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Ethiopia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

April 28, 2010

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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

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	

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.[1] 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.[2] 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

[1] 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)

[2] 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.