MACROECONOMIC DEVELOPMENTS IN ETHIOPIA & OTHER ISSUES

PRESENTATION
to
Japan Business Community

National Bank of Ethiopia
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Summary of major dev'ts

- The Economy registered 11 percent growth in 2010/11, with industry play the leading role (15%) followed by service (12.5%) and agr. (9%). 11% economic growth is projected for 2011/12.
- The share to GDP of agr showed a slowdown while that of service up surged and this trend expected to continue in 2011/12.
- Despite the decline in growth and share to GDP of agr., the sector is remained & will remain as the main driving force, as it is the main source of raw material, employment and foreign currency earning.

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- REERI was depicting a depreciation trend but started to show marginal appreciation since QII of 2010/11, due to higher domestic inflation. Its has effect on external competitiveness but is very minimal:
  - As the exchange rate is already close to equilibrium, and
  - rise in inflation also been witnessed in most of the trading partners, though level is below Ethiopia

  The appreciation is expected to be reversed as inflation is coming down.
- Bank branch to population ratio exhibited a rapid and continuous decrease from 116, 847:1 in 2009/10 to 82,000: 1 in 2010/11 and further to 69,000:1 in nine months, reflecting improvement in access to finance. But relative to SSA countries, it is still low.

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- Gross domestic Saving was 8.8 percent of GDP in 2010/11, above the six years average and target for the current fiscal year (7%). It is projected to be 9 percent for 2011/12. The level is still low compared to SSA countries.
- A 1.9 months import coverage of reserve is targeted for 2011/12 and during the nine months period the reserve coverage is as per the target.

Inflation Development

Inflation development.docx

- Annual inflation trended upward from 10.3 percent in Nov. 2010 to 38.1 percent in June 2011 and 40.6 percent in August 2011, owing to increase in both food & non-food inflation but mainly of food, which accounted 57 percent weight of the total CPI basket.

Reasons for soar in inflation:

  - Higher food and fuel prices in the international market.
  - Change in structure of the economy that leads to supply side constraint
    - Mismatch between demand and supply. eg. construction sector boom
  - Oligopolistic market structure
  - Marginal increase in money supply due to rise in NFA.

Inflation Dev't Cont'd

- *Policy measures taken:*
- Recall: – a 3.9 percent decline in reserve money was targeted for the current fiscal year. But a 9 percent drop in reserve money, which is beyond the target was achieved during the nine months as a result of:
  - Maintaining zero government borrowing from the central bank.
  - Sterilization of foreign currency.
  - Satisfying the foreign currency demand of public institutions for import of their next year plan.
  - Introduction of a weekly T-bills auction and cooperation of CBs to use the excess reserve amount beyond the required level to hold for the purchase of T-bills.

Inflation Dev’t cont’d

- Proclamations by MoTrade to correct the market structure
- A slowdown in food price in the world market and government intervention to stabilize the domestic market by importing wheat, oil & sugar and distributing at a subsidized price to low income group have contributed to curb inflation.

  As a result, the year on year inflation reversed and decelerating to 29.8 percent in April 2012 from 40.6 percent in August 2011.

Inflation prospect

- Despite the continued challenge in fuel price rise, the expected increase in crop harvest as a result of favorable weather coupled with the continual tight monetary & fiscal policy measures, inflation is projected to be below 20 percent by the end of current fiscal year and also envisaged to lower further to single digit in next year.

Why the central bank issue NBE Bill?

Background :

- Private banks loan disbursement to long term projects was not more than 20%. The majority of loan was to short term (domestic & international trade) which can maximize their profit.

Hence, to increase the role of private banks in supporting economic growth via financing of long term priority sector projects, the bill has been issued and entered in to force as of 4^{th} April 2011.

- By the Directive number: MFA/NBE Bills/001/2011, all CBs except CBE & DBE are obliged to allocate 27% of total loan disbursed during the month for the purchase of the bill.

The purpose of Raising Minimum Capital Required for Banks to Birr 500 million?

- The Directive enter into force as of 19th Sept. 2011.
- As stated in Directive No. SBB/50/2011: The purpose is,

to raise the minimum capital required to establish a new bank so that the *newly established banks can compete successfully with existing banks,*

- As banks expand their business, they have *to maintain a level of capital that can accommodate the volume of business* so as to withstand adverse operational results.

Finally, this assures the sustainability of the business and there by increase depositors confidence.

Ethiopia's progress towards accession to WTO

Background :

- Knowing the benefits of accession to WTO, Ethiopia has started the process in 2003.
- Of the four rounds required, the country *has passed two rounds successfully* and now on *final stage of the third round*.
- During the *1st & 2nd round*, the country received *197 and 144 questions* and prepared responses accordingly (in 2007& 2009). For the *3rd round, 134 questions* received, responses already prepared and submitted on Jan 2012.
- The current WTO members are 157 including Russia, Montenegro & Samoa countries, which joined in Dec. 2011.

As part of the accession, the big challenge for Ethiopia is:

to privatize & open up the banking sector, tele & power.

WTO Cont'd

- Related to Financial sector liberalization, *now is not the right time, as it required in a priori to enhance the competitiveness capacity of infant domestic banks (financially, technically as well as technologically).* Moreover, it also needs to *upgrade & strengthen the supervisory capacity of the central bank,* among other things.

Hence, a number of preparatory works has been undergone, for instance,

- Implementation of the National payment system eg. CORE Banking business by CBs
- The process of creating strong & competent banks that can avert risk, in such case:
  - ✓ Enhancing the technical skill of CBs experts
  - ✓ Introducing technologies that can improve the efficiency of CBs
  - ✓ Raising the minimum paid up capital of CBs
- Process of introducing new financial product like mobile banking & others.

WTO Cont'd

- Strengthening the supervisory capacity of the central bank etc.

THANK YOU

Questions or Comments?

Please welcome