Report No. 8062-ET

Ethiopia's Economy in the 1980s and Framework for Accelerated Growth

March 14, 1990

Country Operations Division
Eastern Africa Department
Africa Region

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CURRENCY EQUIVALENTS AND UNITS

Currency Unit:	=	Birr
Exchange Rate:	=	US$1.00=Birr 2.07 (1973 to present)
Weights and Measures:	=	Metric System

ACRONYMS AND ABBREVIATIONS

AIDB	-	Agricultural and Industrial Development Bank
AMC	-	Agricultural Marketing Corporation
CBE	-	Commercial Bank of Ethiopia
CMEA	-	Council for Mutual Economic Assistance
CSA	-	Central Statistical Authority
EDDC	-	Ethiopian Domestic Distribution Corporation
EELPA	-	Ethiopian Electric Light and Power Authority
EFTC	-	Ethiopian Freight Transport Authority
EOPEC	-	Ethiopian Oilseeds and Pulses Export Corporation
ETA	-	Ethiopian Telecommunications Authority
HASIDA	-	Handicrafts and Small Industries Development Authority
ICA	-	International Coffee Agreement
ICO	-	International Coffee Organization
IPPF	-	International Planned Parenthood Federation
MTA	-	Marine Transport Authority
NBE	-	National Bank of Ethiopia
OSCFER	-	Office of the State Council for Foreign Economic Relations
ONCCP	-	Office of the National Committee for Central Planning
RRC	-	Relief and Rehabilitation Commission
TYDP	-	Ten Year Perspective Plan (1984-1994)
TYPP	-	Three Year Development Plan (1987-1989)
UNFPA	-	United Nations Family Planning Association

FISCAL YEAR

Ethiopia's fiscal year runs from July 8 to July 7. The crop year for coffee runs from October to September.

This report is based on the findings of an economic mission which took place in November 1988. The mission was led by K. Sarwar Lateef and comprised:

Charles Humphreys	External Financing and Debt
Jeremy Oppenheim	Public Distribution
Kathleen Jordan	National Accounts, Balance of Payments and Economic Projections
Shiferaw Jamo	Public Investment Policy and Planning
Fayez Omar	Fiscal Affairs and Domestic Resource Mobilization
John Roberts	Macroeconomic Issues and External Sector Policies
Harry Walters	Agriculture and Food Security.

John Roberts was the Task Manager and principal author of the report. Apart from contributions from mission members, important advice and contributions were received from Michael Payson and Jim Goering (successive heads of the Resident Mission in Addis Ababa) and Vulimiri Jagdish (Population and Health) and from members of a contemporaneous Bank Industry Sector mission led by Ken Newcombe. A follow-up mission by John Roberts updated the main mission's findings.

TITLE : ETHIOPIA'S ECONOMY IN THE 1980S AND FRAMEWORK FOR ACCELERATED GROWTH

COUNTRY : ETHIOPIA

REGION : EASTERN AFRICA

REPORT	TYPE	CLASSIFICATION	MM/YY	LANGUAGE
8062-ET	CEM	Official Use	02/90	English

ABSTRACT: The report examines the causes of low growth, identifying the respective roles of structural, institutional and policy factors. Institutional and policy factors appear to have been the dominant influence, except in the years of drought. The drought of 1984 wrought catastrophic consequences. The report highlights the dualism of the economy, with lower prices for agricultural and industrial goods in the official economy than in the free market, the overvaluation of the exchange rate, the low incentive to produce for exports and, as a result, the poor performance of exports. Private investment in manufacturing and trade has been discouraged by regulation. In spite of the large and increasing claims of internal security on domestic resources investment, largely in the public sector, has increased. With low domestic savings, there has been extensive foreign borrowing to finance capital formation which has given rise to a rapid escalation of debt service payments.

The Ethiopian government, cognizant of these problems, has embarked on a program of policy and institutional reforms which will enlarge the role of the private sector and improve producer incentives. The report reviews this and makes suggestions for broadening the agenda into a framework for achieving sustainable growth with substantial improvements in food production and in export earnings. However, if reforms proceed only on a piecemeal basis per capita incomes may continue to fall and the economy is likely to lapse further into indebtedness.

ETHIOPIA: Country Data (1988)

General

Area (km^2)	1,221,900	
Population (millions)	47.3	(1988)
Growth Rate (latest decade)	2.9	percent p.a.
Density (per km^2)	38.7	

Social Indicators

Population Characteristics	
Crude Birth Rate (per 1,000)	48.0
Crude Death Rate (per 1,000)	18.0
Health	
Infant Mortality (per 1,000 live births)	154.0
Population per Physician	77,356
Population per Hospital Bed	..
Access to Safe Water	
% of Urban Population	69.0
% of Rural Population	9.0
Nutrition	
Calorie Intake as % of Requirements	75
Per Capital Protein Intake (g/day)	58
Education	
Adult Literacy Rate (%)	62.5
Primary School Enrollment (%) of relevant age group	36.0

Source: World Bank: Social Indicators of Development 1989.

Note: Data are not necessarily consistent with the text or the Statistical Annex because of differences in coverage and source.

ETHIOPIA: Country Data (1988)

Gross Domestic Product (1988/89)

	US$M	% of GDP	Annual Growth Rate (% p.a., constant prices) 1981-87	1988	1989
GDP at Market Prices	5,968.7	100.0	2.1	2.0	3.3
Gross Fixed Investment	861.3	14.4	6.5 a/	5.8 a/	-6.1 a/
Gross National Savings	344.9	5.8	4.0 a/	11.8 a/	-2.5 a/
Current Account Balance	516.2	.6			
Exports of Goods & NFS	698.2	11.7			
Imports of Goods & NFS	1,283.7	21.5			
GNP per capita (US$M) b/	125.0	-			

a/ Staff estimates
b/ Calculated according to Atlas methodology

Sectoral Shares of Output and Employment

	Shares of Value Added (%)	Shares of Labor Force (approx.)
Agriculture	43.1	90
Industry a/	16.8	3
Services	40.1	7

a/ Includes mining, construction, electricity & water

Government Finance

	Central Government (Birr bn) 1988/89	% of GDP 1983/84	% of GDP 1988/89
Current Receipts	3.73	22.9	30.2
Current Expenditures	3.45	22.4	27.9
Current Surplus	0.28	0.5	2.3
Capital Expenditures	1.74	14.1	9.3

ETHIOPIA: Country Data (1988)

Money, Credit, and Prices

	1983	1984	1985	1986	1987	1988	1989
	(Birr billion outstanding, end of period)						
Money Supply (M2)	3.04	3.38	3.85	4.45	4.81	5.24	5.80
Bank Credit to Public Sector a/	0.58	0.57	0.59	0.58	0.64	0.76	0.69
Bank Credit to Private Sector b/	3.05	3.53	3.89	4.25	4.91	5.65	6.63
	(percentage or index numbers)						
Money as % of GDP	27.9	33.8	38.8	38.2	41.3	43.5	44.4
General Price Index (1980-81=100)	110.0	109.6	129.8	135.9	123.0	125.7	137.7
Annual percentage changes in:							
General Price Index	3.8	-0.3	18.4	4.6	-9.5	2.2	9.6
Bank Credit to Public Sector a/	-	-2.9	4.2	-1.4	9.9	18.4	-8.4
Bank Credit to Private Sector b/	-	15.7	10.2	9.3	15.7	14.9	17.3

a/ Including public enterprises; staff estimates
b/ Including cooperatives; staff estimates

Balance of Payments

	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9
	(millions of US$)					
Exports of Goods & NFS	611.8	548.9	662.2	616.1	629.1	698.1
Imports of Goods & NFS	1,115.6	1,081.8	1,211.3	1,217.1	1,251.7	1,283.4
Resource Gap (deficit = -)	-503.9	-532.8	-549.1	-601.0	-622.6	-585.3
Investment income (net)	-19.2	-33.0	-28.8	-37.0	-58.6	-75.8
Net Private Transfers	107.2	144.9	209.4	160.6	118.3	144.9
Balance on Curr. Acct. (excld. Net Official Transfers)	-415.8	-421.0	-368.5	-477.3	-562.9	-516.2
Net Official Transfers	161.9	298.3	293.2	211.8	187.8	231.4
Net MLT Borrowing:						
Disbursements	245.0	255.1	401.1	324.7	445.8	400.7
Amortization	-64.7	-92.8	-123.8	-143.4	-164.9	-200.2
Subtotal	180.3	162.3	277.2	181.3	280.9	200.5
Other Capital (net) and Capital n.e.i.						
Increase in reserves (-)	42.3	-47.6	-165.2	19.9	189.7	-28.4
Capital n.e.i.	-31.3	- 8.0	36.7	-64.3	95.5	-112.7
Memo:						
Gross Reserves (end year)	64.8	112.4	277.6	257.7	68.0	96.4

ETHIOPIA: Country Data (1988)

Merchandise Exports (Average 1984/85 - 1988/89)

	Value (millions of US$)	% of Total
Coffee	251.7	63.6
Hides, skins, leather	58.0	14.7
Petroleum by-products	19.7	5.0
Other	66.5	16.7
Total	395.9	100.0

Rate of Exchange

US$1.00 = Birr	2.07 a/

a/ Unchanged since 1973.

External Debt, December 31, 1988

	US$M
Public Debt, incl. Guaranteed	
. MLT (excl. IMF)	2,717
. IMF	104
Total Outstanding & Disbursed	2,821

Net Debt Service Ratio for 1988/89 b/

	Percentage
Total Outstanding & Disbursed	39.5

b/ Debt service, net of interest earned on foreign exchange reserves, as a percentage of Exports of Goods & NFS.

IBRD/IDA Lending (12/31/88) (US$M)

	IBRD	IDA
Outstanding & Disbursed	42	658
Undisbursed	nil	537
Total Outstanding incl. Undisbursed	42	1,195

ETHIOPIA'S ECONOMY IN THE 1980s AND FRAMEWORK FOR ACCELERATED GROWTH

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SUMMARY AND CONCLUSIONS

1. For Ethiopia the 1980s have been years of low economic growth, of preoccupation with natural disaster, and with the crippling cost of internal security and now, at the end of the decade, of policy reassessment and adjustment. Unstable terms of trade have also contributed to the difficulties of economic management.

2. This report has been written at a critical time when the government has decided, in the light of a recent intensive review of performance and policies, to alter course in its management of the economy, but when many of its new policy measures are still in preparation and when the government has become preoccupied by a fresh upserge in the prolonged civil war in the north. The report presents the factual background leading up to the review and outlines the program of policy change which is planned, and of which implementation has already started. It analyses performance since the early years of the decade, through the period of the catastrophic drought of 1984 and into the four subsequent years of modest recovery. It shows how, on many points, the Government has made a very similar assessment and diagnosis and that its proposed reforms are close to those which the authors recommend. It also offers some reflections on what further measures, in addition to those contemplated by the authorities (and restored peace and security), seem desirable if Ethiopia is to achieve sustained per capita income growth. Medium-term policy issues are the report's main focus of attention. As a consequence, the longer term constraints on Ethiopia's development and human resource and investment policy issues receive relatively little attention in the present study.

3. The report highlights several themes. One is the theme of incentives - both negative and positive - for production. A closely related issue is that of food production and food security in a country which has become increasingly dependent on food imports and where average food availability is falling. The topic of production incentives is bound up with the question of the extent to which the Ethiopian economy suffers from structural inflexibility or mostly from the problems associated with the institutions and policies that the country has pursued. A fourth topic is how the macroeconomy has remained broadly stabilized throughout the period, despite rising domestic, largely public, expenditure and a stagnant resource base. At what price has this stability been bought? What are the implications in the event of higher private investment expenditure and what macroeconomic policies should now accompany the structural evolution which is now envisaged? A final theme is that of public investment which has increased strongly but which has yielded poor returns and whose financing has given rise to heavy external indebtedness.

Production

4. Per capita income has fallen since 1974 at approximately 0.5 percent p.a. It rose in the late 1970s and early 1980s but suffered a catastrophic decline in the mid 1980s when Ethiopia was afflicted by a particularly serious drought. There were droughts also in 1981 and 1987 but these were of much less economic consequence than that of 1984. The growth trend of GDP in the 1980s has been only two percent p.a. Despite four years of uninterrupted recovery from the 1984 drought, in which GDP

growth has averaged 4.5 percent p.a., per capita income remains four percent below its historic maximum attained in the early 1980s.

5. Though the rest of the economy has grown more consistently and more rapidly than agriculture, the agricultural sector exerts a dominant influence on most other sectors and its poor performance has retarded the whole economy. There has been no growth in real value added over the 1980s. In the major field crops, production has barely returned to its erstwhile peak levels. The cultivated area and yields have stagnated and output has failed to keep up with domestic demand, even in years of normal rainfall. Underlying this performance has been the poor state of rural infrastructure, environmental degradation and slow progress in agricultural technology. Superimposed on these structural features has been the institutional framework which the government has consolidated in the course of the 1980s. Individual peasant households predominate; the area cultivated by state farms has if anything contracted; the area in producer cooperatives has grown but is small in relation to the whole. Villagization has proceeded apace in areas of dense population, but so far without measurable adverse impact on output. Apart from a burst of activity in 1985, resettlement action has been on a modest scale. The low level of output may be ascribed in part to the unconducive features of the physical environment and to the low level of investment in improving it. As is now increasingly recognized by the Government, the stagnation of output has been due to those features of the institutional framework, such as insecurity of tenure and controls on the hiring and mobility of labor, which have stifled farmer initiative; the continually falling real prices offered for compulsory deliveries of produce to the state; the restrictions placed in the way of private transport and trade in rural areas; and the concentration of farm support services and public investment on state farms, producer cooperatives and resettlement schemes.

6. Like agriculture, manufacturing can have an exogenous impact on growth through import substitution and the penetration of export markets. Ethiopia's small manufacturing sector has tried to do both and has achieved modest success in each. It has grown at nearly six percent p.a.in the 1980s but growth has decelerated in recent years. The clear emphasis in investment policy has been in import substitution by creating new public sector enterprises. Investment returns have been poor, impaired by mistakes in project choice, delayed implementation, teething troubles in new plant and foreign exchange shortages. Meanwhile, the physical capacity and entrepreneurial skills of the private sector have been underutilized, because of restrictions on investment and access to foreign exchange and the disincentive of high rates of tax, and because the incentives to trade have been stronger than to produce material goods.

7. The most consistently expanding sector of the economy has been public administration and the provision of social services, driven by rising real levels of public expenditure. Manning levels in civilian public administration are modest and rates of remuneration have been kept rigorously in check, but Ethiopia has, for security reasons, to maintain a large army. Ethiopia's development strategy has been to promote commodity production through public sector endeavour; yet value added in services has increased more rapidly than in the production of goods. Non-governmental services, including financial services, have, in recent years expanded at over 4.5 percent p.a., almost as quickly as public administration itself.

Trade and the Balance of Payments

8. Eighty-five percent of Ethiopia's exports are agricultural or based on domestic agricultural production. With stagnation in agriculture there has been a supply-side restraint on exports whose volume has fluctuated but exhibited no growth trend in the 1980s. For much of the period export volumes were way below peak levels attained in earlier years (see Table I.1). Though Ethiopia's infrastructure is sparse this is not the primary cause of sagging export performance. Neither are there severe capacity limitations. Most export production is undertaken by individual peasant households and livestock owners. A major problem is that exports, increasingly canalized through public sector marketing establishments, have offered poor prices, especially in drought years, compared with those of the free (parallel) market. Public enterprises have required subsidies to compensate them for pecuniary losses incurred in meeting export targets. The only manufactured item to make a significant contribution to export earnings is leather which is profitable without subsidy and which has grown since exports of raw skins were prohibited. Non-factor services (mostly transport) have performed much more strongly than merchandise exports.

Table I.1: Key Economic Variables 1983-1989 a/

	1983	1984	1985	1986	1987	1988	Est. 1989
Incentives Indicators							
1. Real Effective Exchange Rate							
1.1 Index (1980=100)	125.8	140.9	168.6	128.9	113.6	116.0	n.a.
1.2 Annual Change(%)	5.0%	12.0%	19.7%	-23.5%	-11.9%	2.1%	n.a.
2. Real Interest Rates							
2.1 Deposit Rate, Small Savings	2.1	3.6	-1.0	3.7	12.2	5.0	2.2
2.2 Lending Rate, Industry	5.4	7.1	2.3	7.2	14.3	6.9	4.1
3. Index of Real Wages (1980=100)							
3.1 Manufacturing	98.6	95.2	90.3	88.9	n.a	n.a	n.a
4. Ratios of Official Procurement Prices of Agricultural Commodities to International Prices							
4.1 Coffee b/	0.46	0.38	0.38	0.27	0.43	0.45	n.a.
4.2 Wheat c/	0.63	0.72	0.65	0.51	0.65	0.83	n.a.
External Trade Indicators							
5. Volume Index of Major Exports d/							
5.1 Coffee	99.1	110.2	83.5	81.9	90.7	80.5	87.9
5.2 Hides, Skins, Leather	86.5	110.1	113.5	148.2	114.6	96.6	122.5
6. Export Shares in World Trade (coffee)	2.32%	2.39%	1.60%	1.75%	1.85%	2.08%	n.a.
7. Commodity Terms of Trade							
7.1 Index (1980=100)	91.0	101.2	99.1	110.1	83.5	94.5	n.a.
7.2 Annual Change(%)	-0.7%	11.2%	-2.1%	11.1%	-24.2%	13.2%	n.a.

a/ Fiscal years
b/ Ratio of farm gate price for unwashed coffee to FOB unit values at the official exchange rate.
c/ Ratio of farm-gate official wheat procurement price to CIF unit values of imported grain at the official exchange rate.
d/ 1980/81=100

Source: A Statistical Annex Tables 3.11, 3.12, 3.13, Ethiopian authorities and staff estimates

9. Ethiopia's ability to afford imports has come to depend increasingly on external financing. Foreign exchange controls and extensive use of foreign loans and credits have given rise to compartmentalism in the management of imports. Food and capital goods imports, largely paid for by external grants or loans, have soared, while general imports of raw materials, intermediate and consumption goods and spare parts have been restrained by controls on the allocation of free foreign exchange. These controls have become increasingly irksome, even to the privileged users of official foreign exchange in the public sector. External financing has, nevertheless, allowed the resource gap to widen, over the decade, from five percent of GDP to 11 percent.

10. Though external assistance for disaster relief has been on grant terms, receipts of highly concessional development assistance from Western donors have been low and much of the external financing of the public development effort has been by way of semi-concessional or non-concessional loans. Debt service obligations have accumulated and, given the relative stagnation of export earnings, the ratio of debt service to exports of goods and non-factor services has risen since the early 1980s from 16 percent to 44 percent. Debt service, alongside food and fuel, has received priority in foreign exchange allocation and Ethiopia has so far scrupulously honored its debt service obligations, without rescheduling, even at the expense of current imports. This has been achieved at the cost of compressing general imports. The present mode of balance of payments management cannot be sustained for much longer.

11. In the background to the poor export performance and to the poor prices offered to producers is an exchange rate, pegged since 1973 to the US dollar, which, on real effective exchange rate evidence, has been consistently overvalued for many years (see Table I.1 and Table 3.12 in the Statistical Annex). It underpins a whole structure of administered prices in the public sector and in the public distribution of agricultural commodities compulsorily procured from the peasant sector. In the parallel market prices are higher, often much higher, reflecting domestic scarcities, restraints on private transport and trade, the parallel exchange rate (which discounts the Birr to between a half and a third of its official rate) and trade distortions caused by surcharges on own exchange imports, and partially cascading indirect taxes. There is inadequate incentive for the private sector, whose costs are determined in the parallel market, to produce for export. There are large implicit incentives for rent-seeking trading activity and for arbitrage between the official and parallel markets. Until recently, the number of traders' licenses has been progressively reduced but trading can be highly lucrative. It would serve the interests of increasing commodity production and of redirecting resources in capital and entrepreneurship away from rent-seeking if the divergence between parallel and official prices and exchange rates were sharply diminished.

Macroeconomy

12. Public expenditure has increased, over the last decade, from 25 percent of GDP to 39 percent. In real terms capital outlays have grown on

trend by 16 percent p.a. and recurrent outlays by 6.5 percent p.a. Ethiopian public expenditure has thus been very high, in relation to GDP, for a low income country and it has also increased much more rapidly the GDP. Underlying public expenditure growth have been security-related outlays - consistently about half of the recurrent budget - a determined effort to increase public social service provision and an approach to development in which public development expenditure plays the preponderant role.

13. The combination of a stagnant economy and fast increasing public expenditure should normally have given rise to mounting inflationary pressures and serious external payments problems. If the external deficit is kept in check by physical controls on foreign exchange allocation, as in Ethiopia, the excess demand usually feeds through into even higher inflation and faster depreciation of the parallel exchange rate. Ethiopia has so far avoided these consequences: inflation as measured both by the GDP deflator (which reflects wage and price controls) and by the retail price index (which largely reflects free market prices) has until recently been well below 10 percent p.a. and the parallel exchange rate has been relatively stable.

14. Ethiopia has achieved this result thanks to firm and responsible fiscal management, vigorous revenue mobilization and continuous monetary deepening. Expenditures, though growing, have been tightly controlled by the budget authorities who are able to make in-year cuts in planned outlays in order to keep the fiscal deficit within bounds. Fiscal receipts have increased in the course of the 1980s from 20 percent of GDP to close to 30 percent. Revenue buoyancy has been high. As a result, the fiscal deficit has been below 10 percent of GDP - except in drought years - and the deficit for domestic financing has hovered around four percent of GDP. Most of the domestic financing of the budget has been by the banking system and would have generated more inflation than Ethiopia has experienced were it not for the steady and persistent rise in the ratio of broad money to GDP. Ethiopian businesses have been holding larger and larger demand deposits and households have increased their cash holdings, deposits and savings accounts. Seignorage has been an important source of non-inflationary finance for the fiscal deficit. Though interest rates on small savings have been positive in real terms, the banking system has been able to finance the deficit at low interest rates and with few obvious signs of the crowding out of commercial borrowers, given excess liquidity at the commercial bank. Government financial institution have successfully mobilized the financial surpluses of the private sector to finance deficits of both the central government and of public enterprises. "Forced saving" has occurred because of the institutional restraints on private sector business and the shortages of goods on the market and has made an important contribution to macroeconomic stability. This device becomes inoperative once the restraints on private sector expenditure are removed.

15. The domestic counterpart of the external resource gap is the gap between domestic investment and savings. Though private investment, facing ceilings on fixed assets and high marginal tax rates, has stagnated, the 1980s have witnessed high levels of public investment. It has been the fulcrum of government development policy. Public investment is now over 85

percent of total investment expenditure and has been the most rapidly growing element in domestic absorption. Thanks to it, investment expenditure has risen, over the period, from 10 percent of GDP to over 15 percent (see Table I.2). It underlies the observed rise in capital goods

Table I.2: Macroeconomic Balances, 1983-1988 a/
(percentage of GDP)

	1983	1984	1985	1986	1987	1988	1989
1. Foreign Savings Balance on Current Account excluding Net Official Transfers	-7.0	-8.6	-8.8	-7.0	-8.8	-10.1	-8.6
2. Private Sector							
2.1 Gross Domestic Fixed Investment	2.5	2.7	2.2	2.0	2.0	2.0	1.9
2.2 National Savings	6.3	4.3	9.2	5.3	3.7	4.6	n.a.
2.3 Investment minus Savings	-3.8	-1.6	-7.0	-3.3	-1.7	-2.6	n.a.
3. Public Sector							
3.1 Gross Domestic Fixed Investment	8.7	10.1	11.8	10.7	12.6	13.7	12.6
3.2 National Savings (Govt. & Public Enterprises)	-2.1	-0.1	-4.0	0.4	2.1	1.0	n.a.
3.3 Investment minus Savings	10.8	10.2	15.8	10.3	10.5	12.7	n.a.
4. Public and Private Investment minus National Savings	7.0	8.6	8.8	7.0	8.8	10.1	8.6
Memorandum Item: Share of Gross Domestic Investment financed by Foreign Savings (%)	60.7	65.0	45.2	52.5	60.3	58.5	59.7

a/ Fiscal years

Source: Annex tables 2.3 & 3.1

imports and the increase in foreign indebtedness. The public enterprise share in public investment has increased from one-half to two-thirds, exemplifying the government's preference for directly productive over infrastructural investment. Despite this emphasis on production, the incremental capital/output ratio has been high (nearly 6).

16. Savings performance has been weak, despite the private sector's "forced savings". Domestic savings have hovered around 3-4 percent of GDP and national savings have not exceeded six percent of GDP (see Table I.2). The central government seems to have been a dissaver in most recent years because of large non-investment outlays in the capital budget, while the public enterprises and private sector have been net savers. With their recent high levels of investment expenditure, the public enterprises' financial deficits have been widening. The obvious route to raising the economy's savings ratio is to increase budget savings, which can be achieved, in time, by reducing recurrent expenditure on security and by reviewing those non-investment outlays in the capital budget which are used to sustain non-viable projects. Private savings (4-6 percent of GDP) would also rise with better opportunities for private investment and a wider array of financial savings instruments.

Population, Food and Food Security

17. Ethiopia's food supply situation has been at the forefront of international preoccupations since the drought of 1984. It is a matter of serious concern to the government which has, until 1989, had to make repeated appeals to the international community for emergency food aid. Domestic production of food crops has risen since the drought but is now still no higher than in previous peak production years in the late 1970s and early 1980s. It has been supplemented by imports which, in the four years to 1987/88, averaged 1 million tons p.a., of which 85 percent was in food aid donations. Imports supplied 16 percent of net cereal availability in these years. Per capita food availability, nevertheless, declined over the decade from 82 percent of the nutritional norm to only 75 percent.

18. Food management in Ethiopia has specialized features: domestic public procurement and commercial imports provide food primarily for public institutions and urban residents' associations' shops; drought emergencies are handled with relief donations, supplemented by the small carry-forward stocks in the food security reserve; regular food aid supports long-standing food-for-work projects; and private traders supply the free markets, mostly in urban areas. The burden of public short-term food security arrangements falls largely on outside agencies rather than on the budget and on the local market. Free market grain prices vary widely from province to province as a consequence of restraints on transport and trade. Shortages of transport and the regulation of private road haulage have been important causes of market disarticulation. Quite apart from the economic inefficiencies which arise therefrom, this disarticulation has adverse nutritional consequences, particularly in drought years. Nutritional standards are worst in food deficit areas which are also the most drought-prone areas. In the event of drought these areas experience stronger price rises than they would with free internal trade and food deficit households accordingly suffer more.

19. The government is soon to introduce new policies on food and nutrition and on drought preparedness. The former is expected to encourage food production in the peasant sector through price incentives, tenurial stability, further marketing liberalization and strengthened measures of support for technical improvement and conservation. The latter will be based on a relaunched food security reserve, with more clearly codified contingency procedures to be followed in the event of renewed drought. Policies and administrative action will thus be strengthened for both long-term and short-term food security. They could with advantage be complemented by other measures to facilitate transport and trade in rural areas and to improve labor mobility, particularly for the populations of the drought-prone and food-deficit areas in the North.

20. As an additional facet of its development and food security initiatives the government is preparing to strengthen its population policies. To date, resources devoted to fertility reduction have been few and contraceptive use has been low. International support is being sought for a vigorous campaign to restrain the threatening increase in the population growth rate.

Lessons for Policy Formation

21. Ethiopia's future development will continue to be agriculture-based, though the mineral sector contains hitherto untapped sources of income and the share of manufacturing should rise. However, the supply of agricultural produce is actually or potentially price-elastic, in spite of the poverty and technical backwardness of some agricultural producers. Private businessmen have also exhibited resourcefulness and responsiveness to market opportunities. Agriculture and internal trade support each other: if one is frustrated the other suffers. Agriculture will also continue, directly or indirectly, to supply the bulk of Ethiopia's exports. Export growth is a prerequisite for economic revival.

22. However, the economy is unlikely to achieve sustained revival and to attain its potential for growth within the framework of incentives which has become entrenched in the 1980s (Table I.1 above). Compared with prices ruling in the domestic free market (and with border prices) prices offered by public procurement agencies for export commodities are too low; domestic prices, reflecting scarcities and the distorting effects of import duties and indirect taxes, make unprofitable much of the manufacturing for export for which Ethiopia has a comparative advantage; and private investor confidence has been low because of high taxation and official discouragement. Internal markets function imperfectly, not only in the price-controlled channels of official distribution but also in the highly segmented free market. The system has multiple sources of rigidity, including an administratively determined interest rate structure and privileges for the public sector in the allocation of credit. The key raison d'etre of the policies and instruments of scarcity management is the overvalued exchange rate. Policy adjustment has a crucial role to play in increasing agricultural output and the supply of exports and, as a condition of this, in oiling the wheels of internal commerce. Production must be made more remunerative and the supply of producer goods and wage goods needs to become more abundant. The leitmotifs in running the economy, henceforth, should be incentives, flexibility, the removal of unnecessary restraints and monopolies and, in the public sector, decentralization.

Economic Reform Agenda

23. The Ethiopian authorities have conducted a thorough review of performance in the 1980s and have drawn conclusions which are frankly critical of past policies. In a detailed report to the Central Committee of the governing Party in November 1988 President Mengistu observed that policy had fallen between the two stools of successful public sector development and the promotion of a dynamic private sector: the performance of the public sector had fallen below expectation and had not satisfied the demand for basic goods and services, but policies intended to promote it had deterred private sector initiative and discouraged individual peasant farming. As a result, Ethiopia's potential for growth had not been attained.

24. On the strength of this analysis, the ruling Party has adopted a reform agenda and the government is preparing legislative instruments for its implementation. The new guidelines for economic management laid down

by the Party re-emphasize the roles of peasant agriculture and of the private sector - alongside those of the socialized sectors - in increasing the supply of exports and of basic necessities for the domestic market.

25. A start with implementation was made as early as January 1988 when official procurement prices for field crops were slightly raised and regulatory restraints on private grain trade in the main surplus areas were removed, so increasing effective farm-gate price. Small changes in coffee procurement prices and marketing margins and regulations followed, which, combined with favorable weather, elicited a large increase in procurement for export. In June 1989 decrees were issued which raised the ceilings on investment by private sector entrepreneurs in manufacturing and hotels, streamlined licensing and substantially improved the incentives for foreign investment in the joint-venture code. Another decree is imminent which will permit private investment in commercial agriculture for the first time since the Revolution. Further measures are in preparation which will grant peasant households security of tenure in their holdings, reform labor and employment laws, establish a decentralized framework for public sector management, improve the tax regime for the domestic private sector and provide improved pecuniary incentives for exporters.

26. All-in-all, the government's new policies and proposals mark a significant and positive departure from past practice in several important areas. Further measures, in addition to those which have been promulgated or which are known to be in preparation, seem however to be required to relieve the economy from the regime of shortages, to integrate markets and to provide the necessary strong incentive for agricultural growth and exports. In the sequence of measures appropriate to Ethiopia there should. at an early stage, be vigorous price and exchange rate action to raise agricultural incomes and establish more realistic relative prices. With foreign exchange more realistically priced, the way will be open for a return to the freer access to foreign exchange for imports which existed in the early 1980s and thus to the removal of the single most important cause of domestic supply shortages. At this juncture it will be important to undertake tariff reform to reduce excessive rates of effective protection and anti-export bias. If public distribution monopolies are then eroded, the reintegration of the parallel and official markets will be largely complete. Employment laws which inhibit labor mobility and employment creation should, early on, be replaced by a framework which promotes both of these. The financial system also needs to become more flexible and competitive, to mobilize more savings and provide a more comprehensive service to small and large businesses alike. This will require the revision of interest rate policy. The government should pay continuous regard to ways of reviving and strengthening private sector confidence. Throughout this process the government should persist with its strict fiscal and monetary policies, reducing the deficit by expenditure restraint and so permitting a larger share of domestic credit expansion for the private sector. Public investment plans should be revised so as to concentrate outlays on removing critical infrastructural bottlenecks and on lifting the longer term restraints on development in the fields of human resources, population, institutional capacities, appropriate technology and environmental protection.

27. These policies will have transitional social costs which the government should anticipate - just as it is proposing to prepare for future drought emergencies. Low income urban dwellers, who make the most use of the ration shop distribution of foodstuffs which at present are implicitly subsidized by farm households, will suffer the worst. Targeted and tapered subsidy schemes and temporary employment schemes could be designed to help those most adversely affected. Ethiopia's well developed public administration could implement such measures effectively.

Medium Term Prospects

28. Under optimum conditions (and assuming an end to the civil war) Ethiopia could, before the end of a five year period, achieve a steady rate of GDP growth of 5 percent p.a., with the fastest growth occurring in industry and mining. Faster growth than this is unlikely because of infrastructural, environmental, and institutional constraints. Thus, even with strong incentives, the diffusion of improved practices in peasant agriculture will only proceed at a finite and measured pace and it is hard to envisage an early acceleration in the offtake from Ethiopia's large but traditionally managed livestock sub-sector. Peasant agriculture bulks very large in the total economy (about 40 percent of GDP) and its performance has, for reasons explained in the report, an even larger effect on the growth of the economy as a whole.

29. Conditions are unlikely to allow Ethiopia to achieve its growth potential. The terms of trade have recently fallen sharply with the collapse of the world price of coffee and this is projected to impose a serious balance of payments constraint on growth in the short-to-medium term. Two medium-term growth scenarios are explored which take the coffee price into account. The higher one envisages growth at close to four percent p.a., and the lower one at 2.3 percent p.a., i.e. fractionally above the trend of the last 15 years.

30. In the higher case, it is assumed that progress is made in restoring peace and security and reforms are pursued with vigor. The savings rate (assisted by fiscal adjustment) rises from 4.5 percent of GDP in 1988/89 to 6.7 percent in 1993/94, and the investment rate increases modestly from 13.7 percent of GDP to 14.8 percent. Exports grow by 65 percent in nominal terms over five years, principally as a result of a strong stimulus to coffee exports. Performance is predicated on a substantial rise in inflows of concessional grants and loans (an increase of $420 million p.a over the period) which finance rising imports of capital and other imports, except food. Food imports are much reduced, thanks to growth in agriculture. The external debt-service ratio falls (from 37.7 percent to 26.2 percent of exports of goods and services) without any rescheduling of debt service payments.

31. In the low case, by hypothesis, though security expenditure is contained, the reforms launched are not carried through to their logical conclusions. Exports perform poorly, rising over the five years to 1993/94 by only $210 million (28 percent in nominal terms, or 10 percent in volume terms). Consumption, though sustained by a much larger resource gap than in the high case, falls slightly in per capita terms. The domestic savings rate, nevertheless, falls to 2.2 percent of GDP by 1993/94. By assumption,

concessional inflows will tail-off in real terms - rising by only $70 million in nominal terms over the period. There is therefore a sharply rising requirement for gross non-concessional external financing which, by 1993/94, reaches some $630 million. It is doubtful if Ethiopia could borrow funds of this order of magnitude. They could only be acquired at the cost of a debt service ratio which would reach 43 percent in 1993/94 and which would escalate very rapidly thereafter to an unmanageable level. The low case projection leads inescapably to the conclusion that the continuation of past trends, policies and financing patterns is not a viable option.

32. Now that Ethiopia has embarked on a program of economic policy change, the high scenario, with its sustainable balance of payments outlook, is becoming more plausible, provided that the reforms are implemented with vigor and perseverance and that the peace process engenders the confidence needed for the expansion of production and trade. The new policies should be accompanied by a carefully tailored and affordable investment program designed to erode the long- term, structural, impediments to development. The projections powerfully reinforce one of the essential messages of this report which is that the supply of exports must rise quickly and steadily for Ethiopia to return to a sustainable growth path with rising per capita income. A key policy objective must therefore be to provide sufficient incentives for this increase in export supply to occur.

PART I: THE CAUSES AND CONSEQUENCES OF LOW GROWTH

1. For Ethiopia, the 1980s have been years of low overall economic growth, of preoccupation with natural disaster, of exhaustion with the crippling cost of maintaining internal security and, now, at the end of the decade, of reassessment and adjustment of economic policies. Like the previous country economic memorandum, 1/ produced in 1987, this report looks at the record of past performance and considers the causes of disappointing growth. One of the main tasks of this report is to review the government's new economic policies. This will be the subject matter of Part II. Part I sets the scene by assessing the record f the decade and identifying the main issues thrown up by the problems which have been experienced.

2. After several years of encouraging revival in the late 1970s and early 1980s the economy entered a precipitous decline associated with the catastrophic drought of 1984. Since then, there have been four years of erratic but continuous growth, but on a scale insufficient to restore per capita income to its level of the early 1980s. Chapter 2 identifies the crucial role of agriculture whose deteriorating performance in the first half of the decade and subsequent inadequate revival has retarded the whole economy and has underlain Ethiopia's growing balance of payments difficulties (Chapter 3). Food imports have sharply increased and food security has become an urgent preoccupation (Chapter 5).

3. A remarkable feature of the decade has been Ethiopia's perseverance with development programs in the face of civil strife and natural disaster. Investment expenditure and outlays on running social and economic services have risen in real terms and as a share of GDP. This has placed great strain on macroeconomic management. Foreign borrowing to finance investment has given rise to over-indebtedness. However, as shown in Chapter 4, the domestic economy has been held in approximate balance, with low inflation, thanks to vigorous revenue mobilization and to a steadily rising M2/GDP ratio. Fiscal and monetary rectitude has, unfortunately, adversely affected incentives for growth.

4. The development record of the decade raises many issues and topics for discussion. Each chapter reviews the issues evoked by the facts which it recounts. The major themes are: price policy and institutional incentives to increase production for the domestic market and for export, particularly in the private sector which still produces some 55 percent of GDP; and adjustments to fiscal and monetary policy to stimulate savings and to accommodate more private investment without upsetting the economy's overall equilibrium and without worsening external indebtedness. These themes recur in Part II which reviews and discusses the government's new policies which are designed to revive and stimulate the private sector.

1/ Ethiopia: Recent Economic Development and Prospects for Recovery and Growth. February 1987 (Report No. 5929-ET).

CHAPTER 1

ETHIOPIA IN THE 1980s: INSTITUTIONS AND RESOURCES

Institutions

1.01 In the aftermath of the 1974 Revolution, Ethiopia experienced several years of rapid social and institutional transformation, in the course of which land and major industrial, agricultural and service sector enterprises were nationalized, a radical land reform was implemented conferring access to cultivable land to all peasant households. At the same time private ownership in agriculture and the hiring of rural labor, were abolished and major campaigns were launched to eradicate illiteracy, to increase school enrollment and to improve access to health facilities. In the course of the 1970s, too, the institutions were formed for the comprehensive planning of the national economy, for the public distribution at the wholesale and retail levels of basic consumer goods and the products of nationalized industries and for the direction of labor.

1.02 The 1980s, relatively speaking, have been a period of consolidation for the new social and economic institutions, though of continued evolution of political and administrative ones. In the countryside the Peasant Associations, responsible for the allocation and reallocation of land between peasant households, the collection of local taxes and produce quotas, the execution of local public works with volunteer labor and other local government functions became universal and well established. Service Cooperatives, formed by groups of Peasant Associations to fulfil supply, marketing and extension services on behalf of their members, became more numerous and professional. Producer Cooperatives, whose peasant household members exploit most of their holdings in commonly managed, consolidated, farms, continued to increase slowly in number. The nationalized State Farms have only been fitfully expanded. The position of Urban Residents' Associations ("Kebeles") has also been consolidated in maintaining order and control in urban areas and in distributing basic foodstuffs and consumer goods at their retail outlets to registered members.

1.03 The private sector's status remained largely unaltered until 1989. Despite the strong official policy emphasis on producer cooperatives, individual peasant households still farm over 85 percent of the land under major crops. Small scale industry and much road transport and wholesale and retail trade remains in private hands and has been allowed to develop, though subject to official supervision, licensing and limits on fixed assets. Medium to large scale enterprises had been nationalized in the 1970s, leaving 55-60 percent of GDP at factor cost in the private sector. The main encroachments on the role of the private sector have occurred in road haulage and import-and-export trade, but the extension of social ownership has proceeded pragmatically and has in some instances been reversed. The foreign investors, whose assets were nationalized in the 1970s, have received compensation in the 1980s, but until recently and in spite of the 1983 Code on joint ventures, there has been no direct foreign investment. The Code provided, as a rule, for majority shareholdings by a state enterprise which the government would designate for each prospective partnership. Recent legislation which enlarges the role of the private sector, including foreign investment, is outlined in Chapter 6.

1.04 The 1980s have seen constitutional change with the proclamation in 1987 of a civilian constitution in replacement of the previous provisional military council (Derg). The new constitution allows for a President as chief executive to whom the Prime Minister and Council of Ministers report and for the election of a National Shengo or parliament. Between sessions of the Shengo the Council of State endorses legislative proposals. The Workers' Party of Ethiopia, of which the President is the Secretary-General, is accorded a leading role in the organs of the state and in the mass organizations (of peasants, workers, women and youth) whose consultative and inspirational role is recognized in the constitution. In parallel with the new constitution the government has begun to implement an administrative reorganization which provides for the replacement of the existing 14 administrative regions by 25 new administrative and 5 autonomous regions and for the suppression of the lowest tier in local administration, the woredas. Both the civilian constitution and the administrative reorganization were prepared over a long period of time and their implementation has been gradual and so far non-disruptive. The new regional structures have as yet only been partially introduced.

1.05 Economic and social development in the 1980s has been frustrated by repeated droughts and by persistent dissidence in the North of the country. The droughts of 1983/84 and 1984/85 provoked famine and widescale population displacement. Famine was prevented in 1987/88, following severely deficient rainfall in 1987, by dint of timely action by the government and by external donors. The has been a new appeal for large scale assistance for 1990 to relieve the plight of drought afflicted populations in the North. The burdens of coping with drought and dissidence have created serious problems of resource mobilization for the authorities. They have also posed with acuity and with much international publicity, the longstanding problems of land degradation and overpopulation with people and livestock of parts of the Ethiopian highlands, especially in the North, and have caused the government to consider how to achieve a better distribution of the agricultural population over the land area of the country.

1.06 In the rural economy there have been two important developments, namely the drive to group the population in designated village sites and the accelerated campaign of resettlement which was launched at the end of 1984. The process of villagization began in Bale in the late 1970s but only became national policy in October 1985 since when it has made rapid strides especially in central regions. By May 1989 there were nearly 23,600 new villages with an estimated population of 13 million, i.e, one third of the rural population. The intended benefits of villagization - clean water, electricity, rural access and social services - have however not always been realized for lack of resources. The quite distinct program of resettling populations from drought-affected areas and, to a lesser extent, from the urban unemployed, in hitherto uncultivated areas, mostly in the West of the country has existed since before the Revolution but was prosecuted on a greatly expanded scale starting in 1985, as a reaction to the 1984 drought. The resettlement campaign was characterized by poor organization and arbitrariness in settler selection and, in agricultural terms, settlements have been largely uneconomic, requiring heavy initial financing and subsidies thereafter for a number of years. Some settlers have abandoned their schemes and the creation of new settlements has now virtually halted. Since late 1984 some 600,000 people in 200,000 households have been resettled, compared with 150,000 people in 46,000 households in the previous decade.

Human Resources

1.07 In Ethiopia's first census in May 1984 the population was found to be 42.2 million. By mid 1989, it is estimated to have reached 48 million and to be growing at 2.9 percent p.a. Its rate of growth is increasing. Forty-six percent of the population is under 15 years. Fertility is high and has remained so over the past decade. The Crude Birth Rate is currently about 47.3 per 1000 of the population. The total fertility rate is about 7.5 per thousand. Mortality appears to have declined slightly between the 1950s and the mid 1970s and increased slightly in the mid 1980s. The Crude Death Rate is currently around 23.2 per 1000. Life expectancy at birth is estimated to have been 40.9 for the period 1980-1985. With no decline in fertility the rate of population growth is expected to reach 4.2 percent by 2030-35. If fertility falls rapidly, official projections show that the population will reach 78 million by 2005 and 165 million by 2035 and that with little or no fertility decline it will be 80 million in 2005 and 251 million by 2035. So, even with rapid fertility decline, the population will double in less than 25 years.

1.08 Though Ethiopia's population growth rate is a little less than the average for Sub-Saharan Africa (3.2 percent p.a.) it is high enough to have caused serious problems of falling agricultural land availability and disguised unemployment and to have frustrated the government in achieving some of its human resource development goals.

1.09 Ninety percent of the population is rural, the overwhelming bulk of which is engaged in peasant agriculture in the highland areas. The nomadic, pastoral population of the lowlands is no more than 3 percent of the rural population. With population growth, peasant households have become steadily more numerous and, with stagnation in the cultivated area and regulations limiting spontaneous population movement, the average holding size has steadily fallen. The 1975 land reform abolished landlessness and redistributed large-sized holdings. Nevertheless, rural poverty persists and poor households are becoming more numerous. Partial surveys show that the numbers of households cultivating holdings of sub-marginal size (below 1 hectare) in the mid 1980s was larger than before the Revolution. The economic progress of the settled peasant population is frustrated by limited land availability in the areas of existing settlement, ecological deterioration, and the relative lack of readily available technology for increasing the productivity of land and labor.

1.10 The urban population is growing at around 4.2 percent p.a. Thirty-four percent of the urban population lives in Addis Ababa where, too, there is widespread poverty and deprivation, though open unemployment is largely confined to school leavers. Women, in Addis, are more numerous than men as a consequence of migration by widows and divorcees from rural areas seeking employment, commonly in poorly paid, informal, service sector occupations. The rate of population growth in the capital has slowed from 7 percent per annum in the 1961-67 period to 3.4 percent p.a. between 1978 and 1984. Of the growth in the recent period, 1.65 percent p.a. is accounted for by the natural increase in the population and 1.75 percent p.a. by net inward migration. In the later 1980s the population of Addis is projected to be growing at a rate in the range 3.9 to 4.2 percent p.a.

1.11 Notable improvements have been wrought in the educational status of Ethiopians since the Revolution. Seventeen successive literacy campaigns since 1979 are claimed by the government to have increased the literacy rate from seven percent in the mid-1970s to 76 percent in 1988. Primary school enrollments have trebled since 1974, increasing the enrollment rate from 15 percent of the primary school age group to 35 percent. Over the same period secondary school enrollments have quadrupled, raising the junior secondary enrollment rate from 9 percent to 25 percent. Despite these endeavors, Ethiopia lags behind the generality of Sub-Saharan African countries for which the primary enrollment rate is now about 75 percent. The main period of expansion in primary enrollment was prior to 1984 when pupil numbers were increasing at over 11 percent p.a. Since 1984 the annual increase, at 3.5 percent p.a. has barely exceeded the growth rate of the population. Secondary level expansion has proceeded more steadily, with enrollment growth only slowing slightly from 12.5 percent p.a. prior to 1984 to 9.5 percent p.a. in the 1984-1988 period.

1.12 If Ethiopia has still some ground to make up in educational achievement the reputation of its labor force is high for its assiduity, adaptability and ingenuity. In the professional, technical and managerial echelons what was at one time a serious skill shortage has been eased thanks to increased higher education enrollments. Indeed, there is now a preoccupying problem of under- or unemployment, not only among the uneducated and unskilled but, particularly, among the graduates of secondary education. This problem is disguised by the employment practices of the public sector where all higher education graduates are offered jobs and to which they are generally directed by the labor deployment department of ONCCP. Among the major challenges facing policy makers in Ethiopia are the creation of jobs for the unskilled and semi-skilled in the informal and household enterprise sectors as well as in formal employment and the efficient deployment of skilled and professional staff, perhaps through a functioning jobs market.

1.13 There is no recent household budget evidence on poverty but partial nutritional surveys indicated widescale deprivation. The latter show that about one-third of pre-school children have body weights relative to their height of less than 80 percent of the norm for healthy children. This level of under-nourishment prevails in urban and semi-urban areas as well as in rural areas. It indicates that at least a third of children are at risk of physical and mental retardation because of their poor health and nutritional status. High infant and child mortality rates corroborate the impression of poor health and nutrition: infant mortality is estimated at 144 per thousand live births and the rate of mortality for all children under five at 236 per thousand. In Addis Ababa, however, the situation is rather better with the corresponding figures being 68 and 170 per thousand.

1.14 Though many parts of the full picture on human resources in Ethiopia remain to be painted, it is evident that the potential is far from fully realized and that there are many unmet needs which should be covered if Ethiopians are to live productive and fulfilled lives. Satisfying more completely Ethiopia's human resource development needs in all probability calls for more resources and for higher public expenditure. This in turn raises the issues of competing claims on fiscal resources and of macroeconomic stability which can best be resolved in the context of a reduction in defense expenditure and a comprehensive review of other public expenditures in which trade-offs are established, potential economies identified and priorities determined. The issues of employment creation and how to deal with unemployment are an abiding concern of the government. One response in the past has been to resettle some of the urban unemployed in agricultural resettlement schemes. Another has been to encourage the formation of handicraft and other cooperatives. At the same time, employee protection legislation mainly affecting the formal sector has been a restraint on labor mobility and on employers' willingness to expand their work forces. The effects of these and other policies on employment deserve further study and are not analyzed in this report. Some of the new policy measures outlined in Chapter 6 will have significant consequences, both positive and negative, for the absorption of labor in agriculture and for job creation in the small scale and informal sectors of manufacturing the distributive trades and other services.

Physical Resources

1.15 The most promising element in Ethiopia's natural resource base is its potential for agricultural production. However, only about 8 percent of the land area (95,000 sq. km) is under identifiable crop production, almost all of which is located in the highland areas with an elevation of over 1500 m and a rainfall of over 800 mm p.a. Of the cultivated area, 27,000 sq. km is degraded in some degree and 1400 sq. km is seriously degraded. The highland cropped area has tended to contract slightly in the 1980s under the combined impact of degradation and drought. In places, it could be extended, and the degradation reversed, by means of minor irrigation and soil-and-water conservation and drainage works. Steady but slow progress has been made with irrigation and conservation programmes, covering 1000 sq. km in the course of the 1980s. The agricultural potential of the highlands is good in the central and South-West provinces (most of Gojam, large parts of Gondar, most of Shewa and Arsi and large parts of Welega, Illubabor, Kefa, Bale and Gamo-Gofa). Here the soils are relatively rich and the weather predictable. Production increases can be achieved through a more intensive application of fertilizer and, in time, through the introduction of high yielding varieties and improved farm management techniques. In the North (major parts of Eritrea, Tigray, Welo and northern and eastern Gondar) the soils are poor and heavily eroded and drought a recurrent phenomenon.

1.16 Ethiopia has some 75 million cattle, camels, sheep and goats, the largest livestock population in Africa. The bulk of it is located in the highlands and is integrated into the peasant farming system as a source of draught power and of animal products. Livestock contribute almost 40 percent to the value of agricultural output, i.e. as much as cereals, oilseeds and other field crops. Offtake rates for cattle are low, though they are much higher for small stock. There remains substantial unrealized potential for increasing the value of livestock output and of adding further value to it through industrial transformation.

1.17 There is also potential for expansion in the production of cash crops, such as coffee and spices from peasant and state farms in the highlands and cotton, citrus and other fruit and vegetables which are mostly produced in lowland irrigation schemes. At times, there has been neglect of coffee bushes in favor of maize cultivation because of shifts of the incentive structure which have made the latter more remunerative.

1.18 To date Ethiopia has not had indigenous energy resources to exploit other than fuel wood and animal dung. Progressive deforestation and use of animal waste as fuel has contributed to the degradation and impoverishment of soils. New energy sources are now starting to be exploited or to be prospected for and developed. Hydro-electric energy from newly commissioned capacity now contributes 85 percent of the electric power produced. A natural gas field of economically exploitable size has been discovered in Hararaghe and studies are under way to decide how best to make use of it. Finally, international oil companies have been commissioned on a production sharing basis to prospect for offshore oil in the Red Sea.

1.19 There are other mineral resources, little exploited at present, but whose large-scale exploitation is soon to begin or is in firm prospect. First and foremost, large-scale gold mining is due to commence at a rate of 3 tons p.a. in early 1990 and has the potential of reaching 10 tons p.a. in the course of the 1990s. Other less valuable though useful resources include soda ash, tantalum, marble, potash and base metals. With appropriate policies, these could become net foreign exchange earners (or savers) in the course of the next ten years.

1.20 Ethiopia has a very large and poor population whose traditional mixed farming way of life in the highlands is seriously threatened by overcrowding, diminishing holding sizes and deteriorating soil fertility. The means of, and resources for, achieving sustained per capita income growth nevertheless exist and can be put to work with moderate amounts of investment and adequate incentives. They will be all the more effective in raising living standards if the rate of population increase can be restrained. Growth in recent years has, nevertheless been disappointing and living standards have declined. The next chapter considers recent economic developments in some detail and identifies areas where potential has lain imperfectly realized.

Economic Planning

1.21 In keeping with its socialist institutions, Ethiopia has a system for economic planning. The principal organ for economic planning is the Office of the National Committee for Central Planning (ONCCP), which was established in 1984, but whose antecedents go back to 1978 when the revolutionary government set up a Central Planning Commission.

1.22 The ONCCP has had wide-ranging functions and authority. Its responsibilities have included:

a. drawing up comprehensive annual plans for all entities in the public sector comprising output targets, (some) material balances, financial objectives, credit plans and foreign exchange allocations; preparing and controlling the central government's capital budget; and supervising the capital- and other development-expenditure operations of all branches of the public sector;

b. formulating medium-term economic development plans; drawing up the national accounts and making projections of aggregate resource availability and uses; monitoring production and expenditure trends in the whole economy;

c. appraising, or reviewing the appraisal of, proposed development projects for their economic, financial and technical viability;

d. formulating manpower plans and directing professional and technical labor;

Up to 1987 ONCCP used to set public sector prices and to assess the merits of requests for price increases from enterprises which experienced cost increases. This role has now been devolved on the Price Studies and Policy Institute. The ONCCP also has an important role in policy analysis and in the preparations for policy reform.

1.23 The key operational tools in state planning are the annual plans which provide the public sector with comprehensive guidelines for its productive operations, financing and access to credit and foreign exchange. In order to prepare these plans the ONCCP requires, and obtains, large amounts of quantitative information from all units in the public sector about past performance, and detailed projections of future performance and financing and foreign exchange needs.

1.24 The annual plans are ostensibly tranches of medium or longer term economic development plans, though, in practice, they are carefully tailored to a realistic view of likely resource availability and may, if the circumstances warrant, be subject to in-year adjustments. Ethiopia is in principle still working within the guidelines for economic development and institutional and social change laid down in the Ten Year Perspective Plan (TYPP) 1984/85 to 1993/94. The ten year period has been subdivided into an initial two years (during which the catastrophic 1984 drought occurred) for which there was no published medium-term plan document; a period of three years, 1986/87 to 1988/89, covered by a published Three Year Development Plan (TYDP) and a final five years was due to be covered by a now delayed Five Year Development Plan.

1.25 The plan documents published so far have featured consciously ambitious growth targets. The TYPP looked forward to GDP growth over the decade of 6.5 percent p.a, with agriculture growing at 4.3 percent p.a. and industry at 10.8 percent p.a. Despite the setbacks of the middle of the 1980s, the TYDP projected GDP growth at 6.3 percent p.a., with agricultural value added increasing at 6.8 percent p.a. These targets were supported by similarly ambitious objectives for saving and investment. It was recognized that ambitions might not be fully realized but the belief was that the economy's attainment would be stretched and its performance improved if its sights were set high.

1.26 Ethiopia's published development plans have also stated and reiterated a number of strategic and intermediate economic objectives whose attainment the government regards as very important. These include:

a. attaining food self-sufficiency;

b. conserving the country's soil, water and forest resources;

c. improving human resource potential and raising living standards by increasing access to education, training, health, potable water, basic consumption goods and rural transport;

d. strengthening the balance of payments by import substitution and higher and more diversified export production;

e. increasing employment and raising labor productivity through scientific and technical progress; and

f. progressively transforming "production relations" in the economy, particularly through the spread of cooperatives.

Coming in the aftermath of the 1984 drought, the TYDP added another objective, namely that of disaster preparedness and prevention.

1.27 Many of these themes have recurred in the preparatory work for the forthcoming Five Year Plan which has highlighted, in particular, the problems of employment creation, achieving export growth, food-sufficiency and conservation. The Plan is also expected to emphasize pragmatism in economic and institutional policies and efficiency in resource allocation within the framework of a mixed economy.

1.28 The Ethiopian state planning system is very sophisticated for a low income country and one where it is not always possible to ensure the availability and accuracy of data. Its main virtue is that, in the public sector, there is a high degree of awareness on the part of managers and administrators of their role within the wider context. The planning process is an interactive one, based on proposals from the executing agencies which are adjusted at the center. It tends to be frustrated by the slow availability of actual information on output and financial flows. Other drawbacks are that the private sector has been largely omitted, and consequently disadvantaged in the allocation of resources, and that medium and longer term plans have not been based on realistic assessments of the constraints on growth, particularly in terms of managerial and technical skills and incentives.

1.29 In the government's recent appraisal of economic performance in the 1980s (see Chapter 6) the wisdom of overambitious planning has been questioned and more modest growth target have been mooted for the early 1990s. Chapter 2 discusses some of the reasons why growth, in the event, has been way below TYPP and TYPD targets.

CHAPTER 2

GROWTH AND DEVELOPMENTS IN THE MAIN PRODUCTIVE SECTORS

2.01 Ethiopia's growth record since the Revolution falls into two phases: the first one comprising the later 1970s and the early 1980s when, despite temporary setbacks, the economy grew faster than the population, and the second consisting of the period since the early 1980s when there were violent weather-induced fluctuations in agricultural output and when per capita income fell. In the more recent period, exports have faltered. The decline in growth has coincided with the consolidation of the institutional framework referred to in Chapter 1. Within the second sub-period, the precipitate decline in economic performance in the mid-1980s has been followed by several consecutive years of recovery, only partially interrupted by the drought year of 1987.

Structure of Production

2.02 Ethiopia is basically an agricultural country with agriculture contributing 40-50 percent of GDP. Individual peasant farming is predominant and is responsible for the bulk of field crop, livestock and coffee production - and thus for the production of the greater part of food output (both in total and in terms of the marketable surplus) and of agricultural exports. In the lowlands pastoralists also contribute to livestock production. In addition there is the socialized sector which consists of state farms and producer cooperatives. State farms produce grains, coffee, sugar, fruit, vegetables and other cash crops. Their cultivated area has diminished from a short-lived peak reached in the early 1980s as they reduce their emphasis on cereals to concentrate more on industrial and export crops. Whereas state farms have been in a phase of consolidation, producer cooperatives have until recently been increasing in number and area. The policy of expanding producer cooperatives is now being reassessed according to considerations of efficiency. The socialized sector has been the priority beneficiary of investment and input supply and of the attentions of the professional cadre of agricultural support staff. Despite recent endeavors to extend improved farm technology to individual peasant farming, techniques of production in the peasant sector remain for the most part unimproved.

2.03 Grain crops, which are the subject of annual sample surveys, contribute about 38 percent to the aggregate value (and value added) in agriculture. The livestock sector, which is estimated also to contribute an average 38 percent to aggregate agricultural output, is less well documented 2/. Other commercial crops, fruit and vegetables, forestry and fisheries contribute the remainder of the aggregate value of agricultural output. The production of coffee, Ethiopia's major export crop has only

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2/ Source: FAO. The government estimate of the contribution of livestock to agricultural GDP is 25-27 percent.

been roughly estimated: about half the crop is marketed domestically outside official channels.

2.04 Manufacturing industry, consisting of medium and large public enterprises, private small scale industries and the handicraft sector, contributes 12 percent of GDP at factor cost. The share of value added produced by the public sector has risen over the decade from 64 percent to 68 percent and is set to increase further with the commissioning of large new textile, cement and engineering projects.

2.05 The distributive services - transport and trade - play an important role both in earning foreign exchange (from the operations of the national airline and shipping line) and in the internal circulation of goods in a country with poor inland communications. They contribute some 16 percent to GDP and their share is rising. There is a substantial public sector presence in the wholesale trade in agricultural and industrial goods (approximately 30 percent and 60 percent respectively), but retail trade is predominantly private. Seventy percent of the road transport fleet is private.

2.06 The share of other services in GDP at factor cost is also increasing thanks to the expansion of public administration and social services, whose combined share has increased from 10 percent of GDP to 13 percent in the course of the decade, and the steady growth of the financial sector. The service sectors, together, now contribute 40 percent to GDP, compared with 34 percent at the start of the decade.

Growth of the Economy: Synopsis

2.07 Ethiopia's trend rate of GDP growth over the 15 year period 1974/75 to 1988/89, has been 2.2 percent p.a. 3/ Meanwhile, the population growth rate has increased from 2.7 percent p.a. in the years prior to the 1984 census to 2.9 percent p.a. in the mid-to-late 1980s. The post-Revolution period in Ethiopia has thus seen a fall in per capita income of about 0.5 percent p.a.

2.08 The economy grew fast in the late 1970s and again in 1982/83. Then followed two years of partial rain failure followed by severe drought which occasioned a sharp drop of nine percent in real GDP. The economy recovered vigorously in 1985/86 and 1986/87 before again suffering a setback in 1987/88 with renewed drought, mainly affecting the North, when growth fell to two percent p.a. In 1988/89 abundant Meher (long) rains increased field crop output by 14 percent, and the provisional estimate of GDP growth is over four percent. The growth trend in the 1980s, from 1980/81 to 1988/89, has been only 2.0 percent p.a., implying a falling trend in per capita income of about 0.9 percent p.a. However, in the post drought recovery sub-period 1985/86 to 1988/89, the trend in GDP growth has increased to 4.5 percent (see Figure 2.1). Per capita income recovered by 11 percent in the two post drought years to reach a plateau five percent below the level of the first two years of the decade (see Figure 2.2).

3/ Calculated by least squares.

FIGURE 2.1 GDP at 1980/81 Market Prices

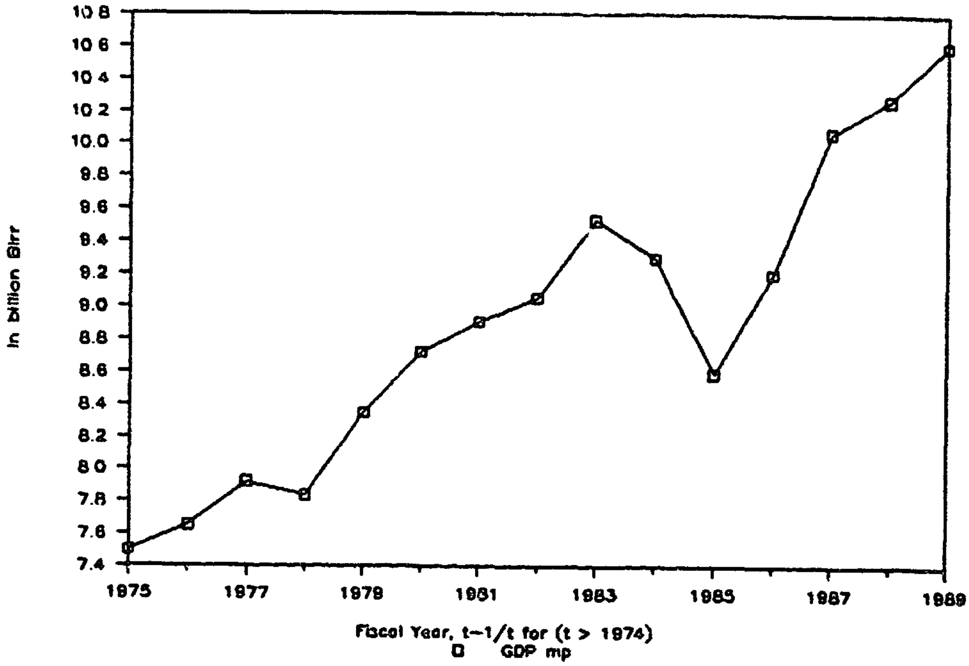


FIGURE 2.2 GDP per Capita

in 1980/81 Prices

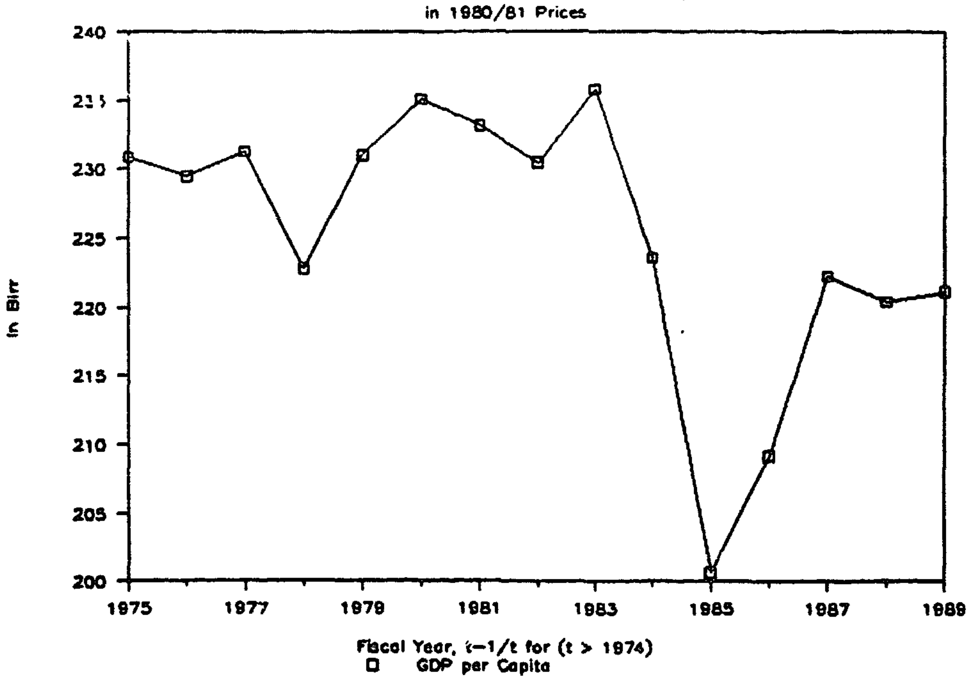


FIGURE 2.3 Manufacturing Value Added

at 1980/81 Prices

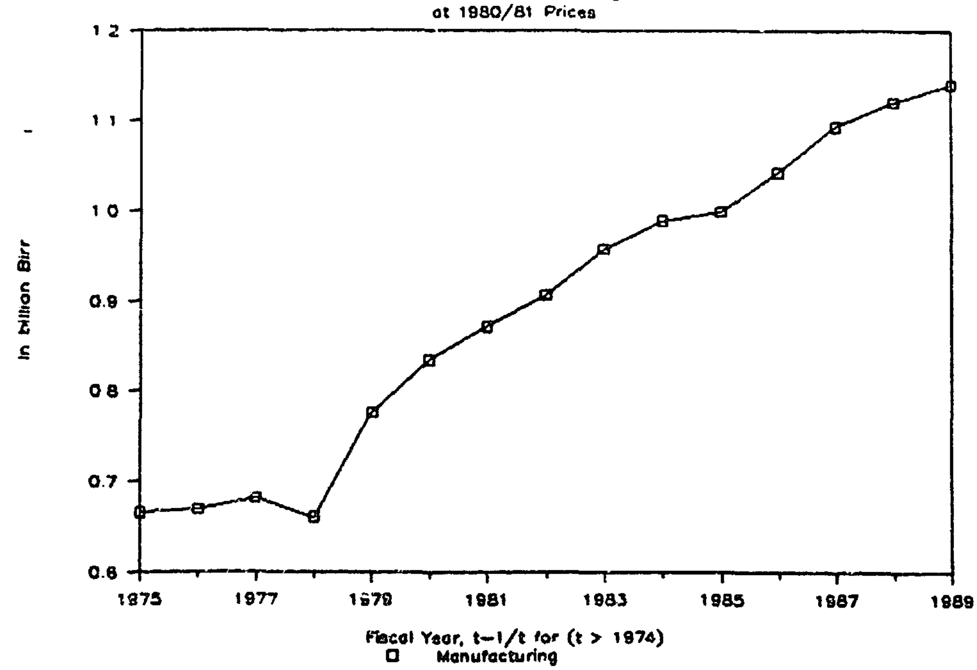


FIGURE 2.4 Trade & Transp. Value Added

at 1980/81 Prices

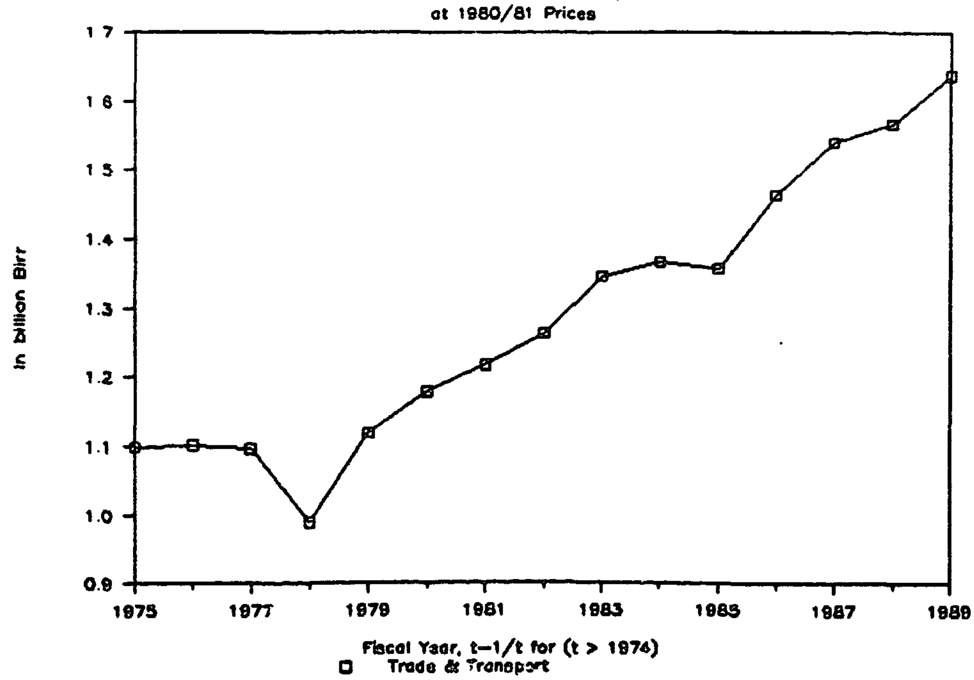


FIGURE 2.5 Services Value Added
at 1980/81 Prices

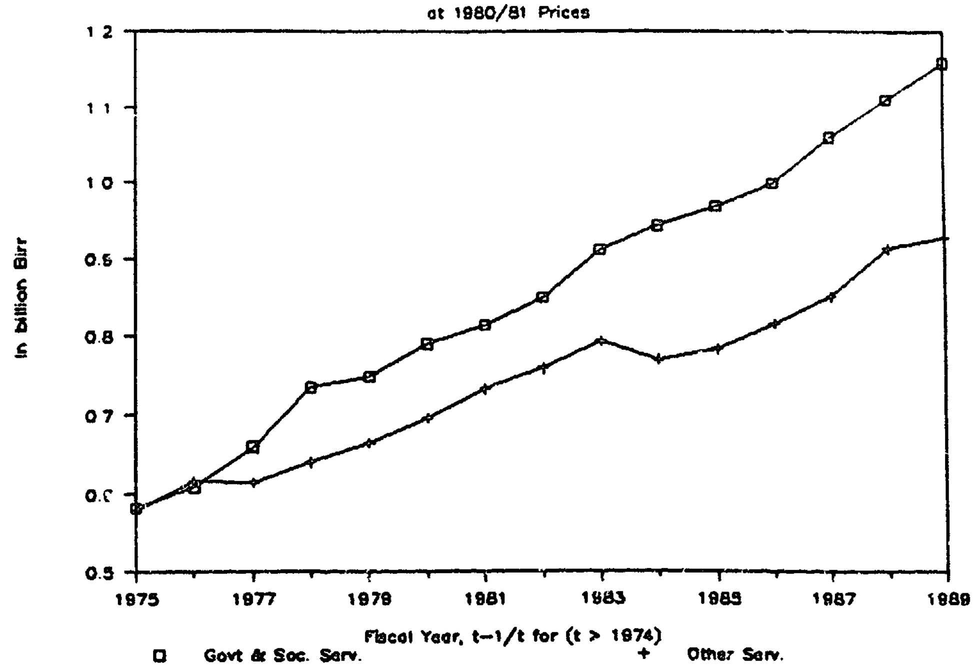


FIGURE 2.6 Agriculture Value Added
at 1980/81 Prices

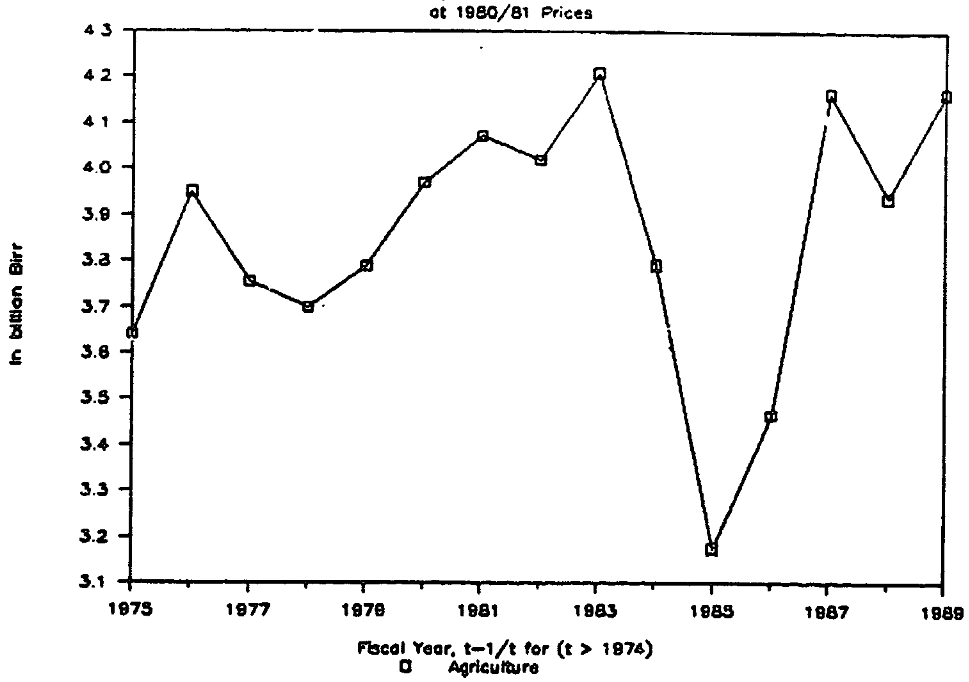


Table 2.1: TRENDS IN GROWTH BY SECTOR BY SUB-PERIOD
(percentages)

	1974/75-1988/89	1974/75-1980/81	1980/81-1988/89	1985/86-1988/89
GDP market prices	2.2	3.0	2.0	4.5
Value added in:				
-Agriculture	0.2	1.3	-0.1	5.2
-Manufacturing	4.4	4.9	3.4	2.9
-Distribution	3.3	1.7	3.6	3.4
-Govt. & Social Services	4.8	6.0	4.3	4.8
-Other Services	3.3	3.7	2.9	4.6

Source: Annex Table 2.2
Note: Calculated by least squares.

Dynamics of Growth

2.09 The figures in Table 2.1 above inspire several reflections. Agriculture has performed the worst of all sectors (see Figure 2.6). It grew, albeit more slowly than the population, until the early 1980s, whereafter it entered a period of strong fluctuations in the course of which it declined on trend. It suffered worst in the 1984 drought, though its post drought recovery has been correspondingly the strongest of all sectors. The rest of the economy has continued to grow in the 1980s, but, with the exception of transport and trade, more slowly than in the 1970s.

2.10 The year-to-year fluctuations in GDP growth have become more pronounced in the 1980s. Table 2.2 shows how annual sectoral growth rates have varied since 1982/83, which was a year of exceptional performance in agriculture. Droughts have been the major cause of fluctuations. Figures 2.1 to 2.6 vividly illustrate how the catastrophic effects of the 1983/84-1984/85 drought reverberated throughout the economy, retarding growth in manufacturing, distribution and certain other services and so contributing to strong negative growth of GDP in these years. Foreign exchange shortages, especially after the collapse in the external terms of trade in 1987 have been another, though less dramatic, cause of fluctuation.

Table 2.2: RECENT GROWTH OF GDP AT CONSTANT 1980/81 PRICES, BY SECTOR
(percentages)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
GDP (factor costs)	-3.7	-7.0	6.7	9.0	1.4	4.5
Value added in:						
- Agriculture	-9.9	-16.3	9.2	14.4	-0.8	5.8
- Industry, Mining	5.3	0.7	3.7	4.5	1.4	2.9
(Manufacturing only)	(3.3)	(1.0)	(4.4)	(4.9)	(2.3)	(1.9)
- Transport	4.2	9.3	12.0	0.2	4.7	6.0
- Trade	0.4	-5.4	5.8	7.9	0.1	3.1
- Other Services	-0.5	2.3	3.6	5.2	5.9	3.0
(Govt & Social services)	(3.4)	(2.8)	(3.2)	(6.0)	(4.7)	(4.2)

Source: Annex Table 2.2

2.11 The behavior of the economy in the face of climatic shocks has exhibited some clear features. The performance of agriculture, the dominant sector, has a ripple effect on other sectors, though sometimes with a lag, as in 1983/84. Industry is affected both directly because of the shortages of agricultural raw materials which drought occasions and also indirectly because of foreign exchange restrictions, the commandeering for relief of transport facilities and the fall in real expenditure of the personal sector. The trade sector is similarly affected. Transport, on the other hand, has flourished in the aftermath of drought because of drought relief transport requirements.

2.12 Services other than transport and trade have managed to grow more steadily and faster than GDP. Real value added in these sectors stood 29 percent higher in 1988/89 than the average for the period 1980/81 to 1982/83. The main driving force behind the growth in these services has been public expenditure. The social services expanded steadily. Expenditure on public administration and defense was restrained in the 1983-1985 drought period but has since grown substantially. The security situation occasioned large increases in defense and related expenditure in 1987/88 and 1988/89. The financial services sector also experienced steady growth thanks to a deliberate policy of expanding the bank branch network and of mobilizing deposits.

Agriculture

2.13 There are underlying, structural problems in Ethiopian agriculture, viz. recurrent drought, environmental fragility and low levels of capitalization and technological development in the peasant sector. The proximate causes for the disappointing performance of agriculture in the last 15 years, however, have been: first, little change in the area under field crop cultivation; second, virtually static yields; and third, low returns on investment in the socialized sector which in the past has received the bulk of investment expenditure. Among the major consequences of poor agricultural performance have been low overall economic growth, inadequate and stagnating standards of nutrition, rising food imports, vulnerability to natural disaster and a static volume of exports. Some of these matters are explored in subsequent chapters. The following paragraphs outline the essential facts of agricultural output performance.

2.14 The area of land reported to be under cultivation with "major" crops (cereals, oilseeds and pulses) has remained at around 6 million ha for the last decade. The sampling procedure used may underestimate the actual area cultivated which some believe to be as much as 9 million ha, but it can be reliably concluded that the area under cultivation has not increased in the 1980s. Longer term studies suggest that the expansion of the cropped area in Ethiopia came to a halt as long ago as the 1960s. The now limited physical availability of land in the temperate highlands and the effects of land degradation have been important explanatory factors. However, the institutions and policies which have prevailed since the land nationalization and land reform in the 1970s have also not favored the lateral expansion of cultivation. Spontaneous resettlement has been rendered impossible and the precipitate program of government-directed resettlement launched in 1985, but whose pace has been since greatly reduced, has been insufficient to contribute significantly to cultivated area and output.

Table 2.3: AREA UNDER MAJOR CROPS AND "MAJOR" CROP YIELDS

	1979/80	1983/84	1987/88
Total area under Major Crops (ha million):			
of which:	6.06	5.73	5.94
- State Farm	0.14	0.18	0.21
- Producer Cooperatives	0.14	0.09	0.35
"Major" Crops Yields (t/ha):			
of which:	12.38	11.05	11.1
- State Farm	15.66	16.7	16.3
- Producer Cooperatives	8.29	10.0	11.5

Source: Annex Tables 7.1 to 7.4.

2.15 Highland agriculture, having for some time reached its extensive margin, might have grown through intensification. This has not happened on a significant scale because farmers have had to contend with the thread of soil degradation and farm technology has undergone little evolution. Proven packages of higher yielding and more resistent varieties, farm inputs and agriculture practice adapted to the needs of Ethiopia's varying agro-climatic zones have not been made available to peasant farmers in sufficient numbers. Even where they have been developed, their diffusion and adoption has been slow because in many areas the agricultural extension service has not been effective, because of poor transport and because agricultural import supplies, though improving, have been grossly inadequate. In the state farms and producer cooperatives there has been some improvement in yields, though not commensurately with the volume of investment and inputs which these sectors have absorbed.

2.16 In recent years (1986-1988) fertilizer usage in the peasant sector has risen sharply to over 100,000 tons annually, compared with only 30,000 tons per year in 1981 and 1982. This, combined with more favorable rainfall, has contributed to the revival of crop production in the years since the catastrophic drought of 1984. The volume of crop production in 1988/89, however, has only just reached the peak output of the late 1970s and early 1980s, even after four consecutive years of post-drought recovery (see Figure 2.7). The stagnation in production over the decade has opened a large cereal deficit which has been filled by imports (see Chapter 5) and has caused traditional exports of oilseeds and pulses to decline. Domestic shortages have caused free market prices to rise, especially in drought years, which has made difficult the public procurement of foodstuffs for export and for domestic public distribution.

2.17 The other large contribution to agricultural GDP is livestock. The size of the herd is approximately known from sample surveys (70-75 million) but its growth is known with less precision. The best estimate is that the real value of livestock and poultry production has been increasing on trend by about 2.0 percent p.a., i.e., at approximately the same rate as agricultural GDP but at less than the rate of human population growth.

Table 2.4: PRODUCTION OF "MAJOR" CROPS
(million tons)

	1979/80	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Total Production	7.5	7.8	6.3	4.9	5.4	6.3	6.6	7.3
(Cereals)	(6.4)	(6.7)	(5.5)	(4.2)	(4.8)	(5.6)	(5.9)	(6.5)
of which:								
- State Farms	0.26	0.34	0.30	0.35	0.41	0.48	0.43	n.a.
- PCs	0.12	0.09	0.69	0.11	0.16	0.23	0.40	n.a.

Source: Annex Tables 7.1 to 7.4

2.18 Agricultural performance in the 1980s has had an important negative impact on Ethiopia's external trade (see Chapter 3). Marketed supplies of exportable produce (coffee, oilseeds, pulses, spices, livestock and livestock products etc.) and import substitutes (mainly cereals) have not increased satisfactorily. Marketing and pricing policies, as well as agrarian institutions and agricultural investment policies, must bear some responsibility for this. The two main exports - coffee and livestock or livestock products - have performed erratically but mediocrely until the very recent past when substantial increase has been recorded which reflects not so much changes in underlying production levels but altered incentives to market produce through official channels. Ethiopia's policy in most of the 1980s has been to increase the share of public procurement and marketing at the expense of private traders - without however prohibiting private trade altogether. The public procurement agencies' success has been very mixed.

2.19 For cereals, oilseeds and pulses the Agricultural Marketing Corporation (AMC) founded in 1976, has responsibility for wholesale domestic procurement and for arranging commercial imports of cereals. Oilseeds and pulses exports are handled for the most part by the state owned Ethiopian Oilseeds and Pulses Export Corporation (EOPEC), which receives the bulk of its supplies from AMC. 4/ The AMC procures all the marketable produce of the state farms and requires individual peasant farmers to deliver to it, at fixed prices, quotas of produce based on their assessed ability to produce marketable surpluses. In addition, since 1980, procurement prices have been made uniform throughout the country and all private grain traders have been obliged to deliver to AMC 50 percent of what they procure privately from farmers. Between 1983 and January 1988 private wholesale trade in grains was banned in Gojjam, and three awrajas in Shoa - and from 1985 in Arssi also. These areas are responsible for 85-90 percent of peasant farmers' aggregate marketable surplus. Since January 1988 private trade has again been authorized and barriers to inter regional movement removed.

4/ EOPEC has hitherto bought all its supplies of oilseeds and pulses from the peasant sector through the AMC, i.e., they have formed part of compulsory quota deliveries by peasant farmers. It was purchased directly from the State farms. Henceforth, EOPEC will procure supplies from the peasant sector in the open market.

FIGURE 2.7 Production of Major Crops

(Cereals, Pulses and Oilseeds)

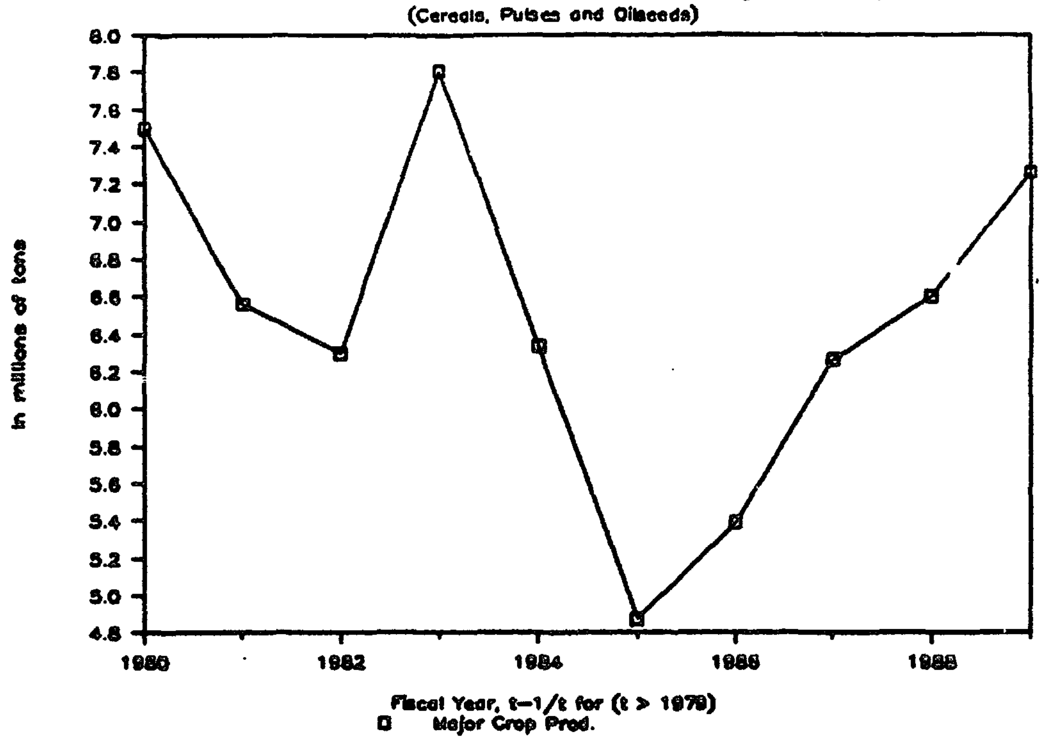
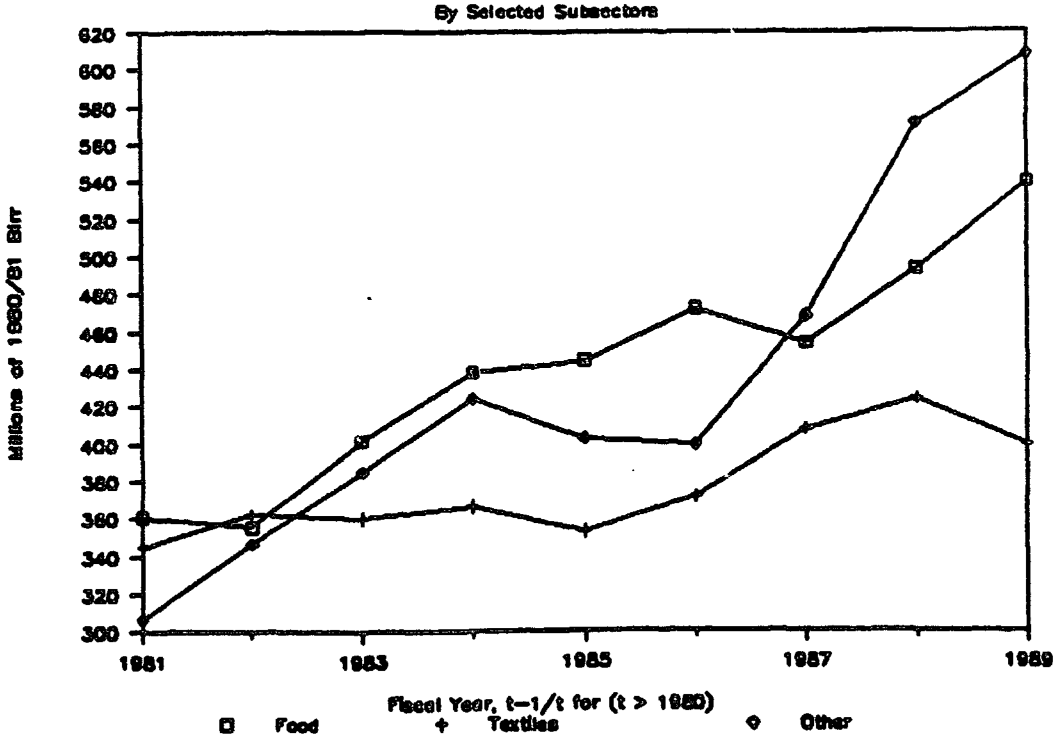


FIGURE 2.8 Industrial Production

By Selected Subsectors



2.20 The effect of the public procurement system has been to create a dualism in agricultural markets. On the one hand there is the public distribution of produce - to flour and oil mills, to the shops of the urban kebeles, the army, educational establishments and hospitals. On the other hand there are free markets, which are still poorly integrated but where prices are substantially higher than in the public distribution system. Farmers and traders have a strong incentive to evade controls. In January 1988 official procurement prices were raised for the first time in a decade, though only by an average of 7.7 percent. Until then the public distribution system required budget subsidies only for wheat sold by the AMC to mills for making bread flour (amounting in 1987/88 to birr 68 million, i.e., 2.2 percent of the recurrent budget). However, the 1988 price increase was not passed on and the subsidy borne on the central government budget has increased by 20 percent.

2.21 AMC procurement has varied with the size of the harvest and has usually been below target. Since 1986, however, procurement has failed to rise in line with the increased volumes of grain production. Sales and disposals have recently been in excess of 650,000 tons per annum and carry-over stocks, which amounted to 640,000 tons in mid-1988, have fallen to 450,000 tons by mid-1989.

Table 2.5: AMC GRAIN PROCUREMENT BY SOURCE
('000 tons)

	1979/80	1983/84	1986/87	1987/88	1988/89
Peasants/ Traders	189	267	382	357	301
State Farms	84	150	236	205	170
Commercial Imports	189	26	184	150	18
Total	462	443	802	712	489
as share of grain crop:	4.3%	6.7%	11.0%	9.4%	7.3%

Source: Annex Table 7.6

2.22 Exports of coffee and livestock are also handled by state trading enterprises. In the case of coffee, severe restrictions on domestic trade have the effect of lowering the farmgate price to an export parity level (net of coffee export surtax, transactions tax and cess) which is far below the domestic free market price in urban centers. Coffee export surtax is calculated on a sliding scale and has in recent years amounted to a little over 30 percent of the FOB value of coffee exports. 5/ The Ethiopian Coffee Export Marketing Corporation and a few licensed wholesale and export traders are thus able to procure cheaply and export at a profit. 6/ In most years the farmgate price of coffee beans has been within the range of 35-45 percent of their FOB price. The incentive to evade controls in coffee marketing is stronger even than in grain marketing. There is an unknown but significant volume of export smuggling. High food prices in the years of scarcity in the mid 1980s created an additional disincentive to coffee production. Deliveries to the ECMC accordingly collapsed, then stagnated at levels generally well below Ethiopia's ICO export quota. In 1988 and 1989, however, there has been a cumulative 30 percent increase in coffee deliveries following an improvement in farmgate prices and private traders' margins.

2.23 The state marketing of livestock has different features. There is no state procurement for domestic supply and there is no attempt to procure for export at below market prices. Instead, the Ethiopian Livestock Corporation buys livestock (mostly sheep and goats) at market prices and receives a subsidy to enable it to break even on its export sales. The smuggling of live animals across Ethiopia's long borders nevertheless remains significant.

Industry

2.24 The manufacturing sector's rate of growth has declined from approximately six percent p.a. in the later 1970s to just over three percent p.a. in the last four years. This deceleration has occurred despite high investment expenditure since the late 1970s in new manufacturing projects in the public sector (whose share of sector value added is now over two-thirds). The private sector is estimated to have grown in the 1980s at only two percent p.a. Despite the deceleration of the sector as a whole, the sub-sectors supervised by the Industry Ministry

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5/ The surtax is a specific duty levied on each quintal of coffee exports, with the rate being determined by the composite daily price calculated by the ICO prevailing at the time of export. The rates of duty were changed on 25 October 1989 so as to reduce the rates of duty when world prices are low. The rates are:

ICO price(USc/lb)	Duty (birr/ql)on each additional cent/lb
Before 25 October 1989:	
0-29	Nil
30-50	1
51-100	2
Over 100	3
After 25 October 1989:	
0-50	Nil
51-75	0.5
76-100	1
101-125	2
126-150	3
Over 150	4

6/ From 23 October 1989 a new price policy has been in force which provides for an export subsidy payable to exporters so that the [illegible] te price does not fall below birr 2.26/kg (see paragraph 3.5).

have expanded at 5.8 percent p.a. since 1980/81. Four subsectors account for 70 percent of the value of production, viz food processing, beverages, textiles and leather. Output of processed food has grown by 4.9 percent p.a. and that of the textile industry by a mere 2.2 percent p.a. The fastest growing subsector has been leather and footwear where the growth trend has been 11.1 percent. The chemical industry, mainly paint and soap, has expanded at eight percent p.a. (see Figure 2.8).

2.25 Most industries have grown by import substitution. This has been the case notably of the textile, chemical and metal goods industries. The food processing and beverage industries have expanded into a growing domestic market which has traditionally been supplied by local producers. The leather industry is exceptional in that it has grown not only through domestic market sales but also by dint of export market penetration, notably of the Italian market. Two-thirds of its output by value, are now destined for export markets. Plans have been laid to create an export-oriented garment manufacturing industry with South Korean collaboration.

2.26 To establish the economic efficiency of public sector enterprises in sectors with export potential, a survey was recently conducted of 36 firms, producing 40 percent of the gross value of public sector manufacturing production. 7/ Most leather, textile and metal goods firms were included in the sample, and some in food and beverages. The firms were assessed by their domestic resource cost ratios, a measure of how profitable they would be if they could buy their inputs and sell their output at border prices. For the sample as a whole, the long run domestic resource cost ratio was 0.82, meaning that, at border prices the firms would be profitable after taking into account the cost of capital. This is a notable achievement in an economic environment which subjects public enterprises to little competition. A minority of enterprises, however, were found to be very inefficient, with negative value added at border prices. Capacity utilization has remained well below achievable levels in many industries for lack of de-bottlenecking investments and for lack of foreign exchange. 8/

2.27 Investment in public sector manufacturing was high in the late 1970s and early 1980s with annual outlays of the order of birr 160-170 million p.a. It declined in the aftermath of the 1984 drought to little more than birr 80 million p.a. before rising steeply in a new wave of industrial project construction to reach birr 313 million by 1988/89. The heaviest investment has been in cement, vehicle assembly and spare parts and textiles. Investment expenditure has been less in the more rapidly growing food, leather and chemical sub-sectors. Little investment has been devoted to plant-expansion: most has been for new green-field projects. Rates of return on investment have been adversely affected by the preference for new projects over expansion schemes and by the failure to achieve output commensurate with the heavy capital outlays in the cement, textile and engineering industries.

7/ Economic Efficiency Measurements in Ethiopia: Report for the Industry Sector Review Mission, January 1989 (unpublished).

8/ Findings of the World Bank Industry Sector Mission, October-November 1988.

Government Services

2.28 Growing public expenditure in Ethiopia has had an important influence on the pattern of growth. It helps to explain the fact that the service sectors have expanded more rapidly than the commodity production sector, despite the emphasis in public development expenditure on material output. The number of civilian employees of the central government is modest at 212,000 in 1987/88, though it has grown at six percent p.a. since the mid 1970s. Much larger numbers are engaged in the military and social services and by local authorities. Recurrent expenditure on wages and salaries has remained throughout the 1980s at almost 40 percent of total recurrent outlays. However, the size of the recurrent budget has increased from 18.6 percent of GDP in 1980/81 to 26.1 percent in 1987/88. All the major services have shared in this growth. First and foremost, "general government" outlays on defense, internal security, justice and information have risen from 10 percent of GDP in 1980/81 to nearly 15 percent in 1988/89. These expenditures have grown by five percent p.a. in real terms, i.e. after deflation by the GDP deflator for public administration. Expenditure on the similarly labor intensive social services has increased even faster at seven percent p.a. in real terms. General government and the social services constitute 70 percent of central government recurrent expenditure.

Main Factors underlying Recent Production Performance

2.29 Though the severe drought of the mid 1980s would, in all circumstances, have caused a sharp setback in growth, it does not explain a decade of falling per capita income nor o in which the trend in crop production has been negative. The principal factors which explain the poor growth record - other than weather - are the availability of land, capital, technology, foreign exchange, infrastructural weaknesses, skills shortages, the structure of incentives, the institutional framework, and investment policy. Some of these factors have been more important than others. Their negative effect on social well-being has been exacerbated by the acceleration of increase in the population which has occurred during the period.

2.30 As regards land, peasant holdings have declined in size since the land reform proclamation of 1975 as the consequence of the rural population growth. By virtue of the reform, each peasant household is entitled to a holding and, to make this possible, holdings have been annually subdivided and reallocated by the chairmen of Peasant Associations. When producer cooperatives are formed, they lay claim to the best land in the Peasant Associations' area, so further reducing the land available to individual peasant farmers. (However, growing resistance to producer cooperatives from members in some areas seem likely to slow down their expansion.) Many holdings are now too small to support a household properly. Off-farm employment exists but was rendered illegal by the land reform and so is not abundant. Sub-economic holdings operated by impoverished households are, in a land of climatic uncertainty, not conducive to the spread of new agricultural technology suitable for raising yields and intensifying production. In any case, there has been inadequate adaptive research into seed-fertilizer technology suitable for the full range of soil-water conditions in Ethiopia. The fragmentation of holdings has further reduced labor productivity. Farm inputs - all provided through official channels - have only been available in limited and unreliable quantities. Technical progress in peasant agriculture has moreover, been slower than would have been possible because of low development expenditure on agriculture and its heavy concentration in the socialized sector. This earlier bias is now in the process of being corrected in the context of the government's peasant agricultural development projects.

2.31 The diffusion of new technology for the intensification of peasant agriculture, and its lateral expansion, have been thwarted by the size and topography of the country and by agrarian institutions and the structure of incentives. Peasant farmers have not enjoyed security of tenure because of regular land reallocations within Peasant Association areas, with the result that incentives for on-farm improvement have been eroded. The marketing system has also been a source of discouragement. Institutional factors have disarticulated the free markets for the main field crops (see also Chapter 5), restricting many surplus producing farmers' access to the main markets. In addition, peasant farmers' compulsory deliveries to the state - 18-20 percent of their marketable surplus of field crops - have been procured at prices which have fallen steadily in real terms, despite a 7.7 percent increase introduced in January 1988, since initially fixed in 1980 (see Chapter 5). It is still premature to assess the impact on production of the recent price increase and the related quota changes.

2.32 In manufacturing, private sector enterprise has, until very recently, been restricted and restrained as a matter of policy. There was, up until July 1989, a ceiling of Birr 0.5 million per enterprise on fixed assets in manufacturing which remained unchanged since the 1970s (Chapter 6). New investments have had to be licensed and licenses have only been granted after exhaustive review. Entrepreneurs have only been allowed to own one enterprise and the fields of permissible activity have been progressively restricted. Private trade has been tightly regulated and the number of trading licenses issued (until recently) gradually reduced. Private traders and manufacturers have received very small allocations of official foreign exchange. Business incomes (over Birr 36,000 p.a.) have been subject to a very high, 89 percent, marginal rate of income tax, introduced with a view to income redistribution. In the circumstances, it is not surprising that there has been little new private investment and that rates of capacity utilization and output growth have been low.

2.33 The public sector has by comparison, been very privileged - in terms of investment, foreign exchange and authorization to expand and diversify. Though subject to strict price controls and with limited management autonomy at the enterprise level, it has been shielded from competition in markets by the operations of the public distribution system, which is obliged to accept and market the products of public sector factories and farms, and by import controls. The public sector - manufacturing industry especially, but also the loss making state farms and the state trading companies - have achieved steady growth. But this has been at high cost in investment and, in some cases, in operating expenses also. Investment has not been systematically allocated to the enterprises with comparative advantage and with the best chances of achieving export growth.

2.34 The heavily import dependent public sector has thus become progressively constrained by Ethiopia's worsening shortage of foreign exchange. In the manufacturing sector at large, excluding petroleum refining, close to 40 percent of raw material, energy, transport and other intermediate inputs are imported, directly or indirectly. As more industrial capacity is created, more foreign exchange is needed to operate it. Although the foreign exchange intensity of production has tended to fall in the food, beverage, textile and leather industries, the paper and metal-working industries remain heavily import-dependent for raw materials. All sub-sectors of manufacturing and the transport industry suffer badly from shortages of imported spare parts. The foreign exchange allocation system (see Chapter 3) gives priority to food, fuel and pharmaceutical imports. Ethiopia has not experienced shortages of petroleum products.

2.35 Ethiopia's transport infrastructure is sparse and does not serve large tracts of the country. Three-quarters of peasant holdings are at more than half-a-day's walk from an all-weather road, severely limiting farmers' ability to acquire inputs and to market produce. However, despite limited investment, the length of the road network increased from 13,000 km in 1981/82 to 17,000 km in 1985/86. The major bottleneck has been the port of Assab and the trunk road and rail links between Addis Ababa and the sea. Yet, even here there has been some improvement. The railway to Djibouti increased the volume of freight handled from 145,000 tons in 1981/82 to 340,000 tons in 1986/87, following rehabilitation works. Financing has recently been approved to expand the capacity of the port of Assab which was under particular strain when emergency relief arrivals were at their peak. At present, the principal factor hindering the internal movement of goods is the modest number (63,000) and old age of the lorry fleet and government controls on tariffs and movements (see Chapter 5). For telecommunications and power, Ethiopia is well served, relative to other low income countries, by effectively managed public utility enterprises.

2.36 Government investment policy has been to favor "commodity production" i.e. the production of tradable goods. It has also sought to move the economy closer towards self-sufficiency through import substitution, based on a perception of comparative advantage. Though there is no available breakdown of past investment expenditure by sector, in the Three Year Development Plan 24 percent of development expenditure was to be devoted to agriculture, 15 percent to manufacturing and mining, compared with only 47 percent for public infrastructure, including costly hydro-electric schemes. In other countries, infrastructure often takes the lion's share of public investment programs. In the event, the economy has become more import dependent, much less self sufficient in basic agricultural produce, and has grown fastest in the non-tradable, service, sectors. The planned strategy for achieving growth has therefore not succeeded.

2.37 Ethiopia's investment in productive assets would have been higher if there had been more domestic and foreign savings to finance it. Higher investment would probably have increased the rate of growth - but in view of the investment planning priorities prevalent throughout much of the period, the yield from more investment expenditure would not necessarily have been high. The efficiency of investment appears prima facie to have been low over the last decade. The incremental capital/output ratio for the economy over the 10 years ending in 1988/89 has been high at 5.9, though it might have been lower in the absence to setbacks to growth caused by drought. Public investment plans have been over-ambitious, exceeding in scope the human and financial resources available to implement them.

Projects have been subject to formal economic appraisal since 1980, but appraisal capacity has always been well below the number of intended new projects. A number of large projects have been extensively delayed in execution, often because of domestic shortages of building materials and as a consequence of capital budget cuts and external financing difficulties. After completion, their capacity utilization has been low. Failure to prioritise projects to protect "core" investments from cuts, domestic bottlenecks, foreign exchange shortages and inadequate technical and managerial skills have all played some part in reducing the rate of return, particularly in productive sector projects. Investment devoted to equipping state farms (two percent of public investment in the four years to 1988/89) and creating resettlement schemes seems to have yielded particularly poor returns.

2.38 Performance in important productive sectors, in most of the 1980s, has been either below the achievement of earlier years (agriculture), or has been characterized by significant margins of unutilized capacity (manufacturing). The overriding obstacles to growth, therefore, seem to have been the policy and incentive framework, and the consequential economic rigidities. However, structural factors and infrastructural deficiencies, particularly the vulnerable environment, poor rural access, the unimproved state of peasant farm technology and population growth, have played an important contributory role in depressing per capita incomes. Since the mid 1980s drought, the economy has been growing fast enough to improve per capita income and there are signs of a positive response by peasant farmers to better agricultural support services and to rising fertilizer supply, and of coffee farmers' positive response to better incentives and widened marketing opportunities. Nevertheless, the deceleration of industrial growth in 1988/89 because of foreign exchange shortages shows that the bases of this recovery are fragile. The adverse policy framework is, only now, starting to change. The sustainability of this recent recovery in growth in an economy where foreign exchange is in increasingly tight supply depends greatly on developments in trade, payments and external financing. Chapter 3 examines trends and policy issues in the external sector.

CHAPTER 3

TRADE AND BALANCE OF PAYMENTS

3.01 Chapter 2 showed how factors affecting the supply side of the economy also have had a strong bearing on production for export. The present chapter considers exports in aggregate, relating their performance to the policy environment and assessing the effects of low export earnings on the balance of payments and on foreign exchange supply and allocation. Other important themes are the rising imports of food and capital goods - the former occasioned by inadequate domestic food production and drought conditions and the latter resulting from growing investment outlays, financed by foreign borrowing which has in turn given rise to a serious debt service problem.

Trade

3.02 Ethiopia's exports grew rapidly in the post-Revolution period until they stood, in 1980/81 some 60 percent higher in volume terms than in 1974/75. In the 1980s, however, they have fluctuated, but the broad trend has been one of decline at one percent p.a. In spite of the very recent revival of coffee and livestock exports and the continuing slow growth of leather, the volume index of exports (excluding residual products from the oil refinery) stood in 1988/89 less than two percent above the level attained ten years earlier. As a share of GDP at current prices, exports have fallen from nine percent in the early 1980s to 7.4 percent in the 1985/86-1987/88 period.

Table 3.1: EXPORT VOLUME INDEX
(1974/75=100)

	General	Coffee	Leather
1978/79	149	176	145
1980/81	157	180	111
1982/83	163	179	96
1984/85	141	151	126
1986/87	149	164	128
1987/88	134	145	108
1988/89	152	159	136

Source: Annex Table 3.11

3.03 Coffee exports (55-60 percent of total exports by value) reached a peak in the period 1978-83 when they averaged 87,000 tons p.a. In the following five years average annual exports fell to 75,000 tons, less than Ethiopia's quota under the International Coffee Agreement. Drought, planting restrictions (now removed) and farm-gate prices below domestic market prices, all bear some share of responsibility for declining export performance. Exports of other processed and unprocessed agricultural produce have performed erratically, but the overall pattern has been one of stagnation or slight decline. Their prices in the domestic market have commonly been higher than in export markets at the official exchange rate, so export volumes have tended to be a function of the success of public procurement agencies in acquiring volumes of produce in excess of the requirements of the public distribution system. Exports of hides, skins and leather, the second largest export earner (now 17 percent of the total by value) have done somewhat better. Their average annual volume rose only slowly from 9.7 thousand tons in the period 1978/79 to 1983/84 to 10.7 thousand tons in the four years ending 1988/89. However, the value of these exports increased by close to 40 percent in the three years ending 1987/88, thanks mostly to increased domestic value added, following the ban on exports of unprocessed skins.

3.04 In a sample of 35 public enterprises in manufacturing taken in 1988 9/ it was found that duties and higher domestic costs raised input prices by, on average, 21 percent above equivalent border prices. These enterprises were able to charge their domestic customers 29 percent more than the border price for their output, so enjoying an overall effective rate of protection of 26 percent. For their export sales, however, which are subject to a transactions tax of two percent, their effective protection rate was strongly negative. Thus, apart from enterprises exporting leather and spices, most manufacturers exported at a loss. In some cases, e.g. garments, these losses were covered by cross-subsidies from profitable home sales.

3.05 In recognition of the pecuniary disincentive to exporting, the authorities have operated. throughout the 1980s, a system of export subsidies, financed by surcharges on certain imports, whereby public enterprises can recoup the losses which they incur in exporting. Exports of livestock, oilseeds and pulses, leather, fruit and vegetables and textiles and clothing have all received export compensation which, in the years 1982/83 to 1986/87, averaged birr 40 million p.a., i.e 20 percent of their FOB value. Requests for compensation are now understood to have reached birr 80 million. In October 1989 official and private coffee exporters also began to receive subsidies in an amount inversely related to the FOB price and fixed at levels which will prevent the producer price of sun dried coffee from falling below birr 2.26/kg. 10/ Despite these inducements, exportable produce, notably livestock, coffee and gold, is smuggled across borders by traders wishing to take advantage of the

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9/ See Chapter 2, Footnote 2

10/ Rates of subsidy have been defined for FOB prices in the range US$0.51-0.86/lb. such that, after taking prescribed marketing margins and surtax payments at the revised rate into account, producers of unwashed coffee will receive birr 2.26/kg at the lower end of the FOB price range and birr 2.50/kg at the upper end of the range; i.e., the producer price will be similar to the price ruling before the fall in world coffee prices in June 1989. Washed coffee will attract the subsidy if its FOB price falls below $1.34/lb. The budgetary cost in 1989/90 of the new coffee pricing arrangements, calculated on the basis of exports of 90,000 tons and an average FOB price for unwashed coffee of $0.68/lb is estimated to be birr 92.5 million (loss of surtax revenue birr 43.3 million and subsidy birr 49.2 million.

parallel exchange rate which stands at a large premium relative to the official rate. There is no reliable estimate of smuggled exports, though some sources believe that coffee and livestock alone may have amounted in some years to $125 million p.a., i.e., 30 percent of official exports.

3.06 Ethiopia's terms of trade have fluctuated, mainly in response to coffee prices which soared in a short-lived coffee boom in 1985 and 1986 but which have subsequently collapsed. The rapid rise since 1987 in the dollar price of manufactured goods and food imports has contributed to a recent decline in the terms of trade below the average for the decade. The index of terms of trade, has fallen on trend by two percent p.a. since 1970 but has been virtually trendless in the 1980s:

Table 3.2: TERMS OF TRADE INDEX
(1980=100)

1982	1984	1985	1986	1987	1988
90	101	99	110	84	95

Source: Annex Table 3.13

In June 1989 the International Coffee Agreement's economic clauses were suspended and quota restrictions on coffee exports were lifted. The effect of this has been a fall by one-third to one-half in world coffee prices. Ethiopia's coffee exports which previously fetched an average price of $2.85-3.00/kg are likely to fall to an average of at most $2.00/kg in 1989/90. As a consequence, the terms of trade could fall by a further 20 percent in a full year. The dollar value of coffee exports, taking into account the prospective increase in volume, is likely to fall by about 8-10 percent.

3.07 Imports have risen, despite export earnings stagnation, both in volume and as a share of GDP. Much of the increase has however been accounted for by food and capital goods. Capital goods imports have risen on account of heavy public expenditure on plant and equipment for industrial, energy and agricultural projects. The volume of general merchandise imports rose gently up to 1985/86 but has since then contracted sharply to well below the level of the late 1970s. The resultant shortages of spare parts and raw materials are now an important restraint on production, particularly in manufacturing and transport.

FIGURE 3.1 Index of Export Volumes

By Selected Subsectors

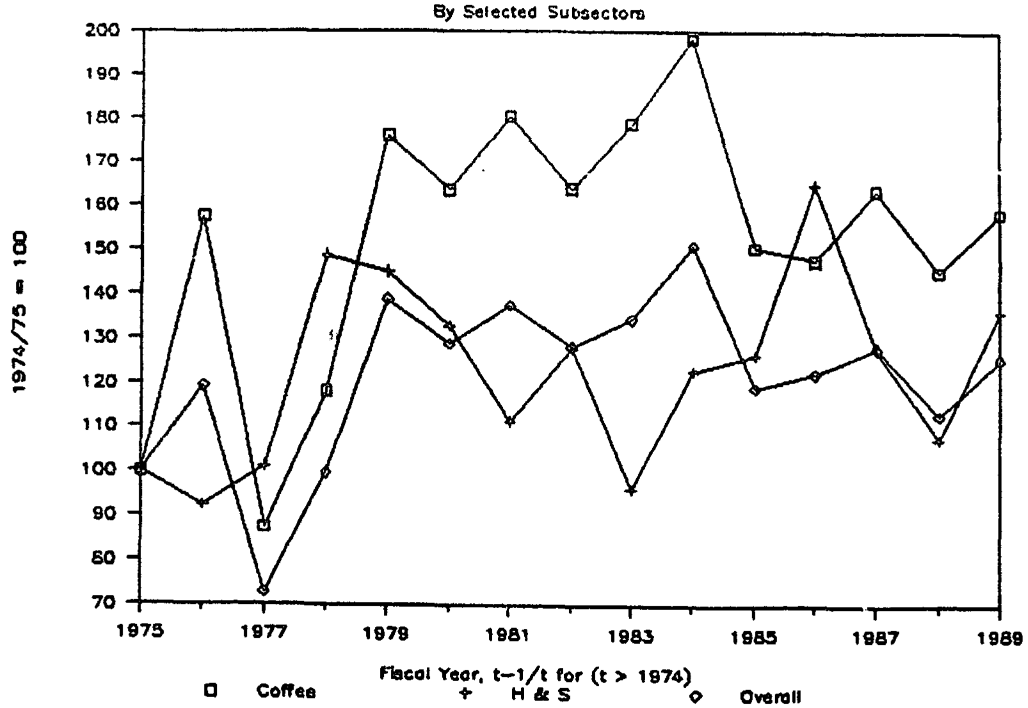


FIGURE 3.2 Index of Import Volumes

Capital & Noncapital Goods

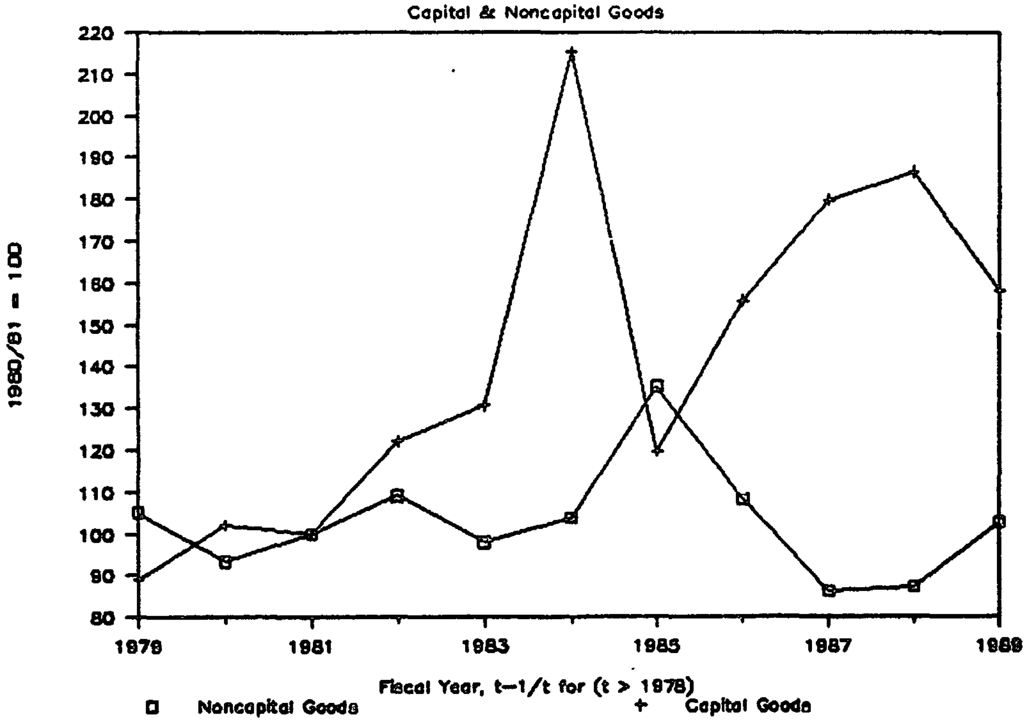


Table 3.3: ANALYSIS OF MERCHANDISE IMPORTS

	1980/81	1982/83	1984/85	1985/86	1986/87	1987/88
- Imports (US$ million)	733	856	975	1087	1081	1099
- Imports/GDP (%) 1/	17.3	17.7	20.4	20.8	20.0	19.7
- Food/ Total imports (%)	5.8	9.8	17.1	23.6	17.5	10.8
- Vol index food imports	100	208.9	484.6	681.8	483.0	455.3
- Vol index fuel imports	100	107.0	98.8	99.5	111.6	100.5
- Vol index capital goods	100	180.6	119.7	155.8	179.8	186.7
- Vol index other imports	100	98.0	135.3	108.4	86.3	87.4

Source: Annex Tables 3.6 & 3.10

See Figure 3.2

1/ At the official exchange rate of birr 2.07 = $1

3.08 To an increasing extent merchandise imports have been covered by external financing as "import capacity", defined as export earnings, plus net non-factor service receipts, less debt service payments, has contracted from 10 percent of GDP in 1980/81 to just over four percent of GDP in 1988/89.

Table 3.4: IMPORT CAPACITY AS PERCENTAGE OF GDP

1980/81	1982/83	1984/85	1986/87	1988/89
9.8	7.9	6.6	5.5	4.3

Source: Annex Tables 2.1 and 3.1

(Note: Private transfers are excluded from this calculation on import capacity because they include large NGO payments for relief imports).

Resource Gap and Current Account Deficit

3.09 Ethiopia's current account deficit has widened less than stagnant export earnings and rising merchandise imports would suggest because of the highly successful development of non-factor service receipts, mainly from Ethiopian Airlines and Ethiopian Shipping Lines which earn substantial foreign exchange. Net NFS receipts at $110 million p.a. now amount to about 25 percent of gross merchandise export receipts. They have grown by an average of 15.5 percent p.a.in the eight years to 1988/89. In absolute terms, however, gross interest payments on foreign debt have grown by rather more, rising from $17.5 million in 1980/81 to $81.7 million in 1988/89. The resource gap - the difference between imports and exports of goods and non factor services and also the gap between GDP and aggregate expenditure - has nevertheless widened progressively, from five percent of GDP in 1980/81 to 10.2 percent in 1988/89 (see Figure 3.3). This signifies a growing dependence on external financing (including public and private transfers of relief assistance). The current account deficit has remained in the range 7-10 percent of GDP, at the current exchange rate, for most of the decade but its trend has been gently rising. Had the exchange rate been depreciated the current account/ GDP ratio would have been larger. 11/

Table 3.5: BALANCE OF PAYMENTS CURRENT ACCOUNT
(US$ million)

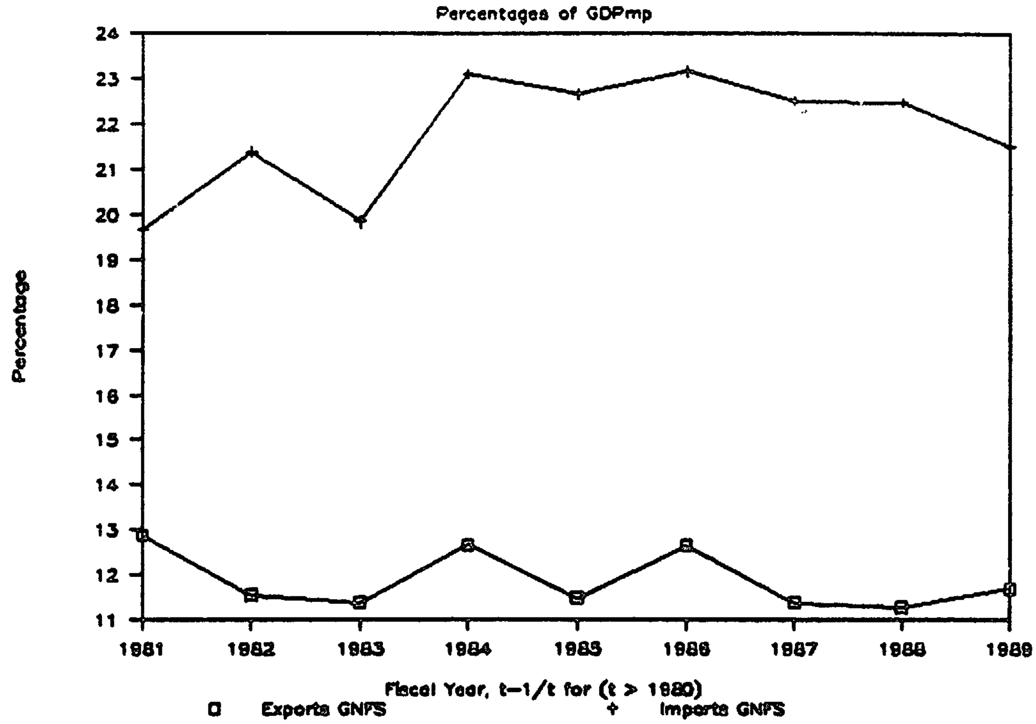
	1980/81	1982/83	1984/85	1985/86	1986/87	1987/88	prov. 1988/89
- Exports, goods fob	411	392	359	446	384	374	417
- Imports, goods cif	669	846	855	1088	1081	1099	1111
- Net NFS	41	55	83	92	96	95	109
- Resource Balance	-291	-410	-533	-549	-601	-623	-585
- Net interest	-7	-14	-33	-29	-37	-59	-76
- Private Transfers (net)	25	85	145	209	148	118	145
Current Account	-274	-339	-421	-369	-477	-563	-516

Source: Annex Table 3.1

Note: Totals may not add up due to rounding.

11/ On exchange rate overvaluation see paragraph 3.17.

FIGURE 3.3 External Trade



Financing

3.10 The financing of the current account deficit shows strongly the effects of drought and famine relief supplies which entered Ethiopia in the aftermath of the 1984/85 drought and again in 1987/88. Grant assistance has risen sharply in years when relief has been required. 12/ However, the increase in external financing which Ethiopia has enjoyed since the early 1980s has not been solely on relief account. There has been a rising inflow of development grants and loans, notably from the European Community, from Italy and CMEA-country donors and from multilateral institutions. Ethiopia has not had recourse to cash loans from financial institutions to finance its balance of payments but remains creditworthy for officially-guaranteed suppliers' credits, some of which have been used for industrial project financing, as well as for aircraft purchase. 13/

Table 3.6: FINANCING THE CURRENT ACCOUNT DEFICIT
(US$ million)

	1980/81	1982/83	1984/85	1985/86	1986/87	1987/88	1988/89
- Current Account	-274	-339	-421	-369	-477	-563	-516
Financed by:							
- Official grants	60	92	298	293	212	188	231
- Net MLT loans	162	204	162	277	181	281	201
- disbursements	184	253	255	401	325	446	401
- amortization	-22	-50	-93	-124	-143	-165	-200
- Short term capital	-6	-10	42	-13	10	5	5
- Change in reserves	92	72	-48	-165	20	185	-23
- Errors & Omissions	34	19	33	23	-54	98	102
Memo: Current account as % of GDP (mp)	6.4	7.0	8.8	7.0	8.8	10.1	8.6
Foreign exchange reserves (net) $ million	118.6	107.1	112.4	277.6	257.7	68.0	96.4

Source: Annex Table 3.1

12/ Donor figures reveal levels of disbursement which exceed those reflected in the balance of payments accounts by as much as $200 million in recent years. See Appendix 2.

13/ According to World Bank Debtor Reporting System data, 35 percent of gross loan disbursements in the calendar years 1982 to 1987 were non concessional. Of these, three-quarters were private suppliers' credits and commercial bank loans for import financing and the balance a mixture of multilateral and official bilateral loan disbursements. Credits from socialist countries were 30 percent of gross loan disbursements. They are classified as concessional. The share of concessional debt in debt outstanding and disbursed fell from 84 percent in 1982 to 79 percent in 1987.

Foreign exchange reserves, built-up thanks to the large, somewhat belated, receipts of relief assistance in 1985/86, were suddenly and massively depleted in 1987/88. 14/ The reserve level at the end of June 1988 was reduced to little more than three weeks' merchandise imports. It subsequently rose slightly to a little over four weeks' imports at the end of June 1989; but by the end of October 1989 it reached its lowest import coverage yet - less than three weeks.

Debt and Debt Service

3.11 Ethiopia has drawn on external grant concessional and non-concessional loan sources to finance its balance of payments current account deficit. Data on grant financing appear to be incomplete, largely because grants have been used for emergency relief as well as development finance purposes, and because official relief aid has entered the country through a variety of channels, non-governmental as well as for governmental. Recorded official grant disbursements entering the balance of payments have fallen from a peak of just under US$300 million in 1984/85 to below US$190 million in 1987/88, before recovering to $231 million in the following year.

3.12 Meanwhile, gross MLT loan disbursements have been rising. In 1982/83 to 1984/85 they averaged $250 million according to balance of payments data; in 1985/86 to 1988/89 gross disbursements averaged $393 million (Debtor Reporting System data on a calendar year basis confirm this picture). Throughout this period exemplary debt service performance has enabled Ethiopia to remain creditworthy with commercial creditors. Some 32 percent of borrowing over the years 1980 to 1988 has been on non-concessional terms, mostly in the form of suppliers' credits. The initiative for new non-concessional external borrowing usually comes from public corporations and ministries charged with implementing Plan projects. Responsibility for controlling its uptake is shared between the Ministry of Finance and the National Bank. Policy has been determined on a case-by-case basis.

3.13 There is no readily available breakdown of external financing between project and non project type. However, to date, commodity assistance has been overwhelmingly in the form of food aid and other relief supplies. The only receipts of non-relief commodity aid have been from the USSR, the European Community and Italy. Some commercial finance has been used to purchase wheat. While there has been considerable technical assistance, the overwhelming bulk of external development finance has been for projects or capital goods.

14/ The account of financing flows is incomplete, as witnessed by the often large, both negative and positive, "errors and omissions" entries. There was a particularly large unexplained outflow in 1987/88.

3.14 With the steady inflow of loan financing external medium-and-long-term debt has increased from US$0.67 billion at the end of 1980 to US$2.79 billion in December 1988 - a figure which excludes any debt incurred for supplies of military equipment from CMEA countries. Eighty percent of the outstanding debt is now rated concessional, a share which has fallen a little since the first half of the 1980s due to borrowing on commercial terms for industrial projects and aircraft. Multilateral institutions are owed 34 percent (US$941 million) of outstanding and disbursed debt, most of which is concessional. Disbursed debt owed to suppliers at the end of 1988 (US$266 million) and to financial institutions (US$188 million) includes some US$120 million of loans to Ethiopian Airlines which are serviced from retained foreign exchange earnings.

3.15 Annual debt service payments, including interest on short-term borrowing and IMF repurchases, and charges have risen from US$40 million in 1980/81 to US$272 million in 1988/89. The ratio of payments to exports of goods and non-factor services has risen from seven percent in 1980/81 to 39 percent in 1988/89.

Exchange and Trade Regime

3.16 The Ethiopia birr has been linked to the US dollar at a rate of birr 2.07 = US$1 since 1973. The real effective exchange rate, (REER) i.e. the trade weighted exchange rate corrected for the differences in inflation between Ethiopia and its trading partners, rose by 25 percent between 1974 and 1980. Since then, with quite modest inflation in Ethiopia, the REER has been borne along by the fluctuations in the value of the dollar in a world of floating exchange rates. It rose to a peak in 1985 and has subsequently declined to 14 percent above its 1980 level, and remains nearly 50 percent above the level of the mid-1970s.

Table 3.7: REAL EFFECTIVE EXCHANGE RATE INDEX

1974	1980	1983	1985	1987	1988
81.9	100	125.3	168.6	113.6	116.0

Source: Annex Table 3.12

3.17 In parallel with the official foreign exchange arrangements there is an illicit market in foreign exchange where the national currency is sold at a discount. The parallel rate governs the domestic prices of own exchange ("franco valuta") imports, i.e. those imported without official foreign exchange, mainly using the proceeds of expatriates' remittances. Until early 1989 the discount had remained at about 50 percent broadly unchanged since after the time of shortage following the

1984 drought. The birr is now discounted to between a half and one-third of its official value. If the parallel rate is interpreted as a sign of currency overvaluation, the constancy of the rate may indicate that the degree of overvaluation has remained unchanged, despite the sharp 30 percent fall in the REER since 1985. The case for concluding that the birr is now seriously overvalued rests on the REER evidence, on the persistent, and now widening, margin of discount on the parallel market, on the manifest inadequacy of export price incentives and on the mounting excess demand for foreign exchange of the official rate (see below). The precipitate fall in world coffee prices since June 1989 has sharply increased the excess demand and has made even plainer the case for exchange rate adjustment.

3.18 Officially held foreign exchange is allocated by administrative means. For free foreign exchange for raw materials, spare parts, minor equipment and essential consumer goods, there is an annual foreign exchange budget, prepared by ONCCP as part of the annual planning cycle and based largely on proposals from government departments and public trading and manufacturing enterprises. Allocations for food, petroleum, pharmaceuticals and capital goods receive priority. The budget is adjusted in the light of forecast foreign exchange availability and prior claims and allocations are released quarterly. Established users among private sector traders and manufacturers receive very small allocations. The percentage of requests satisfied in the allocation process has declined since the mid-1980s and private sector allocations have been reduced to negligible proportions. Public sector producers, who, early in the decade, obtained their foreign exchange requirements more or less in full, now receive incomplete allocations, are subject to uncertainty and have reduced their stocks of imported materials and parts. Foreign exchange shortage has become a real constraint on capacity utilization in public enterprises and was the principal cause of the marked deceleration in public sector manufacturing output in 1987/88 and 1988/89. It has become the cause of serious economic rigidities. There are separate allocation procedures for major capital goods imports which are largely covered by foreign grants and loans, and there are ad hoc arrangements for handling grants of commodity assistance.

3.19 Domestic producers are protected by the combined effects of foreign exchange restrictions and tariffs which raise the internal prices of imported goods. In additional to normal tariffs, own exchange imports pay surcharges which meet the cost of subsidies on exports. Nominal and effective rates of protection are variable, but may be very high, particularly on manufactures. At the present time, import prohibitions and the withholding of National Bank permits to purchase foreign exchange confer more effective protection than the tariff. Public sector producers may be consulted on whether foreign exchange permits should be granted to import goods which compete with their products. Import duties and transactions taxes on imports, which are passed on into local production costs 15/, are high, though there are many exemptions and partial derogations. They add to the anti-export bias for manufacturers and commodity exporters, especially in the private sector, which comes from the level of the official exchange rate relative to domestic costs and prices. Domestic free market prices of agricultural produce are generally higher than those in export markets (see Chapter 2). There is, moreover, a two percent transactions tax on exports which is a small additional disincentive to exporting for private exporters who are not eligible for export subsidies.

3.20 The exchange and trade regime has not been changed in the recent past, except that, in May 1988, private own exchange imports were banned, ostensibly because too many luxury imports were entering the country and because the government felt that the franco valuta arrangements offered an inducement to traders to smuggle coffee, livestock and gold out of the country to earn foreign currency which could then be used on an expanding scale to finance a lucrative private import trade. The resulting shortages of consumer goods, materials and equipment needed by the private sector and increase in import smuggling caused the government to reconsider its ruling. Private franco valuta imports were again made legal, in January 1989, for capital goods, and in October 1989 for raw materials, intermediate goods and consumer goods also, including private cars. In addition, a limited number of border traders have been licensed to export Ethiopian produce available in border areas and to import foreign products with the proceeds. Their imports must be declared to the customs.

Main External Sector Issues

3.21 The balance of payments has now become the critical weakness of the Ethiopian economy. The key features of the 1980s have been export stagnation, the compression through foreign exchange controls of general imports, rising imports of capital goods to satisfy public sector investment needs and growing external indebtedness.

3.22 Export stagnation, the root cause of worsening balance of payments difficulties, has been caused by the same factors which have given rise to the stagnation of agricultural output and to the inward-oriented pattern of industrial growth. It is a supply-side problem. There have been no binding demand-side restraints on Ethiopia's exports, not even in coffee, whose sales volume has been consistently lower that the sum of the ICA quota and purchases of Ethiopian coffee by traditional non-quota markets. Since June 1989 ICA quotas have been suspended and there is no longer any, even theoretical, limitation on Ethiopia's coffee export

15/ Transactions tax may "cascade", i.e. tax incorporated into the price of inputs may not be allowed as a credit against transactions tax payable on outputs. No credit is given for transactions tax on imports which always "cascades" into downstream production costs; cascading may also arise where a firm purchases goods for further processing from a wholesaler rather than from a manufacturer.

volume. As the virtual totality of exports - other than oil refinery by-products - are agricultural or based on local agricultural raw materials, stimulating export growth requires the growth of the agricultural sector. To some extent this will call for investment, for example in the modestly successful horticultural sector. To a large extent it requires policy and institutional stimulus to peasant farmers to intensify their operations to cater to the growing demands of the local market and to increase their supplies for export. Prices of exportable produce have to be made attractive; access to required inputs should be unrestricted; and marketing channels need to become open, competitive and unconstrained by transport shortages. The increase in deliveries of coffee for export by one third from 83,400 tons in 1987/88 to 110,000 tons in 1988/89 consequent on changes in marketing incentives and better weather illustrates the potential effectiveness of such measures.

3.23 At present, the weight of policy and institutional factors combine to discourage exports. Domestic free market prices are commonly much more attractive than export prices. Export compensation in the form of subsidies is only available to the public sector, and even public sector exporters are paid only on a discretionary basis and in arrears. For much of the private sector exporting is wholly unprofitable. For many of its raw materials and supplies the private sector depends on the local free market or on franco valuta imports which are subject to surcharges which raise costs of production well above export prices. It is not surprising, therefore, that private sector manufacturers sell almost exclusively on the domestic market and that the only private traders still active in exporting agricultural produce do so as the licensed agents of state trading corporations with access to supplies at official, below market prices. The most lucrative branch of trade is arbitrage between official distribution channels and the free market. Entrepreneurial resources are being drawn towards this unproductive form of activity, away from the production of tradable goods which would strengthen the balance of payments and increase domestic supply.

3.24 A means has to be found whereby exporting products in which Ethiopia has comparative advantage can be made permanently rewarding and profitable for both public and private sectors. This poses a serious challenge to the government, but one whose urgency is heightened by the recent steep fall in coffee export prices. An obvious measure would be an adjustment of the exchange rate which, for full consistency, should be reflected throughout the structure of administered prices in the public procurement and distribution systems. This would be a step to ending the market dualism which deters export activity and to liberalizing imports so as to render domestic production more efficient and flexible.

CHAPTER 4

MACROECONOMIC MANAGEMENT AND DOMESTIC RESOURCE MOBILIZATION

4.01 Previous chapters have shown that, though aggregate domestic resources have increased slowly, absorption has grown more quickly, largely because of mounting public expenditure on security, investment, and social and economic services. This chapter demonstrates how the government has managed to achieve broad macroeconomic balance despite the shocks and expenditure pressures to which it has been subject. The explanation lies in large part in the realm of fiscal performance. Monetary policy and the operation of the financial sector have also played an important role. The use of fiscal and monetary policy and institutional instruments has, however, had a negative effect on incentives for production. So, important questions for the future are how disincentive effects and distortions can be diminished and without jeopardizing stability. The fiscal and financial systems have hitherto mobilized domestic resources rather effectively for the benefit of the public sector. With the new accent in public policy on private investment, either more resources will have to be mobilized or the public sector will have to diminish its claim on domestic savings.

Fiscal Performance

Expenditure Growth

4.02 Value added in government has been one of the fastest growing elements in GDP and one which has shaped the pattern of growth in favor of the service sectors (see Chapter 2). This is a reflection of a general growth of public expenditure which has increased from 24 percent of GDP in 1979/80 to 39 percent in 1987/88. The anatomy of this expenditure growth is of some interest, both from the macroeconomic point of view and for an understanding of the efficiency of the use of resources in the economy.

4.03 Both recurrent and capital expenditures have grown relative to GDP and in real terms. The capital budget has, however, grown much faster, at 15.5 percent p.a. in real terms 16/ in the 1979-1989 period, compared with 5.3 percent p.a. for the recurrent budget. Capital outlays have been the most rapidly growing element in domestic final expenditure. They include a large non-investment component, but exclude spending on military equipment. Real outlays increased only modestly in the years up to 1980/81 but then rose by leaps and bounds to reach a plateau, in the three years up to 1987/88, 150 percent higher than in the late 1970s. They rose by a further 11 percent in 1988/89. Some 30 percent has been devoted to agriculture - including the state farms and resettlement schemes; about 20 percent to industry and mining; some 25 percent to power and water; and

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16/ Capital expenditures have been deflated by a composite of the investment deflator and the implicit GDP deflator for "other services".

only about 15 percent to transport and communications. The capital budget only finances part of the costs of investment by public enterprises which operate in industry, power and transport and communications; the remainder comes from the enterprises' own cash resources and from domestic and foreign borrowing.

4.04 Within recurrent expenditure the largest element has always been "general government" outlays on law and order and the armed forces. They averaged 55 percent of the recurrent budget at the start of the decade and have been closer to 50 percent in recent years. They have increased in real terms 17/ at a trend rate of growth of 4.8 percent p.a. and, as a share of GDP, they have risen from 10 percent in 1980/81 to 15 percent in 1988/89. Expenditures on the social services have increased faster than those on security at a trend rate of seven percent p.a. in real terms in the 1979-1989 period. Education expenditures have exhibited particularly vigorous growth at eight percent p.a. Real outlays on agricultural support services have grown even faster at 9.2 percent p.a., but the increase in expenditure on operation and maintenance of transport and communications facilities has been low at only two percent p.a. As stated in Chapters 1 and 2, social and economic service provision, though often much improved, is still below desirable levels.

Table 4.1: REAL CENTRAL GOVERNMENT EXPENDITURE GROWTH BY PRINCIPAL FUNCTIONS (1980/81 = 100)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1988/89 shares in total expenditure
Recurrent	136.7	117.9	138.7	132.1	131.6	146.2	161.0	66.4%
of which:								
-Security	136.7	123.9	119.1	118.9	125.6	157.9	169.3	35.3%
-Gen. Education	129.1	132.9	150.2	159.4	170.8	179.5	177.3	7.1%
-Health	103.5	100.7	120.0	119.3	127.1	133.7	133.3	2.4%
-Agriculture	111.8	132.5	139.2	143.8	162.9	208.4	260.6	2.2%
-Transport & Commun.	166.9	140.6	136.7	130.0	128.3	140.9	153.4	1.3%
Capital	238.0	175.8	219.9	265.8	239.8	251.5	279.8	33.6%
Memo: Recurrent expenditure/GDP	25.3%	22.4%	27.3%	23.9%	23.7%	26.1%	27.9%	

Source : Annex Table 5.3

17/ Recurrent expenditures have been deflated by the implicit GDP deflator for "other services".

4.05 Pressure to increase expenditure has come in part from the evolution of the internal security situation but for the rest from the government's desire to promote development along certain lines. Debt service remains a minor item in the recurrent budget (less than 10 percent), with the cost of domestic borrowing contained by the low interest rates payable on advances from the banking system and the cost of external borrowing kept low by concessional financing terms and an overvalued exchange rate. Drought relief has similarly been of low cost to the budget because the major operations of the Relief and Rehabilitation Commission - the public agency involved - have been directly financed by external donors.

Revenue Mobilization

4.06 In Ethiopia budget revenues are buoyant and exceptionally high relative to GDP for a low income African country. Domestic revenues have grown from 20% of GDP in 1980/81 to 29% in 1987/88.

Table 4.2: REVENUES AS PERCENTAGES OF GDP

	1980/81	1983/84	1985/86	1986/87	1987/88	1988/89
Tax revenue	15.3	17.3	17.3	18.7	20.3	19.2
Total domestic revenue	19.7	22.9	25.9	26.1	29.3	30.2

Source : Annex Table 5.2

Revenue growth has been achieved with the aid of some exceptional measures. The existing tax structure is highly progressive; even peasant farmers and wage earners on low incomes are caught in the tax net, and revenue collection is prosecuted with vigor. The rate of specific excise taxes have been frequently adjusted. The biggest contribution to growth has been the profits of public enterprises, most of which are surrendered to the treasury either in business profit tax or, post-tax, as "residual surplus". In the last two-to-three years there has also been vigorous collection of tax arrears. Two emergency levies have been raised: the first after the 1984 drought which yielded revenues rather slowly, and the second during the security emergency in 1988 which has quickly produced revenues amounting to about 10 percent of total receipts in 1988/89. The 1988 levy comprised one month's salary from employees, an impost based on estimated turnover for urban business and rural cooperation and a lump sum tax of birr 40 on peasant households. The 1987/88 yield from the earlier levy was birr 70 million; the estimated yield in 1988/89 from the new levy is birr 390 million, or over 10 percent of domestic revenue.

4.07 Tax revenues were, early in the decade, roughly evenly divided between taxes on incomes and profits, domestic indirect taxes and taxes on foreign trade. By 1987/88 taxes on incomes and profit had increased to provide 41 percent of tax revenue. Business profit tax has been the most buoyant source of tax revenue. Personal income and domestic indirect taxes have also been elastic with respect to GDP and domestic sales. Among the taxes on foreign trade, coffee export duty and surtax, have taken a broadly constant 30-40 percent share of f.o.b. coffee export values. 18/ Duties and taxes on imports, on the other hand, have been an erratic percentage of non-food imports because of widespread duty exemptions and other discretionary features.

4.08 Non-tax revenues have increased their share of total revenues. The largest source of non-tax revenue is the "residual surplus" of 90 percent of post-tax profits of public sector enterprises. Financial institutions have traditionally been the biggest contributors of residual surplus: their shares in 1987/88 and 1988/89 were, respectively, 47 and 46 percent of the total, up from 30 percent in earlier years. It is usual in all countries for the profits of the central bank - in Ethiopia, the National Bank - to be largely transferred to the treasury. In 1987/88 certain provisions from earlier years were written back into the income of the National Bank with the effect that its residual surplus transfer was raised well above the level of previous years. The macroeconomic effect of so doing is little different from borrowing from the central bank. To some extent, therefore, the exceptionally large residual surplus transfer of 1987/88 contained an element of disguised deficit financing.

Fiscal Balance

4.09 High and rising levels of public expenditure have been matched by high and buoyant fiscal receipts (as seen above) and by increasing external financing. In this way Ethiopia has succeeded in containing and controlling its internal imbalance and, by-and-large, in avoiding recourse to inflationary finance. The fiscal system has also been cushioned from the shocks of civil strife, drought and famine by heavy, extra-budgetary use of externally provided disaster relief which reduced the on-budget costs of relief to a modest level, and by the use of non-fiscal resource mobilization techniques. At times of military emergency, transport and supplies may be commandeered and employers may be required to continue paying the salaries of their staff who are conscripted. When budget deficits have increased, as in 1984/85 and 1985/86, they have tended to be offset by higher external financing so as to limit the magnitude of domestic financing.

4.10 As a consequence, the fiscal deficit has been, in general, contained below 10 percent and the deficit for domestic financing below four percent of GDP. The figures for 1988/89, however, reveal a departure

18/ See footnote 3, Chapter 2, for the mechanics of the coffee export surtax.

from past form and a relaxation of the fiscal stance:

Table 4.3: BUDGET SUMMARY AND RATIOS TO GDP
(birr million)

	1980/81-1982/83 a/	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
- Revenue	1,936	2,294	2,323	2,806	2,926	3,386	3,731
- Current expenditure	2,077	2,236	2,696	2,593	2,653	3,015	3,446
- Current surplus	-141	58	-373	213	273	371	285
- Capital expenditure	822	949	1,187	1,472	1,383	1,500	1,743
- Deficit (Excl. grants)	-963	-891	-1,561	-1,259	-1,110	-1,128	-1,458
Financing:							
- External Grants	237	254	631	443	322	274	339
- External Loans (net)	343	209	336	490	395	406	508
- Total External	580	463	967	933	717	680	847
- Domestic	383	428	594	326	393	448	611
Ratio to GDP							
- Revenue	20.7	22.9	23.5	25.9	26.1	29.3	30.2
- Current expenditure	22.1	22.4	27.3	23.9	23.7	26.1	27.9
- Capital expenditure	8.8	9.5	12.0	13.6	12.4	12.7	14.1
- Deficit	10.2	8.9	15.8	11.6	9.9	9.8	11.8
- External financing	6.2	4.3	9.8	8.6	6.4	5.8	6.9
- Domestic financing	4.0	4.1	6.0	3.0	3.5	4.0	4.9
Percentage							
- Bank financing of the deficit/reserve money	21.8	17.3	24.6	13.9	14.4	12.3	13.2

Source : Annex Tables 2.1, 5.1 and 6.1

a/ Period average

4.11 The bulk of domestic financing (85-90 percent) has been from the banking system, with the remainder coming from the only non-bank source of domestic finance, the public sector employees' pension fund. Bank financing has increased the volume of reserve money by amounts ranging from 11 to 25 percent of each year's average reserve money stock, though its contribution to monetary growth has been declining. Over the eight years ending in 1987/88, reserve money grew at a rate of 12.5 percent p.a. This rate of deficit-induced money supply growth, against a background of very slow real GDP growth, could, with a stable demand-for-money function, have given rise to a steady upward movement of prices of the order of 10-15 percent p.a. In

Ethiopia, however, there has been notable price stability 19/ apart from in years of food supply shortages.

Monetary Developments and the Financial Sector

4.12 The phenomenon in the monetary economy which has made it possible to reconcile (relatively moderate) monetized fiscal deficits with broad price stability is "monetary deepening", i.e., the steady increase in the ratio of money balances to GDP. Since 1985 this has been accompanied by some decline in the ratio of broad money to reserve money as excess liquidity has built up in the banking system. 20/

19/ Inflation The only published retail price index is for Addis Ababa. This is not truly representative of retail price trends in the country at large because of market dislocation caused by geography, and transport, and institutional factors. This is particularly true for food items which have a weight of 58 percent in the index. Food prices have fluctuated wildly with variations in supply to the free market. The index omits the prices of basic necessities sold at ration shops where consumers are able to purchase part of their requirements and which have been little changed in recent years. The best readily available indicators of inflationary pressures in the economy are the non-food elements in the Addis RPI and the implicit GDP deflators calculated from national accounts data:

Price Trends 1983/84 to 1987/88
(Annual percentage changes)

	----- Addis RPI ----			
	Food	Non Food	Total	Implicit GDP deflator
1983/84	-0.3	-0.5	-0.3	2.0
1983/85	24.9	3.8	18.5	6.3
1985/86	4.5	5.1	4.6	2.6
1986/87	-15.6	7.3	-9.5	-5.3
1987/88	0.6	5.5	2.2	1.0
1988/89	10.9	7.0	9.6	3.7(preliminary)

Source: Annex Tables 2.1, 2.2 and 9.1

There has been moderate but non-accelerating underlying inflation at a rate much lower than the growth of reserve money could have made possible. The only serious blemish in the record is in 1988/89; inflation in the non-food items in the RPI has risen to about 10 percent in the first half of calendar 1989. Clearly, there have been forces at work in the monetary sphere which have greatly facilitated the non-inflationary financing of the fiscal deficit.

20/ The reserve money multiplier rose again in 1988/89 because of purchases of government stock by the Commercial Bank.

4.13 Broad money growth has been moderate and on a declining trend. In the twelve month periods ending on June 30, each year, the pattern has been as follows:

Table 4.4: TRENDS IN BROAD MONEY
(percent per annum)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Annual Growth									
	2.0	11.2	15.0	11.3	13.5	15.5	8.0	9.0	8.9
Ratio of Broad Money to Reserve Money									
	1.65	1.58	1.83	1.73	1.99	1.71	1.63	1.69	1.76
Velocity of Circulation									
	4.06	3.72	3.53	2.98	2.58	2.62	2.42	2.30	2.25

Source: Annex Tables 2.1 and 6.1

Since 1985 the reserve money multiplier has been falling as commercial banks have been unable to increase their advances as fast as their liquid assets, and as non-bank holders of cash have increased their cash holdings relative to their incomes.

4.14 The inflationary impact of aggregate liquidity expansion in the face of low growth has been limited by monetary deepening. The best indicator of this is the "velocity of circulation" of broad money, i.e., the ratio of GDP at market prices to the average money supply. The inverse of this ratio, the ratio of money to GDP, has increased from 25 percent in 1980/81 to 44 percent in 1988/89. The government has been able to finance that part of its deficit not covered by net foreign borrowing because individuals and enterprises have been willing to hold more money in cash and on deposit. The slowing of the velocity of circulation between 1980/81 to 1988/89 enabled broad money to be birr 2.45 billion higher at the end of the period given nominal GDP, than it would have been with constant velocity. This sum was sufficient to accommodate 65 percent of cumulative domestically financed deficits in this period. Herein lies the key to the very low rate of inflation provoked by the government's deficit financing.

4.15 The fall in the income velocity of circulation has occurred within an institutional context which has favored the rise in money balances. The institutional environment has had three main features: the extension of the commercial bank branch network, positive real interest rates and limited opportunities for investment and consumption expenditure, giving rise to "forced saving".

4.16 The number of branches of the Commercial Bank of Ethiopia (CBE), the main retail deposit-taking institution, increased from 114 at the end of 1979 to 157 at the end of 1989. There is believed to have been a more than proportional increase in the number of private depositors, holding mainly interest-bearing savings accounts. Savings deposits, representing about one-third of the deposits at the bank, have grown by 188 percent from June 1981 to June 1989. In June 1989 there were over 768,000 holders of savings accounts. Demand deposits (60 percent of total deposits) have grown at a similar rate but this has mainly been in response to the demand for banking services on the part of public sector institutions. The process of monetary deepening has thus had two facets: households have been holding more and larger savings deposits, assisted by an active deposit mobilization policy on the part of the CBE, and the expanding public sector of the economy has needed growing sums in demand deposits in order to conduct its business.

4.17 The mobilization of savings deposits would not have been so effective if savers had not had confidence in the value of their deposits and without positive real interest rates. The control of inflation has thus been a cause, as well as a consequence, of monetary deepening. Savings deposits of less than birr 100,000 have attracted a rate of interest of at least six percent throughout the 1980s, giving a 0.5-2.0 percent real return. 21/

4.18 The third feature of the institutional context which has promoted the growth of monetary assets has been the shortage of alternative savings instruments and investment/consumption opportunities. The whole of the financial sector is nationalized and there is no competition between banks and non-bank financial intermediaries for deposits. For savers, the only alternative to holding deposits at the CBE is the Housing and Savings Bank, which has not striven in recent times to mobilize retail deposits. In Ethiopia, it is not easy for the holders of liquid assets to convert them into real estate. All land and commercial buildings, as well as, residential buildings constructed for rent belong to the state. Private investment in manufacturing or service industries has, hitherto, been tightly regulated and subject to fixed asset ceilings and case-by-case licensing. The main commercial outlet for private investment has thus been trade, but even here opportunities have narrowed as the number of traders' licenses has been reduced. Converting liquid assets into expenditure on durable consumer goods has been restrained by restrictions on the import of these goods. In sum, the holders of liquid assets have been forced to save and have been given little option but to keep their savings in monetary form. Increases in holdings of cash and deposits, partly in the nature of "forced saving", have played an important role in economic stabilization. This poses a problem for policy makers as they seek to remove restraints on private investment: the act of investment liberalization could be destabilizing unless accompanied by measures to reduce the fiscal deficit or to offer savings instruments such as Treasury bonds to finance it in a non-inflationary fashion.

21/ Deflated by the average increase of the Addis Ababa RPI between 1980 and 1988. Interest rates of up to 7.5 percent have, since July 1986, been available on individuals' time deposits and on those of savings and credit cooperatives.

4.19 Ethiopia's financial institutions were founded before the Revolution but have subsequently acquired some of the typical features of socialist financial systems, while nevertheless, preserving the important distinction between central and commercial banking functions and allowing commercial banks a freer hand than in other socialist countries in making advances on the basis of the assessed creditworthiness of borrowers. The National Bank of Ethiopia (NBE), the central bank, controls commercial bank liquidity through cash and liquid assets reserve requirements. The Commercial Bank of Ethiopia (CBE), with total assets of birr 4.4 billion (June 1989) lends essentially on a short term basis for working capital and trade financing to the private as well as to the public sector. From time to time it is also expected to finance part of the fiscal deficit through the purchase of Treasury bills and bonds. Term finance is the preserve of the Agricultural and Industrial Development Bank (AIDB) whose total assets in June 1989 were birr 2.3 billion. The CBE is liquid, solvent and well provisioned against doubtful debts. The AIDB on the other hand, has enough unsound projects on its balance sheet to render it technically insolvent. It has non-performing advances to the state farms of birr 1.7 billion which are refinanced on concessional terms by the NBE and, in addition, about birr 65 million of industrial sector loans which are in arrears. The much smaller Housing and Savings Bank (HSB) and the Ethiopian Insurance Corporation have ceased to compete effectively for retail deposits and have become incorporated into a centrally directed financial system in which the roles of different institutions are kept distinct. When the finances of the specialized banks (AIDB and HSB) have become weakened, state enterprises have been directed to place their term deposits with them. 22/

4.20 The interest rate structure allows the banking system as a whole to be profitable. Though it pays positive real rates of interest to small savers, it is able to subscribe to Treasury bills and bonds at concessional rates (three percent and five percent respectively) and to provide loans and advances to cooperative and public sector borrowers at rates lower than to the private sector. Commercial banks must maintain five percent of their deposits in cash and a minimum of 20 percent in liquid assets (cash or Treasury bills). In June 1989, however, nearly 30 percent of CBE deposits were represented by cash or deposits at the National Bank, and as much as 53 percent by claims on government bodies. Profitability is possible because there are large non-interest-bearing deposits, mainly by public enterprises. The use of large time deposits is discouraged because deposits over birr 100,000 only attract one percent interest.

22/ In addition to the public sector banks and savings institutions there is an extensive network of non-bank, private, revolving savings and credit associations ("iqub") and other mutual savings societies, often based on places of work, which make loans on personal security for small business development, house construction and consumption needs. The Savings and Credit Promotion Office of the NBE has records of 382 savings and credit associations with 9000 members.

Investment and Domestic Resource Mobilization

4.21 This chapter has, so far, looked at how a reasonable fiscal balance has been achieved, despite rising public expenditure, and how inflation has been held so low, despite a degree of monetization of the fiscal deficit. It has broached the question of domestic resource mobilization, i.e. the generation of savings to finance investment, in its treatment of Ethiopia's revenue performance and of monetary deepening, but it has not yet dealt comprehensively with where savings are being generated, where they are being absorbed and how adequate they have been to sustain the investment effort. The following paragraphs consider these issues.

4.22 A recurrent theme in this report is the growth of fixed investment expenditure, particularly public investment, in the course of the 1980s. Outlays on fixed investment, as recorded in the national accounts, increased in real terms by 63 percent between 1980/81 and 1987/88. As a share of GDP they rose from 10 percent to over 15 percent and they have been the most dynamic element in domestic absorption - growing more rapidly, in relative, though not absolute, terms, than government consumption. (see Figures 4.1 and 4.2)

4.23 In the years since the Revolution public investment has become the dominant force on the investment scene. From 67 percent of total investment expenditure in the five years to 1978/79, public investment has risen to 86 percent of the total in the five years ending in 1988/89. Outlays at current prices and the shares of the public enterprises are shown in Table 4.5 and the respective shares of the government, public enterprises and the private sector are illustrated in Figure 4.3.

Table 4.5: PUBLIC INVESTMENT
(birr million at current prices)

Year	Total	Government	Public Enterprises	P.E. Share
1980/81	698.3	335.9	362.4	51.9
1983/84	962.3	332.0	630.3	65.5
1985/86	1160.8	593.3	567.5	48.9
1986/87	1411.4	456.3	955.1	67.7
1987/88	1578.8	528.8	1050.0	66.5
1988/89	1552.5	n.a.	n.a.	n.a.

Source: Annex Table 2.3 and staff estimates

FIGURE 4.1 Public Expenditure
at 1980/81 Prices

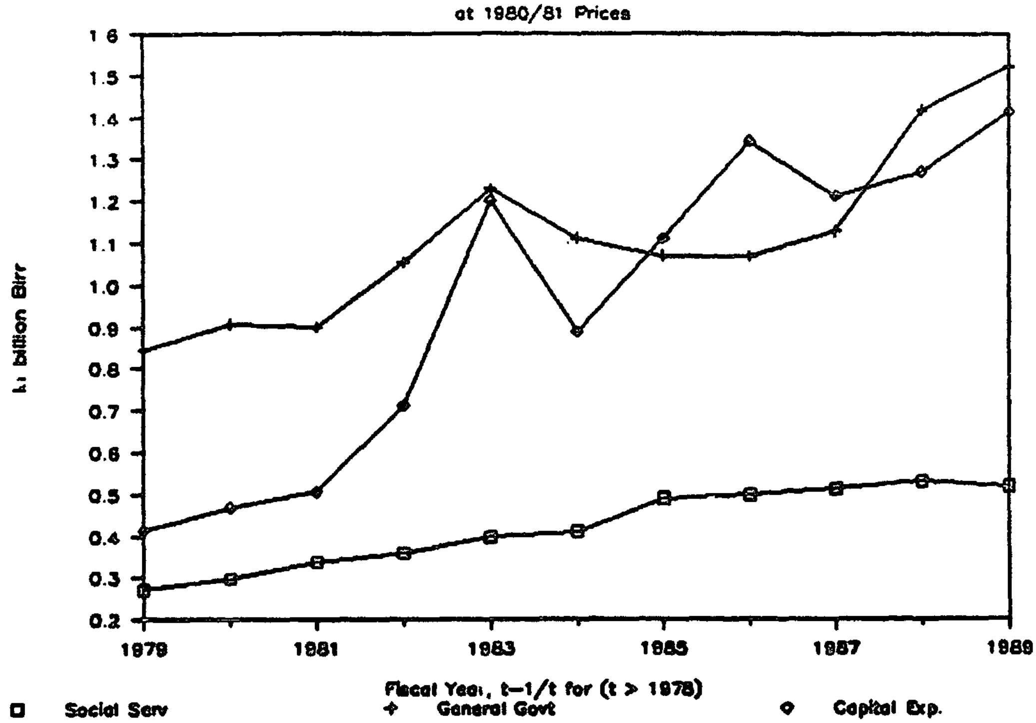


FIGURE 4.2 Investment and Savings

Percentages of GDP mp

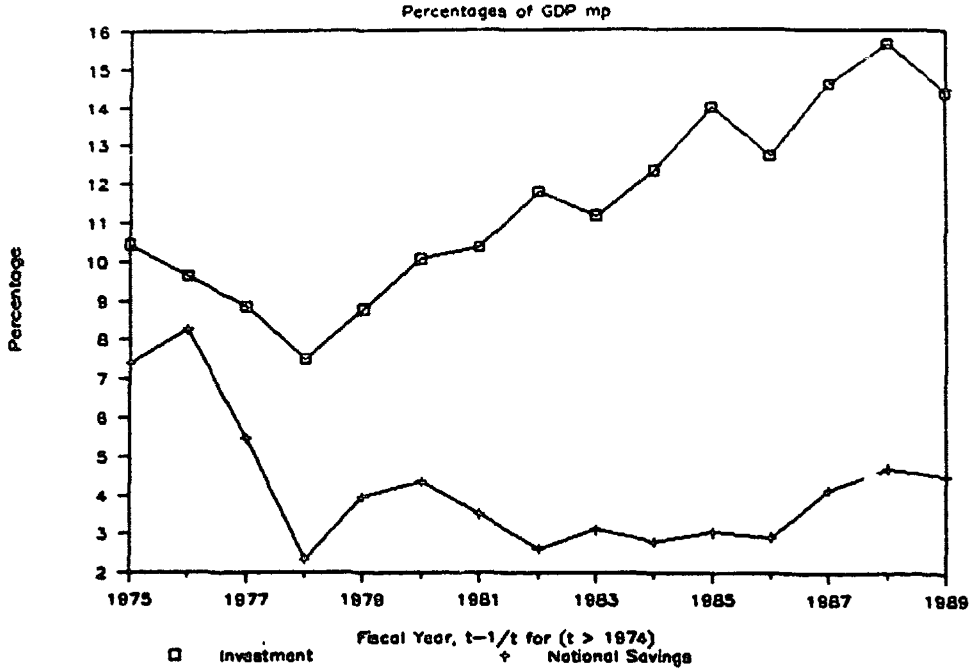


FIGURE 4.3 Investment and Savings

In 1979/80 Prices

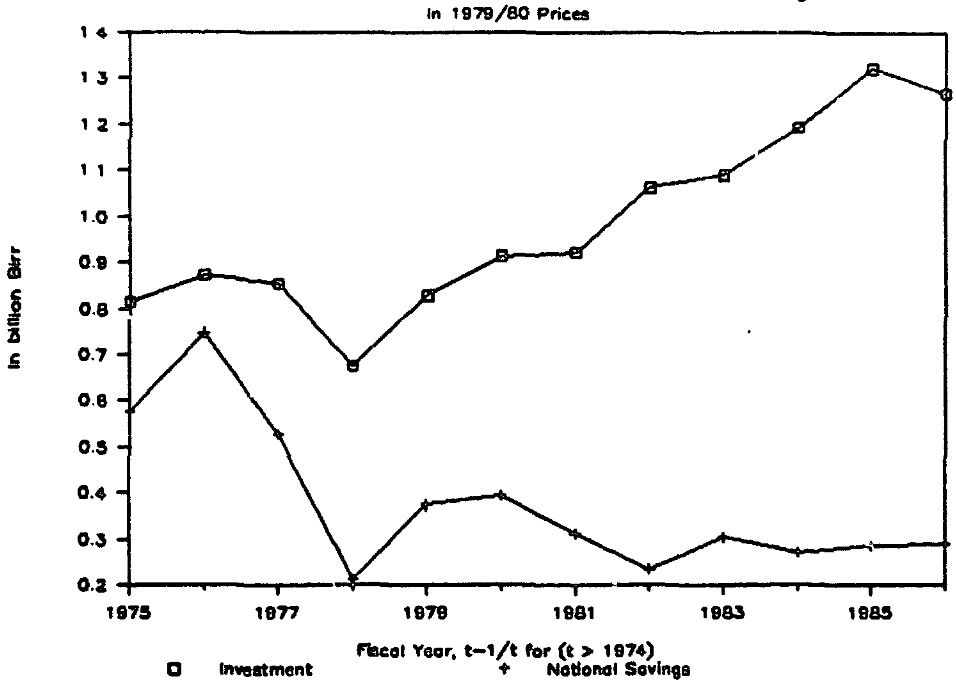


FIGURE 4.4 National Savings by Sector

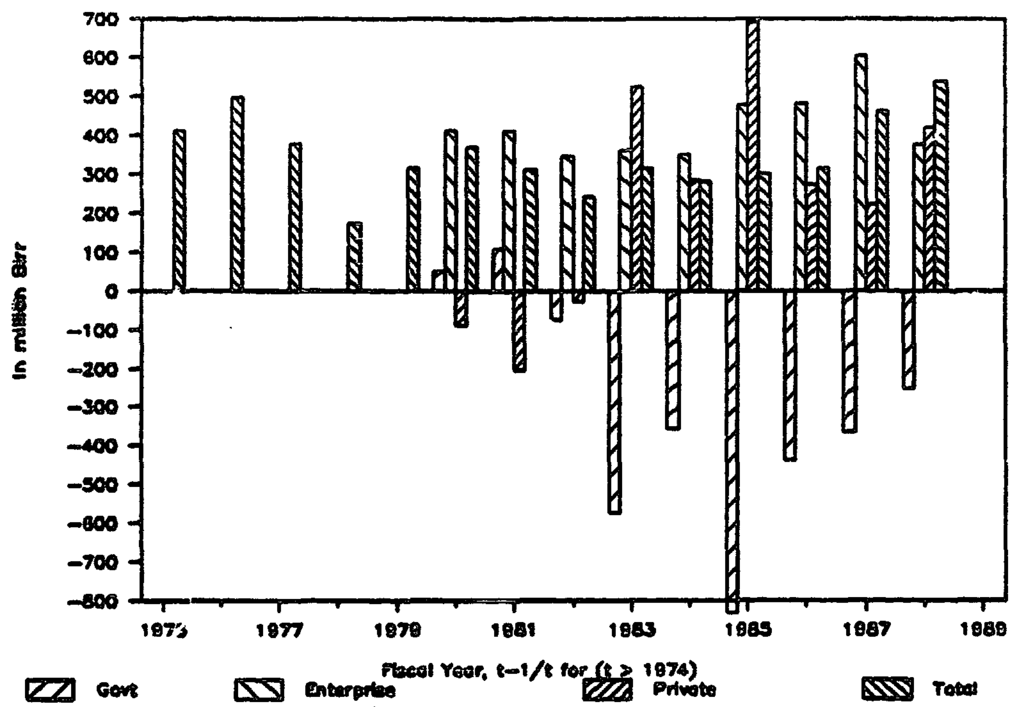
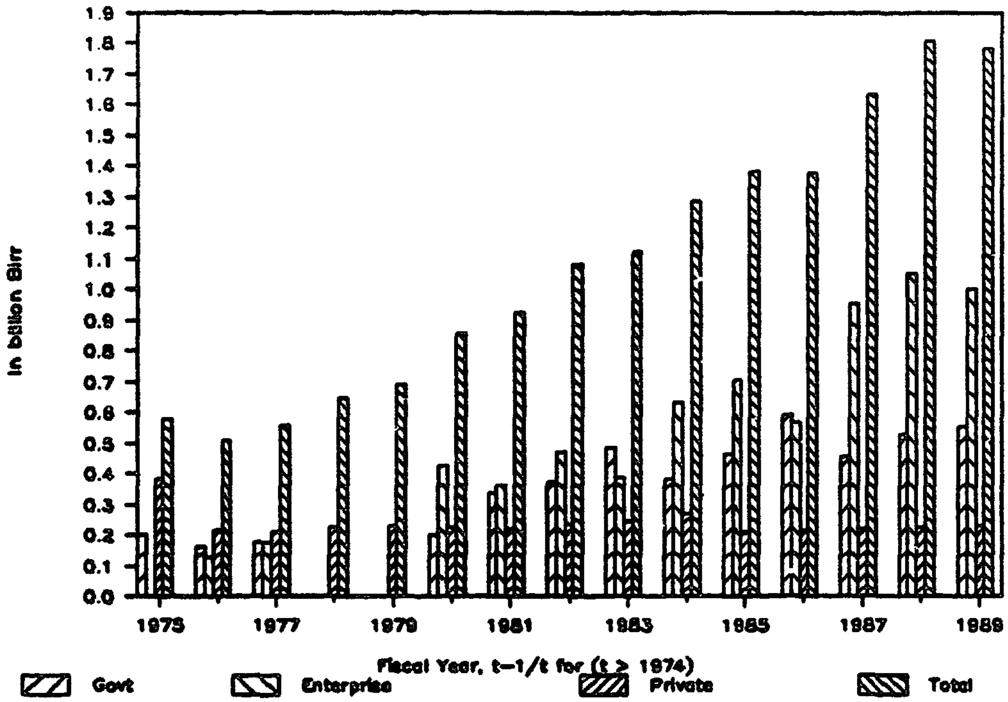


FIGURE 4.5 Fixed Investment by Sector



4.24 Within the public sector the share of public enterprises has increased markedly in the course of the 1980s, from 52 percent in 1980/81 to an estimated 67 percent in 1987/88. Meanwhile, investment undertaken by the central government has fallen not only relatively but also absolut .ly: it was 27 percent less in volume in 1987/88 than it had been in 1980/81. These trends exemplify the priority which the government has given in recent years to directly productive activities, mainly in manufacturing, and to public utilities, at the expense of investment in infrastructure and economic and social service provision of the kind which are financed from the central government's capital budget

4.25 Aggregate gross domestic savings, as measured in the national accounts, have lagged far behind fixed investment at 2-5 percent of GDP. The gap between domestic savings and investment - the resource gap - has increased from under five percent of GDP in 1980/81 to over 10 percent in 1987/88 (see Figure 4.2). National savings (domestic savings adjusted for net interest and dividends paid abroad and for workers' remittance inflows) have amounted to about four percent of GDP, leaving 10-11 percent of GDP, in recent years, to be raised from external grants and loans. Some external borrowing has been on non-concessional terms (Chapter 3). 23/ Low savings are explicable in years of drought emergency when externally supplied relief assistance directly finances higher levels of consumption than the economy would otherwise afford. The persistence of low levels of domestic resource mobilization at other times calls for a more careful look at where savings are produced and how they flow between sectors.

Table 4.6: REAL DOMESTIC SAVINGS AND INVESTMENT
(values in constant 1980/81 prices)

Year	Investment		Savings	
	(Birr million)	(% of GDP)	(Birr million)	(% of GDP)
1974/75	814.3	10.4	583.6	7.5
1977/78	676.1	7.5	174.0	1.9
1980/81	913.6	10.4	275.9	3.1
1983/84	1193.0	12.4	232.6	2.4
1985/86	1267.4	12.7	222.0	2.2
1987/88	1503.5	15.6	429.6	4.5
1988/89	1411.6	14.4	452.0	4.6

Source: Appendix 1, Table 3. See also Figures 4.1 & 4.2.

23/ Great caution is required in handling these magnitudes. Domestic savings are calculated as a residual; there are question marks over the recording of imports, and thus of the trade gap, in the balance of payments from which the resource gap is derived; in measuring investment expenditure, outlays on house-building may be understated; and finally, in the absence of estimates of changes in stocks, consumption is exaggerated and savings understated in years when stock-building takes place.

Sources of Savings 24/

4.26 Ethiopian data make it possible to estimate the respective contributions of the central government, the public enterprises and the private sector to aggregate savings. It is not, however, possible to disaggregate private savings into those of households and private enterprises. Government savings are the excess of revenues (less receipts from fees and charges) over government consumption outlays defined as recurrent expenditure on wages, salaries, pensions, purchased materials and services, interest and grants to the rest of the economy. Most of these items feature in the recurrent budget, as the capital budget may also cover recurrent expenditures, independent information on central government capital formation is used to complete the picture. Public enterprise savings are broadly their undistributed post-tax profits (less gains from asset sales and less capital transfers received). Private sector savings are the sum of the savings of private enterprises and the excess of household disposable income over expenditure. They can either be estimated as a residual from the national accounts estimate of aggregate national savings or using other (partial) indicators.

4.27 The results of the analysis are shown in Figure 4.4. It transpires that government savings have been significantly negative since 1982/83 - strongly so in 1982/83 when major public enterprise arrears were paid off, and in 1984/85 and 1987/88 when there were drought and security emergencies. In the five years to 1987/88 government dissaving has been on average 2.5 percent of GDP. If exceptional years are excluded, it has been 1.5 percent of GDP. Government dissaving has occurred, despite recurrent budget surpluses, because of large recurrent (non-investment) expenditures in the capital budget.

4.28 Public enterprises have been substantial gross savers, despite high tax and quasi-tax (residual surplus) payments to the government owing to their growing depreciation allowances. Their estimated savings have averaged 4.2 percent of GDP in the five years to 1987/88. The private savings estimate is the least reliable. It is calculated as a residual from national savings which is itself a residual. On this basis private savings have amounted to five percent of GDP over the last five years. They could well in fact have been more. The accumulation of cash and bank deposits in the hands of the private sector (net of advances to it) alone have amounted to 3-5 percent of GDP in the course of the period. Other private savings will have been invested without bank intermediation, either within households or through the well-developed system of revolving savings and credit associations. However, any underestimation of private savings implicit in the national accounts is likely, at least partially, to be offset by an underestimation of private investment, especially in the peasant and urban informal sectors.

24/ The analysis in this section is done in terms of national savings, i.e., savings out of GNP, of which adjusted estimates are given in Appendix 1.

4.29 Details of these savings estimates and discussion of the problems encountered in making them are to be found in Appendix 1.

Inter-Sectoral Flows of Funds

4.30 Data from financial sector records make it plain that the private sector - households and enterprises combined - has had a significant financial surplus (i.e., excess of savings over investment) which has been mobilized through financial intermediaries and placed at the disposal of the government and public enterprises. Both branches of the public sector have had financial deficits, i.e., their investment expenditure has exceeded their savings. Net lending by the private sector and net borrowing by the public sector in recent years is shown in Tables 4.7 and 4.8.

Table 4.7: PRIVATE SECTOR FINANCIAL SURPLUSES
(birr million, current prices)

Change in Private Sector:	1984/85	1985/86	1986/87	1987/88
- Cash holding	75.6	233.4	151.6	164.8
- Net bank deposits	131.3	223.4	369.9	109.4
- Other lending to Govt. a/	118.2	61.0	77.9	80.4
Total	325.1	517.8	599.4	354.6
Total as % of GDP	(3.3)	(4.8)	(5.4)	(3.1)

a/ Enterprises' pension fund purchases of government stock etc.

Source: Appendix 1, Table 12

Table 4.8: PUBLIC SECTOR'S NET BORROWING FROM THE BANKING SYSTEM
(birr million, current prices)

Change in net Borrowing by:	1984/85	1985/86	1986/87	1987/88
- Government	326.4	148.5	434.5	292.5
(as % of GDP)	(3.3)	(1.4)	(3.9)	(2.5)
- Public enterprises & Coops.	-134.1	121.5	397.5	515.9
(as % of GDP)	(-1.4)	(1.12)	(3.6)	(4.5)

Source: Appendix 1, Table 12

These data broadly confirm the estimates of sectoral financial surpluses and deficits drawn from the national accounts, combined with fiscal and enterprise accounts. Public sector mobilization of private sector financial surpluses (3.0-5.5 percent of GDP) has been larger than gross

4.31 Lending by the banking system to the public sector has not closely matched the growth of the private sector's net deposits because of the banks' ability to create and sterilize credit. For much of the 1980s the banking system has had excess liquidity. In 1986/87 and 1987/88 the excess of banks' liquid assets over the minimum liquidity ratio (20 percent of deposits) increased, in spite of the rapid expansion in those years of net advances to public enterprises.

4.32 With excess liquidity in the commercial banks there has been no crowding out of the private sector. The banks have been free to lend to private enterprises which satisfy their strict collateral requirements. However, institutional factors and lack of expenditure opportunities ("forced savings") have also dampened the private sector's demand for loanable funds. Meanwhile, the government has enjoyed cheap financing of its fiscal deficit from the banking system, mainly at the expense of public enterprises which have been discouraged from holding their liquid assets in interest bearing accounts at the CBE and which maintain substantial demand deposit balances. The CBE thus finds it profitable to hold Treasury bills and bonds bearing interest at three percent and five percent respectively. The low interest payable on government stock has helped to contain the burden of debt service on the recurrent budget to within 10 percent of outlays.

Major Issues in Macroeconomic Management and Domestic Resource Mobilization

4.33 In many ways the conduct of macroeconomic affairs in Ethiopia has been strict and disciplined. The low rate of inflation in free market prices bears witness to this. The most important question is about the sustainability of the relative stability of the economy in the context of the shift in government policy in favor of encouraging private investment. Can stability based on substantial transfers of loanable funds from the private to the public sector and on an element of "forced saving" survive in a world in which the private sector is expected to mobilize its idle balances and borrow from the banks in order to finance business expansion? What must happen in the public sector to control the threat of excess demand which could well fuel the inflationary process and upset the already distorted structure of incentives?

4.34 The present mode of non-inflationary deficit financing, which has served Ethiopia well in the years of low growth, seems unsuitable for a phase of expansion with a larger private sector role. It cannot be assumed that when restraints on private expenditure are removed, monetary deepening will continue as heretofore. Nor can it be assumed that excess liquidity will persist in the banking system and that government borrowing from the banks can continue on the present scale with so little multiplier effect in terms of bank credit to the economy. The strong implication, therefore, is that the reorientation of policy towards the private sector will require a fall in the domestically financed fiscal deficit.

4.35 Analogously, the non-government public sector should restrain its demand for bank credit (by improving its repayment performance on past loans) so as to make room for more lending to the private sector within the overall envelope of non-inflationary domestic credit expansion.

4.36 Reducing the fiscal deficit by increasing revenues will not be easy because there is an element of unsustainability in the revenue performance of recent years. In 1987/88 there were exceptionally large transfers of residual surplus from the banks; in 1988/89 there has been an exceptional levy on incomes and turnover for the defense of the motherland. Moreover, there is a strong case, in the context of a policy of stimulating the private sector, for reducing the marginal rate of income tax, reducing the surcharges on own exchange imports, eliminating the transactions tax on exports and improving import duty drawback arrangements for exporters. In the medium-to-long term lower marginal rates of income tax should broaden the tax base and increase revenues. However, in the short term there is a chance that these reforms could reduce the revenue yield, unless accompanied by strengthened revenue administration.

4.37 The burden of fiscal deficit reduction should therefore fall on the expenditure side. Here, the biggest contribution can, eventually be made by reducing security-related outlays. Other recurrent expenditures will be hard to cut; indeed, there is a case for increasing spending on basic economic and social services whose provision remains well below need and long-established wage and salary scales need review to restore eroded work incentives. Capital expenditure plans have already been repeatedly revised by the government in order to preserve macroeconomic balance. Further revisions appear desirable to eliminate projects with low prospective rates of return and non-investment outlays without clear development benefit.

4.38 Fiscal adjustments along these lines would have an automatically beneficial effect on measured domestic savings. Central government dissaving could be eliminated and the savings/GDP ratio could rise thereby by 2-3 percent.

CHAPTER 5

POPULATION, FOOD AND FOOD SECURITY

5.01 Comprehensive consideration of the constraints on and resources for long-term growth in Ethiopia lies beyond the scope of this report. However, the linked issues of food security and population growth are topical because they are receiving close government attention. The intention of the present chapter is to highlight some of the problems and current government responses in these two matters.

5.02 Previous chapters have described the principal causes of Ethiopia's economic stagnation, including very serious climatic shocks; institutional arrangements; investment, pricing, distribution and exchange rate policies and inadequate economic and social services and infrastructure. Agriculture, the sector which most needed to be vigorous if the economy were to expand, has suffered the most circumstances and grown well below the rate of population increase. Grain output is no higher than at the start of the decade. The population, meanwhile, has been expanding at a rate which adds one third to population size with each passing decade - over 11 million in the last ten years.

5.03 Among the consequences of these developments have been Ethiopia's failure to meet its human resource development needs adequately and a mounting food crisis which has persisted long after the catastrophic drought of the mid 1980s. Despite a dramatic increase in grain imports, per capita food availability has fallen and, with it, presumably, nutritional standards. The flow of food between surplus and deficit areas is inhibited by institutional factors and physical shortages of transport equipment, worsening the effects of food shortages in deficit areas on nutrition. Public commercial food distribution has so far played only a bridging role in food security, leaving it to mostly externally financed relief operations coordinated by the Relief and Rehabilitation Commission (RRC). However, new policies on drought preparedness and food security are now being forged which will widen the role of the public authorities in disaster prevention and which will call into question some of the principles on which public food distribution has operated hitherto.

Food Supply and Food Availability

5.04 As seen in Chapter 2, the production of cereals and pulses in 1988/89 was around 7.5 millions tons, approximately equal to the level of 1979/80 and 1982/83. So, with a larger population and despite higher imports - including food-for-work project imports - per capita food availability has declined.

5.05 This is exemplified in Table 5.1 which shows that after allowing for seed and post harvest losses, per capita consumption at the start of the decade was 178.8 kg - equivalents to 1,728 calories of nutrients per day or 82 percent of the recommended norm of 2,100 calories. In the more recent, three year period 1986/87 to 1988/89, the estimate of average per capita availability has fallen to 163.9 kg per annum, equivalent to 1584 calories per day, or 75 percent of the recommended norm.

Table 5.1: FOOD AVAILABILITY (CEREALS AND EQUIVALENT)
(thousand tons - annual averages)

	1979/80 to 1981/82	1986/87 to 1988/89
- Domestic Production	6691	6942
- Less 15 % seed & losses	-1004	-1041
- Plus root crops, milk	885	853
- Plus cereal imports	290	902
- Less exports of pulses	-32	-10
- TOTAL AVAILABILITY	6830	7646
- Population (millions)	38.2	46.6
- Per Capita Availability (kg)	178.8	163.9
- Percentage of nutritional/ norm	82%	75%

Source: Annex Table 7.9

Both three year time periods include years of exceptionally good harvests (1979/80 and 1988/89) and years of partial harvest failure (1981/82 and 1987/88).

5.06 Figures for average food availability are a poor indicator of nutritional standards which are primarily a function of the distribution of income and income-earning assets. There is no satisfactory time series data on nutrition permitting comparison of the situations at the beginning and end of the decade. However, non-governmental organizations working in relief operations in many rural areas record chronic child malnutrition in up to 20-30 percent of the 1-5 age group. The situation is particularly serious in remote areas, especially areas of overall food deficit and in the valleys at the edge of the Highland massif. In all probability, and despite the diligent efforts of relief agencies since the 1984 famine emergency, the nutritional situation has deteriorated. This conclusion would be consonant with other evidence of rural impoverishment, particularly among female-headed households.

5.07 The agenda for reversing the decline in nutritional standards is a long-term one, identical in most respects to the one for achieving sustained agricultural development and employment growth. As household incomes rise, undernutrition will fall. Long-term food security requires income growth which in turn requires economic development. In the short-medium term, however, food policy must also cover a range of palliatives, partial remedies and measures to protect those who are already vulnerable from the effects of adverse climatic or other causes of loss of income. Food policy should also cover any economic rigidities and distortions which unnecessarily worsen the food supply situation for vulnerable groups and which can be removed by administrative action. In Ethiopia, there are rigidities in the field of trade in, and transport of, food which may aggravate supply shortages. These are reviewed in the following paragraphs.

Food Trade and Transport

5.08 Chapter 2 showed how internal trade in domestically produced food has a dual structure. Public procurement and distribution agencies, principally the Agricultural Marketing Corporation, buy 500-600,000 tons p.a. of cereals, pulses and oilseeds - of which 40-50 percent comes from the state farms and imports and the remainder from peasants, through their peasant associations and cooperatives, and from private traders. Publicly procured food is distributed to the army, schools, hospitals and to the urban residents' associations ("kebeles") which retail it through their ration shops. When domestic procurement is insufficient, the AMC arranges commercial food imports to augment supplies for this clientele. Its imports have averaged 117,000 tons p.a. over the last ten years. The remaining domestic marketable surplus is both procured and marketed by private traders. There is no accurate estimate of the total marketed surplus but it is believed to be of the order of 1.5 million tons p.a. Private trade, much of which is very local, but which encompasses the supply of the large Addis Ababa free market, handles, therefore, some two-thirds of total marketed domestic output.

5.09 Since the famine of 1984/85 a third channel of distribution has become very active, namely that of emergency relief. Emergency food aid supplies are paid for by the World Food Program, donor governments and organizations and voluntary agencies; they are coordinated by the Relief and Rehabilitation Commission; and they are dispensed with the assistance of voluntary agencies working in Ethiopia. Virtually all emergency food aid goes for free distribution to the inhabitants of drought-affected areas. Another relief channel has been opened in more recent times to provide imported food for Sudanese and Somali refugees. These now number 650-700,000. Food for refugees is not distinguished in the data from regular food aid but is thought be flowing into the country at an annual rate of about 100,000 tons.

5.10 Though there is in principle little mingling of the various distribution channels, the Agricultural Marketing Corporation often receives more maize than public distribution channels require. There were exceptionally large deliveries of maize in 1986/87 and 1987/88 from parts of Western Ethiopia, and the AMC was required to support a collapsing market price. The AMC swaps its maize surpluses for wheat imported into the country through emergency food aid. In this way, commercial wheat imports were reduced and maize was distributed as emergency food aid.

5.11 Table 5.2 shows the approximate level of annual average flows through these various channels over four recent years. It also illustrates the functionally specialized features of food distribution in Ethiopia. Total imports have, in these years, amounted to a little over one third of publicly and privately distributed food. Food aid imports were 85 percent of total imports. Commercial imports supplied 25 percent of the food entering non-relief public distribution channels; they have been used exclusively to supplement domestic public procurement and have not augmented relief supplies.

Table 5.2: FOODGRAIN DISTRIBUTION IN PUBLIC AND PRIVATE CHANNELS (1984/85 TO 1988/89)
(thousand tons - annual averages)

	SOURCES OF SUPPLY					
	Private Proc't	Public Proc't	Commercial Imports	Regular Food aid	Emergency Food aid	Total
USERS						
Private consumers	1250	..	..	..	..	1250
Government	..	71	..	..	..	71
Urban kebeles	..	250	..	..	..	250
Flour mills a/	..	120	160	..	..	280
Relief recipients	..	..	..	..	682	682
Food-for-work (+ refugees)	..	..	..	202	..	202
Exports	..	21	..	..	..	21
TOTAL	1250	462	160	202	682	2756

a/ Approximately one-third of wheat flour is distributed to government institutions, with the remainder going to private bakeries and for sale in urban areas.

Source: Annex Table 7.6, WFP Shipping Bulletins and Staff estimates.

5.12 Rigidities occur also in the private marketing of food which is often sorely hampered by transport difficulties and which remains subject to government licensing and control. Although private traders in the main surplus producing areas of Shoa, Arssi and Gojjam have been licensed fairly liberally since they were once again permitted to trade in cereals in January 1988 25/, and although they are now authorized to transport grain between administrative regions, there remain large differences between the free market prices of the principal foodstuffs in the different regions of the country. In April 1989, the range in average prices for teff went from birr 61/quintal in Gojjam to birr 134/quintal in Illubabor, for wheat from birr 58/quintal in Arssi to birr 92/quintal in Keffa and for horse beans from birr 66/quintal in Wollo to birr 150/quintal in Keffa. The inter-regional variance in prices, which increased somewhat for teff and maize in the aftermath of the 1984/85 drought, has not been seriously eroded for teff and beans by the liberalization of marketing in 1988. The coefficient of variation for wheat and, to a lesser extent maize, was sharply lower in

25/ Before January 1988, there were 593 licensed wholesalers in Shoa and none in Gojjam and Arssi. Since then 543 new traders' licenses have been issued in the three regions and 395 in the rest of the country.

Table 5.3: INTERREGIONAL RURAL FREE MARKET PRICE VARIATIONS

		Range (lowest/highest) (ratio)	Coefficient of Variation
Mixed Teff:	Feb-Apr 1983	1:2.29	0.22
	Feb-Apr 1986	1:2.58	0.24
	Feb-Apr 1989	1:2.20	0.21
Mixed Wheat:	Feb-Apr 1983	1:2.58	0.28
	Feb-Apr 1986	1:2.33	0.23
	Feb-Apr 1989	1:1.59	0.14
Maize:	Feb-Apr 1983	1:2.08	0.21
	Feb-Apr 1986	1:1.98	0.23
	Feb-Apr 1989	1:2.17	0.18
Horse Beans:	Feb-Apr 1983	1:2.34	0.31
	Feb-Apr 1986	1:2.24	0.24
	Feb-Apr 1989	1:2.27	0.26

Source: Annex Table 7.10

1989 than in earlier years perhaps because of the temporary effect of relief food aid on local market prices as well as because of the reduction of market imperfections; other produce were not affected in the same way.

There has been subsequent evidence of simultaneous decline in open market grain prices in Addis Ababa in mid-1989 and of increases in market centers in surplus producing areas. This pattern is consistent with a lessening of restraints on the free movement of grain. Nevertheless, the observed differences in average regional market prices are much higher than warranted by the costs of transport and handling between surplus and deficit areas, even given the sparse network of modern transport facilities in rural Ethiopia. There must therefore be other explanations.

5.13 The most likely causes of the low degree of integration of regional food markets are physical shortages of vehicles available to private traders and tight regulation of road haulage. Though the majority of the transport fleet is in private hands, the fleet is mostly very old (average age of 13.5 years) and suffers from low availability because of shortages of spare parts. Haulage rates are controlled, though only on trunk routes, and tariffs have not been increased since 1981. It is not financially viable for hauliers to offer their vehicles for hire on certain routes at current tariffs. Neither are the tariffs high enough to make it profitable for hauliers to import vehicles under franco valuta arrangements to hire out as common carriers. Furthermore, all movements of goods by road are subject to individual authorization by the Ethiopian Freight Transport Corporation, the public enterprise operating in the road haulage sector. This procedure is bureaucratic and time-consuming, though authority is freely given to licensed hauliers so long as there is evidence that the traders whose cargo is to be carried have sold to the AMC, at its price, an equivalent quantity of grain. In this way the AMC is sure of being offered its statutory half-share of the grain which private traders procure.

5.14 The net effect of these factors, and of physical shortages of transport, is that less grain moves between surplus and deficit areas than is necessary to reduce inter-regional price differentials to the level of transport costs. The impediment to grain movement has the further effect of reducing the farmgate price offered by traders to farmers in surplus areas below the level which would be obtained in a fully integrated free market. This, in turn, depresses farmer incentives and so reduces the volume of marketed grain.

5.15 An alternative way of managing food imports and domestic trade would permit greater permeability between distribution channels. The domestic market would be integrated, with price differentials from place to place reduced by competitive pressures to the costs of handling and transport. Imports, when required, would swell the pool of food available on the domestic market, preventing market prices from reaching excessive levels in times of scarcity. Imported food, whether or not procured by the government, would be marketed through the same competitive channels as domestic produce. The government would buy food for its agencies at the market price. It might also intervene to stabilize prices within a determined range by holding carry-over stocks, which would be built up in times of plenty and low market prices, and released in times of dearth. Emergency relief food, including supplies from the food security reserve would continue to be handled as present. However, with an integrated market and public stocks held for stabilization purposes, it would be easier than at present to turn over the food security reserve, and to augment emergency supplies from other local sources.

Policies on Food Security and Drought Preparedness

5.16 A longer term policy on food security and nutrition is being forged which will build on and develop current initiatives to increase the marketable surplus of food. Since 1987 the government has been pursuing, with the aid of donors, a program to raise the peasant sector's marketed surplus. To this end, a series of peasant agricultural development projects has been located in the main surplus producing areas of the country. The focus of attention has been on 7.5 million ha in 227 woredas in Shoa, Gojjam and Arssi - of which 173 are in field crop production and 54 specialize in coffee. The policy consists of concentrating extension agents on these districts, of importing more fertilizer for use by peasant farmers within them and of improving the mechanics of fertilizer and other input supply.

5.17 In the future these initiatives are likely to continue on an expanded scale. They should be accompanied by policy measures to improve incentives for both the production of agricultural produce and trade in inputs and produce which will build on the steps to increase farmgate prices for sales to AMC and to liberalize agricultural trade taken in January 1988. Ways are being sought to confer security of tenure on peasant farmers - perhaps in the form of leaseholds, with longer leases for the cultivators of more difficult terrain. Farmers may also acquire rights over the trees which they plant. In future, under donor-supported projects for soil and water conservation, it is envisaged that there should be incentives and institutional support for individual farmers to undertake conservation measures and also expanded programs of physical soil and water conservation works to be undertaken by government agencies. This approach is based on the recommendations of the Highland Reclamation Study of 1984 - a comprehensive review of the problems of land degradation undertaken by the Ministry of Agriculture and FAO.

5.18 Whereas food security policies are being designed to promote production and marketing, there are to be other, complementary, policies on disaster preparedness and prevention. Ethiopia will continue to be subject to the vagaries of the climate and droughts will recur. As incomes are low and livelihoods precarious, climatic disasters will continue to threaten widespread human suffering. This can be mitigated and abbreviated if the public authorities have sound early warning, relief and rehabilitation procedures. Since its establishment after the 1974 famine the Relief and Rehabilitation Commission has operated an early warning system based on rainfall records, prices and market availability, has made regular assessments of relief requirements and has coordinated donor activities. In the early 1980s it sought to constitute a food security reserve. By the time of its appeal for large scale emergency assistance in November 1987, the RRC had built up a reserve of some 92,000 tons of which the government had provided 50,000 tons, with the remainder coming from donors. Some 32,000 tons were used to meet emergency needs in 1987/88, leaving a current emergency stock level of a little over 61,000 tons.

5.19 The government's proposed drought preparedness strategy consists of increasing the size of the food security reserve to a level of about 200,000 tons - sufficient to meet the country's emergency needs for a period of at least four months on an 80 percent probability basis - and of a range of other measures to mitigate the effects of drought on the incomes of the affected population. These include improved early warning, the preparation, on a stand-by basis, of food-for-work projects, contingency plans to confer executive authority on local officials in the event of emergencies and advance contingency planning for fairer and more reliable food distribution, for the distribution of medical supplies, for opening cattle camps for the protection of livestock from the effects of drought and for opening subsidized retail food shops in rural areas. The strategy also proposes to promote improved water harvesting and storage techniques in rural areas and to constitute seed banks to accelerate the revival of cultivation in the aftermath of drought.

5.20 These sound proposals show that many lessons have been learned from the famine of 1984/85. Already, in 1987/88, many of these lessons were applied, with the assistance of relief aid donors, with the result that famine conditions were avoided - outside the zone of insecurity in the North - and that cultivation revived rapidly, with the return of normal rains, in areas affected by rainfall failure. Most elements in the strategy, however, require further detailed study before they can be given operational effect.

Outstanding Issues in Food Security

5.21 Insofar as achieving food security involves increasing the volume of marketed food surpluses, many of the necessary measures are being taken or are contemplated. The government's present policy is to place more emphasis on investment, input supply and agricultural support services to individual peasant farmers, to compensate them for loss of land if they are displaced, to enable produce cooperatives to be formed and to endow them with security of tenure for a term of years, and possibly also on a renewable and inheritable basis. Marketing has been partially liberalized and there is an understanding that official procurement prices will be reviewed regularly so that they fully cover production costs. There is to be a renewed endeavor to promote soil and water conservation and afforestation.

5.22 Despite these hopeful signs, there remain a number of policy areas where further action would be helpful. Deregulating and facilitating private transport in rural areas deserves high priority. With a more abundant supply of transport facilities, the present lack of market integration would be eroded, the meager supply of incentive goods and privately provided farm inputs in rural areas would improve, and private traders would offer farmers higher farm-gate prices for their surplus produce. The (recently diminishing) role of AMC and the level of official procurement prices relative to market prices could, with benefit, be reconsidered. Though there is no objection in principle to taxing farm incomes, the system of low-priced quotas for compulsory delivery to the state is only non-disincentive so long as the quotas are modest enough to allow farmers to sell a good part of their surpluses on the free market and so long as their administration is smooth and uncontentious. The earlier top-down and occasionally arbitrary approach to fixing quotas was replaced in January 1988 by a less authoritarian one which requires extensive and time-consuming debate at all levels of regional and local administration and in the agricultural support services. The AMC would play a more effective role in integrating markets and in ensuring the country-wide availability of food if it were to relinquish its role of procurement on behalf of government and urban-based institutions and if it were to concentrate on smoothing market supply by buying in the open market at times and in places of glut and selling at times and in places of scarcity.

5.23 Present policies pay less attention to achieving food security in the deficit areas where anecdotal evidence suggests that chronic undernutrition is worst. Major problems in these areas are degraded soils, overgrazing and the lack of non-agricultural sources of livelihood for their populations. In some instances the populations of these areas should be encouraged to seek employment elsewhere in the country. The policy of resettlement, to date, has been an expensive and cost-ineffective way of providing people with ways of making a better living. A significant percentage of settlers are believed to have deserted their settlements. Alternative approaches to restoring labor mobility should be pursued, preferably ones which avoid the danger of excessive urbanization.

5.24 The government's proposals for disaster preparedness owe much to its experiences in coping with the droughts of the 1980s. They are comprehensive, including plans for assistance with rehabilitation as well as arrangements for coping more effectively with relief needs. Their effectiveness in practice will depend much on the flexibility with which contingency plans are put into effect and with which relief resources, which are to be decentralized and situated in drought-prone areas, are mobilized for concentration in the areas of greatest need. The proposals are, so far, uncosted, and could require sizeable budgetary provision, both for the initial creation of stocks and for their subsequent rotation and management. It is intended that aid donors will make the major contribution to the capital and running costs. This may involve the government in a campaign of confidence building among members of the donor community for some of whom it is budgetarily easier to contribute food aid for immediate disaster relief than it is to commit funds for disaster prevention. The government should also be ready itself to finance some of the running costs of the system which it proposes to set up.

Population Policies and Programs

5.25 The government is well aware of the need to act to restrain fertility as an essential condition for improving long term food security and for attaining its long term objectives in human resource development. It does not yet have a formal population policy. However a number of measures which impact on population have been introduced. The consequences of rapid population growth are faced in both the Ten Year Perspective and Three Year Development Plans and the government now recognizes the need for a comprehensive population plan. In July 1989, in order to mobilize support for a national population policy, it organized a population conference which involved senior officials from a number of key government agencies. A draft national population policy has been developed and is currently awaiting legislative approval.

5.26 Current population-related policies include the strengthening and expansion of Maternal and Child Health and Family Planning (MCH/FP) services. While a number of steps have been taken, these remain inadequate both in terms of coverage and quality. In 1987 the contraceptive prevalence rate was estimated to be only about 2.1 percent. Lack of infrastructure, trained personnel and supplies are the main reasons for the low levels of contraception. A number of policies and programs that affect the role and status of women have also been introduced. This has been done through the creation of Women's Associations in both urban and rural communities, adult literacy programs, discouragement of early marriages and provision of day care facilities for children of working women. In addition a number of pilot programs in the Ministries of Education, Information and Labor have been financed by UNFPA. These efforts represent a start in the development of a national population program.

5.27 Outside the government, the Family Guidance Association of Ethiopia, an IPPF-affiliated NGO, provides most of the training in family planning and has been developing information materials. Though of good quality, the Association's efforts are exceedingly small.

5.28 Though promising efforts have been made in the development of a population program much needs to be done in order to have an impact in the next few years. Substantial strengthening of the MCH/FP program so as to rapidly increase access to services is an urgent requirement. At the same time there is need to expand information programs and to ensure that supplies are freely available. The main constraint is resources - both financial and manpower. The challenge for Ethiopia and the donor community is to provide the needed resources so that an effective program can be developed.

PART II : POLICIES AND INSTITUTIONS FOR ECONOMIC RECOVERY

1. In Part I, this report has identified the main proximate causes of Ethiopia's low economic growth in the 1980s, viz the failure of agriculture to grow, poor export performance and the worsening shortage of foreign exchange which, in turn, caused the volume of general imports into the economy to be reduced. Part I has also discussed the major consequences, such as the widening resource gap, the increased recourse to food imports even in years of good rainfall and - given the government's expenditure commitments - the growing fiscal burden and the rapid escalation of external debt service obligations.

2. Standing behind the proximate causes of low growth have been institutional and policy factors which have lessened incentives, aggravated supply-side rigidities, diminished the volume of domestic savings and reduced the return on investment below potential. The narrative in Part I has pin-pointed the adverse consequences of, inter alia, restrictions on private trade and investment, high direct taxes and discriminatory indirect taxes, peasant farmers' lack of security of tenure and low road haulage tariffs. It has also shown how, in striving for wage and price stability, the Ethiopian authorities have eschewed use of the price mechanism to transmit economic information about costs, scarcities and opportunities in the planned sector of the economy. In the resulting interlocking system of administered public sector prices - including the fixed exchange rate - the main losers have been the peasant farmers who have received prices for their crop quotas which have fallen in terms of the free market prices of the necessities which they purchase. Price controls have also engendered shortages in the public distribution network and, with some parallel market prices 3-5 times as high as the official ones, abundant arbitrage opportunities.

3. Other features of the economic environment deserve brief mention in this context. They include the direction of professional and technical manpower leading to inefficiencies in the allocation of professional staff; the high degree of job protection conferred by labor laws which leads to relative labor immobility and overstaffing in public enterprises; the preference for green-field projects which has contributed to low rates of return on public investment; and the interposition of state trading entities between suppliers and buyers which has impeded normal flows of information on prices, availabilities and demand.

4. These sources of rigidity and disincentive have arisen only partly as a result of the past policy of favoring the development of the socialized sector at the expense of the private sector. For the most part, these features have come into existence as inadvertent by-products of a policy of planned economic development intended to achieve the laudable goals of faster growth, greater food security and the alleviation of social problems through the enlargement of the country's physical productive capacity, natural resource conservation, human resource development and the growth of foreign trade. The essential problem has been that, though material incentives have been recognized, the desire to achieve physical

targets has tended to override the logic of price signals and market forces in resource allocation.

5. The policy and institutional factors which have been the focus of attention in Part I have overlain and exacerbated the basic structural obstacles to development in Ethiopia - a fast growing population, drought-proneness, environmental deterioration, backward agricultural technology, poor infrastructure - and the inadequacy of resources for development which, in turn has been aggravated by war, drought and the low level of domestic and external resource mobilization.

6. Now, after profound and intensive policy review, the government has recognized the inadequacies of past economic performance and the causal role therein of at least some of these facets of the policy environment. Part II is devoted to presenting the government's analysis and explaining and assessing those elements of its policy reform agenda which have so far become public knowledge (Chapter 6, Section A). The government has, in the aftermath of the Ninth Plenum of the Central Committee of the Workers' Party of Ethiopia, embarked on an impressive legislative program which is still being elaborated and on which it is premature to pass judgement. For completeness therefore, Part II concludes (Chapter 6, Section B) with a statement of those other elements which, in the opinion of the Bank staff, should feature in a comprehensive program of stabilization and policy adjustment capable of engendering sustained economic revival. This program's chances of success would be greatly enhanced if there were a "peace dividend", i.e. a fall in security-related public expenditure. Without this, the goal of effective stabilization is likely to be elusive. The success of the peace process begun in June 1989 is thus crucial to the long term recovery of the economy and to the strengthening of defenses against the ravages of episodic droughts.

CHAPTER 6

POLICY REFORM AGENDA

A. The Government's New Policies

6.01 The Government of Ethiopia is conscious of the shortcomings of economic performance described in Part I and has decided to adjust the framework of economic institutions and policies so as to accelerate growth and to arrest the decline in per capita income. In his address to the Ninth Plenary Session of the Central Committee of the Workers' Party of Ethiopia held in November 1988, President Mengistu painted a very frank and critical picture of economic developments in the period since the Ten Year Perspective Plan came into force in 1984/85. While noting achievements in the social sector, especially education, the President highlighted the stagnation of agriculture, despite heavy investment in the sector and the growth of agricultural support services, and the consequential increase in food imports. The President's report also offered explanations for low investment in Ethiopia and for the private sector's lackluster performance. It heralded a wide range of measures designed to improve incentives for the peasant sector and other parts of the private sector to invest and to produce more and of steps to enhance the efficiency and to improve incentives in the public sector.

Analysis

6.02 In the analytical part of his report, the President offered the following candid explanations for Ethiopia's poor growth performance:

- State policies have discouraged the private sector and undermined its confidence, leading to an underutilization of its human and physical productive capacities and inhibiting the mobilization of private savings. Despite official endeavors, the public sector has not become a satisfactory alternative source of supply of basic consumer goods, of which there are consequently serious shortages.

- In agriculture, very slow growth cannot be laid at the door of droughts nor of a poor endowment in land and water resources. The strategy of promoting large-scale farming in the socialized sector has given disappointing results. The government has not adequately recognized the scope for, nor pursued policies conducive to, growth in traditional peasant farming. The tenurial system in Peasant Associations has discouraged on-farm development and conservation.

- Exports have stagnated in value, basically because of the economy's weak supply side, especially in agriculture. Export diversification has been frustrated by various factors, including increasing costs of production, which have made it necessary to subsidize exports.

- The central plan has not effectively guided the economy - it has been primarily a public sector budget. Neither has the government had a coherent view of the role and function of market forces in the economy.

- There has been poor management, waste and inefficiency in state enterprises and costs have been excessively high in the state trading corporations. The prevailing principles governing state enterprise management and supervision and the remuneration of the labor force has given poor incentives for productivity growth and economy in the use of resources.

- Investment expenditure has not been sufficiently productive: it has not sought to make existing capacity fully productive and there have been serious delays in the construction of new projects.

- A major constraint on growth has been finance for investment whose availability has been reduced by high and rising recurrent expenditure, including the heavy burden of defence expenditure.

In many respects this diagnosis is coincident with the assessment made in Part I above and summarized in the preamble to Part II of this report, though there are some differences of emphasis and perspective. It is on the strength of this diagnosis that the Ethiopian government has been elaborating an agenda of economic reforms with a strong accent on encouraging the revival of peasant agriculture and the private sector.

6.03 In its Ninth Plenum Resolution and subsequently the Central Committee has endorsed some important principles for the future structure and management of the economy. First, it has affirmed that Ethiopia has a mixed economy in which the public, private and cooperative sectors all have roles to play. The role of the private sector, which contributes well over half of GDP, is acknowledged in particular. Second, there is recognition of the role of the market, as well as of the Plan, in the allocation of resources and in determining the structure of output. Third, in their choice of the institutions and agencies through which they will work to promote faster growth, the authorities will be pragmatic and will be guided by considerations of efficiency.

The Government's Proposals

6.04 The government's economic policy is undergoing a process of evolution, as general guidelines are subjected to detailed study before being translated into concrete legislative or regulatory form. It is not therefore possible to make a comprehensive and exhaustive statement of the policy agenda. However, the following paragraphs set down in summary form the policy intentions which have been publicly known and discusses the contribution which they are likely to make to the revival of Ethiopia's economic fortunes. Many of the measures under consideration have wide policy ramifications and require careful technical preparation. No prognosis is offered of the timing of their implementation, but early and comprehensive action is required if there is to be the qualitative change in the framework of incentives and in the climate of confidence which are prerequisites for vigorous and sustained revival.

Policies for Peasant Agriculture

6.05 The government recognizes that individual peasant agriculture is bound to persist for many years in Ethiopia and that there is significant scope for productivity increase using traditional technologies within this mode of production. Opportunities and incentives for adopting the necessary improvements in farm operations must therefore be provided. A modest initial step in this direction was taken in January 1988 when, after eight years in which official procurement prices had remained unaltered, the producer prices paid by the Agricultural Marketing Corporation for cereals and other field crops were raised by an average of 7.7 percent. At the same time the AMC reduced the crop quotas which Peasant Associations are required to procure and reverted to relying more heavily on private traders to deliver them. Private trade in cereals was restored in the regions of Arssi and Gojjam, and those parts of Shoa where it had earlier been prohibited, and restrictions on inter-regional movements by traders were lifted. The consequences of these changes are still being assessed but the average farm-gate prices received by peasant farmers for their surplus crops are understood to have increased by more than the modest increase in the AMC procurement price. Official procurement prices will henceforth be kept under constant review by the Price Studies and Policy Institute which will recommend further increases as needed to preserve real returns to peasant farmers.

6.06 The government intends to continue to encourage the formation of producer cooperatives, concentrating first and foremost on the agricultural surplus producing areas. However, it will insist that such cooperatives should only come into being on a voluntary basis and in circumstances where it is clearly in the interest of the farmers involved, for example where there may be economies of scale in the joint exploitation of irrigation potential.

6.07 In coffee marketing, policies have, in 1988/89, been pursuing a broadly parallel course. The Coffee Marketing Corporation has increased the margins and transport allowances which it pays to its primary procurement agents and has ensured that some of the benefit is passed to the producers by removing agents' discretion over the rate at which the procurement price for green beans is converted into the price paid for "cherry" coffee. In 34 coffee growing awrajas, peasant farmers have been relieved of any obligation to supply grain quotas to the AMC. Thanks to these incentives, and with the assistance of better weather, the procurement of coffee for export in 1988/89 has been some 26,400 tons (31 percent) higher than in the previous year and now approximates to its historic peak. In recent months the government has moved swiftly to offset the 40 percent fall in coffee export prices by reducing the incidence of the coffee export surtax at lower price levels and by introducing an export subsidy which will prevent the producer price from falling below birr 2.26/kg (Chapter 3). It has also taken the important step of reintroducing wholesale auctions for coffee. This will have the effect of increasing the share of coffee exports handled by private traders who are expected to earn quality premia, so increasing average export unit values.

6.08 The government wants peasant farmers to intensify their operations, using more fertilizer, pesticide and improved seed, and carrying out on-farm improvements including conservation works, fuel-wood plantation and minor irrigation. It is considering ways to make peasant households into long leaseholders, with security of individual tenure. The Land Reform Proclamation of 1975 provided farm households with access to land for cultivation, but not permanence of tenure thereof. The government also intends that, to facilitate on-farm investment, there should be some minimum holding size beyond which land will not be fragmented. Where fragmentation has proceeded beyond this point there may be expropriation, but henceforth with proper compensation for improvements. The modalities of implementation of these bold intentions are still being worked out, including the question of whether peasant holdings will be transmissible from one generation to the next. One important component of the reforms under consideration is that peasant farmers may be allowed the usufruct of the trees which they plant and the right to sell fuel-wood freely, including in urban areas. This would confer major benefits in the tree-crop sector, particularly in coffee where the demand for seedlings has grown substantially in recent months.

6.09 One implication of altering peasant land tenure is that landless rural households will emerge who will require off-farm employment for their livelihood. The government has decided in principle to legalize the hiring of rural labor by cooperatives and the private sector - which had been abolished at the Revolution. Cooperatives are expected to create jobs through investment in agro-processing and the promotion of rural crafts. The government's other policy instrument for coping with landlessness - one provided for in its National Food and Nutrition Strategy - is the new facility for easing voluntary migration of the rural population to less densely populated areas and for its absorption into existing administrative structures.

Policies for the Domestic Private Sector

6.10 Since the Revolution and the nationalizations which followed, the domestic private sector has been subject to restrictions on investment, business diversification and forms of ownership (Chapter 2). The government has now decided to relax these restrictions. A decree 26/ of July 1989 on small scale industries increased the limit on fixed assets from birr 0.5 million to birr 2 million (birr 4 million for partnerships and it's corporate enterprises), made the licensing of industrial businesses automatic, and permitted private investment in all industrial sectors. It also permitted ownership under limited liability and the formation of share companies, whereas previously small scale entrepreneurs could only be proprietors or partners with unlimited liability. A

26/ No. 9/1989.

contemporaneous decree 27/ relates to private investment in hotels and tourism. Investment will be allowed in this sector up to a limit of birr 3 million for individuals, or birr 6 million in the case of partnerships and companies. Henceforth, private enterprises in both manufacturing and tourism will, like the public sectors, be exempt from import duties on capital goods and construction materials.

6.11 The third economic reform decree so far published 28/ relates to Joint Ventures. It implies that private resident Ethiopians and cooperatives will be allowed to hold shares without limit in locally registered joint venture companies and to form such companies with foreign investors, subject to minimal government participation, in all sectors. However, participation in electricity, water supply, transport, communications, banking, insurance and retail trade requires the prior consent of the Council of Ministers.

6.12 Other expected legislation will grant permission to private local investors to acquire "virgin" agricultural land in specified locations for the purposes of commercial agriculture. In addition, individual households which at present rent their accommodation from the government are to be allowed to purchase their houses and will be encouraged to do so with long-term mortgages from the Housing and Savings Bank - a move which will in time greatly enlarge the private housing market. (Households grouped in cooperatives are already allowed to apply for licenses for private house construction). The possibility of reestablishing a private housing market, free from price control, is under review.

6.13 These reforms amount to a major revision of the regulatory framework within which the domestic private sector operates and open extensive prospects of potentially profitable private investment. The lengthy delays for applicants for industrial licenses awaiting feasibility studies and subsequent approval by the licensing authority, HASIDA 29/, will disappear because prior studies will no longer be required before licenses are issued. The promotional functions of HASIDA are to be carried out in the Ministry of Industry under the authority of a Vice Minister. There is believed to be in Ethiopia substantial mercantile capital which can and will be invested in the production of commodities and services if prospective financial returns are satisfactory and if investors are confident about the legal and business environment. Already, in the months of July-October 1989, there have been some 300 new applications to HASIDA for industrial licenses, almost as many as the 355 small-scale industrial projects licensed in the previous seven years.

27/ No. 10/1989.

28/ No. 11/1989.

29/ Handicraft and Small Industry Development Authority.

Policies for Foreign Investment

6.14 Since the 1983 Joint Venture Establishment Proclamation Ethiopia has sought to encourage foreign investors to take part in projects in collaboration with public enterprises designated by the state for this purpose. Unfortunately, it has had very little success in attracting foreign investors on any significant scale, despite the promise of freedom to repatriate profits and capital, of a five-year tax holiday and of a reduced rate of income tax on corporate profits thereafter. Under the 1983 Proclamation, the Ethiopian party to a joint venture would normally be the majority shareholder, though exceptions could be negotiated.

6.15 In its recent decree, the government has decided to make its joint venture code even more attractive, specifically by allowing the foreign party any ownership share (subject only to a minimal government participation), so removing the presumption of minority status, by strengthening the guarantees against expropriation and by improving fiscal inducements (see para. 6.17 below). Foreign joint venture partners will no longer be directed by the state to collaborate with designated Ethiopian public sector entities: they will be free to select their own partners in the private as well as the public sector. Expatriate Ethiopians will henceforth be encouraged to invest in small-scale industries and will be authorized to repatriate post-tax profits.

Direct Taxation

6.16 Private entrepreneurs in Ethiopia are subject to heavy, and at the margin confiscatory, rates of personal taxation. The highest marginal rate of income tax for the owners of unincorporated businesses is 89 percent (85 percent for employees) and is applied to incomes in excess of the relatively low earnings level of birr 36,000 p.a. The rate was set deliberately high to discourage the development of the private sector and thus to hasten the transition towards socialism. Income tax is quite widely evaded, particularly by traders who neither buy from nor sell to the government and for the volume of whose transactions there is no documentary evidence. At present, only 80 persons in the country pay tax at the top marginal rate -mostly licensed traders and the owners of small construction enterprises; the Inland Revenue Administration believes that there could be several hundred others who would be liable if their incomes could be accurately assessed.

6.17 The government is aware that the high marginal rate of tax could well frustrate the aims of the policy of deregulating and promoting the private sector. It is accordingly studying the possibility of some reduction in the highest rates of tax. In the longer term, lower rates of tax which encourage investment in activities where income concealment is not possible should widen the tax base and thus increase revenue receipts.

6.18 Certain tax holiday provisions are made in the new legislation. Joint ventures will be entitled to a five year remission of business profits tax for new projects and to a three-year tax holiday for major expansion schemes. Joint ventures are also entitled to carry forward their losses into the accounts of subsequent years, which will have the effect of bringing forward the time when investors earn a post-tax return on their capital. In small-scale industries private investors will be granted a five year tax holiday if they invest outside the main urban areas and will also be entitled to four years without payment of tax if as little as 10 percent of their output is exported. The standard rate of business profits tax remains unchanged at 50 percent, but joint ventures will henceforth be subject to a concessionary rate of 40 percent.

Trade Policy and the Promotion of Exports

6.19 The government is very conscious of the need to end the stagnation of exports and to promote vigorous export growth. It has conducted an exhaustive internal study of export strategy which has concluded that there was scope for effective export development across a broad front encompassing agriculture, industry and mining. It recognizes that measures to improve price incentives to producers will be required if targets are to be achieved. Precise proposals are yet to be publicly announced, but some extension of the present system of export subsidies or equivalent action to reduce the effective exchange rate are under consideration.

6.20 For a number of years the government has promoted exports by paying subsidies to exporters - both producers and traders - to compensate them for the losses which they incur in exporting. Financial losses have arisen because of currency overvaluation and the bias against exports in the taxation of trade and they have been aggravated by the high level of domestic prices for exportable commodities which has been induced by droughts. Ex-post and unguaranteed compensation payments have been a weak inducement to develop export-oriented business. The government has now decided to introduce a more wide-ranging and systematic set of export promotion policies.

6.21 One proposal, is to make foreign exchange more readily available to direct and indirect exporters through a revolving fund of foreign exchange. Public and private sector enterprises would have access to the fund which would obtain its resources from a share of export receipts and which would give bona fide exporters privileged access to foreign exchange in amounts corresponding to what they would require in order to produce the exports for which they have orders. This scheme would give private businesses, hitherto largely denied access to official foreign exchange, radically improved access to foreign exchange at the official exchange rate. Indirect exporters - those who supply raw materials or semi-finished products to exporters but do not export themselves - would also have access to exporters' revolving fund resources through the device of domestic letters of credit drawn up in their favor by the direct exporters whom they supply. Joint ventures are to be allowed to retain percentages of their foreign exchange earnings to enable them to meet without delay their payments for imported inputs, licence fees, royalties and profit-and-dividend remittances.

6.22 Another proposal, which the government intends to study, is for export processing zones. Strongly export-oriented firms, many of which are likely to be foreign, would, under this proposal, be given encouragement to establish themselves in Ethiopia in customs-exempt facilities. These may be limited to individual enterprises which manufacture in bond or they may take the form of designated processing zones in close proximity to sea or airports.

Public Sector Reforms

6.23 Public sector enterprises have hitherto been subject to extensive central control through a hierarchy of organizations with the ONCCP at the apex and supervisory ministries and corporations at intermediate levels. ONCCP's responsibility for placing graduates, and the law on employment protection, combine to limit managers' powers to hire and fire at will, and limit workers scope for seeking out the job opportunities which best reward their skills and aptitudes. A rigid formula linked to output and profitability restricts managements' ability to devise incentive schemes tailored to the circumstances of their enterprises. The task of enterprise managers has been the subordinate one of achieving targets and implementing plans. Though financial performance has been a matter of concern at all levels, it has not been of paramount importance. Output and domestic input prices are largely determined by the planners and commodity producing enterprises are required to market their production through the Ethiopian Domestic Distribution Corporation or other state trading entities.

6.24 The government's intention now is to transform the ethos of public sector management, giving management more autonomy and responsibility, subject to clearer performance targets and criteria, improving pecuniary incentives and removing some of the superfluous layers of hierarchical control. Some ideas have been tested in pilot schemes. Specific legislative proposals have not yet been announced, but are expected to cover reducing the role of industrial corporations, the creation of boards of management to supervise enterprise performance and management appointments, revising arrangements for incentive payments to workers, providing for performance bonuses for managers based on sales and profitability and, above all, enlarging the sphere of enterprise management autonomy and responsibility.

Wages and Employment

6.25 As part of the process of public sector reform, the government is also contemplating changing the established procedures for determining wages. In public enterprises, wage rates have been revised annually according to a formula which provides for a 5 percent increase if production exceeds that of the previous year, a further 1 percent increase if there has been any increase in productivity per worker and another 1 percent if the enterprise has increased its profits. In government departments the wages of staff paid less that birr 600 per month have been adjusted biannually, taking into account movements in wage rates in the rest of the public sector. The salary scales of those earning over birr 600 per month (birr 650 in public enterprises) have remained unchanged since 1976.

6.26 In the new policy, whose details are yet to be made public, there is likely to be some upward adjustment to the minimum wage and to the salary scales of the higher paid civil servants. In addition, the mode of wage determination in the public enterprises is expected to be made more flexible so that managers can tailor incentive and productivity payments to the circumstances and needs of their firms.

6.27 The government is also studying options for combatting open unemployment - both that which already exists and that which may follow the granting of security of tenure to peasant households cultivating a certain minimum holding si· - and for improving the operation of the labor market. One measure which has been publicly canvassed is the formal recognition of wage labor in the rural economy. This would greatly assist the intensification of small-holder agriculture, the spread of intensive private commercial farming and the formation of small-scale agro-industrial facilities in rural areas.

B. Assessment

6.28 The government's initiatives of the past two years mark a significant departure from established precepts of economic management and should make an important contribution to restoring dynamism to the economy based on the twin pillars of growth in peasant agriculture and in exports. They show recognition of the importance of individual and small scale producers and of the potential importance of larger scale and foreign entrepreneurs in helping Ethiopia take full advantage of its endowment with low cost but skilled and trainable labor. They also reflect a recognition of the need to restore and maintain pecuniary incentives for production and, as a corollary, to improve the supply of wage goods. In the public sector, the contemplated reforms acknowledge the limitations of centralized planning in decisions on production and the deployment of labor. Management is more effective and efficient if given full responsibility for achieving targets and the labor force is more productive if offered appropriate incentives.

6.29 The effectiveness of the reform program will depend on the speed and thoroughness with which these principles are made systematic and general throughout the economy, and on the early adoption of a comprehensive macroeconomic reform program. The government is still studying drafting and reviewing many legislative proposals, some of which have been referred to above. The pace at which measures will be enacted is likely to be affected by political and security considerations. It is, therefore, premature to pass judgement on the completed package. This report accordingly concludes with a statement of the basic elements which, in the opinion of the Bank staff, should feature in the program (including many which are expected to be included in the government's legislative program) and of how they might be articulated with each other. These features cover the fields of macroeconomic policy, production incentives, trade policy, factor markets, public enterprise management, public investment and the relief of the long-term structural obstacles to development and the sequencing of reforms. The following paragraphs gather together in the form of a conclusion a number of propositions on these topics which have been advanced earlier in the report.

Macroeconomic Framework

6.30 Economic reforms are likely to be most effective in promoting private sector development, and sustained in their impact, if they take place within a framework of macroeconomic stability. This implies the continuation of cautious fiscal policies, with a sharp reduction of the domestically financed budget deficit as a key part of a policy of containing credit expansion to the public sector so as to allow the banking system to extend more credit to the private sector, to cater to the expected increase in private demand for credit, without risking inflationary consequences. Reducing the domestically financed deficit will, given the outlook for revenue and external financing, almost certainly require steps to reduce expenditures e.g. on explicit and implicit subsidies and, as circumstances permit, on other non-developmental services. Reducing outlays on security will remain problematic so long as the war, with its attendant uncertainties, persists. Earning the "dividend" of the peace process initiated by the government in June 1989, is thus an essential ingredient in the required macroeconomic stance. Containing government borrowing from the banking system would be particularly important if there is any sign of a reversal of, the past tendency for the M2/GDP ratio to rise.

6.31 If the fiscal deficit comes down, domestic savings should rise. Other steps to increase savings could include more vigorous deposit mobilization by the banks, including the maintenance of positive real interest rates, and the creation of new and attractive savings instruments by the government and public and private enterprises.

6.32 If savings rise, the economy will, for a given volume of external financing, be able to afford a higher rate of investment. To ensure this outcome, exports should rise in parallel with savings. Export growth is an essential corollary of adjustment with growth. In the Ethiopian context, achieving satisfactory export growth depends crucially on the deployment of general and specific incentives.

Incentive Framework

6.33 Well over half the Ethiopian economy lies in the private sector and in the market economy and is in some degree sensitive to price incentives. A key instrument for improving the framework of incentives for production and exports, and for strengthening the macroeconomic stance, is the exchange rate. Action on the exchange rate has been made all the more urgent by the collapse of world coffee prices. Vigorous initial exchange rate adjustment, followed by steady movement towards an equilibrium rate is an essential step in relieving the economy of the shortages and supply rigidities from which it has suffered. With the benefit of higher prices in local currency, agricultural exports will rise, especially if external assistance increases at the same time to provide additional imported inputs. A logical consequence of devaluation is somewhat higher prices for agricultural produce on domestic markets which will improve supply and lessen the need for food imports. The fiscal accounts are likely to be strengthened, inter alia because of the higher yield of ad valorem taxes on trade and because subsidies on coffee and other exports will no longer be needed. As the effect of exchange rate adjustment bites on the real economy more foreign exchange will become available and the tight administrative allocation of recent times can be relaxed. A competitive official rate of exchange will cause the discount of the birr on the parallel market to diminish, so reducing distortions and arbitrage opportunities and improving incentives for efficient resource allocation and productive investment in the private sector.

6.34 Price incentives would be reinforced if certain regulatory restraints were progressively removed. There would be more encouragement for individual peasants to produce surpluses for the market if government food procurement were to rely on market purchases rather than on the compulsory delivery of quotas. At the same time, the government's role in price stabilization could be developed. With the ending of quotas, controls on grain traders would lose their raison d'etre and could be abolished, so removing an obstacle to market integration. Controls on road haulage tariffs on trunk routes might, with the development of competition in the haulage industry, be dismantled; meanwhile, rates should be set at remunerative levels which do not create barriers to entry. As a more competitive environment develops in private industry and services, the rationale for asset ceilings on private investment, which impede the organic growth of businesses, would fall away and the ceilings could be abolished. Central government investment licensing, especially of micro-enterprises, could similarly cease.

6.35 Certain tax reforms would also improve the incentive framework. The high marginal rate of income tax should be reduced to improve private returns on investment. There would also be merit in extending to the rest of the economy the provision in the income tax code for carrying forward losses from which joint ventures now benefit. A "concertina" approach to the reform of taxes and duties on imports might be adopted whereby high rates of duty are reduced in phases and a uniform low rate is applied to hitherto exempted imports, other than basic necessities. This will reduce high rates of effective protection, where they exist, while protecting the revenue yield from taxes on trade. The reduction of duties on imported inputs will reduce the anti-export bias in current trade policy.

6.36 While exchange and trade policies are taking their effect, there would be advantage in taking vigorous interim steps to promote exports and to relieve the acute foreign exchange shortages experienced by the private sector. The government has begun to study possible arrangements for export processing in bond, for the market-based allocation of foreign exchange to private sector bidders and for facilitating access to foreign exchange for all exporters through a possible revolving fund. The early implementation of whatever facilities are found to be the most advantageous would be an important feature in a reform package.

6.37 There are some less tangible but nevertheless important facets of the incentive framework concerning investor confidence. The private sector's contribution to economic revival will be stronger and will come sooner if domestic and foreign investors are convinced that the improved regulatory environment which they now experience will be permanent and if they feel that their rights are upheld by laws which will be impartially applied. Foreign investors, in particular, need unambiguous assurances of their rights in the event of expropriation and of their ability in practice to remit dividends and profits.

Public Enterprise Management

6.38 As public enterprises are expected to continue to play an important role in the economy, their reform would have an important part in an adjustment program designed to make the economy more flexible and competitive. This would comprise clear guidelines for management accountability and autonomy, subject to agreed corporate objectives, at the enterprise level, the appointment of boards of directors to ensure adherence to objectives and to preserve enterprise autonomy, and the phasing out of most if not all industrial corporations which supervise all enterprises in a sub-sector. Managements would have more responsibility for expenditure, input procurement, production planning, pricing and marketing decisions and would have more authority in deciding the size and deployment of their labor force. One corollary of more autonomy for the managements of productive enterprises would be a diminished role for public distribution agencies and one based essentially on their ability to offer competitive services. Another would be the implementation of suggestions for public sector pricing policy reform which provide for freedom of pricing where markets are competitive and exante price fixing by the government only in cases of pure monopoly or of strategic goods. A third would be the strengthening of central ministries' capacity to monitor the performance of enterprises, once they are granted more autonomy.

6.39 Public enterprises which make losses should not be exempt from the ultimate sanction of closure or radical restructuring - as is provided for under present laws. Vigorous action would be taken in a reform program to staunch the haemorrhage of state farm losses.

Factor Markets

6.40 A reform program would introduce more flexibility into the labor market by easing movement between the public and private sectors and between enterprises and agencies within the public sector, by making it easier for managements to respond to market circumstances by redeploying their workforce and, subject to compensation, making staff redundant and by allowing managements to pay the wages and salaries needed to attract the staff which they require and to provide them with flexible productivity incentives. It would also allow seasonal labor migration to assist with agricultural operations in regions with seasonal labor shortages.

6.41 There would also be provisions for the evolution of financial sector institutions into more competitive enterprises offering a wider range of financial services and with more freedom to set interest rates in the light of their cost of funds and of their own costs and perceptions of risks. Thus reformed, financial institutions would offer a broader spectrum of savings possibilities and would so sustain the dynamism of savings mobilization. To achieve these objectives the balance sheets of some institutions, notably AIDB, would have to be restructured.

6.42 Another element of a reform program would be the clarification of leasehold rights over land and the creation of a housing market. In agricultural areas, the establishment of individual tenurial rights is likely to yield considerable benefits in terms of farmers' willingness to undertake on-farm improvements and afforestation and thus to contribute to soil and water conservation and to raise the productivity of land. In urban areas controlled rents in publicly owned and nationalized property have contributed to the deterioration of the housing stock and the prohibition of private construction for rent has aggravated the shortage of housing. These restrictions might be progressively removed and a housing market free of price control established. A functioning market in urban property would be a valuable means of attracting remittances from expatriate Ethiopians.

Public Investment

6.43 During the adjustment phase, before the economy has reaped the fruits of faster growth and when a larger share of resources is expected to be claimed by the private sector, public investment resources - and non-investment resources for the promotion of long-term development - are unlikely to be abundant, and may be scarcer than in the past if commercial borrowing becomes more difficult and if there is no reduction in outlays on security. Thus there is every reason for husbanding these resources carefully and for planning their expenditure only after a rigorous assessment of priorities and of prospective returns on investment. A reform package would include appropriate procedures for scrutinising and prioritizing projects.

6.44 It would be consistent with the internal terms of trade which would obtain after exchange and trade reforms and with the requirements of the private sector if more priority were accorded in public investment to support production for export, including the strengthening of infrastructure, leaving the private sector to play a bigger role in supplying goods to domestic and foreign markets.

6.45 Public development expenditure would continue to have a vital role to play in eroding the long-term structural obstacles to growth through outlays on human resource development, population programs, environmental protection and enhancing the level of rural technology. A comprehensive review of public expenditures, recurrent as well as capital, might be initiated. This would identify savings in the current pattern of outlays which could be reallocated to enhancing Ethiopia's longer-term capacity to withstand setbacks caused by recurrent droughts and soil erosion and to achieve higher per capita income growth through population policy and the creation of a better educated and more adaptable labor force.

6.46 An important ingredient in this revised public expenditure program for removing the longer-term constraints on development would be greater emphasis on enhancing institutional and individual capabilities to provide basic social and infrastructural services. This would advance the objective of efficiently implementing more effective policies for the relief of poverty and the social costs of adjustment. These policies would be important corollaries and conditions for the success of economic reforms. In a reform program, adequate resources would have to put aside for these purposes in the form of programs of staff training and institutional development in essential services.

Sequencing Reforms and Mitigating the Social Costs of Adjustment

6.47 The proposals outlined above are numerous and would impose a heavy burden of planning and economic management on any government seeking to undertake them. They are, however, mutually supportive: they are not an a la carte menu from which only a few dishes may be selected. For example, there is less to be gained from exchange rate adjustment if there is no accompanying action to free factor markets and reduce institutional restrictions on producers. The program must nevertheless be feasible in political and administrative terms, so the highest priority measures have to be identified for early implementation.

6.48 It is fundamental to the long term success of the adjustment process that macroeconomic stability be preserved. In Ethiopia, this can be achieved by the continuation and strengthening of past management practice. As noted above, this will depend on reducing the fiscal deficit, primarily through a reduction in war-related expenditures, which in turn depends on a resolution of the present conflicts. Alongside fiscal and monetary restraint, early measures should be taken to correct the overvaluation of the exchange rate and to make consequential adjustment in other officially determined prices to stimulate production in the agricultural and export-oriented sectors. These should be accompanied, as a matter of priority, by special measures to stimulate exports (and thus increase the supply of foreign exchange) and to relieve the policy and institutional restraints on trade in grains (to reduce the costs and improve the supply of cereals in urban areas). Thereafter, a start can be made with factor market reforms (of which the most immediately important is labor) and with trade policy and public enterprise reforms. Reforms to institutions such as public enterprises are likely to be protracted and might with advantage be planned in a succession of stages.

6.49 The necessary early changes to the exchange rate and to the prices of officially procured agricultural produce are bound to have an adverse impact on the urban cost of living. There could be further adverse social repercussions from labor market reforms which give rise to redundancies and from tenurial reform in peasant agriculture which could, in time, give rise to rural landlessness. The policy agenda is not complete without action to deal with these social problems, most of which are transitional and will diminish with several years of sustained growth and with appropriate encouragement to small scale and informal sector activity. Possible measures to mitigate transitional problems include closely targeted consumption subsidies, more labor-intensive public works schemes in rural areas and special programs of assistance and retraining for redundant public sector workers. It may also be expedient to raise public sector wages for the lower paid as a partial offset to the cost-of-living increase, though any automatic indexation would quickly erode the benefits of exchange action and should be avoided.

6.50 The interests of vulnerable groups are best served, in the long-run, not by delaying adjustment but by identifying those likely to be worst affected and by designing assistance measures to tide them over until a growing economy can provide them with new income earnings opportunities.

PART III: MEDIUM TERM PROSPECTS AND EXTERNAL FINANCING NEEDS

1. The final part of this paper considers prospects for the future in the light of past performance, Ethiopia's endowment with human and physical resources and the unfolding programme of economic policy review.

2. The outlook is fraught with many imponderables - the weather, progress with the peace process, the external terms of trade, the extent of policy reforms and the speed and conviction with which they are implemented, confidence factors, domestic savings and the magnitude of external financing. Even if new policies are introduced which sweep away overnight all the man-made causes of stagnation which have been identified in this report it is not at all clear how rapidly the economy will respond to the opportunities which it faces. Chapter 7 starts with a summary of Ethiopia's potential for growth - a potential which could only be fully realized in a favorable combination of objective circumstances and subjective appreciations in the private sector of the likely returns to investment and to effort. It proceeds to explore the future on the basis of two scenarios: a high case in which, by hypothesis, reforms are successful and higher levels of domestic and foreign resources are mobilized to support development and a low case in which there is no effective policy change. In view of the imponderables and of the probability of a lag in supply side responses, the higher scenario envisages growth at rates somewhat below potential.

3. The main object lesson of the projections is to show how important it is for Ethiopia to strive to make a reality of the high scenario. It offers no miracle cure for the country's problems; it simply holds out the prospect of a modest but sustained increase in per capita incomes with a sustainable level of reliance on external financing. The low case in which per capita incomes continue to fall, on the other hand, offers no such assurance and is unacceptable from the point of view of human welfare in Ethiopia; despite lower growth and lower domestic absorption the balance of payments remains in its present unsustainable state and debt service problems mount to levels at which, in the absence of debt restructuring, default becomes probable.

CHAPTER 7

MEDIUM TERM OUTLOOK

7.01 The medium term prospects for the Ethiopian economy turn on the state of resources in the economy available for generating growth, on the policy and institutional context which will determine how far the potential for production set by these resources is attained and by forces in the world economy which will govern Ethiopia's terms of trade and ability to grow through export development.

Growth Potential

7.02 Chapter 2 reviewed Ethiopia's growth performance in the years since the Revolution, with the emphasis on developments in the 1980s. It was found that the trend rate of GDP growth since 1974 had been just over 2 percent p.a. There can be no doubt that Ethiopia has the potential for higher rates of expansion than those achieved over this period. A hopeful sign is that there has been a trend rate of growth of 4.5 percent in the years since the catastrophic drought of 1984/85.

7.03 The leading sector in the economy will continue to be agriculture, and, within it, peasant agriculture will continue to predominate. Under optimum conditions peasant production of field crops could expand at 4-5 percent p.a. on a sustained basis. For this to occur there would have to be strong incentives to produce marketable surpluses and to invest in on-farm improvements and equipment and there would also have to be a ready supply of fertilizer, and chemicals for the control of plant and animal pests and diseases, and of new technology in the shape of higher yielding and more drought resistant varieties of the major crops. At this rate of growth, Ethiopia could become broadly self-sufficient in cereals (apart from imports to support food-for-work projects) and exports of pulses and perhaps oilseeds could resume their growth, after local market demand has been met. Smallholder coffee production could expand even faster with strong incentives and the removal of some of the restraints which have affected it over the last decade. Other minor cash crops such as citrus, vegetables and spices could also expand rapidly, with suitable investment and with the development of domestic and export market opportunities. It will not be so easy to achieve faster growth of output from Ethiopia's large livestock herd because there have been fewer institutional shackles on this sub-sector in the past. However, more lucrative market opportunities should lead livestock owners to increase the rate of offtake from the large and relatively unproductive herd of cattle. Expanded export sales of hides and processed leather and of processed meat offer the most obvious opportunities.

7.04 The growth of industry is governed by the performance of the domestic economy, by incentives to export, and by the availability of investment finance. Although there has been much import substitution investment in the 1980s, faster overall economic growth would create new opportunities for economically efficient expansion in the domestic market, particularly for processed foods, beverages, textiles, clothing, leather goods, simple utensils, soap etc. Good export opportunities have been identified for clothing, leather, leather goods, spices and certain processed foods. Industrial capacity exists to sustain some expansion with only minor investment in equipment to relieve bottlenecks and to enhance quality. For growth opportunities to be realized, however, there has to be sufficient readily available foreign exchange to cover purchases not only of minor investment goods but also of raw materials, semi-finished products and spare parts. Furthermore, enterprises must be free to pursue their own commercial relationships with internal and external suppliers and customers, untrammelled by state-appointed intermediaries and by controls on prices and the allocation of materials. With these provisos, it is conceivable that manufacturing industry could expand at 6-7 percent p.a. The energy and other utility industries could also expand rather faster than GDP as they extend their networks and take advantage of consumers' relatively high income elasticity of demand for power, piped water and telecommunications.

7.05 The mining industry is set fair to achieve rapid expansion from small beginnings. Gold production, officially now 800-900 kg p.a., will expand by 2.5-3 tons p.a. with the opening of the first phase of the Legadembi open-cast mine in early 1990. By 1993/94 the next phase of development at this mine, together with a small contribution from artisanal mining, should take national production to at least 5 tons p.a. If there were foreign investment to accelerate the pace of development it is estimated that output could reach 7.5 tons p.a. by 1994. Other minerals of lesser value which could be developed and begin earning foreign exchange within the medium term if the investment climate is attractive include soda ash, tantalum and marble. Ethiopia's small platinum production of 0.1-0.2 kg p.a. also holds out some expansion possibilities. Mining has received low priority in foreign exchange allocation in the past. The mining sector is highly dependent on imported equipment and supplies and its potential will only be reached if there is an exchange regime which allows it unimpeded access to foreign exchange. This could be achieved either by allowing enterprises to retain foreign exchange earnings sufficient to cover their needs for operation and expansion or by changing the exchange regime to overcome the present excess demand for foreign currencies.

7.06 The service sectors of the economy tend to grow at trend rates which reflect the performance of the commodity producing sectors of the economy. The exceptions are government services which are driven by public expenditure policy, and financial services which have expanded in Ethiopia through a process of financial deepening. Government services are not expected to continue expanding faster than the growth in the economy as a whole for reasons of fiscal prudence. The financial service sector still has scope for expansion at the high rate of the past, especially if agriculture becomes more commercial and requires a wider range of banking services and financial intermediation.

7.07 Under very favorable circumstances, therefore, the Ethiopian economy could consistently expand at approximately five percent p.a., so increasing per capita incomes by two percent p.a. However, the scenarios discussed below are based on more cautious prognoses in recognition of the fact that circumstances will be less than ideal, even if the government is resolved to tackle vigorously all the impediments to faster growth which lie in its power to deal with. A major problem for the economy in the immediate future arises from the fall in world coffee prices, against a background of continuing moderate inflation in the price of Ethiopia's imports. Between 1988 and 1990 Ethiopia's terms of trade are projected to fall by over 20 percent. Growth is already constrained by the balance of payments and the constraint is set to bind even more tightly in the near future. The removal of ICO coffee export quotas is projected to depress coffee prices below their 1988 level in real terms until 1995. Other factors which, in reality, are likely to depress the rate of growth below potential are the probability of low rainfall in at least one year in four and the slow development of confidence in the private sector and among foreign investors.

Growth Scenarios 30/

7.08 Two medium-term economic projections have been developed, both well within the bounds of feasibility and with equal probability of realization. Their main features are summarized in tables 7.1 and 7.2. Both are based on the assumption that average weather conditions will prevail, that there will be no repetition of drought emergencies and that official and NGO relief assistance can therefore taper down to an irreducible minimum well below the level of provision of recent years.

Table 7.1: GROWTH RATES IN HIGH AND LOW SCENARIOS
1988/89 to 1993/94 period averages
(Percentages per annum at constant prices)

	HIGH	LOW
GDP and Components		
GDP (market prices)	3.9	2.3
- Agriculture	3.1	1.3
- Manufacturing	4.4	3.0
- Other Industry	3.8	3.0
- Transport and Trade	4.5	3.4
- Government Services	3.0	2.5
- Other Services	6.5	2.7
Expenditure of GDP		
Investment	5.5	-0.3
Consumption	3.0	2.5
Domestic Saving	12.8	-11.0
Import volumes (G&NFS)	3.2	1.6
Export volumes (G&NFS)	7.4	2.0
Resource Gap	0.6	3.4

Source: Bank Staff Estimates

7.09 The low growth scenario broadly represents the continuation of past trends, after abstracting from the deleterious effects of the droughts

30/ See Appendix 3 for the assumptions used in developing the projections.

of the 1980s. GDP is projected to grow at 2.3 percent p.a. It assumes no further change in economic institutions and policies and thus the continuation, though not the aggravation, of the present tax and price disincentives to productive effort described in Chapter 2. The reforms already implemented are not followed up by necessary complementary measures, so their beneficial effects do not persist.

7.10 The higher growth case is predicated on policy and institutional changes which stimulate commodity production to satisfy the domestic market and substantially to increase export earnings and on an increase in the volume of concessional external financing of a magnitude which might conservatively be expected if Ethiopia were to be considered an "adjustment" country. The purchasing power of exports has fallen, the path to adjustment may not be altogether smooth and the measures involved will not be instantly adopted and will thereafter only yield their benefits in terms of higher physical production with some lapse of time. For these reasons, the aggregate rate of growth in the higher case, at little under four percent p.a., is rather below the potential rate of expansion discussed above.

7.11 The policy mix envisaged comprises elements described in Chapter 6, Section B, such as: firm measures of stabilization with severe restraint on non-priority public expenditure; exchange rate, or other action to stimulate exports and raise the official domestic prices of tradables; interim measures to increase the rewards to exporting such as export earnings retention or a revolving fund of foreign exchange for exporters; parallel action to raise the real farm-gate price of crops, either by administrative decision or, preferably, by further radical steps to liberalize domestic trade in grains; further improvements in the policy environment for the private sector, including removing the fixed asset ceiling, relaxing and simplifying licensing and reducing the marginal rate of personal income tax; allowing public enterprise managers a wide measure of freedom of action in decisions on production, minor investment, marketing, pricing and employment; the progressive liberalizing of foreign trade and payments; and the gradual removal of anti-export bias in the taxation of trade in a reform of indirect taxation.

Sectoral Growth Rate Projections

7.12 Agriculture receives a strong stimulus over the medium term in the high scenario, chiefly because of the high empirical price elasticities of supply in field crops and coffee. Most growth is assumed to occur in the peasant sector where investment requirements are modest. Frictional factors such as input, incentive goods and transport shortages are assumed to restrain growth to 3.1 percent p.a., i.e. somewhat below potential. In the low case, there is some residual stimulus from the pricing and marketing measures implemented in January 1988 and from donors' commitments to increase fertilizer supplies to the peasant sector. The low case medium-term growth projection of 1.3 percent p.a. represents a marked improvement on performance in the 1980s, but is not enough to stem the fall in per capita agricultural production.

7.13 Manufacturing is expected, in the high case, to benefit from the posited improvements in the policy environment and, eventually, in foreign exchange availability. However, the effects of higher prices, fewer restraints on the private sector, more resources for public sector managers and higher external financing are initially undermined by the fall in the terms of trade and lower export earnings from coffee. Growth is projected at 4.5 percent p.a., a little faster than in the recent past. In the low case, the trend growth rate of 3 percent p.a. experienced since the mid-1980s is expected to continue.

7.14 Government services, i.e., public administration and social services are expected to expand only modestly under both scenarios, at 3.0 percent p.a. and 2.5 percent p.a. in the high and low cases respectively. There is pressing need for higher outlays on infrastructural, social and other economic services, but there is scope for meeting part of these needs by means of resource reallocation within the recurrent and capital budgets. In the higher scenario, some reallocation of expenditure on security and non-priority capital budget items is assumed to occur so that more resources are available to expand public provision of basic services. The expansion of other industries and services follows from the projected growth rates of agriculture, manufacturing and government. Utilities, telecommunications, transport and financial services are expected to grow somewhat faster than GDP as networks expand and Ethiopia receives assistance to make good its infrastructural deficiencies.

Expenditure

7.15 On the expenditure side, the main differences between the scenarios lie in their projections of savings and investment. In the high growth case the savings performance is very strong. The marginal propensity to save out of GDP (corrected for terms of trade) is 19 percent and the rate of savings in GDP rises from 4.5 percent in 1988/89 to 7.1 percent in 1993/94. Savings, at constant prices rise at nearly 13 percent p.a. This result is due to the assumption that non-investment government expenditure is constrained to grow more slowly than GDP and that incentives for private savings will be greatly improved with the hypothesized new incentives in peasant agriculture and in private industry and commerce. The decline in per capita consumption is arrested. In the low growth case, despite even more severe restraint on government consumption, savings fall at 11 percent p.a. Even so, the volume of resources available in the economy will be insufficient to prevent a continuing fall in per capita consumption of around 0.5 percent p.a.

7.16 The high case also brings the prospect of maintaining the rate of investment in GDP at around 15 percent. In this scenario the volume of investment increases by 5.5 percent p.a., financed by higher domestic savings and higher levels of concessional financing from abroad. In the low growth case, by contrast, investment does not grow and the investment/GDP ratio falls slightly over the medium term to 12 percent. As is to be expected in the more favorable policy environment which is assumed, the use of investment is more efficient in the high growth projection. The period average ICOR is 3.9, compared with 5.2 in the low growth projection - and nearly 6 in nine years to 1988/89.

Table 7.2: EXPENDITURE SHARES IN GROSS DOMESTIC INCOME IN HIGH AND LOW SCENARIOS

(Percentages of GDP at constant prices, adjusted for terms of trade)

	1988/89	1993/94	
		HIGH SCENARIO	LOW SCENARIO
Consumption	95.5	92.9	97.7
Domestic Savings	4.5	7.1	2.3
Investment	13.7	15.1	12.2

Source: Bank Staff Estimates

Balance of Payments

7.17 The main driving force behind the projected high scenario savings performance is export growth. The effects of early exchange rate adjustment are assumed to materialize with a lag but they come through powerfully within the medium term to give a period average rate of export volume growth of 7.4 percent p.a. Coffee accounts for some 45 percent of the increase and hides, skins and leather for another 9 percent. Other major contributions are assumed to come from the field crop sector (mostly pulses) - 12 percent, and from livestock - 7.5 percent. If, as assumed in the low case, the incentive effect of the measures taken in October 1989 to restore the producer price of coffee to the level of before the June 1989 fall in world prices is eroded by domestic inflation, the present encouraging revival in coffee exports is likely to be of limited duration. In the low case, therefore, the only abiding source of export earnings growth is minerals, especially gold whose output will grow in the medium term irrespective of policies thanks to the nearly-completed mine at Legadembi. The volume of exports is projected to expand at a period average of only two percent p.a.

7.18 Higher export earnings in the high scenario are crucial to faster growth because of the additional foreign exchange which they make available to the economy. From table 7.3 it can be seen that, by 1993/94, receipts from exports are projected to be $260 million higher, in current prices, in the high scenario than in the low one. Imports are about the same in value in both scenarios but they differ in composition with, in the low case, larger food imports and lower imports of capital and intermediate goods. With high scenario policies, food imports are, by 1993/94, lower by some $140 million p.a.

7.19 A significant feature of the balance of payments projections is that, in the high scenario, the economy is not expected to "adjust" in the classical sense of greatly reducing or eliminating its current account deficit. On the contrary, the faster growth case has been conceived in the spirit of "adjustment with growth". The resource gap in current dollars stays similar in both cases. In the high scenario the current account

Table 7.3: BALANCE OF PAYMENTS SUMMARY: HIGH AND LOW SCENARIOS
(US$ millions at current prices)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
HIGH SCENARIO						
Exports G&NFS	735	757	831	925	1063	1209
Imports G&NFS	1346	1309	1530	1672	1825	2013
Resource Gap	-611	-552	-699	-747	-762	-804
Expatriates' remittances	49	65	69	75	82	92
Current transf. & relief (net)	144	52	58	64	70	70
Investment income (net)	-94	-99	-103	-106	-111	-115
Current Account Deficit	-512	-534	-675	-714	-721	-757
Financing:						
Grants	132	137	150	151	173	184
Net MLT Loans						
- disbursements 1/ 2/	616	569	680	703	682	683
- amortisation 3/	-219	-207	-212	-224	-228	-235
Short Term	10	15	20	30	45	60
Use of Reserves (-=increase)	-27	-62	-58	-58	-64	-71
Financing Gap	0	82	95	112	113	136
Memo: Debt service ratio(%) 4/	37.7	35.1	33.1	31.6	28.5	26.2
LOW SCENARIO						
Exports G&NFS	735	758	760	793	852	943
Imports G&NFS	1346	1287	1427	1534	1686	1865
Resource Gap	-611	-529	-667	-741	-834	-922
Expatriates' remittances	49	53	56	58	60	64
Current transf. & relief (net)	144	52	58	64	70	70
Investment income (net)	-94	-99	-109	-129	-158	-195
Current Account Deficit	-512	-523	-662	-748	-862	-983
Financing:						
Grants	132	132	134	136	136	132
MLT Loans:						
- disbursements 1/ 2/	616	542	526	524	507	512
- amortisation 3/	-219	-207	-212	-224	-228	-251
Short Term	10	15	20	30	45	60
Use of Reserves (-=increase)	-27	-52	-38	-30	-29	-28
Financing Gap	0	93	232	312	431	558
Memo: Debt service ratio(%) 4/	37.7	35.6	37.2	39.6	40.4	42.6

Source: Bank Staff Estimates

1/ Disbursements from identified sources.
2/ Includes errors and omissions.
3/ Amortisation includes repayment of gapfill loans.
4/ Denominator includes remittances' receipts.

deficit is somewhat lower than in the low growth case mostly because external financing is expected to be on more concessional terms, so lessening the burden of interest. On the other hand, the external financing requirements of the high case are predicated on the building of stronger foreign exchange reserves over the medium term.

7.20 With regard to financing, the main difference between the scenarios lies in the projected disbursement in the higher case of an additional $100-150 million p.a. of concessional loans and grants, notionally for adjustment assis'ance. Despite this, a financing gap of over $100 million p.a. emerges for which additional funding will be necessary. The projection of adjustment financing is a conservative one for a country as large as Ethiopia. If Ethiopia were to become eligible for the Special Program of Assistance for low income and highly indebted countries in Africa, it is quite conceivable that the donor response would be fill the residual gap. In the high case, moreover, Ethiopia might have access to Structural Adjustment Facility funds from the IMF, about which no explicit assumption has been made in the projections. In the low case, by contrast, balance of payments financing problems are projected to mount over the five year period, without any expectation of any concessional source of funding to cover the deficiency. The financing gap at the end of the period is unmanageably large and could well, in the event, prove unfinanceable.

Debt Service

7.21 An important attraction of the high scenario is the prospect which it offers of a gradual reduction of the burden of debt service which is projected to fall from 38 percent of exports of goods and services in 1988/89 to 26 percent in 1993/94. The factors contributing to this alleviation are better export performance, together with larger projected inflows of concessional financing and the assumption that the financing gap will itself attract concessional finance (e.g. from a SAF). The low growth scenario, by comparison offers only gloomy prospects on the debt service front. The current account deficit is large and the volume of concessional resources and other identifiable resource inflows is smaller. There is an alarming financing gap which has to be financed on commercial terms. The build-up of debt of relatively short maturity and bearing commercial rates of interest pushes the debt service ratio above its already intolerable level to 43 percent in 1993/94. By then, Ethiopia might not be sufficiently creditworthy to borrow on the required scale. If not, and the government wishes to avoid default, it will have to adjust the economy by restraining domestic absorption below the levels shown in the projection and, in so doing, runs the risk of further reducing the rate of growth of the economy.

Beyond the Medium Term

7.22 Projections beyond the medium term are extremely hazardous. However, if the assumptions on which the medium term projections are based are mechanically applied to the later 1990s it becomes even more evident that the low growth case is not only unacceptable from the point of view of human welfare in Ethiopia but also financially unsustainable. The import requirements of an even unacceptably slow rate of growth, combined with lackluster export performance and disillusionment on the part of the providers of concessional development assistance lead to financing gaps which could not conceivably be filled, even by commercial borrowing. The inescapable conclusion is that no effort should be spared to bring about a train of events roughly corresponding to the high scenario which, both within the medium term and even more so beyond, has the features of a modest virtuous circle in which living standards rise with slowly growing prosperity, the external balance improves and debt service payments taper away.

PROBLEMS OF ESTIMATING SAVINGS AND FINANCING FLOWS

Sources and Definitions

1. The principal source of information on investment and savings is the national income accounts which treats domestic savings as a residual item. National Accounts' estimates of savings are thus intrinsically prone to error. Their estimates of investment expenditure, particularly of public sector investment, are much more reliable.

2. The aggregate difference between domestic savings and investment is the resource balance and is equal to the gap between imports and exports of goods and non-factor services. If evidence from the balance of payments is reliable, the magnitude of this gap should be fairly accurately estimated. However, as shown in Appendix 2, there are some question marks over this in Ethiopia. If domestic savings are adjusted for factor service payments to and from foreign countries they become national savings which can be broken down into those of the central government, the public sector enterprises and of the household and private sectors. This note offers estimates of the savings performance of these three sectors and of their respective financial surpluses or deficits. In Ethiopia there is no accurate measure of households' receipts of workers' remittances from abroad, so estimates of national savings are somewhat tentative. The inflow of workers' remittances seems to have been of the order of 1 -1.2 percent of GDP in recent years (Appendix 2, para 15).

3. Household savings are the excess of disposable income over consumption. In Ethiopia they have to be calculated as a residual in national savings, though inter-sectoral financial flows data makes it possible to cross-check estimates. Gross enterprise savings are broadly undistributed post-tax profits (less gains from asset sales and less capital transfers received), plus sums provided in the accounts for depreciation. Government savings are the excess of revenues over government consumption expenditure on wages, salaries, pensions, services including interest), materials and grants (excluding receipts from fees and charges). Some of the relevant expenditure may feature in the capital expenditure account.

4. A simple approach to calculating government savings is to take the difference between revenues and government consumption given in the national accounts. However, in the Ethiopian accounts, "government consumption" only covers government expenditure on personnel and purchases of materials and services, so this difference (Estimate 1) exaggerates the true magnitude of government savings. A more accurate estimate of government savings (Estimate 2) can be derived from government expenditure data analysed by economic function, viz:

Alternative Estimates of Government Consumption and Saving
(Current Birr million)

	1977/78	1980/81	1983/84	1986/87	1987/88
-Revenues	1182.6	1756.8	2293.8	2926.0	3377.6
Govt. consumption, national accounts	1239.5	1399.5	1841.4	2163.5	2774.6
-Implied savings (Estimate 1)	-56.9	357.3	452.4	762.5	603.0
Govt. consumption, central budget outlays	n.a.	1652.1	2698.7	3290.1	3639.3
-Implied savings (Estimate 2)	n.a.	104.7	-404.9	-364.1	-261

Source: Appendix 1, Tables 4 to 6

By Estimate 1, government savings amounted to 4 percent of GDP in 1980/81 and rose to 6.8 percent and 4.9 percent of GDP in 1986/87 and 1987/88 respectively. From 1981/82 onwards, this estimate portrays government savings as being consistently larger than aggregate domestic savings, which is not realistic. If savings are computed from central government expenditure accounts (Estimate 2),the government savings/ GDP ratio in these three years was respectively 1.2 percent, -3.4 percent and -2.3 percent (see Appendix 1, Table 7).

5. Public finances were strengthened in the 1980s and the repeated current budget deficits of the 1970s became surpluses. Nevertheless, by the more realistic Estimate 2, government savings become strongly negative from 1982/83 onwards, with the sharp rise in the estimate of the non-investment portion of capital budget outlays (see Appendix 1, Table 5), but start to improve after the drought year of 1984/85. (The non-investment element in the capital budget is found residually using not wholly reliable data on aggregate public investment and public enterprises' investment in which there may be some double counting, leading to some exaggeration of the estimate) The conclusion that government savings are negative is consistent with the findings in previous Bank analyses of macroeconomic balances. 1/ In the present paper, therefore, Estimate 2 is preferred, but is advanced as a broad order of magnitude rather than as an accurate statistic.

1/ See Ethiopia: Public Investment Program Review, Report No .6859-ET, Annex F.

6. The national income accounts do not distinguish between the savings of the household and enterprise sectors, but there are time series which enable one to construct estimates of public enterprise savings (see Appendix 1, Tables 8 and 9). There is data on public enterprises' net income, i.e. post tax profits, and on "residual surplus" payments to the central treasury out of net income. Gross enterprise savings consist of net income, less residual surplus, plus depreciation. As there are no consolidated public enterprise accounts there is no readily available information on the enterprises' depreciation. Estimates have therefore been made based on partial information and projections available in the Bank (see footnote to Appendix 1, Table 8).

7. The information on public enterprises' net income includes the results of the loss-making state farms. The resulting estimate of public enterprise gross savings is substantial at 4 percent of GDP on average over the four years to 1987/88. An important part of this is required for the amortization of loans, especially foreign loans (see below).

8. The difference between aggregate national savings and government and public enterprise savings should give savings by the private sector, i.e. savings by households and private enterprises (see also para 12 below). The resulting figures (Appendix 1, Table 10) seem low in the light of financial flows evidence (see below) and of expectations about private sector savings behavior drawn from the experience of other countries. Furthermore the figures show an improbably strong private savings performance in years of climatic catastrophe such as 1984/85 and worse performance in recovery years like 1985/86. These results are counterintuitive. Private savings calculated this way are a residual from a residual and are ipso facto unreliable. If this estimate of private savings is used one is led to the conclusion that the private sector has had financial deficits in some recent years, amounting to 2-3 percent of GDP (see Appendix 1, Table 11). This is improbable because there have been no sources of internal and external financing sufficient to cover this gap. One potential source of error lies in the possible exaggeration of enterprise savings (see above). A much more reliable, albeit still intuitive, estimate of savings is to be derived from financial flows evidence.

<u>Intersectoral Financial Flows</u>

9. A picture of the mobilization and absorption of financial surpluses in the different sectors of the economy, which is more dependable than the one derived by using national accounts and the constructed national accounts of the government and the public enterprises, though

still not complete, can be found by combining, in the form of a matrix, the financial accounts of government with aggregated balance sheet data from the banking system. The resulting matrix for the years 1984/85 to 1987/88 is displayed in Appendix 1, Table 12. This records the net flows of funds which went from the sectors and institutions shown in the columns to the sectors and institutions shown in the rows. Thus, in 1984/85, the government made net repayments of Birr 141 million to the National Bank of Ethiopia (NBE)(cell B1), but borrowed Birr 544 million from the other banks (specifically the Commercial Bank of Ethiopia) (Cell C1) and, in the same year, public enterprises and cooperatives increased their deposits with banks other than the NBE by Birr 236.8 million (cell D3).

10. Some simplifying assumptions have been made in compiling the matrix, notably in regard to the private sector and the public enterprises. The private sector comprises both enterprises and households. It is assumed in the presentation that the whole of the increase of cash holdings in the economy, outside the banks (cell E2) is held by the private sector, though in reality a small proportion of this will have been held by the government and public enterprises. In the absence of consolidated public enterprise accounts the picture on the financing of public enterprises and cooperatives by the government and may be incomplete. The figures shown (cell A4) are the sum of central Treasury and foreign grant financing of public enterprises' investment expenditures. Estimates of the net external loan financing of this sector (cell F4 less cell D6) are drawn from the balance of payments. A further caveat is that the matrix fails to capture some inter-sectoral flows involving the private sector which lie outside the banking system. Pension fund contributions by government employees are shown as private sector financing of the government, but there is no data from which to make an equivalent calculation for public enterprises and cooperatives. Financing by equity, bonds and other money market borrowing is omitted, but is of little consequence in the Ethiopian economy.

11. The major elements in the picture of financial flows in the Ethiopian economy which the table portrays are:

a. Large financing flows from the private sector to the rest of the economy in the range 3-5 percent of GDP, the counterpart of which is increases in private sector cash and deposit holdings (Cells E2 and E3) and, to a minor extent, enterprise pension fund contributions (Cell E1). These (gross) flows were low in the drought year of 1984/85 (Birr 305 million), high in the following year with the return of growth to the economy (Birr 495 million), and declining in the two most recent years (Birr 429 million). The private sector draws very little by way of advances from the banking system to offset these flows. The private sector has thus been in substantial net financial surplus to the tune, on average, of

4 percent of GDP. The private sector will also have self-financed most of its investment, amounting to about 2 percent of GDP. Private savings, would seem, therefore, to have been about 6 percent of GDP.

b. The government and public enterprises are the biggest net absorbers of financial transfers from within and from outside the economy. A high proportion (65-70 percent - Birr 755 million in 1987/88) of the government's financial deficit is filled by foreign grants and loans. The "government" is defined more widely in banking statistics than in fiscal ones. Its gross identified financing in 1984/85 amounted to 15.6 percent of GDP, dropping to 10 percent of GDP in 1987/88.

c. The financial deficit of public enterprises and cooperatives has been increasing. In net terms (Cell G4 - Cell D7) it rose from Birr 50 million in 1984/85 to Birr 848 million (7.5 percent of GDP) in 1987/88. The gross increase in liabilities (Cell G4) corresponds roughly with the gross financial balance estimated in Appendix 1, Table 8, column 6. The differences may be accounted for by differences in coverage (the cooperatives are excluded from Appendix 1, Table 8). Table A1 shows that the public enterprises have debt amortization payments to the external sector (Cell D6) of the order of 1.3 - 1.5 percent of GDP which substantially erode their gross savings. These arise from non-concessional external borrowing to finance heavy outlays in the late 1970s and early 1980s. Most of the public enterprises' financing requirement is satisfied from domestic sources - 35 percent from the central government capital budget and 65 percent from the banking system. In 1987/88 the banking system provided Birr 590 million, almost three times the amount of financing by the government. Some of this is external credit on-lent through domestic banking institutions, principally the AIDB.

d. The financial intermediaries have fulfilled their usual role of mobilizing private financial surpluses for the benefit of other sectors. The NBE has generally financed the central government budget deficit - except in 1984/85 when the government borrowed instead from the commercial banks. The commercial banks' role has been to finance the public enterprises, but to do this, they have required refinancing by the NBE (mostly in connection with financing state farm deficits). Bank advances to the private sector (cell C5) have been low, though they have risen lately. In 1987/88 the growth of net private sector assets with the banking system (cell E3 - cell C5) at only Birr 109 million was exceptionally low, reflecting the economic downturn.

12. The principal problem of interpretation posed by these flow-of-funds data concerns the level of private savings. If they are calculated residually (Appendix 1, Table 11) they seem to have averaged a little below 5 percent of GDP over the four years ending in 1987/88 but to have had an implausible time-profile. This calculation is affected by erratic features in the recording of Ethiopia's balance of payments, especially in drought years. In normal times, the residual calculation indicates savings lower than the level inferred from the financial flows table. This may reflect the fact that the latter reveals the allocation by the private sector of sums earned from unrecorded trade which are not counted in the national accounts.

Appendix 1, Table 1 : GNP, INVESTMENT & NATIONAL SAVINGS
(Birr Million, current prices)

Fiscal Year ending	GNP market prices	Consumption	Investment	Imports G&NFS	Exports G&NFS	Resource Balance (1-2-3)=(5-4)	National Saving (1)-(2)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975	5546.9	5135.5	579.7	847.3	683.1	-164.2	411.4
1976	6037.0	5542.3	509.5	818.1	760.1	-58.0	494.7
1977	6885.0	6510.0	560.9	1056.2	839.6	-216.6	375.0
1978	7325.4	7154.5	545.4	1270.6	865.6	-405.0	170.9
1979	8059.9	7743.2	698.9	1367.8	942.5	-425.3	316.7
1980	8588.7	8219.9	854.0	1618.5	1178.2	-440.3	368.8
1981	8939.3	8626.9	921.8	1750.4	1147.2	-448.0	312.4
1982	9209.0	8938.3	1081.7	1959.2	1059.1	-785.1	240.7
1983	10072.7	9759.9	1119.4	1990.7	1142.2	-826.7	312.8
1984	10041.3	9760.5	1283.7	2309.8	1266.6	-984.7	280.8
1985	9911.2	9610.7	1382.1	2239.7	1136.5	-1103.2	300.5
1986	10907.8	10591.0	1378.4	2507.9	1371.0	-1136.9	316.8
1987	11269.2	10807.0	1633.2	2519.8	1275.5	-1244.3	462.2
1988	11562.3	11022.5	1804.8	2591.6	1302.5	-1289.1	539.8
1989	12338.4	11784.4	1782.8	2657.2	1445.3	-1211.9	554.0

Source : ONCCP National Accounts and staff estimates
Note: GNP includes estimate of workers' remittance income from abroad.

Appendix 1, Table 2 : CONSUMPTION, INVESTMENT & NATIONAL SAVINGS AS SHARES OF GDP (at market prices)
(Percentages)

Fiscal Year ending	Consumption	Investment	Resource Balance	National Saving	Domestic Saving
	(1)	(2)	(3)	(4)	(5)
1975	92.5	10.4	-3.0	7.4	7.5
1976	92.4	8.5	-1.0	8.3	7.6
1977	95.0	8.2	-3.2	5.5	5.0
1978	98.1	7.5	-5.6	2.3	1.9
1979	96.9	8.7	-5.3	4.0	3.1
1980	96.7	10.0	-5.2	4.3	3.3
1981	96.9	10.4	-5.0	3.5	3.1
1982	97.8	11.8	-8.6	2.6	2.2
1983	97.3	11.2	-8.2	3.1	2.7
1984	97.6	12.8	-9.8	2.8	2.4
1985	97.2	14.0	-11.2	3.0	2.8
1986	97.8	12.7	-10.5	2.9	2.2
1987	96.5	14.6	-11.1	4.1	3.5
1988	95.5	15.6	-11.2	4.7	4.5
1989	95.4	14.4	-9.8	4.5	4.6

Source : ONCCP National Accounts

Appendix 1, Table 3 : INVESTMENT AND NATIONAL SAVING IN CONSTANT 1980/81 PRICES
(Birr million)

Fiscal Year ending	Investment	National Savings	Domestic Savings
	(1)	(2)	(3)
1975	814.3	577.9	583.6
1976	769.9	747.5	685.3
1977	790.7	528.6	485.6
1978	676.1	211.9	174.0
1979	828.0	375.2	295.2
1980	913.6	394.5	304.8
1981	921.8	312.4	275.9
1982	1062.9	236.5	195.4
1983	1090.6	304.8	263.9
1984	1241.4	271.5	232.6
1985	1322.1	287.5	266.8
1986	1267.4	291.3	222.0
1987	1420.9	402.1	338.4
1988	1503.5	449.7	429.6
1989	1411.6	438.6	452.0

Source : Staff estimates

Note: Current pri.. series deflated by composite deflator consisting of the dollar price index of manufactured goods in world trade (30 %) and the GDP deflator for building and construction (70%).

Appendix 1, Table 4 : GOVERNMENT CONSUMPTION, REVENUE & SAVING
From National Accounts Data
(Birr Million)

Fiscal Year ending	Revenue	Government Consumption	Government Savings
	(1)	(2)	(3)=[(1)-(2)]
1975	711.4	730.1	-18.7
1976	780.9	866.0	-85.1
1977	1011.8	967.8	43.3
1978	1187.1	1239.5	-56.9
1979	1382.1	1167.9	214.3
1980	1567.5	1293.2	274.3
1981	1756.9	1399.5	357.3
1982	1876.7	1486.8	388.6
1983	2174.5	1732.5	442.0
1984	2293.8	1841.4	452.4
1985	2323.3	1924.0	399.3
1986	2806.0	2045.2	760.8
1987	2925.9	2163.5	762.4
1988	3386.4	2774.6	611.8
1989	3730.7	3025.9	704.8

Source : ONCCP National Accounts, Ministry of Finance and staff estimates.

Appendix 1, Table 5 : COMPOSITION OF ADJUSTED GOVERNMENT CONSUMPTION SERIES
(Birr million)

Fiscal Year ending	Wages Salaries Materials	Fees Charges Sales	Pensions	Grants	Interest	Non-Invt Capital Outlays 1/	Total 2/
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1975	N.a.	38.2	44.4	N.a.	20.1	N.a.	N.a.
1976	N.a.	37.7	48.6	N.a.	32.9	N.a.	N.a.
1977	N.a.	44.4	52.9	N.a.	42.4	N.a.	N.a.
1978	1166.4	50.7	57.2	68.5	48.3	N.a.	N.a.
1979	1091.0	42.9	65.6	57.1	65.7	N.a.	N.a.
1980	1216.6	79.4	68.1	62.8	63.5	187.0	1518.6
1981	1328.3	64.7	85.0	66.1	77.7	159.7	1652.1
1982	1468.6	52.6	87.7	119.1	83.8	245.7	1952.3
1983	1826.8	55.2	92.2	86.6	91.3	704.1	2745.8
1984	1798.8	57.4	100.0	145.3	147.4	514.6	2648.7
1985	2152.3	89.8	108.5	173.8	225.4	619.6	3189.8
1986	2034.6	56.7	116.4	186.8	192.7	768.9	3242.7
1987	2050.4	60.4	124.2	185.8	235.3	754.8	3290.1
1988	2356.4	77.0	130.[illegible]	182.7	276.4	770.4	3639.3

Source : Ministry of Finance budget accounts and staff estimates

Notes: 1/ Capital Budget expenditure, less government departments' investment less government capital transfers to public enterprises. Government departments' investment = total public investment, less public enterprises' investment.

2/ Total consumption = (1) - (2) + (3) + (4) + (5) + (6)

Appendix 1, Table 6 : GOVERNMENT CONSUMPTION, REVENUE, SAVING & FINANCIAL BALANCE
Using Adjusted Government Consumption
(Birr Million)

Fiscal Year ending	Revenue	Government Consumption	Government Savings	Government Investment	Central Govt Financial Balance
	(1)	(2)	(3)=[(1)-(2)]	(4)	(5)=[(3)-(4)]
1975	711.4	N.a.	N.a.	N.a.	N.a.
1976	780.9	N.a.	N.a.	N.a.	N.a.
1977	1011.3	N.a.	N.a.	N.a.	N.a.
1978	1187.1	N.a.	N.a.	N.a.	N.a.
1979	1382.1	N.a.	N.a.	N.a.	N.a.
1980	1567.5	1518.6	48.9	200.6	-151.7
1981	1756.9	1652.1	104.8	335.9	-231.1
1982	1876.7	1952.3	-75.6	375.1	-450.7
1983	2174.5	2745.8	-571.3	487.0	-1058.3
1984	2293.8	2648.7	-354.9	382.0	-736.9
1985	2323.3	3189.8	-866.5	463.9	-1330.4
1986	2806.0	3242.7	-436.7	593.3	-1030.0
1987	2925.9	3290.1	-364.2	456.3	-820.5
1988	3386.4	3639.3	-252.9	528.8	-781.7
1989	3730.7	N.a.	N.a.	552.5	N.a.

Source : Ministry of Finance (for revenue), Appendix 1,Table 5 and Staff estimates

Note : Central Government Investment estimated as total Public Investment less Investment by Public Enterprises.

Appendix 1, Table 7 : GOVERNMENT CONSUMPTION, REVENUE, SAVING & FINANCIAL BALANCE
Using Adjusted Government Consumption
(Percentages of GDP at market prices)

Fiscal Year ending	Revenue	Government Consumption	Government Savings	Government Investment	Central Govt Financial Balance
	(1)	(2)	(3)=[(1)-(2)]	(4)	(5)=[(3)-(4)]
1975	12.82	N.a.	N.a.	N.a.	N.a.
1976	13.02	N.a.	N.a.	N.a.	N.a.
1977	14.75	N.a.	N.a.	N.a.	N.a.
1978	16.27	N.a.	N.a.	N.a.	N.a.
1979	17.29	N.a.	N.a.	N.a.	N.a.
1980	18.43	17.86	0.57	2.36	-1.78
1981	19.73	18.56	1.18	3.77	-2.60
1982	20.47	21.30	-0.82	4.09	-4.92
1983	21.68	27.37	-5.70	4.86	-10.55
1984	22.94	26.48	-3.55	3.82	-7.37
1985	23.49	32.25	-8.76	4.69	-13.45
1986	25.90	29.93	-4.03	5.48	-9.51
1987	26.13	29.39	-3.25	4.08	-7.33
1988	29.35	31.54	-2.19	4.58	-6.77
1989	30.20	N.a.	N.a.	4.47	N.a.

Source : Appendix 1,Table 6

Appendix 1, Table 8 : STATE ENTERPRISES' SAVINGS AND INVESTMENT
(Birr million)

Fiscal Year ending	Net Income 1/ (1)	Estimated Depreciation (2)	Residual Surplus Collected (3)	Savings after RS (1)+(2)-(3) (4)	Investment (5)	Surplus/ Deficit (4)-(5) (6)
1980	378.9	137.2	106.0	410.1	427.0	-16.9
1981	516.1	148.5	252.0	412.6	362.4	50.2
1982	458.5	176.1	289.2	345.4	468.9	-123.5
1983	489.4	195.1	322.0	362.5	386.4	-23.9
1984	498.5	209.9	358.2	350.2	630.3	-280.1
1985	561.2	261.6	347.0	475.8	704.8	-229.0
1986	608.8	274.2	402.0	481.0	567.5	-86.5
1987	785.9	293.3	425.2	604.0	955.1	-351.1
1988	695.9	331.9	653.0	374.8	1050.0	-675.2
1989	783.2				1000.0	

Source : ONCCP, Ministry of Finance and staff estimates

1/ Net income after tax and capital charge but before residual surplus transfer

Note: Depreciation estimate based on assumption that 85 % of depreciation allowances arise in the manufacturing public enterprises (on whose finances the Ministry of Industry reports) and in EELPA, ETA, EFTC, MTA, Ethiopian Airlines and Ethiopian Shipping Lines. Depreciation estimates, in current Birr are as follows:

Fiscal Year ending	Ethiopian Airlines	Ethiopian Shipping Line	Industrial Public Enterprises	Ethiopian Telecoms Authority	Ethiopian Freight Trapt Corp	Electric Power&Light Authority	Marine Transport Authority	Others	Total
1980	15.0	5.0	40.8	8.1	18.0	25.0	4.7	20.6	137.2
1981	15.0	5.0	44.0	10.2	18.0	29.0	5.0	22.3	148.5
1982	16.0	6.0	57.9	11.6	20.0	33.0	5.2	26.4	176.1
1983	21.0	7.0	58.7	12.9	21.2	37.0	8.0	29.3	195.1
1984	20.0	7.0	62.1	14.4	23.5	41.7	9.7	31.5	209.9
1985	40.0	9.0	60.0	15.5	21.5	46.1	10.3	39.2	261.6
1986	46.6	9.0	77.6	17.8	20.5	50.0	11.6	41.1	274.2
1987	45.1	9.0	83.9	21.5	24.1	52.0	13.7	44.0	293.3
1988	56.1	10.0	94.2	25.7	25.5	55.0	15.6	49.8	331.9

Appendix 1,Table 9 : STATE ENTERPRISES' SAVINGS, INVESTMENT AND FINANCIAL BALANCES
(Percentages of GDP at market prices)

Fiscal Year ending	Savings (1)	Investment (2)	Surplus/Deficit (1)-(2) (3)
1980	4.8	5.0	-0.2
1981	4.6	4.1	0.6
1982	3.8	5.1	-1.3
1983	3.6	3.9	-0.2
1984	3.5	6.3	-2.8
1985	4.8	7.1	-2.3
1986	4.4	5.2	-0.8
1987	5.4	8.5	-3.1
1988	3.2	9.1	-5.9

Source : Appendix 1,Table 8

Appendix 1, Table 10 : ESTIMATED NATIONAL SAVINGS BY SECTOR
(Birr million)

Fiscal Year ending	Aggregate National Savings	Government Savings	Public Enterprise Savings	Private Savings
	(1)	(2)	(3)	(4)=[(1)-(2)-(3)]
1975	411.4	N.a.	N.a.	N.a.
1976	494.7	N.a.	N.a.	N.a.
1977	375.0	N.a.	N.a.	N.a.
1978	170.9	N.a.	N.a.	N.a.
1979	316.7	N.a.	N.a.	N.a.
1980	368.8	48.9	410.1	-90.2
1981	312.4	104.8	412.6	-205.0
1982	240.7	-75.6	345.4	-29.1
1983	312.8	-571.3	362.5	521.6
1984	280.8	-354.9	350.2	285.5
1985	300.5	-866.5	475.8	691.2
1986	316.8	-436.7	481.0	272.5
1987	462.2	-364.2	604.0	222.4
1988	539.8	-252.9	374.8	417.9

Source : Appendix 1 - Tables 1, 6 and 8

Note : The Household savings shown in this table are a residual, not a reliable estimate; see text section 7 for a view of probable household savings performance.

Appendix 1, Table 11 : ESTIMATED FINANCIAL BALANCES BY SECTOR
(Birr million)

Fiscal Year ending	Savings			Investment			Balance		
	Govt	PEs	Private	Govt	PEs	Private	Govt	PEs	Private
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975	N.a.	N.a.	N.a.	199.6	N.a.	380.1	N.a.	N.a.	N.a.
1976	N.a.	N.a.	N.a.	164.1	129.9	284.0	N.a.	N.a.	N.a.
1977	N.a.	N.a.	N.a.	176.1	174.8	255.0	N.a.	N.a.	N.a.
1978	N.a.	N.a.	N.a.	N.a.	N.a.	224.4	N.a.	N.a.	N.a.
1979	N.a.	N.a.	N.a.	N.a.	N.a.	232.9	N.a.	N.a.	N.a.
1980	48.9	410.1	-90.2	200.6	427.0	226.4	-151.7	-16.9	-316.6
1981	104.7	412.6	-205.0	335.9	362.4	223.5	-231.2	50.2	-428.5
1982	-76.9	345.4	-29.1	375.1	468.9	237.7	-452.0	-123.5	-266.8
1983	-571.3	362.5	521.6	487.0	386.4	246.0	-1058.3	-23.9	275.6
1984	-401.4	350.2	285.5	392.0	630.3	271.4	-793.4	-280.1	14.1
1985	-866.5	475.8	691.2	463.9	704.8	213.4	-1330.4	-229.0	477.8
1986	-448.2	481.0	272.5	593.3	567.5	217.6	-1041.5	-86.5	54.9
1987	-383.2	604.0	222.4	456.3	955.1	221.8	-839.5	-351.1	0.6
1988	-260.1	374.8	417.9	528.8	1050.0	226.0	-788.9	-675.2	191.9
1989	N.a.	N.a.	N.a.	552.5	1000.0	230.3	N.a.	N.a.	N.a.

Sources : ONCCP National Accounts and Appendix 1 - Tables 6 & 8 above

Appendix 1, Table 12: FINANCIAL FLOWS MATRIX (Birr million, annual flows)

Cell ref.			A	B	C	D	E	F	G
	Destin↓ Origin-->		Govt	NBE	Other Bks	PEs & Coops	Pvte sector	External	Total increase liabilities
1	Govt	1984/85		-141.0	544.0		118.2	1021.9	1543.1
		1985/86		361.9	-7.4		61.0	842.4	1257.9
		1986/87		402.2	0.5		77.9	757.5	1238.1
		1987/88		236.0	47.1		80.4	755.5	1119.0
2	NBE	1984/85	98.1		-100.6		75.6	-47.1	26.0
		1985/86	189.4		428.0		233.4	24.3	875.1
		1986/87	-57.2		204.6		151.6	-32.8	266.2
		1987/88	-1.7		-21.8		164.8	37.5	178.8
3	Other Banks	1984/85	-21.5	126.4		236.8	122.7	-11.7	452.7
		1985/86	16.6	215.5		148.8	214.0	7.9	602.8
		1986/87	24.8	161.2		-111.9	399.1	-5.3	467.9
		1987/88	-7.7	216.9		73.9	180.4	52.0	515.5
4	PEs & Coops	1984/85	194.1		102.7			137.9	434.7
		1985/86	117.5		270.3			275.9	663.7
		1986/87	198.8		285.6			176.0	660.4
		1987/88	219.5		589.8			272.9	1082.2
5	Pvte Sector	1984/85			-8.6				-8.6
		1985/86			-9.4				-9.4
		1986/87			29.2				29.2
		1987/88			70.9				70.9
6	External	1984/85	45.3	87.2	-41.3	146.9			192.8
		1985/86	71.1	309.7	43.5	185.3			538.5
		1986/87	112.5	-65.2	-20.8	184.3			98.3
		1987/88	198.5	-317.3	4.7	159.7			-152.9
7	Total increase in assets	1984/85	316.0	72.6	496.2	383.7	316.5	1101.0	
		1985/86	394.6	887.1	725.0	334.1	508.4	1150.5	
		1986/87	278.9	498.2	499.1	72.4	628.6	895.4	
		1987/88	408.6	135.6	690.7	233.6	425.6	1117.9	

Sources: Consolidated statements of NBE, CBE and specialised banks, central government financial accounts and Staff estimates.

NOTES:
"Government" is defined more widely than just central government. Total changes in assets and liabilities are unequal because unspecified "other" items are omitted.

Cell A2: Change in Government deposits with NBE.
Cell A3: Change in Government deposits with CBE, AIDB & HSB.
Cell A4: Govt transfers of equity and foreign grants to PEs
Cell A6: Govt repayment of foreign loans
Cell B1: Change in NBE claims on government
Cell B3: mostly changes in NBE claims on AIDB
Cells B6 & C6: Change in NBE and other banks' foreign assets.
Cell C2: Banks' cash and deposits with NBE.
Cell C4: Banks' advances to PEs etc, incl AIDB to State farms
Cell C5: Changes in Banks' advances to individuals and Cos.
Cell D3: Changes in PEs', Coops' deposits with banks.
Cell D6: "Other public sector's" (PEs') repayments of foreign loans
Cell E1: Pension fund and non-bank deficit financing
Cell E2: Changes in currency outside banks
Cell F1: Net external financing of central government, incl grants.
Cells F2 & F3: Changes in NBE and other banks' external liabilities.
Cell F4: Foreign loans to "other public sector"

STATISTICAL PROBLEMS IN THE BALANCE OF PAYMENTS

1. There are three problem areas in the recording of the balance of payments, viz cereal imports, private transfers and official transfers. In the cases of cereal imports and official transfers data from donor sources suggest that flows have been on a scale very much larger than those indicated in official Ethiopian data. Private transfers comprise remittances from Ethiopians working abroad and aid disbursements by NGOs, both of which may be inadequately recorded. In recognition of problems in the recording of merchandise imports, particularly in years of large relief food inflows, the National Bank of Ethiopia makes estimates, in its presentation of the balance of payments, of imports not recorded by the Customs (see Annex Table 3.4). This procedure goes some way to offset what might otherwise be a downward bias in the estimate of the resource gap but does not seem fully to compensate for the shortfall in the recording of food imports in every year. The NBE is still studying ways of improving estimates of receipts of private transfers which are important for calculating the magnitude of national income and national savings.

Cereal Imports

2. As shown in Chapter 5, cereals are imported by the government to augment the resources of the AMC. They are also imported, generally in larger quantity in the form of "regular food aid", i.e. for food-for-work projects and, in times of drought emergency, as emergency relief supplies. The agencies involved in food-for-work projects are mostly official bilateral and multilateral donors. Those agencies are also the main providers of emergency food aid, but NGOs also directly provide some emergency aid and they have been made responsible by some bilateral donors for handling larger quantities of officially financed emergency aid. Food aid also enters Ethiopia to support Somali and Sudanese refugees installed on Ethiopian territory.

3. According to normal balance of payments and national accounts conventions, all these flows should be recorded in the trade accounts as imports. When imports are donated and thus impose no cost on the Ethiopian economy, there should be an offsetting entry under current or official transfers showing that payment has been made by an aid donor.

4. The FAO publishes information on the value and volume of food imports and exports by all important countries, drawn from the records of both exporting and importing countries. This provides one means of cross-checking Ethiopian data. Since 1984, when Ethiopia was affected by a major famine emergency, the World Food Programme has closely monitored, on behalf of the food aid donors, the arrival and despatch of all food imports reaching Ethiopia. This cargo-by-cargo record of food arrivals - which

distinguishes between commercial imports and regular and emergency food aid - provides a very accurate source of information on the volume of food imports against which to compare official records.

5. In the first half of the decade Ethiopian Customs data on the volume and value of cereal imports, which have been used in the compilation of the balance of payments, have shown the following:

	1979/80	1980/81	1981/82	1983/83	1983/84
Volume ('000 tons)	106.3	64.0	154.5	241.1	264.7
Value (US$ million)	19.4	21.4	37.1	57.4	55.4

The FAO indicates import volumes which were, cumulatively, twice as large and which, in terms of dollar values, were 90 per cent more expensive:

	1979/80	1980/81	1981/82	1983/83	1983/84
Volume ('000 tons)	323	304	245	312	443
Value ($ million)	61.6	106.5	58.9	72.0	60.3

The FAO data is reported on a calendar year basis and has been adjusted to a July-June fiscal year basis. This may vitiate year-by-year comparisons but should not give rise to differences of this order of magnitude over a five year period.

6. In subsequent years, the absolute difference in the size of flows reported by different sources is even larger. The WFP does not report the value of food imports, so the comparison is solely in terms of thousands of tons:

	1984/85	1985/86	1986/87	1987/88	1988/89
Customs data	537.7	627.1	550.0	448.0	n.a.
WFP:					
- Commercial	nil	279.9	184.2	150.3	17.7
- Regular aid	290.0	133.3	95.5	128.7	364.3
- Emergency aid	709.6	934.0	513.4	752.5	498.1
Total imports	999.6	1,347.2	793.1	1,031.5	880.1

Again, the independent data source shows imports which are almost double (93 percent higher in the four years up to 1987/88) the volume shown in Customs data. The annual average difference in volume amounts to about 500,000 tons. At commercial prices, the cost of this volume of grain, c.i.f., Ethiopian port, would have been about $100 million p.a., equivalent to 10 percent of Ethiopia's average merchandise imports during this period and to about 2 percent of GDP and of aggregate consumption.

7. Thus, unless there were unrecorded exports of goods or services to offset the higher than recorded level of imports which appear to have taken place, consumption was in reality some 2 percent higher, in the four years following the 1984 drought than shown in the national accounts statistics.

Private Transfers

8. Inflows of private transfers shown in the balance of payments consist essentially of remittances from Ethiopians resident abroad to their families in Ethiopia and of inward transfers by foreign NGOs to finance relief, development projects or other charitable work in Ethiopia. Remittance inflows are in practice hard to distinguish from those which are financed from the proceeds of smuggled exports; some undeclared export earnings are thus included within current transfers. Both types of flows can be either in cash or in kind. However, in the national accounts, workers' remittances may be regarded as factor income from abroad and thus as part of GNP. Receipts of aid from NGOs are unrequited transfers and form no part of GNP.

9. Workers' remittances can be transferred through banking channels, but, with a parallel exchange market where the Birr is worth only 40-50 percent its official rate, to use these channels is tantamount to paying a large tax to the government. The Commercial Bank of Ethiopia thus handles only minimal volumes of transfers from abroad traceable to remittances by Ethiopians resident abroad. The bulk of remittances may be presumed to enter the country in the form of goods, the value of which on the domestic free market is passed in local currency to the intended beneficiaries of the transfer. Until May 1988, it was legal to import all kinds of goods bought with "own exchange", subject to the payment of a heavy customs surcharge. Part of the value of private "franco valuta" imports represented (most of) the inflows of workers' remittances. Since the suppression of franco valuta, at least, some of the remittance inflows are presumed to have taken the form of imports handled by licensed border traders.

10. NGOs make much more extensive use of official banking channels to transfer cash into Ethiopia to support their operations in the country. They also import relief supplies, both on their own account and as the agents of official donor agencies. In the former case, the value of the imports should be regarded as part of current transfers; in the latter case they are official transfers.

11. Estimating the magnitude of current transfers is no easy matter because it involves aggregating a variety of different types of flow, using information from several primary sources. At the level of the primary sources, it is often difficult to distinguish between those magnitudes which genuinely correspond to private transfers from abroad from those which may have a quite different economic interpretation.

12. Ethiopian balance of payments data rely heavily for information on NGO activity on the records of the Relief and Rehabilitation Commission which may not always have been able to distinguish clearly between receipts of official assistance and privately financed assistance. In the banking system, it is not easy to make a clear distinction by motive between transfers from expatriates intended for family income support and other transfers from abroad whose purpose is commercial or related to the operations in Ethiopia of diplomatic missions or NGOs. Similarly, in the customs records, the category of privately financed franco valuta imports covers, for example, the personal effects of foreigners coming to reside in Ethiopia and imports financed by charities, as well as remittances in kind. Fully accurate information on current transfers may thus be impossible to obtain. Even to obtain reasonably accurate estimates, there has to be extensive research and careful recording.

13. The National Bank of Ethiopia intends to conduct research into the components of current transfers in the course of 1989/90. Meanwhile, it recognizes that the figures for this element in the balance of payments are only approximate.

14. Recorded private transfer receipts have been a very significant element, over the years, in Ethiopia's current account balance, averaging over $180 million p.a. over the last five years, i.e. 46 percent of export earnings:

(Birr Million)	1984/85	1985/86	1986/87	1987/88	1988/89
- Private transfers	303.6	437.5	340.0	383.0	409.9
- as % of exports	40.8	47.4	42.8	49.5	45.4
- as % of current account balance	48.6	60.5	34.5	36.3	38.9

15. Because of the problems inherent in identifying the components of private transfers, the National Bank does not at present offer a breakdown of these flows. However, it is possible to make rough estimates of the respective shares of remittances and NGO transfers using information from donor sources on NGO relief disbursements and on franco valuta imports which paid duty and which therefore, apriori, were not financed by external assistance or by diplomatic missions:

(Birr Million)	1984	1985	1986	1987	1988
- Relief aid by handled by NGOs	95	333	225	136	343
- Private franco valuta imports	76	74	129	132	130
- Total	171	407	354	268	473

Although these figures are very approximate estimates for calendar year periods, when averaged to correspond with fiscal years they, in total, are of a similar order of magnitude as the balance of payments estimate of current private transfers. A reasonable hypothesis, therefore, pending the fruits of forthcoming research, is that some two-thirds of private transfers over the last five years have been transfers from NGOs and that the remaining one-third has been in the form of workers' remittances. There is no obvious underrecording of this component of the balance of payments.

Official Transfers

16. Drought and famine have brought to Ethiopia large inflows of relief and rehabilitation assistance in grant form. These have been additional to the regular development assistance from important bilateral and multilateral sources such as the EC and, to an increasing extent, Italy, which is also provided on grant terms. It is in the nature of emergency aid, most of which is provided in kind, that the recipient country does not have accurate records of its cost to donors. Even if imports of emergency supplies are accurately recorded as they arrive - which has not been the case in Ethiopia - it is hard for the recipient country to know what local cost expenditure has been incurred by donors. With development assistance in the form of grants the recording problem is less severe. There are usually regular agreements setting out the amount of assistance to be provided, the form in which it is to be disbursed - whether to finance projects, general imports or personnel - and the executing agency. The executing agency should then be responsible, on behalf of the government, for recording grant-financed expenditures as they occur.

17. Donor sources (as reported by the Development Assistance Committee of the OECD) show that Ethiopia received on average of $560 million p.a. in the form of grant aid in the years 1985-1988. Over the same period, Ethiopian balance of payments data show grant receipts of only $ 270 million p.a., i.e. rather less than 50 percent of donor disbursements. Donors' data allow grant disbursements to be broken down into relief and development assistance; technical assistance can also be identified separately:

(US$ million)	1984	1985	1986	1987	Average 1985-1987
- Development assistance, financial	52	28	140	259	142
- Development assistance, T.A.	81	103	116	116	112
- Sub-total, development grants	133	131	256	375	254
- Relief grants, financial	153	487	311	88	295
- Relief grants, T.A.	..	..	..	30	10
- Sub-total, relief grants	153	487	311	118	305
- Total grants	286	618	567	493	559

18. One possible reconciliation between Ethiopian data and those of the donors would be to conclude that the Ethiopian data omic entirely all relief disbursements. However, it is clear, from paragraph 6 above, that at least some emergency food imports are being captured in the customs records. The excess of grant disbursements (DAC data) over grant receipts (Ethiopian data) - at $290 million p.a. - is much greater than the excess of food imports (WFP data) over Customs records of food imports - at $100 million p.a. There is thus no ready-made off-set on the apparent shortfall in the recording of imports against the shortfall in the recording of grant receipts. Donors' technical assistance expenditure is never fully reflected in the balance of payments of recipient countries because some payments, e.g. salaries and allowances, are made to agents in the donor countries and never cross the exchanges. In the case of Ethiopia it would be reasonable to assume that two-thirds of technical assistance outlays would never enter the Ethiopian balance of payments. However, even if this adjustment is made a very large discrepancy remains between donor and Ethiopian data on grants:

Grant Receipts : Ethiopian Balance of Payments Data
(US$ millions)

1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
161.9	298.4	293.3	211.9	121.7	132.1

Grant Disbursements : DAC Data with T.A. Reduced by Two-Thirds
(US$ millions)

1984	1985	1986	1987	1988
231.7	549.0	489.3	395.2	680.0 (approx)

19. The counterpart of this discrepancy lies only partially in the underrecording of food imports (presumably mainly of emergency food). For the remainder, the counterpart must lie either in the underrecording of other imports or in the large "errors and omissions" item in the Ethiopian balance of payments.

Implications for Domestic Savings

20. If total imports have been higher than shown in the NBE's balance of payments accounts (see para. 1 above) and if the resource gap has thus been wider, it follows that domestic savings would have been even smaller than currently presented in the national accounts. The gap between savings and investment is identically equal to the gap between exports (of goods and non-factor services) and imports and this identity is used in calculating how GDP is divided between consumption and savings. The larger the value of imports, for a given and known levels of investment expenditure and export earnings, the smaller the value of savings. In 1987/88, for instance, the data discussed in para 6 above leads to the conclusion that imports of food, and thus total imports, may have been some $128 million higher than show in the balance of payments. If the corresponding adjustment is made to the national accounts (Annex Table 2.3), the ratio of domestic savings to GDP falls from 4.5 percent to only 2.2 percent.

21. However, domestic savings may not necessarily in practice have been less than indicated in the national accounts if there have been unrecorded sources of domestic income. It is quite likely, in Ethiopia, that value added by the informal sector, including trade, has been underestimated and that a perhaps significant share of this income has been saved. These observations do not detract from the conclusion in Appendix 1 that private savings may have been about 5 percent of GDP but they reinforce the general caveat about drawing firm conclusions from the data on Ethiopia's savings performance.

ASSUMPTIONS USED IN THE MEDIUM TERM PROJECTIONS

1. The medium term scenarios depicted in Chapter 7 are derived from economic projections made using the World Bank's Revised Minimum Standard Model (RMSM). This is a macro-economic trade gap model which projects national accounts aggregates, the balance of payments and external financing "gaps" on the basis of assumed growth rates for all (broadly defined) sectors of the economy, projected exports and behavioral relationships (in the form of elasticities) linking imports to sectoral growth or the growth of investment or consumption. In the version of the RMSM used for Ethiopia, investment expenditure is exogenous and discretionarily determined as a share of GDP in the light of the probable availability of resources in the different scenarios. Future commitments of external grants and loans, disbursements from past commitments and the servicing of existing debt are also exogenous variables. Consumption and savings are computed as residuals.

2. The sectoral growth rates assumed for the high and low scenarios are as given in text table 7.1. The rationale for these rates is discussed in Chapter 7. The essential results revealed by running the model are displayed in text tables 7.2 and 7.3.

Exports

3. Coffee exports have been projected using a separate model which relates output to "production potential" which in turn depends on coffee farmers' incentive to plant new bushes. If the producer price in real terms is above the average price prevalent before the coffee price collapse of June 1989 farmers will plant more coffee and the planted area increases with an elasticity with respect to price of 0.08. New bushes yield four years after planting. If the real producer price falls below the benchmark level production potential will tend to fall as old bushes are not replaced. Actual output of coffee is a function of the existing stock of bushes and of the real producer price. If the price is above the benchmark level, farmers will not only plant new bushes but they will also tend their existing plantations better. The price elasticity of supply from the existing stock of coffee bushes is assumed to be 0.18, based on empirical evidence. Further assumptions are that all incremental production is exported and that, in the event of devaluation, coffee export surcharge continues to be levied according to the established formula. About 85 percent of the increase in the Birr value of coffee exports, following devaluation, would be passed back to the producers.

4. Exports of Livestock, Hides, Skins and Leather are sensitive to price, though not in a wholly straightforward way. If export prices rise after a devaluation it will be more profitable to export live animals and with higher domestic prices, local consumption may fall, so the potential supply of raw hides and skins will, at least temporarily, fall. Livestock which are at present smuggled abroad are likely to be exported to a greater

extent through formal channels. This will further augment recorded livestock exports in the medium term. Beyond the medium term, high case exports may start to wane as, with higher living standards, local consumption of livestock products increases. In the low scenario, livestock exports are projected to remain roughly constant. Devaluation will also make it more profitable for slaughterhouses to skin animals carefully because export grade hides and skins will attract premium prices. At present, though the majority of skins are collected and processed in tanneries, most hides do not enter formal trading channels. In the high scenrrio, therefore, hides and skins will be of better quality and more hides will be sold for commercial tanning, despite the probable fall in local slaughtering. Exports will accordingly rise in volume and unit price. For projection purposes, the volume of exports rises in the low case by 2.5 percent p.a. without any increase in unit price. In the high case, export volumes are projected to increase by just over 9 percent p.a. The volume increase is assumed to subsume any improvement in real unit values which may occur.

5. Oilseeds and pulses exports are also likely to be higher in the high case than in the low case because, by assumption, commercial channels will come into existence in the high case which offer farmers prices which are related to the FOB price of these commodities. However, the supply response may well be retarded by frictional factors and there will be strong competition on the demand side from the domestic market. In the low case projections exports are assumed to stagnate at their average 1980s volume. In the high case, oilseeds are not projected to exceed this volume because of strong domestic demand which absorbs all incremental output. Pulses exports, on the other hand, are projected to rise. The price elasticity of supply of pulses is empirically estimated to be 0.56. The full effect of a significant price rise is projected to become apparent progressively over an 8 year period. One-third of this incremental output is assumed to be available for export, with the remainder being absorbed by the domestic market.

6. Of Ethiopia's other exports, sugar is not projected to grow under either scenario because of the strength of domestic demand and because new production facilities are not expected to come on stream within the medium term period. Gold exports, after rising sharply in 1989/90 with the commissioning of the Legadembi mine, are projected to remain roughly constant in volume until the next phase of the mine development is completed in 1993/94. They are the same in both scenarios. Textiles and garments, on the other hand, are projected to increase much faster in the high case, though from a low base.

7. Projected export values in current prices are found using the World Bank's commodity price projections. For the major export items projected values in 1993/94 in the two scenarios, with 1988/89 for comparison, are as follows (in US$ millions):

	1988/89	1993/94 Low	1993/94 High
- Coffee	253.8	177.3	322.8
- Hides & Skins	67.6	99.5	140.7
- Oilseeds & Pulses	24.2	36.5	66.8
- Gold	12.0	55.0	55.0
- Livestock	14.5	24.5	46.1
- Sugar	8.8	12.2	12.2

Imports

8. Ethiopia's imports of petroleum and petroleum products are projected on the basis of an elasticity of 0.9 with respect to GDP, which is rather lower than in the past when the needs of maintenance-of-security operations distorted consumption patterns. By assumption, the oil refinery at Assab will not be expanded and will continue to refine imported crude oil and to export bunker fuel by-products. As the refinery has already reached the limit of its capacity, increases in domestic consumption of refined petroleum products are met by imports of products.

9. Food imports have been projected on the basis of the simplifying assumption that per capita food availability will stabilize at the average of the last five (non-drought) years. In both scenarios, cereal output is assumed to increase at the same rate as agricultural GDP, and the balance needed to satisfy the target level of availability is made up from imports. In addition, there is assumed to be a certain volume of cereal imports to cater to the needs of on-going food-for-work projects. In the high case, cereal imports are virtually eliminated, apart from regular food aid donations. In the low case, grain imports grow continuously from the low level expected in 1989/90. In both cases projections are based on food import data recorded by the Ethiopian Customs and incorporated into official balance of payments figures. For a commentary on this data see Appendix 2. It is further assumed that there will be no drought emergency during the projection period.

10. Imports of capital goods are projected using an elasticity of unity with respect to investment expenditure. Intermediate goods imports are projected on the basis of elasticities of 1.1 and 1 with respect to GDP in manufacturing and the other productive sectors. Imports of consumer goods are projected on a similar basis using an elasticity of unity with respect to consumers' expenditure. 1988/89 import values and projected imports in 1993/94 are as follows (in $ million):

	1988/89	1993/94 Low	1993/94 High
- Petroleum (net)	116.3	181.6	184.8
- Food	177.3	235.4	89.2
- Capital Goods	563.5	721.2	962.2
- Intermediate Goods	184.5	281.6	303.1
- Consumer Goods	91.7	130.2	137.3

Non-factor Services

11. The conservative assumption has been made that the rapid growth of non-factor service receipts in the recent past (approximately 5.5 percent p.a. in real terms between 1980/81 and 1988/89) will, in both scenarios, moderate to a 3 percent p.a. real rate of growth in the outlook period. The policy environment has relatively little bearing on the net earnings of the airline and the shipping line. Tourism will develop in the high scenario, but the impact of promoting Ethiopia as a destination for tourists is not expected to be felt until after the medium term.

External Financing

12. A key difference between the two scenarios lies in the projected inflows of concessional financing. In the high case Ethiopia is assumed to attract quick disbursing adjustment assistance from multilateral and bilateral sources on grant and concessional loan terms. In both scenarios, the financing of imports by "identified" private suppliers and financial institutions (i.e. those which have provided import financing in the past) is projected to be lower than in the 1980s in recognition of Ethiopia's mounting debt service problem. The gaps between financing requirements and "identified" available financing are assumed to be filled, in the high case, on concessional loan terms and, in the low case, on commercial terms. Official grants are projected on the basis of past receipts reported in the balance of payments. For a commentary on the reporting of official transfers inflows see Appendix 2.

13. Text Table 7.3 shows projected levels of grant and MLT loan inflows for each year in the outlook period. Within MLT loan disbursements, the disbursements of concessional loans and credits are projected to be as follows:

$ million	1989/90	1990/91	1991/92	1992/93	1993/94
- High Case	435.4	565.2	592.9	591.3	597.4
- Low Case	408.7	411.0	414.5	415.7	427.6

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Table 1.1: POPULATION DISTRIBUTION BY REGION FOR SELECTED YEARS
(In thousands)

Region	1954 1/		1957 2/		1962		1967		1970		1981		1984	
Arssi	1,000	5.54%	1,039	4.48%	1,013	4.72%	764	3.38%	851	3.53%	1,522	4.18%	1,662	3.94%
Bale	-	-	333	1.44%	146	0.68%	180	0.80%	684	2.84%	796	2.18%	1,006	2.39%
Gamo Gofa	900	4.99%	531	2.29%	767	3.57%	625	2.77%	782	3.25%	993	2.73%	1,248	2.96%
Gojjam	1,600	8.86%	1,333	5.75%	1,437	6.70%	1,561	6.91%	1,590	6.61%	2,509	6.88%	3,245	7.69%
Gonder	1,800	9.97%	2,003	8.63%	1,230	5.73%	1,209	5.35%	1,604	6.67%	2,222	6.10%	2,921	6.92%
Eritrea	1,100	6.09%	1,657	7.14%	1,422	6.63%	1,686	7.46%	1,894	7.87%	2,492	6.84%	2,615	6.20%
Hararge	1,600	8.86%	1,449	6.25%	3,053	14.22%	3,004	13.30%	2,440	10.14%	3,540	9.71%	4,161	9.86%
Ilubabor	1,300	7.20%	1,000	4.31%	598	2.79%	618	2.73%	612	2.54%	792	2.17%	964	2.29%
Keffa	1,200	6.65%	826	3.56%	623	2.90%	1,145	5.07%	1,260	5.24%	2,206	6.05%	2,450	5.81%
Shewa	2,100	11.63%	2,464	10.62%	3,033	14.13%	3,932	17.40%	4,085	16.97%	6,999	19.20%	8,091	19.18%
Sidamo	1,250	6.93%	2,113	9.11%	1,438	6.70%	2,216	9.81%	2,190	9.10%	3,332	9.14%	3,791	8.99%
Tigray	1,000	5.54%	2,925	12.61%	2,104	9.80%	1,631	7.22%	1,689	7.02%	2,221	6.09%	2,410	5.71%
Wellega	1,000	5.54%	2,249	9.70%	1,298	6.05%	1,136	5.03%	1,577	6.55%	2,090	5.73%	2,477	5.87%
Welo	1,000	5.54%	2,776	11.97%	2,845	13.26%	2,201	9.74%	1,974	8.20%	3,392	9.31%	3,642	8.63%
Addis Ababa	-	-	500	2.16%	453	2.11%	684	3.03%	837	3.48%	1,341	3.68%	1,413	3.35%
Assab Administration	-	-	-	-	-	-	-	-	-	-	-	-	89	0.21%
TOTAL	18,050	100.00%	23,191	100.00%	21,462	100.00%	22,591	100.00%	24,069	100.00%	36,445	100.00%	42,185	100.00%

Source: Central Statistical Authority, Population Situation in Ethiopia, March 1988

1/ Data source is the Chamber of Commerce. Total does not add up as details are incomplete.
2/ Data source is Mesfin W/Marian. Total does not add up as details are incomplete.

Table 1.2: TOTAL POPULATION , URBAN AND RURAL BY SEX AND REGION AT MAY 1988 1/

Region	Total			Urban			Rural		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Arssi	924,853	936,253	1,860,606	59,044	68,503	127,547	865,809	867,750	1,733,059
Bale	557,800	568,897	1,126,697	36,539	42,620	78,159	521,261	526,277	1,047,538
Gamo Gofa	697,168	698,163	1,395,331	28,695	32,320	61,015	668,473	665,843	1,334,316
Gojjam	1,819,736	1,812,540	3,632,276	110,974	141,068	252,042	1,708,762	1,671,472	3,380,234
Gondar	1,660,758	1,609,682	3,270,440	100,766	138,244	239,010	1,559,992	1,471,438	3,031,430
Eritrea	1,465,510	1,472,603	2,938,113	197,423	243,452	440,875	1,268,087	1,229,151	2,497,238
Hararge	2,368,076	2,289,783	4,657,859	150,804	170,398	321,202	2,217,272	2,119,385	4,336,657
Ilubabor	530,460	547,848	1,078,308	28,954	30,500	59,454	501,5[illegible]	517,348	1,018,854
Keffa	1,373,390	1,367,383	2,740,773	69,932	75,273	145,205	1,303,458	1,292,110	2,595,568
Shewa	4,506,839	4,553,078	9,059,917	325,470	375,824	701,294	4,181,369	4,177,254	8,358,623
Sidamo	2,130,724	2,111,103	4,241,827	129,898	[illegible]	267,093	2,000,826	1,973,908	3,974,734
Tigray	1,369,860	1,331,061	2,700,921	115,257	146,633	261,890	1,254,603	1,184,428	2,439,031
Wellega	1,168,884	1,200,793	2,770,598	68,025	73,018	141,043	1,301,356	1,328,199	2,629,555
Wello	1,788,767	1,831,151	4,075,959	119,680	145,017	264,697	1,902,681	1,908,581	3,811,262
Asseb Administration	51,129	50,223	101,352	18,257	18,091	36,348	32,872	32,132	65,004
Addis Ababa	783,208	871,119	1,654,327	783,208	871,119	1,654,327	-	-	-
TOTAL	23,196,662	23,251,680	47,305,304	2,342,926	2,709,275	5,052,201	21,287,827	20,965,276	42,253,103

Source: Central Statistical Authority, Census Supplement I,1985b

1/ Estimate.

Table 1.3: POPULATION PROJECTIONS 1985-2035, WITH HIGH, MEDIUM AND LOW FERTILITY

Variant / Year	Total Population	Total Fertility Rate (TFR)	Life Expectancy at Birth: Male	Life Expectancy at Birth: Female	Average Growth Rate (Exponential): 1985-90	1990-95	1995-2000	2000-05	2005-10	2010-15	2015-20	2020-25	2025-30	2030-35	1985-95	1995-05	2005-15	2015-25	2025-35	2034-35
HIGH																				
1985	43,349,920	7.5	45.00	47.00																
1990	49,934,526	7.5	46.25	48.25	2.83															
1995	57,911,890	7.5	47.50	49.50		2.96									2.90					
2000	67,810,323	7.5	48.75	50.75			3.16													
2005	80,110,636	7.5	51.25	53.25				3.33								3.24				
2010	95,452,390	7.5	53.75	55.75					3.50											
2015	114,536,141	7.5	56.25	58.25						3.65							3.57			
2020	138,207,[illegible]	7.5	58.75	60.75							3.76									
2025	167,707,[illegible]	7.5	61.25	63.25								3.87						3.81		
2030	204,709,671	7.5	63.75	65.75									3.99							
2035	251,207,494	7.5	66.25	68.25										4.09					4.04	4.23
MEDIUM																				
1985	43,349,920	7.5	45.00	47.00																
1990	49,934,526	7.5	46.25	48.25	2.83															
1995	57,911,890	7.5	47.50	4[illegible].50		2.96									2.90					
2000	67,810,323	7.5	48.75	50.75			3.16													
2005	79,794,448	7.2	51.25	53.25				3.25								3.21				
2010	94,011,582	6.9	53.75	55.75					3.28											
2015	110,553,717	6.6	56.25	58.25						3.30							3.29			
2020	130,701,586	6.3	58.75	60.75							3.29									
2025	154,025,635	6.0	61.25	63.25								3.28						3.29		
2030	180,741,140	5.5	63.75	65.75									3.20							
2035	210,307,386	5.0	66.25	68.25										3.03					3.11	2.99
LOW																				
1985	43,349,920	7.5	45.00	47.00																
1990	49,934,526	7.5	46.25	48.25	2.83															
1995	57,911,890	7.5	47.50	49.50		2.96									2.90					
2000	67,371,076	7.0	48.75	50.75			3.03													
2005	78,118,490	6.5	51.25	53.25				2.96								2.99				
2010	90,383,455	6.0	53.75	55.75					2.92											
2015	104,086,817	5.4	56.25	58.25						2.82							2.87			
2020	118,870,201	4.8	58.75	60.75							2.66									
2025	134,376,509	4.2	61.25	63.25								2.45						2.55		
2030	150,107,214	3.6	63.75	65.75									2.21							
2035	165,312,651	3.0	66.25	68.25										1.93					2.07	1.82

Source: Central Statistical Authority, Population Projections of Ethiopia, June 1988.

Table 2.1: GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN

AT CURRENT PRICES
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Preliminary 1988/89
Agriculture sector	2,449.9	2,767.9	3,228.7	3,497.1	3,687.8	[illegible]	4,071.5	4,061.8	4,388.7	4,070.2	3,915.8	4,354.5	4,317.9	[illegible]	4,786.2
Agriculture	2,301.4	2,615.1	3,068.7	3,330.9	3,514.6	3,723.6	3,878.9	3,857.8	4,166.6	3,840.2	3,673.2	4,109.2	4,060.3	4,055.3	4,495.4
Forestry, fishing & hunting	148.5	152.6	158.0	166.2	173.2	183.3	192.6	204.0	222.1	230.0	242.6	245.3	257.6	270.4	290.8
Other commodity sectors	854.8	824.0	891.5	894.2	1,046.4	1,189.4	1,258.3	1,298.6	1,401.9	1,476.4	1,495.0	1,595.7	1 737.0	1,775.4	1,862.0
Mining and quarrying	12.6	11.6	8.7	7.8	7.8	8.1	8.1	9.6	9.7	12.3	15.1	15.3	12.3	13.5	14.3
Manufacturing	308.8	313.8	358.0	360.8	471.9	533.5	564.5	584.1	655.9	670.1	683.9	722.5	804.1	824.1	842.1
Handicraft & small-scale industries	260.6	272.1	278.0	275.3	286.4	296.5	306.9	317.8	328.3	339.1	339.1	350.4	363.2	375.4	388.0
Building and construction	232.3	188.2	207.9	211.0	229.4	295.9	320.8	325.8	346.0	387.3	383.3	397.6	422.6	418.8	456.4
Electricity and water	40.5	38.3	38.9	39.3	50.9	55.4	58.0	59.3	62.0	67.6	73.6	109.9	134.8	143.6	161.2
Distribution services	795.6	846.7	900.4	890.7	1,075.2	1,167.3	1,218.2	1,337.3	1,503.5	1,562.4	1,578.1	1,754.4	1,769.9	1,789.4	1,932.1
Wholesale and retail trade	522.7	565.4	611.3	592.5	742.9	812.2	853.4	893.4	980.4	997.5	962.1	1,036.3	1,056.9	1,068.0	1,140.2
Transport and communication	272.9	281.3	289.1	298.2	332.3	355.1	364.8	443.9	523.1	564.9	614.0	718.1	713.0	721.4	791.9
Other services	1,029.4	1,083.2	1,145.6	1,263.6	1,308.2	1,398.1	1,548.6	1,600.9	1,788.6	1,834.5	1,923.6	2,013.0	2,174.5	2,358.7	2,519.2
Banking insurance & real estate	118.4	142.1	144.2	162.9	202.5	244.5	291.7	278.2	326.5	286.5	312.6	339.2	378.5	449.7	468.6
Public administration & defense	348.7	365.9	415.0	510.4	487.7	510.2	584.5	617.4	713.6	750.9	770.0	781.6	850.6	916.0	1,016.8
Social services	171.8	175.6	183.5	184.5	201.0	212.2	230.7	250.5	279.2	312.7	343.7	377.3	412.5	437.9	469.0
Dwellings & domestic services	254.2	253.1	256.4	259.3	262.9	267.5	274.3	280.7	287.3	294.0	301.1	309.8	318.5	328.2	334.2
Other services	138.3	146.5	146.5	146.5	154.1	161.7	167.4	174.1	182.0	190.4	196.2	205.1	214.4	223.9	230.6
GDP at factor cost	5,129.7	5,521.8	6,164.2	6,545.6	7,117.6	7,659.7	8,098.6	8,298.6	9,082.7	8,948.5	8,910.5	9,717.6	9,999.3	10,246.2	11,099.5
Indirect taxes less subsidies 1/	421.3	473.9	690.3	749.3	874.8	845.1	806.2	870.6	948.1	1,057.5	979.1	1,114.9	1,196.5	1,292.0	1,255.8
GDP at market prices	5,551.0	5,995.7	6,854.5	7,294.9	7,992.4	8,504.8	8,902.8	9,167.2	10,030.8	10,001.0	9,989.6	10,832.5	11,195.8	11,538.2	12,355.3
Memorandum Items:															
Manufacturing (total)	569.4	585.9	636.0	636.1	758.3	830.0	871.4	901.9	984.2	1009.2	1023.0	1072.9	1167.3	1199.5	1230.1
Other industry (excl. mining)	272.8	226.5	246.8	250.3	280.3	351.3	378.8	385.1	408.0	454.9	456.9	507.5	557.4	562.4	617.6
Services (total)	1,825.0	1,929.9	2,046.0	2,154.3	2,383.4	2,563.4	2,766.8	2,938.2	3,292.1	3,396.9	3.499.7	3,767.4	3,944.4	4,145.1	4,451.3

Source: National Accounts Division, ONCCP and staff estimates.

1/ May differ from fiscal data as where possible, an estimate of municipal taxes is made.

Table 2.2: GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN

AT CONSTANT 1980/81 PRICES
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Preliminary 1988/89
Agriculture Sector	3,640.1	3,750.3	3,753.2	3,698.5	3,789.1	3,969.8	4,071.5	4,019.3	4,208.9	3,792.5	3,176.0	3,468.1	3,968.9	3,938.3	4,165.2
Agriculture	3,479.0	3,584.7	3,582.9	3,523.3	3,609.4	3,786.1	3,878.9	3,820.2	4,000.8	3,576.4	2,950.6	3,241.3	3,735.2	3,698.9	3,919.9
Forestry, fishing & hunting	161.1	165.6	170.3	175.2	179.7	183.7	192.6	199.1	208.1	216.1	225.4	226.8	233.7	239.4	245.3
Other commodity sectors	1,029.2	973.8	1,001.6	968.8	1,110.6	1,217.2	1,258.3	1,297.2	1,364.8	1,436.7	1,446.6	1,500.7	1,567.8	1,589.2	1,636.0
Mining and quarrying	10.8	9.0	8.1	7.8	7.8	8.1	8.1	9.4	9.1	11.6	14.1	14.2	11.4	12.5	13.2
Manufacturing	383.7	386.8	395.8	380.3	484.0	534.8	564.5	590.7	633.7	657.5	667.7	703.3	744.7	760.9	773.7
Handicraft & small-scale industries	282.4	283.1	286.4	280.9	292.2	299.5	306.9	314.8	322.5	330.6	330.6	338.9	348.3	357.0	365.9
Building and construction	306.0	250.0	266.0	253.9	273.5	319.2	320.8	317.3	330.1	362.5	353.0	358.7	371.5	359.1	372.1
Electricity and water	46.3	44.9	45.3	45.9	53.1	55.6	58.0	65.2	69.4	74.5	81.2	85.6	91.9	99.7	111.1
Distribution services	1,097.7	1,100.8	1,094.9	988.6	1,118.8	1,179.4	1,218.2	1,264.0	1,346.2	1,367.6	1,356.6	1,464.2	1,540.1	1,566.1	1,637.0
Wholesale and retail trade	807.6	801.0	783.6	685.4	789.9	828.5	853.4	878.9	934.3	938.4	887.4	938.6	1,013.2	1,014.6	1,052.6
Transport and communication	290.1	299.8	311.3	303.2	328.9	350.9	364.8	385.1	411.9	429.2	469.2	525.6	526.9	551.5	584.4
Other services	1,160.7	1,223.4	1,273.2	1,376.1	1,433.7	1,488.2	1,548.6	1,612.3	1,709.9	1,718.3	1,757.8	1,821.4	1,916.6	2,029.3	2,091.1
Banking insurance & real estate	171.3	199.3	200.0	223.9	239.8	264.0	291.7	310.6	336.4	304.8	312.1	335.8	360.3	411.6	421.5
Public administration & def	405.4	426.3	466.6	542.7	542.9	564.7	584.5	602.7	648.9	659.3	665.8	672.5	710.6	746.5	781.7
Social services	175.6	187.5	192.9	192.9	226.7	226.7	230.7	248.8	265.6	266.5	306.0	330.0	351.6	365.6	377.6
Dwellings & domestic services	252.0	254.9	258.3	261.2	264.9	269.5	274.3	278.6	283.1	287.4	291.8	296.5	302.5	309.2	312.4
Other services	155.4	155.4	155.4	155.4	159.4	163.3	167.4	171.6	175.9	180.3	182.1	186.6	191.6	196.4	197.9
GDP at factor cost	6,927.7	7,048.3	7,122.9	7,032.0	7,452.2	7,854.6	8,096.6	8,192.8	8,629.8	8,315.1	7,737.0	8,254.4	8,993.4	9,122.9	9,529.8
Indirect taxes less subsidies	596.5	681.2	810.3	813.6	896.4	864.0	806.2	852.3	877.2	978.9	910.8	971.8	1076.1	1150.4	1078.1
GDP at market prices	7,524.2	7,729.5	7,933.2	7,845.6	8,348.6	8,718.6	8,902.8	9,045.1	9,507.0	9,294.0	8,647.8	9,226.2	10,069.5	10,273.3	10,607.4
Memorandum Items:															
Manufacturing (total)	666.1	669.9	682.2	661.2	776.2	834.3	871.4	905.8	956.2	988.1	998.3	1042.2	1093.0	1117.9	1139.6
Other Industry (excl. mining)	352.3	294.9	311.3	299.8	326.6	374.8	378.8	382.5	399.5	437.0	434.2	444.3	463.4	458.6	483.2
Services (total)	2258.4	2324.2	2368.1	2364.7	2552.5	2667.6	2766.8	2376.3	3056.1	3085.9	3114.4	3285.6	3456.7	3595.4	3728.1

Source: National Accounts Division, ONCCP and staff estimates.

Table 2.3: GROSS DOMESTIC PRODUCT BY EXPENDITURE
AT CURRENT MARKET PRICES
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Preliminary 1988/89
GDP at market prices	5,551.0	5,995.7	6,654.5	7,294.9	7,992.4	8,504.8	8,902.8	9,167.2	10,030.8	10,001.0	9,889.4	10,832.5	11,195.8	11,538.2	12,355.3
Resource balance	-164.2	-58.0	-216.6	-405.0	-425.2	-440.3	-603.2	-900.1	-848.5	-1043.2	-1103.2	-1136.9	-1244.3	-1289.1	-1211.9
Exports (goods & NFS)	683.1	760.1	839.6	865.6	942.6	1,178.2	1,147.2	1,059.1	1,142.2	1,266.6	1,136.5	1,371.0	1,275.5	1,302.5	1,445.3
Imports (goods & NFS)	847.3	818.1	1,056.2	1,270.6	1,367.8	1,618.5	1,750.4	1,959.2	1,990.7	2,309.8	2,239.7	2,507.9	2,519.8	2,591.6	2,657.2
Total resources	5,715.2	6,053.7	7,071.1	7,699.9	8,417.6	8,945.1	9,506.0	10,067.3	10,879.3	'1,044.2	10,992.8	11,969.4	12,440.1	12,827.3	13,567.2
Consumption	5,135.5	5,544.2	6,510.2	7,154.5	7,718.7	8,091.1	8,584.2	8,985.6	9,759.9	9,760.5	9,610.7	10,591.0	10,806.9	11,022.5	11,784.4
Private	4,405.4	4,678.2	5,542.4	5,915.0	6,550.8	6,797.9	7,184.7	7,499.1	8,027.3	7,919.1	7,686.7	8,545.8	8,643.4	8,247.9	8,758.5
Public	730.1	866.0	967.8	1,239.5	1,167.9	1,293.2	1,399.5	1,486.5	1,732.6	1,841.4	1,924.0	2,045.2	2,163.5	2,774.6	3,025.9
Fixed investment	57?.7	509.5	560.9	545.4	698.9	854.0	921.8	1,081.7	1,119.4	1,283.7	1,382.1	1,378.4	1,633.2	1,804.8	1,782.8
Public investment	199.6	294.0	350.9	321.0	466.0	627.6	698.3	844.0	873.4	1,012.3	1,168.7	1,160.8	1 ·411.4	1,578.8	1,552.5
Government	199.6	164.1	176.1	321.0	466.0	200.6	335.9	374.9	487.0	382.0	463.9	593.3	456.3	n.a.	n.a.
Enterprises	n.a.	129.9	174.8	n.a.	n.a.	427.0	362.4	469.1	386.4	630.3	704.8	567.5	955.1	n.a.	n.a.
Private investment	380.1	215.5	210.0	224.4	232.9	226.4	223.5	237.7	246.0	271.4	213.4	217.6	221.8	226.0	230.3
Net factor income from abroad	-35.1	-2.7	-3.8	-0.2	-5.2	13.5	-14.6	-18.2	-28.1	-39.7	-68.4	-59.7	-76.6	-121.3	-156.9
Net private transfers	31.0	43.9	34.3	30.7	48.2	1.3	51.2	93.6	175.8	222.0	300.0	433.6	332.6	245.0	300.0
GNP at market prices	5,515.9	5,993.0	6,650.7	7,294.7	7,987.2	8,518.3	8,888.2	9,149.0	10,002.7	9,961.3	9,821.2	10,772.8	11,119.2	11,416.9	12,198.4
Domestic savings	415.5	451.5	344.3	140.4	273.7	413.7	318.6	181.6	270.9	240.5	278.9	241.5	388.9	515.7	570.9
National savings 1/	411.4	492.7	374.8	170.9	316.7	468.5	355.2	227.0	416.6	422.8	510.5	615.4	644.9	639.4	714.0

Source: National Accounts Division, ONCCP , National Bank of Ethiopia.

1/ Includes an element of NGO transfers which is not separately identified (see Appendix 1).

Table 3.1: BALANCE OF PAYMENTS
--------- (In millions of US$)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Exports	329.9	367.1	405.5	418.1	455.3	569.1	554.1	511.5	551.7	611.8	548.9	662.2	616.1	629.1	698.1
Merchandise 1/	230.0	260.4	312.2	323.9	359.8	459.2	411.3	375.8	391.5	449.2	359.0	446.2	383.9	373.6	416.5
Non-factor services	99.9	106.7	93.4	94.1	95.5	109.9	142.8	135.7	160.2	162.5	189.9	216.0	232.2	255.5	281.6
Imports	409.2	395.1	510.1	613.7	660.7	781.7	845.4	946.3	961.5	1,115.6	1,081.8	1,211.3	1,217.1	1,251.7	1,283.4
Merchandise c.i.f.	332.7	333.0	430.7	543.8	589.3	691.9	743.6	848.4	856.3	1,026.4	974.7	1,087.2	1,080.5	1,098.6	1,110.9
Non-factor services 2/	76.6	62.2	70.4	69.9	71.4	89.8	101.8	97.9	105.2	89.3	107.1	124.1	136.6	153.1	172.5
Resource balance	-79.3	-28.0	-104.6	-195.6	-205.4	-212.7	-291.3	-434.7	-409.8	-503.9	-532.8	-549.1	-601.0	-622.6	-585.3
Factor services (net)	-17.0	-1.3	-1.8	-0.1	-2.5	6.5	-7.1	-8.8	-13.6	-19.2	-33.0	-28.8	-37.0	-58.6	-75.8
Private transfers (net)	15.0	21.2	16.6	14.8	23.3	19.9	24.7	45.2	84.9	107.2	144.9	209.4	160.6	118.3	144.9
Current account balance	-81.3	-8.1	-89.9	-180.9	-184.7	-186.2	-273.7	-398.3	-338.5	-415.8	-421.0	-368.5	-477.3	-562.9	-516.2
Official transfers (net) 3/	29.7	20.4	42.6	53.2	50.7	50.9	59.8	67.5	92.4	161.9	298.3	293.2	211.8	187.8	231.4
Private M&LT loans (net)	19.7	8.5	5.7	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public M&LT loans (net)	48.9	51.3	44.9	33.2	70.6	150.0	161.6	309.2	203.5	180.3	162.3	277.2	181.3	280.9	200.5
Receipts	65.1	68.4	61.6	49.6	88.4	169.2	183.6	341.8	253.3	245.0	255.1	401.1	324.7	445.8	400.7
Repayments	-16.1	-17.1	-16.7	-16.4	-17.8	-19.2	-22.0	-32.6	-49.7	-64.7	-92.8	-123.8	-143.4	-164.9	-200.2
Short-term capital (net)	8.7	-25.5	3.5	-13.5	-19.0	-14.3	-6.0	18.9	-9.5	10.9	42.3	-12.8	9.7	4.8	4.8
SDR allocations	0.0	0.0	0.0	0.0	4.6	4.8	4.8	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation of reserves	0.0	0.0	0.0	0.0	0.0	0.0	28.3	16.9	0.0	0.0	0.0	0.0	0.0	-4.5	5.7
Changes in net reserves (- = increase)	6.6	-43.7	73.5	32.2	46.0	40.3	59.2	-60.0	71.5	42.3	-47.6	-165.2	19.9	189.7	-28.4
Errors & omissions (net)	-32.4	-12.0	-80.3	72.3	22.8	-54.5	-34.0	41.2	-19.5	20.4	-34.3	-24.0	54.6	-95.8	102.3
Memorandum Items:															
Total reserves (net)	326.2	369.8	296.3	264.1	218.1	177.8	118.6	178.6	107.1	64.8	112.4	277.6	257.7	68.0	96.4
Exchange rate (US Dollars per Birr)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Source: National Bank of Ethiopia.

1/ Includes Br 26.7 million of non-monetary gold in 1979/80.
2/ For 1985, includes emergency assistance in the form of vehicles and equipment provided by NGO's for relief operations.
3/ Excludes technical assistance and similar transfers recorded in government budget.

Table 3.2: VALUE OF EXPORTS BY MAJOR COMMODITY GROUPS
--------- (In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Coffee	117.5	297.7	408.9	512.5	541.6	631.7	524.3	480.3	495.9	590.4	466.3	664.8	524.3	439.2	510.8
Pulses	73.5	52.8	48.6	30.8	17.9	24.8	23.7	30.9	28.8	20.3	16.9	12.6	8.5	16.1	20.4
Oilseeds	69.1	35.4	26.9	11.9	9.6	18.6	28.4	19.5	15.3	27.9	15.6	7.9	9.8	22.0	9.8
Sugar 1/	6.8	9.4	18.7	0.0	0.3	16.6	9.8	7.0	10.4	10.1	9.3	10.4	12.6	16.4	19.4
Hides and skins	37.2	42.7	52.3	58.0	107.1	189.7	92.7	98.3	77.3	93.4	95.4	119.5	108.3	133.0	144.6
Live animals	16.9	31.4	3.6	1.5	1.5	8.3	9.8	8.3	16.3	13.6	19.7	18.2	15.6	32.4	32.3
Meat, canned and frozen	9.9	6.8	4.9	1.3	2.0	5.4	6.3	5.3	10.2	5.9	3.9	3.9	5.4	5.1	8.4
Fruit and vegetables	9.8	7.1	9.4	4.1	2.7	4.8	3.6	5.5	3.4	5.5	5.9	6.0	12.8	11.8	9.1
Oilseed cake	7.2	7.3	12.7	4.7	8.8	5.8	8.8	14.4	8.2	16.7	1.0	2.0	1.7	1.1	1.2
Raw cotton	8.0	1.5	6.8	2.4	0.0	5.4	28.2	18.4	17.8	11.9	1.8	0.0	1.6	1.1	1.0
Petroleum products 2/	7.4	12.7	26.0	25.3	28.2	54.2	76.1	82.2	68.6	74.2	67.3	44.2	27.3	36.0	28.7
Other exports 3/	62.0	20.6	27.5	17.0	24.7	41.0	39.4	37.8	58.0	58.9	40.2	33.8	66.9	59.4	79.6
Re-exports	30.9	13.5	5.0	1.2	0.5	0.4	0.4	0.2	0.1	1.3	0.0	0 5	0.0	0.0	0.0
TOTAL EXPORTS	476.2	539.1	646.3	670.7	744.9	950.7	851.5	778.1	810.5	930.1	743.3	923.8	794.8	773.6	862.3
Non-Agricultural	100.3	47.0	58.5	43.5	53.4	95.6	115.9	90.2	126.9	134.4	107.5	78.5	94.2	95.4	108.3
Agricultural	375.9	492.1	587.8	627.2	691.5	855.1	735.6	687.9	683.6	795.7	635.8	845.3	700.6	678.2	754.0
Agricultural as % total	78.9%	91.3%	90.9%	93.5%	92.8%	89.9%	86.4%	88.4%	84.3%	85.5%	85.5%	91.5%	88.1%	87.7%	87.4%

Source: Customs Office and staff estimate.

1/ Mainly molasses.
2/ Petroleum products replaced by data from the Assab oil refinery where possible.
3/ Include Br 26.7 million of non-monetary gold in 1979/80.

Table 3.3: VOLUME OF EXPORTS BY MAJOR COMMODITY GROUPS

(In thousands of metric tons)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Coffee	49.0	77.1	42.9	57.8	66.3	80.1	88.4	80.2	87.6	97.2	73.8	72.4	80.2	71.2	77.7
Pulses	112.3	86.2	75.5	46.0	26.0	33.7	24.5	35.5	36.2	27.6	20.0	11.4	4.2	12.5	16.5
Oilseeds	78.6	42.4	30.5	14 .	5.9	9.3	16.4	12.2	11.6	33.6	12.5	5.4	8.2	17.8	6.6
Sugar 1/	5.0	12.0	18.9	0.0	4.5	47.6	29.1	25.8	56.5	39.0	43.1	45.4	43.0	36.1	54.6
Hides and skins	8.0	7.4	8.1	11.9	11.6	10.6	8.9	10.2	7.7	9.8	10.1	13.2	10.2	8.6	10.0
Live animals	10.6	21.1	2.2	0.9	0.6	3.0	3.5	2.8	5.3	4.7	6.6	7.4	5.0	14.8	14.0
Meat, canned and frozen	5.1	2.7	3.5	0.9	0.8	2.0	2.3	1.4	3.1	2.9	0.9	0.9	1.5	1.7	1.0
Fruit and vegetables	30.8	19.8	21.6	5.8	3.5	7.5	5.1	7.8	6.4	9.3	9.9	12.2	12.1	10.9	7.5
Oilseed cake	33.4	34.1	46.7	15.3	36.1	19.5	21.2	16.0	29.2	51.7	3.7	10.4	6.4	5.4	7.4
Raw cotton	4.4	2.4	2.8	0.5	0.0	2.5	7.6	5.4	6.7	5.3	1.6	0.1			
Petroleum products 2/	51.4	83.5	94.8	29.4	0.0	160.8	153.5	164.0	216.9	208.9	197.8	182.9	192.3	216.2	194.5

Source: Customs Office.

1/ Mainly molasses.

2/ Petroleum products replaced by data from the Assab oil refinery.

Table 3.4: VALUE OF IMPORTS BY MAJOR COMMODITY GROUPS

(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Estimate 1988/89
Foods and live animals	18.7	24.2	33.9	45.3	60.2	72.3	88.9	135.5	174.5	168.5	345.0	530.6	390.4	246.6	
Grain						40.2	44.4	76.9	118.9	114.6	257.9	382.4	280.3	177.5	
Beverages and tobacco	7.6	10.4	8.9	17.2	14.7	11.9	18.4	23.3	18.7	19.8	14.6	7.8	6.2	19.7	
Petroleum	99.1	110.5	118.8	124.2	141.3	245.0	287.5	329.3	360.4	325.7	281.8	220.3	163.3	181.8	
Petroleum products	13.7	19.7	45.6	34.1	86.1	94.4	57.9	32.1	36.6	52.7	36.2	32.3	62.5	34.7	
Chemicals	93.0	79.3	65.6	63.0	151.3	113.2	85.5	89.5	136.6	107.2	76.7	87.9	115.0	110.8	
Fertilizers						81.5	4.0	16.2	29.0	26.3	36.1	44.7	29.9	72.5	
Medical and pharmaceutical products	18.9	21.7	23.5	50.8	30.6	68.6	40.9	48.2	38.9	51.6	42.0	58.5	68.8	50.3	
Soap, polish, preparations	5.4	11.2	10.9	12.9	9.2	14.3	18.9	26.5	24.2	15.7	6.2	6.7	10.6	10.8	
Rubber products	17.4	11.3	15.6	11.0	17.4	35.2	38.5	44.4	35.7	39.0	41.5	45.6	60.0	75.6	
Paper and paper manufactures	15.2	11.8	11.2	9.7	19.6	22.8	33.4	25.0	16.9	26.1	11.8	34.9	23.9	29.8	
Textiles	38.1	44.4	70.3	81.7	105.9	57.4	59.8	71.5	55.2	58.6	69.0	79.2	58.5	75.9	
Clothing	11.5	13.5	21.3	63.6	27.9	6.8	4.3	6.1	5.6	3.8	7.7	3.5	4.8	2.6	
Glass & glassware						5.6	7.5	3.5	5.0	6.6	4.2	3.7	5.7	4.6	
Metal and metal manufactures	52.8	37.7	42.3	48.3	93.6	104.2	100.1	76.9	146.0	162.9	143.4	166.9	156.4	159.6	
Machinery including aircraft	90.0	114.9	90.0	102.0	140.9	202.2	213.4	227.6	2?4.4	519.8	225.1	274.7	327.7	477.0	
Electrical materials	31.6	36.1	38.0	55.0	82.8	45.0	35.1	43.6	81.8	97.9	56.1	76.7	102.5	81.2	
Road motor vehicles	68.8	80.7	110.5	127.9	184.6	135.8	165.3	259.4	164.8	210.6	179.6	287.1	339.3	369.9	
Telecommunication apparatus						13.4	20.1	29.2	19.8	23.2	30.4	45.8		68.3	
Other imports	63.9	51.9	99.6	128.7	143.6	103.2	104.8	154.0	168.7	151.1	163.0	194.4	347.5	182.9	
Unrecorded imports	43.4	33.8	104.3	120.2	72.1		155.2	115.0	21.8	58.5	247.5	40.0	0.2		
Adjustment 1/	0.0	-23.7	0.1	30.3	-181.7	0.0	0.2	0.0	-1.5	-0.5	0.1	9.7	-35.8	0.0	
TOTAL IMPORTS c.i.f.	688.8	689.4	910.4	1,125.9	1,220.1	1,432.6	1,539.6	1,756.6	1,772.9	2,125.0	2,018.0	2,250.9	2,237.0	2,274.6	2,300.0

Source: Customs Office and National Bank of Ethiopia.

1/ Details have not been adjusted for lags and leads in customs data.

Table 3.5: VALUE OF IMPORTS BY END USE
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Prelim. 1988/89
Raw materials	39.2	25.7	27.1	38.9	42.7	53.7	52.5	56.5	60.2	72.9	49.7	63.3	49.5	59.0	60.7
Semi-finished goods	147.3	129.9	124.0	133.3	204.9	236.2	187.6	222.9	252.1	242.1	240.7	258.3	269.9	306.0	242.2
Chemicals						102.3	72.4	76.1	83.6	83.5	56.5	79.6	100.0	93.1	
Fertilizers						81.5	3.5	16.2	29.0	19.7	36.1	44.3	29.9	72.4	
Textile materials						14.1	17.8	18.0	15.5	19.8	14.5	10.4	11.5	16.5	
Others						88.3	93.9	112.6	124.0	119.1	133.6	124.0	128.5	124.0	
Fuel	112.8	130.2	164.4	158.3	227.4	321.6	345.5	361.5	397.0	378.4	386.5	252.8	230.4	216.6	290.6
Crude petroleum 1/	99.1	110.5	118.8	124.2	141.3	245.0	287.5	329.3	360.4	325.6	280.9	219.2	163.3	181.8	193.2
Petroleum products 1/	13.7	19.7	45.6	34.1	86.1	76.6	58.0	30.9	36.6	52.5	105.6	33.4	62.6	34.8	97.4
Others								1.3		0.3		0.2	4.5		
Capital goods	91.9	135.2	215.8	301.1	345.4	440.3	452.5	550.1	577.0	930.2	515.1	732.3	957.7	1,081.2	964.9
Transport	51.7	74.2	91.9	108.1	138.2	150.3	196.5	246.2	168.2	424.0	187.9	300.1	371.3	483.8	475.7
Tyres for heavy vehicles						12.1	22.2	21.8	15.9	15.6	23.0	61.4	37.2	48.2	
Heavy road motor vehicles						99.4	137.0	182.2	139.3	168.6	134.7	197.0	284.8	270.7	
Aircraft						36.0	34.9	38.9	9.0	231.6	25.9	32.9	43.9	148.9	
Others						2.8	2.4	3.3	4.0	8.2	4.3	8.8	5.4	16.0	
Agricultural	14.4	8.2	12.2	14.9	14.7	64.2	27.7	22.2	36.2	17.3	42.7	74.9	37.1	57.4	27.0
Industrial	25.8	52.8	111.7	178.1	192.5	225.8	228.3	281.7	372.6	488.9	284.5	357.3	549.3	540.0	462.2
Consumer goods	249.4	232.7	250.4	342.3	314.8	320.7	344.2	448.7	461.5	433.3	645.0	869.8	729.5	601.4	726.0
Durables	97.3	89.1	85.6	98.2	111.3	101.4	111.5	162.2	133.4	112.2	133.5	138.2	172.2	195.1	181.0
Radio & TV						10.0	11.4	12.2	19.5	12.4	16.6	13.2	27.6	18.8	
Tyres(Cars & other vehicles)						4.5	6.0	8.7	7.9	9.4	7.7	4.3	8.1	8.7	
Cars & other vehicles						31.7	28.3	47.9	53.0	38.8	44.9	61.1	52.7	78.9	
Others						55.2	65.8	93.4	56.0	51.6	64.3	59.6	83.8	88.7	
Nondurables	152.1	143.6	164.8	244.1	203.5	219.3	232.7	286.5	328.1	321.1	511.5	731.6	557.3	406.3	545.0
Cereals						42.6	47.0	79.2	123.9	116.9	266.4	402.7	289.9	181.5	
Other food						33.0	57.0	79.3	75.7	75.8	136.3	204.7	110.7	101.7	
Medical & pharmaceuticals						68.8	40.8	48.2	38.9	51.6	42.0	58.5	68.7	50.2	
Textile fabrics						23.6	23.5	27.6	30.7	18.6	24.8	25.6	32.7	22.6	
Others						51.3	64.4	52.2	55.9	58.2	42.0	40.1	55.3	50.3	
Unrecorded imports 2/	43.4	33.8	104.4	120.2	72.1	0.0	155.2	115.0	21.8	56.5	171.0	49.7	0.0	2.0	0.0
Miscellaneous	4.8	1.9	24.3	31.8	12.6	10.1	2.1	1.9	3.3	9.6	10.0	4.7	0.0	8.5	15.6
TOTAL IMPORTS c.i.f.	688.8	689.4	910.4	1,125.9	1,220.1	1,432.6	1,539.6	1,756.6	1,772.9	2,125.0	2,018.0	2,250.9	2,237.0	2,274.7	2,300.0

Source: National Bank of Ethiopia, based on Customs data adjusted for balance of payments purposes; and staff estimates.

Notes: 1/ Crude petroleum imports reported by the Assab refinery and petroleum products imports recorded by Exchange Control.
2/ National Bank of Ethiopia estimates of imports not recorded by the customs authorities, consisting mainly of relief imports.

Table 3.6: VOLUME OF IMPORTS BY MAJOR COMMODITY GROUPS

(In thousands of metric tons)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Food and live animals	10.7	12.9	41.2	14.6	62.5	128.5	124.2	178.3	259.5	289.5	601.9	846.8	599.9	565.6
Grain						106.3	64.0	154.5	241.1	264.7	537.7	627.1		448.0
Beverages and tobacco	1.8	2.5	2.1	1.7	2.0	1.3	1.9	1.7	1.4	2.1	1.3	1.2	1.7	0.9
Petroleum	632.6	554.7	449.9	385.0	307.6	671.2	690.5	713.2	778.9	785.2	718.8	727.5	813.6	732.3
Petroleum products	70.0	44.6	46.7	35.9	36.4	94.7	56.6	18.4	20.8	55.2	19.6	16.2	20.5	18.9
Chemicals	65.9	51.0	54.8	42.6		33.3	34.3	27.9	40.4	47.3	38.1	43.6	41.8	41.5
Fertilizers						125.8	6.8	29.4	41.7	36.1	72.8	108.1	39.2	152.7
Medical and pharmaceutical products	1.9	2.3	1.9	3.9	3.8	1.6	2.8	2.9	1.6	2.6	2.7	3.9	4.3	3.8
Soap, polish, preparations	61.5	10.7	9.1	7.3	7.2	9.8	11.8	17.3	15.3	8.4	4.2	5.3	17.7	13.0
Rubber products	5.2	4.4	5.4	2.4	3.7	6.9	6.7	8.6	7.7	9.2	8.9	15.2	11.3	10.2
Paper and paper manufactures	9.2	6.6	7.3	5.0	12.1	12.2	13.7	12.9	7.3	13.8	21.8	19.4	11.5	18.2
Textiles	11.1	8.3	13.0	7.5	10.3	18.0	14.8	22.5	19.5	25.8	13.9	20.8	14.7	20.3
Clothing	0.9	1.0	1.3	2.6	1.8	0.4	0.1	0.3	0.1	0.1	0.3	0.1	0.1	0.2
Glass & glassware						3.5	4.3	1.7	3.6	7.0	2.6	1.9		1.9
Metal and metal manufactures	42.2	32.0	36.9	38.1	62.3	57.0	55.1	38.7	84.3	81.4	84.6	72.3	81.1	66.9
Machinery including aircraft	15.7	9.4	10.5	9.2	12.8	21.9	16.1	19.1	18.1	22.9	21.2	33.9	25.1	24.1
Electrical materials	5.9	4.7	6.0	5.6	8.6	5.4	4.5	4.6	8.0	13.1	6.8	9.4	10.3	10.8
Road motor vehicles	11.4	11.0	17.2	11.3	19.2	14.3	14.7	19.5	24.9	23.2	18.1	32.0	29.8	46.1
Telecommunications apparatus						0.4	0.7	0.5	0.3	0.7	0.5	0.4		1.1

Source: National Bank of Ethiopia, Quarterly Bulletins.

Table 3.7: SERVICES TRANSACTIONS AND TRANSFERS
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	Prov. Actual 1988/89
Non-factor services (net)	48.4	92.3	47.5	50.2	49.9	41.6	84.9	78.4	113.9	151.7	171.5	190.2	197.9	211.9	225.8
Receipts	206.9	221.0	193.3	194.9	197.7	227.5	295.7	281.0	331.7	336.5	393.2	447.2	480.7	528.9	583.0
Travel	19.1	13.8	8.7	5.5	10.4	15.1	16.8	19.7	16.4	14.5	16.2	13.9	11.1	16.1	11.4
Transportation 1/	73.1	65.5	86.3	85.5	84.9	104.6	148.9	145.5	161.9	169.4	174.4	242.1	270.5	301.8	316.2
Government, nie	62.5	70.1	43.5	46.1	42.0	46.6	42.7	60.4	62.6	60.5	71.6	74.1	73.3	76.4	87.3
Other	52.2	51.6	54.8	57.8	60.4	61.2	87.3	55.4	90.8	92.1	131.0	117.1	125.8	134.6	168.1
Payments	158.5	128.7	145.8	144.7	147.8	185.9	210.8	202.6	217.8	184.8	221.7	257.0	282.8	317.0	357.2
Travel	15.3	14.0	11.6	8.3	8.2	7.4	7.0	6.4	7.4	8.2	8.2	8.9	10.7	10.2	15.6
Transportation	35.2	49.6	58.4	56.7	68.8	82.1	104.8	94.6	89.5	91.5	101.9	130.7	160.2	174.4	177.0
Government, nie	20.0	16.6	21.5	33.0	29.8	39.9	37.4	43.9	37.3	2.3	7.6	20.4	21.5	15.4	18.2
Other	88.0	48.5	54.3	44.7	45.0	56.5	61.6	57.7	83.6	82.7	104.0	97.0	90.4	117.0	146.4
Investment income (net)	-35.1	-2.7	-3.8	-0.2	-5.2	13.5	-14.6	-18.2	-28.1	-39.7	-68.4	-59.7	-76.6	-121.3	-156.9
Receipts	34.0	36.0	34.5	26.1	20.6	44.2	21.7	54.0	53.5	30.6	19.9	35.3	34.6	24.2	12.2
Payments 2/	69.1	38.7	38.3	26.3	25.8	30.7	36.3	72 2	81.6	70.3	88.3	95.0	111.2	145.5	169.1
Transfers (net)	92.5	104.7	122.4	140.8	171.7	165.3	175.1	233.4	367.2	557.2	917.6	1,040.7	771.2	633.9	779.0
Receipts	118.9	119.6	132.9	147.7	180.0	169.1	179.8	237.6	377.3	560.0	921.2	1,044.6	774.8	641.4	783.5
Private	57.4	58.8	44.8	37.6	56.5	45.1	55.9	97.8	185.9	224.8	303.6	437.5	336.2	252.5	304.5
Public 3/	61.5	60.8	88.1	110.1	123.5	124.0	123.9	139.8	191.4	335.2	617.6	607.1	438.6	388.9	479.0
Payments	26.4	14.9	10.5	6.9	8.3	3.8	4.7	4.2	10.1	2.8	3.6	3.9	3.6	7.5	4.5
Private	26.4	14.9	10.5	6.9	8.3	3.8	4.7	4.2	10.1	2.8	3.6	3.9	3.6	7.5	4.5
Public	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: National Bank of Ethiopia:

1/ Includes freight and insurance on exports.
2/ Includes IMF charges of Br 2.00 million in 1980/81 and Br 16.8 million in 1981/82.
3/ Includes capital transfers, for which no separate data are available.

Table 3.8: PUBLIC LONG-TERM CAPITAL
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Public M&LT capital (net)	101.3	106.3	93.0	68.7	146.2	310.6	334.5	640.2	421.4	373.2	336.0	574.0	375.4	581.5	415.2
Receipts	134.7	141.7	127.5	102.7	183.0	350.3	380.1	707.6	524.4	507.2	528.2	830.4	672.2	922.9	829.6
Central government 1/	107.6	129.0	117.2	87.5	179.4	158.3	142.9	494.8	472.3	237.6	376.9	556.1	496.2	566.2	718.3
Other public sector 2/	27.1	12.7	10.3	15.2	3.6	192.0	237.2	212.8	52.1	269.6	151.3	274.3	176.0	356.7	111.3
Repayments	-33.4	-35.4	-34.5	-34.0	-36.8	-39.7	-45.6	-67.4	-103.0	-134.0	-192.2	-256.4	-296.8	-341.4	-414.4
Central government	-16.0	-17.6	-18.4	-15.8	-15.0	-15.8	-14.9	-19.9	-21.6	-29.1	-41.2	-66.3	-101.1	-143.9	-148.0
Other public sector 2/	-17.4	-17.8	-16.1	-18.2	-21.8	-23.9	-30.7	-47.5	-81.4	-104.9	-151.0	-190.1	-195.7	-197.5	-266.4

Source: Ministry of Finance.

1/ Includes trust fund loans to government in 1978/79 and 1979/80.
2/ Includes Commercial Bank of Ethiopia long-term borrowing and repayment; excludes transactions on private sector debt guaranteed by government-owned financial institutions as they are covered under private long-term capital.

Table 3.9: NET INTERNATIONAL RESERVES
--------- (End of June, in millions of birr)

Item	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
National Bank of Ethiopia (net)	587.2	618.4	451.7	431.4	269.4	214.6	110.7	263.6	182.8	19.4	153.7	439.1	406.7	51.9	50.1
Assets	591.8	625.4	455.9	435.1	273.4	332.0	298.0	550.9	443.0	227.8	315.0	624.7	559.6	242.2	165.6
Gold	22.8	22.3	23.3	23.3	23.8	50.5	49.2	43.9	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Foreign exchange	551.9	583.6	412.4	319.7	201.5	263.8	234.3	505.3	396.0	177.3	265.0	580.2	515.4	197.7	121.3
IMF reserve position	17.1	19.5	20.2	18.8	0.0	0.0	9.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR's	0.0	0.0	0.0	0.0	1.6	8.9	4.7	1.7	3.0	6.5	6.0	0.5	0.2	0.5	0.3
Bilateral	0.0	0.0	0.0	73.3	46.5	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	-4.6	-7.0	-4.2	-3.7	-4.0	-117.4	-187.3	-287.3	-260.2	-208.4	-161.3	-185.6	-152.9	-190.3	-115.5
Comercial Banks (net)	88.1	147.3	161.8	115.4	182.2	153.5	134.8	106.2	39.0	114.8	79.0	135.6	126.8	88.8	149.5
Assets	107.9	168.2	184.1	142.4	205.8	202.6	191.9	212.9	176.7	222.0	176.2	219.1	196.5	195.9	252.4
Liabilities 1/	-19.8	-20.9	-22.3	-27.0	-23.6	-49.1	-57.1	-106.7	-137.7	-107.2	-97.2	-83.5	-69.7	-107.1	-102.9
TOTAL RESERVES (NET)	675.3	765.7	613.5	546.8	451.6	368.1	245.5	369.8	221.8	134.2	232.7	574.7	533.5	140.7	199.6
Memorandum Items:															
Imports, c.i.f.	688.8	689.4	910.4	1,125.9	1,220.1	1,432.8	1,539.6	1,756.6	1,772.9	2,125.0	2,018.0	2,250.9	2,237.0	2,274.8	2300.0
Import cover (net reserves/imports) in (in months)	11.8	13.3	8.1	5.8	4.4	3.1	1.9	2.5	1.5	0.8	1.4	3.1	2.9	0.7	1.0

Source: National Bank of Ethiopia .

1/ Short-term liabilities only; excludes liabilities arising from long-term borrowing and trust fund loans.

Table 3.10: IMPORT VOLUME ANALYSIS
(In millions of birr) 1/

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Total imports	1220.1	1432.6	1539.6	1758.6	1772.9	2126.0	2010.0	2250.9	2237.0	2274.6	2300.0
less:- Food	60.2	72.3	88.9	135.5	174.5	168.5	345.0	530.6	390.4	246.6	160.0
- Fuel	227.4	339.4	345.4	361.4	397.0	378.4	316.0	252.6	225.8	216.5	271.3
Balance for other imports	932.5	1020.9	1105.3	1259.7	1201.4	1578.1	1355.0	1467.7	1620.8	1811.5	1868.7
less:- Capital goods	345.4	440.3	452.5	550.1	577.0	930.2	515.1	732.3	957.7	1081.2	964.9
Balance for oth. non-capital imports	587.1	580.6	652.8	708.6	624.4	647.9	839.9	735.4	663.1	730.3	903.8
Deflator 2/	85.6	95.3	100.0	99.6	97.6	95.5	95.1	103.9	117.7	128.0	134.8
Other imports at 1980/81 prices	1089.4	1071.2	1105.3	1264.8	1230.9	1652.5	1424.8	1412.6	1377.1	1415.2	1386.3
Index of other import volume	98.6	96.9	100.0	114.4	111.4	149.5	128.9	127.8	124.6	128.0	125.4
Other non-capital imports at 1980/81 prices	685.9	609.2	652.8	712.4	639.8	678.4	883.2	707.8	563.4	570.5	670.5
Index of other non-capital import volume	105.1	93.3	100.0	109.1	98.0	103.9	135.3	108.4	86.3	87.4	102.7

Source : Annex Tables 3.4 to 3.6

1/ Indices in 1980/81 base.
2/ Deflator: unit value index of manufactured goods entering world trade rebased to 1980/81.

Table 3.11: INDEX OF EXPORT VOLUMES
(1975 = 100)

Fiscal Year		Coffee	Pulses	Oilseeds	Sugar	Hides & Skins	Livestock	Meat	Fruit	Oilcake	Cotton	Other	Overall Index
	Weights	0.67	0.04	0.03	0.01	0.13	0.02	0.01	0.01	0.01	0.01	0.06	1.00
1975		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1976		157.3	76.8	53.9	240.0	92.5	199.1	52.9	64.3	102.1	54.5	N.A.	140.2
1977		87.6	67.2	38.8	378.0	101.3	20.8	68.8	70.8	139.8	63.6	N.A.	89.7
1978		118.0	41.0	18.8	0.0	148.8	8.5	17.6	18.8	45.8	11.4	N.A.	107.8
1979		176.1	23.2	7.5	90.0	145.0	5.7	15.7	11.4	108.1	0.0	N.A.	149.1
1980		163.5	30.0	11.8	952.0	132.5	28.3	39.2	24.4	58.4	56.8	N.A.	152.5
1981		180.4	21.8	20.9	582.0	111.3	33.0	45.1	16.6	63.5	172.7	N.A.	157.4
1982		163.7	31.6	15.5	516.0	127.5	26.4	27.5	25.3	53.9	122.7	N.A.	146.2
1983		178.8	32.2	14.8	1130.0	98.3	50.0	60.8	20.8	87.4	152.3	N.A.	[illegible]
1984		198.4	24.6	42.7	780.0	122.5	44.3	56.9	30.2	154.8	120.5	N.A.	176.4
1985		150.6	17.8	15.9	862.0	126.3	62.3	17.6	32.1	11.1	36.4	N.A.	140.7
1986		147.8	10.2	6.9	908.0	165.0	69.8	17.6	39.6	31.1	2.3	N.A.	144.2
1987		163.7	3.7	10.4	880.0	127.5	47.2	17.6	39.3	19.2	0.0	N.A.	148.8
1988		145.3	11.1	22.6	722.0	107.5	139.6	33.3	35.4	16.2	0.0	N.A.	133.6
1989		158.6	14.7	8.4	1092.0	136.3	132.1	19.6	24.4	22.2	0.0	N.A.	152.0

Source: Annex Table 3.3

Notes: Weights are average of value shares of each commodity in total exports in these years, less petroleum products and "other".

Table 3.12 : REAL EFFECTIVE EXCHANGE RATE INDICES
(1980 = 100)

YEAR	REERT	REERX	REERM
1965	109.6	119.5	102.4
1966	106.9	116.8	99.6
1967	107.8	117.8	100.4
1968	108.3	117.7	101.3
1969	106.5	115.7	99.5
1970	110.7	121.3	102.8
1971	104.6	114.5	97.3
1972	96.9	106.2	90.0
1973	95.0	102.7	89.1
1974	81.9	82.5	81.1
1975	80.7	81.5	79.7
1976	102.6	102.9	101.8
1977	109.4	110.6	108.0
1978	109.0	112.7	106.1
1979	110.2	112.2	108.4
1980	100.0	100.0	100.0
1981	110.3	108.1	112.1
1982	119.8	116.5	122.7
1983	125.8	128.0	128.4
1984	140.9	136.7	144.7
1985	168.6	163.9	172.7
1986	129.1	132.0	127.6
1987	113.6	120.4	109.2
1988	116.0	124.4	110.5

Sources: IMF, International Financial Statistics and Direction of Trade Statistics

Notes :
- Real effective exchange rate indices are calculated as trade (or export or import) weighted geometric averages of bilateral exchange rates, adjusted by the ratio of the domestic retail price index to trade partners' wholesale price indices.

- REERT: index weighted by 1980 trade
- REERX: index weighted by 1980 exports
- REETM: index weighted by 1980 imports

Table 3.13 : TERMS OF TRADE INDEX
(1980=100)

Year	Index
1966	129.8
1967	129.5
1968	113.3
1969	118.3
1970	141.8
1971	120.2
1972	126.6
1973	139.8
1974	87.5
1975	82.4
1976	142.2
1977	198.8
1978	181.8
1979	182.2
1980	100.0
1981	84.0
1982	89.6
1983	91.0
1984	101.2
1985	99.1
1986	110.1
1987	83.5
1988	94.5

Source: IBRD

Note: Net barter terms of trade

Table 4.1: MEDIUM AND LONG TERM DEBT OUTSTANDING AND DISBURSED
(In millions of US dollars)

	1984	1985	1986	1987	1988
Public & Publicly Guaranteed MLT	1359	1721	2059	2539	2717
Official Creditors	1149	1441	1745	2130	2317
Multilateral	503	602	689	863	933
IBRD	44	49	54	57	42
IDA	379	437	486	601	658
Bilateral	646	839	1056	1267	1384
Private Creditors	210	280	314	409	400
Private Nonguaranteed	0	0	0	0	0
Total MLT (excl.IMF)	1359	1721	2059	2539	2717
IMF Credit	134	111	129	127	104
TOTAL MLT (incl.IMF)	1493	1832	2188	2666	2821

Source: IBRD.Debtor Reporting System

Table 5.1: SUMMARY OF CENTRAL GOVERNMENT OPERATIONS
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Prelim. Actual 1987/88	Revised Budget 1988/89	Prelim. Actual 1988/89
Current revenue	711.4	780.9	1011.3	1187.1	1382.1	1567.5	1756.9	1876.7	2174.5	2293.8	2323.3	2806.0	2925.9	3386.4	3019.1	3730.7
Current expenditure	795.3	899.9	1001.4	1351.5	1462.2	1678.8	1776.5	1914.7	2540.8	2236.0	2696.4	2592.9	2653.0	3015.1	3564.0	3445.6
Current surplus/deficit	-83.9	-119.0	9.9	-164.4	-80.1	-111.3	-19.6	-38.0	-366.3	57.8	-373.1	213.1	272.9	371.3	-544.9	285.1
Capital expenditure	237.6	282.8	324.6	329.4	368.8	443.2	505.1	715.0	1245.3	933.0	1187.0	1471.8	1383.1	1499.6	2283.7	1743.5
Overall deficit (excl. grants)	-321.5	-401.8	-314.7	-493.8	-448.9	-554.5	-524.7	-753.0	-1611.6	-875.2	-1560.1	-1258.7	-1110.2	-1128.3	-2828.6	-1458.4
Foreign borrowing (net)	98.3	104.3	86.8	73.8	170.8	168.2	130.5	474.9	422.6	208.5	335.7	478.4	392.6	405.9	507.8	559.1
Loans and credits	114.3	121.9	105.2	89.6	185.8	184.0	145.4	494.8	444.2	237.6	376.9	544.7	493.7	546.1	702.8	702.8
Repayments	-16.0	-17.6	-18.4	-15.8	-15.0	-15.8	-14.9	-19.9	-21.6	-29.1	-41.2	-66.3	-101.1	-140.2	-195.0	-143.7
Other financing of deficit	223.2	297.5	227.9	420.0	278.1	386.3	394.2	278.1	1189.0	666.7	1224.4	780.3	717.6	722.4	2320.8	899.3
Domestic borrowing (net)	146.0	203.8	130.9	338.0	85.6	189.3	206.0	10.0	948.1	351.8	501.9	374.0	448.0	414.3		476.0
Bank									929.1	321.8	474.9	359.0	393.0	379.3		451.0
Nonbank									19.0	30.0	27.0	15.0	55.0	35.0		25.0
External grants	96.1	77.2	82.5	71.8	194.5	174.1	190.4	261.6	259.3	253.7	631.3	443.0	322.0	273.3	338.6	345.3
Residual	-18.9	16.5	14.5	10.2	-2.0	22.9	-2.2	6.5	-18.4	61.2	91.2	-36.7	-52.4	34.8		78.0
Memorandum Items:																
Government Expenditure(excl.grants)	1032.9	1182.7	1326.0	1680.9	1831.0	2122.0	2281.6	2629.7	3786.1	3169.0	3883.4	4064.7	4036.1	4514.7	5847.7	5189.1
% of GDPmp																
Domestic revenue	12.8	13.0	14.8	16.3	17.3	18.4	19.7	20.5	21.7	22.9	23.5	25.9	26.1	29.3	24.4	30.2
Current expenditure	14.3	15.0	14.6	18.5	18.3	19.7	20.0	20.9	25.3	22.4	27.3	23.9	23.7	26.1	28.8	27.9
Capital expenditure	4.3	4.7	4.7	4.5	4.6	5.2	5.7	7.8	12.4	9.3	12.0	13.6	12.4	13.0	18.5	14.1
Total expenditure	18.6	19.7	19.3	23.0	22.9	25.0	25.6	28.7	37.7	31.7	39.3	37.5	36.1	39.1	47.3	42.0
Overall deficit	-5.8	-6.7	-4.6	-6.8	-5.6	-6.5	-5.9	-8.2	-16.1	-8.8	-15.8	-11.6	-9.9	-9.8	-22.9	-11.8

Source: Ministry of Finance

Table 5.2: CENTRAL GOVERNMENT REVENUE
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Prelim. Actual 1987/88	Prelim. Actual 1988/89
Taxes on net income & profits	168.6	160.8	191.6	206.5	268.4	332.0	439.4	515.3	553.0	608.8	646.6	722.0	860.5	963.5	1,004.3
Personal	70.9	69.6	74.5	84.2	102.3	119.0	128.3	136.7	153.5	171.4	186.1	203.4	226.5	242.3	257.2
Rental & other income	13.0	5.0	0.4	-	-	0.2	0.6	2.1	2.2	4.3	2.1	3.8	1.9	1.5	1.1
Business profits (Schedule C)	74.3	76.5	98.0	104.1	117.4	161.5	210.8	326.2	344.7	384.5	416.5	467.9	582.1	662.7	684.7
Agricultural (Schedule D) 1/	10.4	9.7	18.7	18.2	48.7	51.3	99.7	50.3	52.6	48.6	41.9	46.9	50.0	57.0	61.3
Taxes on rural property	8.2	13.4	17.4	19.3	47.2	48.3	50.2	48.8	51.3	48.1	41.4	44.0	45.8	46.6	45.2
Taxes on domestic sales	200.8	183.6	188.2	189.7	282.5	385.5	399.1	403.8	447.6	495.5	523.7	554.0	623.0	716.6	784.9
Excise taxes	134.4	111.0	112.0	111.5	168.1	233.6	234.3	239.9	268.8	307.9	336.4	349.3	387.1	456.1	537.0
Petroleum products	55.9	24.7	24.2	25.1	30.1	32.6	33.9	35.8	34.7	40.4	41.2	43.5	52.5	43.7	44.7
Alcohol 2/	32.7	35.9	39.5	41.4	57.1	96.8	107.1	113.5	124.4	180.4	212.1	222.0	246.2	299.9	341.7
Tobacco	2.3	6.5	6.2	6.5	10.1	26.5	18.2	20.9	27.2						
Salt	8.6	8.9	8.3	4.9	11.5	9.2	10.7	10.7	10.5						
Sugar	17.8	16.6	15.1	16.9	33.1	34.1	31.4	21.8	32.6						
Textiles & yarn	10.2	10.7	10.1	8.4	12.9	16.9	17.0	14.9	17.0						
Other 3/	6.9	7.7	8.6	8.3	10.3	17.5	16.0	22.3	22.4	87.1	83.1	83.8	88.4	112.5	150.6
Turnover tax	27.5	28.8	32.3	38.7	53.6	81.9	68.0	68.7	76.5	85.4	85.9	97.6	108.3	115.6	118.7
Transaction tax	25.0	28.0	30.3	30.2	40.2	68.0	73.8	77.0	84.9	88.0	87.5	92.6	111.2	111.9	98.3
Stamp duties	7.2	6.3	6.9	6.5	9.9	9.9	11.6	10.6	13.0	14.2	13.9	14.5	16.4	33.0	30.9
Tobacco monopolies	6.7	9.5	6.7	6.2	13.7	12.1	11.9	7.6	4.4						
Taxes on imports	172.6	171.4	243.5	238.3	322.7	239.4	285.4	277.1	302.4	321.3	293.0	293.3	409.2	479.0	371.5
Customs duties	104.9	111.6	161.4	162.7	200.7	130.2	155.9	148.0	170.2	188.4	172.1	172.2	230.4	277.4	212.3
Excise taxes	16.1	12.1	16.3	15.3	23.5	12.6	18.8	17.1	14.5	18.3	[illegible]	24.4	22.1	30.1	18.9
Petroleum products	6.9	1.1	1.0	0.5	1.1	1.3	0.8	0.3	0.1		1.3	1.0	1.5	1.5	1.1
Alcohol 2/	2.7	2.5	3.6	2.6	2.2	0.2	0.4	0.2	0.3	11.9	3.9	9.2	0.8	7.0	3.2
Tobacco	-	2.1	1.1	2.5	4.0	5.9	9.5	10.2	7.6						
Other	6.5	6.4	10.6	9.7	16.2	5.4	8.1	6.4	6.5	6.4	11.9	14.2	19.8	21.6	11.6
Transaction tax	51.6	47.7	65.8	60.3	98.5	96.4	110.7	112.0	117.7	114.6	103.8	96.7	156.7	171.5	143.3
Taxes on exports	42.5	86.1	218.7	281.8	229.0	297.3	188.2	190.4	203.8	257.8	172.8	263.0	153.7	143.7	163.2
Customs duties	34.8	77.0	209.5	273.5	219.3	285.5	176.7	179.0	193.5	246.4	163.8	251.6	141.3	131.7	151.4
Coffee	7.1	12.2	6.7	8.7	12.2	13.7	13.8	12.4	14.0	14.3	10.1	9.1	12.2	10.4	11.1
Coffee surtax	17.9	56.6	193.2	254.7	203.4	264.7	154.7	158.7	174.0	225.6	148.7	236.7	125.4	117.4	134.8
Other	9.8	8.2	9.6	10.1	3.7	7.1	8.7	7.9	5.5	6.5	5.0	5.8	3.7	3.9	5.5
Transaction tax	7.7	9.1	9.2	8.3	9.7	11.8	11.5	11.4	10.3	11.4	9.0	11.4	12.4	12.0	11.8
Non-tax revenue	118.7	165.6	151.9	252.5	232.3	265.0	394.6	441.3	616.4	562.3	645.8	929.7	833.7	1,037.0	1,361.6
Charges & fees	21.4	18.9	20.6	22.3	14.3	19.4	17.8	19.5	19.4	19.6	21.3	20.1	21.2	28.0	35.0
Sales of goods & services	14.8	18.8	23.8	28.4	28.6	60.0	46.9	33.1	35.6	37.8	69.5	36.6	39.2	49.0	45.0
Profit, interest & rents	61.0	97.3	76.9	84.0	99.4	125.4	277.5	332.8	396.9	428.0	396.0	538.4	491.9	792.1	790.7
Employees' pension contributions	11.4	13.7	14.7	16.6	19.6	27.2	22.7	25.6	27.8	29.5	31.7	33.8	38.7	39.0	40.0
Reimbursements 4/	3.4	6.4	6.8	4.9	2.9	11.0	10.8	9.1	21.9	14.5	57.3	75.6	93.3	27.0	35.0
Property sales	1.7	2.0	2.7	3.3	3.3	6.8	7.6	11.4	0.0	10.7	11.5	12.6			
Miscellaneous	5.0	6.5	6.4	13.8	18.1	15.2	11.3	9.8	14.6	22.2	25.3	26.7	38.5	26.5	24.0
Extra-ordinary revenues 5/	0.0	0.0	0.0	79.2	46.1	0.0	0.0	0.0	100.0	0.0	34.2	185.9	110.9	75.4	391.9
Total revenue	711.4	780.9	1,011.3	1,187.1	1,382.1	1,567.5	1,756.9	1,876.7	2,174.5	2,293.8	2,323.3	2,806.0	2,925.9	3,386.4	3,730.7
Tax revenue	592.7	615.3	859.4	934.6	1,149.8	1,302.5	1,362.3	1,435.4	1,558.1	1,731.5	1,677.5	1,876.3	2,092.2	2,349.4	2,369.1
Memorandum Items:															
Indirect Taxes	415.9	441.1	650.4	708.8	834.2	922.2	872.7	871.3	953.8	1074.6	969.5	1110.3	1165.9	1339.3	1319.6
External grants 6/	96.1	77.2	82.5	71.8	194.5	174.1	190.4	261.6	259.3	253.7	631.3	443.1	322.0	273.3	345.2

Source: Ministry of Finance

1/ In 1975/76, the agricultural tax (Schedule D) was replaced by a new agricultural income tax.
2/ From 1983/84, data includes tobacco.
3/ From 1983/84, data includes taxes on salt, sugar, textiles & yarn.
4/ From 1986/87, data includes property sales.
5/ Special levies for drought and security emergencies.
6/ Imputed value of goods and services granted not included in the above data. Starting 1979/80, data show only technical assistance to investment projects. Data for 1986/87 and 1988/89 includes 79.8 and 90 mill Birr respectively.

Table 5.5. FUNCTIONAL CLASSIFICATION OF RECURRENT EXPENDITURE

(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Prelim. Actual 1987/88	Prelim. Actual 1988/89
General services	358.8	496.4	588.9	916.3	839.8	917.3	951.6	1,101.7	1,346.3	1,259.9	1,242.1	1,255.4	1,358.1	1,729.6	1,922.5
General government 1/	330.5	465.7	550.6	877.0	795.5	868.3	898.1	1,046.2	1,284.1	1,188.0	1,170.2	1180.3	1279.3	1645.7	1831.6
Foreign affairs	8.2	9.5	13.0	11.8	12.0	13.0	14.6	15.4	17.5	18.4	20.0	21.0	21.4	23.4	23.2
Finance & planning	20.1	21.2	25.3	27.5	32.3	36.0	38.9	40.1	44.7	53.5	51.9	54.1	57.4	60.5	67.7
Economic services	69.2	80.9	82.4	90.4	86.5	100.1	98.8	124.1	150.0	134.6	138.8	141.4	155.3	191.3	202.6
Agriculture & land settlement	18.1	24.3	25.8	29.2	33.0	35.9	37.2	43.1	49.9	52.7	56.7	59.1	68.8	90.0	98.2
Mining, industry & tourism	10.5	11.5	10.7	11.5	15.0	21.6	25.9	26.6	36.8	28.3	28.7	31.0	34.5	36.9	40.5
Transport & communications	40.6	45.1	45.9	49.7	38.5	42.6	35.7	54.4	63.3	53.6	53.4	51.3	52.0	58.4	57.2
Other (studies)														6.0	6.7
Social services	201.6	198.4	212.9	227.2	256.4	286.1	337.7	358.6	415.7	444.2	536.4	550.5	585.2	615.4	625.8
General education & culture	121.5	123.5	120.4	120.5	135.8	150.1	173.2	209.3	233.8	258.6	284.6	305.1	335.7	360.9	369.9
University education	17.6	12.6	18.3	22.1	26.9	36.6	40.2	37.5	46.0	49.6	55.7	53.0	56.9	54.9	55.7
Health	33.8	43.2	49.7	51.8	59.7	65.4	77.1	75.8	83.5	85.4	101.2	101.7	111.2	119.7	123.6
Labor & social welfare	6.3	10.7	10.9	12.6	15.2	13.9	20.9	23.4	24.7	26.9	25.2	25.6	26.3	27.5	31.5
Urban devel. & housing 2/	1.4	2.4	8.6	11.0	10.3	11.1	17.1	3.8	4.4	4.1	5.0	5.1	5.5	6.8	6.9
Drought relief	21.0	6.0	5.0	9.2	8.5	9.0	9.2	8.8	23.3	19.6	64.7	60.0	49.6	45.6	38.2
Pension payment	44.4	48.6	52.9	57.2	66.0	68.1	90.4	87.7	92.2	100.0	108.5	116.4	124.2	130.4	139.6
Interest & charges on public debt	20.1	32.9	42.4	48.3	58.5	63.5	77.7	83.8	91.3	147.4	225.4	192.7	235.3	276.4	294.6
On internal debt	10.5	22.6	30.6	36.6	45.7	48.4	61.9	66.1	70.5	120.5	196.4	157.7	184.9	194.8	207.3
On external debt	9.6	10.3	11.8	11.7	12.8	15.1	15.8	17.7	20.8	26.9	29.0	35.0	50.4	81.6	87.3
Unallocated expenditure 3/	121.3	75.7	64.3	60.4	213.6	307.4	297.9	242.6	536.6	297.3	670.6	529.2	430.2	72.0	260.5
Total recurrent expenditure	795.3	900.0	1,001.4	1,351.5	1,462.3	1,679.0	1,776.4	1,914.7	2,540.8	2,236.0	2,606.4	2,592.9	2,653.0	3,015.1	3,445.6

Source: Ministry of Finance.

1/ Mainly national defence, public order and security; also includes organs of state, Ministries of Justice, Information, etc.

2/ Includes various grants.

3/ Includes fuel and grain subsidies as well as regional budget support. Fuel subsidy in 1974/75 amounted to Br 36.0 million and in 1979/80 to Br 123.0 million. The 1982/83 estimate includes a payment of Br 180 million to AMC in respect of accumulated subsidies and Br 170 million in respect of settlement of arrears to public corporations. Includes for 1984/85 to 1986/87 407.1 ,271.4 and 134.3 mill.birr respt. as the domestic counterpart of external assistance.

Table 5.4: ECONOMIC CLASSIFICATION OF RECURRENT EXPENDITURE
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Prelim. Actual 1987/88	Prelim. Actual 1988/89
1. Wages & operating expenses	n.a	n.a	n.a	1166.4	1091.0	1216.6	1328.3	1468.7	1826.8	1798.8	2152.3	2034.6	2050.4	2356.4	2676.0
Wages	n.a	n.a	n.a	553.1	593.2	624.8	689.2	750.6	818.9	863.1	928.2	1056.8	1156.4	1413.9	1484.0
Materials	n.a	n.a	n.a	613.3	497.8	591.8	639.1	718.1	1007.9	935.7	1224.1	977.8	894.0	942.5	1192.0
2. Grants & contributions	n.a	n.a	n.a	68.5	57.1	62.8	66.1	119.1	86.6	145 3	173.8	186.8	185.8	182.7	245.0
3. Price subsidies	n.a	n.a	n.a	6.2	---	123.0	95.1	25.4	284.9	44.4	36.4	62.5	57.3	69.2	90.5
4. Pensions	44.4	48.5	52.9	57.2	65.6	74.0	85.0	87.7	92.2	100.0	108.5	116.4	124.2	130.4	139.5
5. Interest charges	20.1	32.9	42.4	48.2	69.1	71.6	84.2	83.8	91.3	147.4	225.4	192.7	235.3	276.4	294.6
Internal debt	n.a	n.a	n.a	36.5	53.6	52.3	65.0	66.1	70.5	120.5	196.4	157.7	184.9	194.8	207.3
External debt	n.a	n.a	n.a	11.7	15.5	19.3	19.2	17.7	20.8	26.9	29.0	35.0	50.4	81.6	87.3
6. Total 1/	731.3	858.2	980.2	1346.5	1282.8	1548.0	1658.7	1784.7	2381.8	2235.9	2696.4	2593.0	2653.0	3015.1	3445.6
7. Errors & omissions	64.0	41.8	21.2	5.0	179.5	131.0	117.7	130.0	159.0	0.1	0.0	-0.1	0.0	0.0	0.0
8. Total recurrent expenditure	795.3	900.0	1001.4	1351.5	1462.3	1679.0	1776.4	1914.7	2540.8	2236.0	2698.4	2592.9	2653.0	3015.1	3445.6

Source: Ministry of Finance.

1/ Excludes counterpart of external technical assistance.

Table 5.5: CENTRAL GOVERNMENT CAPITAL EXPENDITURE
(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Prelim. Actual 1987/88	Prelim. Actual 1988/89
Economic development	194.0	231.9	280.1	294.8	320.7	382.3	431.9	607.9	1,144.1	802.7	990.1	1,125.8	1,182.4	1,045.7	1,289.0
Road construction	85.2	100.1	91.1	49.9	70.9	143.8	137.3	126.4	120.1	111.4	80.8	121.4	111.7	89.9	113.6
Other transport & comm.	10.1	8.9	30.2	39.1	20.4	12.5	25.2	21.0	37.3	15.8	90.8	118.9	99.9	63.6	124.5
Industry,mining & tourism	19.9	15.1	8.7	8.4	15.8	24.5	110.8	174.1	312.9	259.5	222.7	174.8	242.7	313.8	416.9
Agriculture & land settlement	79.5	86.9	120.7	162.8	182.4	138.9	108.9	197.7	517.6	202.7	299.2	317.4	318	291.6	280.6
Water resources	7.9	17.6	22.2	23.1	15.4	51.5	46.1	59.7	70.0	101.3	140.3	135.1	153.1	126.3	130.7
Financial agencies	21.4	2.4	7.1	0.7	1.9	0.4	0.4	0.7	1.3	6.4	9.3	16.2	14.4	20.3	31.2
Electric power	0.0	0.9	0.1	10.8	13.9	12.7	3.2	28.3	84.9	105.6	147.0	242.0	192.6	140.2	191.5
Social development	39.2	51.0	44.8	32.6	45.7	56.0	68.5	105.1	88.9	109.6	184.8	310.9	207.1	160.1	165.4
Gen.educ. & culture, univ.educ.	23.3	20.9	19.3	11.3	28.2	21.5	23.9	44.9	44.0	38.3	42.4	41.0	41.6	35.0	42.1
Health	12.5	11.5	16.5	18.6	11.9	9.1	19.5	33.7	21.7	25.2	20.5	24.0	36.0	28.8	20.3
Comm.dev. & social welfare	3.4	18.6	8.8	2.7	5.6	25.4	25.1	26.5	23.2	46.1	25.0	43.9	36.8	45.3	84.4
Relief & rehabilitation											96.9	202.0	92.7	51.0	18.6
Public buildings	4.4	0.1	0.0	2.0	2.4	4.9	4.2	1.8	6.7	14.1	6.2	24.7	43.6	7.2	32.1
Misc. & unallocated	0.0	-0.2	-0.1	0.0	0.0	0.0	0.5	0.2	5.6	6.6	5.9	10.4	0.0	286.5	257 0
Total capital expenditure	237.6	282.8	324.8	329.4	368.8	443.2	505.1	715.0	1,245.3	933.0	1,187.0	1,471.8	1,383.1	1,499.5	1,743.5

Source: Ministry of Finance.

Table 5.6: CENTRAL GOVERNMENT EXTERNAL BORROWING

(In millions of birr)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Prelim. Actual 1987/88	Prelim. Actual 1988/89
Economic development	51.7	82.7	71.0	69.3	100.0	111.2	12[illegible].5	151.2	280.6	218.3	325.9	412.9	428.7	484.2	637.9
Agriculture	14.9	25.8	16.1	22.5	41.7	17.9	17.4	32.2	60.0	43.0	34.4	58.9	48.1	78.0	67.4
Mining, industry & trade	1.4	2.0	2.9	3.4	5.1	6.0	51.2	61.7	148.8	118.0	138.5	113.6	141.6	178.8	216.6
Water & energy resources	0.0	4.7	5.5	15.9	10.5	26.3	12.1	21.9	41.0	22.9	67.4	145.0	128.9	155.3	180.6
Road construction 1/	26.5	46.5	35.7	16.9	26.1	47.9	37.2	31.3	29.6	32.0	19.4	77.2	61.6	32.2	72.3
Telecommunications	8.9	3.7	10.8	10.6	16.6	13.1	10.6	4.1	1.2	2.4	66.2	18.2	48.5	39.9	101.0
Financial agencies 2/	5.0	1.6	5.6		1.5			0.0	0.0	4.8	8.1	13.6	7.7	8.0	11.8
Social development	10.5	8.8	18.0	10.4	21.9	11.6	15.4	19.7	18.6	14.5	42.9	118.2	57.3	53.9	53.1
Education	4.9	6.4	11.0	6.5	19.0	10.5	9.3	14.1	17.3	14.1	20.9	20.1	12.5	21.6	31.5
Public health	5.1	2.4	5.0	3.9	0.6	0.9	0.2	0.1	0.3	0.3		0.1	0.5		0.7
Community amenities 3/	0.5	0.0	2.0		2.3	0.2	5.9	5.5	1.0	0.1	22.0	98.0	44.3	32.3	20.9
Unallocated by sector 4/	47.1	28.8	10.6	9.9	62.5	61.2	1.5	323.9	145.0						
Total	114.3	121.9	105.2	89.6	185.9	184.0	145.4	494.8	444.2	237.6	376.9	544.7	493.7	546.1	702.8

Source: Ministry of Finance.

1/ Includes some building construction.

2/ Mainly funds of AIDB.

3/ Includes cement credit, building materials and commodity credit from USSR. Also includes relief & rehabilitation and technical assistance for Ministry of Finance.

4/ Includes Br 310.5 million cash loan from Libya in 1981/82.

Table 5.7 : STATE ENTERPRISES' SAVINGS, INVESTMENT AND FINANCING
(In millions of birr)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Est. 1987/88	Plan 1988/89
Net income	378.9	516.1	458.5	489.4	498.5	561.2	608.8	735.9	696	783.2
Residual surplus	258.1	382.5	138.2	352.2	402.2	423.6	464.4	548.1	570.9	656.3
Net saving	120.8	133.6	320.3	137.2	96.3	137.6	144.4	187.8	125.1	126.9
Capital investment	427	362.4	469.1	386.4	630.3	704.8	567.5	955.1	1506	1667.4
Financed by:										
- Internally generated funds	148.3	153.9	163.9	145.4	221.8	240.2	235.4	335.6	482	412.6
- Treasury	55.6	9.5	94.2	52.2	36.4	103.5	109.6	172	187.7	323.6
- Domestic banks	75.9	151.5	91.2	122.4	59	37.6	76.1	143.8	442.6	429.9
- Foreign loans	136.8	38.4	100	66.4	264.4	232.9	138.5	276.9	361.8	448
- Foreign grants	10.4	9.1	19.8	..	48.7	90.6	7.9	26.8	51.9	53.3

Source: ONCCP

Notes:
- Figures include the State Farms
- Net Saving = Net Income (i.e. profits after tax and capital charge) less Residual Surplus
- Gross Saving = Net Saving + Depreciation (see Appendix 1)

Table 6.1: MONETARY SURVEY 1/
(In millions of birr; at June 30)

Item	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Foreign assets, net	678.9	758.8	810.4	475.5	296.5	366.3	230.1	330.5	224.1	136.2	232.1	579.2	536.4	152.3	199.6
Domestic credit, net	741.7	983.1	1,085.3	1,668.4	2,067.9	2,451.3	2,629.6	2,788.8	3,631.4	4,093.0	4,477.6	4,829.5	5,554.2	6,406.1	7,230.4
Claims on government	209.7	407.4	443.2	766.3	862.3	968.1	1,107.9	1,180.8	1,979.4	2,293.4	2,620.7	2,766.8	3,206.6	3,502.3	3,886.8
Credit to other sectors	532.0	575.7	642.1	902.1	1,205.6	1,483.2	1,521.7	1,608.0	1,652.0	1,799.6	1,856.9	2,062.7	2,347.6	2,903.8	3,343.6
Total assets	1,420.6	1,741.9	1,895.7	2,143.9	2,364.4	2,817.6	2,859.7	3,119.3	3,855.5	4,229.2	4,709.7	5,408.7	6,090.6	6,558.4	7,430.0
Money	885.1	811.4	996.3	1,187.1	1,382.0	1,498.6	1,715.3	1,892.2	2,180.4	2,379.3	2,692.1	3,179.6	3,563.5	3,910.8	4,264.3
Currency in circulation	691.1	576.4	696.6	857.2	952.0	1,062.8	1,027.1	1,129.8	1,258.2	1,282.9	1,358.5	1,591.9	1,743.5	1,908.3	2,181.8
Demand deposits 2/	194.0	235.0	299.7	329.9	430.0	435.8	688.2	762.4	922.2	1,096.4	1,333.6	1,587.7	1,820.0	2,002.5	2,082.5
Quasi-money	301.8	449.9	471.6	495.0	506.7	610.1	662.3	751.5	860.1	1,004.4	1,156.9	1,268.6	1,245.2	1,327.9	1,530.6
Other liabilities, net	233.7	480.6	(382.6)	(13.7)	179.2	342.6	252.0	145.1	590.9	709.3	628.6	381.3	745.5	1,167.4	1,435.5
Memorandum Item:															
Reserve money	734.2	1,004.8	974.5	1,064.5	1,156.2	1,220.5	1,442.8	1,664.8	1,663.8	1,953.6	1,928.6	2,590.0	2,944.0	3,076.3	3,225.1

Source: National Bank of Ethiopia.

1/ Data include the operations of the Djibouti branch of the Commercial Bank of Ethiopia.

2/ From 1981 only uncleared cheques are netted out.

Table 6.2: SECTORAL DISTRIBUTION OF COMMERCIAL BANKS' CREDIT

(In millions of Birr, at 30 June)

Item	1984	1985	1986	1987	1988	1989
Industry	173.0	231.3	213.8	238.7	252.7	318.6
of which:	------	------	------	------	------	------
- CBE	41.0	45.4	45.2	68.5	71.5	58.9
- AIDB	132.0	185.9	168.6	170.2	181.2	259.7
Agriculture	933.8	1215.4	1245.4	1426.8	1653.7	1744.0
of which:	------	------	------	------	------	------
- CBE	41.0	45.4	45.2	68.5	71.5	58.9
- AIDB	892.8	1,170.0	1200.2	1358.3	1582.2	1685.1
Exports (CBE)	160.6	170.1	210.5	148.9	156.7	235.4
of which:	------	------	------	------	------	------
- coffee	79.3	75.6	106.6	43.0	42.5	91.6
Imports (CBE)	213.0	219.4	131.3	249.8	329.3	278.4
Construction	363.0	412.8	428.8	438.0	554.5	602.1
of which:	------	------	------	------	------	------
- CBE 1/	151.2	152.3	163.6	157.5	178.8	194.1
- HSB	211.8	260.5	265.2	280.5	375.7	408.0
Domestic, trade and services (CBE)	253.8	178.0	238.1	286.9	390.8	280.5
Other Sectors (AIDB)	101.8	119.6	92.6	99.9	119.3	127.1
Personal (CBE)	9.1	10.9	10.1	10.6	11.1	10.9
Total	2,208.1	2,557.5	2,570.6	2,899.6	3,468.1	3,597.0
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Source: National Bank of Ethiopia and staff estimates

1/ Excluding long-term credit to, shares in, and deposits with the Housing and Savings Bank.

Notes:

- CBE: Commercial Bank of Ethiopia
- AIDB: Agricultural and Industrial Development Bank
- HSB: Housing and Savings Bank

Data exclude the accounts of the CBE's Djibouti branch

Table 7.1a: TOTAL PRODUCTION OF MAJOR CROPS
(in thousand quintals)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
CEREALS	63965.54	56104.22	53935.04	67183.21	55267.85	42398.47	48199.87	56384.20	59495.10	65445.00
Teff	14264.20	13120.96	10827.33	13716.68	10902.37	9122.21	9687.14	10332.20	10495.80	11820.00
Barley	10508.17	10751.81	9355.07	11683.44	8143.45	8421.84	9138.59	9932.20	9952.80	10750.00
Wheat	5374.46	6132.27	7065.97	9166.52	6660.20	6756.20	7744.07	7753.20	8358.00	8943.00
Maize	15240.77	9482.49	11995.54	16029.50	15329.50	10878.03	10370.70	17153.60	18194.50	20015.00
Sorghum	16431.83	14108.28	12065.04	13563.82	12016.31	5072.20	9045.48	9631.70	9932.50	11125.00
Millet	2146.11	2043.93	1971.76	2400.71	1993.57	1873.54	1898.92	1197.80	n.a.	n.a.
Oats	-	464.48	654.33	622.54	222.45	274.45	314.97	363.50	n.a.	n.a.
PULSES	10099.10	8480.43	8203.27	9854.10	7112.53	5306.95	4674.00	5407.80	5628.50	6192.00
Horse beans	4884.47	4693.84	4699.37	6008.60	3888.51	2659.13	2333.25	2934.70	2592.20	n.a.
Chickpeas	1510.84	1182.87	1018.71	1184.67	1175.30	923.80	844.02	721.90	n.a.	n.a.
Haricot	255.31	196.53	117.52	368.83	418.99	268.82	233.38	332.60	n.a.	n.a.
Field peas	2378.15	1476.82	1630.70	1830.07	1112.28	844.02	692.59	834.70	n.a.	n.a.
Lentils	304.42	599.04	516.01	420.87	285.33	189.42	258.71	268.90	n.a.	n.a.
Vetch	756.74	312.64	218.72	337.55	233.96	417.33	308.90	n.a.	n.a.	n.a.
Soya beans	9.67	19.19	12.24	5.51	0.21	4.93	3.15	6.20	n.a.	n.a.
OTHERS	891.16	1020.58	823.86	1216.74	985.28	1035.13	1014.27	844.80	873.00	980.00
Noug	490.85	641.27	503.40	789.36	589.16	618.20	595.42	455.30	439.40	n.a.
Linsee/flax	211.83	272.07	258.08	362.56	355.22	338.77	382.71	311.20	271.50	n.a.
Fenugreek	143.98	25.39	23.21	34.14	18.07	46.75	1.20	24.30	n.a.	n.a.
Rapeseed	7.69	15.15	15.10	23.60	15.10	16.01	19.51	41.00	n.a.	n.a.
Sunflower	7.58	2.13	4.60	4.78	6.70	12.87	9.23	6.30	n.a.	n.a.
Groundnuts	0.29	n.a.	0.39	0.88	1.03	2.17	3.80	6.40	n.a.	n.a.
Sesame	28.94	64.57	19.08	1.48	n.a.	0.36	2.40	0.20	3.50	n.a.
TOTAL	74955.80	65605.23	62962.17	78054.05	63365.71	48740.55	53888.14	62616.80	65996.60	72597.00

Source: Central Statistical Authority

Table 7.1b: TOTAL AREA UNDER MAJOR CROPS
(In thousands of hectares)

Crop	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
CEREALS	5022.78	4711.82	4829.43	5029.10	4716.59	4814.68	4991.63	4786.31	4962.10
Teff	1513.34	1361.97	1331.56	1309.83	1317.94	1345.09	1286.24	1272.46	1309.00
Barley	909.83	830.93	810.35	968.00	798.31	828.13	926.63	897.99	840.80
Wheat	486.67	538.39	684.91	714.01	625.61	660.22	778.54	661.86	718.40
Maize	870.78	735.48	652.47	819.87	820.89	946.67	865.09	1012.62	957.40
Sorghum	1026.29	979.07	844.26	905.61	913.61	768.06	858.06	762.65	883.80
Millet	215.87	232.87	226.49	325.15	215.31	229.85	228.25	187.62	n.a.
Oats	-	35.20	79.40	56.92	25.92	37.16	38.31	41.09	n.a.
PULSES	847.11	742.96	792.75	798.71	761.19	765.75	700.12	602.53	751.40
Horse beans	328.55	306.47	348.91	380.57	350.35	326.80	280.19	259.88	n.a.
Chickpeas	171.33	149.03	138.09	134.66	160.62	179.41	132.09	95.32	n.a.
Haricot	18.56	21.04	25.96	43.44	40.55	43.94	45.58	52.61	n.a.
Field peas	211.10	169.01	174.09	151.21	137.22	135.01	130.74	106.08	n.a.
Lentils	42.47	53.34	70.42	55.33	44.66	37.63	44.86	46.48	n.a.
Vetch	74.93	37.39	32.29	32.31	27.70	41.47	65.46	40.86	n.a.
Soya Beans	2.17	6.63	3.89	1.19	0.09	1.49	1.34	1.30	n.a.
OTHERS	197.00	223.39	230.38	260.33	256.19	284.15	293.60	212.34	222.10
Neug	122.03	123.55	151.31	172.60	154.71	181.13	167.17	132.32	124.90
Linseed/Flax	42.72	56.56	60.40	75.16	93.38	83.06	107.27	65.75	65.70
Fenugreek	14.78	4.49	4.26	3.35	4.06	10.52	11.73	7.38	n.a.
Rape Seed	0.96	3.29	2.30	2.66	2.15	2.93	2.82	5.30	n.a.
Sunflower	0.70	0.84	2.25	1.02	1.80	2.67	2.62	0.82	n.a.
Groundnuts	0.06	n.a.	0.12	0.20	0.11	0.36	0.44	0.60	n.a.
Sesame	15.75	34.66	9.74	5.40	n.a.	3.48	1.55	0.17	4.50
TOTAL	6066.89	5678.17	5652.56	6088.23	5732.97	5864.58	5985.35	5601.18	5935.60

Source: Central Statistical Authority

Table 7.2: PRODUCTION AND AREA OF MAJOR CROPS IN PEASANT HOLDINGS

	PRODUCTION ('000 Tons)					AREA ('000 Ha)				
	1983/84	1984/85	1985/86	1986/87	1987/88	1983/84	1984/85	1985/86	1986/87	1987/88
CEREALS										
Teff	1065.20	889.00	937.80	829.47	677.80	1282.61	1301.59	1243.30	1232.19	1250.92
Maize	1397.40	946.60	872.55	1494.60	1582.93	747.49	869.28	775.15	924.62	849.50
Wheat	584.60	569.10	620.29	593.41	645.33	538.53	573.47	666.31	544.70	581.15
Sorghum	1175.20	489.20	880.69	931.70	946.83	888.72	746.98	833.32	732.22	843.59
Barley	795.50	813.00	870.88	930.69	889.45	762.63	797.57	883.60	849.54	755.80
Other	219.60	216.44	219.75	154.09	249.11	239.75	264.94	265.13	176.24	245.66
Total	5217.50	3923.34	4401.94	4933.98	4971.45	4457.73	4553.81	4666.81	4459.51	4526.62
OTHER CROPS										
Pulses	697.50	501.67	467.28	515.08	532.79	737.15	738.98	670.24	566.12	702.08
Oilseeds	94.60	98.57	94.97	78.90	78.19	231.66	264.37	275.36	198.55	196.86
Total	792.10	600.24	562.25	593.98	610.98	968.81	1003.35	945.60	764.67	898.94
TOTAL	6009.6	4523.58	4964.19	5527.94	5582.43	5426.54	5557.16	5612.41	5224.18	5425.56

Sources: Time Series Data on Area, Production and Yield of Major Crops (CSA, Addis Ababa 1987) and ONCCP

Table 7.3: PRODUCTION AND AREA OF MAJOR CROPS IN PRODUCER COOPERATIVES

	AREA ('000 Ha)					PRODUCTION ('000 Qt)				
	1983/84	1984/85	1985/86	1986/87	1987/88	1983/84	1984/85	1985/86	1986/87	1987/88
CEREALS	74.92	133.61	180.96	178.30	283.83	831.5	946.9	1462.2	2034.5	3714.2
Teff	17.59	42.47	52.99	39.74	58.08	94.9	229.4	303.8	357.9	502.1
Barley	15.55	19.97	31.99	37.02	68.32	236.2	153.0	248.8	425.9	841.5
Wheat	18.58	28.04	40.25	49.30	76.09	225.7	179.5	374.7	531.3	1016.0
Maize	15.50	27.62	34.57	26.59	50.06	194.7	204.9	308.5	440.8	928.7
Sorghum	6.64	13.94	19.13	28.18	29.24	72.3	116.0	210.0	258.2	355.5
Millet	1.00	1.44	1.18	1.86	5.73	7.3	3.4	15.4	16.2	59.7
Oats	0.06	0.13	0.85	0.61	1.31	0.4	0.7	1.0	4.2	10.7
PULSES	11.26	23.08	26.65	33.62	44.61	61.0	79.3	139.8	243.6	253.5
Horsebeans	4.58	5.69	7.92	11.48	16.30	19.7	21.4	57.7	94.3	83.9
Field Peas	2.96	6.73	7.53	6.70	13.25	17.9	22.5	32.1	47.2	68.0
Chickpeas	2.67	6.84	8.07	7.62	6.95	17.9	14.2	34.8	50.3	49.1
Lentils	0.56	0.16	0.71	2.64	2.29	3.0	0.6	1.9	18.3	12.5
Haricot beans	0.49	2.28	0.63	1.30	3.56	3.3	13.2	2.0	6.8	26.5
Vetch	-	1.28	1.79	3.88	2.26	-	7.4	11.2	31.7	13.5
OIL SEEDS	7.16	12.89	12.47	12.97	23.57	38.6	29.6	35.5	49.4	78.4
Neug	5.41	10.00	8.49	8.21	18.39	16.8	18.5	27.8	28.0	52.7
Linseed	1.14	1.90	3.30	4.17	4.07	18.2	7.6	6.2	18.5	19.1
Rapeseed	0.31	0.48	0.20	0.46	0.92	2.4	3.4	0.9	2.5	6.2
Sunflower	-	-	-	0.02	0.01	-	-	-	0.1	-
Groundnuts	-	-	-	0.02	0.03	-	-	-	0.1	0.3
Sesame	0.30	0.51	0.48	0.09	0.15	1.2	0.1	0.6	0.2	0.1
TOTAL	93.34	169.58	220.08	224.88	352.01	931.9	1055.8	1637.5	2327.5	4046.1

Source: Time Series Data on Area, Production and Yield of Major Crops (CSA,Addis Ababa 1987) and ONCCP

Table 7.4: PRODUCTION AND AREA OF MAJOR CROPS IN STATE FARMS

	PRODUCTION ('000 Tons)						AREA ('000 Ha)					
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 Planned	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 Planned
CEREALS												
Teff	0.21	0.29	0.00	0.29	0.36	0.00	0.94	1.03	0.00	0.55	0.00	0.03
Maize	100.89	117.35	138.08	176.68	163.65	148.36	47.33	49.87	56.35	61.43	57.84	38.69
Wheat	82.20	88.55	120.09	128.78	88.87	116.30	63.90	58.71	68.62	67.86	61.16	54.18
Sorghum	11.29	5.05	2.85	5.65	10.97	34.04	13.85	2.29	5.61	7.25	10.85	19.44
Barley	6.87	13.79	17.75	19.94	21.68	35.25	5.68	10.65	11.04	11.43	17.03	16.13
Total	201.26	225.03	278.75	331.34	285.53	331.95	131.20	122.55	140.62	148.52	146.88	128.52
OTHER FOOD CROPS												
Beans	0.56	1.11	0.93	1.34	4.71	13.98	1.38	3.44	3.33	2.79	7.32	13.47
Sunflower	0.73	1.28	0.92	0.65	1.27	13.54	2.01	2.68	2.62	0.82	1.43	10.53
Pepper	1.01	1.08	1.37	1.37	1.39	2.58	2.50	2.08	3.14	2.12	1.71	1.72
Fruits	10.82	11.97	20.02	20.11	28.41	36.26	1.42	2.23	2.97	1.67	1.18	2.46
Vegetables	17.99	29.63	15.75	19.63	[illegible]	27.79	1.64	2.14	1.98	1.85	1.91	2.23
Total	31.11	45.07	38.99	43.10	62.09	94.15	8.86	12.57	14.04	9.25	13.55	30.41
INDUSTRIAL/EXPORT CROPS												
Cotton	54.45	75.64	88.69	93.33	77.39	113.55	31.64	34.12	38.22	38.26	40.85	46.16
Sisal	(18.60) 2/	(11.40) 2/	(0.69) 2/	(14.51) 2/	(13.73) 2/	(24.98) 2/	0.88	1.06	1.09	0.60	0.62	1.00
Coffee 1/	2.21	1.94	4.51	4.82	2.49	6.90	11.68	12.51	13.12	13.54	14.68	16.68
Tobacco	0.94	0.91	0.70	0.73	0.96	0.96	0.73	0.73	0.73	0.81	0.80	0.86
Total 3/	57.60	78.49	93.90	98.88	80.84	121.41	44.85	48.42	53.16	53.21	56.45	64.64
Others	9.87	2.20	6.75	7.81	8.56	19.69	5.88	11.09	6.12	5.92	8.14	13.52
TOTAL	299.84	350.79	418.39	481.13	437.02	567.20	190.23	194.63	218.94	216.96	225.62	237.09

Sources: ONCCP, Ministry of State Farm Development and Ministry of Coffee and Tea Development.

1/ Coffee data relate to production on farms belonging to the Coffee Plantations Development Corporation.
2/ Sisal output measured in thousands of cubic meters.
3/ Production totals exclude sisal.

Table 7.5: OFFICIAL AND FREE MARKET CEREAL PRICES IN SELECTED YEARS
(In birr per quintal)

Cereals	AMC Fixed Buying Price 1/			Addis Ababa Wholesale Free Market Price		
	1983/84	1986/87	1987/88	1983/84	1986/87	1987/88
Teff						
White	45	45	48	113	111	129
Mixed	38	38	41	92	95	105
Red	34	34	37	77	82	84
Wheat						
White	34	34	36	44	70	59
Mixed	30	30	32	59	53	51
Black	29	29	31	62	-	-
Barley						
White	28	28	30	75	71	67
Others	26	26	28	54	51	45
Sorghum						
White	27	27	29	81	74	67
Others	23	23	25	51	48	55
Maize	20	20	22	40	43	41

Source: For 1983/84 - AMC, Statistical Digest (Planning and Market Research Services), August 1987.

For 1986/87 & 1987/88 - AMC, Annual Reports (Planning and Market Research Services).

1/ Farmgate Price.

Table 7.6: COMPOSITION OF AGRICULTURAL MARKETING CORPORATION CROP PURCHASES, 1978/79 to 1988/89
(In thousands of tons)

Sources of Procurement	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Peasant farmers, producer cooperatives and merchants	102.3	189.0	257.0	306.5	384.4	266.5	114.8	272.1	382.0	357.0	301.0
(of which merchants)	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(61.1)	(12.2)	(17.6)	(46.9)	(31.3)	(67.9)
State farms	48.0	85.4	180.0	152.5	189.4	149.8	122.7	158.5	236.0	205.2	169.8
Commercial imports	20.8	188.9	51.6	54.6	37.4	26.2	124.1	321.8	184.2	150.3	17.7
Total purchases	171.1	463.3	488.6	513.6	611.2	442.5	361.6	752.4	802.2	712.5	488.5
Memo item:											
Cereal swaps (gross inflows mostly of wheat in exchange for maize and sorghum)	146.3	12.3	112.0	89.6	29.0	45.8	44.7	18.2	n.a.	n.a.	n.a.

Sources: AMC, WFP Shipping Bulletin (various numbers).

Table 7.7: COFFEE PRODUCTION, EXPORTS AND PRICES, 1983/84 TO 1987/88

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89 c/
In '000 metric tons						
Opening stocks a/	117.1	157.8	128.2	113.8	88.3	89.4
Production	220.0	155.2	170.0	186.0	190.0	n.a.
Procurement b/	138.3	39.4	58.8	47.9	83.4	110.0
Domestic consumption	95.7	98.9	120.2	120.0	100.0	n.a.
Exports	97.8	69.0	73.2	73.4	72.3	77.7
Unwashed	88.4	58.8	60.8	58.7	58.6	n.a.
Washed	9.4	10.2	12.4	14.7	13.7	n.a.
Disappearance	6.0	21.7	11.0	17.5	10.0	10.0
Closing stocks a/	157.6	128.2	113.8	88.3	89.4	111.7
In birr per ton						
Producer price	2267	2428	3377	2261	2548	n.a.
Auction price						
Unwashed	2651	2821	3792	2644	2941	n.a.
Washed	3836	4046	5021	3913	4162	n.a.
Unit value of export						
Unwashed	6123	6281	9781	5616	6494	6570d/
Washed	6809	6850	9728	6387	7673	
New York spot price of Jimma	6360	6029	8316	6016	5540	n.a.

Source: Ministry of Coffee and Tea Development and staff estimates.

Notes : Data by coffee year.
a/ Officially held stocks as reported to the ICO.
b/ Arrivals at the terminal markets at Dire Dawa and Addis Ababa.
c/ Fiscal year data
d/ Average value of washed and unwashed exports.

Table 7.8: FERTILIZER CONSUMPTION BY THE PEASANT SECTOR, 1967/68 TO 1988/89

Year	Totals (tons)	-- Price to Farmers -- DAP (Birr/Quintal)	Urea
1967/68	-	-	-
1968/69	282	-	-
1969/70	1870	-	-
1970/71	5142	-	-
1971/72	6451	38	30
1972/73	7530	38	32
1973/74	13985	42	32
1974/75	14840	44	40
1975/76	26888	50	50
1976/77	33039	48	40
1977/78	27436	48	40
1978/79	31771	56	55
1979/80	49838	64	65
1980/81	41895	85	85
1981/82	31106	116	84
1982/83	31737	69	69
1983/84	46252	81	64
1984/85	40000	81	64
1985/86	46077	81	64
1986/87	73444	81	64
1987/88	106771	81	64
1988/89	102871	81	64

SOURCE: Ministry of Agriculture and AISCO.

Table 7.9: PER CAPITA FOOD AVAILABILITY, 1979/80 TO 1988/89
(In thousands of tons)

	Fiscal Years									
	1980	1981	1982	1983	1984	1985	1986	1987	1988	Est. 1989
DOMESTIC SUPPLY										
1. CEREALS & PULSES	7409	6458	6206	7671	6237	4499	5039	6861	6514	7450
- Peasant sector (meher)	6885	5926	5658	7068	5914	4014	4356	5711	5501	6340
- Peasant sector (belg)	285	218	197	268		123	184	500	350	400
- Coops & settlements	116	66	70	81	122	139	225	322	373	450
- State farms	163	248	281	254	201	223	274	328	290	260
2. NET CEREALS & PULSES (after 15% seed, losses)	6298	5489	5275	6520	5301	3824	4283	5832	5537	6333
3. ENSETE, ROOT CROPS	580	580	580	580	580	520	530	550	570	570
4. MILK	305	305	305	305	305	150	200	280	290	300
EXTERNAL TRADE										
5. CEREAL IMPORTS	323	304	245	312	443	1000	1347	793	1032	800
6. EXPORTS OF PULSES	34	25	36	36	28	20	11	4	13	12
7. TOTAL AVAILABILITY (2+3+4+5-6) (grain equivalent)	7472	6653	6369	7681	6601	5474	6349	7451	7416	8071
POPULATION (millions)	37.1	38.2	39.3	40.4	41.6	42.8	44.0	45.3	46.6	48.0
PER CAPITA AVAILABILITY (kg/head)	201.4	174.2	162.1	190.1	158.7	127.9	144.3	164.5	159.1	168.1

Sources: Central Statistical Authority and FAO Crop Assessment Mission 1988.

Table 7.10: REGIONAL VARIATIONS IN AVERAGE FOOD PRICES IN RURAL MARKETS
(Birr per quintal)

MIXED TEFF

Region	1983	1986	1989
	-----	Feb/April	-----
Arssi	54	73	77
Bale	42	89	102
G.Gofa	58	116	101
Gojam	35	52	61
Gondar	46	70	78
Hararghe	80	134	116
Illubabor	43	95	134
Keffa	53	91	125
Shoa	62	96	88
Sidamo	68	109	103
Wollega	58	74	88
Wollo	66	116	82
Average	55.42	92.92	96.25
Std Dev	12.18	22.36	20.47
Coeff. Var.	0.22	0.24	0.21

MIXED WHEAT

Region	1983	1986	1989
	-----	Feb/April	-----
Arssi	34	46	58
Bale	38	58	81
G.Gofa	68	79	68
Gojam	31	52	59
Gondar	39	55	71
Hararghe	80	107	68
Illubabor	56	85	82
Keffa	41	79	92
Shoa	53	82	70
Sidamo	67	76	88
Wollega	57	67	88
Wollo	55	71	75
Average	51.58	71.42	75.00
Std Dev	14.62	16.31	10.79
Coeff. Var.	0.28	0.23	0.14

MAIZE

Region	1983	1986	1989
	-----	Feb/April	-----
Arssi	33	46	34
Bale	26	51	63
G.Gofa	32	63	52
Gojam	24	40	47
Gondar	34	49	57
Hararghe	37	90	51
Illubabor	30	70	62
Keffa	28	62	74
Shoa	37	67	47
Sidamo	37	54	60
Wollega	40	61	51
Wollo	52	80	60
Average	34.17	61.08	54.83
Std Dev	7.12	13.79	9.74
Coeff. Var.	0.21	0.23	0.18

HORSE BEANS

Region	1983	1986	1989
	-----	Feb/April	-----
Arssi	43	59	79
Bale	39	67	119
G.Gofa	66	87	108
Gojam	29	69	72
Gondar	30	51	67
Hararghe	68	114	107
Illubabor	72	114	131
Keffa	41	77	150
Shoa	45	93	94
Sidamo	66	94	105
Wollega	71	107	127
Wollo	41	92	66
Average	50.92	85.33	102.08
Std Dev	15.68	20.08	26.05
Coeff. Var.	0.31	0.24	0.26

Source: Central Statistical Authority, Quarterly Survey of Average Retail Prices of Goods and Services

Table 7.11: OFFICIAL PROCUREMENT PRICES OF MAIN CROPS
(Birr per ton)

Fisc. Yea.	Nominal Prices				RPI deflator Non-food	Constant (1980/81) Prices			
	Teff	Wheat	Maize	Sorghum	(1963=100)	Teff	Wheat	Maize	Sorghum
1980	370	220	230	180	262.44	376.17	223.67	233.84	183.00
1981	350	310	270	210	266.82	350.00	310.00	270.00	210.00
1982	350	310	170	210	299.21	312.11	276.44	151.60	187.27
1983	390	310	200	250	295.40	352.27	280.01	180.65	225.81
1984	390	310	200	250	294.10	353.82	281.24	181.45	226.81
1985	390	310	200	250	302.83	343.62	273.14	176.22	220.27
1986	390	310	200	250	321.88	323.28	256.96	165.78	207.23
1987	390	310	200	250	341.18	304.99	242.43	156.41	195.51
1988	390	310	200	250	356.19	292.14	232.21	149.82	187.27
1989	420	330	220	270	383.98	291.85	229.31	152.87	187.62
1990	420	330	220	270	422.37	265.32	208.46	138.98	170.56

Source: AMC and staff estimates.

Note: Based on a uniform 7.7 % increase from January 1988 onwards.

Table 8.1: VALUE OF INDUSTRIAL PRODUCTION IN MANUFACTURING INDUSTRY
(In millions of birr at constant 1980/81 prices)

	Fiscal Years Ending								
	1981	1982	1983	1984	1985	1986	1987	1988	1989
Food	360.6	355.0	400.6	437.6	444.3	472.4	454.0	493.4	539.2
Beverages	217.8	232.1	248.7	264.0	314.1	323.5	346.9	n.a.	n.a.
Tobacco	54.3	64.1	74.9	79.8	89.4	107.8	107.8	n.a.	n.a.
Textiles	344.9	362.1	359.7	366.3	353.3	371.6	407.9	424.4	400.0
Leather & footwear	93.6	116.2	119.3	136.6	131.4	144.4	161.4	237.7	245.7
Wood & wood products	n.a.	3.0	8.9	11.9	11.3	11.8	12.0	n.a	n.a
Paper, printing & publishing	68.7	75.4	75.7	87.7	92.1	97.7	103.0	n.a	n.a
Chemicals	111.5	124.6	144.5	157.9	145.1	133.4	176.4	212.9	215.7
Non-metallic mineral products	30.6	41.5	38.2	34.9	56.8	69.3	74.3	n.a.	n.a.
Metal products	101.4	105.4	120.1	129.0	126.0	121.6	130.5	120.2	146.0
TOTAL	1383.4	1479.4	1590.6	1705.7	1763.8	1853.5	1973.7	2150.0	2200.0

Source: Ministry of Industry.

Note: Table refers to industrial branches supervised by the Ministry of Industry only.

Table 8.2: CAPITAL EXPENDITURE IN MANUFACTURING INDUSTRY BY SOURCE OF FINANCING,1980/81 TO 1986/87

(In millions of birr at current prices)

Corporation	Source of Finance	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	Financing Shares
Ethiopian Food	Government Budget	2.00	2.40	2.35	5.66	5.30	2.94	0.65	25.8%
	Self Financing	0.75	..	0.27	0.91	1.01	0.86	3.63	34.8%
	Local Banks	..	0.36	1.01	4.58	10.46	8.52	9.67	50.9%
	Foreign Loans	4.14	..	0.11	2.81	3.57	0.84	4.17	18.3%
	Foreign Grants	0.50	0.57	0.07	1.40	1.51	0.04	..	5.0%
	Total	7.39	3.33	3.81	14.86	21.85	13.20	18.12	100.0%
Ethiopian Sugar	Government Budget	0.89	1.48	..	..	..	0.65	0.11	4.7%
	Self Financing	12.75	9.58	0.53	1.15	0.27	0.46	0.76	38.3%
	Local Banks	17.34	..	..	..	..	..	..	26.0%
	Foreign Loans	15.78	4.89	..	..	..	..	..	31.0%
	Foreign Grants	..	..	..	..	..	..	..	0.0%
	Total	46.76	15.95	0.53	1.15	0.27	1.11	0.87	100.0%
Ethiopian Beverages	Government Budget	4.01	2.39	8.72	7.43	0.46	..	0.09	33.5%
	Self Financing	1.94	..	..	..	0.06	0.05	0.13	3.2%
	Local Banks	..	1.26	2.78	7.11	6.83	..	..	26.1%
	Foreign Loans	13.47	1.58	8.55	1.24	..	..	..	36.1%
	Foreign Grants	0.54	0.08	0.07	..	..	0.09	..	1.1%
	Total	19.96	5.31	20.:2	15.78	7.35	0.14	0.22	100.0%
National Textiles	Government Budget	1.95	8.44	21.01	34.92	3.32	3.02	13.48	38.5%
	Self Financing	4.05	0.56	0.59	..	0.06	0.12	5.47	4.8%
	Local Banks	0.09	8.48	2.06	7.19	18.00	11.27	1.00	21.5%
	Foreign Loans	..	11.67	31.66	32.50	0.09	1.30	1.34	35.1%
	Foreign Grants	..	..	..	..	..	0.39	..	0.2%
	Total	6.09	29.15	55.32	74.61	`1.47	16.10	21.29	100.0%
National Leather & Shoe	Government Budget	..	0.19	0.38	0.77	..	0.20	2.72	50.8%
	Self Financing	..	..	..	0.08	0.17	0.52	0.11	10.5%
	Local Banks	..	0.02	0.18	1.05	0.93	..	..	26.0%
	Foreign Loans	..	..	0.58	0.10	0.17	0.05	0.13	12.3%
	Foreign Grants	..	..	..	..	0.03	..	..	0.4%
	Total	0.00	0.21	1.14	2.00	1.30	0.77	2.96	100.0%
Ethiopia Building Materials	Government Budget	10.07	38.45	49.52	36.51	12.21	1.89	13.20	63.9%
	Self Financing	..	..	..	0.07		..	0.06	0.1%
	Local Banks	..	..	..	6.56	26.64	..	..	13.1%
	Foreign Loans	0.61	10.10	29.98	15.46	1.84	..	..	22.9%
	Foreign Grants	..	..	0.06	..	..	0.05		0.0%
	Total	10.68	48.55	79.56	58.60	40.69	1.94	13.26	100.0%
National Metalworks	Government Budget	0.05	0.10	2.81	9.66	10.67	14.03	21.96	36.3%
	Self Financing	..	..	..	..	..	..	..	0.0%
	Local Banks	0.01	..	..	0.06	6.97	..	..	4.3%
	Foreign Loans	0.07	0.02	2.65	2.40	26.15	30.13	31.01	56.6%
	Foreign Grants	0.44	..	..	..	3.93	0.19	0.02	2.8%
	Total	0.57	0.12	5.46	12.12	47.72	44.35	52.99	100.0%
Share Companies	Government Budget	..	..	..	0.07	..	..	0.08	2.6%
	Self Financing	..	0.05	..	..	3.27	2.14	2.68	90.4%
	Local Banks	..	..	..	..	1.90	..	..	0.0%
	Foreign Loans	..	..	..	..	..	..	..	0.0%
	Foreign Grants	0.38							7.1%
	Total	0.38	0.05	0.00	0.07	5.17	2.14	2.76	100.0%
Total (including others)	Government Budget	18.97	53.45	84.79	94.95	32.13	23.09	53.13	40.6%
	Self Financing	19.49	10.19	1.78	2.93	1.90	4.24	15.14	6.3%
	Local Banks	17.45	10.12	6.03	26.55	78.56	19.79	10.67	19.1%
	Foreign Loans	34.07	28.40	73.53	54.01	31.82	32.32	37.30	32.8%
	Foreign Grants	1.86	0.65	0.20	1.40	5.70	0.76	0.05	1.2%
	Total	91.84	102.81	166.28	179.84	150.11	60.20	116.29	100.0%

Source: Ministry of Industry Statistical Bulletins Nos. III, IV and V.

Notes: - Figures refer to Ministry of Industry supervised corporations only
- Total investment in 1987/88 and 1988/89 was Birr 180 million and 313 million respectively
- Financing shares are period averages

Table 8.3: INDUSTRIAL PROJECTS UNDER CONSTRUCTION OR PLANNED 1989-94

	TOTAL INVESTMENT COST a/ (Birr thousand)	STATUS	
		PRESENT	IN 1994
FOOD SUB-SECTOR			
New Projects			
1. Wet Maize Processing Plant	84,031	Study completed	Under implementation
2. Baby Food Products Factory	33,400	Under study	" "
3. Soya Bean Processing Plant	48,618	Study completed	" "
Expansion/Rehabilitation Pro.			
1. Addis Ababa Edible Oil Mill	42,566	Under design	Production will commence
2. Hamaressa Oil Mill	28,408	" "	" " "
3. Dire Dawa Flour Mill	32,825	" "	" " "
4. Asmara Food Complex	22,590		" " "
5. Ethiopian Spice Extraction	-	Under identification	" " "
BEVERAGES SUB-SECTOR			
New Projects			
1. Bedele Brewery	88,805	Under construction	Production will commence
2. New Winery Factory	16,720	Promotion for financing	" " "
3. 6th Brewery	97,700	Under identification	Under implementation
4. New Mineral Water Fac.	-	Under study	Production will commence
5. Bedele Malt Fac.	20,000	Under indentification	Under implementation
Expansion/Rehabilitation Pro.			
1. Ambo Mineral Water Plant	8,724	Under tendering & contracting	
2. Babile Mineral Water Plant	2,544	"	
3. Assela Maltery	11,809	"	
4. Existing Winery Plant	12,233	Study completed	
SUGAR SUB-SECTOR			
New Projects			
1. Baker Yeast Factory	52,679	Under design	Production will commence
2. Fincha Sugar Factory	418,269	Promotion for financing	
TOBACCO & MATCHES SUB-SECTOR			
New Projects			
1. Matches Factory	6,422	Under design	Production will commence
2. Matches Wood Development	-	Under study	" " "
Rehabilitation/Exp. Pro.			
1. Addis Ababa Cigarette Fac.	35,681	Under design	Production will commence
2. Tobacco Leaf Development	-	Under study	Under implementation
TEXTILES SUB-SECTOR			
I. New Projects			
1. Awassa Textiles Fac.	181,462	Under construction	Production will commence
2. Arba Minch Textile Fac.	179,996	Under construction	Production will commence
3. 4th Sack Fac.	9,008	Under appraisal	Production will commence
4. Knitwear & Garment Fac.	35,000	Under identification	Production will commence
5. New Blanket Fac.	35,800	Study completed	Production will commence
6. Textiles Industry Centre	-		
II. Expansion/Rehabilitation Pro.			
1. Edget Cotton Fac. & Sewing	36,893	Under Construction	Production will commence
2. Bahir Dar Textile Fac. (Phase I)	41,900	Under Construction	Production will commence
3. Debre Berhan Blanket Factory	23,640	Under design	Production will commence
4. Akaki Textiles Fac.	93,417	Promotion for financing	Production will commence
5. Dire Dawa Textiles Fac.	140,432	Study completed	Production will commence
6. Asmara Textiles Fac.	-	Under identification	Production will commence
7. Bahir Dar Textiles Fac. (Phase II)	84,991	Promotion for financing	Production will commence
8. Existing Blanket Fac.	35,000	Promotion for financing	Under implementation

Table 8.4: MANUFACTURED EXPORTS BY PRODUCT GROUPS IN FINANCIAL YEARS, 1980 TO 1988

(In millions of birr)

Product Groups	Financial Year								
	1980	1981	1982	1983	1984	1985	1986	1987	1988
Oil cakes and lint	2.7	11.6	9.4	12.1	13.4	1.4	4.7	4.1	2.8
Meat products 1/	7.7	13.7	12.8	12.8	16.48	5.9	6.29	5.5	8.0
Sugar and molasses	17.6	12.1	9.2	15.7	16.1	22.9	20.6	19.1	20.1
Beverages	-	-	0.1	1.1	0.6	1.5	0.2	0.7	1.4
Pepper extracts	0.1	0.1	2.9	1.4	0.7	3.5	5.9	5.5	10.5
Textile products	-	-	0.8	2.2	2.9	2.2	4.7	6.4	13.0
Leather and leather products	53.6	48.4	54.1	42	62.5	57.2	51.3	100.0	127.3
Salt	0.9	0.6	0.5	0.8	1	0.8	0.9	0.7	1.1
Building materials	-	0.4	0.4	-	-	-	-	-	0.0
Metal products	0	0	0	0	0	0	0	0	1.4
Cigarettes	0	0	0	0	0	0	0	0	0.2
Total industrial exports	82.6	84.9	90.2	88.1	113.7	95.4	94.6	142.1	185.6
Total merchandise exports	981.8	852.7	795.4	810.5	930.1	743.1	933.6	794.8	850.9
Total exports	1209.3	1148.4	1076.4	1142.2	1266.6	1136.8	1371	1275.5	1367.5
Industrial exports as percent of merchandise exports	8.4%	10.0%	11.3%	10.9%	12.2%	12.8%	10.1%	17.9%	21.8%

Sources: Ministry of Industry, Statistical Bulletin, various numbers;

World Bank: Ethiopia - Recent Economic Developments and Prospects for Recovery and Growth, 1987

1/ Includes meat products exported by enterprises under the Ministry of State Farm Development.

Table 8.5: INDUSTRIAL EFFICIENCY ANALYSIS

Corporation/Enterprise	Nominal Protection Coefficien	Effective Protection Coefficient	Actual Short Run DRC	Actual Long Run DRC	Actual Capacity Utilization	Financial Profita-bility	Full Capacity Utilization Long Run DRC	Shadow Exch. Rate Long Run DRC	Shadow Exch. Rate Short Run DRC	Higher Labor Productivity Long Run DRC	Higher Labor Productivity Short Run DRC
ETHIOPIAN FOOD CORPORATION											
1 Ethiopian Spice Extraction	1.04	1.02	0.29	0.73	82	500	0.65	0.53	0.17	0.64	0.19
NATIONAL MEAT CORPORATION											
2 Dire Dawa Meat Canning					25						
ETHIOPIAN BEVERAGES CORPORATION											
3 Ambo Mineral Water	1.29	1.39	0.79	1.45	74	185	1.28	1.00	0.47	1.18	0.52
4 Babile Mineral Water	1.54	0.40	nva	nva	99	-986	nva	nva	nva	nva	nva
5 Addis Glass & Bottle	2.01	-0.28	nva	nva	68	-2346	nva	nva	nva	nva	nva
6 Harar Brewery	1.92	5.39	1.00	4.12	64	2168	2.99	3.09	0.60	3.78	0.67
7 Awash Winery	1.14	1.05	0.27	0.42	33	3371	0.32	0.28	0.16	0.33	0.18
Subtotal	1.51	2.23	0.74	1.72	--	2392	1.37	1.23	0.44	1.48	0.49
NATIONAL TEXTILES CORPORATION											
8 Addis Garment	1.16	3.42	10.34	14.73	26	-940	11.50	9.75	6.21	11.33	6.90
9 Addis Ababa Yarn	1.12	0.78	0.36	0.67	92	944	0.64	0.48	0.22	0.55	0.24
10 Akaki Textiles	1.18	1.00	0.49	0.61	94	6825	0.61	0.30	0.29	0.45	0.33
11 Combolcha Textile	2.17	-4.04	nva	nva	24	-2189	nva	nva	nva	nva	nva
12 Dire Dawa Textiles	1.15	0.97	0.40	0.63	98	13141	0.62	0.42	0.24	0.50	0.27
13 Ethiopian Fibre Products	1.40	2.14	0.81	1.16	76	3234	1.08	0.77	0.49	0.89	0.54
14 Gullele Garment	1.59	-2.02	nva	nva	30	315	nva	nva	nva	nva	nva
Subtotal	1.23	1.11	0.50	0.91	--	18330	0.75	0.63	0.30	0.74	0.33
NATIONAL LEATHER & SHOE CORPORATION											
15 Addis Tannery	1.06	1.08	0.29	0.38	n.a.	1520	n.a.	0.24	0.17	0.28	0.19
16 Awash Tannery	1.01	1.07	0.24	0.33	88	5229	0.32	0.22	0.14	0.25	0.16
17 Combolcha Tannery	0.98	0.98	0.15	0.22	n.a.	881	n.a.	0.15	0.09	0.17	0.10
18 Ethiopia Pickling & Tanning	0.96	1.01	0.20	0.29	n.a.	1926	n.a.	0.19	0.12	0.22	0.14
19 Ethiopian Tannery	0.99	0.99	0.37	1.12	n.a.	1736	n.a.	0.63	0.22	1.00	0.24
20 Modjo Tannery	0.98	0.98	0.22	0.28	18	1595	0.23	0.18	0.13	0.20	0.15
21 Anbessa Shoe	1.69	8.95	3.86	4.80	51	1283	4.34	3.06	2.32	3.51	2.57
22 Ethiopian Footwear	1.46	2.25	1.03	1.39	n.a.	522	n.a.	0.91	0.62	1.05	0.69
23 Ethiopian Rubber & Canvas Shoe	1.71	29.05	10.18	14.03	55	3017	12.30	9.19	6.11	10.63	6.79
24 Tikur Abay Shoe	1.62	4.40	1.67	1.94	59	2646	1.83	1.22	1.00	1.38	1.12
25 Universal Leather Articles	1.18	3.56	nva	nva	30	-1225	nva	nva	nva	nva	nva
Subtotal	1.17	1.63	0.53	0.83	--	16824	0.60	0.55	0.32	0.64	0.35
NATIONAL CHEMICAL CORPORATION											
26 Ethiopia Plastic	0.88	0.64	0.13	0.23	77	3768	0.21	0.16	0.08	0.19	0.09
27 Addis Foam & Thermoplastic	1.71	2.98	0.45	0.70	25	2454	0.51	0.47	0.27	0.55	0.30
28 Gullele Soap	1.85	6.16	0.64	0.81	93	3886	0.80	0.52	0.38	0.60	0.42
29 Massawa Salt	1.71	-0.91	nva	nva	49	-578	nva	nva	nva	nva	nva
30 Tasday Paints	1.10	0.78	0.14	0.16	40	2822	0.15	0.10	0.08	0.11	0.09
Subtotal	1.22	1.14	0.21	0.36	--	12352	0.30	0.25	0.13	0.29	0.14
ETHIOPIAN WORKS CORPORATION											
31 Ethiopian Iron & Steel	1.28	1.46	0.41	0.75	60	3195	0.61	0.52	0.25	0.61	0.27
32 Kaliti Metal Works	0.99	0.61	0.09	0.17	n.a.	3513	n.a.	0.12	0.05	0.14	0.06
33 Kolfe Household Utensils	1.12	1.14	0.19	0.26	40	1437	0.21	0.17	0.11	0.20	0.12
34 Kotebe Metal Tools	1.03	0.91	0.26	0.46	75	277	0.41	0.32	0.16	0.38	0.17
35 Nazareth Tractor Assembly	2.00	12.84	1.17	4.57	10	2639	1.51	3.42	0.70	4.18	0.78
36 Warka Household & Office Furniture	1.54	1.68	0.60	0.73	96	1046	0.73	0.47	0.38	0.53	0.40
Subtotal	1.25	1.22	0.26	0.48		13107	0.34	0.34	0.15	0.40	0.17
TOTAL	1.23	1.26	0.45	0.82	--	65205	0.66	0.57	0.27	0.67	0.30

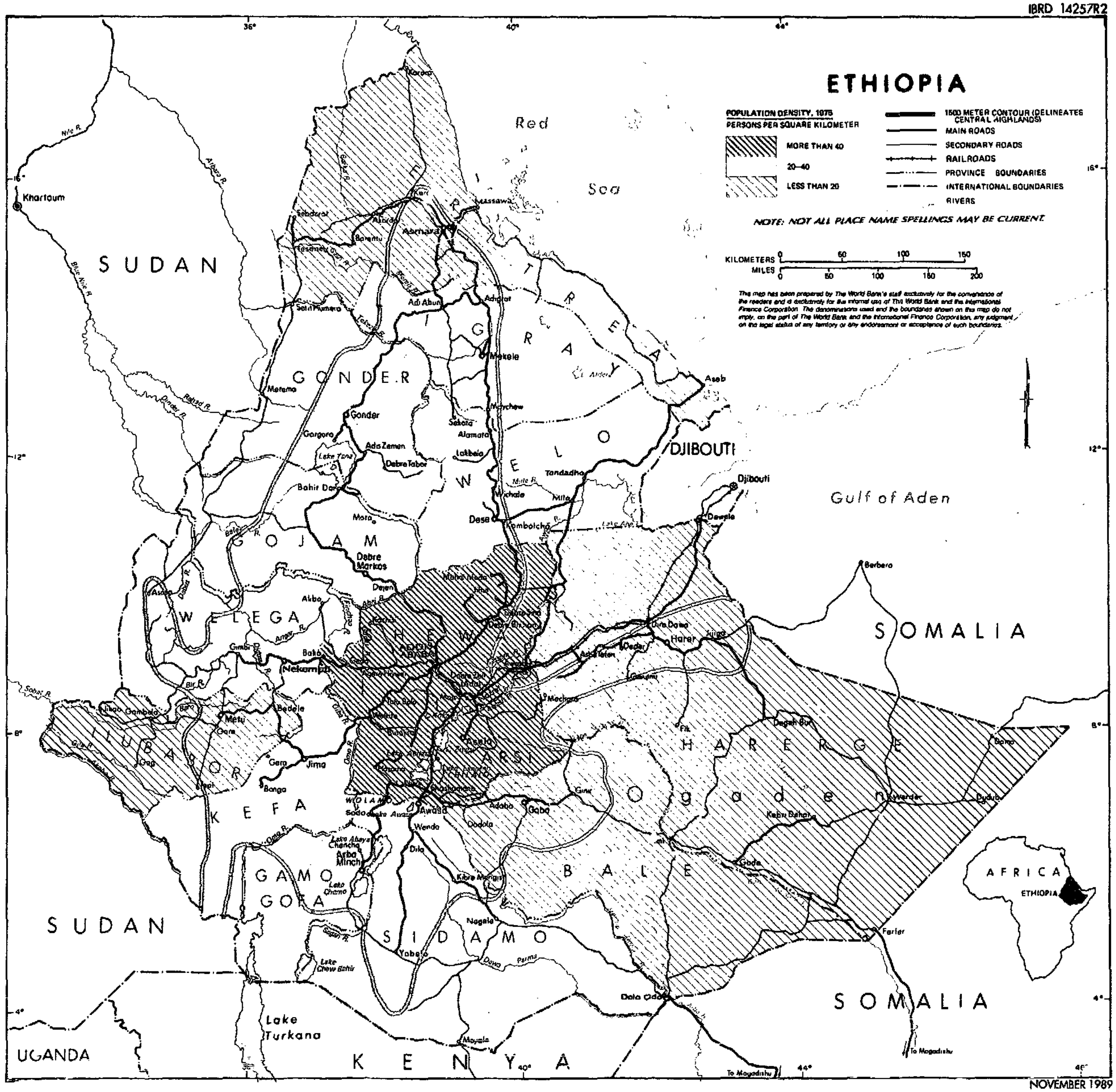
Source: Economic Efficiency Analysis, Industrial Survey Mission (1988) Estimates.

Table 9.1: RETAIL PRICE INDEX FOR ADDIS ABABA (EXCLUDING RENT)
(1963 = 100)

	Group Indices with weights in percent 1/									
Period Average	General Index (85.4)	Food (49.0)	Household Items (14.6)	Clothing (6.7)	Transport (4.5)	Medical Care (1.8)	Personal Care (0.8)	Reading and Recreation (2.6)	Other Goods and Services (5.4)	General Index Percent Change
Calendar Years										
1973	147.0	154.3	142.8	163.9	100.0	148.1	161.8	131.1	118.6	
1974	159.7	167.6	157.0	175.2	103.4	156.8	171.3	147.8	128.2	8.6%
1975	170.1	175.1	179.8	190.6	104.8	179.1	198.4	153.0	128.7	6.5%
1976	218.7	248.4	205.5	204.9	107.4	194.9	198.2	169.2	130.0	28.6%
1977	255.1	290.1	261.0	223.7	110.8	209.3	197.9	173.9	144.9	16.6%
1978	291.6	339.5	280.4	245.2	125.8	239.3	205.1	178.8	168.5	14.3%
1979	338.4	400.7	322.2	263.9	128.9	266.5	300.2	181.5	194.5	16.0%
1980	353.5	421.6	317.4	275.9	134.9	301.2	366.8	184.3	215.0	4.5%
1981	375.2	441.2	366.1	281.3	140.6	311.1	390.0	187.9	224.7	6.1%
1982	396.1	467.6	379.3	279.3	153.5	297.3	430.3	195.5	266.0	5.6%
1983	394.5	470.7	352.6	273.5	156.4	303.7	439.9	190.5	288.8	-0.4%
1984	427.8	522.8	376.1	272.8	154.9	298.0	458.2	178.4	287.3	8.4%
1985	509.4	654.7	406.8	268.2	156.4	283.7	475.1	194.5	296.7	19.1%
1986	459.4	553.1	436.9	273.2	156.9	289.8	444.6	208.2	321.0	-9.8%
1987	448.3	521.3	479.4	271.4	162.7	299.2	472.3	219.8	316.9	-2.4%
1988	480.0	562.4	506.9	275.1	164.8	324.7	476.2	225.2	353.7	7.1%
Fiscal Years										
1982/83	400.7	479.1	360.5	274.2	156.2	300.4	435.4	196.7	287.8	3.8%
1983/84	399.4	477.8	360.5	273.9	154.9	301.6	451.5	181.8	283.6	-0.3%
1984/85	473.1	596.8	390.5	270.8	155.0	291.3	458.9	183.7	295.4	18.4%
1985/86	495.0	623.5	424.1	268.8	157.6	290.4	461.7	199.6	300.5	4.6%
1986/87	448.2	526.1	456.8	273.9	158.8	291.6	458.8	220.0	324.3	-9.5%
1987/88	457.9	529.2	499.1	271.3	164.5	306.8	483.3	220.2	338.0	2.2%
1988/89	501.8	586.9	545.1	280.2	165.1	346.6	468.6	231.7	357.4	9.6%

Source: Central Statistical Authority.

1/ The weights presented reflect the consumption pattern of households with monthly income of Br.400 or less in 1963. They do not add up to 100 because rent is excluded from the index. The statistical weights in the above index can be found by expressing the group weights as a percentage of 85.4 .


IBRD 14257R2
ETHIOPIA
POPULATION DENSITY, 1975
PERSONS PER SQUARE KILOMETER
MORE THAN 40
20–40
LESS THAN 20
1500 METER CONTOUR (DELINEATES CENTRAL HIGHLANDS)
MAIN ROADS
SECONDARY ROADS
RAILROADS
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
RIVERS
NOTE: NOT ALL PLACE NAME SPELLINGS MAY BE CURRENT.
KILOMETERS 0 50 100 150
MILES 0 50 100 150 200
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Red Sea
Gulf of Aden
SUDAN
SOMALIA
DJIBOUTI
KENYA
UGANDA
AFRICA
ETHIOPIA
ERITREA
TIGRAY
GONDER
WELO
GOJAM
WELEGA
SHEWA
ILUBABOR
KEFA
GAMO GOFA
SIDAMO
BALE
ARSI
HARERGE
Ogaden
Khartoum
Asmara
Aseb
Djibouti
Mekele
Gonder
Dese
Addis Ababa
Nekemte
Jima
Dire Dawa
Harer
Awasa
Lake Tana
Lake Turkana
NOVEMBER 1989