volume stagnated in FY99 owing to a sharp drop in coffee export volumes. Nevertheless, the high dependence of exports on one commodity leaves the country vulnerable to large terms of trade shocks. For example, in FY99, the terms of trade deteriorated by 17 percent due to a large fall in primary commodity prices, including coffee, leather, and pulses. These developments illustrate the need to promote further export diversification. The start-up of the operations of newly privatized gold mine and of leather factories is a step in the right direction. Furthermore, the Ethiopian Export Promotion and Investment Authority recently targeted horticulture, light manufacturing, and other minerals as promising sectors for exports.



US\$420 million in FY98 (6.4 percent of GDP) to an estimated US\$280 million in FY99 (4.3 percent of GDP).

- **Nonetheless, coffee still accounted for nearly three-fourths of the growth in the value of total merchandise exports during the period 1995/96-1997/98.** Coffee production has been aided by an increase in the number of washing stations from 165 to 480 over the past three years. Ethiopian coffee still commands a market premium due to the high quality of output—85 percent of which is organically grown.
- **The combination of a liberalization of the external current account transactions including lower import tariffs (Table 3) and greater availability of foreign resources has fueled import demand.** More generally, relatively high output growth rates and increased investment have required a larger import bill, especially in capital goods. In FY98, and most likely in FY99, food-and defense-related imports were also much higher than in recent years.

Table 3. Ethiopia: Structure of Import Duties, FY93-FY99¹

	FY93	FY94	FY95	FY96	FY97	FY98	FY99
Number of tariff bands	15	10 ²	10	9 ³	8 ⁴	8	7 ⁵
Maximum tariff rate	209	80 ²	80	60 ³	50 ⁴	50	40 ⁵
Average unweighted tariff rate	...	31.0	31.0	25.6	21.3	21.3	17.1
Item-weighted tariff rate	...	29.6	...	...	...	21.5	19.5
Trade-weighted tariff rate	...	21.5	...	...	...	15.9	14.9

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

¹Beginning in FY98 (fiscal year ended July 7, 1998), all data pertain to the period July 8-July 7; prior to that, fiscal and monetary data cover the period July 8-July 7, and other data July 1-June 30.

²As of August 1993.

³As of January 1996.

⁴As of January 1998.

⁵As of January 1999.

- **Thus far, the shift in major trading activity in mid-1998 from the Eritrean ports of Assab and Massawa to the port of Djibouti does not appear to have materially affected the overall level of exports and imports.** Higher port charges in Djibouti have at least been partially offset by lower overland transport costs into Ethiopia.
- As shown earlier, the rise in **net factor income** (owing to a drop in official interest payments) and **private transfers** (because of increased receipts from of nongovernmental organizations and Ethiopians living abroad) in relation to GDP has been largely offset by a fall in **official transfers** during the period FY96-FY99, compared with the previous four years. The drop in

official transfers is attributable to the large role that external grants played during the initial phase of structural adjustment (including for rehabilitation of neglected and war-damaged infrastructure), which allowed Ethiopia to undertake major stabilization efforts.

- The uptake in **capital inflows** has tapered off, although some improvement in official disbursements in association with the SDPs is expected in FY99. **Foreign direct investment** has remained low, but it too is expected to pick up in FY99 owing to the repatriation of a large share of proceeds from the sale of a gold mine in the previous year.⁷ In recent years, FDI has accelerated sharply (Table 4); however, the demand for new licensing slowed in early FY99, possibly reflecting investor concerns about the war.
- In recent years, **debt relief** has come primarily in the form of a 1997 Paris Club rescheduling. Nevertheless, after Ethiopia simultaneously recognized large outstanding claims due to Russia, the ratio of external debt to GDP doubled to 145 percent at end-FY98. Over the same period, the ratio of scheduled debt-service to exports of goods and nonfactor services increase from 37 percent to 60 percent.⁸
- Despite Ethiopia's improved economic prospects, **the widening of the current account deficit has been accompanied by a drop in gross official foreign reserves, from the equivalent of 6.6 months of imports of goods and nonfactor services at end-FY95 to 2.7 months at end-FY98.**

Fiscal performance⁹

8. **Overall fiscal performance has improved moderately in recent years. The general government budget deficit (on a cash basis and excluding grants) declined from 8½ percent of GDP in FY96 to 6¾ percent in FY98, and an estimated 6½ percent in FY99.** However, the domestic primary balance¹⁰ has weakened somewhat—shifting from a surplus of 1.2 percent of GDP in FY96 to a deficit of 0.3 percent in FY98 (and down from a peak in FY95 of 2.7 percent of GDP). Prior to FY98, fiscal consolidation was largely facilitated by the peace dividend. Defense spending declined from just under 10½ percent of GDP in FY90 to an average of 2¼ percent during the period FY92-FY97. After an initial sharp drop in nontax revenue

⁷ Foreign direct investment is likely being understated in the balance of payments, as the National Bank of Ethiopia has only recently launched an annual survey of this activity.

⁸ All arrears and maturities due to Russia and non-Paris Club creditors between 1997 and 1999 are expected to be subject to restructuring in 1999/2000.

⁹ See Tables 11-15 at the end of this report on the Fiscal accounts.

¹⁰ Defined as total revenue (excluding privatization receipts) less total expenditure and net lending (excluding cash interest payments and foreign-financed expenditure).

Table 4. Ethiopia: Foreign Direct Investment Projects Approved and In Operation, FY93-FY99

Year	Approved		In Operation		
	Number of Projects	Investment Capital (In millions of birr)	Number of Projects	Investment Capital (In millions of birr)	Investment Capital (In percent of GDP)
FY93	3	233	2	88	0.3
FY94	4	443	0	...	...
FY95	8	576	1	4	0.0
FY96	11	464	2	91	0.2
FY97	45	2,517	4	1,202	2.9
FY98	81	4,061	12	1,785	4.0
FY93-FY98	152	8,294	21	3,169	7.4
<i>Of which</i>					
Primary sector	19	2,227	3	1,212	...
Secondary sector	67	2,733	11	523	...
Tertiary sector	66	3,334	7	1,434	...
FY99	8	264	...	...	...
<i>Of which</i>					
Primary sector	0	...	...	...	...
Secondary sector	7	660	...	...	...
Tertiary sector	1	29	...	...	...

Source: Ethiopian Investment Authority

¹FY99, data pertain to July 7-September 10 only. For FY98, data pertain to July 8-July 7; prior to that, data pertain to July 1-June 30.

following the collapse of the Derg regime, total revenue rose precipitously in FY95 owing to the sounder financial footing of the large (and now-commercially operated) public enterprises. Subsequently, though, the expected increases in tax revenue as a share of GDP did not materialize, owing to delays in implementing administrative improvements and broadening the tax base to capture new private sector activity. However, as long as defense spending remained low and external financing increased, the government was able to increase real spending in key sectors and achieve a measure of fiscal deficit reduction without a sustained upswing in tax revenue. The sustainability of this stance came into question in FY98 because of the sharp rise in military

expenditure, and was made even more tenuous by the pronounced drop in external financing in FY99, with only modest improvements expected in tax collections.

9. More specifically, the **major** trends underpinning recent fiscal performance are as follows:

- **Total revenue stayed in the range of 18½-19 percent of GDP during FY96-FY98, and probably in FY99 as well. At the same time, the share of tax revenue in total revenue declined from 12½ percent of GDP in FY96 to 11¾ percent in FY98.**
- **Direct taxes and domestic sales tax and excises accounted for most of the decline in tax revenue during this period.** Income tax collections fell, even though no changes were made to the marginal rates of taxation on business profits and employment income; likewise, the structure of these taxes has remained largely unchanged.¹¹ As the taxation of non-agricultural business activity remains heavily dependent on the 25 or so largest state-owned enterprises (SOEs), the sluggish performance of the corporate income tax take points to the persistence of tax administration problems and weak profitability of some of these now-commercialized operations.
- **Both income tax and customs duty collections appear to have picked up slightly in FY99 owing to modest administrative improvements** at the Federal Inland Revenue Authority and Customs Administration. However, the rise in import duty collections was partially offset by the latest round of tariff reductions in December 1998 and, more generally, a moderate decline in civilian imports.
- **Nontax revenue (including privatization receipts) continued to account for around one-third of total revenue during the period FY96-FY98**, with surplus and dividends from the National Bank of Ethiopia (NBE) and SOEs remaining as the overwhelming source (nearly one-half of total nontax revenue in 1997/98).
- **Total expenditure and net lending declined from 27 percent of GDP in FY96 to 25½ percent in FY98, and probably stayed at the lower end of this range in FY99. However, the composition of expenditure has changed considerably, especially during the past two fiscal years.**
- Following a sharp drop in defense spending in relation to GDP from the early 1990s until FY97, when it bottomed out at around 2 percent of GDP, **defense spending rose again to 4½ percent of GDP in FY98 and an estimated 6 percent in FY99** as a result of the war

¹¹ The highest marginal tax rate on income from agricultural activities was lowered from 89 percent to 45 percent, but the tax bracket subject to the highest marginal rate was raised from Br 6,001 a year to Br 50,001 a year. Similarly, the annual income threshold subject to the lowest marginal rate (10 percent) was raised from Br 600 to Br 1,200.

with Eritrea. The rise in defense spending has been more than offset by (i) reduced outlays for interest payments and general (non-military) and economic services, and (ii) lower capital expenditure (as discussed earlier). By contrast, **social spending** (recurrent and capital) rose by 0.8 percent of GDP from FY96 to FY98, to 6½ percent of GDP.

- **Starting in FY98, the share of the overall fiscal deficit financed by external grants and loans began to decline, as continued to be the case in FY99.** As mentioned earlier, at least in FY99, some of the drop appears to be associated with the reduced donor support owing to concerns about the war and its impact on the government's ability to execute the capital budget, in particular the SDPs. The result was a sharp increase in domestic financing from banks in FY98 and from the nonbank public in FY99, such that **the stock of domestic debt has stayed at around 29 percent of GDP.**

Monetary and exchange rate developments¹²

10. **Since FY96, broad money growth has stayed generally in line with the rise in nominal GDP, with limited financial deepening in the country given the relatively limited number of financial institutions in operation.** The overall increase in broad money has accommodated a further large expansion of domestic credit, but was accompanied by a drop in net foreign assets of the banking system. Owing to the relatively limited domestic government borrowing requirement until recently, much of the expansion has gone toward credit to the nongovernment sector¹³, which grew at an average rate of 23 percent a year over the period FY96-FY98. However, nongovernment sector credit growth has experienced a modest slowdown in FY99, even though commercial banks as a whole continue to hold large excess liquidity.¹⁴ Credit growth has tended to be concentrated in wholesale and retail trade and import activities. Long-term private borrowing—both domestically and from abroad—remains virtually nonexistent. In FY99, monetary trends can be summarized as follows:

- **Broad money grew by 5.3 percent for the year ending April 1999, down from 9.3 percent in the previous twelve-month period.** Demand deposits remained flat, as public enterprises (which account for one-fourth of the total deposit base) tended to shift any new buildup in cash reserves from unremunerated bank deposits to treasury bills. Broad money excluding public enterprise deposits—a monetary aggregate that tends to reflect behavioral

¹² See Table 16-22 at the end of this report on monetary accounts and interest rate and exchange rate developments.

¹³ The nongovernment sector is defined as credit to the public enterprises (financial and nonfinancial), cooperatives, and private firms and households.

¹⁴ For further details, see Section II of this paper.

factors in Ethiopia more closely—increased by 7.8 percent for the year ending April 1999, from 3.6 percent in the previous twelve-month period.

- **Since FY96, velocity has fluctuated within a generally small range.** As noted above, the absence of any noticeable downward trend is consistent with a general lack of financial deepening, despite the advent of private banks (which still control less than 10 percent of total deposits).
- **Through April 1999, the annual rate of growth in nongovernment sector credit was around 12 percent** (excluding public enterprises, it was 13 percent). The dominant, state-owned Commercial Bank of Ethiopia (CBE), which currently holds 85 percent of total commercial bank assets, accounted for slightly under three-fourths of this expansion.
- Nonetheless, **for the entire banking system, excess liquidity was 31 percent of net current deposits at end-April 1999.**¹⁵ The CBE still held around 80-90 percent of total excess liquidity in the banking system. The **excess reserve and liquidity holdings** appear to arise from a lack of effective competition among banks and is exacerbated by the poor quality of banks' loan portfolios, the lack of private land ownership and deficiencies in enforcement of property rights (which make it difficult for banks to assess the quality of, and enforce collection on, collateral), and absence of a secondary market for government securities.¹⁶ Partly as a result, the **interbank money market** established in September 1998 has to date been completely inactive.
- **Even though the government lifted most controls on lending and deposit rates in January 1998, interest rates have remained generally sticky.**¹⁷ Banks still tend to differentiate credit risks on the basis of quality of collateral rather than by the rate of interest charged. As a result, lending rates continue to vary only slightly across banks and over time. Time deposit rates have show only slightly more variation. The capacity of banks besides the CBE to use interest rate differentiation to mobilize deposits (especially those of public

¹⁵ Excess liquidity is defined as the ratio of liquid assets (cash on hand, reserves at the NBE, and demand deposits with other banks) to net current deposits (demand, savings, and time deposits less uncleared checks paid, uncleared foreign effects, and deposits at notice (i.e., that can be withdrawn after 30 days' notice)) in excess of 15 percent of net current deposits. For a discussion of the factors contributing to the highly liquid balance sheets of Ethiopian banks, see Section II below.

¹⁶ As of end-April 1999, commercial banks held only 2 percent of total assets in the form of treasury bills. Excluding the CBE, the ratio of treasury bills to total bank assets was 0.7 percent.

¹⁷ The exception is a floor on the savings deposit rate—currently 6 percent—which continues to be set by the National Bank of Ethiopia.

enterprises) may be constrained by the public's perception of the soundness of the banking system, in particular the private banks; the lack of "bankable" projects, especially for these smaller, less experienced institutions; and, more generally, the lack of competition in the financial system.

- **The official exchange rate is determined at a weekly wholesale auction conducted by the NBE and open to all banks and importers willing to submit a bid in excess of US\$500,000 per auction.** The wholesale auction replaced the retail auction (which was open to all licensed importers willing to submit a bid in excess of US\$10,000 per auction) in September 1998; at the same time, an interbank foreign exchange market was established, which has seen limited action. Since that time, the exchange rate has come under some pressure, in part owing to a lifting in August 1998 of most restrictions on external current account transactions and, more generally, the terms of trade loss, the poor export volume performance, and war-related uncertainties. In FY99, the birr depreciated by around 14 percent against the U.S. dollar, compared with 12 percent during the whole of the preceding three-year period.

C. Financial Sector, Exchange and Trade System, and Structural Reforms

11. Over the past year, a number of reforms have been undertaken with a view to further removing structural impediments in the economy and stimulating broad-based private sector-led growth. Major reforms are summarized in Box 2. After a number of ambitious "first generation" reforms in the early years of the present regime, the structural reform effort slowed somewhat in subsequent years. An anti-export bias persisted in the trade regime, exchange and trade regulations remained burdensome, foreign direct investment was limited to a narrow range of activities, and capacity building in the government was constrained by slow implementation of the civil service reform.¹⁸ Moreover, despite the establishment of the Ethiopian Privatization Agency in 1994, the sale of SOEs continued to be undertaken at a slow pace.¹⁹ The rudimentary state of the financial sector and the outdated reach of the legal and regulatory framework also hindered private sector development.

12. The most recent policy framework paper (EBD/98/98; 9/29/98), which covered the period FY99-FY01 and was published by the government in September 1998, recognized the need to broaden and deepen structural reforms. To this end, efforts are underway to remove further exchange and trade restrictions, increase export promotion, expand opportunities for foreign investors, intensify agricultural and rural development, and strengthen public expenditure management, including improvements to budget planning and monitoring and acceleration of

¹⁸ On civil service reform, see Section III of this paper.

¹⁹ On privatization, see Section IV of this paper.

Box 2. Major Structural Reforms Since FY96

During the FY96-FY99 period, the government implemented major structural measures in a number of areas.

In the **financial sector**, the government:

- decontrolled commercial bank lending rates, but maintained a minimum floor on bank deposit rates, currently 6 percent (January 1998);
- reduced the minimum denomination of treasury bills offered for sale from Br 50,000 to Br 5,000 (September 1998);
- established a framework for the conduct of interbank money market operations (September 1998);
- finalized the terms of reference for a comprehensive audit of the Commercial Bank of Ethiopia (November 1998); and
- selected an internationally reputable firm to conduct the audit (December 1998).

With respect to the **exchange and trade system**, the authorities:

- narrowed significantly the negative list that limits the commodities for which foreign exchange may be purchased (FY95) and subsequently eliminated it (FY97);
- allowed exporters to open foreign currency deposit accounts and retain 10 percent of export proceeds indefinitely (September 1996);
- increased the frequency of foreign exchange auctions to weekly and eliminated the cover requirement for the auctions (September 1996);
- authorized foreign exchange bureaus within commercial banks (September 1996);
- reduced the export proceeds surrender requirement to 50 percent (September 1996) and subsequently eliminated it (September 1998);
- lowered the maximum import tariff rate from 60 percent to 50 percent and reduced the number of tariff bands from nine to eight (December 1996); further lowered the maximum import tariff rate from 40 percent to 30 percent and the average tariff from 21.5 percent to 19.5 percent (December 1998);
- simplified import licensing (FY97);
- eliminated foreign exchange surrender and unremunerated bid bond requirements (which were replaced with a 90 percent conversion requirement to be met over a period expanded from three to four weeks), and transferred the responsibility from the National Bank of Ethiopia (NBE) to the commercial banks for determining compliance of foreign exchange buyers and sellers with import and export licensing requirements and foreign exchange regulations (August 1998);
- replaced the weekly retail foreign exchange auction with a wholesale auction; introduced and made operational an interbank foreign exchange market; removed limits on external current account transactions for business travel, education, and health, and increased limit on holiday travel from US\$300 to US\$1,200 per person per trip (September 1998);
- allowed foreign exchange bureaus to engage in all approved spot/cash external current account transactions (September 1998); and
- ended parastatal monopoly on customs clearing and forwarding services (1998).

On **export promotion and development**, the government:

- ceased price verification on all nonagricultural commodity exports (September 1998) and on noncoffee agricultural exports for which verifiable international prices are not readily available (December 1998);
- revised the directive on foreign loans to allow manufacturing exporters (including agro-processors) to engage in foreign commercial borrowing, permit the use of suppliers' credits and other implicit forms of credit not involving formal loan agreement, and ease debt/equity constraints on exporters (December 1998); and
-

Box 2. Major Structural Reforms Since FY96 (concluded)

- replaced (i) ex ante price verification on other noncoffee agricultural exports with ex post audits (December 1998), and (ii) ex ante single-point price verification of coffee exports with verification within a restricted range of allowable prices (June 1999).

With respect to **privatization**, the authorities:

- completed privatization of 175 enterprises (FY98);
- initiated privatization of the Construction and Business Bank (September 1998);
- brought ten state farms, a brewery, and a cement factory to point of sale (December 1998); and
- prepared amendments to privatization-related laws for parliamentary approval (December 1998).

In the area of **private sector development**, the government:

- permitted private trade in fertilizers (1997);
- abolished fertilizer subsidies (1997);
- developed new legal and regulatory framework that allows domestic private participation and establishes a regulatory authority (1997);
- enacted a foreclosure law (1997/98), and made it operational (September 1998); and
- removed the minimum limit (US\$20 million) on foreign investment in joint ventures and the maximum limit (US\$20 million) on foreign investment in sole ventures in engineering, metallurgical, pharmaceutical, chemical and fertilizer industries (April 1999).

On **capacity building, governance, and civil service reform**, the authorities:

- issued directives on financial and debt management, procurement, and other budgetary responsibilities, and prepared budget management and control manuals (December 1998).

civil service reform. In the financial sector, considerable progress remains to be achieved in terms of generating greater competition (foreign banks and stand-alone foreign exchange bureaus are still banned in Ethiopia), improving bank supervision and prudential oversight, and increasing the availability of domestic savings instruments. The availability of microfinancing also needs to be expanded in order to relieve credit constraints faced by myriad small firms and households. Owing to the security situation, the conduct of a comprehensive financial and managerial audit of the CBE—an important step in the government's financial sector reform strategy—has been delayed by six months, but is expected to commence shortly.

II. EXCESS LIQUIDITY AND CREDIT EXTENSION TO THE PRIVATE SECTOR²⁰

13. Over the past several years, commercial banks in Ethiopia have consistently held much higher than required reserve and liquid assets in their portfolios.²¹ This phenomenon of excess liquidity may have a negative impact on the efficiency of financial intermediation and economic growth. This section examines the reasons behind the persistent excess liquidity and finds that it probably has been the result of structural bottlenecks, including (i) perceived high credit risks owing to poor information on borrowers and inadequate recovery of claims in cases of default; (ii) lack of competition in the banking sector; and (iii) an inefficient payments system, possibly coupled with the absence of a deposit insurance scheme and limited options for bank liquidity management.

14. *Excess liquidity* for the commercial banks as a whole has remained around 30 percent of net current deposits since 1993, as indicated in Table 5.²² Moreover, substantial, albeit declining, *excess reserves* have been held by the banks. Because of the near monopolistic position of the Commercial Bank of Ethiopia (CBE)—whose assets account for nearly 90 percent of total bank assets—excess reserves and liquidity in the banking system mainly reflect the position of that bank; however, other commercial banks created in recent years also hold excess reserves and liquidity. Asset management decisions of banks evidently reflect statutory reserve requirements as well as the banks' own view on the quality and liquidity of their loan portfolio. To the extent that the removal over time of structural impediments or market failures helps reduce risk and uncertainty, scope could exist to improve the efficiency of financial sector intermediation, with beneficial effects on the country's growth prospects.

15. Bank credit to the private sector has rebounded since 1993 (Tables 6 and 7) as a result of a number of structural reforms and improvements in the macroeconomic environment. First, privatization of certain public enterprises and liberalization of the licensing of private businesses have greatly expanded the size of the private sector. Second, macroeconomic policies aimed at reducing inflation by containing the size of the fiscal deficit and its domestic financing have made

²⁰ Prepared by Jingqing Chai.

²¹ Liquid assets are measured as the sum of cash, reserve deposits, and demand balances with other banks. The excess liquidity ratio would be higher if treasury bills were included in this measure.

²² Net deposits are total deposits less uncleared foreign effects and uncleared checks paid. Net current deposits are net deposits less time deposits that can be withdrawn after 30 days' notice.

Table 5. Ethiopia: Reserve and Liquidity Positions of Commercial Banks, June 1993-April 1999¹

(In millions of birr at end of period, unless otherwise indicated)

	1993	1994	1995	1996	1997	1998	1998	1999		
			June				December	February	March	April
Net deposits ²	5,576	6,908	9,423	11,308	12,843	16,167	15,393	15,518	15,262	15,539
<i>Of which</i> : Commercial Bank of Ethiopia (CBE)	5,576	6,908	8,997	10,507	11,707	14,651	13,640	13,672	13,390	13,621
Reserve requirement ³	279	345	471	565	642	808	770	776	763	777
<i>Of which</i> : CBE	279	345	450	525	585	733	682	684	669	681
Actual reserves	1,613	1,910	1,524	1,985	1,336	2,425	1,991	1,698	1,632	1,875
<i>Of which</i> : CBE	1,613	1,910	1,501	1,920	1,236	2,268	1,762	1,480	1,350	1,602
Excess reserves	1,335	1,564	1,053	1,420	694	1,617	1,222	923	869	1,098
<i>Of which</i> : CBE	1,335	1,564	1,051	1,395	650	1,535	1,080	796.5	680.51	920.93
Actual reserve ratio (in percent)	28.9	27.6	16.2	17.6	10.4	15.0	12.9	10.9	10.7	12.1
<i>Of which</i> : CBE	28.9	27.6	16.7	18.3	10.6	15.5	12.9	10.8	10.1	11.8
Excess reserves (in percent)	23.9	22.6	11.2	12.6	5.4	10.0	7.9	5.9	5.7	7.1
<i>Of which</i> : CBE	23.9	22.6	8.7	13.3	5.6	10.5	7.9	5.8	5.1	6.8
Net current deposits ⁴	5,267	6,527	8,798	10,548	11,996	15,092	14,427	14,563	14,411	14,691
<i>Of which</i> : CBE	5,267	6,527	8,553	9,936	11,160	13,954	13,110	13,154	12,972	13,192
Liquidity requirement ⁵	1,053	1,305	1,760	1,582	1,799	2,264	2,164	2,184	2,162	2,204
<i>Of which</i> : CBE	1,053	1,305	1,711	1,490	1,674	2,093	1,966	1,973	1,946	1,979
Actual liquidity assets	2,517	3,723	4,779	4,124	5,191	7,755	6,669	5,998	6,323	6,323
<i>Of which</i> : CBE	2,517	3,723	4,677	3,856	4,789	7,147	5,985	5,335	5,542	5,482
Actual liquidity ratio (in percent)	47.8	57.0	54.3	39.1	43.3	51.4	46.2	41.2	43.9	43.0
<i>Of which</i> : CBE	47.8	57.0	54.7	38.8	42.9	51.2	45.6	40.6	42.7	41.6
Excess liquidity	1,464	2,418	3,019	2,542	3,392	5,491	4,505	3,813	4,162	4,120
<i>Of which</i> : CBE	1,464	2,418	2,966	2,366	3,115	5,053	4,018	3,362	3,596	3,503
Excess liquidity (in percent)	27.8	37.0	39.3	24.1	28.3	36.4	31.2	26.2	28.9	28.0
<i>Of which</i> : CBE	27.8	37.0	39.7	23.8	27.9	36.2	30.6	25.6	27.7	26.6

Sources: National Bank of Ethiopia, and Fund staff estimates.

¹Construction and Business Bank and Awash International Bank are included beginning March 1995, Dashen Bank beginning January 1996, Bank of Abyssinia beginning November 1996, and Wegagen Bank December 1997.²Demand, savings, and time deposits less uncleared checks paid and less uncleared foreign effects.³Five percent of net deposits; 8 percent for the Commercial Bank of Ethiopia in 1996.⁴Net deposits less deposits at notice (deposits that can be withdrawn after 30 days' notice).⁵Twenty percent of net current deposits through 1995; 15 percent thereafter.

Table 6. Ethiopia: Bank Credit Growth, 1993-98¹
(Annual percentage change)

	Private Sector				Nongovernment Nonfinancial Public Enterprise Sector			
	Nominal Growth		Real Growth		Nominal Growth		Real Growth	
	Nominal Growth	excl. DBE ²	Real Growth	excl. DBE	Nominal Growth	excl. DBE ²	Real Growth	excl. DBE
1993	192.9	...	189.4	...	173.2	...	169.7	...
1994	94.9	...	87.3	...	-61.8	...	-69.4	...
1995	91.1	...	81.1	...	-9.6	...	-19.6	...
1996	10.4	6.3	15.5	11.4	228.6	...	233.7	...
1997	4.1	14.9	7.8	18.6	-70.6	-73.7	-66.9	-70.0
1998	26.9	-0.5	26.0	-1.4	-22.4	-20.4	-23.3	-21.3
<i>Annual average</i>								
1993-98	70.1	...	67.9	...	39.6	...	37.4	-47.0
1997-98	15.5	7.2	16.9	8.6	-46.5	-47.0	-45.1	-45.6

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹Excludes net credit to government.

²DBE refers to the Development Bank of Ethiopia, a public specialized bank.

Table 7. Ethiopia: Total Bank Credit Disbursed by Sector, 1992-98¹
(In millions of birr, unless otherwise indicated)

	Total Credit	Private Sector	Nonfinancial Public Sector ^{2,3}	Other ⁴
1992	551	247	230	74
1993	1,476	724	628	125
1994	1,750	1,411	240	99
1995	3,338	2,696	217	426
1996	4,182	2,977	713	492
1997	3,722	3,101	210	412
1998	4,642	3,935	163	544
(In percent of total credit disbursed)				
1992	100	44.9	93.1	32.2
1993	100	49.0	86.8	19.9
1994	100	80.6	17.0	41.3
1995	100	80.8	8.0	196.5
1996	100	71.2	23.9	69.1
1997	100	83.3	6.8	196.7
1998	100	84.8	4.1	334.8

Source: the National Bank of Ethiopia

¹Excludes net credit to government.

²Refers to the nonfinancial public enterprise sector (including cooperatives).

³Includes loans disbursed by the Development Bank of Ethiopia.

room for private sector credit expansion. Finally, the liberalization of lending rates in January 1998 removed an important obstacle to the expansion of private sector credit.²³

16. Despite these positive developments, the level of financial intermediation in Ethiopia is still considerably lower than the average in sub-Saharan Africa. Over the past four years, total commercial bank credit to the private sector amounted on average to 7 percent of GDP in Ethiopia, compared with an average of about 20 percent in sub-Saharan Africa (Mehran and others, 1998). Furthermore, the pace of private credit expansion has slowed considerably since 1996, which together with the persistence of the excess liquidity phenomenon suggests that there may be obstacles in the way of sustained lending by the banking system. This section examines possible policy and structural barriers that may have hindered lending to the private sector and contributed to the relatively high share of liquid assets in the banks' portfolio. In particular, it discusses whether excess liquidity results from structural bottlenecks in the extension of credit by commercial banks, and identifies possible reasons for this behavior, including (i) perceived high credit risks owing to both poor information on borrowers and inadequate recovery of claims in cases of default; (ii) the near-monopoly of the CBE on banking services, which has resulted in large holdings of nonremunerated deposits and possibly hampered the channeling of loanable funds to smaller banks through the interbank money market established in September 1998, and (iii) inefficiencies in the payments system, possibly coupled with the absence of bank deposit insurance and lack of alternatives for liquidity management.

17. Regardless of the specific reasons for holding excess liquidity, any actions to modify this phenomenon must take account of the potential macroeconomic repercussions. The release of a large pool of liquidity in the economy could spark inflationary pressure or weaken the external accounts, possibly necessitating policy interventions to ensure macroeconomic stability. On the asset side of the banking system's balance sheet, and given the need to build up net foreign assets, a large sustained expansion in private sector credit hinges on moderating the public sector domestic borrowing requirement. At the same time, the mobilization of domestic financial savings would be aided by the continued pursuit of prudent policies that bolster confidence and the removal of impediments to financial deepening.

²³ A floor on the savings deposit rate (currently 6 percent) remains in place. However, the effect of the floor has been diluted by an ad-hoc decision of the CBE (which holds the bulk of savings and time deposits) not to remunerate individual accounts in excess of Br 1 million, most of which belong to public enterprises.

A. Background

Financial intermediation during the Derg regime (1974-91)

18. Higher than required liquidity holdings are not a completely new phenomenon in Ethiopia. Under the centrally-planned economy of the Derg regime, the ratio of liquid reserves (cash plus reserves with the National Bank of Ethiopia) to total net deposits of the CBE—the only bank in operation—averaged around 25 percent during the period 1974-85.²⁴ Excess liquidity in the context of a centrally planned economy was associated with credit rationing and interest rate controls and, more generally, the virtual absence of private sector activities. Other factors such as the CBE's own operating inefficiencies (exacerbated by its monopoly position) and the lack of collateral following the nationalization of land and real estate may have also played a role. In all, under the Derg regime, private sector credit fell to about 40 percent of total bank credit outstanding, from nearly 100 percent under Haile Selassie's monarchy (Di Antonio, 1988). Also, since credit extension by the CBE followed the directives of central planning, excess liquidity was largely a residual of the planned credit allocation.

The first phase of market reform: macroeconomic liberalization (1992-98)

19. The new government that came to power in 1991 launched a series of policy reforms, including measures to foster private sector development. These reforms were gradually extended to the country's banking system. Some competition has been introduced by the entry of five small private domestic banks since 1994. Banks have been encouraged to respond to market needs by mobilizing and allocating savings on the basis of commercial principles. The simultaneous liberalization of the productive sector has opened up opportunities for banks to expand their client base. Furthermore, in January 1998, the government abolished the ceiling on bank lending rates, while maintaining a floor on time deposit rates. Before that, these ceilings may have led banks to prefer holding excess liquidity rather than lending to projects whose risk-adjusted rates of return were not attractive. In this sense, part of the excess liquidity was generated by interest rate controls. Surprisingly, however, commercial banks have done little to differentiate their loans by lending rates since the lifting of interest rate controls (Table 8), adding to the puzzle as to why excess liquidity has persisted despite the recent liberalization steps.

²⁴ Prior to that and under the Haile Selassie monarchy, the share of liquid reserves to total net deposits of the banking system averaged around 15 percent during the period 1964-73.

Table 8. Ethiopia: Summary Structure of Commercial Bank Interest Rates, July 1998-April 1999
(In percent per annum)

	1998		1999			
	July	December	January	February	March	April
Bank of Abyssinia						
Saving rate	6.00	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	6.64	6.54	6.54	6.54	6.54	6.67
Lending minimum	11.00	12.00	12.00	12.00	12.00	11.00
Lending maximum	12.00	12.00	12.00	12.00	12.00	13.00
Awash International Bank						
Saving rate	6.00	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	6.63	6.63	6.63	6.63	6.63	6.63
Lending minimum	12.00	12.00	12.00	12.00	12.00	12.00
Lending maximum	12.00	12.00	12.00	12.00	12.00	12.00
Dashen Bank						
Saving rate	6.00	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	6.75	6.75	6.75	6.75	6.75	6.75
Lending minimum	10.50	10.50	10.50	10.50	10.50	10.50
Lending maximum	12.00	12.00	12.00	12.00	12.00	12.00
Construction and Business Bank						
Saving rate	6.00	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	6.00	6.00	6.00	6.00	6.00	6.00
Lending minimum	10.50	10.50	10.50	10.50	10.50	10.50
Lending maximum	10.50	10.50	10.50	10.50	10.50	10.50
Commercial Bank of Ethiopia						
Saving rate	6.00	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	6.00	6.00	6.00	6.00	6.00	6.00
Lending minimum	10.50	10.50	10.50	10.50	10.50	10.50
Lending maximum	10.50	10.50	10.50	10.50	10.50	10.50
Wegagen Bank						
Saving rate	6.00	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	6.00	6.00	6.00	6.00	6.00	6.00
Lending minimum	10.50	10.50	10.50	10.50	10.50	10.50
Lending maximum	10.50	10.50	10.50	10.50	10.50	10.50
United Bank						
Saving rate	...	6.00	6.00	6.00	6.00	6.00
Time deposit ¹	...	7.00	7.00	7.00	7.00	7.00
Lending minimum	...	10.50	10.50	10.50	10.50	10.50
Lending maximum	...	10.50	10.50	10.50	10.50	10.50

Source: National Bank of Ethiopia.

¹Maximum rate for deposits of six to twelve months.

B. Excess Liquidity as a Result of Structural Rigidities

20. The developments mentioned above suggest that the root of the excess liquidity phenomenon in Ethiopia lies in structural rigidities that have yet to be addressed.²⁵ Specifically, excess liquidity seems to be caused by (i) credit rationing owing to the banks' difficulties in assessing loan risks and the added high risks resulting from weaknesses in property rights and the judicial system, especially in enforcing loan contracts and recovering collateral in case of default; (ii) lack of competition in the banking system, where the CBE's near-monopoly hinders the smaller banks' access to loanable resources; and (iii) other factors such as inefficiencies in the payments system, possibly coupled with the absence of a deposit insurance scheme and lack of alternatives for liquidity management.²⁶

Credit rationing in the absence of interest rate controls

21. A possible factor contributing to excess liquidity is the apparent lack of sufficient "bankable" projects (i.e., with an attractive risk-adjusted private rate of return) eligible for lending. Banks may then choose to forego lending altogether to certain high-risk applicants. As Stiglitz and Weiss (1981) have shown, even in the absence of interest rate controls, credit rationing is still likely if there is substantial asymmetry of information between borrowers and lenders. In the event, the quantity of credit supplied may at certain levels be inversely related to the interest rate, if the latter must be so high to cover perceived risks that it squeezes out good borrowers and only attracts bad borrowers.²⁷

22. The possibility of a backward-bending supply curve for loans could well explain seemingly "excessive risk aversion" by banks in many developing countries (e.g., Tunisia and Sierra Leone—see Caprio and Honohan, 1993). While information asymmetry is common in developing countries, Ethiopia has specific features that may exacerbate this problem. First, information on borrowers is limited owing to pervasive scarcity of human capital (including skilled auditors and accountants) and the absence of rigorous disclosure requirements that would be common in more developed economies. For these reasons, although banks currently conduct some client screening in the form of questionnaires and interviews, it is not clear how effective these measures are in allowing banks to make reliable risk assessments. Second, the private sector virtually collapsed under the Derg regime, but despite the liberalization measures introduced by the current

²⁵ Mehran and others (1998) discuss excess liquidity in sub-Saharan African countries.

²⁶ The advantages and disadvantages of a deposit insurance scheme, as well as the possible configuration of such a scheme in the case of Ethiopia, are beyond the scope of this section.

²⁷ The problem of backward bending supply of credit may be exacerbated by the existence of the floor on deposit rates mentioned above, which admittedly is not fully binding under the present circumstances.

government, private sector activities still represent a relative small proportion of non-farm activities in Ethiopia. It takes time both for the banks to accumulate sufficient information and for new firms to mature so as to establish a track record of good management and timely repayment. By the same token, the banks' information about public enterprises may also be inadequate, as data on profitability may not be reported in a meaningful fashion. Third, to date no information on the credit records of borrowers has been compiled. The banks' knowledge about borrowers is fragmentary and, according to an unpublished official study, information is shared among banks, if at all, on an ad hoc basis only. Monitoring of borrowers' loan projects has also been very limited, partly because of the lack of professional manpower. Finally, commercial banks appear to operate in a setting that lacks a culture of loan repayment. In the absence of effective bankruptcy laws, they cannot protect themselves adequately against clients who are unwilling to pay. Indeed, according to the above study, it takes years for banks to obtain legal authorization to recover overdue loans by selling assets that are mortgaged to them. The introduction of a foreclosure law in September 1998 should help address this issue.

23. In light of the problem of information asymmetry in Ethiopia, banks appear to have resorted to strict collateral requirements and loan size adjustments as the main tools for reducing credit risk rather than through lending rate variation.²⁸ However, liquidating assets held as collateral in the event of default on loan repayments can be very time consuming in Ethiopia. Also, the weak marketability of assets appears to have led banks to try to protect themselves against such risk by requiring the value of collateralized assets to exceed the value of the loan by 25 percent. This heavy reliance on collateral ultimately leads banks to reject all but low risk loans (i.e., insured by sufficient collateral) and to starve projects that have potentially high returns but lack sufficient collateral. Within the low-risk category, borrowers are further differentiated by the size of loans.²⁹

Lack of competition

24. With the liberalization of loan rates, the persistence of excess liquidity highlights the question of how commercial banks have managed to stay in business when substantial shares of

²⁸ The establishment of long-term customer relationships has also been used to lower risks. A core component of the CBE's loans and advances, for example, has been reserved for long-term clients who have established track records. However, given the major structural changes in the economy in the last decade, long-term relationships are difficult and time consuming to develop and have played a limited role in the extension of bank credit.

²⁹ In addition to interest costs and collateral requirements, high transaction costs that are associated with loan application, processing, and delivery may also result in credit rationing, especially when they are passed on to prospective borrowers (Ladman, 1984).

their assets are held in nonremunerated liquid form.³⁰ This question is particularly pertinent for the CBE, which has applied a uniform loan rate that coincides with the ceiling previously imposed by the government.³¹

25. The CBE's profitability is greatly aided by its ability as a near monopolist to attract nonremunerated deposits. As shown in Table 9, nonremunerated demand deposits were on average over one-half of total deposits at the CBE during the period January 1998-March 1999 (almost one-half of which belonged to the government, nonfinancial public enterprises, and cooperatives). In being able to capture these large "free" resources, the CBE can hold large amounts of excess reserves and liquidity while seemingly avoiding losses, although in the absence of structural impediments to lending its capacity to generate profits might have been even further enhanced. Other commercial banks, however, have considerably smaller shares of nonremunerated deposits. Furthermore, the CBE has arbitrarily decided not to remunerate large savings deposits of public enterprises, as noted earlier.

26. Lack of competition has allowed the CBE to survive by making only limited improvements to efficiency. Under its current operations, the CBE has been slow in making efforts to expand its clientele. Table 9 also shows that CBE has the lowest loan-to-deposit ratios among the seven commercial banks. The CBE's inefficient use of funds is also reflected in its reluctance to participate in the interbank money market (a functioning money market could help redirect funds toward less liquid but viable banks, and obviate the incentives for the smaller banks to hold excess reserves and liquidity as well).

Excess reserves and liquidity as signs of prudent bank management

27. Banks could also prefer to hold very liquid positions because of asset management considerations. In particular, they could keep more liquid assets as a prudent management practice to act as (i) a safety measure against a slow payments system; (ii) "insurance" against deposit outflows and, in general, to make up for the absence of a deposit insurance scheme; and (iii) a buffer against under-provisioned nonperforming loans. The official minimum reserve or liquidity requirements may not serve as an adequate benchmark for measuring the excess reserves and

³⁰ The NBE does not consider treasury bill to be liquid assets.

³¹ In addition to the difficulty associated with the lack of information on prospective borrowers, the CBE appears to operate under less than full profit-maximization objectives, given its state ownership and its quasi-monopolistic position.

Table 9. Ethiopia: Excess Liquidity, Demand-to-Total Deposit, and Loan-to-Deposit Ratios, January 1998-March 1999

(Monthly average, in percent)

	Excess Liquidity Ratio	Demand- to-Total Deposit Ratio ¹	Overall Loan-to-Deposit Ratio	Private Loan-to-Deposit Ratio ²
Commercial Bank of Ethiopia	32.0	57.5 (48.1)	60.9	74.3
Construction and Business Bank	30.0	4.9 (19.3)	159.5	272.8
Awash International Bank ³	9.4	25.6 (0.0)	95.8	97.0
Dashen Bank ³	67.8	41.1 (0.3)	62.6	72.7
Bank of Abyssinia ³	30.9	20.3 (1.0)	90.8	113.1
Wegagen Bank ³	49.9	30.0 (0.0)	75.8	83.1
United Bank ⁴	95.8	37.1 (13.3)	117.9	212.4

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹The share of demand deposits from government, nonfinancial public enterprises, and collectives is shown in parentheses.

²The ratio of lending to the private sector to deposits held by the private sector.

³Data on lending by sector are not available. It is assumed that all loan and advances are to the private sector.

⁴For the period January 1999-March 1999.

liquidity positions of commercial banks, especially since Ethiopia has relatively low reserve and liquidity requirement ratios compared with many sub-Saharan African countries.³²

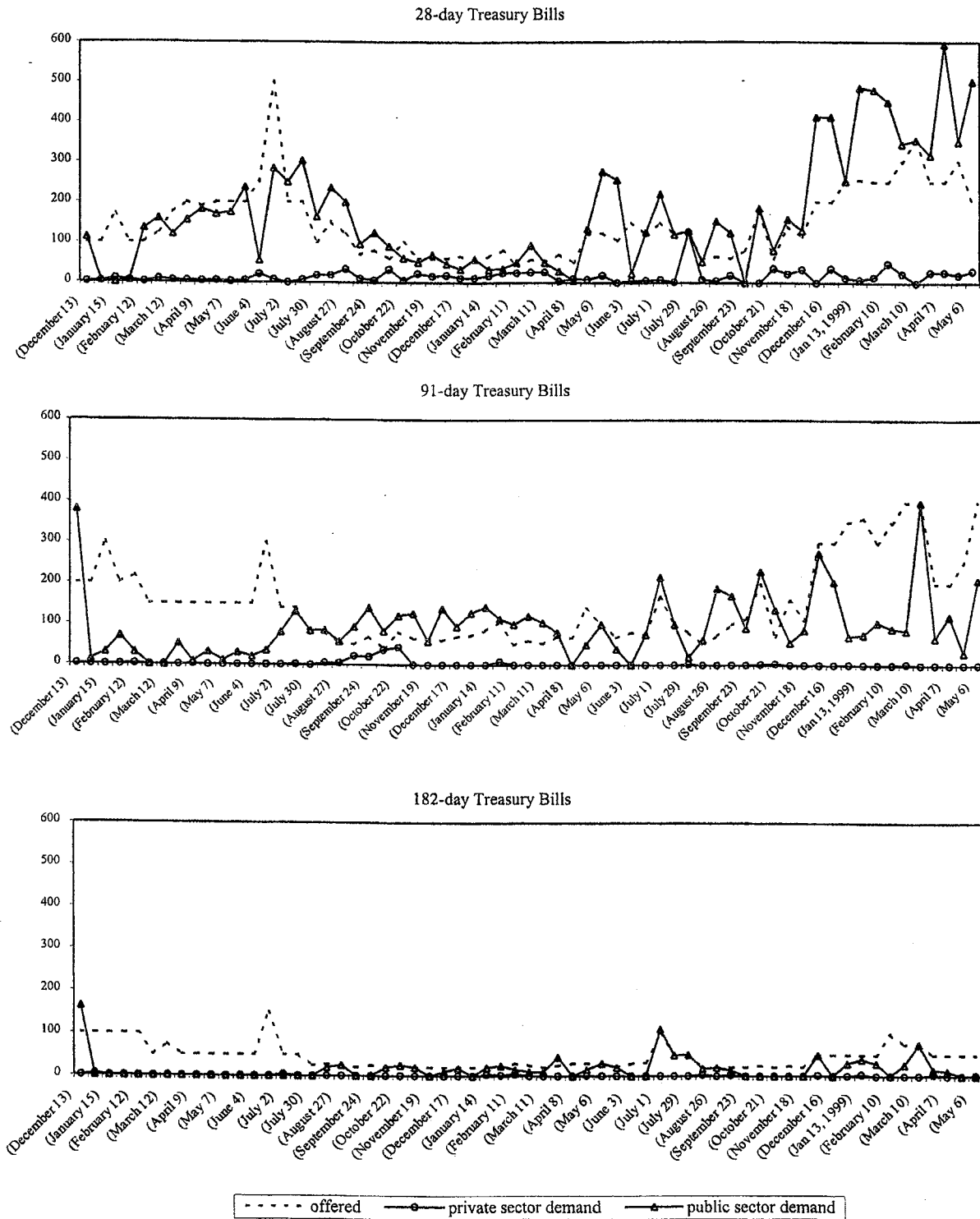
28. Additional reserves and liquidity may be necessary in the presence of an inefficient payments system, as settlements take longer than normally would be the case. For example, banks in Ethiopia routinely hold nonremunerated demand deposits with the CBE and banks abroad for settlement purposes, compounding the holdings of excess liquidity. Excess liquidity associated with weak payments systems was typical, for instance, in parts of the former Soviet Union (see Baliño, Hoelscher, and Horder 1997). Moreover, excess reserves and liquidity act as an insurance against the costs associated with deposit outflows. The higher the costs associated with such outflows, the higher the excess reserves and liquidity banks will want to hold.

29. Reasons for banks in Ethiopia holding reserves and liquidity well above the statutory minimum relate to having few options for acquiring short-term liquidity from outside sources. First, borrowing from the interbank money market has not been a viable option for private banks so far, partly because of the CBE's insistence on requiring collateral for such borrowing. Second, the absence of a secondary market for securities precludes banks from quickly liquidating their treasury bill holdings. Third, unlike in developed countries, the central bank has not yet found it necessary to create a "discount window" because it sees no need for it when excess liquidity is common, therefore perpetuating the incentive for banks to hold unusually high liquidity. Finally, calling in short-term loans or selling them off to other banks has not been a feasible option so far because banks remain reluctant to jeopardize their relationship with established, creditworthy clients, and selling off loans is quite difficult in a thin market. Holding excess liquidity may be even more attractive to private commercial banks as a precaution against bank runs since, unlike the CBE, they do not have the implicit expectation of being bailed out in the event of a liquidity crunch. Nevertheless, it is difficult to determine empirically the degree of excess liquidity required for a given bank to protect itself against volatility in its deposit base.

30. A related question is whether private banks have attempted to switch to short-term treasury bills as a means of liquidity management. Figure 2 shows that, overall, the demand for 28-day treasury bills by private bidders (including private banks) has been subdued, compared with the demand by public bidders (including the CBE and the state-owned Construction and Business Bank). Demand for longer-term treasury bills is even weaker. Figure 3 indicates that, for banks in Ethiopia, excess liquidity ratios have broadly moved in a different direction than loan-to-deposit ratios, suggesting that treasury bills have not crowded out—at least not consistently—private sector credit. The finding that banks have continually preferred to hold excess liquidity rather than treasury bills with a positive return seems to support the hypothesis that banks need additional excess reserves and liquidity for prudent liquidity management.

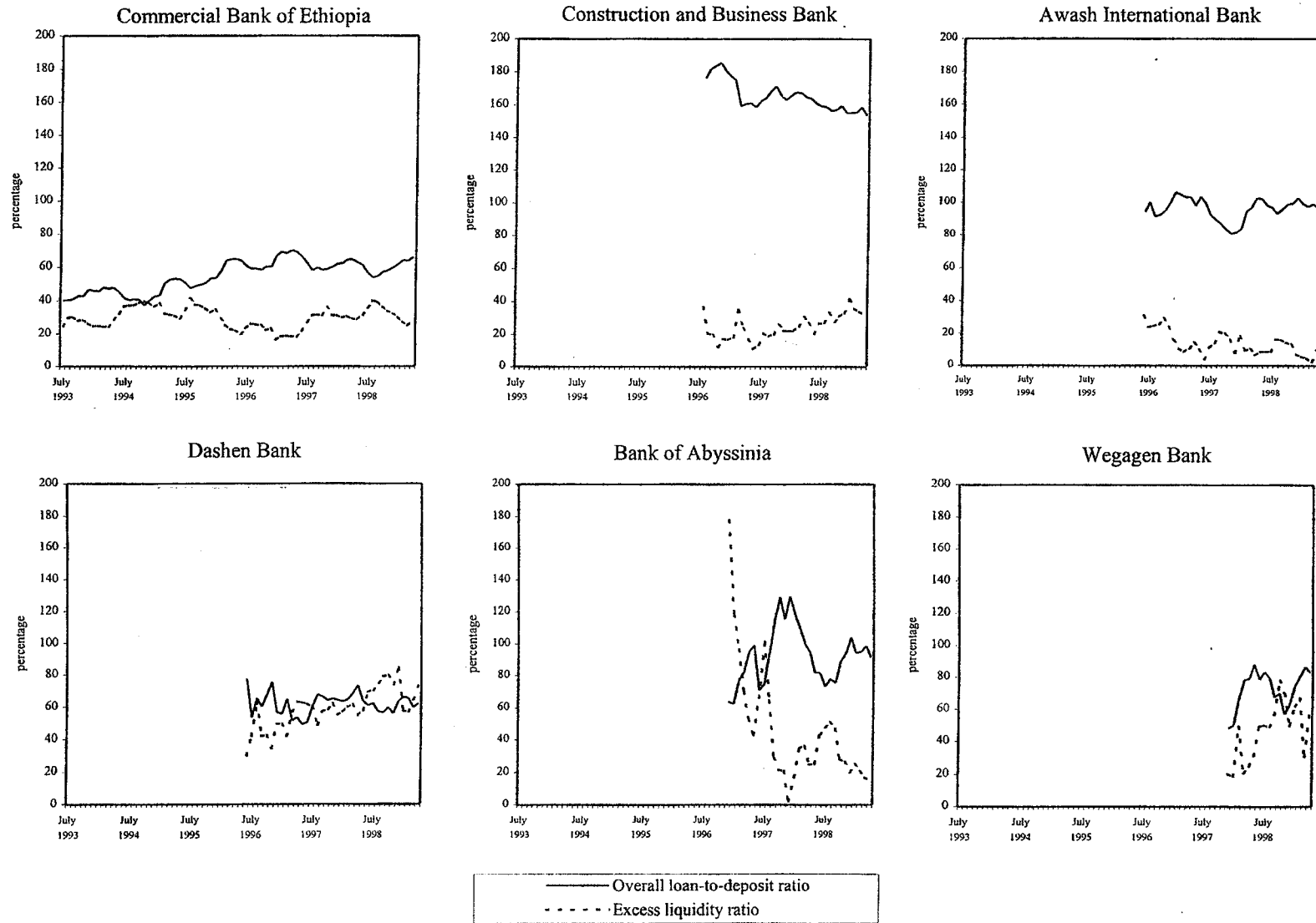
³² Among 13 selected sub-Saharan African countries where official liquidity requirements exist, eight of them have higher liquidity requirement ratios than Ethiopia (Mehran and others, 1998).

Figure 2. Ethiopia: Biweekly Treasury Bill Auctions, December 13, 1996 - May 6, 1999
(In millions of birr)



Source: National Bank of Ethiopia.

Figure 3. Ethiopia: Commercial Banks, Loan to Deposit and Excess Liquidity Ratios, June 1993-March 1999



Sources: National Bank of Ethiopia; and Fund staff estimates.

31. Finally, it could well be that banks need to hold higher than required reserves and liquidity because of the possibility that nonperforming loans are insufficiently provisioned. According to a World Bank study (1998), unaudited information suggests that the share of nonperforming loans in the banks' total loan portfolio almost doubled from 15 percent in 1994 to 28 percent in 1996. In the latter year, the incidence of nonperforming loans was somewhat higher in the case of credit to the private sector (30 percent) than in credit to public enterprises (25 percent). To the extent that the banks' provisions for nonperforming loans are not sufficient and bailouts by the government unlikely, holding excess reserves and liquidity could actually be a sign of solvency and liquidity precautions.³³

C. Concluding Remarks

32. Excess liquidity in Ethiopia appears to be related to structural bottlenecks, which cause banks to hold liquid assets beyond the minimum statutory requirements. As a result, the pace of expansion of private sector credit has likely been dampened. In the context of the government's strategy for financial sector reform, complementary measures could help remove the structural rigidities that force excess liquidity holdings, including the following:

- **Facilitating the collateralization of assets:** Market failures in the land lease system could be tackled by facilitating the transfer of leases and putting in place a legal framework to permit collateralization of machinery. Other contractual innovations, such as loan commitments and compensating-balance requirements, could also reduce credit rationing;
- **Introducing a system of credit rating of clients and dissemination of information among banks, building on the information already available:** This would help improve loan quality and allow banks to use loan rates more effectively to manage credit risk;
- **Undertaking competition-enhancing measures:** A public announcement by the government stating that public enterprises are free to deposit at the bank of their choice, as well as permission for the entry of foreign banks, also could help foster competition.
- **Strengthening supervision to forestall the risk of overly aggressive banking behavior.**

33. However, a word of caution is warranted. If the structural measures described above were effective in gradually removing the incentives for holding excess reserves, the monetary authorities would need to skillfully keep total liquidity in the economy under control by conducting open market operations and tightening fiscal policy as needed. In particular, to the

³³ The staff has not received information about the amount of banks' nonperforming loans, which would permit an assessment of the adequacy of their current provisions.

extent that a generous credit expansion to support a vibrant private sector is an important policy objective, the domestic borrowing requirement of the government may need to be restricted correspondingly. In sum, excess liquidity in Ethiopia is unlikely to disappear quickly even if the measures suggested above to address structural rigidities are implemented. This suggests that calibration of central bank liquidity management and close coordination between the monetary and fiscal authorities should not pose major challenges. Moreover, to the extent that fiscal consolidation and a deepening in structural reforms bolster investor confidence and increase money demand, there would be more resources to support a vigorous expansion in private sector activity.

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III. CIVIL SERVICE REFORM IN ETHIOPIA³⁴

34. When the Transitional Government of Ethiopia (TGE) replaced the totalitarian Derg regime in 1991, it inherited a civil service that suffered from administrative complexity, excessive centralization, and poorly trained staff. These factors, together with low wages, a compressed salary structure, and promotions based on seniority rather than merit, resulted in poor morale, evasion of responsibility, and corruption. As the TGE focused on reducing the role of the government and introducing market elements in the economy (via macroeconomic liberalization and private sector development), the reform of the civil service became an important part of the government's program. The overall objective of the reform in Ethiopia was to provide a lean, efficient, and ethical civil service that would also support the development of critical social areas, such as education and health care, and promote private sector growth.

35. Although some ad hoc measures aimed at improving civil service performance were adopted in the early 1990s, a comprehensive and more systematic reform only started in 1994, with the establishment of a task force to identify the main weaknesses and propose solutions. After a 16-month study, the task force published a report from which the Civil Service Reform Program (CSRFP) was developed.

36. This study reviews progress in implementation of the reform during the 1990s and flags some of the remaining problems. The study is organized as follows: The first section describes the evolution of the civil service before 1990; the second section assesses the results of the reform during the 1990s; and the final section summarizes the experience with the demobilization and reintegration of ex-combatants during the early 1990s—which may be applicable again once the current border conflict with Eritrea is resolved.

A. Pre-Reform Period (Pre-1990)

37. During the Derg regime (1971-90), the government became the largest formal sector employer through nationalization and the growth of the central government.³⁵ The number of ministries increased from 16 in 1974/75 (July-June) to 20 in 1989/90, and 34 completely new government agencies were established; the number of civil servants jumped by 134 percent, from

³⁴ Prepared by Zuzana Brixiova.

³⁵ A survey undertaken in 1983 by the Ministry of Labor and Social Affairs, which included establishments employing ten or more people, put the public sector employment at 516,864 (out of a total of 708,565 employees in the formal sector), i.e., 73 percent of employment in the formal sector. Of this, 183,405 were civil service workers. The total labor force in 1983 was estimated at slightly below 14 million, indicating that employment in the formal sector represented only 5 percent of the labor force.

101,000 to over 236,000 during this period (Figure 4). Despite this increase, however, the size of the civil service (normalized by the size of Ethiopia's population) remained lower than in most sub-Saharan countries, raising a broader issue of lack of capacity.³⁶ Furthermore, the majority of new hires were support staff. In addition, the capacity problem was compounded by the background of the professionals hired with university degrees, few of which were trained in economics, law, or other fields relevant for solving the country's economic and social issues.³⁷

38. The rapid growth of the civil service and its organizational complexity made supervision and control more difficult. In addition, performance incentives were diminished by appointments to higher positions based on political affiliation rather than merit. Furthermore, since the salary scale introduced in 1972 (Scale Regulation No. 2, Legal Notice No. 419) was not adequately adjusted over time to the increasing cost of living, in particular for professional staff, real wages declined.³⁸ The emphasis on hiring support staff whose wages tended to be adjusted more than those of the professional staff contributed to a compression of the wage structure. Consequently, the quality of staff and its performance deteriorated significantly.

B. Reforms During the 1990s

Initial reforms: 1990/91–1994/95

39. The measures undertaken by the TGE in the early 1990s focused exclusively on the quantitative, "first-generation" aspects of the reform, such as salary reforms and a limited retrenchment of workers during the restructuring of ministries.³⁹ Little attention was paid to "second-generation" aspects, such as improving the quality of staff, providing incentives for better performance, and fighting corruption.

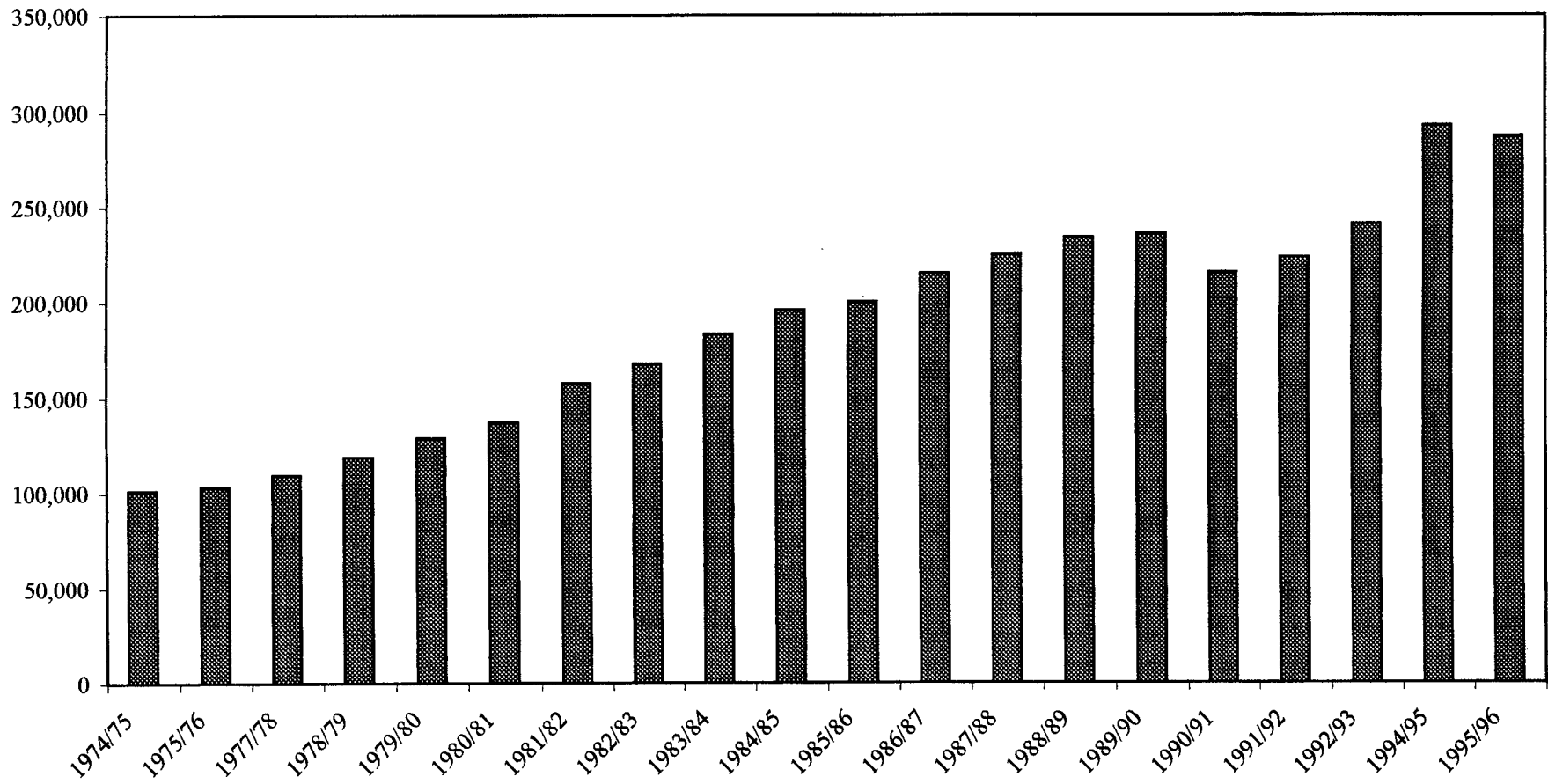
³⁶ Owing to the large population growth during this period, the number of civil servants per 1,000 population increased only from 4.8 in 1984/85 to 5 in 1989/90. According to data in Lienert and Modi (1997), only the following sub-Saharan African countries had fewer civil servants per 1,000 population in 1990: Chad (4.6), Mali (4.8), and Niger (4.6). The average for sub-Saharan Africa in 1991 was 12.7 civil servants per 1,000 population (the average for 1990 is not available).

³⁷ Like other command economies, the Derg regime had biased the education system toward the hard sciences and engineering, neglecting the social sciences, law, and public policy.

³⁸ For example, the civil service minimum wage was increased only once between 1972 and 1990, by 100 percent (from Br 25 to Br 50 in 1975), even though the price level during the same period increased by about 450 percent. Furthermore, the two-year step increments in wages were frozen for all employees earning more than Br 285 per month from 1975 to 1982.

³⁹ In spite of this limited retrenchment, the total number of civil servants increased.

Figure 4. Ethiopia: Number of Civil Servants, 1974/75 - 1995/96¹



Source: Ethiopian authorities; and Fund staff calculations.

¹Fiscal year ended July 7.

40. The government attempted to streamline the organizational structure by redeploying some civil servants from the center to the regions, introducing an early retirement scheme for workers aged over 45 with 20 or more years of service, and retrenching redundant workers. For example, information available for 14 ministries and government organizations restructured before June 1994 shows that 2,325 (36 percent) out of the 6,343 employees submitted by various ministries for review were redundant. Consequently, 516 civil servants were transferred to the regional governments, 465 were sent to early retirement, and 1,553 were retrenched.⁴⁰ However, the retrenchment was not aimed at improving the quality of staff: most retrenched workers lost their jobs because their positions were eliminated, not because they performed poorly. Furthermore, as part of the restructuring of ministries, some positions were being eliminated (and workers retrenched) at the same time that creation of new positions and new hiring were taking place, such that the size of the civil service increased to 293,452 employees by 1994/95 (a 36 percent increase since 1990/91).

41. Salaries were also increased in addition to the employment and organizational changes adopted in the early 1990s. The government announced an increase in the minimum wage for the first time since 1975 from Br 50 to Br 105 in 1992/93, but by an amount (110 percent) that proved insufficient to prevent a decline in the real minimum wage (as noted below, the increase only came into effect in 1993/94).⁴¹ Increases for other categories were also announced. However, since the increases granted to workers earning more than the minimum wage in absolute terms were almost identical for all grades, the decline in real wages was correspondingly larger for the higher grades (Table 10), further compressing the salary distribution (Figure 5). More specifically, before the salary increase, the bottom 70 percent of employees would have received about 49 percent of the total wage bill and the top 10 percent received 11 percent; after the increase, the share of the bottom 70 percent would have risen to 54 percent while that of the top 10 percent would have fallen to 9 percent.⁴²

⁴⁰ Retrenched workers with one year of service received as severance payments three months' salary, and those with more than one year of service received one-third of their monthly salary for each year of service, up to twelve months. Severance payments in 1994, estimated at less than 0.1 percent of GDP, had little budgetary impact.

⁴¹ The price level had increased by 330 percent during the same period. Furthermore, the increase of the minimum wage to Br 105 effectively eliminated the first nine grades of the previous wage scale.

⁴² For comparison, in Uganda in 1994/95, the bottom 70 percent received 59 percent, and the top 10 percent received 18 percent of the total wage bill. As in-kind benefits in Uganda were monetized and included in wages in 1996, the wage structure became less compressed and the bottom 70 percent received 49 percent while the top 10 percent received 25 percent of the total wage bill, making Uganda's wage structure less compressed than Ethiopia's (IMF, 1998).

Table 10. Ethiopia: Civil Service Salary Distribution,
Before and After 1992/93 Wage Increase¹

(In birr, unless otherwise indicated)

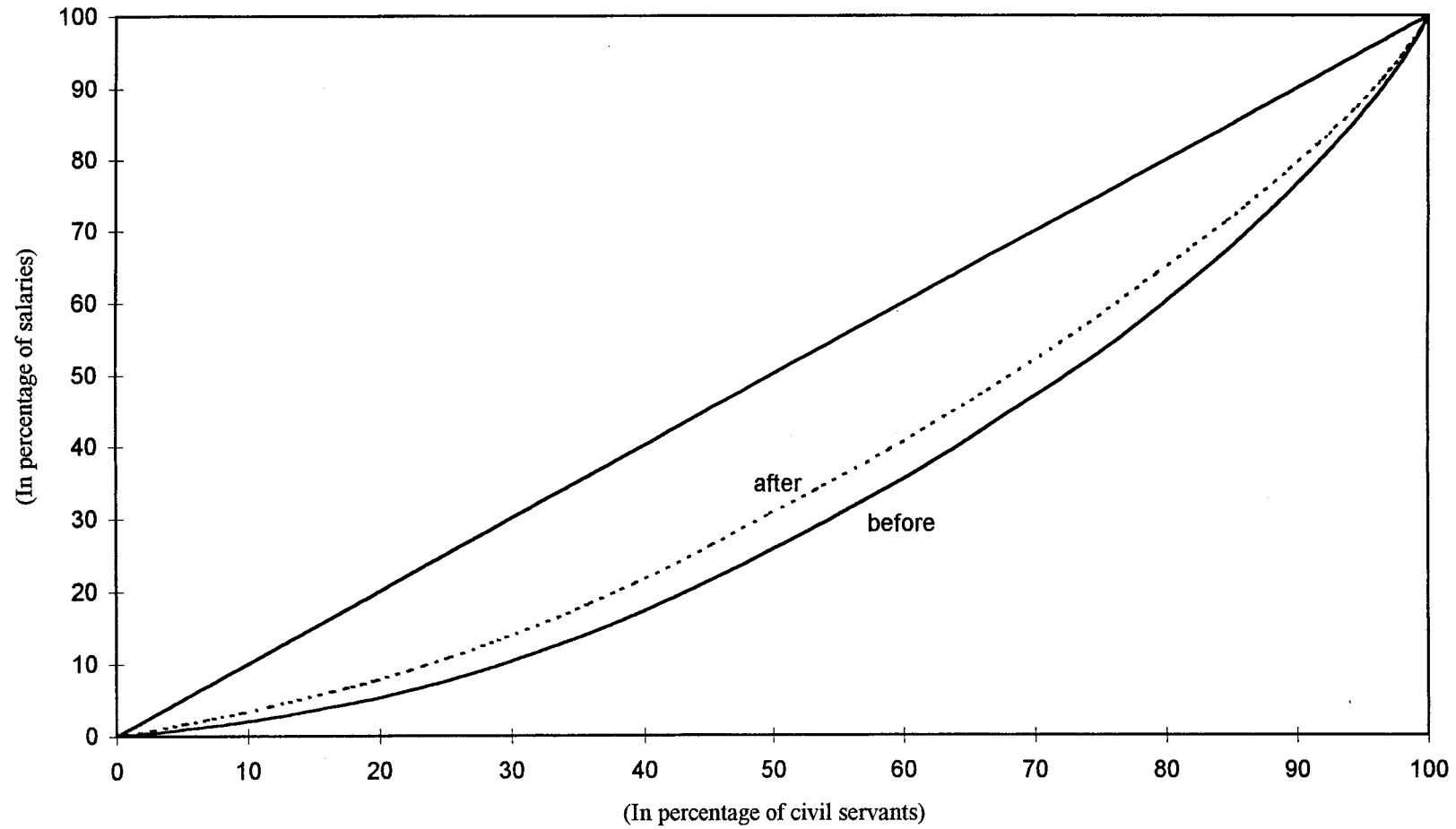
Grade	Salary Before 1992/93	Salary After 1992/93	Weighted Average Change (in percent)	Number of Workers
1-10	50-105	105-167	60	47,742
11-20	115-247	182-326	71	72,492
21-30	265-472	326-500	62	87,852
31-40	500-835	532-880	36	31,567
41-50	880-1,440	930-1,520	59	1,661
51-56	1,530-2,000	1,620-2,095	94	14
Total	...	...	...	241,328
Weighted Average	286	347	...	...

Source: Ethiopian authorities; and Fund staff estimates.

¹For fiscal year ended July 7.

42. The decision to raise salaries was not implemented until 1993/94, resulting in a significant further decline in real remunerations. In November 1994, the government introduced a revised salary scale for civil servants, including a career structure for teachers to enhance motivation. Except for professional and scientific staff, the changes in the ranges for starting salaries had the effect of narrowing the range for each category, as larger percentage increases were accelerated at the lower ends of the range for each category (Table 11).

Figure 5. Ethiopia: Civil Service Salary Distribution Before and After the 1992/93 Reform¹



Source: Ethiopian authorities; and Fund staff calculations.

¹Fiscal year ended July 7.

Service	Minimum Salary			Maximum Salary		
	Previous	New	Percentage Change	Previous	New	Percentage Change
Custodial and manual	25	105	320.0	95	230	142.1
Trades and crafts	30	127	323.3	285	710	149.1
Clerical and fiscal	50	127	154.0	600	980	63.3
Subprofessional	50	153	206.0	600	1150	91.7
Administrative	230	420	82.6	835	1440	72.5
Professional and scientific	500	600	20.0	1150	1810	57.4

Sources: Ethiopian authorities; and Fund staff estimates.

43. Since the distribution of salaries by profession does not necessarily tell much about the returns to human capital (education, experience, etc.), a breakdown of starting salaries by education is provided in Table 12. It shows that the November 1994 salary adjustment provided the largest percentage increases to employees with the lowest educational levels.

Level of Education	Previous	Current	Percentage Change
12 th grade complete	182	230	26.4
Technical/vocational diploma	285	347	21.8
College diploma (two years)	347	420	21.0
Higher diploma (three years)	420	500	19.0
B.A. degree (four years)	500	600	20.0
B.Sc., LLB., MA. degrees (five years)	600	710	18.3
Ph.D.	710	835	17.6

Sources: Ethiopian authorities; and Fund staff estimates.

44. Although the federal government increased employment in the higher-salary categories, the regional governments hired more support staff in the lower grades, such that the impact of the 1994 wage adjustment on the wage distribution within the civil service was only minimal (Figure 6). In addition, implementation of the new wage structure proceeded much more slowly than expected. While the 1994/95 budget allocated almost Br 200 million (14 percent) for wage increases owing to the new salary structure (not including the budgeted increase due to other factors), the total increase in the wage bill for that year was only 9 percent, contributing to a decline in the share of wages and salaries in GDP to 5.6 percent, from 6.2 percent in 1993/94. Table 13 also highlights a typical feature of civil service wage policy in Ethiopia: cost of living adjustments to wages were introduced infrequently and in amounts that generated a decline in real wages over time.

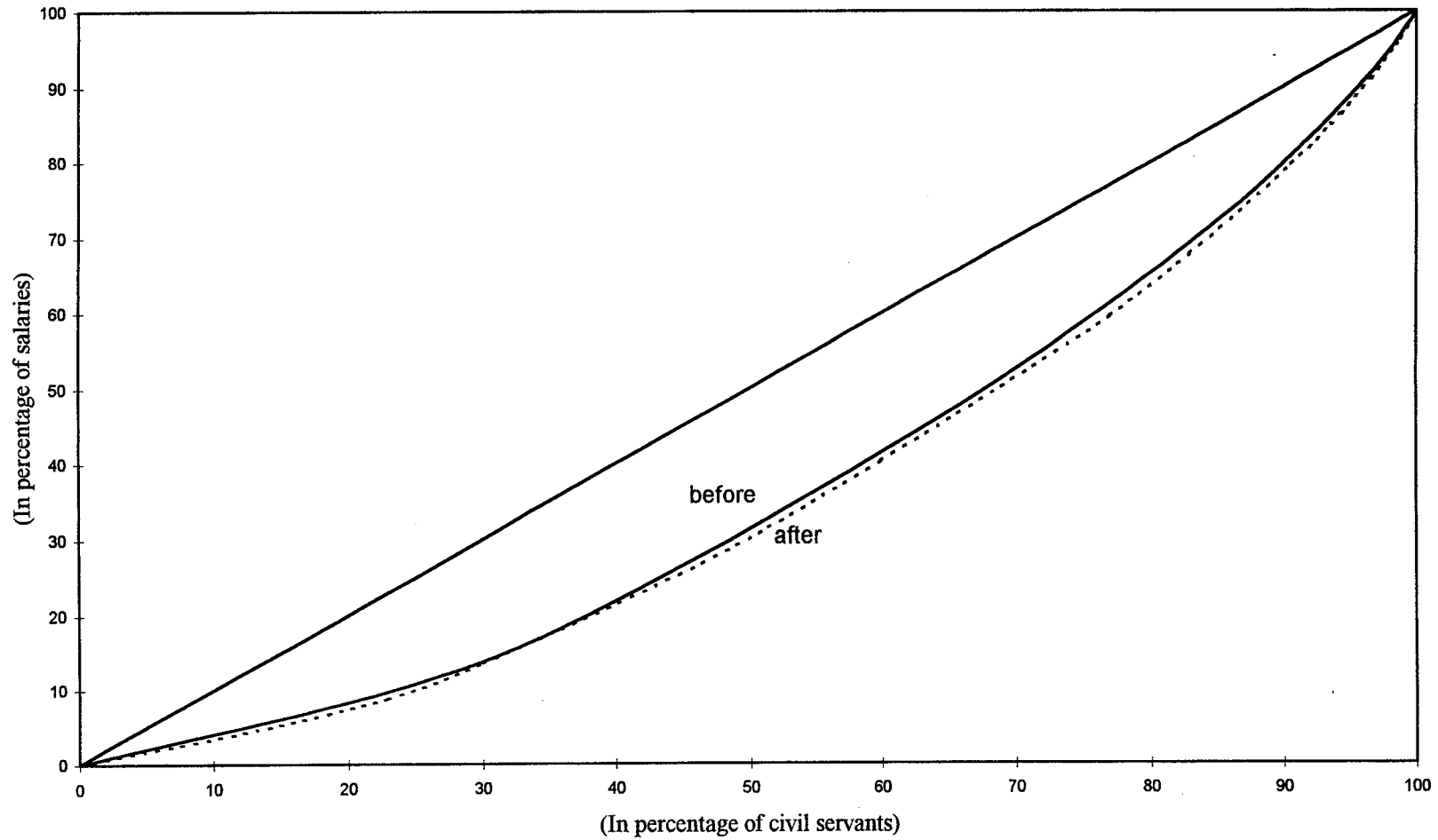
	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1994/95
Employment	215,448	225,521	234,312	236,410	216,058	223,733	241,328	293,452
Wage bill (In millions of birr)	639	710	753	816	828	977	1,186	1,622
Average annual wage (in birr)	2,966	3,150	3,213	3,451	3,834	4,366	4,914	5,526
CPI (1986/87=100)	100	107	115	121	147	178	195	224
Average real wage (1986/87 Birr)	2,966	2,941	2,783	2,841	2,611	2,457	2,514	2,464
Percentage change in real wage	...	-0.8	-6.2	-4.2	-12.0	-17.2	-15.2	-16.9

Source: Ethiopian authorities; and Fund staff estimates.

45. To summarize, the government of Ethiopia's pay and employment policies in the early 1990s followed a trend similar to those of other sub-Saharan African countries during the 1970s and 1980s:

- As Table 13 shows, real wages declined, and the anecdotal evidence suggests that the public-private sector wage differential narrowed during the early 1990s in favor of the private sector; however, according to Mengistae (1997), average wages in the public sector are still higher than those for comparable jobs in the private sector. He argues that the expectation of high public sector wage premiums creates an implicit queue of private sector workers for public sector jobs.

Figure 6. Ethiopia: Civil Service Salary Distribution Before and After the 1994/95 Reform¹



Source: Ethiopian authorities; and Fund staff calculations.

¹Fiscal year ended July 7.

- As the Ethiopian public sector moved from a low-employment/high-wage situation to a high-employment/low-wage situation (Figure 7), the average wage per civil service worker in percent of GDP converged to the ratio observed in other sub-Saharan African countries.⁴³ In 1994/1995, the Ethiopian government wage bill (5.6 percent of GDP) was only slightly below the sub-Saharan average of 6.1 percent. At the same time, the number of civil servants per 1,000 population was 5.2 in Ethiopia, compared with an average of 10.5 in sub-Saharan Africa (Lienert and Modi, 1997), suggesting that wages of civil servants in Ethiopia are high relative to average income.
- The wage structure became significantly compressed as a result of the government's policy of protecting wages in the lower grades of the pay structure at the expense of the higher grades, further reducing incentives to acquire skills.

Reforms since 1995/96

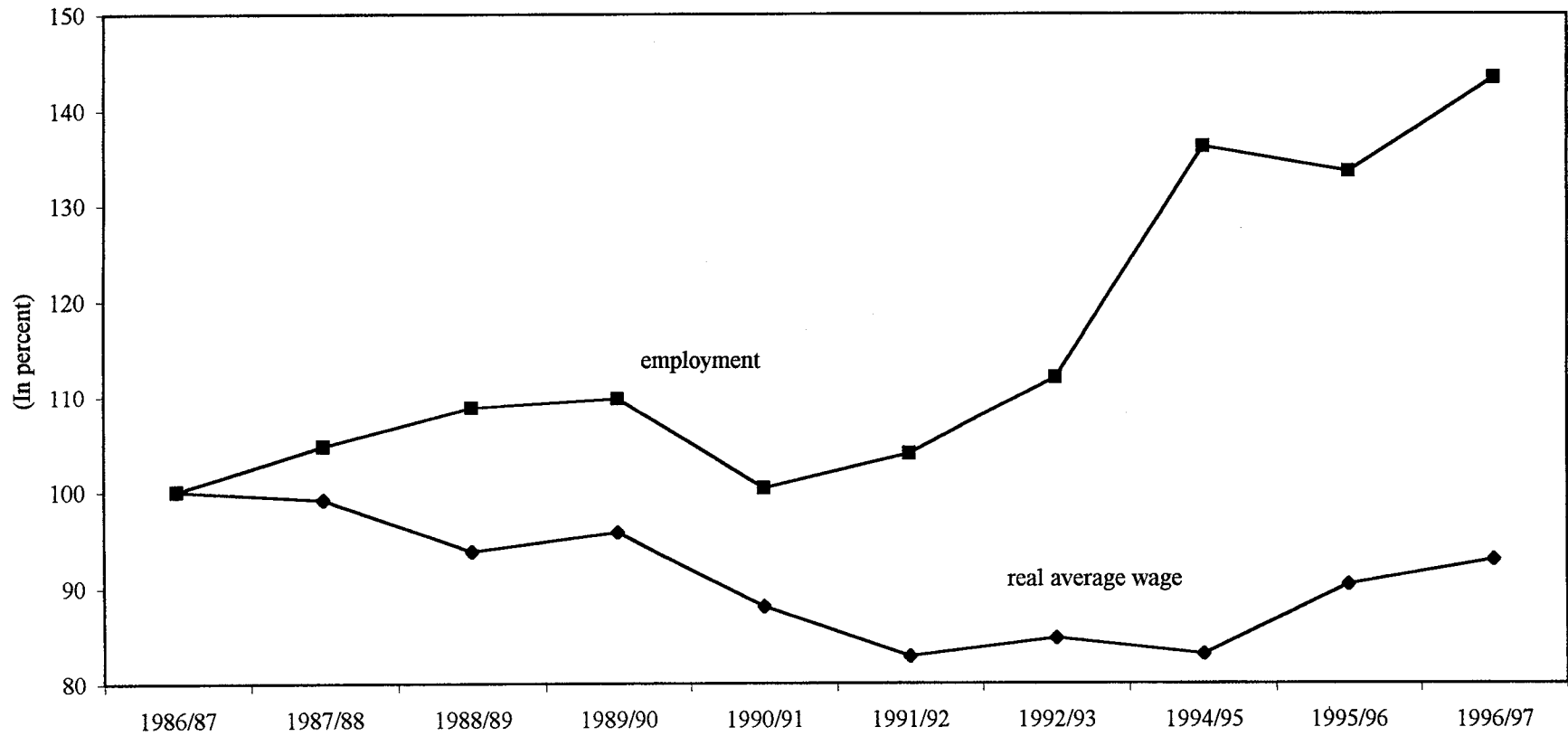
Civil Service Reform Program

46. In 1994/95, the government established a task force (consisting of 23 senior officials) to undertake a comprehensive evaluation of the civil service, based on the premise that pay and employment reforms alone would not lead to the desired improvement in civil service performance. The task force's final report identified weaknesses and proposed solutions in the following areas: (i) expenditure management and control; (ii) human resources management, (iii) services delivery; (iv) top management systems; and (v) ethics. A theme unifying all these areas was the need for capacity building at the federal, regional, and subregional levels. Based on the recommendations of the report as well as a major contribution from the World Bank, particularly in the area of expenditure management and control, the government approved the Civil Service Reform Program (CSRP) in March 1996.

47. Given the weak implementation capacity in the civil service, the government decided to carry out the CSRP in increments. So far, most progress has been achieved in the area of expenditure management and control. A legal framework for management of financial resources by the federal government has been issued, and its implementation has begun. Accounting

⁴³ There is no clear criterion to determine which wage/employment combination would best achieve the various objectives of the public sector. In Ethiopia, the high growth of employment in the public sector, together with the decline in real wages, has probably led to a decrease in efficiency, along with lower morale and a deterioration of skills in the civil service.

Figure 7. Ethiopia: Real Wages and Employment in Civil Service During 1986/87-1996/97¹
(1986/87=100)



Source: Ethiopian authorities; and Fund staff calculations.

¹Fiscal year ended July 7.

procedures have also been improved, in particular the speed with which the public accounts are closed.⁴⁴ Strategies have been designed in the areas of human resources management and services delivery, but implementation has not yet started. With respect to human resources management, a decision has been made to improve job classification, performance appraisals, and the recruitment and promotion process. In the services delivery area, a decision has been made to encourage an outcome-oriented behavior by linking, whenever possible, the allocation of resources to the attainment of objectives in the provision of public services. At the beginning of every fiscal year, each part of the civil service would state its objectives for the year, explain how these activities would be funded, and establish indicators of services delivery. Strategies for the areas of ethics and top management systems still need to be formulated.

Decentralization

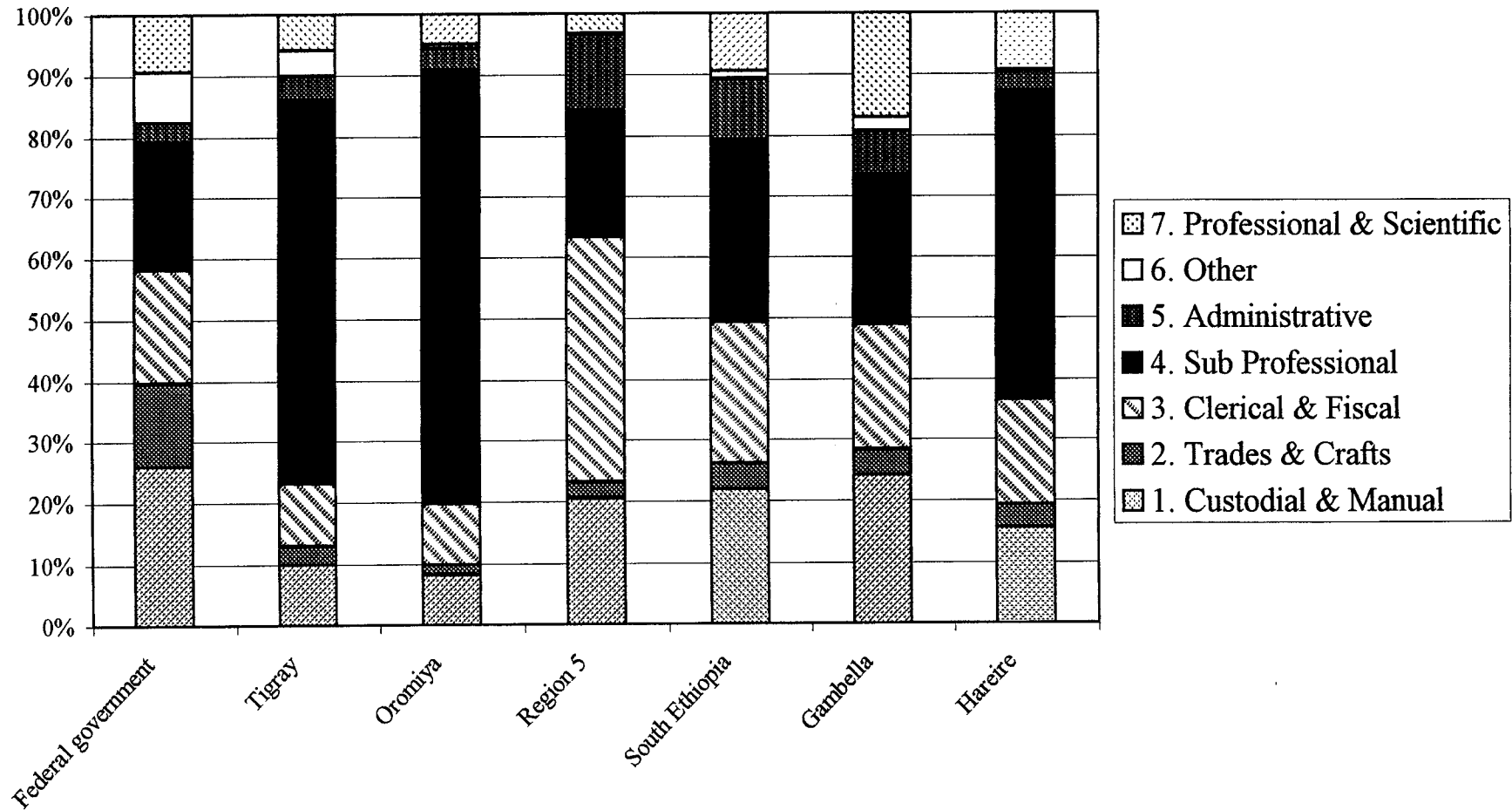
48. Although decentralization was never explicitly stated as an objective of the CSR, it permeates all of the program's components. The main reasons behind the government's push for decentralization were as much economic as political, in that it gives local governments decentralization and various regional and ethnic groups increased authority to handle their own affairs.⁴⁵ However, the regions remain financially dependent on the federal government—according to the 1995/96–1997/98 budgets, the regions financed on average only about 30 percent of their expenditures from their own sources. The implementation of regional administrative authority started in the early 1990s with the transfer of employees from the federal government to the regions. As regions were given the right to conduct their own hiring, employment at the regional level soared. Regional civil service employment increased to 265,198 employees by 1996/97, constituting about 85 percent of the permanent civil service. The trend of hiring mainly workers in administrative positions continued, and the share of professional workers was less than 6 percent at the regional level in 1995/96 (for women, that share less than 2 percent) (Figure 8).

49. Decentralization and the recruitment for professional positions at the regional level have been complicated by a severe shortage of skilled workers; the majority of workers have at most an

⁴⁴ Until 1997, past accounts were closed with delays of three-four years, but this lag has since been significantly reduced. The goal is to reduce the delay to seven-eight months, in line with international standards.

⁴⁵ District governments are expected to formulate their own budgets and be responsible for delivery of services in crucial areas, such as health, education, and soil conservation. In addition, they are expected to enforce human rights and law compliance.

Figure 8. Ethiopia: Distribution of Employment by Type of Service and by Regions, 1994/95¹



Source: Ethiopian authorities; and Fund staff calculations.

¹Fiscal year ended July 7.

elementary school education (Figure 9).⁴⁶ So far, the government has undertaken mainly an ad hoc approach to training, driven to a large extent by the availability of donor funding. There are only two training institutions (the Civil Service College, established in 1995, and the Ethiopian Management Institute), and neither of them provides a systematic approach to training civil servants. In addition, both institutions lack capacity themselves. The Civil Service College, which awards degrees in economics and law and emphasizes long-term training, graduates only a small number of students per year and cannot be expected to bridge the skills gap in the near future. Short term (one-week) training is conducted by the Ethiopian Economic Institute, but the quality of education suffers from the lack of a professional staff.

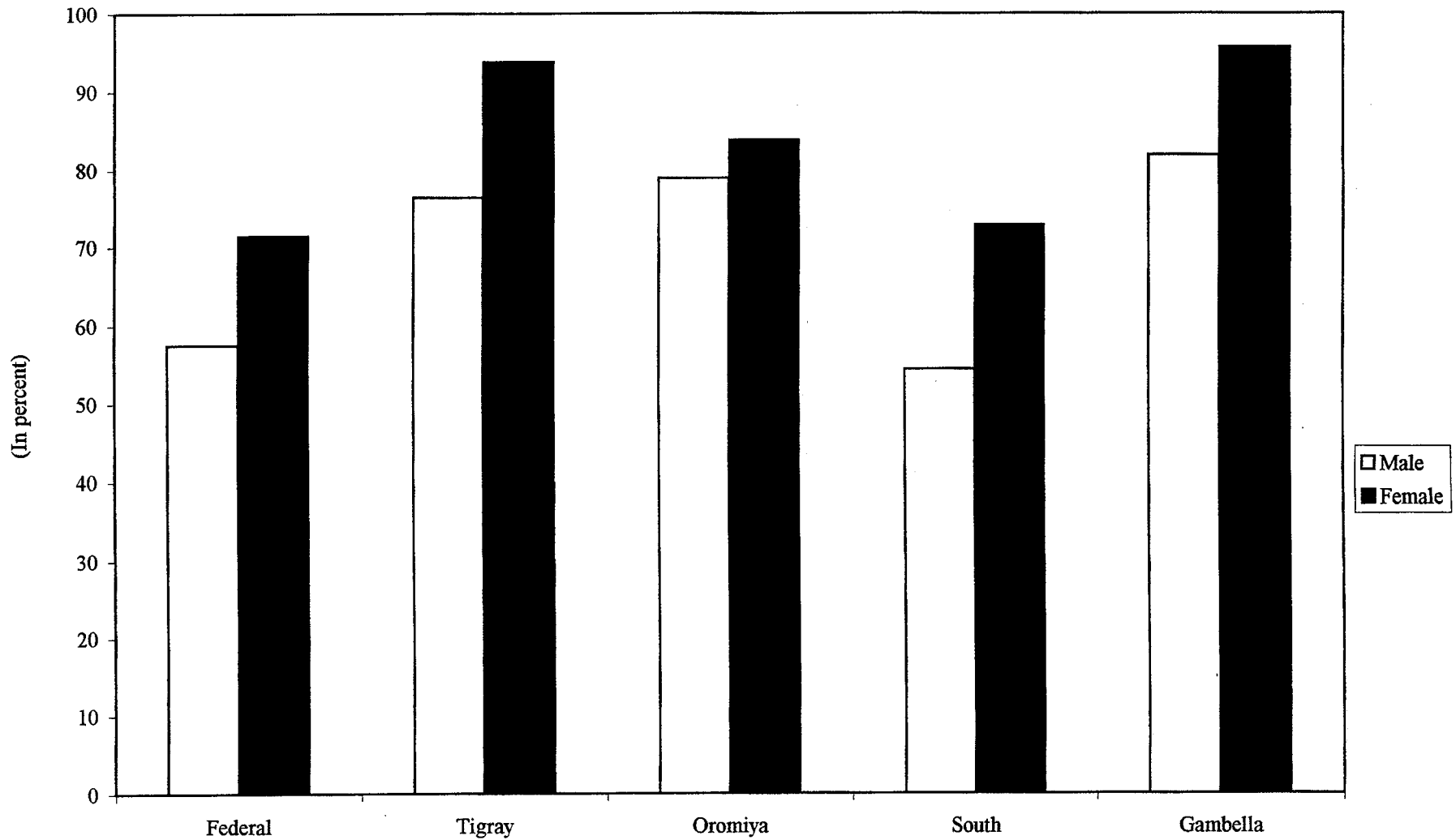
50. In addition to the shortage of skilled workers, obstacles to successful decentralization include poor communication and coordination between federal and regional governments (caused to a large degree by poorly functioning infrastructure, such as telephones, roads, computers, and fax machines), and the regional governments' lack of accountability to the center for the delivery of services. Plans to improve all these areas are specified in the CSRP but will require long-term effort and substantial investment.

C. Demobilization in the Early 1990s and the Impact on Civil Service

51. Civil service reform took into account the demobilization of troops after the defeat of the previous regime in 1991. Demobilization and reintegration into society involved half a million soldiers. Former combatants were divided into four groups: (i) rural, (ii) urban, (iii) those who had served less than 18 months, and (iv) disabled veterans. During the demobilization phase (July 1991-January 1992), veterans reported to discharge centers, from which they were transferred to their original communities. These centers received basic humanitarian assistance from donors, but lacked food and drinkable water and were overcrowded. The immediate needs relating to the transfer of veterans to their communities were addressed by a transitional safety net package that provided them with financial and in-kind assistance, according to the location of settlement and duration of service. The strategy during the reintegration phase (1991-95) aimed at identifying the minimal necessary assistance for each category, so that veterans could achieve the

⁴⁶ The shortage of skilled female workers is particularly serious. In 1995, women with master's degrees or higher education constituted less than 1 percent of permanent employees at both the federal and regional levels; the figures for males were 6 percent at the federal and 1 percent at the regional government levels.

Figure 9. Ethiopia: Education in Selected Regions in 1994/95¹



Source: Ethiopian authorities; and Fund staff calculations.

¹Fiscal year ended July 7.

same status as average civilians in that category.⁴⁷ The strategy is regarded as having succeeded in rural areas (i.e., ex-combatants have achieved the living standard of the average civilian), where living standards are low. In urban areas, however, the process of demobilization and reintegration was hampered by lack of skills on the part of veterans and the generally depressed labor market (Dercon and Ayalew, 1998).

52. The direct cost of demobilization and reintegration during 1991-95 was estimated at an annual average of 0.4 percent of GDP during the period (Colletta, Kostner, and Wiedenhofer, 1996). At the same time, military expenditures declined from an annual average of 9.6 percent of GDP during 1988/89-1990/91 to an average of 2.4 percent during 1991/92-1995/96. The decline in military expenditures was accompanied by a fall in tax revenues from 14.1 percent of GDP in 1988/89 to 7.8 percent in 1991/92,⁴⁸ but altogether there was a net "peace dividend" that freed resources for increased social expenditures.⁴⁹

53. In summary, the reforms in the early 1990s focused on quantitative (first generation) changes in the civil service, such as salary increases and retrenchment. Failure at that stage to take into account qualitative aspects, such as repercussions on employee performance, led in some instances to a worsening in the incentive system (for example, through wage compression and retrenchment of workers based on positions they occupied rather than performance). These shortcomings were addressed in the design of the CSRP, which focused on the quality of performance. Substantial progress has since been achieved in some areas, such as expenditure management, legal framework, and accounting, although the outbreak of a border conflict with Eritrea in May 1998 has posed new challenges regarding expenditure management.

⁴⁷ This was a challenging task, as the majority of the 455,000 veterans were less than 25 years old and illiterate and had virtually no skills. Participants in the rural reintegration program received technical and material support to engage in small farming. The urban reintegration program initially consisted of employment, education, and training; eventually, a Revolving Credit Fund was established to provide concessional loans to cooperatives of urban ex-combatants.

⁴⁸ According to Bevan and Pradhan (1994, p. 91), this drop in tax revenue can partly be attributed to the end of the war and demobilization process. As they put it, "this fall partly reflects the operation of a relatively primitive and yet somewhat unreformed tax system when excessive coercion is removed."

⁴⁹ In particular, expenditures on both public health and on education and training increased significantly from 1988/89-1990/91 to 1991/92-1995/96, namely from an average of 0.9 percent of GDP to 1.1 percent in the case of health expenditures, and from 2.7 percent of GDP to 3.5 percent for education and training.

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IV. PRIVATIZATION PROGRAM⁵⁰

54. This study examines the government of Ethiopia's privatization program, which began in 1994. The first section reviews the initial phase, which saw the divestiture of 197 mostly small- to medium-scale state-owned enterprises (SOEs), and 27 large state-owned farms (cotton and maize farms) over a two year period starting in 1996. The next section outlines the second and more ambitious phase of privatization launched in 1999, and which is to be carried out over the next two to three years. This phase envisages the divestiture of another 110 enterprises, encompassing a wider range of SOEs in terms of size and type of activity. Under the second phase, the Ethiopian Privatization Agency (EPA), which was established in 1994 to oversee the privatization program, is attempting to address some of the perceived shortcomings of the earlier round of divestitures, which will be touched upon briefly. The final section looks at those SOEs that are currently not slated for privatization—namely large-scale firms located in strategic sectors (i.e., telecommunications, insurance, power generation, defense equipment, etc.). In the event Ethiopia is to reap the full benefits of privatization, divestiture of medium- to large-scale public enterprises would need to be accompanied by a broader spectrum of reforms to ensure newly sold firms are not constrained in generating income earning and employment opportunities.

A. First Phase of Privatization (1996-98)⁵¹

55. Under the first phase of privatization, the EPA was charged with divesting a number of SOEs that had been held by some ten large state holding companies under the previous (Derg) regime. These holding companies were dissolved, and their subsidiaries transformed into autonomous enterprises overseen by newly created boards of management. Next, the capital of these latter enterprises was restructured and liabilities settled. The EPA was also entrusted to undertake investigations of, and render decisions on claims by previous owners to properties deemed illegally confiscated under the Derg regime. In the event an unsettled claim existed on a property slated for privatization, the EPA was expected to remove the entity from the list of enterprises for sale, investigate the claim, and clear any disputed property rights. To date, the EPA has returned some 20 units listed for privatization to the former (pre-Derg regime) owners.

56. The salient features of the first phase of privatization were the following: (i) government made and the EPA carried out decisions on which firms to privatize; and (ii) divestitures took the form of sales of assets through competitive tender, liquidations, or return to previous owners of properties confiscated under the Derg regime. The sale of the 175 or so enterprises included individual purchases, employee buyouts, long-term leases, and management contracts. With the

⁵⁰ Prepared by David Cowen.

⁵¹ A few enterprises were divested before 1996, the largest of them a soft-drink bottling plant privatized in 1995 through a competitive tender (White and Bhatia, 1998).

exception of the Legedembi gold mine (in which the government still kept a 2 percent share), all other assets were fully divested. Previously state-owned farms were also offered for lease to private farmers.⁵² Public announcements were made of the enterprises to be sold, although greater transparency in this process is being emphasized by the EPA under the second phase of privatization in response to earlier criticism. Normally, prospective buyers were given a minimum of three months to prepare and submit bids, without a pre-qualification stage. The offer price was the main criterion to evaluate bids. However, for SOEs in sectors that the government deemed critical for expansion, a business plan also became a possible additional criterion. Generally speaking, the bid evaluation criteria were included in the tender document and made known to potential buyers in advance. Initial privatization modalities were later strengthened to include a reservation price in the invitation to tender, so as to elicit bids sufficiently attractive to make the sale viable.

57. As with other transition economies, the focus of the first phase of privatization was the sale or liquidation of a number of small retail trade establishments. These firms were chosen for several reasons. First, in line with the government's policy of dismantling the previously centrally-planned economy and implementing market reforms, the private sector was seen as capable to immediately take over and run smoothly the operation of retail trade businesses. Second, since these firms had small annual turnover and few employees, fewer obstacles were expected in their disposal. As such, they were seen as affording the EPA an opportunity to gain experience in the divestiture process without the risk of costly mistakes. Finally, preparation for sale required little restructuring of these firms to enhance their selling potential. Subsequently, the EPA turned to privatization of larger non-strategic enterprises in a wider range of sectors, namely light manufacturing, agro-processing, and hotel and restaurant operations (Table 14). Unlike some retail trade establishments, all of these firms were seen as commercially viable.

58. The record of the first phase is as follows: Offers received under the first round of divestitures amounted to Br 2.8 billion, or 6.6 percent of GDP (3.7 percent excluding the gold mine); as of end-1998, proceeds collected totaled Br 2.8 billion (around 3.6 percent of GDP, or 2.6 percent excluding the gold mine).⁵³ These figures exclude lease payments received for newly privatized state-owned farms. In most cases, the differences between offers received and proceeds collected represent adjustments for inventory, which were still being made for around 10 percent of the enterprises sold as of end-1998. Moreover, roughly 60 percent (80 percent excluding the gold mine) of the proceeds collected had been paid into the privatization fund (an extrabudgetary fund) by end-1998.⁵⁴ Foreign investors bought 9 percent of the enterprises offered for sale (or

⁵² Private land ownership is still prohibited in Ethiopia.

⁵³ Based on average annual GDP for FY97-FY98.

⁵⁴ Under the terms of sale of the Legedembi gold mine, the government agreed to receive the proceeds in a phased manner, based on the new owner's ability to export gold.

Table 14. Ethiopia: State-Owned Enterprises Privatized Through End-1998

	Number of enterprises sold ¹		Offers received			Proceeds collected ²			(In percent of GDP) ³
	(Total buyers)	(Of which: foreign buyers)	(In millions of birr)	(In percent of GDP) ³	(In millions of birr)	(In percent of total proceeds)		(In percent of offer received)	
						(with mining)	(without mining)		
Industry	34	13	2,210.9	5.1	1,247.8	81.1	...	56.4	2.9
(excluding mining)	33	12	960.6	2.2	837.6	...	74.2	87.2	1.9
Manufacturing (including agro-processing)	31	12	938.9	2.2	821.9	53.4	72.8	87.5	1.9
Agro-processing and distillation	13	5	250.6	0.6	139.1	9.0	12.3	55.5	0.3
Distillery	1	0	6.8	0.0	2.0	0.1	0.2	29.6	0.0
Edible oil mills	3	0	9.3	0.0	9.3	0.6	0.8	100.0	0.0
Flour mills	3	0	44.0	0.1	47.0	3.0	4.2	106.6	0.1
General food processing	1	0	8.8	0.0	8.5	0.6	0.8	97.2	0.0
Meat processing	5	5	181.7	0.4	72.3	4.7	6.4	39.8	0.2
Beverages	6	4	243.6	0.6	240.8	15.6	21.3	98.8	0.6
Breweries	1	1	74.2	0.2	69.1	4.5	6.1	93.1	0.2
Soft drink makers	5	3	169.4	0.4	171.6	11.1	15.2	101.3	0.4
Chemicals and by-products	3	0	79.8	0.2	72.8	4.7	6.4	91.2	0.2
Furniture and woodworks	4	0	56.4	0.1	47.5	3.1	4.2	84.2	0.1
Leather and leather goods	3	3	179.5	0.4	182.0	11.8	16.1	101.4	0.4
Metalworks	1	0	3.1	0.0	2.6	0.2	0.2	82.4	0.0
Printing equipment	1	0	1.2	0.0	1.2	0.1	0.1	105.2	0.0
Construction	2	0	21.7	0.1	15.8	1.0	1.4	72.6	0.0
Mining (Legedembi gold mine)	1	1	1,250.3	2.9	410.2	26.6	36.3	32.8	0.9
Distribution and other services	137	0	215.4	0.5	200.9	13.1	17.8	93.3	0.5
Wholesale and retail trade	123	0	196.2	0.5	181.5	11.8	16.1	92.5	0.4
Ethiopia Retail Trade Corporation Shops	73	0	145.0	0.3	130.4	8.5	11.5	90.0	0.3
Textiles	7	0	7.9	0.0	7.7	0.5	0.7	98.2	0.0
Automotives	7	0	18.4	0.0	16.4	1.1	1.5	88.8	0.0
Shoes and other leather goods	17	0	19.4	0.0	10.5	0.7	0.9	54.2	0.0
Food and general retail	28	0	79.9	0.2	77.5	5.0	6.9	97.0	0.2
Building materials	9	0	15.3	0.0	14.5	0.9	1.3	94.8	0.0
Books and stationary	5	0	4.2	0.0	3.9	0.3	0.3	93.4	0.0
Kuraz Printing Shops	34	0	13.0	0.0	12.6	0.8	1.1	96.8	0.0
Ethiopia Household and Office Furniture	16	0	38.2	0.1	38.4	2.5	3.4	100.5	0.1
Hotels and restaurants	14	0	19.2	0.0	19.4	1.3	1.7	101.2	0.0
Agriculture and allied activities⁴	6	4	422.5	1.0	90.8	5.9	8.0	21.5	0.2
Total	177	17	2,848.8	6.6	1,539.5	100.0	...	54.0	3.6
(excluding mining)	176	16	1,598.5	3.7	1,129.3	...	100.0	70.6	2.6

Source: Ethiopian Privatization Agency.

¹Number of units sold.²Proceeds collected are the offers received after adjustments for actual inventory; for some enterprises sold, the adjustments have not been finalized.³Based on average annual GDP for 1996/97-1997/98.⁴Excluding state-owned farms that were leased.

77 percent in terms of the total value of offers received, or 60 percent excluding the gold mine). Besides mining, the divestitures tended to concentrate in a few manufacturing sectors. Until the latest revisions to the investment code in June 1998, foreign investment in Ethiopia was restricted by a fairly extensive negative list of prohibited sectors.

59. A portion of the proceed paid into the privatization fund has gone to clear outstanding liabilities of the enterprises sold. The remainder has been transferred into the consolidated revenue of the federal government. As of early March 1999 (the latest data available), two-thirds of total proceeds collected had been transferred to the government (Table 15).⁵⁵ During FY99, the government was expected to receive an estimated US\$60 million from the sale of the gold mine (roughly one-third of the original offer received) and an additional US\$40 million from completion of sales of other SOEs.

60. The sale of large state-owned farms has encountered greater difficulties than nonfarm enterprises. Delays have been experienced in finalizing those transactions owing to the large number of claims placed against the farms and the need for agreement with the regional governments on the lease modalities. Some of these problems are expected to be cleared as the government expedites the implementation of a market-based land lease system for both rural and urban land.

B. Second Phase of Privatization (1999-2001)

61. The second phase of privatization envisages the sale of an additional 110-115 firms starting in 1999. Unlike the first phase, the current one stands to benefit from a newly decreed privatization proclamation (repealing the original proclamation that established the EPA), which was issued in early 1999. The law is expected to provide the EPA with a number of elements deemed critical to moving ahead with the privatization program over the next two to three years.

62. Under the new proclamation, the EPA is given autonomy over privatization methods.⁵⁶ The list of enterprises to be divested is still to be determined by the government based on recommendations of the privatization agency. An additional method of disposal (i.e., creation of joint stock companies) has been introduced, and the modalities for undertaking and monitoring privatization related activities have been codified. However, bid evaluation criteria and asset pricing methods have not been specified. Instead, they are still being determined under the

⁵⁵ The share of proceeds collected that have been transferred to the consolidated fund may be less than two-thirds, as the proceeds collected shown in Table 14 is based on end-December 1998 data.

⁵⁶ Previously, the EPA was subordinated to the Ministry of Finance; it is now an autonomous federal agency reporting directly to the Office of the Prime Minister.

Ethiopia: Privatization Receipts in the General Government Budget, FY97-FY99			
	FY97	FY98	FY99 ¹
(In millions of birr, unless otherwise indicated)			
Privatization receipts	347	313	400
(cumulative)	347	660	1,060
(in percent of GDP)	0.8	0.8	1.0
(cumulative)	0.8	1.6	2.6
(in percent of total proceeds collected) ²	22.5	20.3	26.0
(cumulative)	22.5	42.8	68.8
(in percent of total government revenue)	4.4	3.7	6.7

Sources: Ethiopian authorities; and Fund staff estimates.

¹Through March 8, 1999 (latest available data).

²For 1998/99, includes new proceeds collected since end-1998 and not reported in Table 14.

heavily indebted SOEs. The changes reflected in the new proclamation were in part in response to an extensive study on privatization modalities conducted by Price Waterhouse in 1998. In addition, the EPA is currently receiving technical assistance from the World Bank and GTZ (Germany).

63. Under the second phase, the SOEs slated for privatization have been segmented into three groups. Privatization for Group 1 (31 enterprises) will be done through asset sales (i.e., liquidations). For Groups 2 (44 enterprises) and 3 (38 enterprises), competitive tenders will be used, which are to be targeted primarily at local and regional (i.e., African) investors, and at other foreign investors, respectively (Table 16). In addition, the government intends to complete the sale of the Construction and Business Bank—Ethiopia's second largest commercial bank—by end-1999. Under the EPA's current strategy, outside consultancies are only being used in the preparatory work for the sale of an initial 24 enterprises (mostly in Group 3), which is expected to

Table 16. Ethiopia: State-Owned Enterprises for Privatization, 1999-2001

	Group 1			Group 2			Group 3			All groups		
	Number of enterprises	Annual turnover ¹	Number of employees	Number of enterprises	Annual turnover ¹	Number of employees	Number of enterprises	Annual turnover ¹	Number of employees	Number of enterprises	Annual turnover ¹	Number of employees
Industry	19	214.1	4,355	13	659.1	7,980	38	1,504.6	34,770	70	2,377.8	47,105
(excluding mining)	19	214.1	4,355	11	641.0	7,072	38	1,504.6	34,770	68	2,359.7	46,197
Manufacturing (including agro-processing)	14	148.9	3,145	7	469.2	3,635	38	1,504.6	34,770	59	2,122.7	41,550
Agro-processing	2	3.1	191	0	0.0	0	10	232.4	2,565	12	235.5	2,756
Animal feed	2	3.1	191	0	0.0	0	0	0.0	0	2	3.1	191
Edible oil mills ²	0	0.0	0	0	0.0	0	3	2.0	523	3	2.0	523
Flour mills	0	0.0	0	0	0.0	0	3	81.5	893	3	81.5	893
General food processing	0	0.0	0	0	0.0	0	4	148.9	1,149	4	148.9	1,149
Beverages	1	6.7	215	1	18.3	648	4	395.3	2,282	6	420.3	3,145
Breweries	0	0.0	0	0	0.0	0	4	395.3	2,282	4	395.3	2,282
Wineries	0	0.0	0	1	18.3	648	0	0.0	0	1	18.3	648
Mineral water	1	6.7	215	0	0.0	0	0	0.0	0	1	6.7	215
Building products	8	94.2	2,053	2	20.4	726	0	0.0	0	10	114.6	2,779
Chemicals and by-products	3	44.9	686	1	34.7	261	0	0.0	0	4	79.6	947
Leather and leather goods	0	0.0	0	0	0.0	0	6	245.8	3,093	6	245.8	3,093
Paper products	0	0.0	0	0	0.0	0	2	98.1	1,099	2	98.1	1,099
Pharmaceuticals	0	0.0	0	2	277.7	1,170	0	0.0	0	2	277.7	1,170
Textiles	0	0.0	0	0	0.0	0	16	533.0	25,731	16	533.0	25,731
Tires	0	0.0	0	1	118.1	830	0	0.0	0	1	118.1	830
Construction	5	65.2	1,210	4	171.8	3,437	0	0.0	0	9	237.0	4,647
Mining	0	0.0	0	2	18.1	908	0	0.0	0	2	18.1	908
Distribution and other services	7	47.8	3,270	16	584.3	9,404	0	0.0	0	23	632.1	12,674
Wholesale and retail trade	1	1.0	2,149	0	0.0	0	0	0.0	0	1	1.0	2,149
Engineering	5	39.1	906	7	312.8	3,671	0	0.0	0	12	351.9	4,577
Tourism	1	7.7	215	5	132.0	3,466	0	0.0	0	6	139.7	3,681
Hotels	0	0.0	0	4	72.6	2,879	0	0.0	0	4	72.6	2,879
Other	1	7.7	215	1	59.4	587	0	0.0	0	2	67.1	802
Transportation	0	0.0	0	4	139.5	2,267	0	0.0	0	4	139.5	2,267
Agriculture and allied activities	5	39.3	726	15	547.7	20,211	0	0.0	0	20	587.0	20,937
Coffee	1	5.1	207	1	113.6	7,328	0	0.0	0	2	118.7	7,535
Tea	1	12.8	138	2	52.0	744	0	0.0	0	3	64.8	882
Cereals	0	0.0	0	5	158.7	5,616	0	0.0	0	5	158.7	5,616
Cotton	1	1.1	60	2	66.8	1,979	0	0.0	0	3	67.9	2,039
Horticulture	0	0.0	0	2	102.0	2,444	0	0.0	0	2	102.0	2,444
Other	2	20.3	321	3	54.6	2,100	0	0.0	0	5	74.9	2,421
Total	0	0.0	0	0	0.0	0	0	0.0	0	0	0.0	0
Total	31	301.2	8,351	44	1,791.1	37,595	38	1,504.6	34,770	113	3,596.9	80,716
	(In percent of total)											
Industry	16.8	6.0	5.4	11.5	18.3	9.9	33.6	41.8	43.1	61.9	66.1	58.4
Distribution and other services	6.2	1.3	4.1	14.2	16.2	11.7	0.0	0.0	0.0	20.4	17.6	15.7
Agriculture and allied activities	4.4	1.1	0.9	13.3	15.2	25.0	0.0	0.0	0.0	17.7	16.3	25.9
Total	27.4	8.4	10.3	38.9	49.8	46.6	33.6	41.8	43.1	100.0	100.0	100.0

Sources: Ethiopian Privatization Agency; and Fund staff estimates.

¹In millions of birr for 1997/98.²Data on annual turnover not available for two edible oil mills.

occur by end-1999.⁵⁷ However, EPA will still conduct the marketing and divestiture functions with assistance of several GTZ consultants. If this strategy proves costly (a concern expressed by the World Bank), an alternative model using outside consultancies for marketing and divestiture would be tested. For the textile sector, the type of divestiture also remains an issue, with the government expressing an interest in management contracts that might require substantial additional investment to make these enterprises commercially viable. Currently, the sale of 16 textile factories listed for privatization is to be targeted mainly to foreign investors. As a whole, they account for around one-sixth of the total annual turnover of the 110 SOEs to be privatized, but roughly one-third of the total number of employees in these enterprises.

64. Of the 110 or so enterprises to be privatized over the next several years, the average net asset value (of those having positive value) is roughly Br 25 million (approximately US\$3 million). The government's current strategy entails the use of a sectoral approach, whereby groups of enterprises involved in similar activities will be offered for sale together. The EPA views this approach as particularly attractive to foreign investors who might want to consolidate several enterprises into larger holdings and generate economies of scale. Moreover, sectors deemed complementary will be put up for sale simultaneously.

65. Several major differences exist between the first and second phases of privatization. In the past, the dominant modality was the sale of assets through competitive tender. Under the current plan, more enterprises will first be converted into joint share companies and then privatized through the tendering of shares. The aim is to broaden the scope for ownership. Moreover, the EPA will increase its reliance on outside consultancies in preparing SOEs for sale. In doing so, the privatization process is expected to become more transparent, as preparatory work on each enterprise will include the provision of an invitation to bid, a detailed set of instructions to bidders, a draft sales contract, a profile of the enterprise (including a current listing of all fixed assets, value of inventory by major categories, and assessment of manpower), and current financial statements. Lastly, in relying more on management contracts as a modality for privatization, the EPA envisages a greater need to restructure certain enterprise (including the textiles sector) before effecting the divestiture.

66. Nevertheless, this last change risks delaying privatization and propping up inefficient industries, which may be very costly in the long run in terms of stimulating new employment- and income-generating opportunities. Also, the government could usefully strengthen its oversight of the privatization fund through regular audits, so as to ensure that existing and new proceeds are used in a transparent manner and avoid directly subsidizing soon-to-be privatized SOEs (a general practice that could jeopardize the overall fiscal objectives). On this count, consolidation of the privatization fund in the government accounts would strengthen the transparency of, and build

⁵⁷ The first tranche contains five food factories, three breweries and a winery, seven tanneries and shoe factories, eight textile and garment factories, and a spare parts factory.

public support for, the privatization program, which will be important as Ethiopia begins to tackle a more complex round of divestitures.

C. Beyond Current Privatization Plans

67. Once the second phase of privatization is completed, the government will still retain control over 50 or so nonfinancial enterprises, among which are the largest and most profitable SOEs.⁵⁸ The government has recently established guidelines for making operational a decision to sell a minority stake in the Ethiopian Telecommunications Corporation. Among the other major enterprises are Commercial Bank of Ethiopia (CBE), Ethiopian Airlines, Ethiopian Electrical Light and Power Corporation, and the state insurance company. Except for the power utility, which also would be open to minority private participation, the government has no plans to privatize the major nonfinancial enterprises and the insurance company in the foreseeable future. However, the authorities have indicated that they will develop a plan for improving the operation of the CBE, after completion of the external audit that is to start shortly. They have added that the government would consider the near-term options of entering into a twinning arrangement or management contract with a foreign strategic partner, and they may also wish to consider the options of private equity participation in the CBE, or splitting the CBE into a few smaller units, again with the possibility of private equity participation.

68. A more ambitious privatization program—including in the sectors considered as strategic so far—would increase the scope for efficiency gains and technological innovations in the economy and—importantly—would release scarce public resources for investment in the social sectors and infrastructure or for reducing the public debt. However, these efficiency gains would only materialize if further supportive measures to deregulate the economy and strengthen the judicial system and property rights are adopted to foster private sector development, and in turn enhance competition in newly privatized sectors. Moreover, where management contracts are employed, an effective system of corporate governance needs to be put in place to ensure the maintenance of sound managerial practices.

69. In many transition economies, privatization provided an opportunity for developing a stock market, and this example could also be followed in Ethiopia.⁵⁹ More generally, investor interest in the privatization process would be enhanced by greater transparency associated with full public disclosure of the privatization transactions.

⁵⁸ Of the 163 enterprises currently under state control, the 114 profitable SOEs earned Br 1.8 billion in 1997/98, or 4 percent of GDP. The other 49 SOEs (19 in the textile sector) lost Br 273 million, or 0.6 percent of GDP.

⁵⁹ For a detailed discussion of the potential impact of capital markets on privatization and private sector development in general, see Milkesa (1995).

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Table 1. Ethiopia: Gross Domestic Product by Economic Activity at Factor Cost, 1993/94-1997/98¹

	1993/94	1994/95	1995/96	1996/97	1997/98
(In millions of birr at 1980/81 costs)					
Agriculture and allied activities	6,078.0	6,284.5	7,206.2	7,453.9	6,687.0
Agriculture	5,271.9	5,450.0	6,343.3	6,559.9	5,779.3
Forestry	800.6	828.6	856.8	887.6	901.1
Fishing	5.6	5.9	6.1	6.4	6.6
Industry	1,307.1	1,412.5	1,488.9	1,590.1	1,691.0
Mining and quarrying	45.0	49.0	55.4	62.6	68.9
Manufacturing	514.1	562.4	606.2	640.9	681.9
Small-scale industries and handicrafts	237.5	256.5	274.8	291.9	305.0
Electricity and water	207.9	219.3	203.2	215.1	223.1
Construction	302.6	325.3	349.3	379.6	412.1
Distribution services	1,650.9	1,757.3	1,914.7	2,062.1	2,171.1
Trade, hotels, and restaurants	945.2	1,027.7	1,115.5	1,208.9	1,263.3
Transportation and communication	705.7	729.6	799.2	853.2	907.8
Other services	2,874.1	3,190.5	3,377.3	3,603.8	4,081.9
Banking and insurance ²	365.9	810.3	879.7	954.5	999.2
Real estate and ownership ³	381.5	...	...	...	...
Public administration and defense	1,125.0	1,327.8	1,391.5	1,483.4	1,848.3
Education	278.2	287.9	298.0	311.1	327.0
Health	136.8	146.5	154.0	160.1	175.9
Domestic and other	586.7	618.0	654.1	694.7	731.5
Total GDP at 1980/81 factor costs	11,910.1	12,644.8	13,987.1	14,709.9	14,631.0
Of which					
Nonagricultural GDP	5,832.1	6,360.3	6,780.9	7,256.0	7,944.0
(Annual percentage change)					
Agriculture and allied activities	-3.6	3.4	14.7	3.4	-10.3
Agriculture	-3.9	3.4	16.4	3.4	-11.9
Forestry	-1.7	3.5	3.4	3.6	1.5
Fishing	6.1	5.7	3.4	4.9	3.1
Industry	7.0	8.1	5.4	6.8	6.3
Mining and quarrying	-21.2	8.9	13.0	13.0	10.1
Manufacturing	12.7	9.4	7.8	5.7	6.4
Small-scale industries and handicrafts	1.4	8.0	7.1	6.2	4.5
Electricity and water	5.1	5.5	-7.4	5.9	3.7
Construction	9.4	7.5	7.4	8.7	8.6
Distribution services	6.2	6.4	9.0	7.7	5.3
Trade, hotels, and restaurants	6.5	8.7	8.5	8.4	4.5
Transportation and communication	5.7	3.4	9.5	6.8	6.4
Other services	8.9	11.0	5.9	6.7	13.3
Banking and insurance ²	16.3	...	8.6	8.5	4.7
Real estate and ownership ³	4.1	...	...	...	...
Public administration and defense	10.5	18.0	4.8	6.6	24.6
Education	2.6	3.5	3.5	4.4	5.1
Health	19.2	7.1	5.1	4.0	9.9
Domestic and other	5.9	5.3	5.8	6.2	5.3
Total GDP	1.6	6.2	10.6	5.2	-0.5
Of which					
Nonagricultural GDP	7.7	9.1	6.6	7.0	9.5

Source: Ministry of Economic Development and Cooperation.

¹Beginning in 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to the period July 1-June 30.

²Beginning in 1994/95, the banking and insurance sector includes real estate and ownership.

³Ownership refers to the operation of owner occupied dwellings.

Table 2. Ethiopia: Expenditure on Gross Domestic Product at Current Market Prices, 1993/94-1997/98¹

	1993/94	1994/95	1995/96	1996/97	1997/98
(In millions of birr)					
GDP at current market prices	28,329	33,885	37,938	41,465	45,035
Gross domestic expenditure	31,104	36,756	43,408	45,825	50,372
Consumption	26,810	31,187	36,162	37,905	42,176
Private	23,278	27,174	31,710	33,181	35,746
Public	3,532	4,013	4,452	4,724	6,430
Investment	4,294	5,569	7,246	7,920	8,196
Private	2,273	3,044	4,396	4,480	4,784
Public	2,021	2,525	2,850	3,440	3,412
Resource gap	-2,775	-2,871	-5,470	-4,360	-5,337
Exports of goods and nonfactor services	2,832	4,608	4,955	6,571	7,117
Imports of goods and nonfactor services	5,607	7,479	10,426	10,931	12,454
Memorandum items:					
Gross domestic saving	1,519	2,698	1,776	3,560	2,859
Private	735	798	-738	753	1,188
Public	784	1,900	2,514	2,806	1,671
Net factor income	-405	-355	-275	-276	-627
Net private transfers	1,258	1,830	1,984	1,677	2,174
Net official transfers	1,453	2,514	2,479	1,468	1,789
Gross national saving	3,825	6,686	5,964	6,429	6,196
Private	1,736	2,514	1,283	2,438	3,045
Public	2,089	4,172	4,680	3,991	3,151
Foreign saving (excluding official transfers)	1,921	1,397	3,762	2,959	3,790
GNP at current market prices	27,924	33,530	37,662	41,189	44,408
(In percent of GDP)					
Gross domestic expenditure	109.8	108.5	114.4	110.5	111.9
Consumption	94.6	92.0	95.3	91.4	93.7
Private	82.2	80.2	83.6	80.0	79.4
Public	12.5	11.8	11.7	11.4	14.3
Investment	15.2	16.4	19.1	19.1	18.2
Private	8.0	9.0	11.6	10.8	10.6
Public	7.1	7.5	7.5	8.3	7.6
Resource gap	-9.8	-8.5	-14.4	-10.5	-11.9
Exports of goods and nonfactor services	10.0	13.6	13.1	15.8	15.8
Imports of goods and nonfactor services	19.8	22.1	27.5	26.4	27.7
Gross domestic saving	5.4	8.0	4.7	8.6	6.3
Private	2.6	2.4	-1.9	1.8	2.6
Public	2.8	5.6	6.6	6.8	3.7
Net factor income	-1.4	-1.0	-0.7	-0.7	-1.4
Net private transfers	4.4	5.4	5.2	4.0	4.8
Net official transfers	5.1	7.4	6.5	3.5	4.0
Gross national saving	13.5	19.7	15.7	15.5	13.8
Private	6.1	7.4	3.4	5.9	6.8
Public	7.4	12.3	12.3	9.6	7.0
Foreign saving (excluding official transfers)	6.8	4.1	9.9	7.1	8.4

Sources: Ethiopian authorities; and Fund staff estimates.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to the period July 1-June 30.

Table 3. Ethiopia: Estimates of Agricultural Production and Cultivated Area of Major Crops, 1993/94-1997/98¹

	1993/94		1994/95		1995/96		1996/97		1997/98 ²	
	Cultivated area ³	Total production ⁴	Cultivated area ³	Total production ⁴	Cultivated area ³	Total production ⁴	Cultivated area ³	Total production ⁴	Cultivated area ³	Total production ⁴
Cereals	4,714	47,404	5,746	61,542	6,653	82,697	6,689	86,293	5,602	64,988
Teff	1,384	12,368	1,844	12,984	2,097	17,524	2,168	20,019	1,747	13,073
Barley	737	7,501	879	8,477	826	8,725	698	7,424	682	7,864
Wheat	696	7,523	769	10,239	882	10,763	772	10,016	788	11,068
Maize	902	11,128	1,105	16,732	1,281	25,393	1,317	25,320	1,101	19,289
Sorghum	720	6,831	886	11,219	1,252	17,227	1,400	20,073	955	10,697
Millet	249	1,755	229	1,531	269	2,413	291	2,962	290	2,587
Oats	25	297	35	360	45	652	43	479	40	410
Pulses	1,610	5,091	879	7,723	904	8,141	905	8,026	838	6,802
Horsebeans	325	2,584	342	3,736	337	3,594	329	3,207	266	2,597
Chickpeas	141	837	155	1,433	145	1,232	148	1,265	170	1,371
Haricot beans	47	241	69	339	101	784	113	948	92	548
Field peas	130	718	175	1,225	180	1,396	158	1,063	120	927
Lentils	878	211	58	368	65	332	53	345	47	311
Vetch	89	500	80	623	76	804	104	1,199	142	1,047
Others	...	...	...	...	392	1,953	478	2,133 ⁵	410	1,837
Neug	150	417	197	443	223	859	251	835	195	736
Linseed/flax	78	340	111	536	113	568	148	676	135	663
Fenugreek	...	...	13	62	14	74	17	100	30	162
Rapeseed	8	61	15	112	14	251	21	...	13	87
Sunflower	...	...	...	...	5	24	5	...	3	13
Groundnuts	...	...	...	...	13	142	17	125	11	78
Sesame	...	...	...	...	9	33	19	73	24	98
Total	...	...	...	...	7,949	92,791	8,072	96,452	6,849	73,627
(Annual percentage change)										
Cereals	18.6	-8.6	21.9	29.8	15.8	34.4	0.5	4.3	-16.2	-24.7
Pulses	127.9	-11.9	-45.4	51.7	2.9	5.4	0.1	-1.4	-7.5	-15.3
Others	...	...	...	...	...	...	22.2	9.2	-14.3	-13.9
Total	...	...	...	...	...	...	1.6	3.9	-15.1	-23.7
(Index, 1995/96 = 100)										
Cereals	70.9	57.3	86.4	74.4	100.0	100.0	100.5	104.3	84.2	78.6
Pulses	178.1	62.5	97.2	94.9	100.0	100.0	100.1	98.6	92.6	83.5
Others	...	...	...	...	100.0	100.0	122.2	109.2	104.7	94.1
Total	...	...	...	...	100.0	100.0	101.6	103.9	86.2	79.3

Source: Central Statistical Authority.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to the period July 1-June 30.²Preliminary estimates.³In thousands of hectares.⁴In thousands of quintals.⁵Includes estimates of production of rapeseed and sunflower.

Table 4. Ethiopia: Estimates of Coffee Production, Marketing, and Stocks, 1993/94-1998/99¹

(In thousands of metric tons)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 Estimate
Opening stocks	239	253	251	241	236	191
Production	222	228	230	228	230	232
Less: Domestic consumption	78	75	95	90	95	98
Exports ²	80	79	107	108	125	100
Unwashed	71	69	94	90	109	83
Washed	9	10	13	18	16	17
Adjustments ³	50	76	38	35	55	35
Closing stocks	253	251	241	236	191	190

Source: Coffee and Tea Authority.

¹Estimates (except exports) based on the findings of the Coffee Sector Survey; coffee year beginning in October.

²As recorded on loading at port rather than at customs stations.

³Represents, among other factors, unofficial exports and handling losses.

Table 5. Ethiopia: Monthly Export and Arrival Volumes and Coffee Prices, January 1996-March 1999

	Export Volume (metric tons)	Arrival Volume	Estimated Producer Price ¹	Auction Price ² (birr per metric ton)	Export Unit Value ²	ICO Composite Price ³
1996						
January	4,916	11,908	11,254	12,724	15,596	101
February	6,356	16,965	12,399	13,870	15,533	111
March	10,300	19,417	10,460	11,931	15,310	106
April	12,148	20,614	7,279	8,750	15,851	107
May	11,645	15,201	6,635	8,106	16,059	110
June	13,923	14,001	8,191	9,662	17,150	105
July	15,001	12,337	8,125	9,596	16,706	99
August	9,554	9,972	7,829	9,300	16,707	101
September	8,012	9,610	7,832	9,303	15,817	94
October	5,820	8,854	7,475	8,946	14,797	97
November	6,076	8,447	6,879	8,350	14,997	95
December	6,544	14,308	8,209	9,679	15,258	89
1997						
January	6,133	15,577	10,654	12,125	16,259	100
February	8,338	22,788	14,595	16,066	17,695	122
March	14,276	24,901	12,523	13,994	19,810	138
April	18,621	17,378	11,765	13,236	22,627	141
May	13,768	15,326	11,949	13,420	22,899	180
June	11,023	9,102	11,104	12,574	25,653	...
July	8,322	4,435	10,038	11,509	28,503	135
August	4,226	8,510	10,784	12,255	23,248	131
September	8,060	9,002	12,008	13,479	21,393	131
October	7,884	6,838	13,050	14,521	21,012	119
November	5,671	7,857	13,694	15,185	20,972	116
December	12,462	15,241	16,198	17,669	19,220	129
1998						
January	9,531	15,401	15,380	17,851	21,870	131
February	9,229	25,131	14,685	16,500	24,662	131
March	12,813	24,106	13,945	15,668	26,663	120
April	16,994	15,431	13,413	15,071	26,478	119
May	13,293	10,237	13,297	14,940	24,978	114
June	11,521	11,968	13,256	14,894	24,092	103
July	9,349	8,162	12,467	14,008	20,605	96
August	7,895	8,027	13,934	15,656	20,218	100
September	8,752	5,252	13,405	15,062	18,843	94
October	7,591	2,928	12,477	14,019	19,023	94
November	3,760	9,207	12,128	13,625	19,672	...
December	4,298	13,813	11,640	13,079	21,176	...
1999						
January	3,560	12,359	11,900	13,371	21,996	98
February	5,284	17,133	10,935	12,286	22,069	100
March	10,148	23,030	...	...	24,430	106
(Annual average, based on coffee year) ⁴						
1995/96	8,887	12,534	9,532	10,824	16,804	106
1996/97	9,267	13,219	10,665	12,136	20,262	113
1997/98	10,450	12,804	13,894	15,585	22,468	114
(Annual percentage change, based on coffee year) ⁴						
1995/96	34.6	55.3	-43.1	-36.9	-30.5	-30.2
1996/97	4.3	5.5	11.9	12.1	20.6	6.9
1997/98	12.8	-3.1	30.3	28.4	10.9	1.0

Source: Ethiopian authorities.

¹ Auction price less estimated transport and handling costs.

² For unwashed and washed coffee combined (mostly unwashed) at Addis Ababa, weighted by same month's arrival.

³ ICO is the International Coffee Organization; in U.S. cents per pound.

⁴ October-September.

Table 6. Ethiopia: Summary of Investment Projects, July 1992-July 1998¹

	Number of Projects	Capital Cost ²	Number of Employees	Capital- Labor Ratio ³	Average Project Employment
Industry	2,801	19,165	140,104	0.137	50.0
Certified	1,912	13,891	96,794	0.144	50.6
Implementation phase	381	3,319	20,165	0.165	52.9
Operational	508	1,954	23,145	0.084	45.6
Agriculture	1,795	9,763	787,996	0.012	439.0
Certified	1,177	5,954	474,082	0.013	402.8
Implementation phase	107	1,045	19,545	0.053	182.7
Operational	511	2,764	294,369	0.009	576.1
Real estate	403	5,867	11,594	0.506	28.8
Certified	354	5,682	10,474	0.542	29.6
Implementation phase	35	147	954	0.155	27.3
Operational	14	38	166	0.226	11.9
Hotel and tourism	475	3,282	21,252	0.154	44.7
Certified	321	1,674	15,931	0.105	49.6
Implementation phase	94	316	3,330	0.095	35.4
Operational	60	1,292	1,991	0.649	33.2
Social service	248	2,222	17,969	0.124	72.5
Certified	206	1,900	14,606	0.130	70.9
Implementation phase	25	254	2,609	0.097	104.4
Operational	17	68	754	0.090	44.4
Construction	209	7,055	49,103	0.144	234.9
Certified	151	4,769	33,185	0.144	219.8
Implementation phase	27	854	5,377	0.159	199.1
Operational	31	1,432	10,541	0.136	340.0
Trade	164	424	5,888	0.072	35.9
Certified	128	338	4,862	0.070	38.0
Implementation phase	17	35	499	0.071	29.4
Operational	19	51	527	0.097	27.7
Transport	43	2,190	11,634	0.188	270.6
Certified	34	1,244	6,590	0.189	193.8
Implementation phase	0	0	0	...	...
Operational	9	946	5,044	0.188	560.4
Mining	37	354	2,275	0.155	61.5
Certified	25	236	1,585	0.149	63.4
Implementation phase	6	34	253	0.134	42.2
Operational	6	84	437	0.193	72.8
Other	133	1,172	10,400	0.113	78.2
Certified	110	887	8,754	0.101	79.6
Implementation phase	14	184	1,031	0.179	73.6
Operational	9	101	615	0.165	68.3
Total	6,308	51,494	1,058,215	0.049	167.8
Certified	4,418	36,575	666,863	0.055	150.9
Implementation phase	706	6,190	53,763	0.115	76.2
Operational	1,184	8,729	337,589	0.026	285.1
Memorandum items:			(In percent of certified projects)		
Projects in implementation phase	16.0	16.9	8.1	...	...
Projects in operation	26.8	23.9	50.6	...	...

Source: Ethiopian Investment Authority.

¹Excludes projects with initial investment of less than Br 250,000.

²As stated in the project application; in millions of birr.

³In millions of birr per employee.

Table 7. Ethiopia: Ex-Refinery and Addis Ababa Retail Prices of Petroleum Products, May 1994-June 1999¹

(In birrs per liter, unless otherwise indicated)

	Regular Gasoline	Gas Oil	Fuel Oil	Lighting Kerosene	Liquefied Petroleum Gas ²
May 1994					
Ex-refinery	0.92	0.96	0.53	0.90	1.42
Addis Ababa	2.00	1.50	1.00	1.00	2.50
(in percentage change)	8.1	5.6	13.9	11.1	25.0
(in U.S. dollar per liter) ³	0.357	0.268	0.179	0.179	0.446
September 1996					
Ex-refinery	1.14	1.10	0.85	1.11	2.05
Addis Ababa	2.33	1.73	1.37	1.25	3.34
(in percentage change)	16.5	15.3	37.0	25.0	33.6
(in U.S. dollar per liter) ³	0.365	0.271	0.214	0.196	0.523
March 1997					
Ex-refinery	1.27	1.28	1.03	1.41	2.40
Addis Ababa	2.64	1.95	1.57	1.40	3.69
(in percentage change)	13.3	12.7	14.6	12.0	10.5
(in U.S. dollar per liter) ³	0.400	0.295	0.238	0.212	0.559
November 1997					
Import price ⁴	1.20	1.05	0.90	1.09	3.37
Addis Ababa	2.51	1.76	1.49	1.40	3.69
(in percentage change)	-4.9	-9.7	-5.1	0.0	0.0
(in U.S. dollar per liter) ³	0.368	0.258	0.219	0.205	0.542
June 1999					
Import price ⁴	...	...	...	...	...
Addis Ababa	2.51	1.76	1.49	1.40	3.69
(in percentage change)	0.0	0.0	0.0	0.0	0.0
(in U.S. dollar per liter) ³	0.309	0.217	0.183	0.172	0.454

Source: Ethiopian Petroleum Corporation.

¹Retail prices vary depending on transportation costs.

²For liquefied petroleum gas, price per kilogram.

³As of the end of the month indicated.

⁴As of August 1997, Ethiopian Petroleum Corporation ceased refining crude petroleum.

Table 8. Ethiopia: Consumer Price Index (CPI), September 1996-May 1999

		National CPI					Addis Ababa CPI (New)	
		General index	General index (Adjusted) ¹	Food index	Rural	Urban	General index	Food index
(Index, 1995/96 ² = 100)								
1996	September	98.9	102.0	93.7	101.7	102.4	105.6	106.6
	October	99.8	102.0	94.4	101.2	103.0	103.7	102.2
	November	98.5	100.7	93.9	99.5	102.2	101.8	99.1
	December	96.9	100.2	90.0	99.0	101.5	100.7	96.6
1997	March	97.1	99.5	89.3	98.0	101.3	98.1	91.4
	June	102.2	102.9	97.6	102.4	103.5	102.0	98.8
	September	103.9	105.7	99.3	107.1	104.1	102.8	98.2
	December	99.1	103.3	93.9	101.1	105.8	101.0	95.5
1998	March	100.0	103.6	95.3	102.3	105.2	99.8	94.3
	June	102.1	106.2	100.8	104.1	108.6	103.9	100.2
	September	107.9	110.6	108.4	109.5	111.8	102.1	100.3
	December	100.8	105.1	96.7	103.3	107.3	98.9	93.5
1999	March	107.2	109.9	107.6	107.7	112.4	103.9	102.2
	April ³	109.2	111.2	108.9	111.5	110.9	103.0	100.9
	May ³	113.7	113.8	117.5	112.3	115.4	107.2	108.9
(Annual percentage change, end of period)								
1997	September	5.1	3.6	6.0	5.3	1.7	-2.7	-7.9
	December	2.3	3.1	4.3	2.1	4.2	0.3	-1.1
1998	March	3.0	4.1	6.7	4.4	3.8	1.7	3.2
	June	-0.1	3.2	3.3	1.7	4.9	1.9	1.4
	September	3.8	4.6	9.2	2.2	7.4	-0.7	2.1
	December	1.7	1.8	3.0	2.2	1.4	-2.1	-2.1
1999	March	7.2	6.0	12.9	5.3	6.8	4.1	8.4
(Annual percentage change, annual average)								
1998	March	...	...	...	...	...	...	...
	June ⁴	2.2	3.7	3.7	3.5	3.8	0.3	-1.5
	September	1.4	3.7	4.6	2.7	4.8	1.6	2.0
	December	1.4	3.3	5.3	2.1	4.7	0.9	1.7
1999	March	2.4	3.3	6.2	2.2	4.5	0.6	1.9
(Monthly percentage change)								
1998	June	0.8	0.8	2.1	1.1	0.6	0.7	1.8
	July	0.9	0.7	1.9	1.2	0.2	2.4	4.4
	August	1.9	2.0	2.0	1.9	2.1	0.4	1.5
	September	2.8	1.3	3.4	2.0	0.6	-4.4	-5.6
	October	-0.1	-0.7	1.3	-0.6	-0.8	-1.7	-4.7
	November	-4.6	-3.9	-7.8	-4.7	-3.0	-1.9	-2.6
	December	-1.9	-0.3	-4.4	-0.4	-0.3	0.4	0.4
1999	January	3.1	1.2	1.2	2.0	0.4	1.2	2.1
	February	0.0	0.3	3.7	-0.3	0.9	1.1	2.9
	March	3.2	2.9	6.0	2.5	3.4	2.7	4.0
	April ³	1.9	1.2	1.2	3.5	-1.3	-0.9	-1.3
	May ³	4.1	2.3	7.9	0.7	4.1	4.1	7.9

Sources: Central Statistical Authority; and Fund staff estimates.

¹Weighted average of rural and urban indices.

²July 1-June 30.

³For May 1999, national CPI indices are estimates.

⁴Based on monthly percentage changes of old Addis Ababa Retail Price Index through August 1996.

Table 9. Ethiopia: Addis Ababa Retail Price Index (Excluding Rent), December 1993-December 1997

	General				Food				
	Index (1963=100)	Monthly (In percent change)	Annual		Index (1963=100)	Monthly (In percent change)	Annual		
			(end of period)	(average)			(end of period)	(average)	
1995 December	974.0	0.8	1.9	10.0	1,186.0	0.7	0.8	12.4	
1996 March	981.1	1.1	-2.2	6.5	1,212.8	1.5	-4.3	7.1	
June	942.5	-2.8	-9.0	0.9	1,154.9	-3.7	-12.0	-0.3	
September	941.2	-1.3	-7.8	-3.2	1,158.4	-0.6	-8.9	-5.2	
December	923.9	2.3	-5.1	-5.1	1,135.1	2.3	-4.3	-6.6	
1997 March	883.3	-1.8	-10.0	-7.0	1,051.2	-3.3	-13.3	-8.5	
June	917.5	1.7	-2.7	-6.4	1,137.8	2.5	-1.5	-7.2	
September	926.8	-1.9	-1.5	-5.2	1,127.3	-2.9	-2.7	-5.5	
December	908.6	0.6	-1.7	-3.7	1,101.4	-0.6	-3.0	-4.2	
			(Annual percentage change, end of period) ¹						
1994/95	14.8	...	...	...	20.5	...	...	...
1995/96	-9.0	...	...	...	-12.0	...	...	...
1996/97	-2.7	...	...	...	-1.5	...	...	...
			(Annual percentage change, annual average) ¹						
1994/95	13.4	...	...	...	18.3	...	...	...
1995/96	0.9	...	...	...	-0.3	...	...	...
1996/97	-6.4	...	...	...	-7.2	...	...	...

Source: Central Statistical Authority.

¹Data pertain to the period July 1-June 30.

Table 10. Ethiopia: Registered Unemployed, Reported Vacancies, and Placement Effected by Occupational Classification, 1993/94-1996/97¹

(In number of persons, unless otherwise indicated)

	1993/94			1994/95			1995/96			1996/97		
	Registered unemployed	Reported vacancies	Placements effected	Registered unemployed	Reported vacancies	Placements effected	Registered unemployed	Reported vacancies	Placements effected	Registered unemployed	Reported vacancies	Placements effected
Professional, technical, and related workers	1,307	190	80	993	210	67	1,371	269	223	820	248	191
Administrators and managers	87	54	5	86	41	73	336	11	8	60	25	8
Clerical workers	44,455	492	392	53,739	580	623	17,486	171	148	25,334	671	612
Sales workers	217	10	4	318	18	129	268	11	12	260	10	12
Service workers	1,244	454	334	1,082	479	343	3,534	464	348	612	606	466
Agricultural workers	1,451	43	38	911	61	7	407	247	245	495	726	603
Production and related workers	15,921	896	754	16,146	1,633	882	4,933	2,350	1,391	6,988	3,202	2,784
Skilled	2,564	401	268	2,033	429	364	1,971	246	194	2,689	529	446
Laborers	13,357	495	486	14,113	1,204	518	2,962	2,104	1,197	4,299	2,673	2,338
Unclassified	0	0	0	9	0	98	0	0	0	0	5	65
Total	64,682	2,139	1,607	73,284	3,022	2,222	28,335	3,523	2,375	34,569	5,493	4,741
<i>Of which</i>												
Female, total number	27,519	488	267	31,303	296	447	11,758	283	287	15,396	766	712
In percent of total	42.5	22.8	16.6	42.7	9.8	20.1	41.5	8.0	12.1	44.5	13.9	15.0

Source: Ministry of Labor and Social Affairs.

¹All data pertain to the period July 1-June 30.

Table 11. Ethiopia: Summary of General Government Finances, 1992/93-1997/98¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of birr)						
Total revenue and grants	3,657	4,926	7,045	8,063	9,381	9,686
Revenue	3,191	3,939	5,913	6,966	7,877	8,413
Tax revenue	2,206	3,077	3,879	4,723	5,358	5,269
Nontax revenue	985	862	2,034	2,243	2,172	2,832
Privatization receipts	0	0	0	0	347	313
Grants	466	987	1,132	1,097	1,504	1,273
Total expenditure and net lending (commitment basis)	5,231	7,146	8,407	10,256	10,078	11,505
Current expenditure	3,446	4,452	5,251	5,644	5,778	7,140
Capital expenditure	1,785	2,694	3,156	3,563	4,300	4,265
Net lending	0	0	0	1,049	0	100
Change in arrears on external interest (+ increase)	11	52	35	62	61	45
Overall balance (cash basis)						
Including grants	-1,562	-2,168	-1,327	-2,131	-636	-1,774
Excluding grants	-2,028	-3,155	-2,459	-3,228	-2,140	-3,047
Excluding grants and privatization receipts	-2,028	-3,155	-2,459	-3,228	-2,487	-3,359
Financing (net)	1,562	2,168	1,327	2,131	636	1,774
External (net)	721	1,690	1,246	1,388	728	780
Gross borrowing	807	1,799	1,414	1,645	1,012	1,121
Amortization paid	-86	-109	-168	-257	-284	-341
Domestic (net)	1,032	676	-113	33	-403	604
Banking system	1,032	676	-375	-189	-818	574
Nonbanks	0	0	263	222	415	30
Statistical discrepancy/check float	-191	-198	194	710	311	390
(In percent of GDP)						
Total revenue and grants	13.7	17.4	20.8	21.3	22.6	21.5
Revenue	12.0	13.9	17.4	18.4	19.0	18.7
Tax revenue	8.3	10.9	11.4	12.5	12.9	11.7
Nontax revenue	3.7	3.0	6.0	5.9	5.2	6.3
Privatization receipts	0.0	0.0	0.0	0.0	0.8	0.7
Grants	1.7	3.5	3.3	2.9	3.6	2.8
Total expenditure and net lending (commitment basis)	19.6	25.2	24.8	27.0	24.3	25.5
Current expenditure	12.9	15.7	15.5	14.9	13.9	15.9
Capital expenditure	6.7	9.5	9.3	9.4	10.4	9.5
Net lending	0.0	0.0	0.0	2.8	0.0	0.2
Change in arrears on external interest (+ increase)	0.0	0.2	0.1	0.2	0.1	0.1
Overall balance (cash basis)						
Including grants	-5.9	-7.7	-3.9	-5.6	-1.5	-3.9
Excluding grants	-7.6	-11.1	-7.3	-8.5	-5.2	-6.8
Excluding grants and privatization receipts	-7.6	-11.1	-7.3	-8.5	-6.0	-7.5
Financing (net)	5.9	7.7	3.9	5.6	1.5	3.9
External (net)	2.7	6.0	3.7	3.7	1.8	1.7
Domestic (net)	3.9	2.4	-0.3	0.1	-1.0	1.3
Banking system	3.9	2.4	-1.1	-0.5	-2.0	1.3
Nonbanks	0.0	0.0	0.8	0.6	1.0	0.1
Statistical discrepancy/check float	-0.7	-0.7	0.6	1.9	0.7	0.9

Sources: Ministry of Finance; and Fund staff estimates.

¹Fiscal year ended July 7.

Table 12. Ethiopia: General Government Revenues and Grants, 1992/93-1997/98¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of birr)						
Tax revenue	2,206	3,077	3,879	4,723	5,358	5,269
Direct taxes	738	945	1,312	1,754	1,905	1,869
Income and profit tax	694	900	1,231	1,649	1,745	1,656
Personal income	277	284	308	337	366	434
Rental income	0	2	1	3	9	15
Business profits	367	558	851	1,222	1,265	1,089
Agricultural income	49	54	68	83	102	102
Other income	1	3	3	4	2	4
Capital gains tax	0	0	0	0	1	12
Land use fees	44	46	81	105	159	213
Rural land use fee	44	46	58	77	97	98
Urban land lease fee	0	0	23	28	63	116
Indirect taxes	1,468	2,131	2,567	2,970	3,453	3,399
Domestic production, sales, and excise taxes	746	834	946	1,156	1,290	1,181
Petroleum products	112	53	57	54	53	18
Alcohol and tobacco	251	256	316	359	398	356
Other goods	298	401	398	542	617	568
Services	30	45	68	76	97	124
Stamp duties	56	79	107	124	125	115
Import duties	704	1,251	1,420	1,694	2,025	2,037
Customs duties	352	632	747	889	1,067	1,012
Sales and other taxes	352	619	673	805	958	1,025
Petroleum products	23	34	43	56	41	137
Alcohol and tobacco	3	12	9	6	6	19
Other imports	326	572	621	744	911	868
Export taxes	19	47	201	120	138	181
Nontax revenue	985	862	2,034	2,243	2,172	2,832
Charges and fees	60	60	108	125	112	131
Sales of goods and services	51	82	104	121	155	164
Surplus, capital charges, interest payments, and state dividends	444	507	1,443	822	1,149	1,400
Pension contributions	64	67	76	81	86	97
Reimbursement and property sales	41	40	126	177	116	92
Fines and miscellaneous	104	107	178	299	330	625
Other extraordinary ²	220	0	0	618	224	324
Privatization receipts	0	0	0	0	347	313
Total revenue	3,191	3,939	5,913	6,966	7,877	8,413
External grants	466	987	1,132	1,097	1,504	1,273
Grants in kind/earmarked	410	171	399	286	407	655
Untied cash and counterpart funds/grants	56	816	733	811	1,098	618
Total revenue and grants	3,657	4,926	7,045	8,063	9,381	9,686
(In percent of total revenue)						
Tax revenue	69.1	78.1	65.6	67.8	68.0	62.6
Direct taxes	23.1	24.0	22.2	25.2	24.2	22.2
Indirect taxes	46.0	54.1	43.4	42.6	43.8	40.4
Nontax revenue	30.9	21.9	34.4	32.2	27.6	33.7
Privatization receipts	0.0	0.0	0.0	0.0	4.4	3.7
(In percent of GDP)						
Tax revenue	8.3	10.9	11.4	12.5	12.9	11.7
Direct taxes	2.8	3.3	3.9	4.6	4.6	4.2
Income and profit tax	2.6	3.2	3.6	4.3	4.2	3.7
Land use fees	0.2	0.2	0.2	0.3	0.4	0.5
Indirect taxes	5.5	7.5	7.6	7.8	8.3	7.5
Domestic production, sales, and excise taxes	2.8	2.9	2.8	3.0	3.1	2.6
Import duties	2.6	4.4	4.2	4.5	4.9	4.5
Export taxes	0.1	0.2	0.6	0.3	0.3	0.4
Nontax revenue	3.7	3.0	6.0	5.9	5.2	6.3
Surplus, capital charges, interest payments, and state dividends	1.7	1.8	4.3	2.2	2.8	3.1
Other nontax revenue	2.0	1.3	1.7	3.7	2.5	3.2
Privatization receipts	0.0	0.0	0.0	0.0	0.8	0.7
Grants	1.7	3.5	3.3	2.9	3.6	2.8

Sources: Ministry of Finance; and Fund staff estimates.

¹Fiscal year ended July 7.

²Data for 1992/93 includes transfer for evacuation of Felashas; for 1995/96, includes surcharge on coffee traders, customs deposits, sales of drought aid, and proceeds from sugar auctions; for 1996/97, includes sugar auction sales only.

Table 13. Ethiopia: General Government Current Expenditures by Economic Classification, 1992/93-1997/98¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of birr)						
Wages and operating expenses	2,209	2,812	3,290	3,652	3,781	5,510
Wages and salaries	1,477	1,762	1,893	2,101	2,173	2,653
Materials	732	1,049	1,397	1,551	1,608	2,857
Grants and contributions	329	218	385	388	327	279
Subsidies	6	85	150	175	127	0
Pensions	228	275	274	291	303	309
Interest and charges	542	1,009	874	984	980	881
Domestic debt	409	810	597	610	635	526
External debt (scheduled)	133	199	277	375	345	355
External assistance	133	53	214	143	257	160
Safety net measures ²	0	0	64	12	4	2
Total current expenditure (commitment basis)	3,446	4,452	5,251	5,644	5,778	7,140
(In percent of total current expenditure)						
Wages and operating expenses	64.1	63.2	62.7	64.7	65.4	77.2
Wages and salaries	42.9	39.6	36.1	37.2	37.6	37.2
Materials	21.2	23.6	26.6	27.5	27.8	40.0
Grants and contributions	9.5	4.9	7.3	6.9	5.7	3.9
Subsidies	0.2	1.9	2.9	3.1	2.2	0.0
Pensions	6.6	6.2	5.2	5.1	5.3	4.3
Interest and charges	15.7	22.7	16.6	17.4	17.0	12.3
External assistance	3.8	1.2	4.1	2.5	4.4	2.2
Safety net measures ²	0.0	0.0	1.2	0.2	0.1	0.0
(In percent of GDP)						
Wages and operating expenses	8.3	9.9	9.7	9.6	9.1	12.2
Wages and salaries	5.5	6.2	5.6	5.5	5.2	5.9
Materials	2.7	3.7	4.1	4.1	3.9	6.3
Grants and contributions	1.2	0.8	1.1	1.0	0.8	0.6
Subsidies	0.0	0.3	0.4	0.5	0.3	0.0
Pensions	0.9	1.0	0.8	0.8	0.7	0.7
Interest and charges	2.0	3.6	2.6	2.6	2.4	2.0
External assistance	0.5	0.2	0.6	0.4	0.6	0.4
Safety net measures ²	0.0	0.0	0.2	0.0	0.0	0.0
Total current expenditure (commitment basis)	12.9	15.7	15.5	14.9	13.9	15.9

Sources: Ministry of Finance; and Fund staff estimates.

¹Fiscal year ended July 7.

²Expenditure on social safety net measures of Br 36.9 million is included in other expenditure categories for 1992/93.

Table 14. Ethiopia: General Government Expenditures by Functional Classification, 1992/93-1997/98¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of birr)						
Current expenditure	3,446	4,451	5,253	5,644	5,778	7,140
General services	1,175	1,361	1,668	1,962	1,875	3,227
Defense	681	663	737	772	835	2,090
Public order and security	25	45	59	67	220	259
General services ²	469	653	873	-1,123	820	879
Economic services	324	438	557	609	647	649
Agriculture and natural resources	174	250	337	379	408	487
Industry	9	14	32	33	31	29
Mines and energy	19	18	18	24	18	17
Commerce and tourism	15	20	7	7	10	13
Transport and communication	22	26	11	12	11	13
Urban development and construction	85	110	153	155	170	90
Social services	959	1,212	1,403	1,422	1,488	1,723
Education	604	741	864	941	1,026	1,127
Health	189	281	310	328	332	400
Culture and sports	19	26	30	28	19	23
Labor and social welfare	39	54	51	52	55	57
Relief and rehabilitation	108	111	148	73	57	116
Pension payments	228	275	274	291	303	309
Interest and charges ³	542	1,009	874	984	980	881
External assistance ³	133	53	214	143	257	160
Miscellaneous	86	103	264	235	228	192
Capital expenditure ⁴	1,785	2,694	3,156	3,563	4,300	4,265
Economic development	1,501	1,975	2,447	2,619	3,110	2,818
Agriculture, water, and natural resources	639	721	757	781	885	955
Mining and industry	383	381	388	377	306	131
Commerce and tourism	68	60	159	207	0	2
Electric power	75	108	208	362	782	412
Roads, transportation, and communications	336	706	935	893	1,138	1,318
Social development	258	621	507	712	872	1,141
Education	142	256	269	442	433	471
Public health	67	69	120	154	266	342
Urban development and housing	49	296	118	116	173	328
General services and compensation	26	99	203	232	318	306
Total expenditure	5,231	7,146	8,409	9,207	10,078	11,405
(In percent of total expenditure)						
Current expenditure	65.9	62.3	62.5	61.3	57.3	62.6
General services ²	22.5	19.0	19.8	21.3	18.6	28.3
Economic services	6.2	6.1	6.6	6.6	6.4	5.7
Social services	18.3	17.0	16.7	15.4	14.8	15.1
Interest and charges	10.4	14.1	10.4	10.7	9.7	7.7
Other	8.5	6.0	8.9	7.3	7.8	5.8
Capital expenditure ⁴	34.1	37.7	37.5	38.7	42.7	37.4
Economic development	28.7	27.6	29.1	28.4	30.9	24.7
Social development	4.9	8.7	6.0	7.7	8.7	10.0
General services and compensation	0.5	1.4	2.4	2.5	3.2	2.7
Total social spending (current and capital)	23.3	25.7	22.7	23.2	23.4	25.1
Education	14.3	14.0	13.5	15.0	14.5	14.0
Health	4.9	4.9	5.1	5.2	5.9	6.5
Other	4.1	6.8	4.1	2.9	3.0	4.6
(In percent of GDP)						
Current expenditure	12.9	15.7	15.5	14.9	13.9	15.9
General services ²	4.4	4.8	4.9	5.2	4.5	7.2
Economic services	1.2	1.5	1.6	1.6	1.6	1.4
Social services	3.6	4.3	4.1	3.7	3.6	3.8
Interest and charges	2.0	3.6	2.6	2.6	2.4	2.0
Other	1.7	1.5	2.2	1.8	1.9	1.5
Capital expenditure ⁴	6.7	9.5	9.3	9.4	10.4	9.5
Economic development	5.6	7.0	7.2	6.9	7.5	6.3
Social development	1.0	2.2	1.5	1.9	2.1	2.5
General services and compensation	0.1	0.3	0.6	0.6	0.8	0.7
Total social spending (current and capital)	4.6	6.5	5.6	5.6	5.7	6.4
Education	2.8	3.5	3.3	3.6	3.5	3.5
Health	1.0	1.2	1.3	1.3	1.4	1.6
Other	0.8	1.7	1.0	0.7	0.7	1.2

Sources: Ministry of Finance; and Fund staff estimates.

¹Fiscal year ended July 7.

²Includes organs of state and judiciary and allocations for economic development studies.

³Imputed value of goods and services provided through external grants, mainly aid in kind.

⁴Includes outlays other than investment proper, such as operating expenses of certain development agencies.

Table 15. Ethiopia: Summary of Regional Government Finances, 1993/94-1997/98¹

	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of birr)					
Total revenue ²	696	887	1,129	1,352	1,595
Tax revenue	519	652	830	969	1,082
Income and profits tax	375	449	518	579	639
Land use fees	46	81	105	159	213
Domestic sales and excise taxes	64	84	142	165	164
Stamp duties	34	38	65	66	65
Nontax revenue	177	234	299	384	513
Total expenditure	2,325	3,089	3,681	4,112	4,581
Current expenditure	1,689	2,146	2,471	2,477	2,827
General services	363	540	742	615	739
Economic services	263	373	406	434	510
Social services	909	1,073	1,154	1,203	1,344
Pension payments	155	160	168	170	178
Miscellaneous	0	0	1	55	57
Capital expenditure	636	943	1,211	1,634	1,754
Economic development	322	579	744	883	977
Social development	276	265	350	563	597
General development	38	99	117	189	181
Overall balance ³	-1,629	-2,202	-2,552	-2,759	-2,985
(In percent of GDP)					
Total revenue ²	2.5	2.6	3.0	3.3	3.5
Tax revenue	1.8	1.9	2.2	2.3	2.4
Nontax revenue	0.6	0.7	0.8	0.9	1.1
Total expenditure	8.2	9.1	9.7	9.9	10.2
Current expenditure	6.0	6.3	6.5	6.0	6.3
<i>Of which</i>					
Social services	3.2	3.2	3.0	2.9	3.0
Capital expenditure	2.2	2.8	3.2	3.9	3.9
<i>Of which</i>					
Social development	1.0	0.8	0.9	1.4	1.3
Overall balance ³	-5.8	-6.5	-6.7	-6.7	-6.6
(In percent of general government total)					
Total revenue ²	17.7	15.0	16.2	17.2	19.0
Tax revenue	16.9	16.8	17.6	18.1	20.5
Nontax revenue	20.5	11.5	13.3	17.7	18.1
Total expenditure	32.5	36.7	35.9	40.8	39.8
Current expenditure	37.9	40.9	43.8	42.9	39.6
<i>Of which</i>					
Social services	75.0	76.5	81.2	80.8	78.0
Capital expenditure	23.6	29.9	34.0	38.0	41.1
<i>Of which</i>					
Social development	44.5	52.2	49.1	64.5	52.3

Sources: Ministry of Finance; and Fund staff estimates.

¹Fiscal year ended July 7.

²Revenue from taxes, rents, and fees levied and collected by the regional governments.

³Deficit (-) covered by direct transfer from federal government of joint tax receipts and foreign assistance.

Table 16. Ethiopia: Monetary Survey, June 1994-April 1999¹

	1994	1995	1996	1997	1997	1998	1998	1999	
		June 30			July 7	June 30	July 7	December 31	April 30
(In millions of birr, unless otherwise indicated)									
Foreign assets (net)	3,917	5,710	6,235	5,626	5,551	5,831	5,724	5,963	5,736
National Bank of Ethiopia	2,293	3,005	4,901	2,870	2,874	2,166	1,963	2,724	2,508
Assets	3,193	3,896	5,718	3,969	3,951	3,106	2,918	3,878	3,547
Liabilities	901	891	817	1,098	1,077	940	955	1,154	1,039
Commercial banks	1,624	2,704	1,334	2,755	2,677	3,665	3,761	3,239	3,228
Assets	2,094	3,504	2,389	4,269	4,274	5,738	5,847	4,898	4,890
Liabilities	469	800	1,056	1,514	1,597	2,073	2,086	1,660	1,662
Domestic credit	12,764	14,352	15,411	16,447	17,146	18,523	18,930	18,936	20,557
Claims on government (net)	9,591	9,058	7,888	7,943	8,798	8,858	9,372	8,895	9,481
National Bank of Ethiopia	7,438	7,034	5,901	6,626	7,238	7,682	8,126	7,405	8,238
Commercial banks	2,153	2,023	1,987	1,317	1,560	1,176	1,246	1,490	1,244
Claims on other sectors	3,173	5,295	7,523	8,504	8,348	9,666	9,558	10,041	11,076
National Bank of Ethiopia	463	465	465	465	465	465	465	465	465
Commercial banks	2,710	4,829	7,057	8,039	7,883	9,201	9,093	9,576	10,611
Broad money	11,602	14,408	15,655	16,549	16,511	18,587	18,615	18,210	18,683
(excl. nongovernment public sector deposits)	9,701	12,092	13,314	13,867	13,958	14,603	14,702	15,051	15,348
Money	8,376	9,922	9,917	10,025	9,980	11,038	10,965	10,659	10,940
Currency outside banks	5,162	5,834	5,657	5,176	5,178	4,717	4,750	5,011	5,172
Demand deposits	3,214	4,089	4,261	4,848	4,803	6,321	6,215	5,648	5,769
(excl. nongovernment public sector deposits)	1,320	1,801	2,036	2,216	2,298	2,924	2,984	3,147	3,063
Quasi money	3,226	4,486	5,737	6,525	6,531	7,549	7,650	7,550	7,743
Savings deposits	2,844	3,869	4,984	5,685	5,699	6,482	6,485	6,591	6,807
Time deposits	381	617	753	839	832	1,068	1,166	959	935
Other items (net)	5,079	5,654	5,991	5,523	6,186	5,768	6,039	6,689	7,610
National Bank of Ethiopia	5,032	4,671	5,610	4,786	5,400	5,596	5,805	5,584	6,039
Commercial banks	48	983	380	738	786	172	235	1,105	1,571
Memorandum items:									
Net domestic assets	7,685	8,698	9,420	10,924	10,960	12,756	12,891	12,247	12,947
Reserve money	6,968	7,249	7,956	6,972	7,190	7,499	7,543	7,369	7,151
Quasi money/broad money (in percent)	27.8	31.1	36.6	39.4	39.6	40.6	41.1	41.5	41.4
Velocity (GDP/broad money)	2.61	2.61	2.52	2.58	2.55	2.56	2.56	...	...
(Annual percentage change)									
Foreign assets (net)	135.4	45.8	9.2	-9.8	-10.0	3.7	3.1	9.2	-8.4
Domestic credit	10.0	12.4	7.4	6.7	0.5	12.6	10.4	7.8	19.9
Claims on government (net)	5.4	-5.6	-12.9	0.7	-8.5	11.5	6.5	8.0	31.3
Claims on other sectors	26.6	66.9	42.1	13.0	12.1	13.7	14.5	7.7	11.6
Broad money	14.4	24.2	8.7	5.7	3.4	12.3	12.7	3.9	6.1
(excl. non-government public sector deposits)	14.5	24.7	10.1	4.2	3.8	5.3	5.3	5.7	7.8
Money	10.4	18.5	0.0	1.1	-1.7	10.1	9.9	3.6	6.1
Quasi money	26.2	39.1	27.9	13.7	12.4	15.7	17.1	4.4	6.2

Source: National Bank of Ethiopia.

¹Excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.

Table 17. Ethiopia: Loan Portfolio of the Banking System, June 1994-April 1999¹

	1994	1995	1996	1997	1997	1998		1999	
					July 7	June 30	July 7	December 31	April 30
	(In millions of birr)								
Claims on the government (net)	9,591	9,058	7,888	7,943	8,798	8,858	9,372	8,895	9,481
African Investment Development Bank advances ²	463	465	465	465	465	465	465	465	465
Other sectors	2,710	4,829	7,058	8,039	7,883	9,201	9,093	9,576	10,611
Nonfinancial public enterprises ³	1,058	1,251	1,291	1,119	977	1,254	1,385	1,334	...
Financial public enterprises ⁴	95	180	272	264	264	233	233	217	...
Cooperatives	66	257	242	248	248	341	258	442	...
Private sector	1,491	3,143	5,253	6,408	6,394	7,373	7,217	7,584	...
Total	12,764	14,352	15,411	16,447	17,146	18,523	18,930	18,936	20,557
	(In percent of total)								
Claims on the government	75.1	63.1	51.2	48.3	51.3	47.8	49.5	47.0	46.1
AIDB advances ¹	3.6	3.2	3.0	2.8	2.7	2.5	2.5	2.5	2.3
Other sectors	21.2	33.6	45.8	48.9	46.0	49.7	48.0	50.6	51.6
Nonfinancial public enterprises ³	8.3	8.7	8.4	6.8	5.7	6.8	7.3	7.0	...
Financial public enterprises ⁴	0.7	1.3	1.8	1.6	1.5	1.3	1.2	1.1	...
Cooperatives	0.5	1.8	1.6	1.5	1.4	1.8	1.4	2.3	...
Private sector	11.7	21.9	34.1	39.0	37.3	39.8	38.1	40.0	...
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(In percent of total net claims of the banking system at beginning of period) ⁵								
Claims on the government	4.2	-4.2	-8.1	0.4	-4.7	5.6	3.3	-2.5	0.6
African Investment Development Bank advances ²	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	5.6	16.6	15.5	6.4	2.5	7.1	7.1	2.6	8.0
Nonfinancial public enterprises ³	1.0	1.5	0.3	-1.1	...	0.8	2.4	-0.3	...
Financial public enterprises ⁴	0.0	0.7	0.6	-0.1	...	-0.2	-0.2	-0.1	...
Cooperatives	0.3	1.5	-0.1	0.0	...	0.6	0.1	1.0	...
Private sector	4.4	12.9	14.7	7.5	...	5.9	4.8	1.9	...
Total	10.0	12.4	7.4	6.7	4.3	12.1	10.4	0.0	8.6
(excluding claims on government)	26.6	66.9	42.1	13.0	5.5	13.7	14.5	5.1	15.9

Source: National Bank of Ethiopia.

¹Includes provision for doubtful loans; excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.

²The debt-transfer operation of March 1994 is already accounted for in the 1993 numbers, so as to allow comparability.

³Excludes equity investment.

⁴Excludes deposit claims on specialized banks.

⁵For December 31, 1998, in percent of total net claims on banking system on July 7, 1998.

Table 18. Ethiopia: Sectoral Breakdown of Commercial Bank Claims on Nongovernment Sectors, 1993-98¹

	1993	1994	1995	1996	1997	1998
	June 30					
	(In millions of birr)					
Agriculture	44	76	163	213	344	366
Manufacturing	549	496	451	578	754	841
Large-scale industry	536	484	429	535	649	683
Small-scale industry	13	13	22	43	105	158
Exports	413	567	730	944	937	1,007
Coffee	238	433	582	673	584	560
Noncoffee	175	134	147	271	353	447
Imports	540	491	822	1,086	1,565	1,899
Construction	208	227	919	1,131	1,368	1,376
Domestic trade and services	621	1,110	2,157	3,014	3,624	3,822
Domestic trade	430	784	1,245	1,728	2,144	2,224
Transport	134	228	493	852	963	896
Hotel and tourism	45	73	176	159	198	212
Other services	12	25	243	275	319	490
Personal	17	13	13	15	17	20
Other	114	194	261	894	688	1,130
Total reported	2,506	3,173	5,515	7,874	9,297	10,460
	(In percent of total)					
Agriculture	1.7	2.4	3.0	2.7	3.7	3.5
Manufacturing	21.9	15.6	8.2	7.3	8.1	8.0
Large-scale industry	21.4	15.2	7.8	6.8	7.0	6.5
Small-scale industry	0.5	0.4	0.4	0.5	1.1	1.5
Exports	16.5	17.9	13.2	12.0	10.1	9.6
Coffee	9.5	13.7	10.6	8.5	6.3	5.4
Noncoffee	7.0	4.2	2.7	3.4	3.8	4.3
Imports	21.6	15.5	14.9	13.8	16.8	18.1
Construction	8.3	7.2	16.7	14.4	14.7	13.2
Domestic trade and services	24.8	35.0	39.1	38.3	39.0	36.5
Domestic trade	17.2	24.7	22.6	21.9	23.1	21.3
Transport	5.4	7.2	8.9	10.8	10.4	8.6
Hotel and tourism	1.8	2.3	3.2	2.0	2.1	2.0
Other services	0.5	0.8	4.4	3.5	3.4	4.7
Personal	0.7	0.4	0.2	0.2	0.2	0.2
Other	4.5	6.1	4.7	11.3	7.4	10.8

Source: National Bank of Ethiopia.

¹Includes interbank loans and provisions for doubtful loans (which are excluded from claims on nongovernment sectors in Tables 15, 16, and 17); excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.

Table 19. Ethiopia: Commercial Bank Lending and Deposits, June 1994-April 1999¹

	1994	1995	1996	1997	1997	1998		1999	
		June 30			July 7	June 30	July 7	December 31	April 30
(In millions of birr)									
Lending									
Central government	2,617	2,621	2,850	2,137	2,116	2,213	2,208	2,649	2,840
Other sectors	2,710	4,829	7,058	8,039	7,883	9,201	9,093	9,576	10,611
Nonfinancial public enterprises ²	1,058	1,251	1,291	1,119	977	1,254	1,385	1,334	...
Financial public enterprises ³	95	180	272	264	264	233	233	217	...
Cooperatives	66	257	242	248	248	341	258	442	...
Private sector	1,491	3,143	5,253	6,408	6,394	7,373	7,217	7,584	...
Total lending	5,327	7,450	9,908	10,176	9,999	11,414	11,301	12,225	13,451
(In percent of total lending)									
Central government	49.1	35.2	28.8	21.0	21.2	19.4	19.5	21.7	21.1
Other sectors	50.9	64.8	71.2	79.0	78.8	80.6	80.5	78.3	78.9
Nonfinancial public enterprises ²	19.9	16.8	13.0	11.0	9.8	11.0	12.3	10.9	...
Financial public enterprises ³	1.8	2.4	2.7	2.6	2.6	2.0	2.1	1.8	...
Cooperatives	1.2	3.4	2.4	2.4	2.5	3.0	2.3	3.6	...
Private sector	28.0	42.2	53.0	63.0	63.9	64.6	63.9	62.0	...
(In millions of birr)									
Deposits									
Demand deposits	3,214	4,089	4,261	4,848	4,803	6,321	6,215	5,648	5,698
Public enterprises	1,589	1,954	1,749	2,339	2,191	3,003	2,765	2,311	2,368
Cooperatives	196	210	265	334	343	391	395	391	404
Private sector	860	958	910	903	1,881	2,501	2,563	2,609	2,616
Other ⁴	569	966	1,336	1,273	388	426	492	338	2,926
Savings deposits	2,844	3,869	4,984	5,685	5,699	6,481	6,483	6,582	6,616
Public enterprises	0	20	22	24	24	25	25	26	26
Cooperatives	28	49	74	87	87	99	101	115	114
Private sector	2,817	3,800	4,888	5,574	5,588	6,270	6,318	6,336	6,407
Other ⁴	0	0	0	0	0	87	39	104	69
Time deposits	381	625	760	847	839	1,075	1,173	966	948
Public enterprises	0	17	204	36	35	121	170	180	178
Cooperatives	9	2	2	6	11	16	16	16	16
Private sector	373	437	451	465	456	487	490	278	265
Other ⁴	0	170	102	340	338	451	498	493	489
Central government	464	597	863	820	556	1,037	962	1,160	1,279
Total deposits	6,904	9,180	10,867	12,201	11,897	14,913	14,833	14,356	14,540
(In percent of total deposits)									
Demand deposits	46.6	44.5	39.2	39.7	40.4	42.4	41.9	39.3	39.2
Savings deposits	41.2	42.1	45.9	46.6	47.9	43.5	43.7	45.8	45.5
Time deposits	5.5	6.8	7.0	6.9	7.1	7.2	7.9	6.7	6.5
Central government deposits	6.7	6.5	7.9	6.7	4.7	7.0	6.5	8.1	8.8

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹Includes interbank loans and provisions for doubtful loans (which are excluded from claims on nongovernment sectors in Tables 15, 16, and 17); excludes the accounts of the Djibouti branch of the Commercial Bank of Ethiopia.

²Excludes equity investment.

³Excludes deposit claims on specialized banks.

⁴Includes domestic financial agencies and nontransferable accounts of nonresidents.

Table 20. Ethiopia: Reserve and Liquidity Positions of Commercial Banks, June 1994-April 1999

(In millions of birr, unless otherwise indicated)

	1994	1995	1996	1997	1998	1998		1999
			June 30			July 7	December 31	April 30
Net deposits ¹	6,908	9,423	11,308	12,843	16,167	16,095	15,393	15,539
Reserve requirement ²	345	471	565	642	808	805	770	777
Actual reserves	1,910	1,524	1,985	1,336	2,425	2,882	1,991	1,875
Excess reserves	1,564	1,053	1,420	694	1,617	1,521	1,222	1,098
Actual reserve ratio (in percent)	27.6	16.2	17.6	10.4	15.0	17.9	12.9	12.1
Net current deposits ³	6,527	8,798	10,548	11,996	15,092	14,922	14,427	14,691
Liquidity requirement ⁴	1,305	1,760	1,582	1,799	2,264	2,238	2,164	2,204
Actual liquidity assets	3,723	4,779	4,124	5,191	7,755	7,784	6,669	6,323
Actual liquidity ratio (in percent)	57.0	54.3	39.1	43.3	51.4	52.2	46.2	43.0
Excess liquidity	2,418	3,019	2,542	3,392	5,491	5,546	4,505	4,120
Memorandum items:								
Excess reserves (in percent of net deposits)	22.6	11.2	12.6	5.4	10.0	9.4	7.9	7.1
Excess liquidity (in percent of net current deposits)	37.0	34.3	24.1	28.3	36.4	37.2	31.2	28.0

Source: National Bank of Ethiopia.

¹Demand, savings, and time deposits less uncleared checks paid, and less uncleared foreign effects.

²Five percent of net deposits; 8 percent for the Commercial Bank of Ethiopia in 1996.

³Net deposits less deposits at notice (deposits that can be withdrawn after 30 days' notice).

⁴Twenty percent of net current deposits through 1995; 15 percent thereafter.

Table 21. Ethiopia: Structure of Interest Rates, 1992-99

(In percent per annum)

	Oct. 1, 1992 - Jan. 1, 1995	Jan. 2, 1995 - Sep. 15, 1996	Sep. 16, 1996 - Dec. 31, 1997	1998				1999
				March	June	September	December	March
Deposit rates								
Savings deposits	10.0	10.0 ¹	7.0 ¹	6.0 ¹	6.0 ¹	6.0 ¹	6.0 ¹	6.0 ¹
Time deposits		10.0 ¹	7.0 ¹	6.0 ¹				
30 days' notice	10.5							
3 months to less than 6 months	10.5							
6 months to less than 12 months	11.0							
1 year to less than 2 years	11.5			6.8	6.8	6.8	7.0	7.0
2 years and above	12.0							
Lending rates								
Bank lending rates				10.5-12.0	10.5-12.0	10.5-12.0	10.5-12.0	10.5-13.0
Minimum	10.5							
Maximum	15.0	15.0	10.5					
Treasury bill yield (91-day bill, at auction) ²	12.0-13.0	4.5	3.8	3.1	3.1	3.1	5.0	4.8

Source: National Bank of Ethiopia.

¹Minimum rate.²From 1998 onward as of end of the month.

Table 22. Ethiopia: Exchange Rate Developments, 1992/93-1998/99¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
	(Period average; 1990 = 100)						
Effective exchange rates ²							
Nominal	50.3	44.9	41.4	43.0	43.1	43.5	41.2
Real	60.6	51.6	52.5	48.2	48.7	49.3	47.7
	(Annual percentage change; - depreciation)						
Nominal	-53.1	-10.7	-7.9	3.7	0.2	1.0	-6.2
Real	-55.0	-14.8	1.7	-8.2	1.2	1.1	-2.3
Memorandum items: ³	(In units indicated)						
Birr per U.S. dollar, end of period	5.100	6.220	6.320	6.320	6.801	7.089	8.121
Birr per U.S. dollar, period average	4.269	5.788	6.254	6.330	6.496	6.861	7.526
Birr per SDR, end of period	7.158	9.009	9.915	9.122	9.490	9.737	10.791
Birr per SDR, period average	6.025	7.133	8.796	9.370	9.210	9.316	10.301
	(Annual percentage change, - depreciation)						
Birr per U.S. dollar, end of period	-146.4	-22.0	-1.6	0.0	-7.6	-4.2	-14.3
Birr per U.S. dollar, period average	-106.2	-35.6	-8.1	-1.2	-2.6	-5.6	-9.7
Birr per SDR, end of period	-141.6	-25.9	-10.1	8.0	-4.0	-2.6	-13.7
Birr per SDR, period average	-111.7	-18.4	-23.3	-6.5	1.7	-1.2	-10.6

Sources: Ethiopian authorities; and IMF, *International Financial Statistics, and Information Notice System*.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to period July 1-June 30. Effective exchange rates based on July-June averages.

²For 1998/99, based on data through April 1999.

³Since May 1993, based on marginal rates at foreign exchange auctions.

Table 23. Ethiopia: Balance of Payments, 1992/93-1997/98¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of U.S. dollars)						
Current account balance (excluding official transfers)	-204 -605	-92 -377	190 -238	-203 -594	-230 -456	-292 -552
Merchandise trade balance	-829	-635	-609	-1,003	-804	-917
Exports	222	280	454	410	599	602
Coffee	126	158	288	273	355	420
Other	97	121	166	137	244	182
Imports	-1,052	-915	-1,063	-1,413	-1,403	-1,519
Regular imports	-606	-502	-568	-978	-1,324	-1,440
Of which						
Aircraft	102	1	2	0	61	0
External aid in kind	-337	-287	-346	-272	-79	-79
Franco valuta imports	-109	-126	-149	-163	...	...
Services (net) ²	73	90	121	139	133	139
Income (net)	-96	-79	-60	-44	-42	-91
Of which						
Official interest payments	-103	-87	-84	-84	-72	-107
Current transfers (net)	648	532	739	705	484	578
Private transfers (net)	248	247	311	313	258	317
Official transfers (net)	400	285	428	392	226	261
Capital account balance ³	160	222	-62	166	29	-152
Investment assets and liabilities (net)	-113	256	4	-21	-44	-202
Official, medium and long term	12	249	67	116	25	-193
Disbursements	167	390	208	255	161	139
Amortization	-156	-140	-141	-139	-136	-333
Other public long term (net) ³	7	-41	-59	-66	-174	-21
Long-term private (net, including foreign direct investment)	...	...	...	...	60	7
Short-term public and private (net) ⁴	-131	47	-4	-72	45	5
Errors and omissions (net)	273	-34	-66	187	72	50
Overall balance	-44	130	128	-36	-201	-444
Financing	44	-130	-128	36	201	444
Change in net foreign assets (increase -)	-137	-296	-274	-83	159	20
Central bank	-140	-176	-107	-300	354	145
Reserves (increase -)	-101	-245	-103	-289	321	172
Liabilities	-39	69	-4	-12	32	-27
Commercial banks	3	-120	-167	218	-195	-125
Change in arrears	-75	111	100	-133	20	386
Debt relief ⁵	256	56	46	252	22	39
(In percent of GDP)						
Current account balance (excluding official transfers)	-3.3 -9.7	-1.7 -6.8	3.3 -4.1	-3.4 -9.9	-3.6 -7.1	-4.4 -8.4
Merchandise trade balance	-13.3	-11.4	-10.6	-16.7	-12.6	-14.0
Exports	3.6	5.0	7.9	6.8	9.4	9.2
Imports	-16.8	-16.4	-18.4	-23.6	-22.0	-23.1
(excluding external aid in kind)	-11.4	-11.3	-12.4	-19.0	-20.7	-21.9
Capital account balance	2.6	4.0	-1.1	2.8	0.4	-2.3
Overall balance	-0.7	2.3	2.2	-0.6	-3.1	-6.8
Memorandum item:						
GDP (in millions of U.S. dollars)	6,249	5,560	5,763	5,993	6,383	6,564

Sources: National Bank of Ethiopia; Ministry of Finance; Ministry of Economic Cooperation and Development; and Fund staff estimates.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to period July 1-June 30.

²Beginning 1997/98, includes ruble-denominated debt and debt service to Russia.

³Ethiopian Airlines and other public enterprises.

⁴Includes foreign direct investment through 1995/96.

⁵Includes Paris Club rescheduling in 1992/93 and 1997/98.

Table 24. Ethiopia: Exports, 1992/93-1997/98^{1,2}

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(Value in millions of U.S. dollars; volume in thousands of metric tons; price in U.S. dollars per thousand metric tons)						
Coffee	125.8	158.3	287.8	272.9	355.0	420.0
Volume	63.4	73.0	82.2	97.6	123.2	120.0
Price	1.98	2.17	3.50	2.80	2.88	3.50
Pulses	1.0	4.8	16.5	12.2	11.9	15.0
Volume	1.5	9.8	26.1	29.0	98.5	30.9
Price	0.62	0.49	0.63	0.42	0.12	0.49
Oilseeds	0.3	7.6	8.0	6.6	11.4	45.7
Volume	0.4	10.4	11.9	7.8	14.1	66.6
Price	0.72	0.73	0.67	0.85	0.81	0.69
Sugar and molasses	1.2	4.4	0.4	0.0	0.7	0.0
Volume	13.1	15.2	1.2	0.0	13.2	0.0
Price	0.09	0.29	0.29	...	0.05	...
Leather and leather products	31.5	35.1	59.8	50.8	57.3	50.5
Volume	5.6	6.3	9.9	7.5	8.6	7.9
Price	5.66	5.60	6.06	6.77	6.66	6.39
Live animals	0.3	1.8	1.2	0.1	1.7	1.5
Volume	0.3	1.8	1.2	0.2	1.3	1.3
Price	1.00	0.99	1.06	0.67	1.31	1.15
Meat, canned and frozen	0.1	0.1	1.0	1.9	3.7	4.3
Volume	0.0	0.5	0.4	1.0	1.7	1.9
Price	2.50	0.27	2.20	2.03	2.18	2.26
Fruits and vegetables	0.6	1.2	2.9	3.3	7.0	4.6
Volume	6.1	17.2	19.4	19.0	21.8	17.0
Price	0.11	0.07	0.15	0.18	0.32	0.27
Petroleum products	7.1	12.4	15.2	9.8	12.8	1.5
Volume	108.8	207.1	163.4	114.5	118.1	21.0
Price	0.07	0.06	0.09	0.09	0.11	0.07
Chat	15.4	18.7	27.6	27.6	33.5	39.6
Volume	1.9	2.8	4.1	3.7	5.0	6.0
Price	8.11	6.68	6.73	7.46	6.70	6.62
Gold	34.8	31.9	16.5	10.8	64.0	0.0
Volume	3.5	2.4	1.8	0.8	5.1	0.0
Price	9.82	13.55	9.42	13.50	12.46	...
Other exports ³	4.3	3.3	16.7	14.0	39.7	19.4
Total exports (excluding coffee)	222.4 96.6	279.6 121.3	453.6 165.7	410.2 137.3	598.7 243.7	602.1 182.1
(In percent of GDP)						
Coffee exports	2.0	2.8	5.0	4.6	5.6	6.4
Noncoffee exports	1.5	2.2	2.9	2.3	3.8	2.8
(In percent of total exports)						
Coffee	56.6	56.6	63.5	66.5	59.3	69.8
Pulses	0.4	1.7	3.6	3.0	2.0	2.5
Oilseeds	0.1	2.7	1.8	1.6	1.9	7.6
Leather and leather products	14.2	12.5	13.2	12.4	9.6	8.4
Petroleum products	3.2	4.4	3.4	2.4	2.1	0.2
Chat	6.9	6.7	6.1	6.7	5.6	6.6
Gold	15.6	11.4	3.6	2.6	10.7	0.0

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to period July 1-June 30.

²Data based on customs records, except gold, which are reported by the National Bank of Ethiopia.

³Includes textiles, essence oils, and spices.

Table 25. Ethiopia: Imports, c.i.f., by End Use, 1992/93-1997/98^{1,2}

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
(In millions of U.S. dollars)						
Raw materials	20.6	14.9	20.9	29.0	31.2	32.6
Semifinished goods	94.9	129.3	182.8	253.2	269.8	261.4
Fuel	198.0	222.3	168.9	214.9	231.8	245.6
Crude petroleum ³	100.5	142.5	88.8	115.3	124.3	0.1
Products	97.5	79.8	80.0	99.6	107.4	245.5
Capital goods	382.0	238.6	333.7	460.2	515.0	451.3
Transport	251.9	109.6	140.2	192.2	234.1	200.0
<i>Of which</i>						
Aircraft	102.0	1.2	1.5	0.0	61.3	0.0
Agricultural	2.7	5.8	20.4	28.2	32.3	31.3
Industrial	127.4	123.2	173.1	239.8	248.6	220.0
Consumer goods	334.7	291.3	340.0	425.1	322.5	378.6
Durable	81.6	79.7	90.9	113.7	118.6	114.9
Nondurable	253.1	211.6	249.1	311.4	203.9	263.7
Miscellaneous ⁴	21.7	18.2	16.7	30.5	32.8	149.3
Total imports, c.i.f. (excluding fuel)	1,051.8 853.9	914.6 692.3	1,063.0 894.1	1,412.9 1,198.0	1,403.1 1,171.3	1,518.8 1,273.2
(In percent of GDP)						
Nonfuel imports	13.7	12.5	15.5	20.0	18.4	19.4
Fuel imports	3.2	4.0	2.9	3.6	3.6	3.7
(In percent of total)						
Raw materials	2.0	1.6	2.0	2.1	2.2	2.1
Semifinished goods	9.0	14.1	17.2	17.9	19.2	17.2
Fuel	18.8	24.3	15.9	15.2	16.5	16.2
Capital goods	36.3	26.1	31.4	32.6	36.7	29.7
Consumer goods	31.8	31.8	32.0	30.1	23.0	24.9
Miscellaneous	2.1	2.0	1.6	2.2	2.3	9.8

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to period July 1-June 30.

²Data based on customs records.

³Crude petroleum imports were replaced by refined product, when Ethiopia Petroleum Corporation ceased refining crude petroleum in August 1997.

⁴Includes military imports.

Table 26. Ethiopia: Merchandise Trade Unit Values and Volumes, 1992/93-1997/98¹

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Estimate
	(Index, 1989/90 = 100)					
Unit value indices						
Imports	103.8	102.4	109.6	120.3	117.3	113.6
Exports ²	83.3	90.5	129.5	110.7	128.5	128.5
Terms of trade	80.3	88.3	118.2	92.0	109.6	113.1
Volume indices						
Imports	115.0	101.4	110.1	133.3	135.7	151.7
Exports ²	74.4	87.2	96.1	100.8	152.1	137.8
	(Annual percentage change)					
Unit value						
Imports	-1.8	-1.3	7.0	9.8	-2.5	-3.1
Exports ²	-22.7	8.6	43.1	-14.5	16.1	0.0
Terms of trade	-21.2	10.0	33.8	-22.1	19.1	3.2
Volume						
Imports	22.5	-11.9	8.6	21.1	1.8	11.7
Exports ²	83.9	17.1	10.2	4.9	51.0	-9.4
Memorandum items:						
Value of imports	20.2	-13.0	16.2	32.9	-0.7	8.2
Value of exports ²	42.2	27.1	58.9	-10.4	52.4	4.2

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹Beginning 1997/98, data pertain to the period July 8-July 7; prior to that, data pertain to period July 1-June 30.

²Excludes unspecified category of "other exports," which are approximately 10 percent of total exports.

Table 27. Ethiopia: Recorded Imports by Country of Origin, 1992-98

	1992	1993	1994	1995	1996	1997 ¹	1998 ^{1,2}	
							Preliminary estimate	
(In millions of birr)								
European Union	701.0	1,388.5	2,002.8	2,791.6	2,721.7	2,995.8	...	
Belgium and Luxembourg	37.6	103.4	111.5	217.4	160.2	114.4	...	
France	24.6	59.8	134.6	193.7	130.2	149.5	...	
Germany	196.1	407.8	450.7	539.6	504.9	749.5	...	
Italy	143.8	397.7	627.5	863.8	863.9	726.7	...	
Netherlands	98.6	141.7	228.1	194.1	342.2	344.9	...	
United Kingdom	139.5	148.8	271.2	417.5	321.6	454.7	...	
Other	60.8	129.3	179.2	365.5	398.7	456.1	...	
Eastern Europe	13.4	33.2	37.7	42.4	76.1	...	...
Russia	4.6	4.3	3.9	10.2	10.9	...	...
Other	8.8	28.9	33.8	32.1	65.2	183.0	...	
Other Europe	79.1	111.3	208.9	200.1	158.0	186.1	...	
Turkey	0.8	10.9	31.6	36.6	83.7	121.3	...	
Other	78.3	100.4	177.3	163.5	74.3	64.8	...	
Total Europe	793.5	1,533.0	2,249.4	3,034.0	2,955.8	...	...
Western Hemisphere	145.6	439.8	833.4	944.4	484.1	...	...
Canada	38.2	73.1	136.8	18.5	20.7	33.7	...	
United States	106.0	366.3	694.5	910.4	374.5	358.5	...	
Other	1.4	0.4	2.1	15.5	89.0	...	...
Asia and Middle East	669.8	1,325.0	1,848.7	2,419.0	2,985.0	3,194.6	...	
China ³	5.9	58.6	107.3	163.4	207.5	366.1	...	
India	25.5	53.7	101.0	177.2	243.8	430.6	...	
Japan	103.9	156.5	296.5	588.5	565.9	796.8	...	
Korea	8.8	27.4	73.9	155.6	200.6	358.5	...	
Saudi Arabia	342.2	726.1	848.2	828.4	724.7	735.2	...	
Other	183.5	302.7	421.8	505.9	1,042.6	628.7	...	
Africa	215.7	320.1	453.1	462.9	559.4	214.2	...	
Djibouti	129.9	172.3	239.5	174.3	186.5	40.0	...	
Kenya	67.2	104.9	144.3	214.9	211.3	154.9	...	
Other	18.6	42.9	69.3	73.7	161.6	19.3	...	
Australia	1.4	27.2	34.7	4.3	7.6	24.5	...	
Other (including unspecified)	161.8	207.2	231.4	177.1	111.3	424.6	...	
Total imports, c.i.f.	1,987.8	3,852.3	5,650.7	7,041.7	7,103.1	7,615.1	...	
(In percent of total)								
European Union	35.3	36.0	35.4	39.6	38.3	39.3	34.3	
Belgium and Luxembourg	1.9	2.7	2.0	3.1	2.3	1.5	2.5	
France	1.2	1.6	2.4	2.8	1.8	2.0	3.2	
Germany	9.9	10.6	8.0	7.7	7.1	9.8	5.6	
Italy	7.2	10.3	11.1	12.3	12.2	9.5	8.4	
Netherlands	5.0	3.7	4.0	2.8	4.8	4.5	1.8	
United Kingdom	7.0	3.9	4.8	5.9	4.5	6.0	5.0	
Other	3.1	3.4	3.2	5.2	5.6	6.0	7.8	
Eastern Europe	0.7	0.9	0.7	0.6	1.1	...	12.4	
Other Europe	4.0	2.9	3.7	2.8	2.2	2.4	4.2	
Total Europe	39.9	39.8	39.8	43.1	41.6	...	50.9	
Western Hemisphere	7.3	11.4	14.7	13.4	6.8	...	8.1	
Canada	1.9	1.9	2.4	0.3	0.3	0.4	1.7	
United States	5.3	9.5	12.3	12.9	5.3	4.7	6.1	
Other	0.1	0.0	0.0	0.2	1.3	...	0.4	
Asia and Middle East	33.7	34.4	32.7	34.4	42.0	42.0	30.5	
China ³	0.3	1.5	1.9	2.3	2.9	4.8	3.9	
India	1.3	1.4	1.8	2.5	3.4	5.7	4.6	
Japan	5.2	4.1	5.2	8.4	8.0	10.5	5.8	
Korea	0.4	0.7	1.3	2.2	2.8	4.7	...	
Saudi Arabia	17.2	18.8	15.0	11.8	10.2	9.7	3.8	
Other	9.5	9.4	9.4	9.5	17.6	11.5	16.3	
Africa	10.9	8.3	8.0	6.6	7.9	2.8	8.2	
Australia	0.1	0.7	0.6	0.1	0.1	0.3	0.9	
Other (including unspecified)	8.1	5.4	4.1	2.5	1.6	5.6	1.4	

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹For 1997 and 1998, "other" includes some countries reported separately in previous years.

²For 1998, based on IMF's *Direction of Trade Yearbook*.

³Excluding Hong Kong SAR.

Table 28. Ethiopia: Exports by Country of Destination, 1992-98¹

	1992	1993	1994	1995	1996	1997	1998 Preliminary estimate
(In millions of birr)							
European Union	203.3	412.5	1,088.5	1,345.1	1,351.5	1,702.4	1,910.5
Belgium and Luxembourg	6.6	30.1	37.8	45.5	54.7	142.5	176.2
France	25.1	37.0	101.9	130.5	94.2	127.5	144.0
Germany	48.9	198.4	654.3	757.0	827.1	811.9	984.4
Italy	32.5	76.4	166.7	224.8	206.7	307.8	270.3
Netherlands	7.2	21.1	44.1	41.0	35.9	57.5	73.8
United Kingdom	82.0	46.4	71.7	94.3	86.6	115.0	98.1
Other	1.0	3.1	12.0	52.0	46.3	140.2	163.8
Eastern Europe	1.1	3.0	9.0	13.8	37.1	154.4	...
Russia	0.1	0.2	0.1	0.0	1.8	0.1	...
Other	1.0	2.8	8.9	13.8	35.3	154.3	78.1
Other Europe	3.0	2.6	4.2	15.1	25.2	67.9	39.7
Switzerland	3.0	0.9	2.1	13.2	21.9	62.6	22.8
Other	0.0	1.7	2.1	1.9	3.3	5.3	16.9
Total Europe	207.4	418.1	1,101.7	1,374.0	1,413.8	1,924.7	...
Western Hemisphere	23.3	100.7	156.7	182.4	190.2	470.9	302.4
United States	19.6	92.1	133.1	166.4	169.9	448.0	271.2
Other	3.7	8.6	23.6	16.0	20.3	22.9	31.2
Asia and Middle East	229.5	345.2	601.6	739.9	827.7	924.6	1,081.3
China, People's Republic of	0.2	0.3	0.7	3.6	0.0	4.9	5.7
Israel	0.1	0.6	7.6	8.7	8.8	18.9	56.1
Japan	108.4	191.7	300.0	337.7	333.6	441.0	479.5
Saudi Arabia	101.1	99.5	110.2	234.1	296.3	337.1	392.5
Other	19.7	53.1	183.1	155.8	189.0	122.7	147.5
Africa	36.4	135.5	188.1	299.1	346.0	520.5	...
Djibouti	35.8	121.7	153.3	237.6	230.9	298.9	147.0
Kenya	0.1	0.0	0.1	0.5	4.5	100.4	...
Other	0.5	13.8	34.7	61.0	110.6	121.2	4.7
Australia	1.1	0.5	1.2	4.0	5.2	9.3	9.7
Other (including unspecified) ²	6.3	7.5	13.1	2.9	0.2	91.3	392.6
Total exports, f.o.b.	504.0	1,007.5	2,062.4	2,602.3	2,783.1	3,941.3	3,966.0
(In percent of total)							
European Union	40.3	40.9	52.8	51.7	48.6	43.2	48.2
Belgium and Luxembourg	1.3	3.0	1.8	1.7	2.0	3.6	4.4
France	5.0	3.7	4.9	5.0	3.4	3.2	3.6
Germany	9.7	19.7	31.7	29.1	29.7	20.6	24.8
Italy	6.4	7.6	8.1	8.6	7.4	7.8	6.8
Netherlands	1.4	2.1	2.1	1.6	1.3	1.5	1.9
United Kingdom	16.3	4.6	3.5	3.6	3.1	2.9	2.5
Other	0.2	0.3	0.6	2.0	1.7	3.6	4.1
Eastern Europe	0.2	0.3	0.4	0.5	1.3	3.9	...
Other Europe	0.6	0.3	0.2	0.6	0.9	1.7	1.0
Total Europe	41.2	41.5	53.4	52.8	50.8	48.8	...
Western Hemisphere	4.6	10.0	7.6	7.0	6.8	11.9	7.6
United States	3.9	9.1	6.5	6.4	6.1	11.4	6.8
Other	0.7	0.9	1.1	0.6	0.7	0.6	0.8
Asia and Middle East	45.5	34.3	29.2	28.4	29.7	23.5	27.3
China ³	0.0	0.0	0.0	0.1	0.0	0.1	0.1
Israel	0.0	0.1	0.4	0.3	0.3	0.5	1.4
Japan	21.5	19.0	14.5	13.0	12.0	11.2	12.1
Saudi Arabia	20.1	9.9	5.3	9.0	10.6	8.6	9.9
Other	3.9	5.3	8.9	6.0	6.8	3.1	3.7
Africa	7.2	13.4	9.1	11.5	12.4	13.2	...
Australia	0.2	0.0	0.1	0.2	0.2	0.2	0.2
Other (including unspecified) ²	1.2	0.7	0.6	0.1	0.0	2.3	9.9

Sources: National Bank of Ethiopia; and Fund staff estimates.

¹Includes reexports.

²For 1998, "other" includes some countries reported separately in previous years.

Table 29. Ethiopia: Public and Publicly Guaranteed External Debt Outstanding, 1995/96-1997/98^{1,2}

	1995/96		1996/97		1997/98	
	Debt stock	Of which arrears	Debt stock	Of which arrears	Debt stock	Of which arrears
(In millions of U.S. dollars)						
Multilateral	2,537.9	0.0	2,581.9	0.0	2,554.4	0.0
IMF	73.1	0.0	89.6	0.0	83.6	0.0
World Bank	1,544.8	0.0	1,541.1	0.0	1,546.0	0.0
African Development Bank/African Development Fund	752.0	0.0	795.1	0.0	792.6	0.0
Other	168.0	0.0	156.1	0.0	132.2	0.0
Official bilateral ²	1,442.7	501.3	1,438.7	517.0	6,730.9	5,280.0
Paris Club ²	714.1	30.1	715.7	0.0	6,020.3	4,717.7
Pre-cutoff-date debt	682.1	30.1	684.6	0.0	5,983.4	4,717.7
Of which	...	...	...	...	5,604.9	4,717.7
Post-cutoff-date debt	32.0	0.0	31.1	0.0	36.8	0.0
Other official bilateral	728.6	471.3	723.0	517.0	710.6	562.3
Commercial ³	309.2	57.1	146.2	61.0	134.0	62.8
Total	4,289.8	558.4	4,166.8	578.0	9,419.3	5,342.8
(In percent of GDP)						
Multilateral	42.3	0.0	40.5	0.0	38.9	0.0
Official bilateral	24.1	8.4	22.5	8.1	102.5	80.4
Commercial	5.2	1.0	2.3	1.0	2.0	1.0
Total	71.6	9.3	65.3	9.1	143.5	81.4
(In percent of total)						
Multilateral	59.2	0.0	62.0	0.0	27.1	0.0
Official bilateral	33.6	89.8	34.5	89.4	71.5	98.8
Commercial	7.2	10.2	3.5	10.6	1.4	1.2
Memorandum items:						
Ruble-denominated debt to Russia ⁴	5,583.9	3,917.8	5,652.0	4,379.2	5,604.9	4,717.7
(in percent of GDP)	93.2	65.4	88.5	68.6	85.4	71.9
GDP (in millions of U.S. dollars)	5993.3		6382.9		6563.6	

Source: Ministry of Finance.

¹Outstanding at end of period. All data pertain to the period July 1-June 30.²Beginning in 1997/98, includes ruble-denominated debt.³Includes Ethiopian Airlines debt and debt resulting from unsettled buyback.⁴Before any up-front discount or stock-of-debt operation and valued at SUR0.6 per US\$1, where "SUR" denotes the former Soviet Union ruble.

Table 30. Ethiopia: External Arrears, June 1996-June 1998¹

(In millions of U.S. dollars)

	June 30, 1996			June 30, 1997			June 30, 1998		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Algeria	4.1	1.4	5.6	4.7	1.6	6.3	5.0	1.6	6.6
Austria	0.6	0.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Belgium	1.0	0.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Bulgaria	44.3	5.2	49.5	47.2	5.3	52.5	48.5	5.4	53.9
Canada	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
China ²	35.4	2.8	38.2	36.0	2.8	38.8	37.5	2.8	40.3
Finland	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Former Czechoslovakia ³	51.4	14.4	65.8	60.2	15.6	75.8	64.9	15.8	80.7
France	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Germany	7.5	1.4	9.0	0.0	0.0	0.0	0.0	0.0	0.0
Hungary	3.3	0.7	4.0	3.9	0.7	4.6	3.1	1.1	4.2
India	9.8	3.2	13.0	11.4	3.3	14.6	11.7	3.2	14.9
Israel	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Italy	11.2	3.3	14.5	0.0	0.0	0.0	0.0	0.0	0.0
Japan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Korea, Democratic Peoples' Republic of	100.5	0.0	100.5	96.5	0.0	96.5	98.6	0.0	98.6
Libya	115.2	4.2	119.4	138.8	4.3	143.1	163.5	3.0	166.4
Poland	5.6	1.5	7.1	7.1	1.6	8.7	7.9	1.8	9.7
Sweden	0.9	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Spain	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia ⁴	0.0	0.0	0.0	0.0	0.0	0.0	4,239.5	478.2	4,717.7
United Kingdom	1.8	0.6	2.4	0.0	0.0	0.0	0.0	0.0	0.0
United States	2.1	1.2	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Former Yugoslavia ⁵	97.9	24.6	122.5	111.1	26.0	137.1	123.2	26.7	149.9
Total	492.9	65.5	558.4	516.7	61.2	578.0	4,803.3	539.5	5,342.8

Source: Ministry of Finance.

¹Outstanding at end of period; calculated at end of period exchange rates.

²Excluding Hong Kong SAR.

³Since 1993, Czech Republic and Slovak Republic.

⁴Beginning in 1997/98 (July 1-June 30), includes ruble-denominated debt; before any up-front discount or stock-of-debt operation and valued at SUR0.6 per US\$1, where "SUR" denotes the former Soviet Union ruble.

⁵Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Slovenia, and Yugoslavia (Serbia and Montenegro).

Ethiopia: Summary of the Tax System as of May 31, 1999

Tax	Nature of Tax	Deductions and Exemptions	Rates																					
1. Taxes on income and profits																								
Income Tax Proclamation No. 173/1961, as amended.																								
1.1 Income tax on employment Proclamation No. 30/1992; Proclamation No. 107/1994.	Tax on income from employment, including, without limitations, salaries, wages, allowances, directors' fees, and other personal emoluments. Tax is withheld by employer.	The first Br 120 of monthly income is exempted.	The marginal tax rates are as follows: <table border="1"> <thead> <tr> <th>No.</th> <th>Monthly taxable income (birr)</th> <th>Marginal tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>121 - 600</td> <td>10</td> </tr> <tr> <td>2</td> <td>601 - 1,200</td> <td>15</td> </tr> <tr> <td>3</td> <td>1,201 - 2,000</td> <td>20</td> </tr> <tr> <td>4</td> <td>2,001 - 3,000</td> <td>30</td> </tr> <tr> <td>5</td> <td>3,001 and more</td> <td>40</td> </tr> </tbody> </table>	No.	Monthly taxable income (birr)	Marginal tax rate (%)	1	121 - 600	10	2	601 - 1,200	15	3	1,201 - 2,000	20	4	2,001 - 3,000	30	5	3,001 and more	40			
No.	Monthly taxable income (birr)	Marginal tax rate (%)																						
1	121 - 600	10																						
2	601 - 1,200	15																						
3	1,201 - 2,000	20																						
4	2,001 - 3,000	30																						
5	3,001 and more	40																						
1.2 Rural land and agricultural activities income tax Proclamation No. 77/1996 and amendment; Proclamation No. 152/1978; Proclamation No. 8/1995 (Oromia).																								
1.21 Rural land use rent	An annual rent payable on rural land used for agricultural activities in Oromia regional state.	Agricultural investors are exempted for two-five years.	Farmers: Br 10 for the first hectare and Br 7.50 for each additional half hectare. State farms: Br 15 per hectare.																					
1.22 Income tax	Tax payable on any annual income derived from agricultural activities.	Agricultural investors are exempted for two-five years.	For income less than Br 1,200 per annum: Br 15. For income of Br 1,200 per annum or higher, marginal tax rates are as follows: <table border="1"> <thead> <tr> <th>No.</th> <th>Annual taxable income (birr)</th> <th>Marginal tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1,201 - 5,000</td> <td>5</td> </tr> <tr> <td>2</td> <td>5,001 - 15,000</td> <td>10</td> </tr> <tr> <td>3</td> <td>15,001 - 30,000</td> <td>20</td> </tr> <tr> <td>4</td> <td>30,001 - 50,000</td> <td>30</td> </tr> <tr> <td>5</td> <td>50,001 and more</td> <td>40</td> </tr> </tbody> </table> State farms owned by regional governments: 40 percent.	No.	Annual taxable income (birr)	Marginal tax rate (%)	1	1,201 - 5,000	5	2	5,001 - 15,000	10	3	15,001 - 30,000	20	4	30,001 - 50,000	30	5	50,001 and more	40			
No.	Annual taxable income (birr)	Marginal tax rate (%)																						
1	1,201 - 5,000	5																						
2	5,001 - 15,000	10																						
3	15,001 - 30,000	20																						
4	30,001 - 50,000	30																						
5	50,001 and more	40																						
1.3 Rental income tax Proclamation 62/1993.	Tax on income derived from the rent of houses or office buildings, manufacturing plants, materials and goods warehouses, etc. The tax is computed on the basis of annual rent income after deducting allowable expenses.	Annual depreciation and allowable expenses are deducted from gross income. The first Br 1,200 of annual income is exempted.	<table border="1"> <thead> <tr> <th>No.</th> <th>Annual taxable income (birr)</th> <th>Marginal tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1,201 - 6,000</td> <td>10</td> </tr> <tr> <td>2</td> <td>6,001 - 12,500</td> <td>15</td> </tr> <tr> <td>3</td> <td>12,501 - 21,500</td> <td>21</td> </tr> <tr> <td>4</td> <td>21,501 - 33,500</td> <td>28</td> </tr> <tr> <td>5</td> <td>33,501 - 50,000</td> <td>36</td> </tr> <tr> <td>6</td> <td>50,001 and more</td> <td>45</td> </tr> </tbody> </table>	No.	Annual taxable income (birr)	Marginal tax rate (%)	1	1,201 - 6,000	10	2	6,001 - 12,500	15	3	12,501 - 21,500	21	4	21,501 - 33,500	28	5	33,501 - 50,000	36	6	50,001 and more	45
No.	Annual taxable income (birr)	Marginal tax rate (%)																						
1	1,201 - 6,000	10																						
2	6,001 - 12,500	15																						
3	12,501 - 21,500	21																						
4	21,501 - 33,500	28																						
5	33,501 - 50,000	36																						
6	50,001 and more	45																						
1.4 Tax on business and other profits																								
1.41 Unincorporated business Proclamation No. 18/1990; Proclamation No. 107/1994.	Tax on income from all sources other than those mentioned elsewhere, including casual rental property.	Annual depreciation and allowable expenses are deducted from gross income. The first Br 1,200 of annual taxable income is exempted.	<table border="1"> <thead> <tr> <th>No.</th> <th>Annual taxable income (birr)</th> <th>Marginal tax rate (%)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1,201 - 6,000</td> <td>10</td> </tr> <tr> <td>2</td> <td>6,001 - 15,600</td> <td>15</td> </tr> <tr> <td>3</td> <td>15,601 - 30,000</td> <td>20</td> </tr> <tr> <td>4</td> <td>30,001 - 50,000</td> <td>30</td> </tr> <tr> <td>5</td> <td>50,001 and more</td> <td>40</td> </tr> </tbody> </table>	No.	Annual taxable income (birr)	Marginal tax rate (%)	1	1,201 - 6,000	10	2	6,001 - 15,600	15	3	15,601 - 30,000	20	4	30,001 - 50,000	30	5	50,001 and more	40			
No.	Annual taxable income (birr)	Marginal tax rate (%)																						
1	1,201 - 6,000	10																						
2	6,001 - 15,600	15																						
3	15,601 - 30,000	20																						
4	30,001 - 50,000	30																						
5	50,001 and more	40																						

Ethiopia: Summary of the Tax System as of May 31, 1999 (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rates		
1.42 Incorporated business Proclamation No. 36/1996.	Profits tax.	Cooperative societies and Ethiopian Maritime Corporation are exempt.	35 percent of taxable income.		
1.5 Tax on income from mining activities Proclamation No. 53/1993; Proclamation No. 23/1996.	Tax on income received or credited from mining operation within Ethiopia by the holder of large- and small-scale mining licenses.	Artisanal mining is exempted.	35 percent.		
1.6 Capital gains tax Proclamation No. 108/1994.	Tax on gains realized from the increase in value upon the sale of shares, bonds, and urban houses.	Inflation adjustment and capital losses in the preceding year are deducted from the value of capital. Annual gains not exceeding Br 10,000 are exempted.	30 percent.		
1.7 Other sources of income	Income from dividends paid to shareholders.	None.	10 percent.		
	Income from chance winnings and lotteries.	Exemption for income not exceeding Br 100.	10 percent.		
	Income from royalties.	None.	40 percent.		
	Income of nonresident persons or organizations for services rendered to persons or organizations in Ethiopia.	None.	10 percent.		
2. Taxes on goods and services Proclamation No. 68/1993.					
2.1 Excise tax Proclamation No. 68/1993; Proclamation No. 77/1997.	Excise tax is levied on selected list of locally produced and imported goods. The tax is collected within three days of production for local goods and at the time of clearing customs for imported goods. The rates are based on the cost of production or the c.i.f. value for imports.	None.	Goods	Tax rate (%)	
				Sugar, excluding molasses	33
				Soft drinks	80
				Mineral water	40
				Alcohol: Beer and stout	150
				Wine and denatured alcohol	50
				Pure alcohol	150
				Other alcohol	50
				Tobacco leaf	20
				Tobacco and its products	75
				Salt	30
				Petroleum and its products	30
				Perfumes	100
				Leather, tanned or dressed	20
				Furs	50
				Textiles	10
				Personal adornments	60
				Dishwashing machines (in homes)	80
				Washing machines (in homes)	30
				TVs, video decks, and cameras	40
				TV broadcast receivers	10
				Automobiles: up to 1300 cc	30
				1300-1800 cc	60
				above 1800 cc	110
				Land Rovers, Jeeps, and 4WDs	50
				Goods made of plastic	20
				Carpets	30
	Asbestos and its products	20			
	Clocks and watches	20			
	Dolls and toys	20			

Ethiopia: Summary of the Tax System as of May 31, 1999 (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rates
2.2 Sales tax on goods Proclamation No. 68/1993.	Levied on locally produced goods at the manufacturing level or on imported goods at the import gate. The bases for taxation are the producer's wholesale price plus excise tax for local goods or the c.i.f. value plus customs duty and excise tax for imports. There is a refund for sales tax paid on raw materials used in the production of local goods, except for pure alcohol used as raw material. The tax is payable monthly within seven working days of end of month. For imported goods, the tax is collected at the same time as the customs duty.	Certain goods are exempted or have reduced tax rates under appropriate tax laws or international agreements; a person engaged in an informal production activity whose daily sales income does not exceed Br 25 and sales income from manufactured goods for exports is also exempted. Exemptions can also be given by the directive from the Minister of Finance. The following items are exempted: <ul style="list-style-type: none"> • food: Bread and 'injera'; • fertilizer; • aviation fuel and lubricants; • kerosene; • containers and packing and wrapping materials; • equipment and requisites for aircraft, railways, tramways, and marine transport, and for national defense and public order purposes; • firefighting appliances for public use and ambulances; • equipment for the handicapped; • Bullion imported by the National Bank of Ethiopia and for coins; • photographs (including enlarged or reproduced) not intended for sale; • travelers' checks, revenue stamps, etc; and • works of art for public exhibition. 	Five percent on sales of live animals and animal products, fruits and vegetables, unprocessed cereals, books and printed materials, hides and skins, and cotton. Twelve percent on other goods whether produced locally or imported. Specific tax on sale of chat: Br 2 per kg. for local consumption and Br 5 per kg. for exports.
2.3 Sales tax on services Proclamation No. 68/1993; Legal Notices No. 1/1994 and 3/1998.	Sales tax is levied on all services rendered locally. The tax is paid by the person or organization rendering services and computed on the basis of the service charge.	Water, electricity, and medical and educational services are exempted.	Five percent for work contracts and financial services. Twelve percent on the sales of other services.

Ethiopia: Summary of the Tax System as of May 31, 1999 (concluded)

Tax	Nature of Tax	Deductions and Exemptions	Rates								
3.1 Taxes on international trade											
3.11 Customs duty Tariff Regulations No. 122/1993 and 25/1997; Proclamation No. 67/1993.	<p>The customs tariff applies to all imports. Items are classified according to a schedule of 97 chapters, based on the Harmonized System of Tariffs Classification Code.</p> <p>A duty drawback and a duty-free import scheme have been introduced. Under the duty drawback scheme, goods produced for export, reexporting, or raw materials imported upon payment of duties are subject to refund of the duty paid. Ninety-five percent of the duty drawn back is refunded for raw materials or commodities if reexported and 100 percent if exported after being processed or used for packing or containing. Under the duty-free import scheme, persons or organizations that are wholly engaged in the supply of their products to foreign markets are allowed a duty-free purchase of local or imported raw material for their production; the product should be exported within one year of purchase of such raw materials.</p>	<p>Diplomatic and consular missions, personal effects, grants and gifts to Ethiopia, firefighting instruments and appliances, trade samples, defense and public security equipment, materials and equipment for the handicapped, and sheath contraceptives are exempted. Exemptions and concessions are granted to certain organizations and items.</p>	<p>Ad valorem duty on imports consisting of seven rates, ranging from 0 to 40 percent, as follows:</p> <table border="1"> <thead> <tr> <th data-bbox="1208 411 1276 432">Imports</th> <th data-bbox="1419 411 1528 432">Tax rate (%)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1138 457 1406 506">Raw materials, capital goods, pharmaceuticals, and chemicals</td> <td data-bbox="1490 478 1528 499">0-20</td> </tr> <tr> <td data-bbox="1138 506 1341 554">Durable and nondurable consumer goods</td> <td data-bbox="1479 527 1528 548">20-40</td> </tr> <tr> <td data-bbox="1138 554 1373 600">Luxuries and goods that can be produced locally</td> <td data-bbox="1479 575 1528 596">30-40</td> </tr> </tbody> </table>	Imports	Tax rate (%)	Raw materials, capital goods, pharmaceuticals, and chemicals	0-20	Durable and nondurable consumer goods	20-40	Luxuries and goods that can be produced locally	30-40
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Raw materials, capital goods, pharmaceuticals, and chemicals	0-20										
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Luxuries and goods that can be produced locally	30-40										
3.12 Import excise tax	Levied on selected imported goods.	None.	As specified in (2.1).								
3.13 Import sales tax	Sales tax levied on imports; the basis for taxation is the c.i.f. value plus the customs duty and excise tax paid.	See items in (2.2) for exemptions.	As specified in (2.2).								
3.2 Taxes on exports											
3.21 Export duty on coffee	Payable by the exporter.	None.	6.5 percent on f.o.b. value.								
4. Other taxes											
4.1 Stamp duties Decree No. 26/1975, as amended by Proclamation No. 110/1998.	<p>Obligatory use of stamped paper for many legal documents, such as contracts or papers in court proceedings; requirement that stamps be affixed to other documents, such as property titles, power of attorney, notary acts, etc.</p>	<p>Stamp duties are not levied on documents where the Ethiopian government, foreign embassies, consulates, etc., would be the party subject to duty.</p>	<p>Various, according to the type of document of transaction.</p>								

Source: Ethiopian authorities.