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Ethiopia: 2010 Article IV Consultation and First Review of the Arrangement under the Exogenous Shocks Facility—Staff Report; Staff Supplements; and Press Release on the Executive Board Discussion.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2010 Article IV consultation with Ethiopia and First Review of the Arrangement under the Exogenous Shocks Facility, the following documents have been released and are included in this package:

- The staff report for the combined and 2010 Article IV consultation and First Review of the Arrangement under the Exogenous Shocks Facility, prepared by a staff team of the IMF, following discussions that ended on June 4, 2010, with the officials of Ethiopia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 26, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- Staff supplements on the joint IMF/World Bank debt sustainability analysis and informational annex.

- A Press Release, summarizing the views of the Executive Board on issues related to the IMF arrangement.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Ethiopia*
Memorandum of Economic and Financial Policies by the authorities of Ethiopia*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

2010 Article IV Consultation and First Review of the Arrangement Under the Exogenous Shocks Facility

(In consultation with the Finance, Legal, Monetary and Capital Markets, and Strategy, Policy, and Review Departments)

Approved by Michael Atingi-Ego and Dominique Desruelle

May 26, 2010

Relations with the Fund: The 2008 Article IV consultation was concluded in July 2008. Ethiopia made a drawing under the rapid-access component of the Exogenous Shocks Facility (ESF) in February 2009. The Executive Board approved a 14-month arrangement under the high-access component of the ESF in the amount of SDR 153.76 million (115 percent of quota) in August 2009.

Program performance through December 2009 was satisfactory. SDR 40.11 million (30 percent of quota) will become available upon completion of this review. In the attached letter of intent and Memorandum of Economic and Financial Policies (MEFP), the authorities review program implementation and outline their policies for the remainder of 2009/10 and 2010/11.

Discussions: The 2010 Article IV consultation and the first review under the ESF arrangement were held in Addis Ababa on March 11–24, 2010, and at the IMF head quarters on April 23–27, 2010. The mission met with Prime Minister Meles Zenawi, Minister of Finance and Economic Development Sufian Ahmed, National Bank Governor Teklewold Atnafu, other senior officials, and representatives of the donor community and civil society. The mission team comprised Messrs. Mathieu (head), Honda, Kinoshita (all AFR), and Thomas (SPR); Mr. Singh, resident representative, assisted. Ms. Teferra (Mr. Itam's office) participated in all key meetings. Staff collaborated closely with the World Bank, the African Development Bank, and local representatives of the donor community.

Exchange Regime: The de facto exchange rate regime is classified as a crawl-like arrangement. The authorities describe their exchange rate regime as a managed float with no predetermined path for the exchange rate. Ethiopia is still under the Article XIV regime and maintains several exchange restrictions that are not consistent with Article VIII (see Information Annex I).

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EXECUTIVE SUMMARY

Progress has been made in restoring economic stability, while maintaining strong growth. Pressures on prices and international reserves have receded. Overall consumer price index (CPI) inflation declined sharply to the single digits, mainly because food prices reversed. Helped by strong donor inflows and financing from the Fund, international reserves recovered to just over 2 months of imports at end-2009. GDP growth is estimated to ease to 7 percent in 2009/10, nevertheless showing resilience to the global economic crisis.

The Exogenous Shocks Facility (ESF)-supported program is on track. All of the quantitative performance criteria and indicative targets for end-December 2009 were met. The structural measures covered by benchmarks were also implemented, with progress made to raise tax revenues, monitor borrowing by public enterprises, and prepare the National Bank of Ethiopia (NBE) to actively manage monetary liquidity.

The budget has been managed prudently, with enhanced revenue collection efforts. General government revenue rose strongly, and expenditure was constrained in the first half of 2009/10, resulting in a repayment of domestic financing. For 2009/10 as a whole, the deficit will be reduced and domestic financing will be half the original program target. Going forward, sustained stronger revenue efforts are needed to relieve the domestic financing pressures on inflation and the financial system.

Monetary developments mirror progress made in fiscal policy. Reserve money growth has been sharply reduced in 2009/10 on low financing needs of the government. As a result, excess liquidity in the banking system has declined. However, interest rates remain negative in real terms. Bank credit to the private sector grew strongly on the room created by less government financing, but has been constrained by credit ceilings imposed by the NBE since early 2009.

The structural reform agenda for 2010 focuses on implementing the tax reform strategy; reversing the demonetization trend by raising interest rates and containing reserve money, including through active liquidity management; and strengthening national account statistics.

The Article IV consultation discussions focused on adjusting policies to reverse the demonetization trend and to foster sustained growth while reducing vulnerability to shocks. Staff recommended urgent steps to raise nominal interest rates, maintain lower reserve money growth, foster monetary policy independence, and enhance financial sector supervision to ensure financial stability. A stepped-up tax collection effort is important to support these objectives. With the sharp fall in inflation and significant nominal exchange rate adjustment, there is no clear evidence of exchange rate misalignment. The authorities broadly agreed with the analysis and are committed to improved liquidity management and achieving interest rates that are positive in real terms. Staff also suggested a further accumulation of external reserves and exchange regime liberalization, which the authorities are yet to embrace.

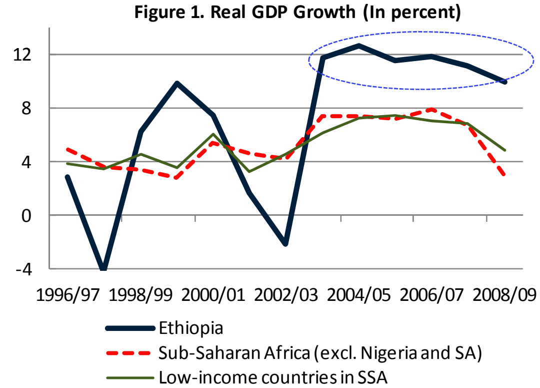
An updated debt sustainability analysis (DSA) finds Ethiopia in the low risk range of public external debt distress.

I. Background

1. **For the past six years, the economy has enjoyed strong growth**, largely owing to government-led development policies—with an emphasis on public investment, commercialization of agriculture, and nonfarm private sector developments. After a significant drought-related contraction in 2002/03, growth rebounded at an annual average rate of 11.2 percent for 2003/04–2008/09—significantly above the average of 6.3 percent realized in Sub-Saharan Africa (Table 1 and Figures 1 and 2). The pace of growth also far exceeds the minimum growth target of 7 percent in the Program for Accelerated and Sustainable Development (PASDEP), and Ethiopia is making significant progress in all areas of the Millennium Development Goals (Table 7). Although initially led by agriculture, the growth has been broad-based, with a rising contribution from the service sectors and industry, resulting in export diversification.

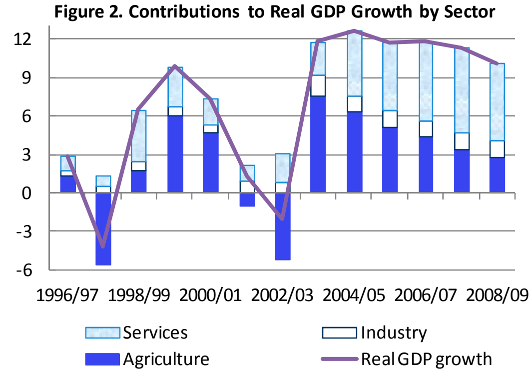
Ethiopia has seen strong growth in recent years…

Figure 1. Real GDP Growth (In percent)



…initially led by agriculture, but increasingly by services.

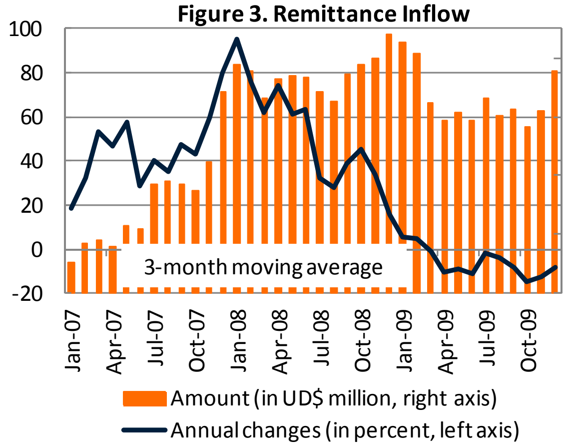
Figure 2. Contributions to Real GDP Growth by Sector



2. **During this period, pressures on macroeconomic balances, particularly prices and international reserves, heightened**. These pressures largely stem from (i) high domestic demand, which exceeded the supply capacity of the economy, and (ii) exogenous shocks during 2008–09, with commodity price surges and the global recession. Inflation rose to 64 percent in the twelve months to July 2008 with food prices rising 92 percent. International reserves fell to one month of imports at end-October 2008. Since late 2008, the authorities have forcefully implemented macroeconomic adjustment policies supported by the arrangements under the ESF, and against a difficult external environment. The global recession has constrained export growth, but the impact on aggregate output has been modest given the central role of subsistence agriculture (Figures 3 and 4).

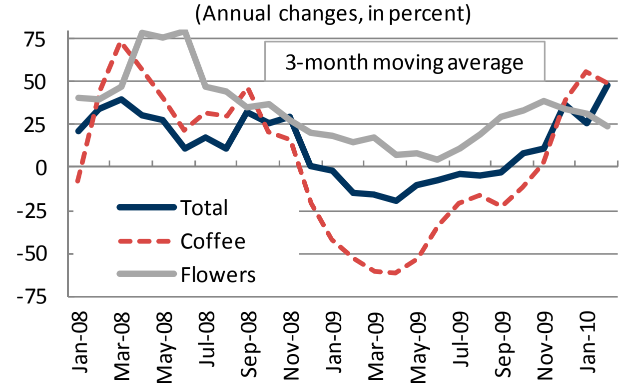
Remittance flows declined in 2009.

Figure 3. Remittance Inflow



Export receipts, after a drop in late 2008–09, have been recovering.

Figure 4. Exports of Goods
(Annual changes, in percent)



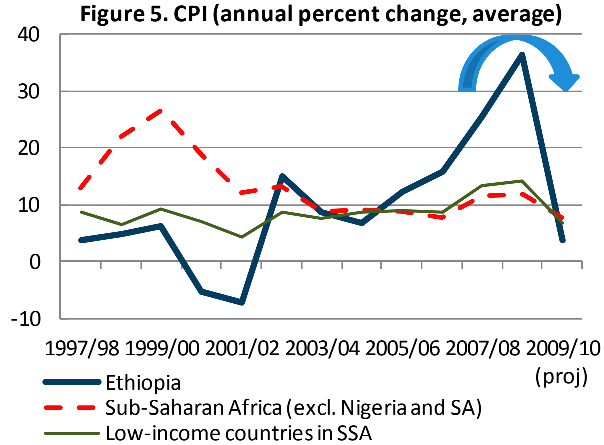
3. **The Ethiopian authorities have been generally responsive to the policy recommendations from the 2008 Article IV consultation**. The authorities adequately implemented adjustment measures, through tightening of fiscal and monetary policies, enhanced flexibility of the exchange rate, and the pass-through of international fuel prices to retail prices. In structural areas (e.g., fostering a deeper foreign exchange market, increasing competition in the banking system), however, only modest progress has been made thus far.

II. Recent Developments and Performance under the Program

4. **Pressures on prices and international reserves eased in 2009**. Inflation plunged to 7.1 percent, mainly because food prices reversed; nonfood inflation remained in double digits (Figures 5 and 6). Although progress has been made in reducing macroeconomic imbalances, inflation has been rising in recent months and non-food inflation remains near 20 percent.

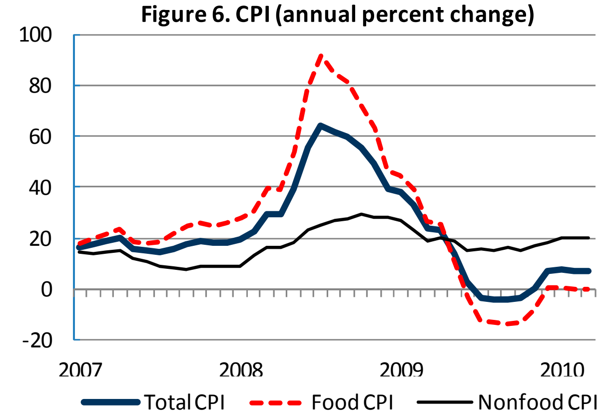
A recent inflation trend has reversed…

Figure 5. CPI (annual percent change, average)



…largely owing to a reversal of food inflation.

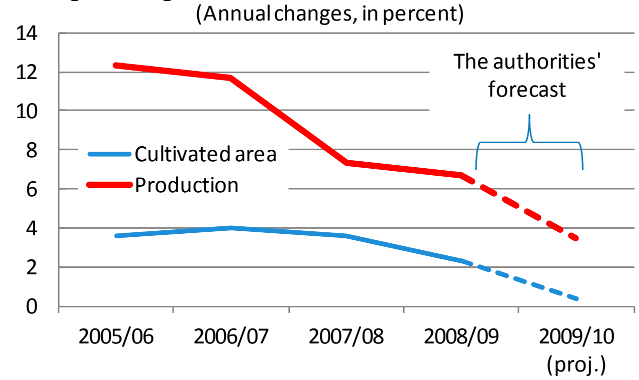
Figure 6. CPI (annual percent change)



Overall, growth momentum remains healthy despite a modest reduction in the growth rate last summer on account of insufficient rain that affected agricultural production (Figure 7). Helped by strong donor inflows (and Fund resources) and macroeconomic adjustment policies, international reserves rose above two months of imports in February 2010 (Figures 8 and 9). The external current account deficit widened somewhat, but by less than expected, as export volumes were buoyant and the terms of trade improved. Developments under the program are discussed in more detail in the attached Memorandum of Economic and Financial Policies (MEFP).

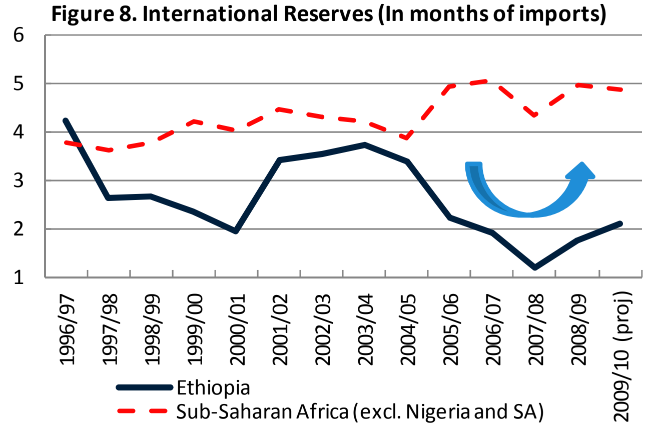
Agricultural production is expected to slow in 2009/10.

Figure 7. Agricultural Production and Cultivated Area
(Annual changes, in percent)



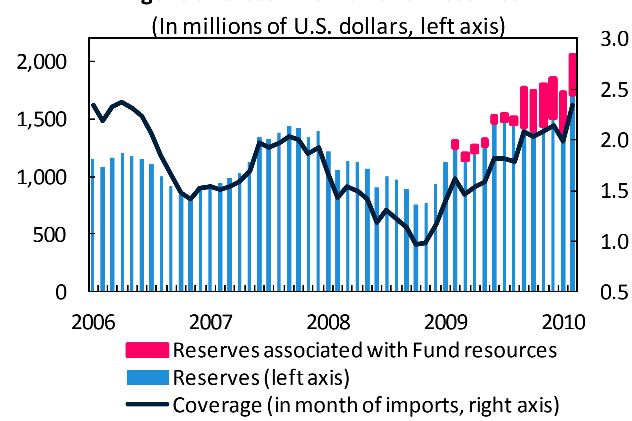
International reserves are being rebuilt…

Figure 8. International Reserves (In months of imports)



…helped by macroeconomic adjustment and donor resources.

Figure 9. Gross International Reserves
(In millions of U.S. dollars, left axis)



5. **To help rebuild international reserves and improve external competitiveness, the authorities made another exchange rate adjustment (a 5 percent devaluation) on January 31, 2010** (Figures 10 and 11). This adjustment, together with previous ones in 2009, and the recent disinflation have brought down the real effective exchange rate to a level close to the equilibrium rate suggested by various methodologies (see paragraph 9).[1, 2]

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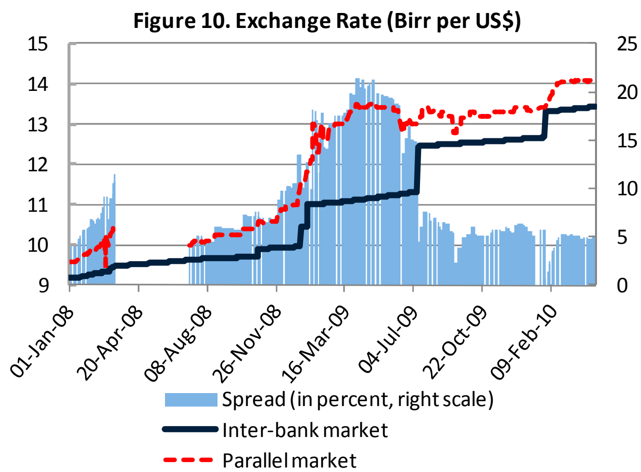
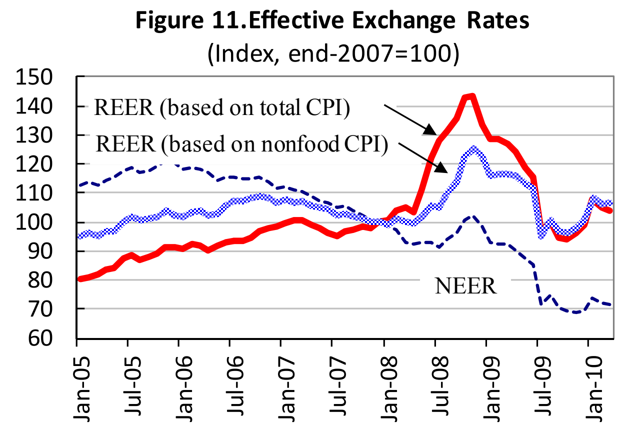
[1] Ethiopia has a tightly managed exchange rate, classified by staff as a de facto crawl-like arrangement. The authorities describe their exchange rate regime as a managed float with no pre-determined path for the exchange rate. The pace of depreciation has been modest, but discrete adjustments in the exchange rate—aimed at restoring

(continued)

A couple of step adjustments have been made in the last 12 months.

Real effective exchange rate has returned to more acceptable range.





6. **Program implementation is on track** (MEFP; paragraphs 2–6). All quantitative performance criteria (PCs) and indicative targets for end-December 2009 were met (MEFP, Table 1), as were all structural benchmarks (MEFP, Table 2).

- **The overall fiscal balance during July-December 2009 indicates stronger revenue collection than programmed**, reflecting administrative efforts (including collection of outstanding tax arrears) and the delayed impact of previous high inflation on income taxes (Table 2). On the expenditure side, while maintaining pro-poor spending, other recurrent outlays were contained. As a result, domestic financing was negative during July–December 2009 and the target for the year as a whole has been reduced to 0.7 percent of GDP, about half the targeted amount under the program (Text Table). The continuing large public enterprises' domestic borrowing is mainly for infrastructure projects in hydro electricity, telecoms, and urban housing.

Text Table. Public Sector Domestic Financing
(In percent of GDP)

	2006/07	2007/08	2008/09	2009/10		2010/11
				Prog.	Rev.	Proj.
General Government	3.6	2.6	(0.1)	1.5	0.7	1.6
Public enterprises	1.7	4.4	2.0	1.6	1.7	1.6
Total public sector	5.3	7.0	1.8	3.2	2.5	3.2

tradable sector competitiveness—have been taken as needed in 2009/10.

[2] The staff is assessing whether a general finance and economic cooperation agreement signed between the government of Ethiopia and China in 2006 gives rise to exchange restrictions under Article VIII.

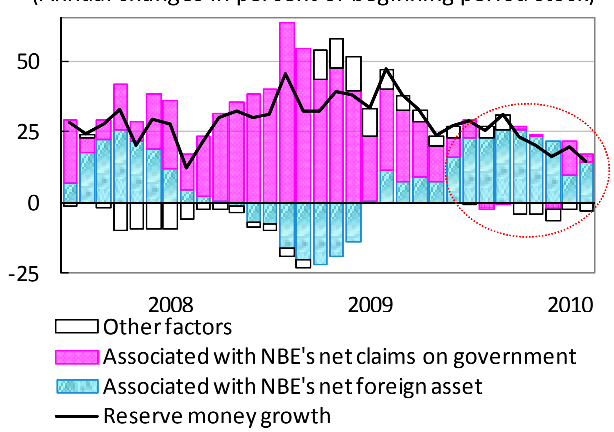
- **The authorities are implementing a tax reform strategy**. The strategy draws significantly on the recommendations of Fund technical assistance on tax policy and administration (Box 1). Specifically, the efficiency of tax collection will be improved by (i) transferring the collections of direct (business and personal income taxes) and indirect taxes (VAT and excise duty) from Addis Ababa City to the Ethiopian Revenues and Customs Authority (ERCA), and (ii) reviewing of all exemptions for economic need.

- **Although annual reserve money growth has declined sharply, excess liquidity remains in the system and bank-by-bank credit ceilings introduced in early 2009 remain in effect** (Table 3). Reserve money growth declined to 16 percent in December, and further in early 2010, reflecting the government's repayment of the NBE's advances, (Figure 12). A system to control reserve money liquidity is being developed, but is not yet operational. Despite excess liquidity, demand for Treasury bills has declined, as rates remain highly negative in real terms (Figure 13).

- **Ethiopia has been resilient to the ongoing global crisis because remittances have remained stable in 2009/10, FDI has risen 20 percent, and imports are lower** (Table 4). The shocks that led to the ESF arrangement request were mainly on large projected declines in remittances and in FDI. As a result, external borrowing, especially on non concessional terms was much lower than expected.

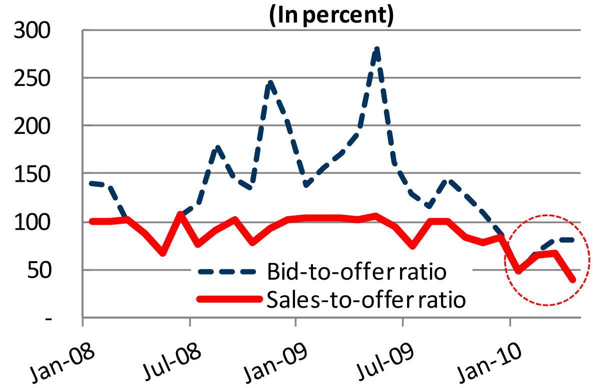
Reserve money growth declined on restrained financing needs of the government.

Figure 12. Contributions to Reserve Money Growth
(Annual changes in percent of beginning period stock)



Demand for T-bills has declined steadily, reflecting significantly low yields.

Figure 13. T-Bill Auction Results
(In percent)



7. **An update safeguards assessment of the NBE was completed in December 2009** (MEFP, paragraph 17). It identified issues related to the oversight of the external and internal audit functions, and controls over monetary data reporting. In response, the NBE established a functional Audit Committee and set up an independent review of monetary data submitted for program monitoring purposes by the NBE's internal auditors. Over the medium-term, further

efforts are called for to address other safeguard risks, through enhancing Audit Committee oversight of the external audit mechanism and strengthening the NBE's independence concerning the potential scope for unlimited financing of the government and unrealized profit distribution mechanisms. In its response to the assessment, the NBE noted that it had the right to reject any demand for government financing if deemed necessary to maintain macroeconomic stability.

III. Policy Discussions

A. Policies for the Remainder of 2009/10 and 2010/11

8. **Key objectives for the rest of FY2009/10 and for FY2010/11** (MEFP, paragraphs 7–8) are to maintain strong GDP growth of 7–8 percent, contain overall inflation to 8–10 percent; and raise international reserves to US$1.9 billion, equivalent to 2.1 months of import coverage by end-June 2010 and 2.3 months by end-June 2011, respectively.[3] The authorities—while aiming at real GDP growth of about 10 percent in both years—have agreed to maintain a conservative growth assumption for program purposes and are committed to addressing statistical shortcomings in the national accounts (Box 2).

- **The general government budget for 2010/11 envisages some easing from the tight fiscal balance this year** (MEFP, paragraph 10). Tax revenues should rise by about 0.5 percent of GDP, with further implementation of the tax reform strategy, although nontax revenues are expected to decline by 1.2 percent of GDP.[4] On the expenditure side, capital outlays would rise while recurrent outlays are maintained in relation to GDP. The budget deficit is set to rise from 2.1 percent to 3.4 percent of GDP, financed by a mix of external and domestic borrowing. Staff would have preferred a somewhat tighter fiscal stance for 2010/11 than proposed by the authorities to support the monetization effort. The increase in the overall deficit reflects lower nontax revenue, from exceptional levels over the past few years and higher public infrastructure investment. The authorities argued strongly that they should reinforce their emphasis on pro-poor and pro-growth public investment outlays. The fiscal stance is also compatible with maintaining the low risk outlook of the DSA. If aid inflows or revenues exceed budgetary projections, the authorities intend to reduce domestic borrowing levels commensurately to support the inflation reduction objective.

- **Monetary policy will support a remonetization of the economy** (MEFP; paragraph 12). The NBE intends to introduce active liquidity management, in line with maintaining lower reserve money growth to achieve low inflation, with a view

[3] The projected reserve level is inclusive of the general and special allocations of SDRs (which amount to about US$180 million, equivalent to 0.2 months of import cover).

[4] For the last two years, nontax revenues increased significantly on account of ad hoc dividend payments by some public enterprises.

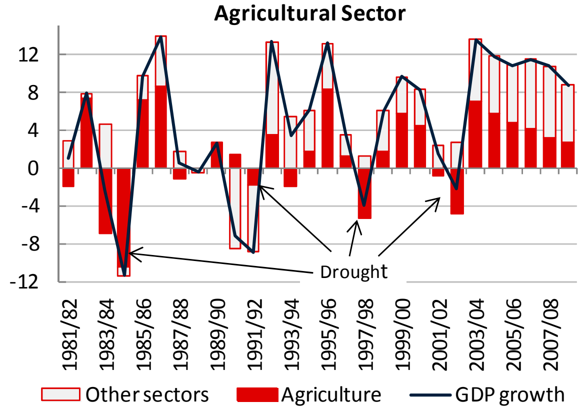
to phasing out the credit ceilings by end-2010. This will require allowing T-bill rates to rise. Staff views the policy response as appropriate and urged determined implementation, to address the adverse consequences of bank credit ceilings on the demand for money and financial deepening and recommended adoption of reserve money as the nominal anchor. For 2010/11, broad money is projected to grow by 22 percent, slightly higher than nominal GDP growth (taking into account prospective monetization). Even after somewhat higher public sector borrowing and the foreign reserve accumulation, growth in credit to the private sector would rise by about 25 percent, a significant increase in real terms.

B. Macroeconomic Policy Challenges

9. **Discussions focused on how Ethiopia could sustain high growth, improve resilience to shocks, while further reducing macroeconomic risks and imbalances**. Macroeconomic and financial policies should urgently promote monetization and financial deepening. The risk of exogenous shocks is high, given that, for the last decades, Ethiopia has experienced recurring adverse shocks every 5–7 years, stemming from droughts, terms of trade reversals (including high international commodity prices), and most recently the global recession (Figures 14 and 15). Although Ethiopia has made considerable strides in diversifying goods exports and has strong prospects in transportation and electricity exports, it remains highly dependent on primary industry, the level of exports is low, and financial intermediation is severely underdeveloped. Economic resilience would be improved by a strong tax effort, higher domestic savings and investment, and steps to reinforce competitiveness. More generally, an acceleration of the pace of the structural reform agenda would be beneficial. World Bank staff indicate that while modest progress is being made on structural reforms, an increase in the momentum is expected under PASDEP II.

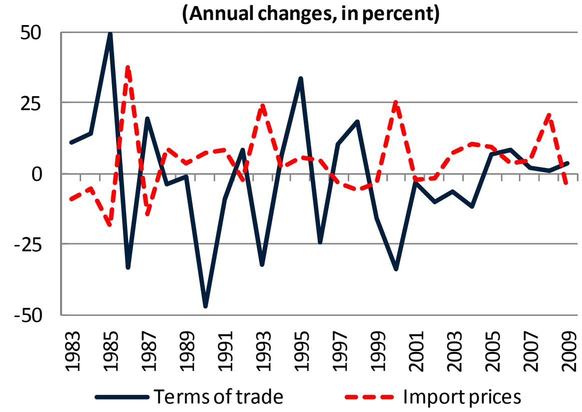
For the last three decades, Ethiopia has been hit by droughts in every 5–7 years.

Figure 14. Real GDP Growth and Contribution of Agricultural Sector

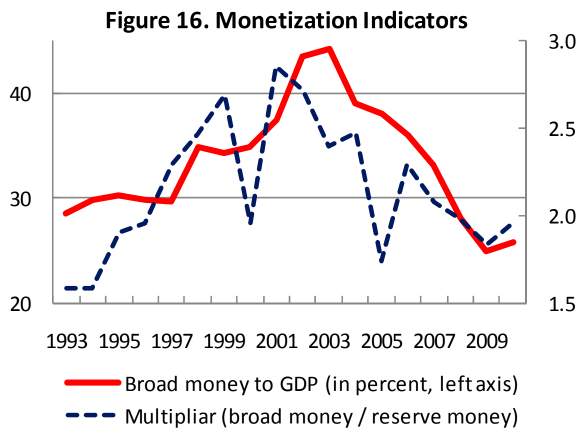


Terms of trade shocks are also frequent, often caused by high international commodity prices.

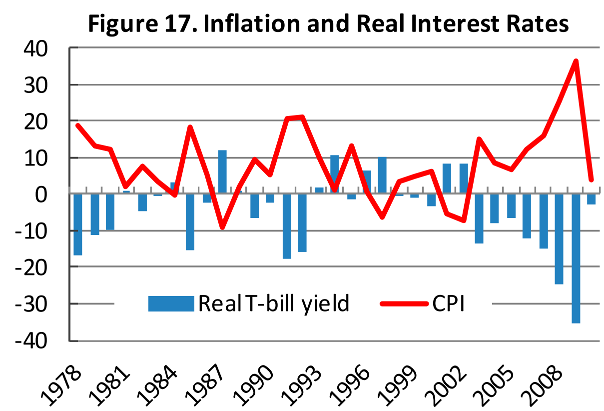
Figure 15. Terms of Trade and Import Prices
(Annual changes, in percent)



__A significant demonetization trend is a major concern.__



__Significantly negative real interest rates adversely affect monetization__.



- **Monetization and financial deepening** (Box 3). The demonetization of the economy is a major cause of concern (Figure 16). Several factors have contributed to demonetization over the last several years, such as significantly negative real interest rates, high reserve money growth; bank-by-bank credit ceilings, introduced to contain inflation; and lack of competition among banks. Staff analysis emphasized the dangers to financial stability and the lost growth from continued demonetization. The authorities concurred with the need to promote monetization and decided to step up their efforts to contain reserve money growth and lower inflation through active liquidity management, thus raising T-bill real rates (Figure 17). The authorities are committed to achieving real positive interest rates, which staff believes is urgently needed to both reverse demonetization and further reduce macroeconomic imbalances.

- **Stepping up revenue efforts to create more fiscal space and substitute for domestic financing** (MEFP, paragraph 10). The comprehensive tax reform strategy was finalized in February 2010, based on recent Fund technical assistance. Tax collection is expected to improve significantly by consolidating tax collection, reviewing current exemptions and exemption approval procedures, and increasing resources for the audit and enforcement over large tax payers.

- **Strengthening debt management to ensure public debt remains at low risk** (MEFP, paragraphs 11 and 14). Public sector domestic borrowing will continue to at about 3 percent of GDP in the coming years. In line with the assumptions of the DSA the program allows for US$1 billion (3.2 percent of GDP) in the contracting of new nonconcessional borrowing through end-2010–11. Subsequently, new nonconcessional borrowing is projected to decline. Although Ethiopia's risk of debt distress has been lowered on account of the inclusion of private transfers (see the accompanying DSA), Ethiopia's debt management capacity is low and lagging behind other countries in the region. However, the adoption of new financial administration regulations is a positive step. Going forward, maintenance of the favorable risk outlook requires continued emphasis on strengthening debt management capacity by closely monitoring the debts of the largest public enterprises and assessing potential contingent liabilities.

- **Enhancing competitiveness** (MEFP, paragraph 13). Adjustments to the nominal exchange rate and the recent disinflation have brought the real effective exchange rate to a level close to that suggested by various analytical methodologies (Box 4). However, a continued premium on the parallel market, combined with low external reserve levels suggest caution in assessing whether the exchange rate is at the appropriate level. Reserve coverage is projected to remain low, especially given the agricultural dependence of exports. While remaining vigilant to ensure that the nominal exchange rate is adjusted to avoid overvaluation in real terms, structural reforms to enhance competitiveness over the medium-term are critical. Exchange regime liberalization would benefit the economy through improved access for the private sector, increased confidence in the rate, and reduced economic losses from an active dual exchange market. The privatization program should be carried forward along with implementation of the Common Market for Eastern and Southern Africa (COMESA) external tariff and improvements to the investment climate.

- **Maintaining financial sector soundness**: The recent rapid expansion of private banks in an environment of negative real interest rates, declining inflation, and tightening liquidity conditions highlights the importance of strengthened financial sector supervision and regulation. Although financial sector soundness indicators do not point to immediate concerns, continued close scrutiny by supervisors, especially of the dominant government owned Commercial bank of Ethiopia (CBE) and the new private banks will be important (Table 6).[5] A slowdown of economic growth, the reduction of excess liquidity in the system, and the recent real estate boom could pose risks that need to be closely monitored. Oversight of the financial system is expected to be strengthened with technical assistances on risk-based supervision provided by East AFRITAC. Staff continues to believe that a Financial Assessment Stability Program (FSAP) evaluation would be beneficial. The recent passage of AML/CFT legislation is an important step forward.[6]

10. **The authorities concurred with the importance of these reforms, except for the increase in the foreign reserves cushion and liberalization of the exchange regime**. Ethiopia is targeting international reserves at 10 weeks of imports. In view of repeated large shocks, however, a larger foreign exchange reserve cushion—three months of imports at the minimum—would be advisable. In addition, over time, sustained export growth and import substitution will require vigorous implementation of productivity enhancing structural policies, including raising agricultural productivity, financial sector competitiveness, and improvements

[5] The number of commercial banks increased from eight (2 state-owned and 6 private) in mid-2006 to 14 in May 2010. Financial soundness indicators generally point to a well-capitalized and profitable banking sector (Table 6).

[6] The Anti Money Laundering Bill was passed in late 2009, and a Financial Intelligence Centre has been established.

in the business climate to raise low private investment rates. The authorities indicated their willingness and ability to move the nominal exchange rate to ensure external competitiveness against the need to maintain higher reserves levels.

C. Medium-Term Outlook

11. **The discussions focused on two medium-term scenarios**: (i) baseline scenario, in line with the short-term policies as agreed under the ESF-supported program; and (ii) reform policies (with stepped-up reforms described above) to highlight the benefits of further policy reforms.

- **Baseline scenario**: This scenario with status quo policies would broadly maintain macroeconomic balances but leave the economy vulnerable to shocks. The scenario envisages: (a) public sector domestic financing unchanged from current year levels (around 3 percent of GDP); (b) implementation of tax reform strategy; (c) reserve money growth maintained in single digits (year-on-year); and (d) gradual exchange rate adjustment in line with inflation differentials. Under this scenario, growth may reach 6–7 percent a year, but, with modest progress in tax reform, resources to finance pro-poor spending may not be boosted significantly. Official international reserves would not reach 2½ months of imports and remain vulnerable to shocks.

- **Stepped-up reform scenario**: Reform policy scenario would combine adjustment policies with stepped-up reforms (enhanced tax reform efforts and reaching real positive interest rates sooner) and further exchange rate adjustments (Box 4). Based on the above-mentioned policy reforms, staff projections indicate that the medium-term economic outlook for Ethiopia is favorable. Real GDP growth would average about 7½ percent a year for 20010/11–2014/15, in part under the impact of a monetization of the economy, with private sector credit growing faster, and inflation targeted to stay at 3–5 percent. Based on real exchange rate depreciation over the next two years and structural reforms supporting private development, gradual replenishment of gross official international reserves would bring import coverage to three months by 2014/15 (Table 5). While the domestic debt ratio is slightly lower in the reform scenario on account of higher nominal GDP, the external debt ratio is higher because of the effects of the exchange rate depreciation.

IV. Program Monitoring, Financing, and Risks

12. **The program PCs and benchmarks have been updated and modified** (MEFP, paragraph 16). Revised quantitative performance criteria for July 7, 2010 are proposed along with new benchmarks for end-September (MEFP, Table 1). The revised criteria at end-June on the NDA of the NBE and on domestic financing of the budget reflect the expected tighter budget outturn for 2009/10 and the tighter monetary profile. The structural benchmarks table has also been extended with three new items that reflect the structural priorities in the

period ahead, namely on the need to mark progress on tax reform, the introduction of active liquidity management, and the need to improve the national accounts data for macroeconomic management (MEFP, Table 2 and paragraph 15).

13. **The program remains fully financed**. Program access phasing remains unchanged. Ethiopia should not have any difficulty meeting its obligations to the Fund (Tables 8 and 9).

14. **The risks to the ESF-supported program** stem from low external reserves levels, in the face of potential external shocks; from domestic supply shocks reflecting Ethiopia's dependence on rain-fed agriculture; and from the potential impact of continued demonetization on inflation and macro stability should program reforms on the monetary policy side not be energetically pursued.

V. Staff Appraisal

15. **Ethiopia has been successfully implementing policies to reduce inflation and rebuild external reserves as agreed in the ESF-supported program**. Public sector domestic borrowing has been reduced significantly in 2009/10 and the nominal exchange rate has been adjusted to improve competitiveness. The negative impact of the global recession has not been as severe as expected, which has allowed for over performance on the external targets. Staff welcomes the sharp reduction in inflation in 2009, reflecting reduced reserve money growth, made possible by lower domestic financing of the budget, and aided by external factors. Further necessary progress on core inflation will require relatively greater effort in controlling domestic liquidity.

16. **Real growth has continued strong, under the impulse of government investment spending on social and physical infrastructure**. The budget has appropriately focused on poverty reduction and infrastructure expenditure since the Heavily Indebted Poor Countries Initiative (HIPC) completion point. To sustain this growth trend, and further diversify the economy, staff encourages the authorities to adopt policies to promote the monetization and financial deepening of the economy while creating more room for private sector activity to leverage the large public investment outlays on infrastructure. Attention should focus on the business climate, particularly regarding private sector access to foreign exchange and credit, to stimulate private investment, and sustain the high economic and export growth of recent years.

17. **The nominal exchange rate adjustments of 2009/10 have helped bring the exchange rate broadly back in line with equilibrium and improved external competitiveness**. However, a liberalization of the exchange regime would benefit the economy through improved access and confidence in the foreign exchange market and a unification of the official and parallel markets would free up significant efficiency gains. Staff encouraged the authorities to be vigilant to ensure the nominal exchange rate is managed to guard against overvaluation. The authorities should also give sufficient weight to implementing structural reforms affecting the investment climate, trade liberalization and privatization, to secure durable improvements in competitiveness.

18. **Efforts to raise fiscal revenues, a key to lower fiscal financing needs from the central bank, should be sustained**. In addition to creating fiscal space, this would relieve pressures on liquidity growth; support a further decline in inflation and a reversal of the demonetization of the economy. Staff welcomes the adoption and initiation of an action plan on tax reform, on the basis of Fund TA, to improve the revenue effort though strengthened administration and policy reforms.

19. **Regarding monetary policy, reversal of the demonetization trend is needed urgently**. Staff encourages the authorities to significantly strengthen central bank and monetary policy independence from the budget. Maintaining a low reserve money growth policy in 2010/11 is needed to sustain a low inflation environment and support the elimination of the bank-by-bank credit ceilings. Introduction of active liquidity management would also help to achieve positive real interest rates in the short run, and would support monetization, financial deepening, and the mobilization of domestic savings. Allowing nominal interest rates to rise would also help support a liberalization of the exchange regime. Staff welcomes the authorities' commitments in this area and urges prompt and decisive action. Delay in effecting a reversal in demonetization poses risks to financial stability and the ability of the financial sector to support private sector led growth. Efforts are also needed to strengthen financial sector supervision and regulation, particularly in view of the dominant role of the government-owned CBE and given the sharp rise in the number of new private banks. Staff encourages the authorities to consider the benefits of an FSAP evaluation.

20. **While public external debt has risen strongly in recent years, the updated DSA suggests Ethiopia's risk of debt distress has declined**. The improvement reflects in part, the consideration of Ethiopia's large and stable inflow of remittances as adding to its capacity to repay debt. Access to external resources (both concessional and non-concessional) has helped relieve the financing constraint and can continue to do this given the DSA assessment. Staff encourages the authorities to strengthen further public debt management capacity, particularly regarding public enterprises to maintain this favorable risk outlook. Staff urges a de-emphasis of domestic financing, especially to the extent that it is monetized.

21. **The data provided to the Fund are adequate for surveillance and program monitoring purposes, but statistical weaknesses persist, most notably with regard to the national accounts**. Staff welcomes the authorities' commitment to improving the quality of the national accounts, with technical assistance from the Fund.

22. **Ethiopia has recently taken action to strengthen AML/CFT and to address the issues raised in the safeguards assessment**.

23. **Staff recommends completion of the first ESF review**. The next Article IV consultation would be held in accordance with the provisions of the Decision No. 12794 of July 15, 2002, on consultation cycles.

Box 1: Ethiopia: Tax Reform Strategy

A comprehensive tax reform strategy was finalized in February 2010, based on recent technical assistances from the Fund on tax policy and administration. The reform measures comprehensively cover key recommendations from these TA and envisage swift implementation. Specifically, the efficiency of tax collection is expected to be significantly improved by (i) transferring the collection of direct (business and personal income taxes) and indirect taxes (VAT and excise duty) from Addis Ababa City to the Ethiopian Revenues and Customs Authority (ERCA), (ii) reviewing current exemptions and exemption approval procedures, and (iii) increasing the Large Tax Payers Office (LTO) audit and enforcement resources and capacity.

Major Tax Reform Measures (through 2010)

Actions	Timing
Conduct a study on the investment incentives	July
Repeal exemptions on some food items and cement from the VAT	July
Scale up the scope and utilization of existing IT systems	July
Review current exemptions and take corrective actions	September
Review exemption approval procedures	July
Formulate a national arrears collection strategy and annual plan	July
Transfer the direct tax and VAT collections of Addis Ababa City to ERCA	September
Increase LTO audit and enforcement resources and capacity	December

Some of the simpler administrative measures have already been implemented. In other areas, the authorities are taking a cautious approach, by first conducting studies in relevant areas (e.g., corrective measures for the investment incentives and its utilization), in order to ensure the government accountability to the public.

- A review of tax exemptions has started and will be completed by July 2010. Corrective actions will be taken as needed.

- Increasing the coverage of the cash register system—reducing leakages—has contributed to higher VAT collection. With most large hotels, supermarkets, and restaurants all registered under the system, the number of registers increased 1,330 at end-December 2009 to 2,130 at end-February 2010.

For the effective implementation of these measures, the high-level forum between MoFED and ERCA—established since mid-2009—is expected to play a key role. This forum takes place on monthly basis, monitoring revenue performance and overseeing the implementation of the revenue measures and the tax reform strategy.

Box 2: Ethiopia: National Accounts Statistics Action Plan

STA mission on national account statistics in March 2010 identified some compilation and estimation deficiencies in the national accounts statistics. A corrective action plan (see below) has been formulated, with a follow-up TA in the pipeline. Some of the weaknesses noted are not unique to Ethiopia. In fact, the compilation system compares quite favorably with the systems of other countries in the region. However, the compilation process should be kept under constant review so that weaknesses could be identified and improvements incorporated into the system on an ongoing basis.

Action	Target date
Develop internal training programs for staff.	September 2010
Develop plan to rebase the national accounts statistics within the next two years.	December 2010
Separate the responsibilities for forecasting and compilation.	March 2011
Revise the methodology used to estimate distribution (wholesale and retail trade) and apply the revised methodology to the estimates.	March 2011
Revise the methodology used to estimate owner-occupied dwellings.	March 2011
Develop the commodity flow approach for estimating construction.	March 2011
Transfer responsibility for compiling national accounts to the Central Statistical Agency.	September 2011

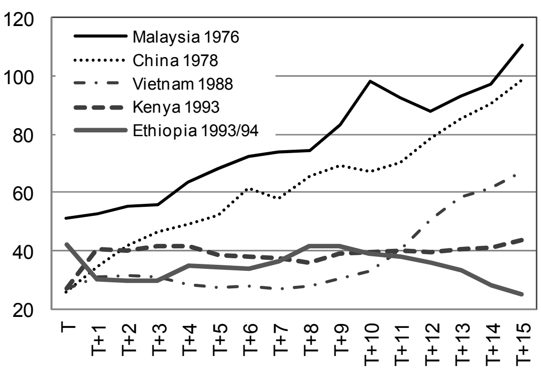
Box 3: Ethiopia: Monetary Policy Needs Reform to Promote Financial Intermediation

Ethiopia has experienced a worrying trend of demonetization in the last seven years. Financial intermediation and monetization are a driving force for development and have associated with rapid development success stories in Asia and elsewhere. The level of monetization is very low in Ethiopia. Critically, monetization has been on a downward trend since 2002/03, and Ethiopia is falling behind successful Asian countries at a similar stage of development and regional comparators (Figure 1).

Monetary policy is primarily responsible for this trend. Very high reserve money growth, which in turn reflects unsterilized central bank financing of the budget at effectively zero interest rates, has led to excess liquidity in the financial system. Inflation and low deposit rates (which do not respond to inflation because of commercial banks' excess liquidity) have resulted in highly negative real interest rates, eroding the real value of deposits, discouraging savings, and dampened demand for broad money (Figure 2). More recently, direct bank by bank credit control (which was introduced in early 2009 as an administrative measure to curb inflation) has contributed to limited money growth despite strong demand for credit.

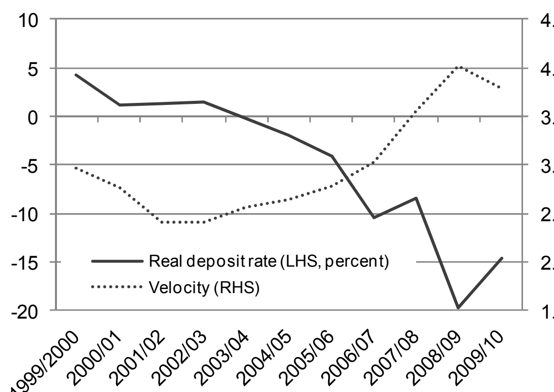
Monetary policy needs to change to reverse the demonetization trend. Inflation would be difficult to control if low T-bill rates and double digits reserve money growth fueled by central bank direct financing of the budget continue. To stimulate money demand, interest rates would need to be raised to positive levels in real terms and reserve money growth tightly controlled to maintain low inflation while allowing for healthy growth of broad money and credit to support economic expansion. If monetary policy can be reformed as described above, historical comparators (e.g., Korea in the mid 1960s) suggest a rapid and sustained remonetization can be achieved (Figures 3 and 4).

Box Figure 1. Broad Money/Nominal GDP (percent) [1]



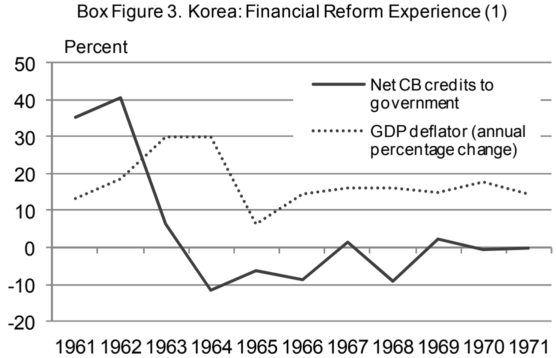
[1] The number after the country names refer to the year (T) of the beginning of the plot.

Box Figure 2. Ethiopia: Real Deposit Rate and Velocity [1]

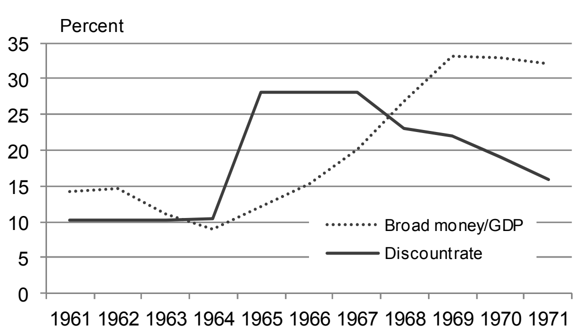


[1] Real deposit rate is based on nonfood CPI.

Box Figure 3. Korea: Financial Reform Experience (1)



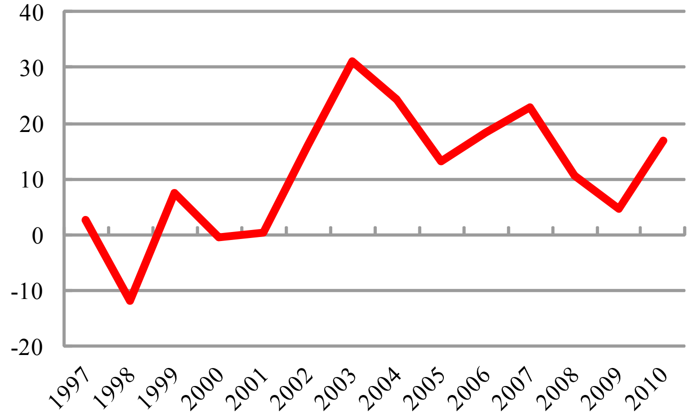
Box Figure 4. Korea: Financial Reform Experience (2)



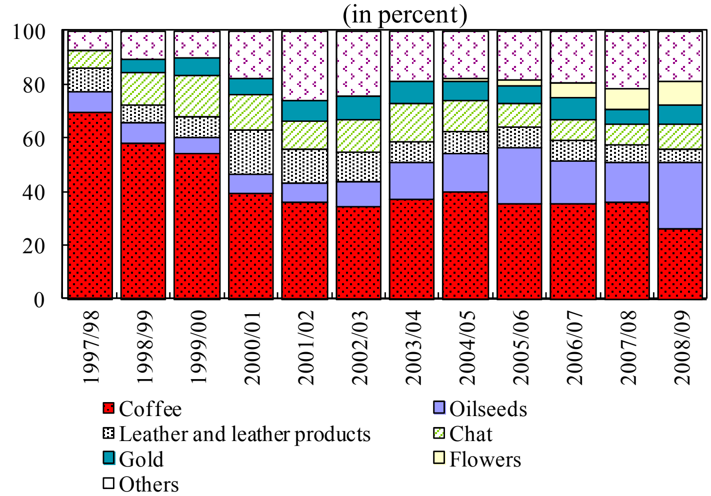
Box 4: Ethiopia: External Competitiveness and Exchange Rate Adjustments

The performance of **Ethiopia's exports** over the past decade has been strong in US dollar terms but less so in relation to GDP. Since 2003, exports of goods and services have grown by about 19 percent per annum in Ethiopia, exceeded by Rwanda (21 percent), Uganda (25 percent) and Zambia (25 percent) among countries in the region (Box Figure 5). In relation to GDP, the ratio has remained stable in contrast to rises in other countries; this phenomenon is associated with denominator effects since the economy has been growing extremely rapidly. Ethiopia has made considerable strides in diversifying its goods export base (e.g., flowers and oil seeds) but more progress is needed to help boost reserve coverage and the export to GDP ratio (Box Figure 6). This requires some further movement in the real exchange rate.

Box Figure 5. Exports of Goods and Services (annual changes, in percent)



Box Figure 6. Decomposition of Exports of Goods (in percent)



Between mid 2004 and end 2008, **the real effective exchange rate** appreciated by over 60 percent owing to much higher inflation in Ethiopia than in its trading partners. Inflation pressures declined dramatically since end 2008, and, combined with continued nominal depreciation, has led to sharp real exchange rate depreciation. In the first quarter of 2010, the real exchange rate is about 7 percentage points higher than the prediction based on an equilibrium exchange rate model (SM/08/209) but this difference is within standard error margins.

On the other hand, **reserve coverage** continues to be low, projected to rise only to 2.3 months of imports in 2009/10 and to remain at this level, indicating the need for a 10 percentage point real exchange rate depreciation to secure a reserves target of 3 months of imports. This indicator is a variant on the macro-balance approach in which the objective is a specific reserve target rather than a medium term current account level.

The third methodology for assessing the exchange rate level is based on stabilizing debt. The accompanying debt sustainability analysis shows that Ethiopia is at low risk of debt distress and therefore there is no need for an exchange rate adjustment to improve the debt outlook.

Table 1. Ethiopia: Selected Economic and Financial Indicators, 2007/08–2013/14 [1]

	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13	2013/14
			Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)							
National income and prices								
GDP at constant prices (at factor cost)	11.2	9.9	7.0	7.0	7.7	7.5	7.5	7.7
GDP deflator	30.5	24.4	6.3	4.9	8.3	6.6	6.2	6.0
Consumer prices (period average)	25.3	36.4	5.1	3.8	9.3	6.5	6.0	6.0
Consumer prices (end period)	55.3	2.7	9.8	10.5	7.0	6.0	6.0	6.0
External sector								
Exports, (In U.S. dollars, f.o.b.)	23.1	-1.0	11.8	16.4	11.1	13.2	13.2	12.4
Imports, (In U.S. dollars, c.i.f.)	32.8	13.4	11.8	12.7	12.0	4.6	9.0	9.2
Export volume	1.0	-1.2	12.3	3.1	8.4	11.2	11.2	10.4
Import volume	13.0	20.5	16.2	14.1	7.9	2.7	7.8	7.2
Terms of trade (deterioration –)	1.9	7.8	4.1	14.9	-1.4	0.1	0.8	0.0
Nominal effective exchange rate (end of period)	-11.8	-5.0	...	...	...	...	...	...
Real effective exchange rate (end of period)	5.5	26.3	...	...	...	...	...	...
	(Percent of beginning-period stock of broad money, unless otherwise indicated)							
Money and credit								
Net foreign assets	-3.2	11.3	2.9	2.3	2.9	6.0	4.4	5.0
Net domestic assets (including other items)	26.1	8.6	14.2	15.7	19.1	14.9	15.5	14.9
Broad money	22.9	19.9	17.1	18.0	22.0	20.9	19.9	19.9
Reserve money (annual percentage change)	28.7	29.9	15.6	10.3	10.9	9.9	10.0	9.6
Velocity (GDP/broad money)	3.56	4.01	4.11	3.85	3.68	3.49	3.33	3.17
Lending rates (maximum rate)	15.0	16.5	…	…	…	…	…	…
Treasury bill (91-day maturity)	0.6	0.9	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)							
Financial balances								
Gross domestic saving	5.3	6.6	2.6	4.6	5.7	6.8	7.7	8.7
Government saving	1.5	2.6	2.5	2.4	2.7	2.7	2.6	2.4
Private saving	3.8	4.0	0.1	2.2	3.0	4.1	5.0	6.3
Gross domestic investment	22.5	19.2	22.6	24.2	24.6	25.0	24.9	25.1
Government investment	15.1	14.1	16.3	16.3	17.5	17.6	17.3	17.5
Private investment	5.9	5.0	6.3	7.9	7.1	7.3	7.5	7.7
Resource gap	-17.2	-12.6	-20.0	-19.6	-18.8	-18.1	-17.2	-16.4
External current account balance, including official transfers	-5.6	-5.0	-9.3	-7.7	-9.2	-7.5	-6.3	-5.3
Government finances								
Revenue	12.1	12.0	12.2	14.1	13.4	13.7	13.8	14.0
Tax revenue	9.7	8.6	8.7	10.5	11.0	11.2	11.4	11.6
Nontax revenue	2.4	3.3	3.4	3.6	2.4	2.4	2.4	2.4
External grants	4.0	4.3	3.2	3.5	3.4	3.8	4.0	4.2
Expenditure and net lending	19.1	17.2	18.4	19.7	20.2	20.2	20.1	20.4
Fiscal balance, excluding grants (cash basis)	-7.0	-5.2	-6.3	-5.6	-6.8	-6.5	-6.2	-6.4
Fiscal balance, including grants (cash basis)	-2.9	-0.9	-3.0	-2.1	-3.4	-2.7	-2.2	-2.2
Total financing (including residuals)	2.9	0.9	3.0	2.1	3.4	2.7	2.2	2.2
External financing	1.0	0.9	1.6	1.2	1.8	1.4	1.0	1.1
Domestic financing (not including privatization)	2.7	-0.1	1.4	0.7	1.6	1.3	1.2	1.1
Public debt [2]	39.8	36.0	37.5	40.6	43.9	45.2	45.0	44.2
Domestic debt [3]	28.1	22.0	18.0	21.5	19.8	18.1	16.4	14.9
External debt (including to the IMF)	11.7	14.1	19.5	19.0	24.1	27.2	28.6	29.3
Present value (PV) of external debt-to-exports ratio (including to the IMF) [2]	57.3	86.7	136.7	119.1	132.7	129.0	118.5	105.7
External debt-service to export ratio [4]	1.3	1.3	6.1	3.6	5.7	7.1	7.7	8.3
Overall balance of payments (in millions of U.S. dollars)	-76	377	-30	236	212	132	226	359
Gross official reserves (in millions of U.S. dollars)	906	1,524	1,850	1,901	2,176	2,309	2,535	2,894
(in months of imports of goods and nonfactor services of following year)	1.2	1.8	2.1	2.1	2.3	2.2	2.2	2.3
GDP at current market prices (in billions of birr)	248.6	336.1	403.2	380.1	444.0	509.3	581.3	663.7

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

1. Except for data on external sector which is based on July 1-June 30, data pertain to the period July 8-July 7.
2. Including debt of major public enterprises.
3. The programmed figure in 2009/10 does not include some public enterprise debt.
4. After enhanced HIPC and MDRI relief.

Table 2a. Ethiopia: General Government Operations, 2007/08–2013/14
(Millions of birr)

	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13	2013/14
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	39,705	54,627	61,984	67,015	74,583	88,948	103,746	120,719
Revenue	29,794	40,174	49,044	53,732	59,406	69,566	80,429	93,034
Tax revenue	23,801	28,998	35,184	40,019	48,770	57,260	66,385	76,997
Direct taxes	6,628	9,858	11,751	14,198	17,319	20,558	23,875	27,738
Indirect taxes	17,173	19,139	23,433	25,821	31,451	36,703	42,510	49,259
Domestic indirect taxes	5,480	7,325	8,426	9,626	11,993	13,996	16,254	18,884
Import duties and taxes	11,693	11,814	15,008	16,195	19,458	22,707	26,257	30,375
Nontax revenue	5,993	11,176	13,860	13,713	10,636	12,305	14,044	16,036
Grants	9,911	14,454	12,940	13,283	15,177	19,382	23,317	27,685
Emergency assistance (food and nonfood aid)	401	340	724	290	371	423	1,247	1,344
Program grants [1]	5,477	9,595	7,599	7,599	8,619	9,713	11,313	13,251
Project grants	4,034	4,518	4,617	5,394	6,187	9,246	10,756	13,090
Total expenditure and net lending (cash basis) [2]	46,915	57,774	74,257	74,873	89,783	102,916	116,721	135,508
Recurrent expenditure [2]	22,794	27,176	33,637	34,957	40,840	46,952	55,042	62,698
Defense spending	3,453	4,000	4,000	4,000	4,000	4,588	5,236	5,979
Poverty-reducing expenditure [3]	10,627	12,629	16,197	17,812	21,077	24,491	28,320	32,337
Interest payments	1,133	1,286	1,880	2,173	2,298	2,758	3,471	3,892
Domestic interest and charges	908	1,036	1,542	1,326	1,664	2,239	2,834	3,121
External interest payments [4]	225	251	338	847	634	519	637	771
Emergency assistance (food and other emergency aid)	401	340	724	290	371	423	1,247	1,344
Other recurrent expenditure	7,181	8,921	10,836	10,682	13,094	14,691	16,768	19,146
Capital expenditure [4]	24,121	30,599	40,620	39,916	48,943	55,964	61,678	72,810
Central treasury	18,277	22,713	29,218	29,516	34,543	39,024	44,206	51,512
External project grants	4,034	4,518	4,617	5,394	6,187	9,246	10,756	13,090
External project loans	1,810	3,368	6,785	5,006	8,213	7,695	6,716	8,208
Special programs [5]	0	0	0	0	0	0	0	0
Overall balance								
Including grants	-7,210	-3,147	-12,273	-7,858	-15,200	-13,968	-12,974	-14,789
Excluding grants	-17,121	-17,601	-25,213	-21,141	-30,377	-33,350	-36,291	-42,474
Financing	9,984	3,232	12,273	7,858	15,200	13,968	12,974	14,789
Net external financing	2,396	3,176	6,450	4,671	7,853	7,168	6,024	7,389
Gross borrowing	1,810	3,368	6,785	5,006	8,213	7,695	6,716	8,208
Capital budget	1,810	3,368	6,785	5,006	8,213	7,695	6,716	8,208
Special program (World Bank's fertilizer project)	0	0	0	0	0	0	0	0
HIPC debt relief [4]	988	181	119	119	0	0	0	0
Amortization [4]	-402	-372	-454	-454	-360	-527	-692	-819
Total net domestic financing	6,580	-417	5,823	2,787	6,981	6,800	6,950	7,400
Privatization	1,008	472	0	400	366	0	0	0
Float/unidentified financing	-2,775	-85	0	0	0	0	0	0
Memorandum items:								
Poverty-reducing expenditure	30,051	43,064	52,699	52,230	61,285	70,609	80,956	92,439
External grants and loans (US dollars per capita)	17	24	21	21	22	22	22	24
Primary fiscal balance, including grants	-6,077	-1,861	-10,393	-5,685	-12,902	-11,210	-9,503	-10,897
Domestic fiscal balance, including grants	-10,651	-9,124	-12,749	-9,604	-14,972	-15,467	-16,934	-19,061
Gross domestic government debt	51,668	51,251	57,491	54,038	61,019	67,819	74,769	82,169

Sources: Ethiopian authorities; and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.

1 Including the disbursements under the PBS operations starting from 2005/06.

2 Excluding special programs (demobilization and reconstruction).

3 Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

4 External interest and amortization are presented after HIPC debt relief from the World Bank and African Development Bank.

5 Demobilization and reconstruction.

Table 2b. Ethiopia: General Government Operations, 2007/08–2013/14
(In percent of GDP)

	2007/08	2008/09	2009/10		2010/11	2011/12	2012/13	2013/14
	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	16.2	16.3	15.4	17.6	16.8	17.5	17.8	18.2
Revenue	12.1	12.0	12.2	14.1	13.4	13.7	13.8	14.0
Tax revenue	9.7	8.6	8.7	10.5	11.0	11.2	11.4	11.6
Direct taxes	2.7	2.9	2.9	3.7	3.9	4.0	4.1	4.2
Indirect taxes	7.0	5.7	5.8	6.8	7.1	7.2	7.3	7.4
Domestic indirect taxes	2.2	2.2	2.1	2.5	2.7	2.7	2.8	2.8
Import duties and taxes	4.8	3.5	3.7	4.3	4.4	4.5	4.5	4.6
Nontax revenue	2.4	3.3	3.4	3.6	2.4	2.4	2.4	2.4
Grants	4.0	4.3	3.2	3.5	3.4	3.8	4.0	4.2
Emergency assistance (food and nonfood aid)	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.2
Program grants [1]	2.2	2.9	1.9	2.0	1.9	1.9	1.9	2.0
Project grants	1.6	1.3	1.1	1.4	1.4	1.8	1.9	2.0
Total expenditure and net lending (cash basis) [2]	19.1	17.2	18.4	19.7	20.2	20.2	20.1	20.4
Recurrent expenditure [2]	9.3	8.1	8.3	9.2	9.2	9.2	9.5	9.4
Defense spending	1.4	1.2	1.0	1.1	0.9	0.9	0.9	0.9
Poverty-reducing expenditure [3]	4.3	3.8	4.0	4.7	4.7	4.8	4.9	4.9
Interest payments	0.5	0.4	0.5	0.6	0.5	0.5	0.6	0.6
Domestic interest and charges	0.4	0.3	0.4	0.3	0.4	0.4	0.5	0.5
External interest payments [4]	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Emergency assistance (food and other emergency aid)	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.2
Other recurrent expenditure	2.9	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Capital expenditure [2]	9.8	9.1	10.1	10.5	11.0	11.0	10.6	11.0
Central treasury	7.4	6.8	7.2	7.8	7.8	7.7	7.6	7.8
External project grants	1.6	1.3	1.1	1.4	1.4	1.8	1.9	2.0
External project loans	0.7	1.0	1.7	1.3	1.8	1.5	1.2	1.2
Special programs [5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance								
Including grants	-2.9	-0.9	-3.0	-2.1	-3.4	-2.7	-2.2	-2.2
Excluding grants	-7.0	-5.2	-6.3	-5.6	-6.8	-6.5	-6.2	-6.4
Financing	4.1	1.0	3.0	2.1	3.4	2.7	2.2	2.2
Net external financing	1.0	0.9	1.6	1.2	1.8	1.4	1.0	1.1
Gross borrowing	0.7	1.0	1.7	1.3	1.8	1.5	1.2	1.2
Capital budget	0.7	1.0	1.7	1.3	1.8	1.5	1.2	1.2
Special programs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief [4]	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization [4]	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Total net domestic financing	2.7	-0.1	1.4	0.7	1.6	1.3	1.2	1.1
Privatization	0.4	0.1	0.0	0.1	0.1	0.0	0.0	0.0
Float/unidentified financing	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Poverty-reducing expenditure	12.2	12.8	13.1	13.7	13.8	13.9	13.9	13.9
Primary fiscal balance, including grants	-2.5	-0.6	-2.6	-1.5	-2.9	-2.2	-1.6	-1.6
Domestic fiscal balance, including grants	-4.3	-2.7	-3.2	-2.5	-3.4	-3.0	-2.9	-2.9
Gross domestic government debt	21.0	15.2	14.3	14.2	13.7	13.3	12.9	12.4

Sources: Ethiopian authorities; and Fund staff estimates and projections. The Ethiopian fiscal year ends July 7.

1 Including the disbursements under the PBS operations starting from 2005/06.

2 Excluding special programs (demobilization and reconstruction).

3 Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

4 External interest and amortization are presented after HIPC debt relief from the World Bank and African Development Bank.

5 Demobilization and reconstruction.

Table 2c. Ethiopia: Federal Government Operations, 2007/08–2010/11

(Millions of birr)

	2007/08	2008/09	2009/10								2010/11		
			Jul.8-Sep.		Jul.8-Dec.		Jan.-Jul.7		Total		July 8-Sep.	July 8-Dec.	Total
	Act.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Rev. proj.	Prog.	Rev. proj.	Proj.	Proj.	Proj.
Total revenue and grants	34,218	46,376	10,305	11,692	26,215	28,333	27,930	31,248	54,145	59,581	13,152	35,430	63,967
Revenue	24,307	31,923	8,774	9,716	20,105	22,606	19,607	21,796	39,712	44,402	11,135	27,555	48,475
Tax revenue	19,709	23,215	6,866	7,218	15,363	17,631	14,817	15,849	30,180	33,480	9,359	24,206	41,100
Direct taxes	3,789	5,437	1,766	1,603	4,958	5,471	2,662	3,727	7,620	9,198			
Indirect taxes	15,920	17,778	5,100	5,614	10,405	12,160	12,155	12,122	22,560	24,282			
Domestic indirect taxes	4,226	5,964	1,737	1,772	3,427	4,038	4,091	4,049	7,518	8,087			
Import duties and taxes	11,693	11,814	3,363	3,842	6,978	8,122	8,064	8,073	15,042	16,195			
Nontax revenue	4,598	8,708	1,908	2,498	4,742	4,975	4,790	5,947	9,532	10,922	1,776	3,349	7,375
Grants	9,911	14,454	1,531	1,977	6,110	5,727	8,323	9,452	14,433	15,179	2,017	7,875	15,492
Program grants [1]	5,477	9,737	0	446	2,828	2,445	4,313	5,442	7,141	7,887	0	2,030	7,046
Project grants	4,434	4,717	1,531	1,531	3,282	3,282	4,010	4,010	7,292	7,292	2,017	5,845	8,446
Total expenditure (cash basis) [2]	27,029	32,386	9,037	10,241	19,841	21,245	22,651	24,047	42,492	45,292	10,210	28,806	51,052
Recurrent expenditure [2]	8,761	10,307	3,339	2,434	6,240	5,510	7,141	7,871	13,381	13,381	3,751	6,312	15,361
Defense spending	3,453	4,000	979	773	1,816	1,884	2,184	2,116	4,000	4,000			4,000
Poverty-reducing expenditure [3]	1,696	2,181	686	614	1,544	1,238	1,860	2,165	3,404	3,404			4,003
Interest payments	1,133	1,286	450	350	972	751	1,201	1,422	2,173	2,173			2,298
Domestic interest and charges	908	1,036	353	279	773	576	958	750	1,731	1,326			1,664
External interest payments [4]	225	251	97	71	199	175	243	672	442	847			634
Other recurrent expenditure	2,479	2,840	1,225	697	1,908	1,637	1,897	2,168	3,805	3,805			5,060
Capital expenditure	18,268	22,079	5,698	7,807	13,601	15,735	15,510	16,176	29,111	31,911	6,459	22,494	35,691
Central treasury	12,424	14,193	3,536	5,527	9,057	10,652	10,347	11,552	19,404	22,204			
External assistance (grant)	4,434	4,717	1,531	1,531	3,282	3,282	4,010	4,010	7,292	7,292			
Regional transfers	13,533	16,556	4,568	3,924	10,069	9,528	10,864	11,405	20,933	20,933	4,783	11,477	24,750
Overall balance (including grants)	-6,344	-2,565	-3,300	-2,473	-3,695	-2,440	-5,586	-4,204	-9,281	-6,645	-1,841	-4,853	-11,835
Overall balance (excluding grants)	-16,255	-17,019	-4,831	-4,449	-9,805	-8,167	-13,909	-13,656	-23,714	-21,824	-3,858	-12,728	-27,327
Financing	6,344	2,565	3,300	2,473	3,695	2,440	5,585	4,204	9,280	6,644	1,841	4,853	11,836
Net external financing	2,396	3,176	804	648	1,712	1,521	1,745	1,936	3,457	3,457	841	1,974	4,489
Total net domestic financing	4,887	55	2,496	-758	1,983	-4,071	3,840	7,258	5,823	3,187	1,000	2,879	7,347
Domestic (net)	3,879	-417	2,496	-899	1,983	-4,340	3,840	7,127	5,823	2,787	1,000	2,632	6,981
Privatization	1,008	472		141		269	0	131	0	400	0	247	366
Float/unidentified financing	-939	-667	0	2,583	0	4,990	0	-4,990	0	0			0

Sources: Ethiopian authorities; and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.

1 Including the disbursements under the PBS operations starting from 2005/06.

2 Excluding special programs (demobilization and reconstruction).

3 Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

4 External interest and amortization are presented after HIPC debt relief from the World Bank and African Development Bank.

Table 3. Ethiopia: Monetary Survey and Central Bank Accounts, 2008/09–2010/11[1]

	2009				2010							2011	
	July 7		Sep.	Dec.	Jan.	Feb.	Mar.	July 7		Sep.	Dec.	Mar	July 7
	Est.	Act.	Act.	Act.	Act.	Act.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Millions of birr)												
Monetary survey													
Net foreign assets	19,668	19,882	19,531	20,775	19,585	24,369	25,192	22,135	21,803	19,774	20,951	22,452	24,652
Central bank	14,141	13,934	14,213	14,752	12,572	16,672	16,290	15,806	15,574	13,545	14,722	16,223	18,423
Commercial banks	5,527	5,948	5,319	6,023	7,014	7,697	8,902	6,329	6,229	6,229	6,229	6,229	6,229
Net domestic assets	64,097	63,862	67,603	70,329	73,051	68,549	70,518	75,964	77,038	85,628	89,420	92,245	95,929
Domestic credit	89,719	89,549	91,976	92,923	99,407	95,522	98,617	106,214	105,821	113,031	118,523	123,048	128,432
Claims on government (net)[2]	34,169	33,312	32,501	28,557	32,338	28,380	30,038	39,992	36,099	37,099	38,731	39,981	42,080
Claims on nongovernment	55,550	56,236	59,475	64,366	67,069	67,142	68,579	66,222	69,722	75,932	79,791	83,067	86,352
Public enterprises	27,468	25,763	27,467	27,974	28,815	29,417	29,562	33,738	32,331	34,431	35,855	37,160	39,531
Private sector	28,082	30,474	32,007	36,392	38,254	37,725	39,017	32,484	37,391	41,501	43,936	45,907	46,821
Other items (net)	-25,622	-25,687	-24,373	-22,594	-26,356	-26,973	-28,099	-30,250	-28,783	-27,403	-29,103	-30,803	-32,503
Broad money	83,765	83,744	87,134	91,104	92,637	92,918	95,710	98,099	98,841	105,402	110,370	114,697	120,581
Money	44,367	43,088	43,817	45,833	46,733	46,564	47,959	51,756	50,314	53,218	55,623	57,909	60,457
Currency outside banks	21,477	19,695	18,547	21,756	22,511	22,070	23,068	24,831	23,577	24,467	25,460	26,621	27,331
Demand deposits	22,890	23,393	25,270	24,078	24,222	24,495	24,891	26,925	26,737	28,752	30,164	31,288	33,126
Quasi money	39,398	40,656	43,317	45,271	45,904	46,354	47,751	46,343	48,527	52,184	54,747	56,787	60,124
Savings deposits	35,588	37,378	39,815	41,774	42,500	42,904	44,283	41,862	44,675	48,041	50,401	52,280	55,351
Time deposits	3,810	3,278	3,502	3,497	3,404	3,450	3,468	4,482	3,852	4,142	4,346	4,508	4,773
Central bank													
Net foreign assets	14,141	13,934	14,213	14,752	12,572	16,672	16,290	15,806	15,574	13,545	14,722	16,223	18,423
Foreign assets	17,839	17,895	22,262	23,446	23,069	27,471	27,286	20,040	26,483	24,455	26,483	27,985	30,185
Foreign liabilities	3,697	3,961	8,050	8,693	10,497	10,799	10,996	4,234	10,909	10,909	11,761	11,761	11,761
Net domestic assets	30,905	31,779	32,682	31,432	34,156	30,424	34,059	37,984	34,870	36,250	36,350	36,450	37,531
Domestic credit	34,716	35,599	36,953	35,825	38,536	35,444	38,953	41,680	38,386	38,886	39,386	39,886	41,367
Government (net)	34,716	35,599	36,953	35,825	38,536	35,444	38,953	41,680	38,386	38,886	39,386	39,886	41,367
Of which: sterilization										-500	-1,000	-2,000	-2,000
Other items (net)	-3,811	-3,820	-4,271	-4,393	-4,380	-5,020	-4,894	-3,696	-3,516	-2,636	-3,036	-3,436	-3,836
Reserve money	42,805	45,713	46,894	46,184	46,727	47,096	50,349	49,409	50,444	49,795	51,072	52,673	55,954
Currency outside banks	21,477	19,695	18,547	21,756	22,511	22,070	23,068	24,831	23,577	24,467	25,460	26,621	27,331
Commercial bank reserves	21,328	26,018	28,347	24,429	24,217	25,027	27,281	24,578	26,867	25,329	25,612	26,052	28,623
Cash in vault	…	4,272	4,226	3,907	4,346	4,497	4,210	…	6,380	6,412	6,445	6,478	6,510
Reserve deposit	…	21,746	24,121	20,521	19,870	20,530	23,071	…	20,488	18,916	19,167	19,575	22,113
	(Annual percentage change, unless otherwise indicated)												
Net foreign assets	62.0	66.2	91.2	106.5	37.9	46.5	71.6	12.5	9.7	1.2	0.8	-10.9	13.1
Net domestic assets	11.1	10.3	10.5	6.8	17.0	10.7	7.1	18.5	20.6	26.7	27.1	30.8	24.5
Domestic credit	11.1	10.9	9.4	8.9	19.4	14.4	15.6	18.4	18.2	22.9	27.5	24.8	21.4
Claims on government (net)	0.0	-2.5	-6.8	-10.6	10.6	0.7	2.3	17.0	8.4	14.1	35.6	33.1	16.6
Claims on nongovernment	19.2	20.7	20.9	20.6	24.1	21.4	22.6	19.2	24.0	27.7	24.0	21.1	23.9
Public enterprises	26.8	34.4	23.1	11.4	14.7	15.8	15.6	22.8	25.5	25.4	28.2	25.7	22.3
Private sector	12.6	11.1	19.0	28.7	32.3	26.3	28.5	15.7	22.7	29.7	20.7	17.7	25.2
Broad money	19.9	19.9	22.1	20.1	20.8	18.2	18.9	17.1	18.0	21.0	21.1	19.8	22.0
Money	20.5	17.1	18.7	13.6	14.8	11.1	12.0	16.7	16.8	21.5	21.4	20.8	20.2
Quasi money	19.2	23.0	25.6	27.4	27.6	26.5	26.6	17.6	19.4	20.5	20.9	18.9	23.9
Memorandum items:													
Reserve money	21.9	29.9	31.1	16.0	19.8	14.4	21.8	15.6	10.3	6.2	10.6	4.5	10.9
Excess reserves plus cash in vault (millions of birr)	…	13,302	14,890	11,746	10,481	10,681	13,449	…	14,145	10,883	10,570	10,536	13,203
in percent of deposits	…	19.2	19.2	14.9	13.4	13.5	15.6	…	17.6	12.6	11.7	11.8	13.5
Money multiplier (broad money/reserve money)	1.96	1.83	1.86	1.97	1.98	1.97	1.90	1.99	1.96	2.12	2.16	2.18	2.15
Velocity (GDP/broad money)	4.22	4.01	…	…	…	…	…	4.11	3.85	…	…	…	3.68
Gross official foreign reserves (US$ millions)	1,523	1,524	1,719	1,798	1,733	2,057	1,967	1,850	1,901	1,751	2,051	2,012	2,175
Net foreign assets of NBE (US$ millions)	1,250	1,231	1,134	1,167	945	1,249	1,216	1,220	1,152	1,002	1,089	1,200	1,362
Birr per US dollar (end of period)	11.315	11.315	12.536	12.640	13.310	13.353	13.401	12.984	…	…	…	…	…
Currency-deposit ratio	…	0.307	0.270	0.314	0.321	0.312	0.318	…	0.313	0.302	0.300	0.302	0.293
Nominal GDP (billions of birr)	353,400	336,106	…	…	…	…	…	403,200	380,080	…	…	…	444,033

Sources: National Bank of Ethiopia; and IMF staff estimates and projections.

1. Year ending July 7. Including commercial bank claims and liabilities to Eritrea.

2. Claims on general government (federal and regional governments and other public agencies) by the banking system less deposits of the general government with the banking system.

Table 4. Ethiopia: Balance of Payments Projections, 2008/09–2014/15

(Millions of U.S. dollars, unless otherwise indicated)[1]

	2008/09	2009/10		2010/11	2011/12	2012/13	2013/14	2014/15
	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-1,620	-3,099	-2,397	-2,985	-2,590	-2,320	-2,120	-2,160
(Percent of GDP)	-5.0	-9.3	-7.7	-9.2	-7.5	-6.3	-5.3	-5.0
(Percent of GDP, excluding official transfers)	-9.9	-13.9	-12.9	-14.3	-12.6	-11.5	-10.4	-10.0
Trade balance	-6,279	-7,015	-7,022	-7,879	-8,085	-8,722	-9,449	-10,471
Exports of goods	1,448	1,616	1,685	1,872	2,120	2,400	2,697	3,005
Imports of goods	7,727	8,631	8,707	9,751	10,204	11,121	12,147	13,476
Services (net)	419	373	424	611	968	1,510	2,157	2,808
Exports	1,934	1,982	1,850	2,256	2,785	3,464	4,291	5,139
Imports	1,514	1,608	1,426	1,645	1,817	1,954	2,134	2,331
Income (net)	-42	-212	-109	-110	-166	-194	-231	-238
Of which: gross official interest payments	-31	-220	-86	-106	-198	-269	-318	-341
Private transfers (net)	2,707	2,225	2,696	2,751	2,933	3,169	3,377	3,599
Official transfers (net)	1,574	1,529	1,614	1,642	1,760	1,916	2,026	2,142
Capital account balance	2,275	3,069	2,932	3,197	2,722	2,547	2,479	2,566
Foreign direct investment (net)	880	705	1,056	1,133	1,208	1,327	1,419	1,522
Other investment (net)[2]	1,395	2,364	1,696	2,064	1,514	1,220	1,060	1,044
Official long-term loans	1,533	2,364	1,469	2,064	1,514	1,220	1,060	1,044
Disbursements	1,581	2,441	1,554	2,235	1,741	1,562	1,552	1,643
Amortization	49	77	85	171	226	342	491	599
Monetary Authority (SDR allocation)	…	…	180	…	…	…	…	…
Errors and omissions	-277	0	-299	0	0	0	0	0
Overall balance	377	-30	236	212	132	226	359	406
Financing	-377	30	-236	-212	-132	-226	-359	-406
Central bank (net; increase –)	-430	30	-301	-212	-132	-226	-359	-406
Reserves (increase –)	-617	…	-377	-275	-132	-226	-359	-406
Liabilities (increase +)	188	…	76	63	0	0	0	0
Commercial banks (net; increase –)	52	0	65	0	0	0	0	0
Memorandum items:								
Exports of goods (percent change)	-1.0	11.8	16.4	11.1	13.2	13.2	12.4	11.4
Export volume index (percent change)	-1.2	12.3	3.1	8.4	11.2	11.2	10.4	9.4
Imports of goods (percent change)	13.4	11.8	12.7	12.0	4.6	9.0	9.2	10.9
Import volume index (percent change)	20.5	16.2	14.1	7.9	2.7	7.8	7.2	8.9
Services exports (percent change)	21.0	…	-4.3	22.0	23.4	24.4	23.9	19.8
Services imports (percent change)	2.9	…	-5.8	15.4	10.5	7.5	9.2	9.2
Gross official reserves	1,524	1,850	1,901	2,176	2,309	2,535	2,894	3,300
(Months of following year imports of goods and services)	1.8	2.1	2.1	2.3	2.2	2.2	2.3	2.4
External debt (in percent of GDP)	14.1	19.5	19.0	24.1	27.2	28.6	29.3	29.6
PV of public sector debt to exports (in percent)	86.7	136.7	119.1	132.7	129.0	118.5	105.7	95.1
Terms of trade index, percent change	7.8	4.1	14.9	-1.4	0.1	0.8	0.0	0.0

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

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

2 For 2008/09 and 2009/10, other investment (net) includes correction for the timing difference between entry of ETC imports and corresponding loan disbursements.

Table 5. Ethiopia: Staff's Baseline Medium-Term Projections

(Percent of GDP, unless otherwise noted)

(Baseline Scenario)	2008/09	2009/10 Proj.	2010/11 Proj.	2011/12 Proj.	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.
GDP growth (annual change)	9.9	7.0	7.7	7.5	7.5	7.7	7.7
Consumer price (annual change)	36.4	3.8	9.3	6.5	6.0	6.0	6.0
Broad money (annual change)	19.9	18.0	22.0	20.9	19.9	19.9	19.9
Private sector credit (annual change)	11.1	22.7	25.2	21.8	21.0	22.7	24.7
Fiscal balance (including grant)	-0.9	-2.1	-3.4	-2.7	-2.2	-2.2	-2.3
Total revenue (including grant)	16.3	17.6	16.8	17.6	18.0	18.2	18.4
Domestic revenue	12.0	14.1	13.4	13.7	13.8	14.0	14.2
External grant	4.3	3.5	3.4	3.9	4.1	4.2	4.2
Total expenditure	17.2	19.7	20.2	20.3	20.2	20.4	20.5
Financing	0.9	2.1	3.4	2.7	2.2	2.2	2.3
External financing	0.9	1.2	1.8	1.4	1.0	1.1	1.2
Domestic financing	-0.1	0.7	1.6	1.3	1.2	1.1	1.1
Current account balance (including grant)	-5.0	-7.7	-9.2	-7.5	-6.2	-5.3	-5.3
Gross international reserves (month of imports)	1.8	2.1	2.3	2.2	2.2	2.3	2.4
Domestic debt	22.0	21.5	19.8	18.1	16.4	14.9	13.7
External debt	13.5	18.1	23.9	26.8	28.4	29.0	29.3

(Reform Scenario)	2008/09	2009/10 Proj.	2010/11 Proj.	2011/12 Proj.	2012/13 Proj.	2013/14 Proj.	2014/15 Proj.
GDP growth (annual change)	9.9	7.0	7.7	8.0	8.5	8.7	8.7
Consumer price (annual change)	36.4	3.8	9.8	7.5	6.0	4.6	4.4
Broad money (annual change)	19.9	18.0	22.5	23.0	23.0	23.0	23.0
Private sector credit (annual change)	11.1	22.7	26.5	21.1	20.9	25.1	23.1
Fiscal balance (including grant)	-0.9	-2.1	-3.4	-2.7	-2.3	-2.3	-2.4
Total revenue (including grant)	16.3	17.6	16.8	17.7	18.3	18.6	18.8
Domestic revenue	12.0	14.1	13.4	13.7	13.9	14.1	14.3
External grant	4.3	3.4	3.4	4.0	4.4	4.6	4.5
Total expenditure	17.2	19.7	20.1	20.4	20.6	20.9	21.2
Financing	0.9	2.1	3.4	2.7	2.3	2.3	2.4
External financing	0.9	1.2	1.7	1.4	1.1	1.2	1.3
Domestic financing	-0.1	0.7	1.5	1.3	1.2	1.1	1.1
Current account balance (including grant)	-5.0	-7.7	-9.5	-7.1	-5.8	-5.2	-4.0
Gross international reserves (month of imports)	1.8	2.1	2.3	2.4	2.6	2.7	3.0
Domestic debt	22.0	21.5	19.5	17.5	15.8	14.4	13.3
External debt	13.5	18.3	24.9	29.4	31.9	32.7	33.2

Table 6. Ethiopia: Financial Soundness Indicators for the Banking Sector, 2005–09

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
	(In percent unless otherwise indicated)				
Capital adequacy					
Capital to risk-weighted assets	10.77	11.27	20.00	15.88	18.29
Capital to total loans and advance	14.59	14.48	25.71	22.75	23.02
Asset quality					
NPLs to total loans and advance	19.35	13.02	10.34	6.33	5.66
NPLs net of provision in total capital	50.21	32.21	11.57	8.22	7.74
Total provision to NPLs	62.15	64.20	71.23	70.45	68.54
Total provision to total loans and advance	13.67	9.12	7.95	4.67	4.04
Earning and profitability					
Average assets (millions of birr)	50,325	58,350	69,391	84,810	103,356
Return on average assets	2.14	2.88	2.68	3.17	3.41
Average capital (millions of birr)	2,507	3,124	5,323	8,262	9,630
Return on average capital	42.98	53.78	34.98	32.50	36.58
Liquidity					
Liquid assets to total deposits	61.89	53.53	52.45	36.85	38.22
Liquid assets to total assets	47.19	42.39	40.85	29.15	29.88
Total loans to total deposits	51.24	51.82	49.17	53.43	51.39

Source: National Bank of Ethiopia.

Table 7. Ethiopia: Millennium Development Goals[1]

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%)	…	72	75	80
Employment to population ratio, ages 15-24, total (%)	…	66	70	74
GDP per person employed (annual % growth)	…	…	…	…
Income share held by lowest 20%	…	*7.2*	9.2	*9.3*
Malnutrition prevalence, weight for age (% of children under 5)	…	…	42	34.6
Poverty gap at $1.25 a day (PPP) (%)	…	*21*	16	*10*
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	…	*61*	56	*39*
Prevalence of undernourishment (% of population)	…	…	…	*44*
Vulnerable employment, total (% of total employment)	…	…	91	52
Goal 2: Achieve universal primary education				
Literacy rate, youth female (% of females ages 15-24)	…	28	…	…
Literacy rate, youth male (% of males ages 15-24)	…	39	…	…
Persistence to last grade of primary, total (% of cohort)	…	…	*61*	*40*
Primary completion rate, total (% of relevant age group)	…	14	23	48
Total enrollment, primary (% net)	…	…	41	76
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	…	…	2	22
Ratio of female to male enrollments in tertiary education	…	…	28	35
Ratio of female to male primary enrollment	65	59	65	88
Ratio of female to male secondary enrollment	…	…	67	67
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	…	…	40.9	47.3
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	38	38	52	65
Mortality rate, infant (per 1,000 live births)	124	108	91	72
Mortality rate, under-5 (per 1,000)	210	180	148	113
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	…	…	109	105
Births attended by skilled health staff (% of total)	…	…	*6*	*6*
Contraceptive prevalence (% of women ages 15-49)	4	…	8	*15*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	…	…	8	*720*
Pregnant women receiving prenatal care (%)	…	…	27	28
Unmet need for contraception (% of married women ages 15-49)	…	…	35	34
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	…	…	3	10
Condom use, population ages 15-24, female (% of females ages 15-24)	…	…	1	2
Condom use, population ages 15-24, male (% of males ages 15-24)	…	…	20	18
Incidence of tuberculosis (per 100,000 people)	159	229	331	378
Prevalence of HIV, female (% ages 15-24)	…	…	…	1.5
Prevalence of HIV, male (% ages 15-24)	…	…	…	1
Prevalence of HIV, total (% of population ages 15-49)	0.7	2.4	2.4	2.1
Tuberculosis cases detected under DOTS (%)	…	…	…	…
Goal 7: Ensure environmental sustainability				
CO2 emissions (kg per PPP $ of GDP)	0.2	0.1	0.2	*0.1*
CO2 emissions (metric tons per capita)	0.1	0	0.1	*0.1*
Forest area (% of land area)	…	14	14	13
Improved sanitation facilities (% of population with access)	4	5	7	*11*
Improved water source (% of population with access)	13	20	29	*42*
Marine protected areas, (% of surface area)	…	…	…	…
Nationally protected areas (% of total land area)	…	…	…	…
Goal 8: Develop a global partnership for development				
Aid per capita (current US$)	…	…	…	…
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	38	18	15	3
Internet users (per 100 people)	0	0	0	0.4
Mobile cellular subscriptions (per 100 people)	0	0	0	2
Telephone lines (per 100 people)	0	0	0	1
Other				
Fertility rate, total (births per woman)	7.1	6.8	6.2	5.4
GNI per capita, Atlas method (current US$)	240	150	130	220
GNI, Atlas method (current US$) (billions)	11.5	8.3	8.4	17.5
Gross capital formation (% of GDP)	12.9	18.0	20.3	23.5
Life expectancy at birth, total (years)	47	49	51	55
Literacy rate, adult total (% of people ages 15 and above)	…	27	…	…
Population, total (millions)	48.3	57	65.5	78.6
Trade (% of GDP)	14.4	25.4	36	44.8

Source: World Development Indicators database

[1] Figures in italics refer to periods other than those specified.

Table 8. Ethiopia: Indicators of Capacity to Repay the Fund, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	3.3	21.4	21.4	21.4	21.4	18.1	0.0
Charges and interest	0.2	0.3	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Fund obligations based on prospective credit 1/											
(in millions of SDRs)											
Principal	0.0	0.0	0.0	0.0	0.0	4.0	16.0	16.0	16.0	16.0	12.0
Charges and interest	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.2	0.3	0.8	0.8	4.1	26.1	38.1	38.0	37.9	34.5	12.4
In millions of U.S. dollars	0.4	0.5	1.2	1.2	6.5	41.4	60.3	60.1	60.0	54.5	19.5
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.1	0.5	0.7	0.6	0.5	0.4	0.1
In percent of quota	0.2	0.2	0.6	0.6	3.1	19.6	28.5	28.4	28.3	25.8	9.2
In percent of gross international reserves	0.0	0.0	0.1	0.0	0.2	1.3	1.7	1.6	1.5	1.3	0.4
In percent of total external debt service	0.1	0.1	0.2	0.2	0.8	4.5	6.4	6.4	6.3	5.6	2.0
Outstanding Fund credit 1/											
In millions of SDRs	187.2	187.2	187.2	187.2	183.8	158.4	121.0	83.6	46.1	12.0	0.0
In millions of U.S. dollars	296.2	296.2	296.2	296.2	290.9	250.7	191.5	132.2	73.0	19.0	0.0
In percent of exports of goods and services	8.4	7.2	6.0	5.1	4.2	3.1	2.1	1.3	0.6	0.1	0.0
In percent of quota	140.0	140.0	140.0	140.0	137.5	118.5	90.5	62.5	34.5	9.0	0.0
In percent of gross international reserves	15.6	13.6	12.8	11.7	10.1	7.6	5.4	3.5	1.8	0.5	0.0
In percent of total external debt stock	5.3	3.8	3.2	2.8	2.5	2.0	1.4	1.0	0.5	0.1	0.0
Memorandum items											
Exports of goods and services (millions of U.S. dollar) 2/	3,535	4,128	4,905	5,863	6,988	8,144	9,187	10,369	11,710	13,231	14,988
Quota (millions of SDRs)	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7	133.7
Gross international reserves (millions of U.S. dollar) 1/ 2/	1,901	2,176	2,309	2,535	2,894	3,300	3,528	3,744	3,991	4,219	4,610

Source: IMF staff projections.

1/ Assuming three semi-annual disbursements starting in September 2009, with access of 55, 30, and 30 percent of quota, respectively.
2/ Data pertain to the period July 1 to June 30.

Table 9. Ethiopia: Reviews and Disbursements Under the 14-Month ESF Arrangement
(In millions of SDR)

Date	Action	Associated disbursements
On or after June 4, 2010	Completion of the first ESF review	40.11
On or after October 15, 2010	Completion of the second ESF review	40.11

Source: IMF staff projections.

APPENDIX I
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
LETTER OF INTENT

April 28, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund

Dear Mr. Strauss-Kahn:

1. **The attached Memorandum of Economic and Financial Policies (MEFP) describes Ethiopia's performance in the first half of 2009/10, policies for the remainder of 2009/10 and 2010/11**. The government of Ethiopia has implemented the policies contained in the economic and financial program supported by the 14-month arrangement under the High-Access Component of the Exogenous Shock Facility (HAC-ESF), approved by the IMF Executive Board on August 26, 2009.

2. **We request completion of the first review of the HAC-ESF arrangement and disbursement of the second tranche of the arrangement equivalent to SDR 40.11 million (30 percent of quota)**. All the quantitative performance criteria at end-December 2009 were observed. The structural benchmarks were implemented.

3. **We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but we will** take additional measures as needed to reach these goals. We will consult with IMF staff on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the agreed IMF policies on such consultation.

4. The Government of Ethiopia authorizes the IMF to publish the contents of this letter, and the attached MEFP and TMU, on its website after consideration of our request by the Executive Board.

Sincerely yours,

/s/	/s/
Sufian Ahmed	Teklewold Atnafu
Minister	Governor
The Ministry of Finance and Economic Development	The National Bank of Ethiopia

Attachments:
I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Appendix I
Attachment I

The Federal Democratic Republic of Ethiopia
Memorandum of Economic and Financial Policies for 2010

April 28, 2010

I. Introduction

1. This memorandum:

   a. Reviews macroeconomic and financial performance under the program through end-December 2009.

   b. Updates the MEFP of August 7, 2009, detailing our policy commitments through October 2010.

   c. Describes macroeconomic and financial policies for the remainder of 2009/10 and 2010/11.

II. Economic Developments Under the Program Through end-2009

2. **The key objective of our economic and financial program for 2009/10—to make further progress on macroeconomic stability in the face of the difficult external environment—has been met**. Macroeconomic conditions continued to improve while broad-based growth momentum has been maintained. Overall CPI inflation decelerated to 7.1 percent (end-period) at end-2009, but non-food inflation remains close to 19 percent. Thanks to strong external assistance (including the SDR allocation and ESF disbursement), and weak import growth, international reserves rose to 2.2 months of import cover. All quantitative targets set for end-December 2009 were met, with margins (Table 1). The structural measures covered by benchmarks were implemented (Table 2).

3. **Fiscal performance was well within program objectives**. Overall general government revenue rose strongly and expenditure was well below target in the first half of the fiscal year, resulting in a repayment of domestic financing of Br 4.3 billion against an adjusted program borrowing limit of Br 2.3 billion. The good revenue performance reflected the impact of strong economic growth, administrative efforts, and the lagged effect of inflation. Net external financing and grants were moderately below projections.

4. **Monetary policy was broadly consistent with the program objectives**. Reserve money growth was limited to 1 percent in the second half of 2009, against a program target of 1.9 percent on account of lower credit extension to government by the NBE and higher government deposits in the banking system. On an annual basis, reserve money growth declined markedly to 16 percent from about 30 percent at July 7, 2009. As a result, excess liquidity in the banking system was significantly reduced. Interest rates remain negative in real terms, although significantly improved. Broad money growth continued at about 20 percent. Bank credit to the private sector grew 29 percent over the year on the room created by the government repayment, but was constrained, on an exceptional basis, by credit ceilings imposed by the NBE in early 2009, consistent with the intension of curbing inflationary pressures.

5. **Following a nominal depreciation of the Birr by about 10 percent in early July 2009, the currency was gradually depreciated further by about 1.5 percent through end-December**. A further depreciation of 5 percent was effected in early 2010. These steps were aimed at maintaining external competiveness. Since the beginning of 2009/10, there has not been any contracting or guaranteeing of non concessional loans. No external payment arrears have been incurred during the period.

6. **Our structural reform agenda is being implemented as agreed**. A tax reform strategy was adopted in January 2010—following technical assistance by the IMF, that aims at raising revenue performance over the medium-term. A high level joint committee of the NBE and the Ministry of Finance and Economic Development (MoFED) staff has been monitoring borrowing by the public enterprises from the domestic banking system. A liquidity forecasting manual was prepared by the NBE, and initial liquidity forecasts have been prepared, but active liquidity management has not yet been made operational.

III. Macroeconomic Policies for the Remainder of 2009/10 and 2010/11

7. **We remain committed to implementing the policies and meeting the quantitative and structural reform objectives described in our previous MEFP**. We are aiming at real GDP growth of about 10 percent in 2009/10–10/11, but maintain the conservative assumption for the purpose of the program of 7.0 percent in 2009/10 rising to 7.7 percent in 2010/11. We aim to keep inflation in the single digits. The external current account deficit is expected to widen on account of a sizable increase in capital goods imports associated with new aircraft purchases and large hydro power investments. The gross official reserves coverage target at end-June 2010 is 2.1 months of imports rising to 2.3 months by end 2010/11.

8. **The macroeconomic priority for the remainder of 2009/10 and 2010/11 is to contain inflation**. This will require limited domestic financing of the budget, consistent with the intention to contain reserve money growth, while rebuilding of official external reserves. This effort also requires move towards positive real interest rates. The vigorous implementation of tax reforms aims to raise the fiscal revenue effort in order to reduce domestic financing of the budget. Sustained levels of concessional external financial assistance remain critical to our development needs.

Fiscal policy for the remained of 2009/10

9. **The stronger revenue performance will be mostly saved so that domestic financing for the year will be about 2.8 billion birr (0.7 percent of GDP as against an original program target of 5.8 billion birr i.e., less than one-half the original program target)**. The overall deficit, including grants, is projected at 8.8 billion birr (2.3 percent of GDP). We have begun implementing the tax reform strategy, which will raise tax revenue to 10.5 percent of GDP. We will maintain our careful prioritization of public expenditures, protecting poverty-reducing spending and strategic capital projects. The tax reform includes the reduction of exemptions, the consolidation of revenue administrations, a review and costing of investment incentives, and a standardization of some rates.

The 2010/11 Budget

10. **The 2010/11 budget aims at maintaining a prudent fiscal stance, while continuing our strong investment in physical and social infrastructure**. In support of our efforts to contain inflation, domestic financing is targeted at 7.0 billion birr (1.6 percent of GDP), of which at most 5 billion birr would be taken from the NBE, 1 billion birr from commercial banks and the remaining 1 billion from non-bank sources. This level of government financing would allow for adequate private sector credit. The tax reform measures are expected to raise general government tax revenue to 11.0 percent of GDP. This is a somewhat cautious revenue forecast, recognizing the uncertainties on the exact impact of the reform effort. In this light, we intend to save the bulk of any domestic revenues or external financial support over and above the budget projections. Expenditure growth will be contained at 18 percent with recurrent expenditure maintained at 9.2 percent of GDP and capital expenditure rising to 11.2 percent of GDP. The overall deficit, excluding grants, is targeted at 7.0 percent of GDP.

Action	**Timing**
• Prepare for the introduction of PBB in 2011/12	2010/11
Tax reform	
• Transfer the collection of some taxes from Addis Ababa City to ERCA	September 2010
• Complete study to move to a standard single tax rate on investment income (excluding interest income).	July 2010

Public sector

11. **We will continue to monitor closely the domestic borrowing of the public enterprises and agencies**. An inter agency committee is now monitoring enterprise borrowing on a monthly basis. The limit on the aggregate domestic financing of public enterprises and agencies is maintained at 6.5 billion birr (1.6 percent of GDP) in 2009/10. For 2010/11, the indicative limit is set at 7.2 billion birr or 1.6 percent of GDP. We believe this target is consistent with overall credit and money growth that allows for sufficient credit expansion to the private sector and avoids a build-up of excess demand pressures on the economy. Domestic

fuel prices have been adjusted monthly since October 2008 with prices set somewhat higher than import costs to enable the Oil Stabilization Fund to repay its accumulated debt to the banking system.

Monetary policy

12. **The monetary policy objective is to reduce inflationary pressures further, while allowing sufficient credit to the economy**. To support this objective, we will start to raise interest rates on treasury bills beginning in July 2010, consistent with an objective of achieving positive interest rates in real terms. Monetary policy aims to absorb the persistent excess liquidity in the system, with the objective of abolishing the exceptional bank-by-bank credit ceilings in 2010. The timing of the removal of the credit ceilings and the profile of monetary policy in 2010/11 will be determined at the time of the second program review mission. Reserve money growth will be contained at 10.3 percent at July 7, 2010, and at 10–12 percent during 2010/11. This will require active liquidity management by the NBE starting in June 2010, using available instruments. Broad money is projected to grow by 18 percent at July 7, 2010, and by 22.0 percent in 2010/11, on continued strong deposit growth and credit demand from the private sector. We will also strengthen our oversight of the financial system.

Action	Timing
• Start to exercise indirect liquidity management	June 2010

Exchange rate and external policy

13. **The government is committed to adjusting the nominal exchange rate in order to preserve external competitiveness and to continue to gradually rebuild official external reserves**. For 2010/11, a further rebuilding of net external reserves of US$212 million to 2.3 months of imports is targeted. Recent exchange rate adjustments have brought Ethiopia's real effective exchange rate close to the level broadly consistent with external equilibrium. We have not introduced, nor will we introduce, any new, or intensify any existing, exchange restrictions.

14. **Avoiding an unsustainable accumulation of public external debt is a key objective of the government economic policy**. The government is committed to maintaining effective oversight over the evolution of public sector external debt, including that incurred by the public enterprises. While conventional debt sustainability analysis provides a broadly reassuring assessment of Ethiopia's debt burden, we will continue to keep debt levels under close review and we will make every effort to ensure that new borrowing are contracted on non-concessional terms and that large foreign-financed projects are subject to rigorous economic appraisals before being approved.

IV. NATIONAL STATISTICS

15. **We are committed to improving the quality of macroeconomic statistics, in particular the compilation methodologies and institutional arrangements for the national accounts**. We will adopt an action plan to strengthen national accounts statistics by August 2010 and are seeking additional technical support from the IMF Statistics department and other relevant external statistical agencies.

V. PROGRAM MONITORING AND SAFEGUARDS

16. **The updated quantitative performance criteria and benchmarks for the remainder of 2010 are set out in Table 1**, and are defined in the attached technical memorandum of understanding. The structural benchmarks are set out in Table 2. Government officials will meet regularly with the IMF's resident representative to review the progress made in the implementation of the program. The second and final program review will be completed by October 2010 and be based on economic performance through July 7, 2010. It will focus on progress in implementing the structural benchmarks in Table 2.

17. **The 2001 safeguards assessment was updated in December 2009** and identified some issues relating to the oversight of the external and internal audit functions. In response, the NBE has established a functional Audit Committee and set up an independent review of monetary data submitted for program monitoring purposes by the NBE's internal auditors.

Table I.1. Ethiopia. Quantitative Performance Criteria and Benchmarks 1/

(In millions of birr, unless otherwise indicated)

	2008/09		2009/10										2010/11
	July 7		September			December			March		July 7		September
	Est. (as of Aug. 09)	Act.	QB	Adjusted QB	Act.	PC	Adjusted PC	Act.	QB		PC		QB
									Prog.	Act.	Prog.	Rev. prog	
A. Quantitative performance criteria (PCs) and quantitative benchmarks (QBs)													
Net foreign assets of the National bank of Ethiopia (floor) 2/ (In millions of U.S. dollar)	576	564	-260	-228	-111	-350	-377	-111	-278	-13	-80	-80	-150
Net domestic assets of the National Bank of Ethiopia (ceiling) 3/	4,939	2,992	3,420	3,021	2,439	4,784	5,122	1,722	6,214	4,783	6,945	**5,945**	1,380
Net domestic financing of the general government (ceiling) 3/	0	-417	2,496	2,097	-899	1,983	2,321	-4,340	2,895	-2,700	5,823	**3,000**	1,000
Net credit to public enterprises (ceiling)	7,500	6,364	1,806	1,806	1,060	3,338	3,338	1,805	5,258	2,940	6,270	**6,570**	2,100
New non-concessional external debt contracted or guaranteed by the public sector (ceiling) 4/ (In millions of U.S. dollar)	n.a.	654	500	500	0	500	500	0	500	0	500	500	500
Outstanding external payments arrears (ceiling) 5/	n.a.	0	0	0	0	0	0	0	0	0	0	0	0
B. Adjusters to quantitative performance criteria													
Disbursed non-project external assistance (In millions of U.S. dollar)	728	697	0	32	32	250	223	223	350	412	670	**659**	0
C. Quantitative benchmarks													
Reserve money (ceiling)	7,608	10,515	478	478	1,182	824	824	472	3,069	4,637	6,604	**4,800**	-649
Federal government revenue collection (floor)	32,154	31,923	8,774	8,774	9,716	20,105	20,105	22,606	29,840	31,090	39,711	**44,000**	10,900

1/ Cumulative flow from the start of Ethiopia's fiscal year (July 8).
2/ Adjusted upward/downward for 100 percent of any non-project external assistance that exceeds/falls short of programmed amounts, subject to specified caps.
3/ Adjusted upward/downward for 100 percent of any non-project external assistance that falls short of/exceeds programmed amounts, subject to specified caps.
4/ Excluding the Ethiopian Airlines.
5/ This shall be a continuous performance criterion.

Table I.2. Ethiopia: Structural Benchmarks

Measure	Date	Status
Ensuring close monitoring of public enterprises		
• The public enterprise monitoring committee to receive annual financing and investment plans from all key public enterprises (ETC, EEPCo, Housing Agencies, etc.).	September 2009	Met. The Committee has focused on enforcing domestic bank borrowing limits. Focus being extended to non-bank borrowing.
• Report progress in compliance with borrowing targets to the Minister of Finance and Economic Development on a monthly basis.	Continuous	Met.
Establishing a liquidity control framework		
• Establish a high level joint committee, comprised of NBE and MoFED staff, to exchange information on liquidity needs on a weekly basis.	September 15, 2009	Done.
• Develop a formal liquidity forecasting framework in manual form and prepare fortnightly forecasts of liquidity needs for use in setting auction volumes.	January 2010	Met. Manual produced and initial forecasts made.
• Implement liquidity control framework	June 2010	
Tax reforms		
• The Minister of Finance and Economic Development to approve a tax reform strategy with a time-bound action plan covering both tax policies and administration.	January 2010	Met. Strategy approved February 2010 with action plan being implemented.
• Transfer the collection of some taxes from Addis Ababa City to ERCA	September 2010	
National Accounts Statistics		
Adopt action plan to strengthen national accounts statistics	August 2010	

APPENDIX I
ATTACHMENT II
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
TECHNICAL MEMORANDUM OF UNDERSTANDING

Washington, D.C., April 28, 2010

I. INTRODUCTION

1. This memorandum sets out the understandings between the Ethiopian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria and indicative targets, for the program supported by the high-access component of the Exogenous Shocks Facility (ESF), as well as the mechanisms to monitor the program and related reporting requirements. To monitor the evolution of the economy during the program period, the Ethiopian authorities will provide the data listed in each section below to the African Department of the IMF, in accordance with the indicated timing (summarized in Section IV.C.). The financial criteria will be monitored on the basis of the methodological classification of monetary and financial data that exists as of July 7, 2009.

2. For program purposes, the public sector consists of the general government (comprising the federal and regional governments) and public enterprises.

3. For program purposes, public enterprises refer to those entities under the term of "public enterprises" in the monetary survey provided by the National Bank of Ethiopia (NBE).

4. The quantitative targets for end-December 2009 and July 7, 2010 constitute performance criteria, and those at end-September, 2009 and end-March 2010 are quantitative benchmarks.

5. The program exchange rate of the Ethiopian birr to the U.S. dollar is set according to a quarterly projection path for end March 2009/10 through end-December 2010/11 (Table 2). The corresponding cross exchange rates and program gold price for the duration of the program are provided in Table 1, which are the prevailing rates as of March 19, 2010.

Table 1. Program Exchange Rate Assumptions

Currency	US$/currency
SDR	1.5284
Euro	1.3548
British pound	1.5146
Canadian dollar	0.9914
Gold ($/ounce)	1,107.30

Table 2. Quarterly Assumptions for Birr/US dollar

	Birr/US$
2010 March	13.39
June	13.53
September	13.76
December	14.04

II. Quantitative Performance Criteria and Benchmarks: Definitions and Reporting Standards

A. Floor for Net Foreign Assets (NFA) of the NBE

6. **Definition**. The NFA of the NBE are defined as the difference between gross foreign reserve assets and all foreign reserve liabilities of the NBE, including debts to the IMF and other long- and short-term liabilities of the NBE to nonresidents. For purposes of the program, foreign reserve assets shall be defined as monetary gold, holdings of SDRs, the reserve position in the IMF, and NBE holdings of foreign exchange in convertible currencies. Any such assets shall only be included as foreign reserve assets if they are under the effective control of, and readily available to, the NBE. For the program purposes, part of the NBE's customary gross foreign reserve assets such as, capital participation in IFIs (e.g., *Afrix-import-export, IDA, IFC, ADB and IBRD)* and securities in other international institutions, any assets in nonconvertible currencies, commodity gold and holdings of other precious metals other than monetary gold, encumbered foreign reserve assets, and foreign reserve assets pledged as collateral for loans and derivative contracts will be excluded from NFA calculation. Foreign reserve liabilities include any foreign currency denominated short-term loans or deposit (with a maturity of up to and including one year); NBE liabilities to residents and nonresidents associated with swaps (including any portion of the NBE gold that is collateralized) and forward contracts; IMF purchases; and loans contracted by the NBE from international capital markets, banks or other financial institutions located abroad, and foreign governments, irrespective of their maturity. Foreign reserve liabilities also include foreign-currency-denominated domestic liabilities of the NBE. For calculating the criteria, foreign reserve assets and liabilities shall be valued at the exchange rates shown in Table 1. It is understood that the SDR allocation that was disbursed at end-August 2009/10 has no impact on the NFA of the NBE.

7. **Reporting**. Data on gross foreign reserve assets and foreign reserve liabilities of the NBE by major currencies of denomination (such as US$, Euro, GBP, Can$, SDR) will be transmitted to the African Department of the IMF on a monthly basis within 30 days of the end of each month. The NBE will also report the breakdown between liquid and unencumbered gross foreign reserve assets and those foreign reserve assets that are pledged, swapped, or encumbered.

B. Ceiling on Net Domestic Assets (NDA) of the NBE

8. **Definition**. The NDA of the NBE are defined to include net credit to the government, credit to enterprises and individuals, claims on banks, and other items net (see the monetary survey), but exclude foreign currency valuation adjustments. NDA is computed as the difference between reserve money and the program definition of NFA. The foreign currency valuation adjustment is estimated in Birr as the difference between the

NFA of NBE when computed using fixed program exchange rates (Table 1) and the prevailing exchange rate.

9. **Reporting**. The monthly balance sheets of the NBE will be transmitted to the African Department of the IMF within six weeks of the end of each month.

C. Limit on the Net Domestic Financing of the General Government

10. **Definition**. The net domestic financing of the general government is defined as the sum of (i) the change in the net stock of claims of domestic banks and non-banks on the general government and (ii) any pending overdue bills. Net domestic bank claims consist of NBE and domestic commercial bank claims on the general government, including treasury bills and other general government liabilities, net of general government deposits with the NBE and domestic commercial banks. Non-bank claims comprise treasury bills, bonds, and other general government paper placed with non-bank institutions or with the public. For calculating the criteria, the bonds issued by regional housing agencies for condominium projects shall be excluded.

11. **Reporting**. Data on domestic financing (bank and non-bank) of the general government (including treasury bills and government bonds held by the nonbank public) will be transmitted on a monthly basis, within six weeks of the end of each month, except for the data on regional governments, which will be furnished within twelve weeks after the end of each quarter. Reporting on domestic and external arrears (i.e., overdue bills) will be monthly, within six weeks of the end of each month.

D. Ceiling on Net Domestic Credit to Public Enterprises

12. **Definition**. The net domestic credit to public enterprises is defined as the change in the net stock of domestic bank and non-bank claims on public enterprises. Net bank claims on public enterprises consist of NBE and domestic commercial bank claims, including those of Development Bank of Ethiopia (DBE), on public enterprises, including loans, bonds, and other liabilities, net of public enterprise deposits with domestic commercial banks (demand, saving and fixed deposits). Nonbank claims comprise loans, bonds, and other debt papers placed with nonbank institutions or with the public. For calculating the criteria, the bonds issued by regional housing agencies for condominium projects, and the loans extended by the DBE to public enterprises shall be included. Changes in local investment shares by Commercial Bank of Ethiopia (CBE), Construction and Business Bank (CBB), and DBE in nonbank public enterprises shall also be included.

13. **Reporting**. Data on credit (bank and nonbank) to public enterprises (with reference to ETC, EEPCo, ESL, Oil Stabilization Fund, and housing agencies) and the loan and investment outstanding of DBE by sector will be transmitted on a monthly basis, within six weeks of the end of each month.

E. Ceiling on External Payment Arrears

14. **Definition**. External payment arrears are defined as debt service obligations incurred directly or guaranteed by the public sector to non-residents that have not been paid at the time they are falling due, as specified in contractual agreements, except on debt subject to rescheduling or restructuring. The program requires that no new external arrears be accumulated at any time under the arrangement.

15. **Reporting**. The accounting of nonreschedulable external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis within four weeks of the end of each month. This accounting would include, separately, arrears owed by the federal government and other public sector entities; and arrears owed to Paris Club creditors and non-Paris Club creditors. Data on the arrears that creditors have agreed to reschedule shall be provided separately.

F. Ceiling on Nonconcessional External Debt

16. **Definition**. External debt limits apply to the contracting or guaranteeing by the public sector of new nonconcessional borrowing with nonresidents. External debt includes debt as defined in Executive Board Decision No. 12274, point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)). Excluded from this limit are short-term import credits and long-term financing operations of Ethiopian Airlines.[7] Also excluded from this performance criterion are credits extended by the IMF and government counter guarantees on project loans from both the World Bank and AfDB.

17. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[8] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for

[7] Ethiopian Airlines (EAL) debt is excluded from the non-concessional debt limit, because, although owned by the government, it is run on commercial terms. It has managerial independence, it borrows externally without a government guarantee, it publishes annual audited reports and makes sizeable profits (6 percent net profit margin)

[8] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract is signed (public sector debt contract), or guarantee issued by government for private sector debt contract.

18. **Reporting**. A loan-by-loan accounting of all new concessional and nonconcessional loans contracted or guaranteed by the public sector, including detailed information on the amounts, currencies, and terms and conditions, as well as relevant supporting materials, will be transmitted on a monthly basis within four weeks of the end of each month.

G. Ceiling on Reserve Money (quantitative benchmark)

19. **Definition**. Reserve money is defined as the sum of currency issued by the NBE (including the vault cash of commercial banks and currency outside banking system) and balances of commercial banks on accounts with the NBE. Calculation of reserve money for program purposes will be based on the NBE's balance sheet report for reserve deposits of commercial banks.

20. **Reporting**. The monthly balance sheets of the NBE will be transmitted within six weeks of the end of each month.

H. Floor on Federal Government Revenue Collection (quantitative benchmark)

21. **Definition**. Federal government revenue is defined as the sum of all tax revenue and non-tax revenue collected by the federal government.

22. **Reporting**. Data on federal government revenue collection will be transmitted on a quarterly basis, within six weeks of the end of each quarter.

III. ADJUSTERS

I. Excess in Disbursed External Non-Project Financial Assistance

23. In case of an excess in external non-project (PBS plus EU road disbursements) financing beyond the programmed amounts shown in Table 3 for the period January−December 2010,

Table 3. Non-Project External Financing, 2009/10-2010/11
(Cumulative quarterly flows in each fiscal year, in millions of US$)

2009/10		2010/11	
Jan.-Mar. 2010	Apr.-July 7, 2010	July 7-Sep. 2010	Oct.-Dec. 2010
383.7	659.3	150	300

- The floor on net foreign assets of the NBE will be adjusted upward by 100 percent of the disbursed non-project external financing in excess of the programmed amounts (comprising non project related loans and grants) at the end of each quarter, valued at the exchange rates set out in Table 1.
- The ceiling on net domestic assets of the NBE will be adjusted downward by the amount of disbursed external financing in excess of the programmed amounts (comprising non project related loans and grants) at the end of each quarter, converted into birr at the exchange rates set out in Table 1 and 2.
- The ceiling on domestic financing of the general government will be adjusted downward by the amount of external financing disbursed to the budget in excess of the programmed amounts (comprising non project related loans and grants) at the end of each quarter, converted into birr at the exchange rates set out in Table 1 and 2.

J. Shortfall in Disbursed External Non-Project Financial Assistance

24. In case of a shortfall in external non-project financing below the programmed amounts, shown in Table 3 for the period January−December 2010,

- The floor on the NFA of the NBE will be adjusted downward by 100 percent of the amount of the shortfall below the programmed amount.
- The ceiling on the NDA of the NBE will be adjusted upward by 100 percent of the amount of the shortfall below the programmed amount.
- The ceiling on general government net domestic financing will be adjusted upward by 100 percent of the amount of the shortfall below the programmed amount.

IV. Other Reporting Requirements for Program Monitoring

K. Public Enterprise Monitoring Committee

25. The public enterprise monitoring committee, composed of senior officials from the Ministry of Finance and Economic Development (MoFED), the NBE, and other relevant agencies, shall meet monthly and be responsible for monitoring public enterprises financing activities and recommending policy responses, if necessary. The committee shall provide the IMF with an update report on a monthly basis within six weeks of the end of each month.

L. Liquidity Control Framework

26. The following steps will be taken, according to the dates in Table 2 annexed to the MEFP:

- NBE shall exercise the forecasts prepared by the liquidity forecasting unit under the economic modeling and policy analysis directorate.

- The liquidity forecasting unit, in collaboration with the liquidity management committee composed of NBE and MoFED representatives, shall prepare weekly liquidity forecasts, taking into account (i) calendar effects and ad hoc factors of significant size (e.g., one-off capital spending or donor disbursements), (ii) weekly information on government cash flow projections (revenues, expenditures, financing, and donor aid) provided by the Treasury Department of the MoFED, and (iii) short- and medium-term projections for net foreign assets.

- The liquidity forecasting unit shall assess forecasting errors and keep improving the quality of the forecasts.

- The NBE will devise a target path that takes into account the seasonality of money demand.

- The liquidity forecast manual will be further enhanced to describe how the weekly and monthly forecasts are linked to the annual monetary program and how the latter is broken down to quarterly and monthly targets.

M. Transferring Tax Collection from the City of Addis Ababa to ERCA

27. The direct and VAT collections will be transferred from the City of Addis Ababa to ERCA. The process of the transfer, as laid out in 2.3.1 of the Annex of the Action Plan for the Medium Term Strategy in Tax Policy and Revenue Administration, will be completed, according to the dates in Table 2 annexed to the MEFP.

N. Reviewing All Investment Incentives

28. The authorities will conduct a study on the investment incentives and its appropriate utilization, according to the dates in Table 2 annexed to the MEFP, as laid out in 1.1.3 of the Annex of the Action Plan for the Medium Term Strategy in Tax Policy and Revenue Administration.

O. Action Plan to Strengthen National Account

29. The authorities will adopt an action plan to strengthen national account statistics, based on the technical assistance report prepared by the IMF Statistics Department, according to the dates in Table 2 annexed to the MEFP.

P. Developments on Structural Performance Criteria and Benchmarks

30. The authorities will notify the African Department of the IMF of developments on structural benchmarks as soon as they occur. The authorities will provide the documentation, according to the dates in Table 2 annexed to the MEFP, elaborating on policy implementation.

Data Reporting

Information	Provider	Periodicity and due date
Gross international reserves and foreign liabilities of the National Bank of Ethiopia (NBE) Breakdown between liquid and unencumbered reserves and reserves that are pledged, swapped or encumbered	NBE	Monthly within thirty days of the end of each month
Net domestic assets of the NBE	NBE	Monthly within six weeks of the end of each month
Reserve Money	NBE	Monthly within six weeks of the end of each month
Net domestic financing of the general government Regional government's fiscal data	Ministry of Finance and Economic Development (MOFED)	Monthly within six weeks of the end of each month Quarterly within twelve weeks of the end of each month
Domestic Arrears	MOFED	Monthly within six weeks of the end of each month
External Arrears	MOFED	Monthly within four weeks of the end of each month
Domestic credit to public enterprises	NBE/MOFED	Monthly within six weeks of the end of each month
Federal Government Revenue	MOFED	Monthly within six weeks of the end of each month
Central Bank Foreign exchange cashflow	NBE	Monthly within six weeks of the end of each month
New Nonconcessional External Debt contracted or guaranteed by the government	MOFED	Quarterly within four weeks
Non-project financial assistance	MOFED/NBE	Quarterly within thirty days
Public enterprise monitoring committee report	NBE	Monthly within six weeks
Consumer Price Index	NBE	Monthly within four weeks
National Accounts	MOFED	Within three weeks of any revision
Consolidated Budget Report of Federal and Regional Government	MOFED	Quarterly within twelve weeks
Monetary Survey	NBE	Monthly within six weeks
T-Bill auction details	NBE	Monthly within two weeks
Interbank exchange rate	NBE	Weekly within five business days
BoP data: Exports, imports, services, private transfers and capital account transactions	NBE	Quarterly within eight weeks
Volume and prices of fuel imports	NBE	Monthly within four weeks
Coffee exports	NBE	Monthly within four weeks

INTERNATIONAL MONETARY FUND

Executive Board Decision No. 6230-(79/140) (Guidelines on Performance Criteria with Respect to Foreign Debt) adopted August 3, 1979, as amended by Executive Board Decision No. 11096-(95/100) adopted October 25, 1995, and as amended on August 24, 2000
Point No. 9

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. However, arrears arising from the failure to make payment at the time of delivery of assets or services are not debt.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Joint IMF/World Bank Debt Sustainability Analysis 2010

Prepared by the staffs of the International Monetary Fund and
the International Development Association

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Based on the joint World Bank-IMF debt sustainability framework for low-income countries, Ethiopia's debt distress rating has fallen to low risk. The introduction of gross workers' remittances as a source of enhanced repayment capacity and the resilience of the Ethiopian economy to the global economic crisis have contributed to this improvement. Notwithstanding this development, the debt ratio continues to rise and liquidity risks are prevalent, underscoring the need to closely monitor borrowing of the largest public enterprises, develop an integrated debt strategy for the entire public sector, and invigorate structural reforms to attract foreign direct investment (FDI) and stimulate growth of exports.

I. Background and Key Findings

1. **The last Debt Sustainability Analysis (DSA) undertaken in July 2009 concluded that Ethiopia was at moderate risk of debt distress**.[1] Ethiopia reached its Heavily Indebted Poor Country Initiative completion point in 2004 and benefited from debt relief under the Multilateral Debt Relief Initiative in 2006. Subsequently, due to higher borrowing by public enterprises, the external public and publicly guaranteed (PPG) debt ratio rose to 14 percent of GDP at end 2008/09.[2,3] Ethiopia's current level of external PPG debt is largely concessional and is held equally between multilateral and bilateral

[1] IMF Country Report No. 09/96.

[2] The Ethiopian fiscal year runs from July 8 to July 7.

[3] While Ethiopia has received debt relief from most of its creditors, it has not been able to reach agreement with Algeria, Bulgaria, India, Italy, Czechoslovakia and FR Yugoslavia, which account for over 4.4 percent of the debt stock in 2008/09. Agreements regarding Russian debts (US$161.2 million) are at an advanced stage of negotiation and, thus, excluded from this DSA. However, progress has stalled on arrears (US$240.4 million) with Libya and therefore HIPC terms are assumed.

creditors, with the share of non-Paris Club creditors (mostly from China and India) quite prominent at almost 40 percent of total debt. The share of commercial creditors is very small.[4]

2. **The current DSA differs from earlier DSAs for Ethiopia in that it explicitly takes account of gross workers' remittances and this lowers Ethiopia's debt distress risk from moderate to low**. Although the rapid rise in the financing of the public enterprises is projected to raise the present value (PV) of debt to exports to 133 percent in 2010/11, close to the original threshold, the peak is considerably below the adjusted threshold when the PV of debt is expressed in terms of exports and workers' remittances.[5] The threshold for the PV of debt to exports and workers' remittances is marginally breached under three stress tests (for export growth, non-debt creating flows, and a combination of shocks) but the breach is just for two years at most. As a result the risk classification of Ethiopia switches from moderate to low. The threshold based on the PV of debt-to-exports ratio is also breached under three stress tests, but these breaches are reversed within 10 years which is one of the conditions required for using remittance flows in the debt sustainability assessment.[6]

3. Relative to last year's projections, the peak in the profile of the PV of debt is lower by about 6 percentage points, mainly because of slightly lower borrowing and interest costs. The profile of debt service is lower than last year's projections because large borrowings of the telecom company were found to have a two year grace period for interest (Table 1).

II. Macroeconomic Assumptions

4. **The macroeconomic framework over the medium term is comparable to the one presented in the last DSA (Box 1)**. While the export growth in goods is weaker, growth in service exports is expected to be stronger on account of increased export of electricity and higher investment by the national airline, with the net effect having minimal impact on the external current account. Given that both private and official external flows held up well during the recent global crisis, FDI and official transfers are projected to be up slightly compared to recent years.

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[4] Ethiopian Airlines (EAL) debt is excluded from general government debt, because, although owned by the government, it is run on commercial terms. It has managerial independence, it borrows externally without a government guarantee, publishes annual audited reports, and makes sizeable profits (6 percent net profit margin).

[5] Based on the Country Policy and Institutional Assessment (CPIA) score, Ethiopia is classified as a medium performer. The thresholds for the debt burden for medium performers are 150, 40 and 250 for the PV of debt to exports, GDP and revenue respectively; debt service thresholds are 20 and 30 percent of exports and revenue, respectively. In the scenarios that include workers' remittances, the thresholds have been revised downward by 10 percent so that the corresponding threshold for PV of debt to exports and remittances is 135 percent and is 18 percent for debt service to exports and remittances and the PV of debt to GDP and remittances is 36 percent.

[6] Remittances are recorded through official and unofficial channels (the latter component is estimated using banking system flows).Remittances can be used explicitly in the DSA analysis as they are large and stable source of income for Ethiopia and the breaches under the analysis excluding remittances are not protracted (SM/10/16).

III. External Debt Sustainability Analysis

A. Baseline without Remittances

5. **Under the baseline scenario, public and publicly guaranteed external debt will rise over the next few years, but will remain below the various thresholds**. In particular, the PV of debt to exports is projected to rise by about 32 percentage points to 119 percent in 2009/10 and to rise further next year to peak at 133 percent. Part of this increase is associated with the reduction in the discount rate from 5 percent to 4 percent in this DSA. The PV of debt-to-GDP ratio has a similar hump-shaped profile to the debt-to-export ratio, although peaks slightly later in 2012/13 at about 18¾ percent of GDP. The debt service ratio remains below the threshold of 20 percent of exports, but is projected to rise rapidly over the next few years as a large fraction of public enterprises borrowing in recent years has been on non-concessional terms. Over the next few years, the public external debt ratio is projected to peak at about 23½ percent of GDP in 2014/15 with a change in composition since the large public enterprise investments are mainly sourced from bilateral creditors (China, France, Italy, and India).

6. **Under the historical scenario, the debt burden indicators are lower than under the baseline scenario in the short term but rise above those of the baseline scenario over time**. The PV of debt to exports peaks at the value of 119 percent in 2009/10 before dipping considerably during the forecast period. The profile of the PV of debt to GDP ratio is quite different, falling initially but then growing over time to reach almost 27 percent of GDP by 2029/30. The reason for the different profile in the baseline is that the projected non-interest current account deficit is considerably lower than the historical average.

B. Sensitivity Tests

7. **Three stress tests breach the indicative threshold for the PV of debt to exports over the forecast horizon**. If export growth is slower than the historical average by 1 standard deviation, the debt ratio peaks at 233 percent in 2011/12. Also, if the net non-debt creating flows (FDI and current transfers) are lower than the historical average by one standard deviation, the PV of debt to export ratio peaks at 197 percent in 2011/12. The combination of various ½ standard deviation shocks also breaches the threshold. But because all three breaches are reversed within 10 years, Ethiopia meets the new guideline that allows the use of the remittance flows in the debt sustainability assessment.

Box 1. Ethiopia: Macroeconomic Assumptions for the Baseline Scenario

Real GDP growth is projected to fall to 7 percent in 2009/10, rising to 7¾ percent over the medium term and remain within the 7–8 percent range in the long-run. This assessment assumes continued good harvests supporting agriculture, increased activity in services and industry and strong growth dividend from the large infrastructure projects being built by the public enterprises. In terms of factors of production, the long-term growth rate is based on a contribution of 2 percent output growth from labor, 3 percent output growth from capital, and a total factor productivity increase corresponding to almost 3 percent output growth per annum. The TFP assumption is based on the recent historical experience. **The inflation rate** is projected to remain in single digit in response to cautious monetary policies combined with the assumption of moderate commodity price increases in the global market. Inflation rate in the long-run is assumed to be around 6 percent. **The fiscal deficit (including grants)** is projected to rise from 0.9 percent in 2008/09 to 2.1 percent of GDP in 2009/10 and stabilize at this level to facilitate priority spending. The fiscal anchor is an assumption of domestic financing of 1½ percent of GDP per annum.

The current account deficit (before official transfers) is projected to deteriorate to 13 percent of GDP in 2009/10 before improving to average out at 7 percent of GDP over the long term. The improvement is based on faster export than import growth (see below). **Exports of goods** are projected to rebound to 16 percent growth in 2009/10, in sync with the strong recovery in global trade and recovery from weakness in 2008/09. Over the medium term, exports maintain healthy levels, led by coffee, oil seeds, pulses, flowers, garments and leather products. Export prices are projected to weaken, growing at an annual rate of 1 percent, with volumes rising to 10 percent per annum. **Exports of services** are projected to grow at a faster rate (over 20 percent per annum) as the investments in the airline and electricity sectors begin to pay financial dividends in terms of export receipts The airline is projected to invest US$3–4 billion over the next few years and triple its revenue. In addition, once the Gibe III dam is operational, annual export receipts of US$400 million are projected from neighboring countries. **Imports of goods and services** have slowed down from 32 percent growth in 2007/08 to 12 percent in 2009/10 and projected to level off at an annual average rate of 10 percent once the impact of recent 40 percent plus devaluation takes hold.

In spite of the global slowdown, **workers' remittances** remain flat in dollar terms in 2009/10 and at about 8½ percent of GDP thereafter. Given the strong resilience of FDI during recent global economic crisis, **foreign direct investment** is projected to rise this year by over ½ percent to 3½ percent of GDP and further to 4 percent of GDP by 2012/13 through continued improvements in the investment climate[7].

Official transfers rise to 5¼ percent of GDP in 2009/10 and remain at this level. **Loan financing** on concessional terms is projected at 1¾ percent of GDP in 2009/10 with sizeable increases in 2010/11 and 2011/12, associated with increased concessional financing of hydro power. Subsequently, the concessional loan ratio reverts to historical levels. Loan financing for public enterprises at non-concessional rates is projected to average about 2 percent of GDP per annum over the next few years. In particular, the DSA includes the assumption that US$1 billion in new non-concessional financing will be contracted by end 2010/11 to finance the purchase of ships and the Gibe dam. Over the long term, non-concessional financing falls to ½ percent of GDP, and this contributes to a rising share of total borrowing needs so the grant element of new borrowing falls.

The **reserves** coverage remains at low levels for the next few years and then dips to almost 2 months of imports by 2018/19 on account of the large debt repayments during this period. After this payment hump, the reserve coverage gradually rises to 4 months of imports by 2029/30.

[7]For details regarding reforms to improve investment climate, see World Bank, Ethiopia: Investment Climate Report (2010).

Table 1. Comparison of Indicators of PPG External Debt: Baseline Scenario

	2008/09	2009/10	2010/11	2011/12	2012/13	2020/21	2025/26
			PV of debt to exports ratio				
2009DSA	84.4	136.8	139.0	131.6	118.8	51.1	37.9
2010DSA	86.7	119.1	132.7	129.0	118.5	53.2	35.5
			PV of debt to GDP ratio				
2009DSA	8.0	14.8	17.6	18.5	18.4	11.1	9.0
2010DSA	9.1	13.5	17.0	18.3	18.7	14.2	11.3
			PV of debt to revenue ratio				
2009DSA	60.0	105.1	122.3	123.5	121.4	73.8	59.7
2010DSA	65.4	93.1	122.5	122.4	124.0	94.9	75.4
			Debt service to exports ratio				
2009DSA	2.0	7.4	8.5	10.3	10.7	4.9	2.6
2010DSA	1.3	3.6	5.7	7.1	7.7	4.8	2.9

C. Baseline and Sensitivity Tests with Remittances

8. **Under the baseline scenario with remittances, public and publicly guaranteed external debt rises during the next few years, but remains considerably below the corresponding threshold**. The PV of debt to exports and remittances is projected to peak at 89 percent in 2011/12, compared to a threshold of 135 percent. The debt service ratio with respect to exports and remittances remains below the threshold of 18 percent of exports and remittances, but is projected to rise to about 6 percent over the next few years as a large fraction of new public enterprises borrowing is repaid.

9. **Three stress tests breach the indicative threshold for the PV of debt to exports and remittances over the forecast horizon**. These stress tests include export growth slower than the historical average by one standard deviation, net non-debt creating flows (FDI and current transfers) that are assumed lower than the historical average by one standard deviation and a combination of shocks. However, in all three cases the PV of debt to exports and workers' remittances only breaches the threshold for a maximum of two years (the scenario that combines various shocks).

10. **The debt profile is very sensitive to assumptions about export growth**. The baseline scenario for the export shock includes Ethiopia's drought experience in 2001/02. Since then, exports have grown persistently fast and no significant drought has reemerged. If we assume a structural break in export performance since 2001/02 and use a 7-year average for the historical export growth, a one standard deviation shock to the 7-year historical export growth rate over two years would raise export growth to 12 percent (relative to a negative growth rate in two consecutive years under the baseline stress test) and lower the PV of debt to exports and remittances to about 104 percent in

2011/12, safely below the threshold. However, even with this stronger export performance, the threshold is breached once under the combined stress test.

11. **In sum, Ethiopia's debt risk has been revised from a moderate to low risk ratin**g. Various reasons support this changes: (i) threshold breaches without using gross workers' remittances are not protracted (i.e., less than 10 years); (ii) all baseline and stress tests that include workers' remittances are well below the thresholds in all but one debt burden indicator, namely debt-to-exports plus remittances; (iii) threshold breaches under the latter only occur in three instances and for a maximum of two years; and (iv) the shocks are financed using a significant amount of non-concessional financing, which means that the debt trajectory after the stress represents an upper bound.

D. Fiscal Sustainability Analysis

12. **Under the baseline, public domestic debt in terms of GDP will continue to decline**. Despite significant borrowing by some of the largest public enterprises in 2009/10, domestic financing of the general government has been contained 0.7 percent of GDP.[8] Moreover, financing needs for some infrastructure developments (for example, electric power generation) by public enterprises have subsided. Consequently, public sector domestic debt is projected to decline to 21 percent of GDP by end 2009/10, down by about 1 percentage points from a year ago.

13. **With the increase in external debt, Ethiopia's public debt burden (including domestic debt) is expected to increase slightly, before trending down over the projected period**. The domestic debt profile is based on two assumptions: (i) domestic financing will be maintained at 1.0–1.5 percent of GDP per year, and (ii) annual T-bill yields will gradually increase to positive levels in real terms. While rising in the short-run, the PV of debt-to-GDP ratio is projected to peak at about 37 percent in 2010/11 and then gradually decline to 22 percent over the long term (Figure 2). The PV of debt to revenue ratio is projected to reach 195 percent by 2010/11 and then fall below 134 percent after 2021/22.

14. **Some stress tests show that the PV of debt to GDP will reach to a maximum of 57 percent of GDP during the projected period**. If the real GDP growth slows down by 1 standard deviation from historical average for two years, the PV of debt-to-GDP ratio would exceed 40 percent in the next few years before trending down during the projected period. A temporary shock to primary balances (historical average minus one standard deviation in 2011/12) would raise the debt ratio to 44 percent in 2011/12. Furthermore, with real GDP growth and primary deficits at historical levels, the debt-to-GDP ratio would increase gradually, exceeding 50 percent, over the projected period. The PV of debt-to-revenue ratio would follow a similar path. These results highlight the importance of maintaining the growth momentum while continuing with adjustment efforts to correct the macroeconomic imbalances.

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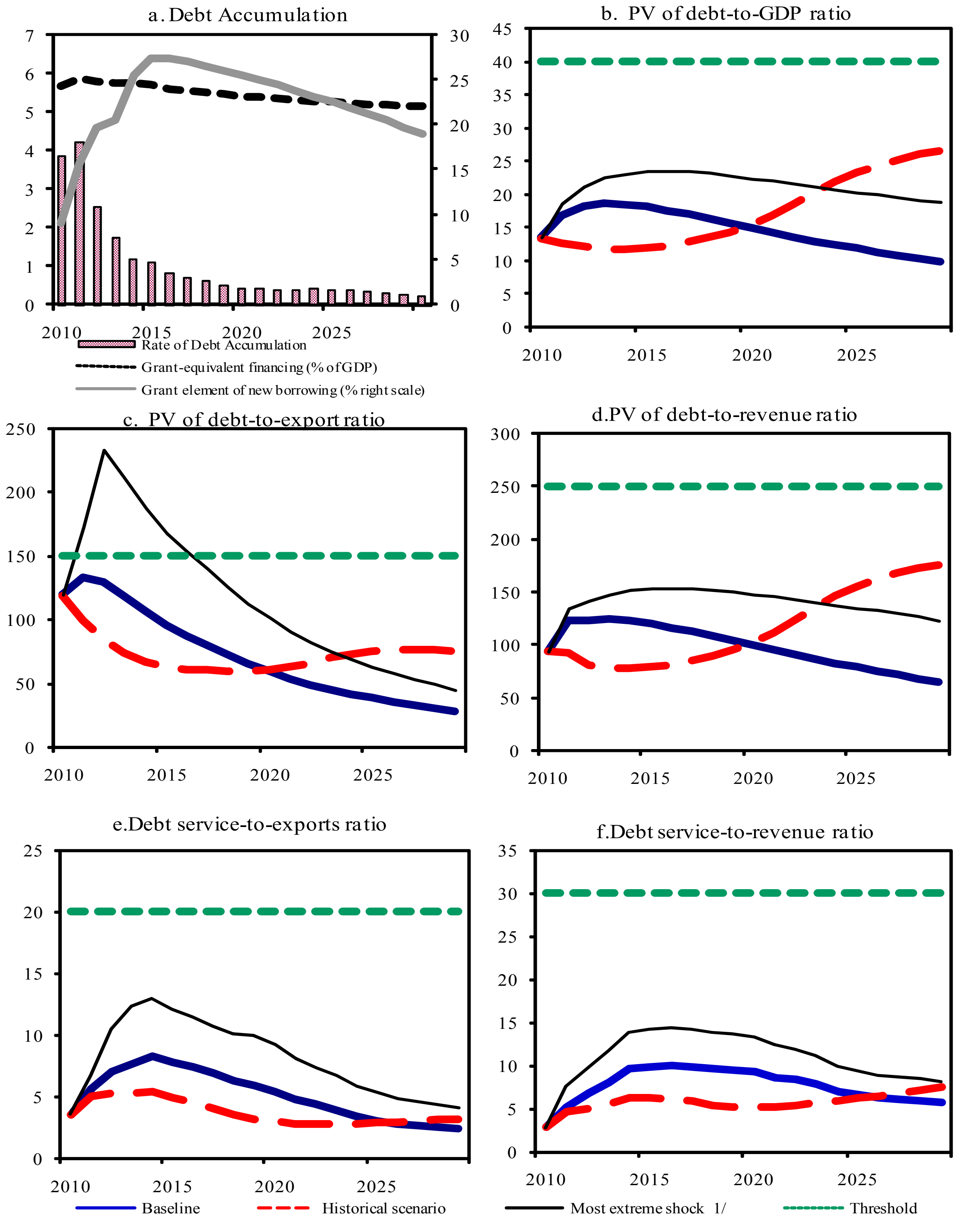
[8] With good revenue performance, domestic financing target for 2009/10 has been reduced by 50 percent from the amount envisaged under the original budget.

IV. CONCLUSION

15. **Ethiopia's debt distress level has been lowered to a low risk rating through the use of a new metric for debt sustainability that includes gross workers' remittances as an important source of debt service financing**. Using this metric, no stress test breaches the indicative threshold for the PV of debt to exports and workers' remittances over the forecast horizon for more than two years, compared to considerably longer stress test breaches for the standard analysis that excludes workers' remittances. Notwithstanding this fact, the debt ratio has risen rapidly in recent years and is projected to continue to do so, underlining the importance for Ethiopia to keep a close tab on debt vulnerabilities and make utmost efforts to secure grant and concessional financing for its ambitious public enterprise investment plans. Moreover, while solvency risks appear remote, liquidity risks remain prevalent as indicated by the low reserve coverage ratio over the next ten years. Going forward, continued emphasis should be placed on strengthening debt management capacity by closely monitoring the debts of the largest public enterprises, assessing potential contingent liabilities and undertaking some kind of a debt management and performance assessment exercise. Finally, the increase in FDI flows in the midst of the global slowdown is welcome and there is considerable scope to attract more FDI flows and increase export potential by undertaking structural reforms that will reduce liquidity risks going forward.

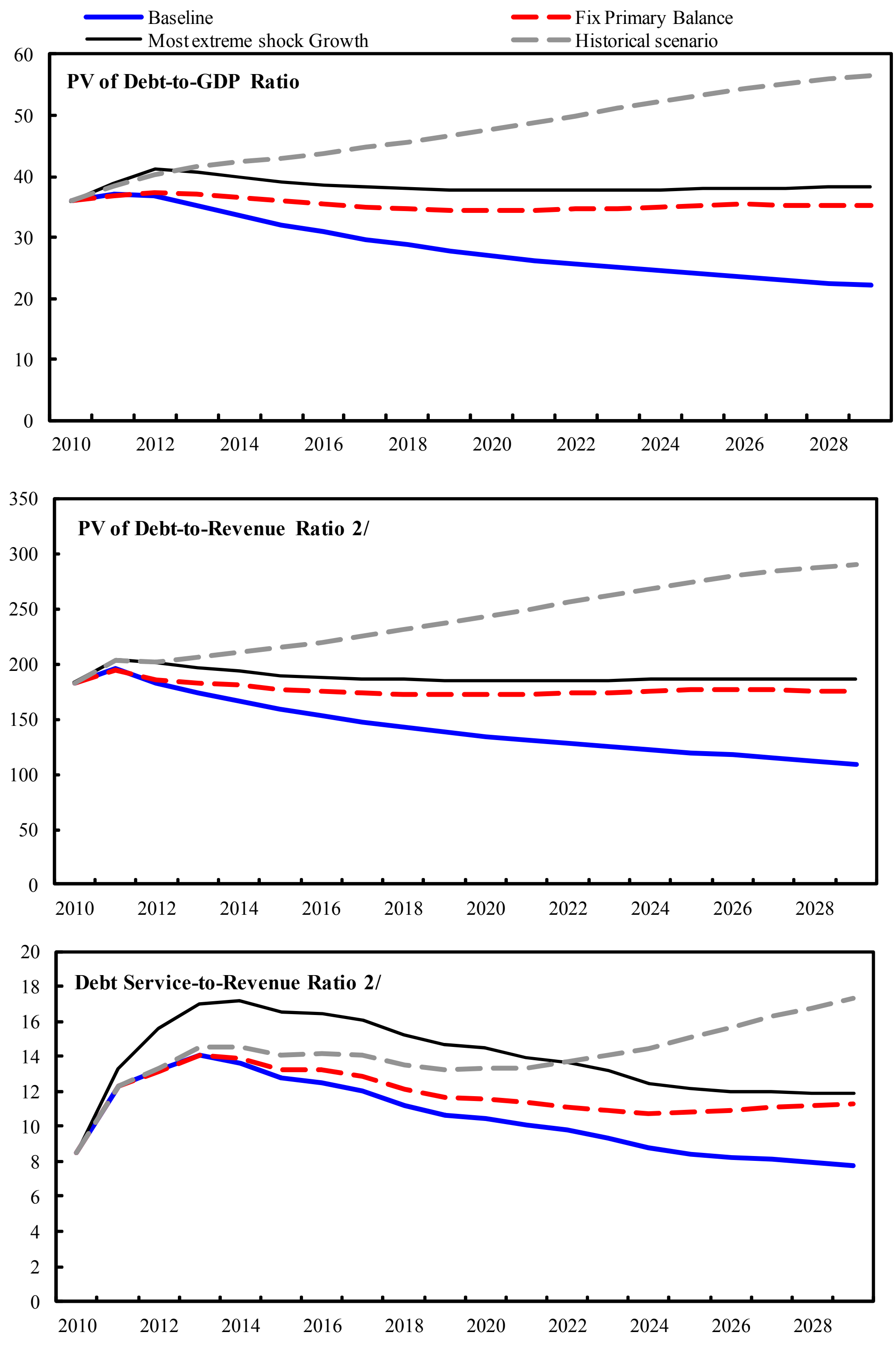
Figure 1. Ethiopia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



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

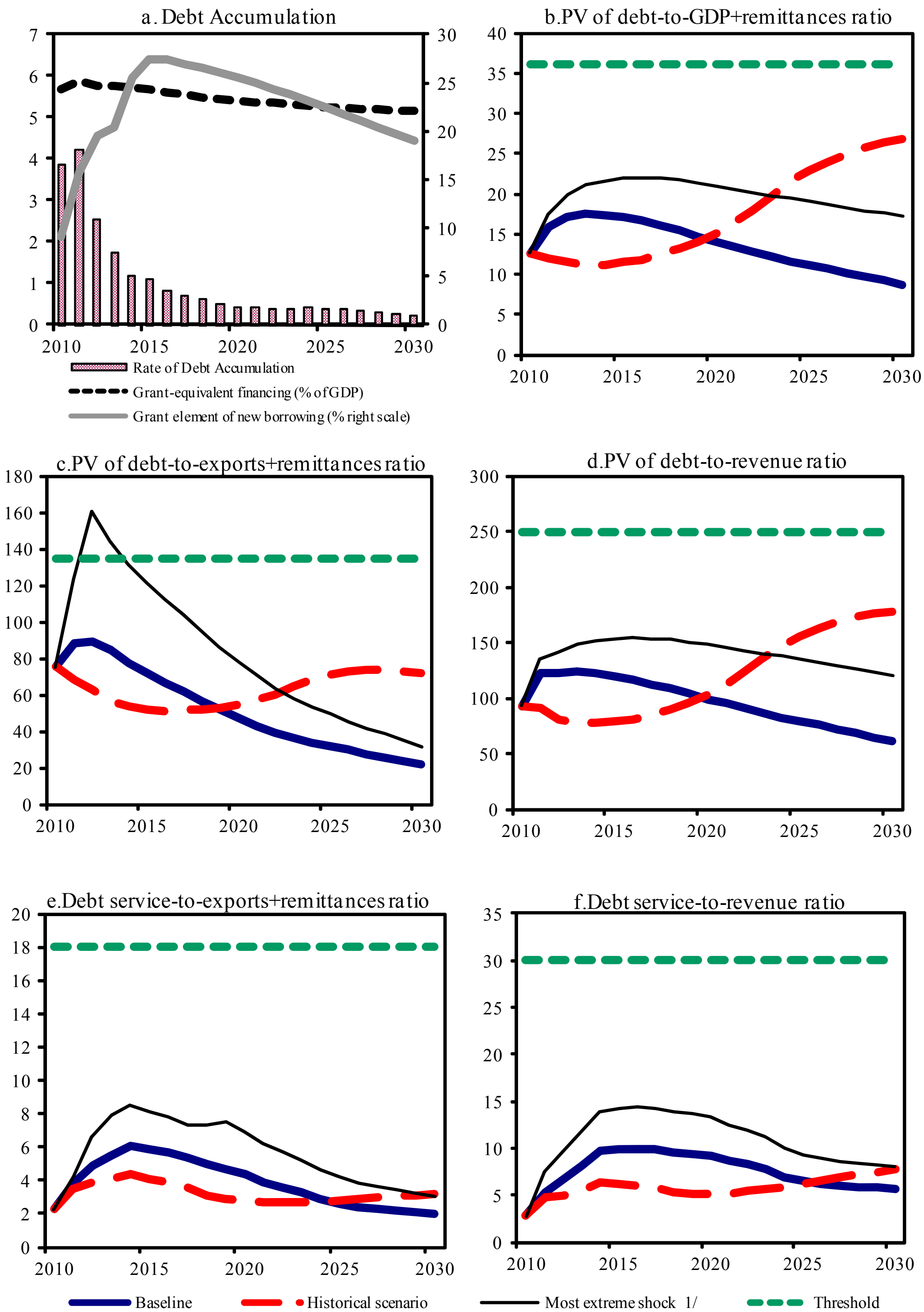
1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Terms shock; in c. to a Exports shock; in d. to a Terms shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.Ethiopia: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Ethiopian authorities; and IMF and World Bank staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

Figure 3. Ethiopia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Terms shock; in c. to a Combination shock; in d. to a Terms shock; in e. to a Combination shock and in figure f. to a One-time depreciation shock

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections									
												2010-2015			2016-2030
	2007	2008	2009			2010	2011	2012	2013	2014	2015	Average	2020	2030	Average
External debt (nominal) 1/	**12.1**	**11.7**	**14.1**			**19.0**	**24.1**	**27.2**	**28.6**	**29.3**	**29.6**		**23.0**	**12.7**	
o/w public and publicly guaranteed (PPG)	10.7	10.8	13.4			18.1	21.2	23.0	23.4	23.4	23.4		20.2	12.7	
Change in external debt	-29.6	-0.4	2.4			4.9	5.1	3.1	1.4	0.6	0.4		-1.6	-0.7	
Identified net debt-creating flows	-7.4	-0.7	0.2			3.2	4.2	2.2	1.1	0.1	-0.3		-2.6	-2.9	
Non-interest current account deficit	**4.3**	**5.5**	**4.9**	**3.8**	**3.1**	**7.4**	**8.7**	**6.8**	**5.7**	**4.8**	**4.5**		**2.1**	**1.8**	2.0
Deficit in balance of goods and services	19.3	19.6	18.1			21.3	22.4	20.8	19.7	18.6	17.9		14.4	12.2	
Exports	12.7	11.5	10.5			11.3	12.8	14.2	15.8	17.5	19.1		25.4	36.5	
Imports	32.1	31.0	28.6			32.6	35.2	35.0	35.5	36.0	37.0		39.8	48.7	
Net current transfers (negative = inflow)	-14.8	-13.9	-13.2	-12.5	2.2	-13.9	-13.6	-13.6	-13.8	-13.6	-13.4		-13.4	-13.4	-13.4
o/w official	-6.1	-4.9	-4.9			-5.2	-5.1	-5.1	-5.2	-5.1	-5.0		-5.0	-5.0	
Other current account flows (negative = net inflow)	-0.2	-0.2	0.0			0.0	-0.1	-0.4	-0.2	-0.1	0.0		1.2	3.0	
Net FDI (negative = inflow)	**-2.5**	**-3.1**	**-2.7**	**-2.0**	**0.6**	**-3.4**	**-3.5**	**-3.5**	**-3.5**	**-3.5**	**-3.5**		**-3.5**	**-4.0**	-3.8
Endogenous debt dynamics 2/	**-9.2**	**-3.1**	**-1.9**			**-0.7**	**-1.0**	**-1.1**	**-1.2**	**-1.2**	**-1.3**		**-1.2**	**-0.7**	
Contribution from nominal interest rate	0.2	0.1	0.1			0.3	0.4	0.6	0.8	0.8	0.8		0.6	0.3	
Contribution from real GDP growth	-3.8	-1.0	-1.0			-1.0	-1.4	-1.7	-1.9	-2.0	-2.1		-1.8	-1.0	
Contribution from price and exchange rate changes	-5.6	-2.2	-1.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-22.3**	**0.3**	**2.1**			**1.7**	**0.9**	**0.9**	**0.4**	**0.5**	**0.7**		**1.0**	**2.2**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	9.7			14.4	19.8	22.5	23.9	24.3	24.4		17.7	9.3	
In percent of exports	...	...	93.1			127.5	155.1	158.6	151.2	139.0	127.9		69.7	25.5	
PV of PPG external debt	**...**	**...**	**9.1**			**13.5**	**17.0**	**18.3**	**18.7**	**18.5**	**18.2**		**14.9**	**9.3**	
In percent of exports	**...**	**...**	**86.7**			**119.1**	**132.7**	**129.0**	**118.5**	**105.7**	**95.1**		**58.8**	**25.5**	
In percent of government revenues	**...**	**...**	**65.4**			**93.1**	**122.5**	**122.4**	**124.0**	**122.4**	**119.2**		**99.2**	**61.1**	
Debt service-to-exports ratio (in percent)	**3.6**	**2.9**	**2.4**			**4.9**	**6.7**	**8.7**	**10.5**	**11.6**	**11.5**		**8.1**	**2.3**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**1.3**	**1.3**			**3.6**	**5.7**	**7.1**	**7.7**	**8.3**	**7.8**		**5.5**	**2.3**	
PPG debt service-to-revenue ratio (in percent)	**1.3**	**1.1**	**1.0**			**2.8**	**5.2**	**6.7**	**8.1**	**9.6**	**9.8**		**9.3**	**5.6**	
Total gross financing need (Billions of U.S. dollars)	0.4	0.7	0.8			1.4	2.0	1.6	1.4	1.3	1.4		0.4	-1.8	
Non-interest current account deficit that stabilizes debt ratio	33.9	5.9	2.5			2.4	3.7	3.7	4.3	4.2	4.1		3.7	2.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	11.8	11.2	9.9	8.6	4.9	7.0	7.7	7.5	7.5	7.7	7.7	7.5	7.8	7.8	7.8
GDP deflator in US dollar terms (change in percent)	15.3	22.7	10.2	6.9	9.6	-10.3	-3.1	-0.8	-0.7	0.1	0.1	-2.4	0.0	-0.3	-0.1
Effective interest rate (percent) 5/	0.5	1.4	1.0	0.9	0.4	2.0	2.0	2.6	3.0	3.1	3.0	2.6	2.6	2.1	2.4
Growth of exports of G&S (US dollar terms, in percent)	18.2	22.9	10.5	15.0	15.3	3.7	17.9	18.3	19.2	19.2	17.7	16.0	13.5	11.3	12.5
Growth of imports of G&S (US dollar terms, in percent)	13.0	32.1	11.6	18.2	14.8	9.3	12.7	5.9	8.6	9.3	10.7	9.4	9.3	10.1	9.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	9.1	15.7	19.6	20.5	25.5	27.4	19.6	25.5	19.0	23.6
Government revenues (excluding grants, in percent of GDP)	12.0	12.9	13.9			14.5	13.8	14.9	15.1	15.1	15.2		15.1	15.2	15.1

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

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	13	17	18	18.7	18	18	**15**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	13	13	12	12	12	12	**15**	27
A2. New public sector loans on less favorable terms in 2010-2030 2	13	19	21	22	22.9	23.3	**22**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	13	18	20	20	20	19	**16**	10
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	13	19	24	24	23	23	**18**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	13	17	19	19	19	18	**15**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	13	22	28	28	27	27	**21**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	13	20	26	26	26	25	**20**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	13	25	26	27	27	26	**21**	13
PV of debt-to-exports ratio								
Baseline	119	133	129	119	106	95	**59**	26
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	119	99	86	74	67	63	**61**	74
A2. New public sector loans on less favorable terms in 2010-2030 2	119	146	149	142	131	122	**88**	50
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	119	133	129	118	105	95	**58**	25
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	119	173	233	211	187	168	**101**	40
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	119	133	129	118	105	95	**58**	25
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	119	171	197	177	157	140	**83**	32
B5. Combination of B1-B4 using one-half standard deviation shocks	119	181	234	211	187	167	**100**	38
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	119	133	129	118	105	95	**58**	25
PV of debt-to-revenue ratio								
Baseline	93	123	122	124	122	119	**99**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	93	92	81	78	78	79	**103**	178
A2. New public sector loans on less favorable terms in 2010-2030 2	93	135	141	148	152	153	**148**	120
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	93	127	132	133	131	128	**106**	65
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	93	135	158	158	155	150	**122**	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	93	122	124	125	124	120	**100**	61
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	93	158	187	186	181	175	**141**	76
B5. Combination of B1-B4 using one-half standard deviation shocks	93	147	174	173	169	164	**132**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	93	177	177	179	176	172	**142**	87

Table 1b.Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (concluded)
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports ratio								
Baseline	4	6	7	8	8	8	**5**	2
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2010-2030 2	4	6	6	6	6	7	**6**	4
A3. Alternative Scenario :[Costumize, enter title]	4	5	7	7	8	7	**4**	-1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	4	6	7	8	8	8	**5**	2
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	4	7	10	12	13	12	**9**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	4	6	7	8	8	8	**5**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	4	6	8	10	10	9	**7**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	4	6	10	12	12	11	**9**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	4	6	7	8	8	8	**5**	2
Debt service-to-revenue ratio								
Baseline	3	5	7	8	10	10	**9**	6
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2010-2030 2	3	5	6	7	7	9	**9**	8
A3. Alternative Scenario :[Costumize, enter title]	3	5	6	7	9	9	**6**	-2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	3	5	7	9	10	11	**10**	6
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	3	5	7	9	11	11	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	3	5	7	8	10	10	**9**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	3	5	8	10	12	12	**13**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	3	5	7	10	11	11	**12**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	3	8	10	12	14	14	**13**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	11	11	11	11	11	11	**11**	11

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

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline
level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Ethiopia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2025	2030	2016-30 Average
Public sector debt 1/	42.7	38.9	35.4			39.3	40.6	40.7	39.5	38.0	36.7		31.7	28.0	24.7	
o/w foreign-currency denominated	10.7	10.8	13.4			18.1	21.2	23.0	23.4	23.4	23.4		20.2	16.2	12.7	
Change in public sector debt	-27.8	-3.8	-3.5			4.0	1.3	0.0	-1.2	-1.5	-1.3		-0.9	-0.7	-0.6	
Identified debt-creating flows	-11.0	-6.1	-6.5			0.6	-1.8	-1.4	-2.1	-1.9	-1.6		-1.1	-1.0	-0.4	
Primary deficit	4.3	6.7	1.9	4.0	1.7	2.0	2.1	1.2	0.6	0.6	0.8	1.2	0.8	0.7	1.0	0.9
Revenue and grants	18.1	17.8	18.7			19.7	18.9	20.0	20.3	20.2	20.2		20.1	20.0	20.2	
of which: grants	6.1	4.9	4.9			5.2	5.1	5.1	5.2	5.1	5.0		5.0	5.0	5.0	
Primary (noninterest) expenditure	22.5	24.5	20.7			21.7	21.1	21.2	20.9	20.8	21.1		20.9	20.7	21.3	
Automatic debt dynamics	-14.7	-12.0	-8.1			-1.2	-3.9	-2.6	-2.6	-2.5	-2.5		-1.9	-1.7	-1.5	
Contribution from interest rate/growth differential	-11.7	-10.4	-7.9			-3.0	-3.8	-3.2	-3.0	-2.9	-2.8		-2.3	-2.0	-1.7	
of which: contribution from average real interest rate	-4.2	-6.1	-4.4			-0.7	-1.0	-0.4	-0.1	-0.1	-0.1		0.1	0.1	0.1	
of which: contribution from real GDP growth	-7.4	-4.3	-3.5			-2.3	-2.8	-2.8	-2.8	-2.8	-2.7		-2.4	-2.1	-1.8	
Contribution from real exchange rate depreciation	-3.1	-1.6	-0.2			1.7	0.0	0.6	0.4	0.4	0.4		...	...	...	
Other identified debt-creating flows	-0.6	-0.8	-0.3			-0.1	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Privatization receipts (negative)	0.0	-0.4	-0.1			-0.1	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Debt relief (HIPC and other)	-0.6	-0.4	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Residual, including asset changes	-16.7	2.3	3.0			3.4	3.1	1.4	0.9	0.4	0.3		0.2	0.3	-0.2	
Other Sustainability Indicators																
PV of public sector debt	32.0	28.1	31.8			35.9	37.0	36.7	35.3	33.6	32.1		26.9	23.9	21.6	
o/w foreign-currency denominated	0.0	0.0	9.9			14.7	17.5	19.0	19.3	19.0	18.7		15.4	12.2	9.6	
o/w external	...	...	9.9			14.7	17.5	19.0	19.3	19.0	18.7		15.4	12.2	9.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	...	
Gross financing need 2/	5.2	7.7	3.7			3.7	4.5	3.8	3.4	3.4	3.4		2.9	2.4	2.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	176.6	157.6	169.8			182.7	195.4	183.1	174.0	166.3	158.3		134.2	119.7	106.8	
PV of public sector debt-to-revenue ratio (in percent)	266.8	217.1	229.5			248.5	267.1	245.6	233.8	222.5	210.2		178.7	159.7	141.8	
o/w external 3/	…	…	71.2			101.4	126.7	127.1	127.6	125.9	122.6		102.1	81.2	62.9	
Debt service-to-revenue and grants ratio (in percent) 4/	4.8	5.5	9.4			8.5	12.3	13.2	14.0	13.6	12.7		10.4	8.4	7.6	
Debt service-to-revenue ratio (in percent) 4/	7.3	7.6	12.7			11.6	16.9	17.7	18.9	18.2	16.9		13.9	11.3	10.1	
Primary deficit that stabilizes the debt-to-GDP ratio	32.1	10.5	5.5			-2.0	0.8	1.1	1.8	2.1	2.1		1.8	1.4	1.7	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	11.8	11.2	9.9	8.6	4.9	7.0	7.7	7.5	7.5	7.7	7.7	7.5	7.8	7.8	7.8	7.8
Average nominal interest rate on forex debt (in percent)	0.3	0.9	0.7	0.8	0.4	1.8	1.8	2.4	2.7	2.8	2.7	2.4	2.3	2.1	2.1	2.2
Average real interest rate on domestic debt (in percent)	-12.4	-20.9	-16.6	-6.0	9.6	-3.1	-5.3	-2.5	-1.9	-1.8	-2.2	-2.8	-0.2	0.7	0.7	0.2
Real exchange rate depreciation (in percent, + indicates depreciatior	-8.9	-16.8	-2.4	-3.5	8.0	13.6	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	16.9	30.0	23.0	10.5	10.9	7.2	9.3	6.6	6.3	6.1	6.1	6.9	6.0	6.0	5.7	5.9
Growth of real primary spending (deflated by GDP deflator, in perce	0.2	0.2	-0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	9.1	15.7	19.6	20.5	25.5	27.4	19.6	25.5	22.5	19.0	...

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

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2b.Ethiopia: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	36	37	37	35	34	32	27	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	36	38	40	41	42	43	48	57
A2. Primary balance is unchanged from 2010	36	37	37	37	37	36	34	35
A3. Permanently lower GDP growth 1/	36	37	38	37	36	36	37	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	36	39	41	41	40	39	38	38
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	36	40	44	42	40	39	32	25
B3. Combination of B1-B2 using one half standard deviation shocks	36	40	43	42	41	39	35	30
B4. One-time 30 percent real depreciation in 2011	36	43	43	41	39	38	33	28
B5. 10 percent of GDP increase in other debt-creating flows in 2011	36	46	46	44	42	40	34	26
PV of Debt-to-Revenue Ratio 2/								
Baseline	183	195	183	174	166	158	134	107
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	183	203	202	206	211	215	243	293
A2. Primary balance is unchanged from 2010	183	194	186	183	181	177	172	174
A3. Permanently lower GDP growth 1/	183	198	188	182	178	174	180	248
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	183	204	201	196	193	189	185	186
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	183	212	219	208	199	190	161	124
B3. Combination of B1-B2 using one half standard deviation shocks	183	210	215	206	199	192	171	148
B4. One-time 30 percent real depreciation in 2011	183	229	213	202	194	185	163	141
B5. 10 percent of GDP increase in other debt-creating flows in 2011	183	244	228	216	207	198	168	128
Debt Service-to-Revenue Ratio 2/								
Baseline	9	12	13	14	14	13	10	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	12	13	14	15	14	13	18
A2. Primary balance is unchanged from 2010	9	12	13	14	14	13	12	11
A3. Permanently lower GDP growth 1/	9	12	13	14	14	13	12	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	9	13	14	15	15	14	12	12
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	9	12	14	15	15	14	11	9
B3. Combination of B1-B2 using one half standard deviation shocks	9	12	14	15	15	14	12	11
B4. One-time 30 percent real depreciation in 2011	9	13	16	17	17	17	14	12
B5. 10 percent of GDP increase in other debt-creating flows in 2011	9	12	15	16	15	14	12	10

Sources: Ethiopian authorities; and IMF and World Bank staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 3.Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to-GDP+remittances ratio								
Baseline	13	16	17	18	17	17	**14**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	13	12	12	11	11	12	**15**	27
A2. New public sector loans on less favorable terms in 2010-2030 2	13	17	20	21	22	22	**21**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	13	16	18	19	19	18	**15**	9
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	13	18	22	22	22	22	**17**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	13	16	17	18	18	17	**14**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	13	21	27	26	26	25	**20**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	13	19	25	25	24	24	**19**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	13	22	24	25	24	24	**20**	12
PV of debt-to-exports+remittances ratio								
Baseline	75	88	89	84	77	72	**47**	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	75	68	62	57	53	52	**55**	72
A2. New public sector loans on less favorable terms in 2010-2030 2	75	97	103	101	96	92	**70**	43
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	75	88	89	84	77	71	**47**	21
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	75	108	143	134	124	115	**75**	33
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	75	88	89	84	77	71	**47**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	75	123	147	126	115	105	**67**	27
B5. Combination of B1-B4 using one-half standard deviation shocks	75	123	161	144	132	121	**78**	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	75	88	89	84	77	71	**47**	21
PV of debt-to-revenue ratio								
Baseline	93	123	122	124	122	119	**99**	61
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	93	92	81	78	78	79	**103**	178
A2. New public sector loans on less favorable terms in 2010-2030 2	93	135	141	148	152	153	**148**	120
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	93	127	132	133	131	128	**106**	65
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	93	135	158	158	155	150	**122**	69
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	93	122	124	125	124	120	**100**	61
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	93	158	187	186	181	175	**141**	76
B5. Combination of B1-B4 using one-half standard deviation shocks	93	147	174	173	169	164	**132**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	93	177	177	179	176	172	**142**	87

Table 3.Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (concluded)
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
Debt service-to-exports+remittances ratio								
Baseline	2	4	5	5	6	6	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	2	3	4	4	4	4	**3**	3
A2. New public sector loans on less favorable terms in 2010-2030 2	2	4	4	5	5	5	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	2	4	5	5	6	6	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	2	4	6	8	9	8	**7**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	2	4	5	5	6	6	**4**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	2	4	6	7	7	7	**6**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	4	7	8	8	8	**7**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	2	4	5	5	6	6	**4**	2
Debt service-to-revenue ratio								
Baseline	3	5	7	8	10	10	**9**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	3	5	5	6	6	6	**5**	8
A2. New public sector loans on less favorable terms in 2010-2030 2	3	5	6	7	7	9	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	3	5	7	9	10	11	**10**	6
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	3	5	7	9	11	11	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	3	5	7	8	10	10	**9**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	3	5	8	10	12	12	**13**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	3	5	7	10	11	11	**12**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	3	8	10	12	14	14	**13**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	11	11	11	11	11	11	**11**	11

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

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

2010 Article IV Consultation and First Review of the Arrangement Under the Exogenous Shocks Facility

Informational Annex

Prepared by the African Department
(In consultation with other departments)

May 26, 2010

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and the exchange rate system. Outstanding purchases amounted to SDR 106.97 million (80 percent of quota) at end-April 2010.
- **Joint Managerial Action Plan—May 2010–April 2011**. Describes the Fund and World Bank Group's joint work programs.
- **Statistical Issues**. Assesses the quality of statistical data. Data provided to the Fund are adequate for surveillance and program monitoring purposes.
- **Table of Common Indicators Required for Surveillance**. Provides information on statistical data for surveillance purpose.

Contents Page

ANNEX I

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
RELATIONS WITH THE FUND

(as of April 30, 2010)

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

II. General Resources Account:

	SDR Million	%Quota
Quota	133.70	100.00
Fund holdings of currency	126.21	94.40
Reserve Tranche Position	7.51	5.62
Lending to the Fund		
Holdings Exchange Rate		

III. SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	127.93	100.00
Holdings	17.39	13.60

IV. Outstanding Purchases and Loans:

	SDR Million	%Quota
ESF Arrangement	73.54	55.00
ESF RAC Loan	33.43	25.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Aug 26, 2009	Oct 25, 2010	153.76	73.54
ECF [1/]	Mar 22, 2001	Oct 31, 2004	100.28	100.28
ECF [1/]	Oct 11, 1996	Oct 22, 1999	88.47	29.49

[1/] Formerly PRGF.

VI. Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					3.34
Charges/Interest	0.23	0.30	0.57	0.57	0.56
Total	0.23	0.30	0.57	0.57	3.91

VII. Implementation of HIPC Initiative:

		Enhanced Framework
I.	Commitment of HIPC assistance	
	Decision point date	November 2001
	Assistance committed by all creditors (US$ Million) [1/]	1,982.20
	of which: IMF assistance (US$ million)	60.85
	(SDR equivalent in millions)	45.12
	Completion point date	April 2004
II.	Disbursement of IMF assistance (SDR Million)	
	Assistance disbursed to the member	45.12
	Interim assistance	10.28
	Completion point balance	34.84
	Additional disbursement of interest income [2/]	1.54
	Total disbursements	46.66

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million)[1/]	112.07
	Financed by: MDRI Trust	79.66
	Remaining HIPC resources	32.41

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	112.07	112.07

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessment

An update safeguards assessment of the National Bank of Ethiopia (NBE) was completed in December 2009 in connection with Ethiopia's ESF-RAC approved on January 23, 2009. The assessment found that, since the previous assessment in 2001, the NBE has implemented some improvements to the safeguards framework but that several initiatives were a work-in-progress and substantial gaps remained. Financial transparency has improved through the publication of independently audited financial statements, and internal audit capacity has been strengthened. In response to the assessment's recommendations, action has been taken to commence Audit Committee (AC) oversight, and introduce controls and independent reviews over program data reporting to the Fund. The authorities are also in the process of addressing remaining safeguards issues relating to enhancing AC oversight of the external audit mechanism, further strengthening of reserve management capacity, and introducing bank-wide risk management practices. Going forward, the NBE Law will need to be strengthened with regard to independence of the central bank and the potential scope for unlimited financing of the government.

X. Exchange Rate Arrangement

The de facto exchange rate regime is classified as a crawl-like arrangement, in light of the recent market developments. The authorities describe their exchange rate regime as a managed float with no predetermined path for the exchange rate. The pace of the depreciation, however, has been stable. Furthermore, the NBE supplies foreign exchange to the market based on plans established at the beginning of each fiscal year that took into account estimates of likely supply and demand. The transaction-weighted average interbank market exchange rate on April 29, 2010, was Br 13.4510 = US$1.

Ethiopia currently maintains four restrictions on the payments and transfers for current international transactions, which relate to (a) the tax certification requirement for repatriation of dividend and other investment income; (b) restrictions on repayment of legal external loans and supplies and foreign partner credits; (c) rules for issuance of import permits by commercial banks; and (d) the requirement to provide a clearance certificate from NBE to obtain import permits. These restrictions are inconsistent with Article VIII, Section 2(a), of the IMF's Articles of Agreement and remain unapproved.

The staff is assessing whether a general finance and economic cooperation agreement signed between the government of Ethiopia and China in 2006 gives rise to exchange restrictions under Article VIII.

XI. Article IV Consultation

The Executive Board concluded the last Article IV consultation on July 14, 2008 (SM/08/208). Ethiopia will follow Article IV consultation cycles for program countries.

XII. Technical Assistance (2005–present)

Department	Purpose	Time of Delivery
FAD	Program/performance budgeting	January–February 2005
STA	Balance of payments statistics	January–February 2005
MFD	Bank supervision	June–July 2005
STA	Balance of payments statistics	July 2005
STA	Government finance statistics	August 2005
FAD	Tax administration	September 2005
MCM	Bank supervision	February 2006
MCM	Modernization of payment systems	March 2006
STA	Consumer price data	March 2006
FAD	Tax policy assessment	May 2006
MCM	Bank supervision	July 2007
MCM	Monetary operations	July 2007
MCM	Payment system	July 2007
AFE	Customs administration	October 2007
FAD	Public expenditure management	December 2007
AFE	Macro-fiscal	January 2008
AFE	Program budgeting	January 2008
AFE	Banking supervision	February 2008
AFE	Consumer price index	March 2008
MCM	Islamic banking regulation	April 2009
AFE	Banking supervision	June 2009
FAD	Revenue administration	September 2009
FAD	Program budgeting	November 2009
FAD	Tax policy	December 2009
AFE	Price statistics	February 2010
STA	National account statistics	March 2010

XIII. Resident Representative

The IMF has had a resident representative office in Addis Ababa since 1993. The current Resident Representative, Mr. Sukhwinder Singh, took up the post in January 2009.

ANNEX II
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
JOINT MANAGERIAL ACTION PLAN
MAY 2010–APRIL 2011

Title	Products	Provisional and actual timing of missions	Expected and actual delivery date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	**Economic policy analysis and advice** • Annual Public Finance Review-2011 • Policy dialogue on economic reform issues • Regional Growth Report (Addis Ababa) • Trade in Services Report	July 2010–June 2011 July 2010–June 2011 July–December 2010 July 2010–June 2011	Q1 2011 Q2 2011 Q2 2010 Q2 2011
	Technical Assistance • Financial sector capacity building project • Strengthen the capacity of public sector (PSCAP-2) • Support for PASDEP-2	July 2010–June 2011 July 2010–June 2011 July 2010–June 2011	June 2010 – Q1 2011
The Fund work program in the next 12 months	**Macroeconomic policy analysis and advice** **IMF Program** • The first review of the High Access Component Exogenous Shocks Facility (HAC ESF) • The second review of the HAC ESF • Article IV consultation	March 2010 (Article IV) March 2010 September 2010 March-April 2011	June 2010 June 2010 October 2010 June 2011
	Technical assistance • Revenue administration • Public financial management • Statistical capacity (national accounts, CPI)	Late 2010 May 2010-April 2011 May 2010-April 2011	
B. Requests for work program inputs			
Fund request to Bank	• Periodic update on progress on financial sector capacity building project. • Macroeconomic and financial data to be shared regularly.	Ongoing	
Bank request to Fund	• Periodic update on all TA activities. • Macroeconomic and financial data to be shared regularly.	Ongoing	
C. Agreement on joint products and missions			
Joint products in the next 12 months	Debt sustainability analysis		June 2010

ANNEX III
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
STATISTICAL ISSUES
(as of May 2010)

I. Assessment of Data Adequacy for Surveillance

General: *Data provided to the Fund are adequate for surveillance and program monitoring purposes*. Despite recent progress, there are some shortcomings in real, fiscal, and balance of payments statistics.

National Accounts: Shortcomings in the source data and compilation practices affect the accuracy and reliability of the statistics. The GDP estimates are heavily dependent on benchmark data that are outdated and therefore, may not reflect current economic activity. Further, the techniques used to compile the estimates for construction, distribution, and some other services activities do not conform to international best practice. While some progress has been made in compiling estimates of GDP by final expenditure, there remain substantial shortcomings, particularly in the estimation of private consumption and fixed capital formation. The statistical discrepancies between the estimates by expenditure categories and output remain large.

Government finance statistics: Despite recent improvements, general government fiscal statistics continue to be affected by shortcomings. Timely data on the consolidated operations of local governments is unavailable. Significant discrepancies between data on the domestic and foreign financing of the budget deficit and the monetary accounts continue to complicate assessment of fiscal developments. Ensuring the integrity of consolidated budget reporting in a timely fashion will be a continuing task.

Monetary statistics: The monetary statistics are broadly adequate for analytical purposes, although there is a need for the NBE to resume data submissions based on the SRF and IMD framework. For policy purposes, however, ensuring data collection and reporting in a timely manner continues to be critical.

Balance of payments: Balance of payments data still require improvements on coverage, valuation, timing, and classification of transactions. These include long delays in the collection of trade and tourist arrival data and poor data on capital flows.

II. Data Standards and Quality

Ethiopia participates in the General Data Dissemination System (GDDS) and metadata were partially updated in early 2008. Ethiopia participates in the GDDS project for capacity building in statistics in Anglophone Africa (2006–09) including macro-economic and financial statistics and socio-demographic statistics.

No Report on the Observance of Standards and Codes (ROSC) has been completed.

ANNEX IV

ETHIOPIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(as of May 20, 2010)

	Date of Latest Observation	Date Received	Frequency of Data[6/]	Frequency of Reporting[6/]	Frequency of Publication[6/]
Exchange rates	May 10, 2010	May 17, 2010	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1/]	March 2010	May 2010	M	M	M
Reserve/base money	March 2010	May 2010	M	M	M
Broad money	March 2010	May 2010	M	M	M
Central bank balance sheet	March 2010	May 2010	M	M	M
Consolidated balance sheet of the banking system	March 2010	May 2010	M	M	M
Interest rates[2/]	March 2010	April 2010	M	M	M
Consumer Price Index	March 2010	April 2010	M	M	M
Revenue, expenditure, balance, and composition of financing[3/] – general government[4/]	December 2009	April 2010	Q	Q	Q
Revenue, expenditure, balance, and composition of financing[3/] – central government	March 2010	April 2010	Q	Q	Q
Stocks of central government and central government-guaranteed debt[5/]	2008/09	March 2010	A	On mission	A
External current account balance	December 2009	March 2010	Q	Q	Q
Exports and imports of goods and services	December 2009	March 2010	Q	Q	Q
GDP/GNP	2008/09	January 2010	A	A	A
Gross external debt	2008/09	March 2010	A	On mission	A
International investment position	…	…	NA	NA	NA

1/ Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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IMF Executive Board Completes First Review Under Ethiopia's ESF Arrangement and Approves US$58.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) approved today the first review of Ethiopia's economic performance under the 14-month arrangement under the high-access component of the Exogenous Shocks Facility (ESF). The Executive Board decision was taken on a lapse of time basis[1]. The approval will enable Ethiopia to draw SDR 40.11 million (about US$58.7 million), bringing total disbursements under the arrangement to SDR 113.65 million (about US$166.2 million).

Ethiopia has been successfully implementing policies to reduce inflation and rebuild external reserves as agreed in the ESF-supported program. At end-2009, consumer price inflation had declined sharply to the single digits and international reserves recovered to just over 2 months of imports, helped by strong donor inflows and financing from the IMF. Overall, the negative impact of the global recession has not been as severe as expected. GDP growth is projected to ease to 7 percent in 2009/10. All of the quantitative performance criteria and indicative targets for end-December 2009 were met. The structural measures covered by the Fund-supported program were also implemented.

The second ESF review is expected to be considered this fall.

The ESF arrangement for Ethiopia was approved by the Executive Board on August 26, 2009 (see Press Release No. 09/289) to help Ethiopia deal with the effects of the global recession on its balance of payments.

[1] The Executive Board takes decisions under its lapse of time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.