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ETHIOPIA

GOVERNMENT'S POLICY FRAMEWORK PAPER

1996/97-1998/99

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Addis Ababa

- 1 -

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Medium-Term Economic and Financial Policy Framework Paper
1996/97-1998/99 1/

Prepared by the Government of Ethiopia in collaboration
with the staffs of the International Monetary Fund and the World Bank

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I. Introduction

1. In mid-1992, the Transitional Government of Ethiopia (TGE) initiated an economic reform program with the principal aims of stabilizing the economy and deregulating economic activity, which had previously been subject to central planning. This program was supported by a three-year arrangement under the Fund's structural adjustment facility (SAF), by a structural adjustment credit (SAC) from the World Bank, as well as by other multilateral and bilateral financing.

2. In brief, substantial progress has been made with respect to both main objectives. Policy measures have been undertaken aimed at correcting price distortions, lifting restrictions on the private sector, deregulating the labor market, reducing macroeconomic imbalances, realigning the exchange rate, and liberalizing the external exchange and trade system. Moreover, decentralization of the political system and civil service reform have been initiated. The Government of Ethiopia that was elected in June 1995 intends to continue the economic policy agenda of the TGE by deepening the reform process while strengthening macroeconomic performance. The Government has therefore adopted a new medium-term adjustment program for the period 1996/97-1998/99 and, in this context, is requesting financial assistance from the Fund under the enhanced structural adjustment facility (ESAF), from the World Bank in the form of new sector investment loans, as well as from other multilateral and bilateral donors.

1/ Fiscal data pertain to the period July 8-July 7 and other data to the period July 1-June 30.

II. Performance and Policies Under the 1992/93-1994/95 Program

3. Under the SAF-supported adjustment program for 1992/93-1994/95, direct price controls were almost completely eliminated, and the distribution and transport of nearly all commodities were liberalized. Following a large initial devaluation of the Ethiopian birr (Br), a foreign exchange auction market was introduced. Since May 1, 1993, the National Bank of Ethiopia (NBE) has made foreign exchange available to licensed importers through biweekly auctions. Subsequent to the introduction of the auction, the negative list that limits the activities for which foreign exchange may be purchased in the biweekly auctions was virtually eliminated, and the auction market and official exchange rates were unified. Also in the external area, restrictions on payments for invisible transactions were considerably liberalized. In addition to the reform of the exchange system, tariff rates were cut, and the number of brackets and the scope of exemptions were reduced. The maximum tariff rate was slashed from 230 percent to 80 percent, and the number of tax exemption categories was reduced from 327 to 138.

4. A number of tax policy reforms and other government revenue enhancement measures were introduced; the rationalization of expenditure was initiated and included a substantially reduced share for defense; and the first public enterprises were sold. Moreover, a more active interest rate policy was pursued, treasury bill auctions were introduced, and there was an easing of market entry for new privately owned financial institutions. Furthermore, a market-oriented land-lease system was introduced for urban areas.

5. The average annual rate of growth in real GDP over the period was 6¼ percent, in line with the SAF-supported program target of about 6 percent (as established under the successive annual programs); the average annual rate of inflation (as measured by the Addis Ababa retail price index on a period-average basis) was 8¼ percent, markedly below the target of almost 15 percent; the external current account deficit (excluding official transfers) was on average some 7½ percent of GDP, or only about one-half the program target; and gross official foreign reserves at end-June 1995 reached the equivalent of 6¼ months of imports, instead of a target of 5 months (Table 1).

6. In order to reduce its external debt burden, in 1992 Ethiopia obtained debt relief from Paris Club creditor countries on London terms, estimated at US$371 million. As a result, Ethiopia's total debt service ratio (excluding ruble-denominated debt to Russia) declined from 84 percent in 1991/92 to 71 percent in 1992/93, 44½ percent in 1993/94, and 32 percent in 1994/95. The Government has also been engaged in negotiations with other bilateral creditors to obtain debt relief on at least comparable terms, although no agreements have been reached. However, in September 1995, the World Bank approved a grant for Ethiopia under the Debt Reduction Facility for IDA-only countries, and subsequently approximately 80 percent of total eligible commercial debt of US$283 million was bought back at a 92 percent discount.

III. Objectives, Strategies, and Policies for 1996/97-1998/99

A. Objectives

7. The Government is committed to reducing poverty by achieving a broad-based economic growth in a stable macroeconomic environment. Policies will be geared toward maintaining financial stability and further deregulating the economy and fostering sustained economic growth through increased domestic savings and investment. The Government's program, therefore, calls for further fiscal consolidation, continued monetary restraint, and a more rapid pace of structural reforms. Key elements of the program include further liberalization of the external exchange and trade system, reform of the regulatory and institutional framework for the domestic sector, and acceleration of the privatization program. Social policies will focus on strengthening the human resource base of the economy and promoting family planning. Rebuilding the environment and physical infrastructure will be critical, given the damage done by war and past policies. Fully budgeted social safety net measures are being extended to mitigate the social costs of adjustment, military demobilization, and the return and resettlement of refugees. In addition, the Government continues to provide low-rent urban housing.

8. For the medium term (1996/97-1998/99), major macroeconomic targets under the program include: an average annual growth rate of real GDP of at least 6 percent--with the impetus provided by higher agricultural output and strengthened activity in the industrial and service sectors--which would require investment equivalent to 21¼ percent of GDP, compared with the 17¾ percent rate during 1993/94-1995/96; an annual average rate of inflation of some 2 percent; containment of the external current account deficit (excluding official transfers) on average at about 9¼ percent of GDP, notwithstanding a projected deterioration (a cumulative 19½ percent) in Ethiopia's terms of trade; and maintenance of gross official foreign reserves at a level equivalent on average to 7½ months of imports, to protect against unforeseen adverse terms of trade shocks and drought, as well as to provide a cushion for servicing external debt.

9. The program is premised on an average private sector investment rate of some 14¼ percent of GDP, an increase of 4¼ percentage points from the average rate during the previous three years. Government investment as a share of GDP would remain essentially stable at about 7 percent. To help finance the increased capital needs of the economy, the program calls for a rise in the average domestic savings rate, to 7¼ percent of GDP, from an average of 6 percent during 1993/94-1995/96, supported by an increase in government savings from an average of 4 percent of GDP to 6¼ percent.

B. Strategies

10. To achieve the targets outlined above, regulatory impediments on investment will be removed and the legal framework will be improved. Restrictions on foreign investment will be reduced to provide financing and

to encourage both the transfer of technology and the productive employment of Ethiopia's abundant labor supply. Also, restrictions on domestic private investment will be eased, and public investment will be further reoriented toward urgently required physical and social infrastructure; the pace of the Government's divestiture of public enterprises will be accelerated; and the public auctioning of urban land leases will be intensified, while a system of market-based agricultural land allocation will be introduced. These reforms will be undertaken in close consultation with the World Bank. To assist the management of the macroeconomy, the statistical base will be further strengthened.

11. On the financial side, further fiscal consolidation--reducing the overall deficit (commitment basis and excluding grants) on average to about 6½ percent of GDP--is needed to help boost the currently very low domestic savings rate and to keep financing requirements and future debt servicing to manageable levels. This will entail additional tax reforms, with a particular focus on a further broadening of the tax base so as to raise the revenue/GDP ratio, as well as firm control over expenditures so as to contain their growth relative to GDP. The civil service reform--which aims at rationalizing the structure and improving the efficiency of the civil service--will be completed. A further restructuring of current and capital expenditures in line with recommendations of World Bank Public Expenditure Reviews (PERs) will also be undertaken. These call for expenditures to be directed increasingly toward physical infrastructure (roads, power, and water supply) and social services (primary education and basic health care). Effective monetary and credit policies will necessitate the stepped-up use of indirect monetary policy instruments, especially to help promote market-determined interest rates and permit the lifting of controls on rates.

12. In the external area, the remaining restrictions on payments for invisibles will be eliminated, the foreign exchange market broadened, and additional tariff reforms implemented. Also, given the need to move forward with external liberalization without weakening the balance of payments position, the existing flexible exchange regime will be maintained, supported by sufficiently tight financial policies to contain pressures in the exchange market.

13. A summary and a time frame for the implementation of the main policy measures envisaged under the Government's program for 1996/97-1998/99 are contained in Table 2.

C. Macroeconomic policies

(i) Fiscal policy

14. Revenue policies will aim at increasing the revenue/GDP ratio to 18¾ percent by 1998/99. To broaden the tax base, the Government will undertake the reform of agricultural income taxation, expand the coverage of agricultural land taxes, as well as implement the taxation of interest income and of financial services. It will also intensify and expand the use

of presumptive taxation methods, including the implementation of withholding taxes for the nonpublic sector; further reduce the extent of exemptions from sales and customs taxes, as well as the number of excise tax rates; and impose duties on imports by the public sector and NGOs. Tax administration will be strengthened by the assignment and computerization of taxpayer identification numbers; the completion of the reform of Customs and the Inland Revenue Administrations, including enhanced authority to enforce and monitor existing regulations and increased autonomy to address staffing requirements; and stepped-up efforts to improve regional collection capacity. Administrative improvements, increased use of presumptive taxation, and the broadening of the tax base--particularly with regard to agriculture, financial services, and interest income--will more than offset recent reductions in corporate and personal income tax rates. Overall, these measures will support an increase in direct tax receipts from an estimated 3¾ percent of GDP in 1993/94-1995/96 to about 5 percent by 1998/99. Revenues from import duties will increase from 4½ percent of GDP in 1993/94-1995/96 to 5 percent during 1996/97-1998/99, as improved collections and broader coverage more than offset the effect of lower tariff rates. Nontax revenues are expected to edge downward as a share of GDP, as privatization efforts lower receipts from the public enterprises, offsetting increased receipts from auctions of urban land leases. The Government will undertake studies and preparatory work before the end of 1998/99 for the eventual introduction of a value-added tax (VAT). To maintain the wealth of the public sector, receipts from the sale of state-owned enterprises will be used to retire public debt or to build and maintain the country's capital stock consistent with World Bank PERs.

15. Based on present budgetary prospects, expenditure policies will be targeted to reduce total outlays to about 24½ percent of GDP by 1998/99, compared with the estimated 25½ percent outturn for 1995/96. In this context, however, the recent increase in the share of outlays on health and education will be maintained. To strengthen financial management, all accounts maintained by line ministries and other spending agencies will be consolidated into a Single Treasury Account. To hold increases in current expenditure below nominal GDP growth, the share of nonessential spending will be reduced to offset upward pressures arising from the need to provide for adequate infrastructure maintenance and improved health, education, and agricultural extension services. Equally, the ongoing reform of the civil service at both the federal and regional levels will also ensure that the required decompression of salaries will be offset by a restructuring of personnel so as to trim wage and salary outlays to about 6 percent of GDP by 1998/99.

16. Government capital outlays are envisaged to remain stable in terms of GDP. The redirection of capital spending toward urgently needed infrastructure will be strengthened and prioritized through the establishment of a three-year rolling public investment program in 1996/97. The programmed levels of capital outlays will be reviewed on the occasion of midterm reviews and at the beginning of each annual ESAF-supported program, and revised to take account of updated estimates of expected disbursements of

foreign grants and concessional loans and the results of World Bank PERs. Any revisions would be consistent with three principles: First, the use of additional foreign financing should not worsen the external debt burden. Second, the higher capital spending should not lead to inflationary bank financing or a crowding out of the private sector. Third, the projected growth in revenues should be judged adequate to meet the increasing levels of recurrent expenditures generated by any higher capital outlays.

17. Over the three-year period, the envisaged reduction in the fiscal deficit would allow for a steady decline in domestic government debt. Domestic borrowing would be only from nonbank sources to restrain inflationary pressures. To ensure the soundness of the overall fiscal accounts, a review of the assets and contingent liabilities of the public sector Pension Fund will be carried out.

18. The control of the regions' fiscal operations will be enhanced by timely and systematic reporting of revenue and expenditure data from the regions to the Federal Government and by the establishment of a centralized accounting system consolidating all regions, particularly relating to the extent and use of donor funding. Criteria will be developed to determine appropriate revenue shares for the central and regional governments, to improve the existing formula used to determine grants from the Central Government to the regions, and to ensure that the allocation of expenditure at the regional levels is consistent with the Government's development aims. Any borrowing by the regions will continue to be monitored closely to safeguard overall macroeconomic stability.

(ii) Monetary and credit policies

19. Monetary and credit policies during 1996/97-1998/99 will aim at achieving the inflation and external sector targets by keeping the growth of broad money in line with that of nominal GDP. To this end, and to improve the efficiency of the financial system, the use of indirect monetary policy instruments, such as interest rates and open market operations with government securities, will be stepped up, while less reliance will be placed on reserve requirements. It will be important to establish and maintain positive real deposit, lending, and treasury bill rates to develop the financial market and thereby permit the termination of interest rate controls. In this context, shorter-term as well as six-month bills will be introduced in 1996/97 to supplement the existing three-month maturities. At the same time, bills of smaller denominations will be offered. Also, the modalities for the treasury bill auctions will be improved. The move to market-based interest rates should mobilize domestic savings, and provide scope for an adequate expansion of credit to meet the needs of the growing private sector.

20. Structural reform of the financial sector will seek to improve the efficiency of financial intermediation. The large commercial banks, which are government owned, may not be well suited for extending credit to the smallholder sector, as is indicated by the existence of a small but active

informal money market in the urban centers. Moreover, the present financial system lacks institutions equipped to provide medium- and long-term financing, and credit to small- and micro-enterprises. Therefore, the Government will undertake, with the assistance of the World Bank, a study of the financial sector. In this context, with a view to enhancing the efficiency of the domestic banking system, options for restructuring the Commercial Bank of Ethiopia will be examined. Moreover, the formation of additional, financially sound, new private banks will continue to be welcomed.

21. Because of the de facto monetary union with Eritrea, policy coordination with Eritrea needs to be strengthened. The Government will assess the implications of Eritrean policy actions on the Ethiopian economy, continue to supply monetary and balance of payments data to the Eritrean authorities in a timely manner, seek to obtain reciprocal information from Eritrea, and endeavor to undertake, on a joint basis, a periodic review of monetary developments in the birr area.

22. As an integral part of expanding and developing the financial sector, the capacity of the NBE to supervise and regulate financial intermediaries will be strengthened. In particular, a new legal and regulatory framework to govern all financial institutions will be established; the NBE's Banking Supervision Department will be strengthened, as will prudential guidelines; and a standardized reporting system for all banks will be put in place to permit the consolidation of all commercial banks in the monetary survey. To this end, the NBE will draw on technical assistance provided by the Fund and bilateral donors.

D. Structural and institutional policies

23. Commodity price controls currently apply only to fertilizers, petroleum products, and pharmaceuticals. Regarding the pricing and market structure for petroleum, the delayed study will be completed by January 1997, as agreed with the World Bank, and implementation of the study's recommendations will begin immediately thereafter. Meanwhile, a system will be introduced by end-September 1996 for reviewing, and, if necessary, adjusting domestic petroleum prices semiannually, so that they reflect fully changes in international prices and exchange rate movements. For pharmaceuticals, plans for the elimination of price controls and the simplification of administrative directives will be prepared by end-September 1996, with the implementation to begin shortly thereafter. With regard to fertilizers, as provided for in the National Fertilizer Project supported by the World Bank, panterritorial fertilizer price controls will be phased out through the decontrol of retail prices by end-1996, the decontrol of wholesale prices by end-1997, and the complete price decontrol (including distributors) by end-1998, at which time all fertilizer subsidies would be eliminated. In the meantime, by end-September 1996, the current subsidy on fertilizers will be replaced by targeted subventions for farmers in inaccessible areas with agricultural potential.

24. With more emphasis on the progressive reduction of government shareholding, privatization of public enterprises will gather momentum over the medium term. In particular, the first stage of the privatization process, which has already led to the privatization of 125 of the 197 targeted enterprises, will be completed by the end of 1996/97, through the offering for sale, return to previous owners of confiscated entities, or closure of the remaining 72 enterprises. The second stage, also to be completed by the end of 1996/97, foresees the sale of at least 26 additional enterprises and 27 state farms (mostly large-scale cotton and maize farms). The divestiture program includes alternative modalities of divestiture for different types of enterprises: sales, leases, employee buyouts, and management contracts. In order to expedite future divestitures, the reservation price is now stated in the invitation to tender, so as to obtain bids sufficiently high to effect the sale. It is envisaged that privatization modalities will be further improved over the medium term. Meanwhile, for enterprises remaining under government control, measures will be put in place to ensure that these operate on a strictly commercial basis (including adequate costing provisions for depreciation).

25. The Government is keenly aware that private sector development will require a large increase in investment. Thus, revisions of the Investment Code have recently been enacted, to permit private domestic investment in telephone equipment and maintenance; allow joint ventures of foreign investors with Ethiopian private partners in large-scale engineering and metallurgical industries, capital- and technology-intensive large-scale mining, large-scale pharmaceutical and fertilizer production, and in activities that supply strategic raw materials to chemical industries; allow Ethiopian private investors to operate on their own in the above areas; and allow foreign investment in real estate development and smaller hotels. At the same time, the minimum capital requirements for private domestic investors have recently been reduced, and capital gains, corporate income, and royalty taxes will continue to be applied in a nondiscriminatory manner. Moreover, the approval procedure and requirements for obtaining work permits for expatriate personnel will be simplified. Both foreign and domestic investment will be facilitated through the establishment and strengthening of one-stop investment offices at both the central and regional levels. In addition, procedures for registration of all businesses throughout the country will be implemented. The initial easing of the Investment Code will provide an important stimulus to the private sector. The Government's policy of limiting investment in certain important activities to the public sector is based on its view that a strengthened regulatory capacity should precede further liberalization and/or that the existing government entities can most effectively address infrastructure constraints. However, the Government also recognizes that important changes are taking place globally in the respective roles of the public and private sectors in the provision of services (for example, public utilities), and, reflecting this, is prepared to keep this issue under review. Over the 1996/97-1998/99 period, the Government intends to work with the World Bank on monitoring the costs and benefits of further liberalization--participating in study tours and analyses to assess progress in other developing countries in these areas.

The conclusions of this work will be reflected, as appropriate, in government policy.

26. In a decentralized environment, a regular dialogue between the Government and the private sector will help to identify the salient issues for growth, and the Government will establish an institutionalized framework for such dialogue, with a view toward undertaking identified measures to accelerate the development of a competitive market economy.

27. Although the existing legal framework generally provides an adequate basis for the conduct of economic transactions, contract enforcement is weak, and court decisions take an inordinately long time. While part of the problem may rest with deficient contracts, more importantly, the problem stems from the inefficiency of the judicial system. Three separate measures are envisaged: first, to introduce a public notary system to help reduce defective contracts by establishing a process of validation prior to the formation of contracts; second, to increase the number of specialized commercial courts, so as to quicken the pace of adjudication of cases; and, third, to discourage excessive litigation by raising court fees and promoting dispute settlement mechanisms outside the court system.

28. Ethiopia's capacity for policy analysis and project preparation and implementation will be improved. With decentralization, the need for capacity building for project preparation and implementation is particularly acute in the regions, whereas capacity building for policy analysis will, in the first instance, focus on the Central Government. Accordingly, measures will be taken to strengthen the policy analysis units of core macroeconomic institutions such as the National Bank of Ethiopia, the Ministry of Finance, and other selected ministries. Moreover, project preparation, appraisal, implementation, monitoring, and evaluation will be enhanced in the center and the regions, while regional capacities for bid analysis and procurement will be improved.

29. Regulations for the leasing of agricultural land are still inadequate, and access to unoccupied rural land for purposes of commercial farming is now provided only on an ad hoc basis. Under the medium-term program, steps will be taken to streamline leasing procedures for smallholders and provide government-held land to commercial farmers through a market-based system. Furthermore, the process by which urban centers absorb agricultural land within their boundaries will be clarified.

30. To address Ethiopia's acute housing shortage, the public auctioning of urban land leases will be stepped up; and the appropriateness of current urban rents on certain categories of government-owned housing will be assessed, with a view to making necessary adjustments. In addition, measures will be taken to simplify zoning and building permit procedures and to implement a program of government-owned house sales. In this process, a compensation scheme for previous owners of nationalized houses will be developed.

E. Sectoral policies

31. Policy adjustments thus far in the agricultural sector have provided price incentives for the farmer. With improved rural infrastructure enhancing the opportunities for farmers to benefit from the better incentive environment, measures to increase productivity will become more important. Thus, the supply of productivity-enhancing inputs will need to be augmented. Knowledge of modern agricultural techniques will reach more farmers after the overhaul of the extension and research service, and input marketing will be further liberalized. A national program for Seed Systems Development, supported by the World Bank--which includes restructuring and commercializing the Ethiopian Seed Enterprise, measures to encourage private sector participation in plant breeding, and the production and distribution of improved seed--will be implemented during 1996/97-1998/99. Also, the Government aims to complete the privatization of state farms by the end of 1998/99.

32. The provision of electricity, telecommunications, and urban drinking water is beset, primarily, by inadequate maintenance of existing production facilities and the need for new investments in the relevant infrastructure. To address the resulting shortages, it will be necessary to put public utilities, including water supply utilities at the regional level, on a commercial basis by moving toward full cost recovery and autonomy within an appropriate regulatory framework. In addition, a water resource master plan will be prepared by the end of 1998/99.

33. The medium-term strategy for the energy sector focuses on the exploitation of Ethiopia's abundant hydro-electric resources, and also looks to the sustainable development of other primary energy sources. A National Energy Strategy, which aims at exploiting Ethiopia's hydro-electric power and other resources and improving forestry management and the efficiency of energy production and use, has been drafted, and relevant policies will be implemented during the 1996/97-1998/99 period. An appropriate institutional and regulatory framework will be established to separate commercial and regulatory functions. In addition, the traditional fuel sector will be expanded, including tree planting to meet urban energy needs, and biomass management in the rural areas. At the same time, improved efficiency of energy consumption will be sought.

34. To boost competition in the road transport sector, the minimum number of vehicles required to form a road transport association will be reduced; the legal position of the road transport associations will be clarified; and the responsibilities of their officeholders clearly defined. The Government will also enhance its dialogue with the Government of Djibouti to ease remaining restrictions on commercial road transport between the two countries, including, if necessary, licensing of road transport vehicles registered in Djibouti. Moreover, the freight forwarding industry will be further liberalized to establish a level playing field between private freight forwarders and the Maritime Transit Services Enterprise. With regard to the rehabilitation of the Ethio-Djibouti railway, the Government

will, prior to undertaking major investments, take steps to complete and implement the ongoing study of the railway management and structure, in the context of an overall transport sector strategy.

F. Improvement of data base

35. Progress has been made in recent months, for example, in reducing the lag in closing the fiscal accounts, and monetary statistics continue to be produced in a timely manner. However, the Government recognizes that considerably strengthened efforts are required to improve data, as illustrated by selected examples for the following data bases: the national accounts (implementing surveys to better capture activity in the rapidly growing private sector); consumer and wholesale prices (introducing a national consumer price index); the fiscal sector (establishing a unified accounting system for the timely reporting and consolidation of revenue and expenditure information from the regions, and the consolidation of all extrabudgetary accounts into the budget); the financial sector (updating data on the sectoral composition of commercial bank lending); and the external sector (including the introduction of a system to provide timely import statistics, and the improvement in external debt data for the various creditor groups and types of debt).

G. Human resource development and population policy

36. In health and education, programs will aim at achieving targets for improved primary school enrollment, basic health and nutrition services for mothers and children, and expanded coverage of immunization and other disease control actions. Budget shares for recurrent outlays on primary education and basic health services will be increased. The financing of education--especially at higher levels--and health will be improved through the introduction of user fees and/or other forms of cost recovery. The private sector will also be encouraged to participate in the provision of educational services at all levels and in the supply of instructional materials and textbooks.

37. One of the critical dimensions of the human resource development and population policy is improving the education and status of women. Measures to implement the Government's National Policy for Women include the revision of laws and regulations to guarantee equal access of women to resources, property, and business activities. With respect to population, measures will aim at promoting education, with a view to reducing the fertility rate, as well as strengthening the data base on family planning services.

H. Environmental protection

38. The National Conservation Strategy sets out a comprehensive framework for addressing environmental problems across every sector. Work in the regions on finalizing the required action plan and investment program will be completed later in 1996, while implementing legislation will be enacted over the next two years. The strategy focuses on the implementation of the

various sectoral components, including a Forestry Action Plan. A project proposal for developing an environmental impact assessment system has been prepared and presented to donors for funding. Similarly, a project proposal for developing water standards, with a view to allowing the application of the "polluter pays" principle, has been prepared and is expected to be implemented in 1997. In the meantime, voluntary moves by industries to minimize the impact of pollution are being sought.

IV. Poverty Alleviation

39. The Government's overarching objective is poverty alleviation. Periodic droughts pose the main risk to the reduction of poverty and need to be addressed as a priority within the development agenda. Thus, food security is of primary importance. During the 1996/97-1998/99 period, the Government will formulate a food security strategy, which will comprise the following elements: (a) policies to increase food production over the medium term to attain the target of raising per capita cereal intake to a satisfactory level by 2005; (b) disaster preparedness measures; and (c) a policy framework for the use of food aid. Moreover, and if the need arises, effective, efficient, and fully budgeted safety nets will be set up for well-targeted vulnerable groups.

V. Technical Assistance Requirements

40. The Government recognizes that the effectiveness of the reinforced economic and structural reform program requires technical assistance, especially in the areas of foreign exchange markets, banking supervision, tax policy and administration, and balance of payments statistics. Support for critical technical assistance needs, including resident experts, will be sought from appropriate donors.

VI. External Sector Policies

41. The Government has long recognized the importance of an efficient exchange and trade system in enhancing Ethiopia's economic performance and external viability, and substantial liberalization of the exchange and trade system has already been undertaken. As the external environment over the 1996/97-1998/99 period is expected to be adversely affected by a lower world market price of coffee, which currently accounts for about 60 percent of Ethiopia's merchandise exports, continued liberalization of the exchange and trade system is necessary to bolster the performance of nontraditional exports. Over the medium term, external sector policies will focus on further rationalizing the import tariff regime; liberalizing the foreign exchange market; eliminating remaining current account restrictions, in line with Ethiopia's intention to accept the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement; attracting foreign direct investment; normalizing relations with all creditors; and

reducing the debt service burden. The tariff reforms will be undertaken while ensuring revenue neutrality. Specifically, as a first step, the maximum tariff rate will be reduced from 60 percent at present to 50 percent by end-December 1996, and, at the same time, the number of tariff bands will be reduced from nine to eight. Furthermore, a tariff reform program will be developed by early 1997, with a view to achieving (i) further reductions in the maximum tariff rate, (ii) a further narrowing in the number of tariff bands, and (iii) a reduction by end-December 1998 of the average tariff level by 5 percentage points from the present 24½ percent.

42. Over the period 1996/97-1998/99, the Government will allow the exchange rate to be determined by market forces, and strive to quickly eliminate the parallel foreign exchange market premium (currently about 18½ percent) by liberalizing the foreign exchange market. The remaining 25 percent cover requirement for the foreign exchange auction will be eliminated; the frequency of the auctions will be increased from biweekly to weekly; all used items except clothing will be removed from the negative list for the foreign exchange auction; and commercial banks will be allowed to bid in the auction on their own account to fulfill demands of clients. Moreover, foreign exchange bureaus will be introduced within the commercial banks. These bureaus will be supplied by receipts from the auction market and from, among others, tourism, private transfers, as well as export earnings available as a result of the phased elimination of the export proceeds surrender requirement. The requirement will be reduced in 1996/97 from the present 100 percent for all exports of goods and services to 50 percent, with exporters permitted to hold 10 percent of receipts in foreign currency deposits, and to convert an additional 40 percent into birr through sales to banks and foreign exchange bureaus, or in the foreign exchange auction market within three weeks. The 50 percent to be surrendered to the NBE will be converted at the rate realized on the 40 percent tranche. The surrender requirement will be further reduced to 25 percent by end-December 1997 and eliminated by end-December 1998. Concurrently, regulations on foreign currency deposit accounts will be relaxed, allowing commercial banks to hold deposits by exporters. Commercial banks will be permitted to freely buy and sell foreign exchange for clients, and inward private remittances will be allowed to be held in foreign currency deposit accounts subject to the retention, conversion, and surrender requirements applying to earners of export proceeds. In addition, the remaining restrictions on the making of payments for current transactions relating to education and travel allowances and family remittances will be eliminated by end-June 1999. Building on these actions and drawing upon recommendations of a recent Fund technical assistance report, the Government aims to achieve a fully fledged interbank market for foreign exchange.

43. As a low-income, heavily indebted country, Ethiopia will neither borrow nor guarantee debt on nonconcessional terms. Ethiopia will seek debt relief from Paris Club creditors on concessional terms. Concurrently, it will continue to seek at least comparable terms from all other bilateral and commercial creditors. Under the present Naples terms, entailing a 67 percent reduction in net present value (NPV) terms of debt service on

eligible debt, the debt relief provided by these creditors would reduce the average debt service ratio, over the 1996/97-1998/99 period, from 34 percent of exports (before rescheduling) to below 20 percent (after rescheduling). 1/ While this reduction is significant, the remaining non-reschedulable debt service will remain relatively large. For the future, the Government plans to continue to pursue a prudent debt management policy, borrowing only on concessional terms. The Government will aim at eliminating all outstanding external payments arrears through debt relief from Paris Club and other bilateral creditors, and will not incur new arrears on debt that is not expected to be subject to rescheduling. Furthermore, the Government will strengthen aid and debt management and monitoring capacity to ensure, among other things, the timely disbursements of external aid.

VII. External Financing Requirements

44. Over the period 1996/97-1998/99, the volume of Ethiopia's exports is projected to expand by 10¼ percent a year. While coffee will continue to be the dominant export, other agricultural products (pulses and oilseeds) and nonagricultural commodities (especially leather products) are expected to maintain the momentum gathered since 1992/93. Nevertheless, export earnings are projected to increase by only about 7½ percent a year in SDR terms, reflecting mainly an anticipated average annual decline in coffee export prices of about 7¼ percent. Over the three-year period, imports are projected to rise annually by about 7¾ percent in SDR terms, and by some 6½ percent in volume terms. To a large extent, the growth in imports would stem from expanded needs for machinery, raw materials, and intermediate inputs. Although the trade deficit is expected to widen during 1996/97-1998/99, the surplus in the services account is expected to grow, associated largely with increased receipts from transportation (notably from Ethiopian Airlines (EAL)). Private remittances are expected to become a more important source of foreign exchange. However, reflecting the projected deterioration in the terms of trade and some one-time lump-sum imports (aircraft by EAL in 1996/97), the current account deficit (excluding official transfers) is expected to increase from 7¾ percent of GDP during 1993/94-1995/96 to 9¼ percent over 1996/97-1998/99.

45. External financing requirements over the period 1996/97-1998/99 are projected to total SDR 1.9 billion, and take into account both the targeted reserve level and the need to clear all external payments arrears (Table 3). Disbursements from existing grant and loan commitments are now put at SDR 683 million, and disbursements from expected but not yet pledged new

1/ These ratios do not include payments on ruble-denominated debt to Russia. The stock of such debt is estimated at Rub 3.3 billion, entailing debt service (before rescheduling) of approximately Rub 330 million a year over the 1996/97-1998/99 period. The reserve level of 7½ months of imports on average over 1996/97-1998/99 would allow for payments to be made to service Russian debt once negotiations on debt relief are concluded.

commitments are projected at SDR 595 million. Total disbursements are thus projected at SDR 1.3 billion, of which about SDR 300 million would be from IDA. The residual financing gap of SDR 611 million could be covered by debt relief from Ethiopia's Paris Club and other bilateral creditors, as well as prospective loans under the Fund's enhanced structural adjustment facility.

VIII. Debt Sustainability

46. At the end of 1995/96, before taking account of ruble-denominated debt to Russia, Ethiopia's external public sector debt was estimated to amount to SDR 2.8 billion. About one-half of this debt was owed to multilateral creditors, with most of the remainder owed to official bilateral creditors. Some 95 percent of debt owed to Paris Club creditors was pre-cutoff-date debt, and of total pre-cutoff-date debt, about 40 percent has been previously rescheduled on London terms. In NPV terms, the debt was equivalent to about 55 percent of GDP and about 380 percent of exports of goods and services. During 1995/96, the public sector's scheduled external debt service was equivalent to about 34 percent of exports of goods and services.

47. Currently, it is envisaged that Ethiopia will request debt relief from Paris Club and other bilateral creditors of its eligible pre-cutoff-date debt. As a result of this relief, it is estimated that the ratio of the NPV of debt to exports could decline to about 200 percent by 1998/99. Ethiopia would thus require exceptionally favorable treatment of its debt to achieve sustainability, as measured by the ratio of the NPV of debt to exports.

48. Projections of debt service ratios are highly sensitive to assumptions of export and import growth and of the availability of concessional financing. The fragility of Ethiopia's external debt situation is underscored by the changes in projected outturns that result if key parameters are changed. Therefore, the Government is firmly committed to continuing policy reforms aimed at removing remaining domestic regulatory impediments, deepening the financial markets, and deregulating the external sector in order to encourage export-oriented private investment and thereby strengthen the capacity of this sector to withstand shocks.

Table 1. Ethiopia: Selected Economic and Financial Indicators, 1992/93–1998/99 1/

	1992/93	1993/94	1994/95	1995/96 Est.	1996/97	1997/98 Program	1998/99
			(Annual percent change, unless otherwise specified)				
National income and prices							
GDP at constant prices (at factor cost)	12.0	1.7	4.9	7.7	6.0	6.0	6.0
GDP deflator (at factor cost)	12.4	3.9	13.5	0.9	2.4	2.3	1.8
Consumer prices (period average) 2/	10.0	1.2	13.4	1.2	1.2	3.0	2.2
External sector							
Exports, f.o.b. (in SDRs)	40.6	27.1	51.3	–0.3	2.1	9.4	11.5
Coffee	50.7	27.3	69.6	–11.1	–9.5	1.2	4.1
Noncoffee	29.4	26.9	27.4	18.4	17.2	17.7	18.0
Imports, c.i.f. (in SDRs)	17.1	–12.3	15.0	19.7	10.5	3.6	7.8
Export volume	83.9	42.3	13.4	10.2	11.5	10.4	10.5
Import volume	21.0	–12.7	13.1	14.5	10.0	2.6	6.7
Terms of trade (deterioration –)	–21.7	–10.0	28.2	–15.8	–12.4	–5.6	–2.7
Nominal effective exchange rate 3/	–37.3	–17.6	–3.7	...	...	...	...
Money and credit 4/							
Net foreign assets	14.0	22.2	15.5	0.1	--	--	--
Net domestic assets	–1.3	–7.8	8.7	6.9	9.1	8.7	8.2
Net claims on the Government	23.3	4.8	–4.6	–7.7	–2.9	–4.5	–4.4
Credit to the nongovernment sector	–7.0	6.6	18.3	16.0	12.0	13.2	12.5
Broad money	12.7	14.4	24.2	7.1	9.1	8.7	8.2
Velocity	2.7	2.6	2.6	2.4	2.5	2.5	2.5
Interest rates (one–year maturity)							
Savings deposits (minimum)	10.0	10.0	10.0	11.0 5/	...	...	...
Lending rates (maximum)	15.0	15.0	15.0	16.0 5/	...	...	...
				(In percent of GDP)			
Financial balances							
Gross domestic investment	13.9	16.7	17.2	19.1	20.9	21.1	21.7
Gross domestic savings	1.7	5.4	6.9	5.8	6.2	7.2	8.4
Resource gap	–12.2	–11.3	–10.3	–13.3	–14.7	–13.9	–13.3
Government finances							
Revenue	11.9	13.7	18.4	17.4	17.8	18.2	18.8
Expenditure	23.3	30.7	27.1	25.5	25.5	24.9	24.4
Overall fiscal balance (commitment basis)							
Excluding grants	–11.4	–17.0	–8.8	–8.1	–7.7	–6.7	–5.6
Overall fiscal balance (cash basis)							
Including grants	–7.2	–10.2	–3.0	–1.6	–2.9	–0.8	–0.2
Excluding grants	–11.3	–16.8	–8.7	–7.9	–9.0	–6.7	–5.6
External financing	4.0	7.5	3.4	3.5	2.2	2.1	2.2
Domestic financing (incl. residual)	3.2	2.7	–0.4	–1.9	0.7	–1.2	–2.0
Domestic debt	42.7	42.5	34.8	29.8	28.0	24.5	20.6
External current account balance 6/							
Including official transfers	–3.4	–1.7	2.4	–3.2	–4.4	–3.3	–2.8
Excluding official transfers	–9.9	–6.9	–5.3	–9.6	–10.5	–9.1	–8.2
External debt (including to Fund) 6/	61.7	71.6	74.7	72.3	73.5	72.1	67.5
Debt service ratio 6/ 7/	71.0	44.3	32.2	33.7	33.9	32.2	29.1
			(In millions of SDRs, unless otherwise specified)				
Overall balance of payments 6/	–28.0	78.4	49.4	–28.9	–117.3	–103.6	–82.2
Gross official reserves (in months of imports)	3.3	7.1	6.8	8.7	7.9	7.6	7.0
External payments arrears 6/	257.7	336.7	397.4	308.0	--	--	--

1/ Fiscal data pertain to the period July 8 – July 7 and other data to the period July 1 – June 30.
2/ Addis Ababa retail price index.
3/ On a period–average basis.
4/ Changes expressed in percent of broad money at beginning of period.
5/ June 1996.
6/ Excludes ruble–denominated debt/debt service to Russia.
7/ Commitment basis, expressed in percent of exports of goods and nonfactor services.

Table 2. Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
		I. Macroeconomic Policies	
1. Fiscal policy			
Tax administration	Improve tax administration.	Complete restructuring of Customs and Inland Revenue and strengthen regional tax administration.	1996/97-1998/99
		Register all taxpayers with computerized identification numbers and simplify customs clearing and valuation.	1996/97
Tax policy	Broaden the tax base, reduce evasion, increase the revenue-to-GDP ratio, improve equity, and enhance efficiency.	Expand use of presumptive taxation (including withholding taxes in the non-public sector).	1996/97-1998/99
		Impose import duties on public sector and NGO imports.	1996/97
		Implement agricultural income tax; expand the coverage of agricultural land taxes; and reform taxation of interest income and financial services.	1996/97
		Reduce number of excise tax rates and number of customs duty and sales tax exemptions.	1996/97
		Undertake studies and preparatory work for introduction of VAT.	1998/99
Government expenditure	Restrain growth of budgetary spending to less than that of nominal GDP, and improve expenditure efficiency.	Continue to modify budgetary allocations in line with recommendations in PERs; divert expenditures toward investment for improving the physical infrastructure and social services.	1996/97-1998/99
		Establish three-year rolling public investment program.	1996/97
Fiscal deficit and financing	Minimize government crowding out of private sector, and reduce inflationary pressure from government financing.	Reduce the overall deficit-to-GDP ratio (excluding grants).	1996/97-1998/99
		Reduce domestic borrowing, and increase reliance on nonbank financing.	1996/97-1998/99
		Use the receipts from privatization for debt reduction or capital-related outlays.	1996/97-1998/99
		Review the financial situation of the public sector pension system.	1996/97
Fiscal decentralization	Safeguard overall fiscal position.	Exchange information between center and regions with minimum delay and establish centralized accounting for regions.	1996/97-1998/99
		Continue to monitor closely any borrowing by the regions.	1996/97-1998/99

Table 2 (continued). Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
2. Monetary and credit policies			
Monetary control	Ensure growth of monetary aggregates consistent with targets for inflation, growth, and balance of payments.	Expand use of indirect monetary policy instruments.	1996/97-1998/99
		Establish and maintain positive real deposit, lending, and treasury bill rates.	1996/97-1998/99
		Introduce new maturities and denominations, and improve modalities for treasury bill auctions.	1996/97
Financial system	Create environment to establish a modern competitive financial system.	Establish adequate legal, regulatory, and prudential framework for bank and nonbank financial institutions.	1996/97
		Strengthen NBE's supervisory capacity and standardize reporting for all banks.	1996/97
		Assess the financial situation of CBE and the feasibility of its restructuring.	1996/97-1998/99
Policy coordination with Eritrea	Consult and coordinate on monetary and exchange rate policy with Eritrea.	Exchange monetary data regularly and set up framework for policy coordination.	1996/97-1998/99
		II. Structural and Institutional Policies	
Pricing and distribution	Ensure that commodity prices reflect international costs.	Introduce a system to review, and, if necessary, adjust petroleum prices semi-annually to reflect changes in import parities.	Sept. 1996
		Complete comprehensive study on petroleum prices and market structure.	Jan. 1997
		Implement study's recommendations.	1996/97-1998/99
		Phase out price controls and simplify administrative directives on pharmaceuticals.	1996/97
		Replace across-the-board direct fertilizer subsidy with targeted subventions.	Sept. 1996
		Deregulate retail fertilizer prices to reflect transportation and marketing costs.	Dec. 1996
		Deregulate wholesale fertilizer prices.	Dec. 1997
		Eliminate targeted subventions.	Dec. 1998

Table 2 (continued). Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
Private sector development	Encourage investment.	Revise the Investment Code to allow private domestic and foreign investment/participation in a number of previously restricted nonstrategic sectors and private domestic investment in some strategic sectors, and to eliminate the requirement for Government partnerships with private (domestic or foreign) investors in certain activities.	1996/97
		Facilitate obtaining work permits for expatriate personnel in connection with foreign investment.	1996/97-1998/99
		Strengthen or set up one-stop investment offices in the center and regions.	1996/97-1998/99
		Implement procedures for the registration of all businesses.	1996/97-1998/99
		Set up institutional arrangements for regular dialogues between the Government and the private sector.	1996/97
	Ensure efficient contract enforcement.	Provide a fast track for adjudication of cases, help reduce defective contracts, and discourage excessive litigation.	1996/97
Privatization and public enterprise reform	Speed up the privatization of public enterprises (PEs).	Improve privatization modalities.	1996/97-1998/99
	Reduce inefficiencies of PEs.	Require PEs to operate on commercial basis, including costing provisions for depreciation.	1996/97-1998/99
Capacity building	Strengthen capacity for policy formulation and analysis.	Seek adequate technical assistance and equipment.	1996/97-1998/99
	Improve project management.	Enhance capacity in center and regions for project preparation, appraisal, implementation, monitoring, and procurement.	1996/97-1998/99
Land lease regulation	Improve the regulatory environment for the leasing of agricultural land.	Develop and expand market for leases, and establish regulations for leasing rural land by smallholders.	1996/97-1998/99
	Increase availability of urban land.	Establish regulations for absorption of agricultural land within urban boundaries.	1996/97
		Increase auctioning of urban land leases and simplify auctions.	1996/97-1998/99

Table 2 (continued). Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
Housing and urban development	Improve housing supply in urban areas.	Assess and, if appropriate, adjust urban rents on certain categories of government-owned housing.	1996/97-1998/99
		Initiate sales of government-owned houses to the private sector, and develop system to compensate previous owners of nationalized houses.	1996/97
		III. Sectoral Policies	
Agriculture	Improve availability of agricultural inputs.	Gradually phase out AISCO's market centers as private retailers emerge. Disengage Government from direct sales of fertilizer.	1996/97-1998/99
	Improve agricultural productivity.	Overhaul extension and research service, and improve and expand rural roads.	1996/97-1998/99
		Progress toward completing privatization of state farms.	1996/97-1998/99
Public utilities	Improve the operation of public utilities.	Operate public utilities on autonomous and commercial basis.	1996/97-1998/99
		Adjust power tariffs to allow for full cost recovery.	1998/99
	Improve water resource management.	Finalize legal arrangements regarding ownership and financial relations with regions, and prepare water resource master plan.	1998/99
		Set up water tariffs initially to cover operational and maintenance costs.	1998/99
Energy	Develop energy resources in a sustainable way and increase production and consumption efficiency.	Implement National Energy Strategy.	1996/97-1998/99
		Expand traditional fuel sector.	1996/97-1998/99
Transport	Liberalize and increase efficiency of transport sector.	Remove regulations that provide MTSE with effective monopoly on forwarding and clearing.	1996/97
		Ease regulations to increase competition in domestic road transport.	1996/97-1998/99
		Complete ongoing study of railway management and structure, and implement recommendations.	1996/97-1998/99

Table 2 (continued). Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
		IV. Data Base	
Macroeconomic, financial, and external sector statistics	Improve price data and national accounts.	Develop and maintain national urban and rural CPIs, introduce a national CPI, update national accounts, and carry out annual crop, household expenditure, and employment surveys.	1996/97-1998/99
		Strengthen collection of data on private sector, including trade and industry.	1996/97-1998/99
	Improve fiscal accounts.	Consolidate extrabudgetary and regional government accounts and reduce time lags for finalizing accounts.	1996/97-1998/99
	Improve monetary statistics.	Update data on sectoral composition of commercial bank lending.	1996/97-1998/99
	Improve balance of payments statistics.	Improve compilation of balance of payments statistics by introducing surveys, accelerate reporting of Customs Administration trade data, and strengthen collection of debt data.	1996/97-1998/99
	V. Human Resource Development and Population		
Health care and education	Strengthen primary health care program, and improve access to primary and secondary education.	Improve primary school enrollment, basic health and nutrition services for mothers and children, increase coverage of immunization and other disease prevention.	1996/97-1998/99
		Encourage private participation in the provision of education and in the supply of instructional materials and textbooks.	1996/97-1998/99
Financing of social services	Increase financing of social services.	Formulate and implement a strategy for introducing user fees and/or other forms of cost recovery for health services.	1996/97
		Formulate and implement a strategy for introducing user fees and/or other forms of cost recovery for education services.	1996/97-1997/98
Population	Reduce population growth rate.	Implement education, training, and counseling on productive health and family planning.	1996/97-1998/99
Status of women	Improve economic situation of women.	Revise laws and regulations to guarantee equal access of women to resources, property, and business activities.	1996/97-1998/99
		VI. Environment	
Sustainable development	Manage natural and man-made resources soundly.	Implement the National Conservation Strategy and Action Plan and its various sectoral components.	1996/97-1998/99

Table 2 (continued). Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
		VII. Poverty Alleviation	
Poverty and Social Dimensions of Adjustment (SDA)	Ensure effective, efficient, and fully-budgeted safety nets for vulnerable groups.	Formulate a food security strategy and evaluate ongoing safety net program.	1996/97-1998/99
		VIII. External Sector Policies	
Exchange system	Pursue market-oriented exchange rate policies; and eliminate parallel market premium.	Remove used items from negative list for the foreign exchange auction, except clothing.	Sept. 1996
		Eliminate 25 percent cover requirement for the foreign exchange auction.	Sept. 1996
		Establish an interbank market for foreign exchange.	1998/99
		Establish foreign exchange bureaus within commercial banks.	Sept. 1996
		Reduce export proceeds surrender requirement to 50 percent.	Sept. 1996
		Phase out export proceeds surrender requirement.	1996/97-1998/99
		Allow exporters to open foreign currency deposit accounts, and permit commercial banks to freely buy and sell foreign exchange for clients.	Sept. 1996
		Allow private inward remittances to be held in foreign currency deposit accounts subject to the retention, conversion, and surrender requirements applying to earners of export proceeds.	Sept. 1996
		Increase frequency of foreign exchange auctions to weekly.	Sept. 1996
		Phase out remaining current account restrictions.	1997/98-1998/99
Trade system	Promote and diversify exports.	Improve import duty drawback system.	1996/97
	Reduce tariff and non-tariff barriers to trade.	Simplify import licensing.	1996/97
		Reduce maximum duty rate to 50 percent and number of bands to 8.	Dec. 1996
		Further reduce maximum duty rate and number of bands, and reduce the average tariff level by 5 percentage points (consistent with revenue objectives).	Dec. 1998

Table 2 (concluded). Ethiopia: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1996/97 - 1998/99

Area	Objectives and Policies	Strategies and Measures	Timing
External debt	Regularize financial relations with creditors and further reduce debt service burden.	Reach agreements with non-Paris Club bilateral creditors for debt relief, and a new debt relief agreement with Paris-Club creditors.	1996/97
Aid and debt management	Improve aid and debt management.	Strengthen management and monitoring capability in the Ministry of Finance for aid and external debt.	1996/97-1998/99
		Improve capacity of regions and center to meet donor documentation requirements.	1996/97-1998/99

Table 3. Ethiopia: External Financing Requirements, 1995/96-1998/99

(In millions of SDRs)

	1995/96 Est.	1996/97	1997/98 Program	1998/99
Current account deficit, excluding official transfers	370.6	421.4	380.7	367.7
Amortization	132.5	131.1	138.6	140.5
Change in net reserves	51.7	--	--	--
Reduction in arrears 1/	159.3	308.0	--	--
Total financing requirements	714.1	860.5	519.3	508.2
Disbursements: existing commitments	474.2	271.7	213.1	198.2
Grants	245.6	194.9	125.6	108.0
Loans	168.3	76.8	87.5	90.2
Bilateral creditors	--	--	--	--
Multilateral creditors	168.3	76.8	87.5	90.2
Of which: World Bank	(90.9)	(66.7)	(74.0)	(80.1
Other (including private creditors)	60.3	--	--	--
Disbursements: expected new commitments	--	163.6	202.5	227.9
Grants	--	50.1	118.7	135.6
Loans	--	78.5	43.9	47.3
Bilateral creditors	--	28.6	--	--
Multilateral creditors	--	49.9	43.9	47.3
Of which: World Bank	(--)	(27.7)	(25.0)	(25.1
Other (including private creditors)	--	35.0	40.0	45.0
Total identified financing	474.2	435.3	415.6	426.1
Accumulation of arrears	70.0	--	--	--
Debt relief	169.9	--	--	--
Residual financing gap 2/	--	425.2	103.8	82.2

1/ Excluding arrears on ruble-denominated debt to Russia.
2/ This financing gap will be filled by debt relief from Paris Club creditors under Naples terms, with comparable debt relief from other bilateral creditors, and prospective ESAF loans from the Fund.