

Macroeconomic Developments

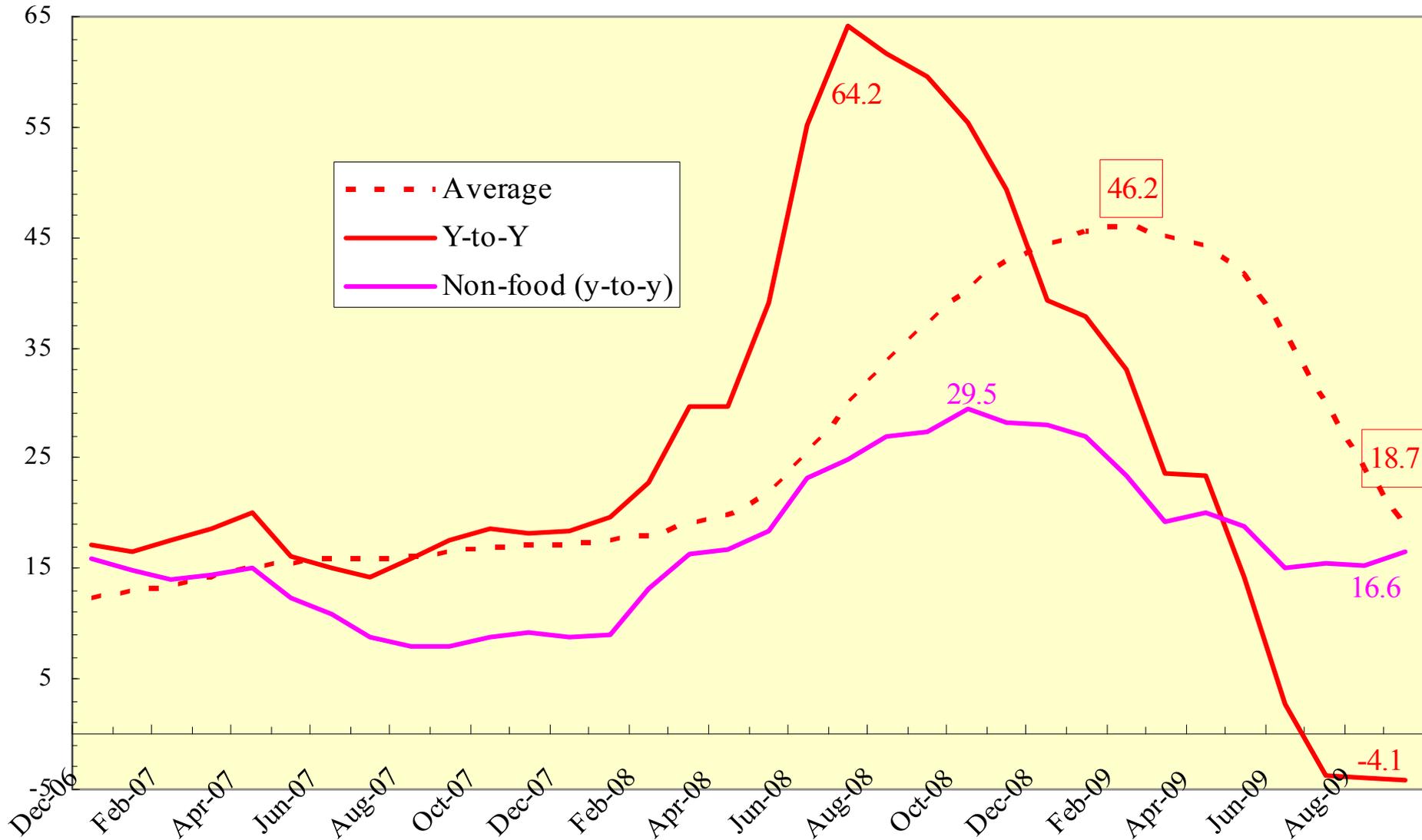
1. Developments in key macroeconomic aggregates
2. Performance under the ESF Program

November 16, 2009
IMF Resident Representative Office
Ethiopia

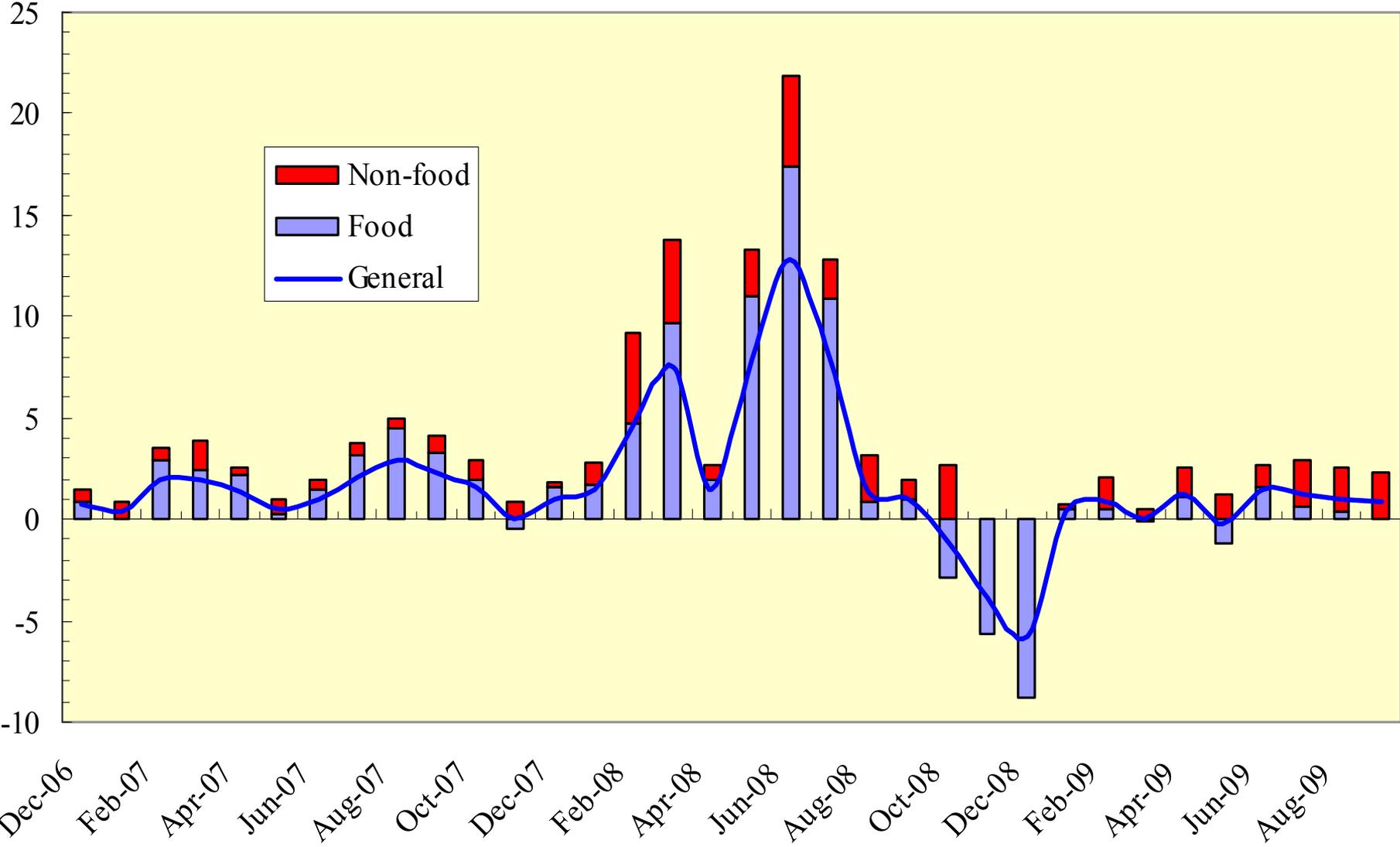


Inflation is coming down but non-food inflation stubborn

Annual Percentage Changes in the CPI



Monthly changes in the CPI



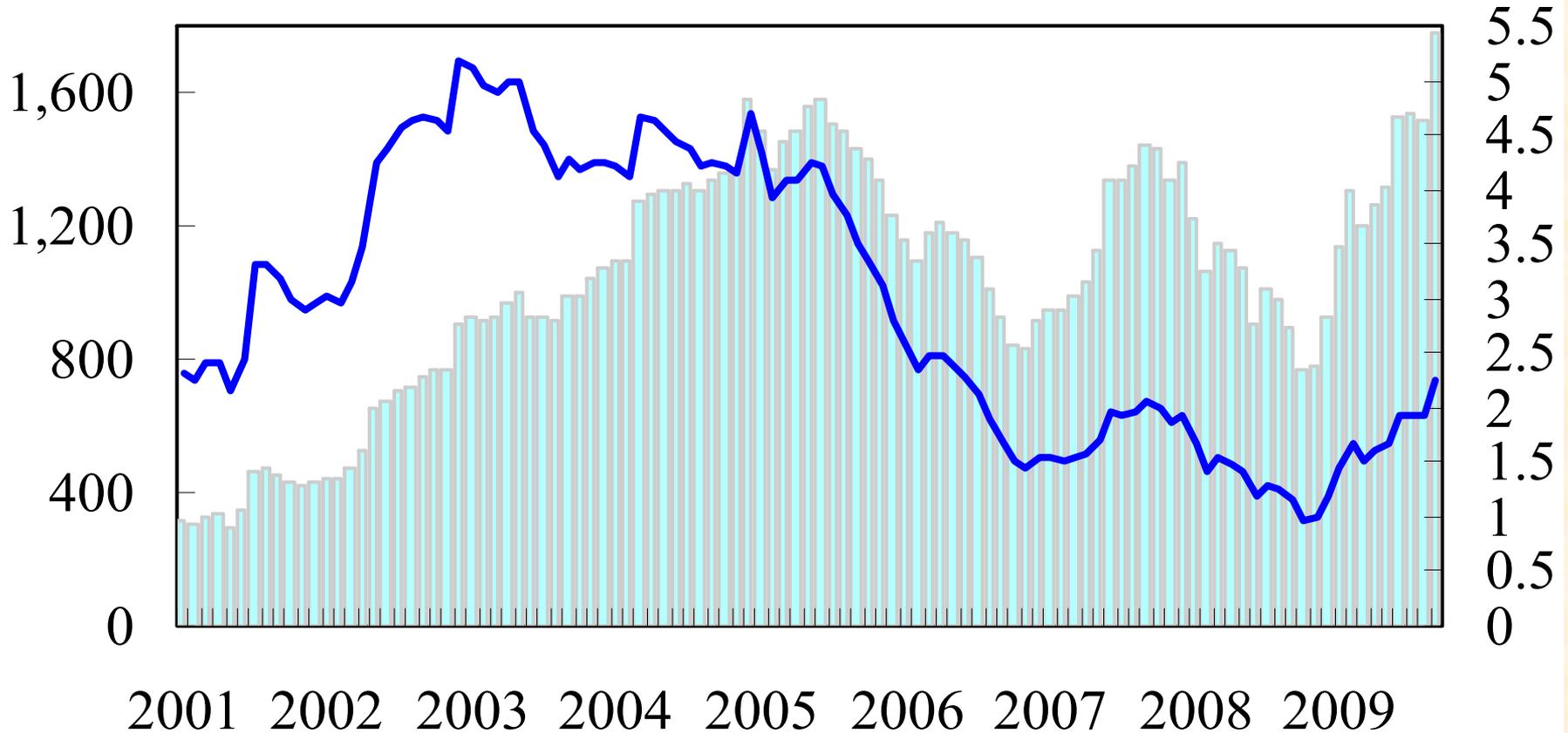
Q1 Fed Fiscal Performance

(In Millions Birr)

	2009/10 Budget	Qtr.I		Percentage change from last year	In percent of the annual budget
		2008/09	2009/10		
Revenue and direct budget support	51,781	8,941	10,161	13.6	19.6
Domestic Revenue	42,212	8,774	9,716	10.7	23.0
Tax revenue	30,180	5,126	7,218	40.8	23.9
Non Tax revenue	12,032	3,647	2,498	-31.5	20.8
DBS grant & relief	9,569	168	446	165.8	4.7
PBS/DBS grant	9,450	168	403	140.4	4.3
EXPENDITURE 1/	55,935	10,258	12,634	23.2	22.6
RECURRENT	13,381	2,483	2,434	-2.0	18.2
CAPITAL	22,998	4,158	6,276	50.9	27.3
Economic Development	17,810	3,201	4,400	37.5	24.7
Social Development	4,818	919	1,757	91.2	36.5
General Development	369	39	118	202.9	31.9
REGIONAL TRANSFER	19,556	3,617	3,924	8.5	20.1
Overall Surplus/Deficit	-4,154	-1,317	-2,473	87.7	59.5
FINANCING	4,154	1,317	2,473	87.7	59.5
External net	3,140	478	648	35.5	20.6
Domestic borrowing	1,013	660	-898	-236.2	
o/w Banking system	1,013	703	-812	-215.5	
Privatization receipts	0	0	141	0.0	
Others/residual	0	179	2,583	1,341.4	

Reserves are recovering

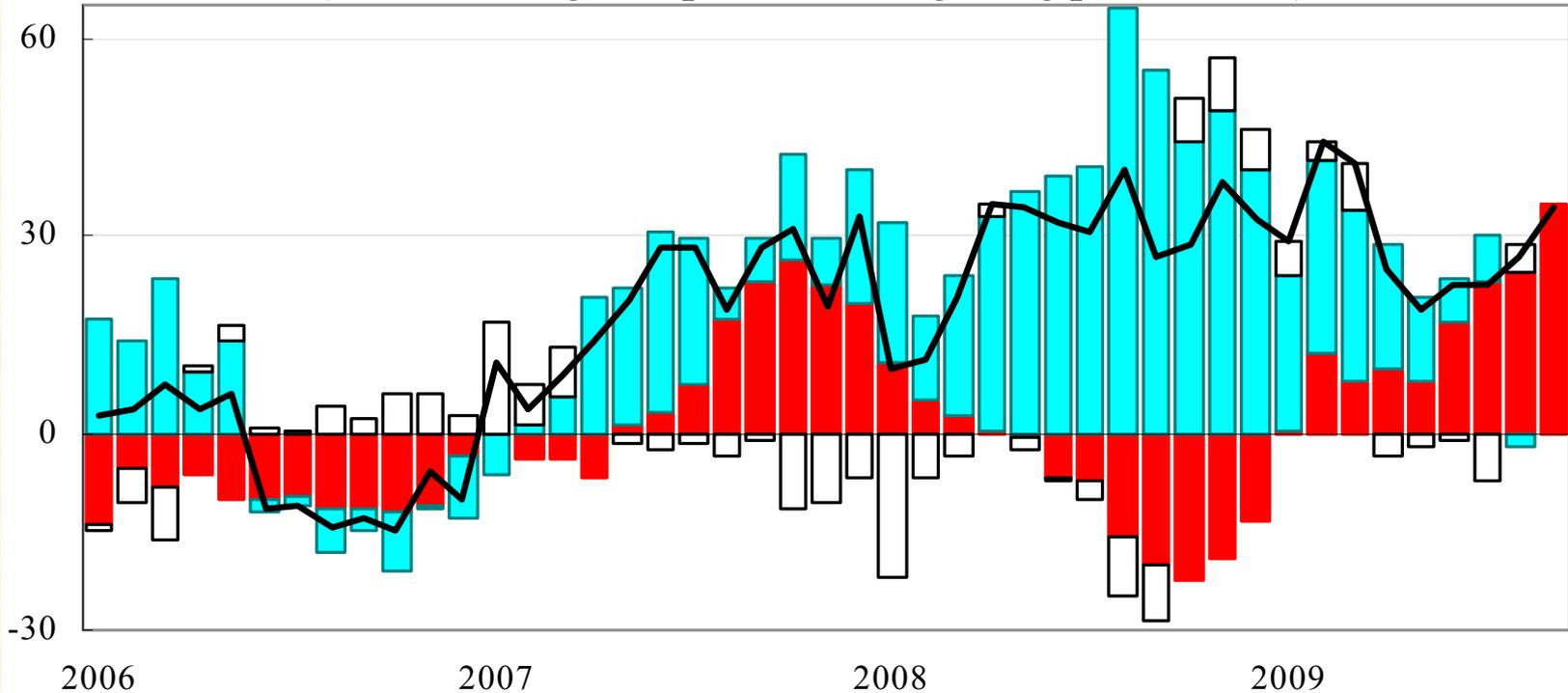
Gross International Reserves



- Amount (in millions of US dollar, left axis)
- Coverage (in month of imports, right axis)

Money expanding

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



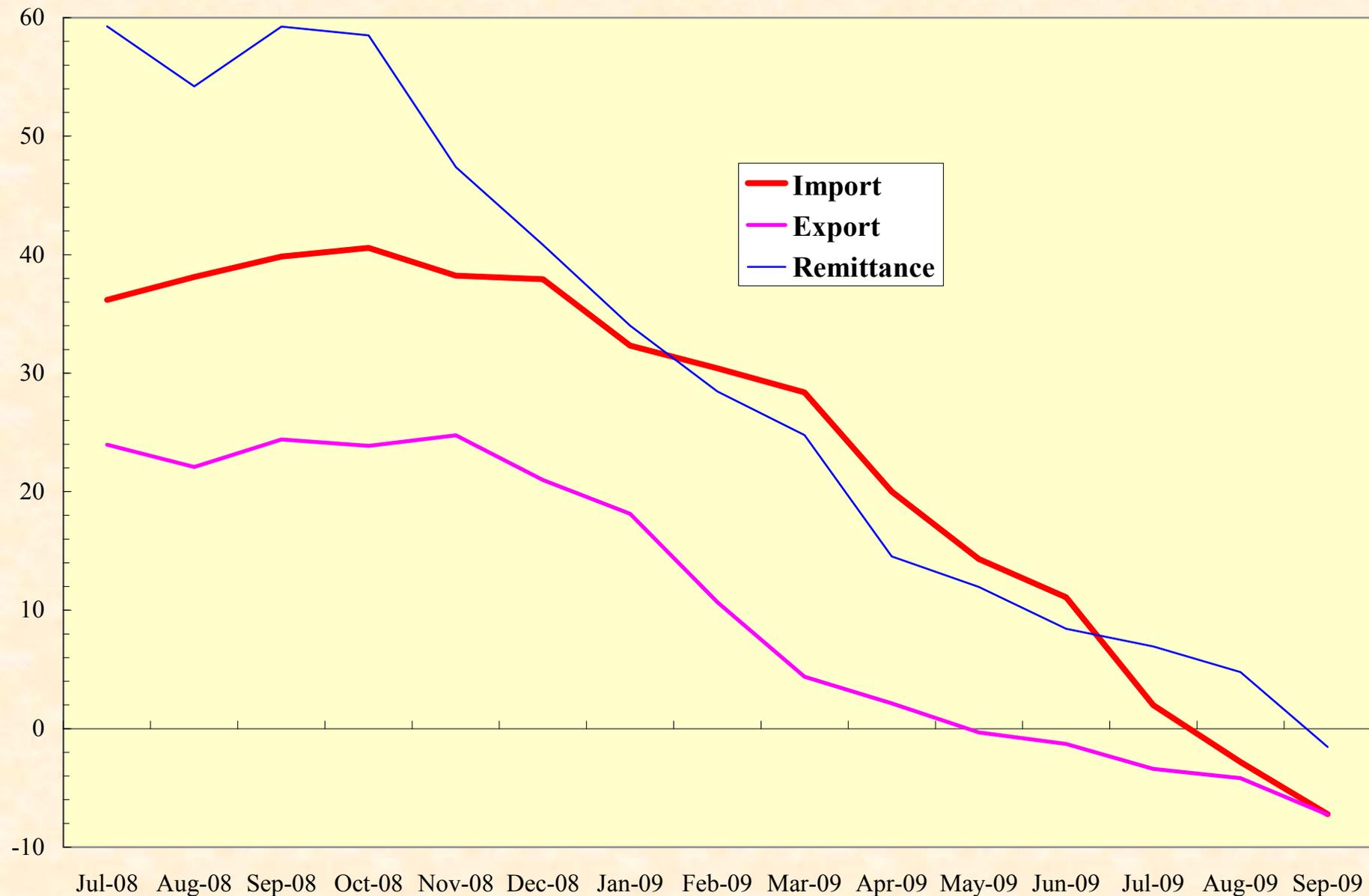
- Other factors
- Associated with NBE's net claims on government
- Associated with NBE's net foreign asset
- Reserve money growth

Q1 Trade Performance

- Value of exports declined by about 3 percent during Q1 of 2009/10 compared to the same period of 2008/09.
 - Coffee volumes and values were down by about 20 percent.
 - Flower values and volumes were up by 30 percent.
- Value of imports also declined considerably (by 22 percent); notably fuel, capital goods and consumer goods. But fertilizer imports up due to earlier import than last year

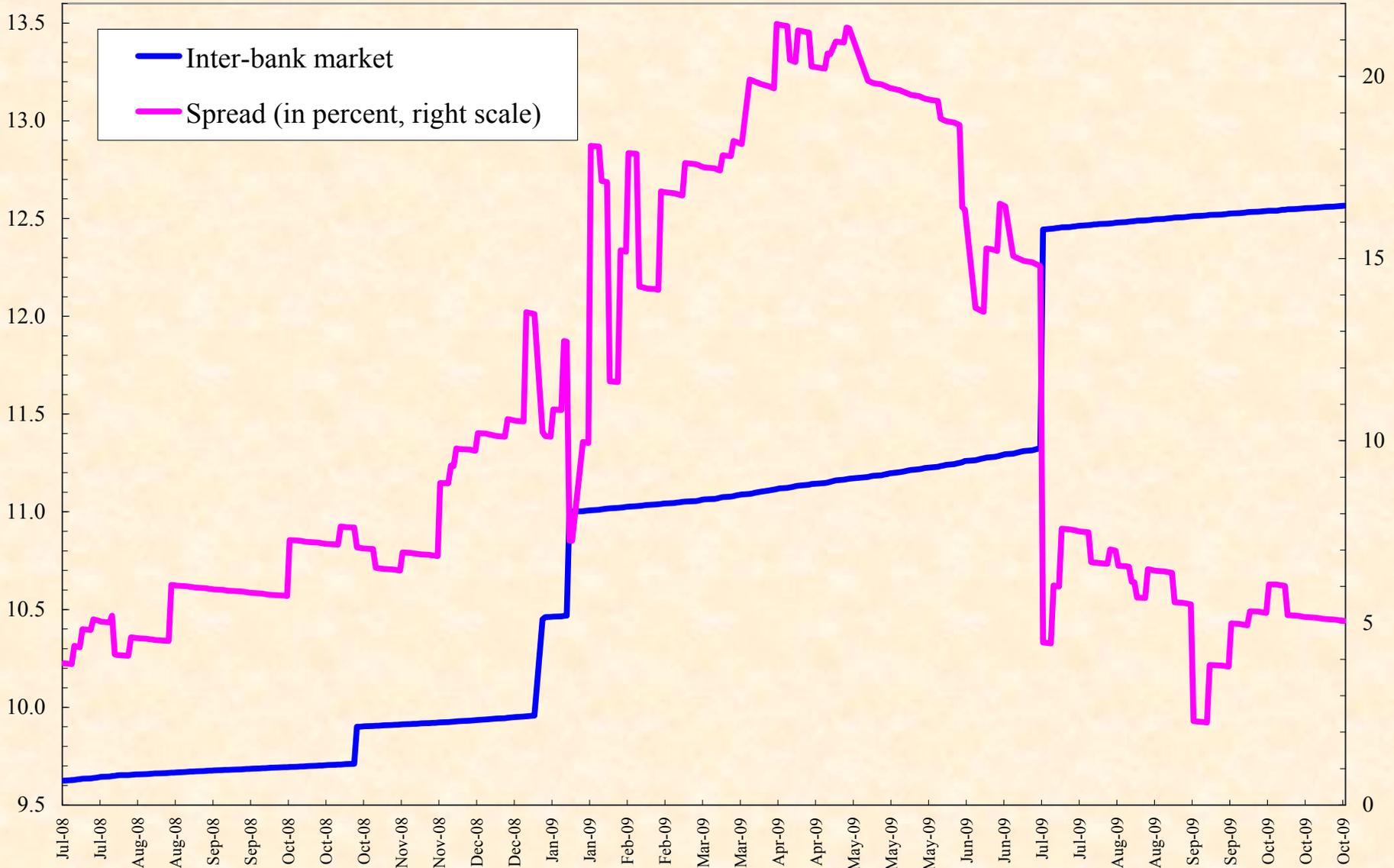
International Trade and Remittances are Falling

12-month MA Percentage changes of Imports, Exports, and fx earnings from Remittances (US\$ terms)



Exchange Rate Developments

Official Exchange Rate (Br/US\$), and Spread with the Parallel Market Rate, July 2008 - Nov. 2009



II. Background on the ESF

Since last JRIS in April

- High Access Component of Exogenous Shocks Facility (ESF) approved in August - \$240 million over August 2009-Oct 2010
- \$115 million disbursed on approval in August 2009
- SDR allocation of \$180 million in August in addition to boost reserves

Background (contd)

- ESF performance criteria set for end-December 2009 (first review) and July 7, 2010 (second review)
- Quarterly benchmarks for end-September 2009 and March 2010 (not performance criteria)
- Cover FX reserves, monetary growth, credit to govt and public enterprises, federal revenues, non-concessional debt
- Some structural benchmarks for September and January

ESF Macroframework

Objectives

- Maintain low inflation
- Rebuild international reserves
- Maintain *a sound macroeconomic environment for growth and poverty reduction.*

ESF Macroframework (contd)

Policy Framework

- Moderate growth of around 7 percent for 2009/10
- End of period inflation below 10 percent and average 5 percent
- Some easing of fiscal stance
 - ✓ Modest domestic borrowing of general govt
 - ✓ Low domestic borrowing of the public enterprises
 - ✓ Tax reform strategy by federal govt
- Further slowing of money growth
- Exchange rate adjustment, but not to re-ignite inflation.

Performance under ESF in Q1

We are still clarifying some data issues but preliminary results through September 2009 indicate program is on track, although worries on money growth and liquidity control.

Targets Achieved

- Net foreign assets of NBE.
- Net domestic assets of NBE.
- Government's domestic financing.
- Domestic public enterprise borrowing.
- No new contracting/guaranteeing of non-concessional debt.
- Significant exchange rate adjustment in July, followed by modest adjustments.
- Fuel pricing continues to allow repayment of Oil Fund debts.

Areas requiring careful monitoring

- Money expanding too rapidly.
 - Reserve money benchmark exceeded for September
 - Broad money grew faster than envisaged the program on 12 month basis (22% cf 17%).

Performance under ESF in Q1 (contd)

Structural benchmarks

- Public enterprise committee has been functioning – received credit demands of PEs and the committee is monitoring each enterprise's borrowings
- Central bank made some progress in strengthening its monetary management. A committee to forecast liquidity flows with MoFED has been set up. The World Bank has supported the development of a liquidity forecasting manual. But overruns on reserve money imply t-bill auction volumes inadequate to control liquidity build up, and need to improve liquidity forecasts.
- Tax reform strategy. An IMF mission on tax and customs administration has provided its recommendations to ECRA and it has been reviewing them. A mission on tax policy is expected in December.

Looking Ahead

- ESF first review will be based on end-Dec outcomes and will be done in Feb/March 2010 along with Article IV consultation
- Need to watch agricultural production and food prices given concerns over Meher harvest
- Monetary control needs to be enhanced; t-bill sales should be geared to meet the operating target of reserve money – this requires possibly higher yields
- Impact of global recession will continue to be felt for some time through slowdown in exports, remittances, FDI and pressures on aid
- IMF ready to assist government in the coming months with developing a sound and realistic macroeconomic framework for PASDEP II