International Monetary Fund

Ethiopia and the IMF

Press Release:
IMF Executive Board Approves US$240.6 Million Arrangement for the Federal Democratic Republic of Ethiopia Under the Exogenous Shocks Facility
August 26, 2009

Country's Policy Intentions Documents

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

August 7, 2009

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
LETTER OF INTENT

Addis Ababa, August 7, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

The government of Ethiopia requests support from the International Monetary Fund (IMF) for its 2009/10 economic program through a 14-month arrangement under the High-Access Component of the Exogenous Shocks Facility (ESF). We request access of 115 percent of quota, the equivalent of SDR 153.755 million (about USD 240 million).

Macroeconomic performance has improved substantially under the policy package supported by the IMF with a drawing under the Rapid Access Component of the ESF, approved by the IMF Executive Board in January 2009. Given the still-low level of foreign exchange reserves, the requested arrangement will greatly assist with our efforts to steer the Ethiopian economy through the global economic crisis, sending a positive signal to domestic stakeholders and our development partners about our resolve to maintain a stable macroeconomic environment.

In the attached Memorandum of Economic and Financial Policies (MEFP), we describe policy implementation in 2008/09 and set out our macroeconomic objectives and policies for 2009/10. Our program focuses on entrenching low inflation and building international reserves through appropriately tight fiscal and monetary policies supported by the necessary exchange rate flexibility. We also intend to enhance monitoring and control of borrowings by the public enterprise sector, develop the central bank's liquidity forecasting and control capacity, and flesh out, with IMF technical assistance, a comprehensive time-bound tax reform strategy to improve domestic revenue mobilization.

The MEFP and Technical Memorandum of Understanding (TMU) present quantitative performance criteria and indicative targets as well as structural benchmarks through the period of the arrangement. We believe that the policies set forth in the MEFP are adequate to achieve the objectives of the program, but we will take additional measures as needed to reach these goals. We will consult with IMF staff on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the agreed IMF policies on such consultation.

The government of Ethiopia authorizes the IMF to publish the contents of this letter, and the attached MEFP and TMU, on its website after consideration of our request by the Executive Board.

Sincerely yours,

/s/
Sufian Ahmed
Minister
The Ministry of Finance and Economic Development

/s/
Teklewold Atnafu
Governor
The National Bank of Ethiopia

Attachments:

I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

ATTACHMENT I

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
FOR THE PERIOD JULY 8, 2009 – OCTOBER 25, 2010

Addis Ababa, August 7, 2009

1. Ethiopia has achieved strong economic growth in recent years. Supported by improved agricultural production and large-scale public investment in infrastructure, real GDP growth has averaged 11.5 percent in the past five years, among the highest levels recorded in the continent. Good growth performance has also contributed to significant poverty reduction and to favorable prospects for achieving the MDGs.

2. Strong economic growth coupled with the surge in world commodity prices put serious pressures on both domestic prices and international reserves during 2008, with CPI inflation peaking at 64 percent in July 2008 and international reserves dropping below one month of imports by the second half of that year.

3. Facing the twin challenges of high inflation and low reserves, we introduced significant adjustments to economic policies in late-2008, aimed at restoring macroeconomic stability: these included sizable fiscal tightening, the elimination of fuel subsidies, monetary policy tightening, and adjustments of the exchange rate. The IMF provided support to this policy package through a disbursement of some US$50 million under the rapid-access component of the Exogenous Shocks Facility (ESF) in February 2009. Our development partners also increased substantially their financial support to us during 2008/09.

4. The policy adjustments made last year have worked well, but our improved macroeconomic performance is now being threatened by the fallout from the difficult global economic environment. While the commodity price pressures have eased, receipts from merchandise exports, remittances, and direct foreign investment are coming under pressure, and there is some pullback in aid inflows from the elevated levels recorded in the 2008/09 fiscal year, just ended. We have adjusted our economic program for the year ahead, described below, to respond to the weak global economic environment and expect to achieve solid and sustainable macroeconomic outcomes over the period ahead.

5. We are seeking financial support for this program from the IMF under the high-access component of the ESF; the basis for this requested support is discussed below.

Policies and Economic Performance during 2008/09

6. We have achieved solid results under our economic program for 2008/09, aided by consistent implementation of policies. We anticipate that growth will approach 10 percent for the year. Inflation fell to single digits in June 2009, helped by the partial reversal of last year's food and commodity price surges. International reserves have been rebuilt, helped by increased donor support, and exceeded $1.5 billion by the end of the fiscal year, equivalent to 1.8 months of the coming year's imports of goods and services.

7. We have implemented the key policy measures identified in our December 15, 2008 letter to the Managing Director of the IMF (IMF Country Report No. 09/34) and believe that all quantitative targets for end-2008/09 will be met. The measures include:

- Eliminating fuel subsidies: Domestic fuel prices have been adjusted monthly since October 2008, with prices now set somewhat higher than import costs to enable the Oil Stabilization Fund (OSF) to repay its accumulated debt to the banking system.

- Tightening fiscal policy: Net domestic financing of the general government from the banking system during the first eleven months of the fiscal year stood at -2.8 billion birr and all indications are that the full year target of zero domestic financing will be achieved—a sharp improvement from the borrowing level of 2.7 percent of GDP recorded in 2007/08.

- Reducing public enterprise domestic borrowing: An inter-agency monitoring committee was established (in January) and has been meeting regularly to review developments and identify control measures where warranted. Domestic borrowing during the first eleven months of 2008/09 was 7.5 billion birr, and the full year limit of 8.0 billion birr should be observed.

- Containing money growth: Control of the money supply has proven to be a challenge, despite the support received from the drop in government financing needs. We expect the end-year target of 20 percent growth for broad money to be achieved, but will need to strengthen our framework for liquidity control in the year ahead.

- Greater exchange rate flexibility: The birr fell by some 10 percent vis-à-vis the US dollar in January 2009, and by end-June had depreciated by some 16 percent since September 2008. This nominal depreciation, coupled with the easing of inflation, has reversed some of the accumulated real appreciation of recent years.

Economic Objectives and Policies for 2009/10

8. The global economic crisis has created sizeable challenges for Ethiopia, threatening the sustainability of the solid performance achieved in 2008/09. Favorable weather conditions should provide support for agricultural production in the coming year and key infrastructure projects are expected to move ahead, but drop-offs in selected exports, remittances, direct foreign investment, and donor inflows will place pressure on the balance of payments.

9. The over-arching objective of our economic program for 2009/10 is to maintain macroeconomic stability in the face of the difficult external environment. Program objectives include: a) maintenance of a high, if somewhat lower, level of economic growth than in 2008/09; b) locking in the sharp slowdown in inflation, keeping annual inflation below 10 percent; and c) increasing foreign reserves, inclusive of the financial support requested from the IMF, to some US$1.67 billion, equivalent to 1.9 months of import coverage. We anticipate that GDP growth will reach about 9 percent in 2009/10, but have adopted the conservative assumption of 7 percent in fleshing out the financial and economic program described here.

Fiscal Policies and Public Sector Management

10. We will maintain a tight fiscal stance in 2009/10, containing the overall public sector domestic borrowing level to 3.0 percent of GDP, up somewhat from the 2008/09 level, but down sharply from the 7 percent of GDP recorded in 2007/08. Specific targets are that domestic borrowing of the general government will not exceed 5.8 billion birr (1.4 percent of GDP) while domestic borrowing by public enterprises and public agencies will not exceed 6.3 billion birr (1.6 percent of GDP). Domestic borrowing of the federal government will involve a mix of credit extended by the NBE and sales of government paper to banks and non-banks: we are committed to active use of Treasury bill auctions to allow effective control of reserve money by the NBE (see below).

11. Our budgetary program for 2009/10 is predicated on the need to maintain close control on the government's domestic borrowing requirement while partly easing some of the tight expenditure constraints imposed as part of our ambitious adjustment program during 2008/09. Balancing these conflicting objectives, we envisage a fiscal framework in which general government domestic revenues are at least 49.0 billion birr (12.2 percent of GDP); domestic borrowing levels do not exceed 5.8 billion birr (1.4 percent of GDP); and total domestically-funded outlays are not more than 54.9 billion birr (13.6 percent of GDP). To expand the resource envelope, we will be asking our development partners for additional financial assistance, over and above that assumed in the budget, ideally providing levels of support close to that extended to us in 2008/09. We are committed to cutting expenditure levels if domestic revenues fall below target.

12. The government is maintaining a careful prioritization of public expenditures, protecting poverty-reducing spending and strategic capital projects. Total expenditure and net lending of general government is expected to be 18.4 percent of GDP, up somewhat from the levels of 2008/09. Recurrent spending is projected to remain substantially unchanged at 8.3 percent of GDP, with little room for cuts in light of the tight controls, including salary freezes, maintained over the last two years; poverty-reducing spending is expected to increase slightly to 13.1 percent of GDP; while government-funded capital spending will rise somewhat to 7.2 percent of GDP. Non-priority investments will be postponed until public sector resource constraints are eased.

13. Gradual erosion of the tax-GDP ratio has been a troubling development in recent years, and we are committed to reversing this decline and boosting the fiscal resources available to finance our development needs. For 2009/10, we have opted, against the backdrop of falling food prices, to eliminate the temporary exemption from VAT for food and food-related items introduced last year, and we are intensifying our efforts to improve revenue collections. We expect tax revenues for the year to be around 8.7 percent of GDP, up somewhat from 2008/09 levels. Looking towards the medium term, we have sought technical assistance from the IMF's Fiscal Affairs department to review both tax administration processes and tax policies, and expect to use the recommendations from this assistance (timed for the September-November period) in fleshing out a comprehensive tax reform strategy, to be finalized in January 2010. As initial input to this process, we intend to complete, by mid-August, a status review of the recommendations made by a 2006 IMF technical assistance mission. *Development of a tax reform strategy with a time-bound action plan will be a structural benchmark for the first program review*.

14. We have strengthened our control over financial operations of the public enterprises and agencies, with the aim of limiting their borrowing needs and ensuring a balanced distribution of credit between public and private enterprises. An inter-agency committee is now monitoring enterprise borrowing levels on a monthly basis. Large public enterprises are being called on to submit annual investment and financing plans to the committee, which is to review the potential macroeconomic impact of these plans and, where needed, bring proposed remedial policy actions to high-level policy makers in a timely manner. The committee is working to enhance coverage of its operations to include all significant borrowing enterprises and agencies, and a formal notification to all agencies in this regard will be issued shortly to improve information provision from these institutions. The aggregate domestic borrowing need of public enterprises and agencies fell from 4.4 percent of GDP in 2007/08 to 2.1 percent of GDP in 2008/09 and we expect to see some further decline in domestic borrowing needs in 2009/10. *Effective working of this oversight process, including compliance with the indicative targets for public enterprise borrowing, will be a structural benchmark for the first program review.*

15. Appropriate pricing of outputs is essential if public enterprises and agencies are to remain in solid financial health and not become a drain on scarce fiscal resources. Elimination of fuel subsidies was a key measure to cut public sector borrowing needs; we will continue the current practice of setting price levels above costs to allow repayment of the accumulated debts of the Oil Stabilization Fund. We shall maintain our policy of ensuring that electricity tariffs are set at levels that yield full recovery of costs by the state-owned electricity company. The large state-owned telecommunications and airline corporations are in solid financial health.

Monetary policy and operations

16. Monetary policy will be geared to constrain inflation and support the gradual rebuilding of reserves. Our monetary program is anchored around controlling broad money growth, with reserve money as the main operational target. For 2009/10, we are programming broad money growth at 17.1 percent; with real GDP set to rise by at least 7 percent and end-of-period inflation targeted below 10 percent, this would imply a broadly unchanged real stock of money (adjusted for economic growth) over the twelve months of the fiscal year. Given the public sector borrowing program and our foreign reserve targets, there would be room for some real growth in credit to the private sector (on the order of 6 percent), representing some easing in real credit availability from 2008/09. The monetary targets will be reviewed at mid-(fiscal) year to evaluate whether they are appropriately calibrated to achieve program objectives.

17. To improve monetary policy formulation and implementation, it is essential to provide the NBE with the means to manage liquidity through indirect instruments. The medium-term focus of our reform efforts will be on developing central bank open market operations using government paper, but full development of such a capability will require significant developments in the instruments used for government finance and in financial markets. Our immediate priority therefore will be to make use, on a systematic basis, of the existing auctions of Treasury bills (held every two weeks) as the tool to control liquidity, setting sales volumes on the basis of the amounts determined to be needed to meet reserve money targets. This approach will require significant volumes of t-bill sales, with yields being determined by the need to achieve sales volume targets. The setting of auction volumes will require the development of an effective liquidity forecasting capability, in turn entailing close cooperation and weekly information-sharing between the NBE and the MoFED. We are committed to making this arrangement work, deploying the appropriate staff and resources needed to ensure informed and effective decision-making by those tasked with determining auction volumes. Technical assistance in support of this reform agenda will be obtained under the World Bank's financial sector capacity building project. *Achieving substantial progress in implementing these institutional arrangements and capabilities will be a structural benchmark for the first program review.*

Exchange rate and external debt policy

18. Enhanced exchange rate flexibility is an important component of our policy package, aimed at promoting a better allocation of scarce foreign exchange and enhancing the incentives for both exporters and domestic producers competing with imports. Real exchange rate depreciation earlier this year provided an important step in that direction, but there continues to be significant demand pressure in the foreign exchange market. This pressure will likely intensify as global recession impacts on our foreign currency receipts, and takes place in a context where the low level of foreign reserves limits our room for maneuver. Further adjustment of the exchange rate from June 2009 levels will therefore be needed to eliminate these pressures, but will have to be managed in a manner that does not destabilize expectations or consumer price inflation: the 9 percent depreciation of the birr on July 10th represented a judicious move to meet this objective.

19. The government is committed to maintaining effective oversight over the evolution of public sector external debt, including that incurred by public enterprises. While conventional debt sustainability analysis provides a broadly reassuring assessment of Ethiopia's debt burden, we will continue to keep debt levels under close review and will make every effort to ensure that new borrowings are contracted at concessional terms and that large foreign-financed projects are subject to rigorous economic appraisal before being approved. *The mechanisms utilized to scrutinize the investment and external borrowing program of the public enterprises will be a topic covered as part of the first program review.*

Qualification for the ESF and financing needs

20. The difficult external environment has adversely affected the balance of payments outlook and the speed of reserve accumulation that we had envisaged when we requested support under the Rapid-Access Component of the ESF no longer looks achievable. With key exports, remittances, donor assistance, and foreign direct investment inflows all coming under pressure, we anticipate that, notwithstanding the substantive policy measures described above, foreign reserves would fall slightly during the fiscal year in the absence of Fund support, with the import coverage ratio likely to decline to 1.7 months of imports of goods and services by end-2009/10.

21. We are therefore requesting Fund support for our adjustment program in the amount of SDR 153.755 million, equivalent to 115 percent of quota, under the High-Access Component of the ESF. Our eligibility for access to the ESF in this case is based on the sizeable impact of the adverse external environment on our balance of payments position. The requested financial support, in combination with the policy package described here, would allow us to increase reserves to some \$1.67 billion (1.9 months of import cover) by the end of 2009/10. Should the proposed allocation of SDRs be approved by the IMF's Board of Governors, we would take advantage of the allocation to increase our gross foreign reserves

by the full amount of the SDR allocation, bringing gross reserves to $1.85 billion (2.1 months of import cover) by the end of 2009/10.

Program Monitoring

22. The program will be monitored on the basis of (a) quantitative performance criteria and benchmarks, which are set out in Table 1, and described fully in the attached technical memorandum of understanding; and (b) structural benchmarks, as specified in Table 2. Government officials will meet regularly with the IMF's resident representative to review the progress made in the implementation of the program. As indicated in the letter of intent addressed to the Managing Director of the IMF, two reviews are envisaged under the program: the first review will be based on economic performance at end-December 2009 and policy reforms inclusive of the tax reform initiatives anticipated for January 2010, and would be completed by March 2010; the second review will take place approximately six months thereafter, and will based on economic performance in the second half of the fiscal year (ending July 7, 2010).

Table I.1. Ethiopia. Quantitative Performance Criteria and Benchmarks 1/

(In millions of birr, unless otherwise indicated)

	2008/09	2009/10			
	July 7 Est.	September QB	December PC	March QB	July 7 PC
A. Quantitative performance criteria (PCs) and quantitative benchmarks (QBs)					
Floor on net foreign assets of the National bank of Ethiopia 2/ (In millions of U.S. dollar)	576	-260	-350	-278	-80
Ceiling on net domestic assets of the National Bank of Ethiopia 3/	4,939	3,420	4,784	6,214	6,945
Ceiling on net domestic financing of the general government 3/	0	2,496	1,983	2,895	5,823
Ceiling on net credit to public enterprises	7,500	1,806	3,338	5,258	6,270
Ceiling on new non-concessional external debt contracted or guaranteed by the public sector 4/ (In millions of U.S. dollar)	n.a.	500	500	500	500
Ceiling on outstanding external payments arrears 5/	n.a.	0	0	0	0
B. Adjusters to quantitative performance criteria					
Disbursed non-project external assistance (In millions of U.S. dollar)	728	0	250	350	670
C. Quantitative benchmarks					
Reserve money	7,608	478	824	3,069	6,604
Floor on federal government revenue collection	32,154	8,774	20,105	29,840	39,711

1/ Cumulative flow from the start of Ethiopia's fiscal year (July 8).
2/ Adjusted upward/downward for 100 percent of any non-project external assistance that exceeds/falls short of programmed amounts, subject to specified caps.
3/ Adjusted upward/downward for 100 percent of any non-project external assistance that falls short of/exceeds programmed amounts, subject to specified caps.
4/ Excluding the Ethiopian Airlines.
5/ This shall be a continuous performance criterion.

Table I.2. Ethiopia: Structural Benchmarks

	Date
Ensuring close monitoring of public enterprises	
• The public enterprise monitoring committee to receive annual financing and investment plans from all key public enterprises (ETC, EEPCo, Housing Agencies, etc.).	September 30, 2009
• Report progress in compliance with borrowing targets to the Minister of Finance and Economic Development on a monthly basis.	Continuous
Establishing a liquidity control framework	
• Establish a high level joint committee, comprised of NBE and MoFED staff, to exchange information on liquidity needs on a weekly basis.	September 15, 2009
• Develop a formal liquidity forecasting framework in manual form and prepare fortnightly forecasts of liquidity needs for use in setting auction volumes.	January 31, 2010
Tax reforms	
• The Minister of Finance and Economic Development to approve a tax reform strategy with a time-bound action plan covering both tax policies and administration.	January 31, 2010

ATTACHMENT II

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
TECHNICAL MEMORANDUM OF UNDERSTANDING

Addis Ababa, August 7, 2009

I. INTRODUCTION

1. This memorandum sets out the understandings between the Ethiopian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria and indicative targets, for the program supported by the high-access component of the Exogenous Shocks Facility (ESF), as well as the mechanisms to monitor the program and related reporting requirements. To monitor the evolution of the economy during the program period, the Ethiopian authorities will provide the data listed in each section below to the African Department of the IMF, in accordance with the indicated timing (summarized in section IV.C.). The financial criteria will be monitored on the basis of the methodological classification of monetary and financial data that exists as of July 7, 2009.

2. For program purposes, the public sector consists of the general government (comprising the federal and regional governments) and public enterprises.

3. For program purposes, public enterprises refer to those entities under the term of "public enterprises" in the monetary survey provided by the National Bank of Ethiopia.

4. The quantitative targets for end-December 2009 and July 7, 2010 constitute performance criteria, and those at end-September, 2009 and end-March 2010 are quantitative benchmarks.

5. The program exchange rate of the Ethiopian birr to the U.S. dollar is set at 11.3145 birr = $1. The corresponding cross exchange rates and program gold price for the duration of the program are provided in table 1, which are the prevailing rates as of July 7, 2009.

Table 1. Program Exchange Rate Assumptions

Currency	US$/currency
Ethiopian Birr	0.0884
SDR	1.5461
Euro	1.3984
British pound	1.6338
Canadian dollar	0.8619
Gold ($/ounce)	925.75

II. Quantitative Performance Criteria and Benchmarks: Definitions and Reporting Standards

A. Floor for Net Foreign Assets (NFA) of the NBE

6. **Definition**. The NFA of the NBE are defined as the difference between gross foreign reserve assets and all foreign reserve liabilities of the NBE, including debts to the IMF and other long- and short-term liabilities of the NBE to nonresidents. For purposes of the program, foreign reserve assets shall be defined as monetary gold, holdings of SDRs, the reserve position in the IMF, and NBE holdings of foreign exchange in convertible currencies. Any such assets shall only be included as foreign reserve assets if they are under the effective control of, and readily available to, the NBE. Excluded from gross foreign reserve assets include capital participation in IFIs, any assets in nonconvertible currencies, holdings of precious metals other than monetary gold, encumbered foreign reserve assets, and foreign reserve assets pledged as collateral for loans and derivative contracts. Foreign reserve liabilities include any foreign currency denominated short-term loans or deposit (with a maturity of up to and including one year); NBE liabilities to residents and nonresidents associated with swaps (including any portion of the NBE gold that is collateralized) and forward contracts; IMF purchases; and loans contracted by the NBE from international capital markets, banks or other financial institutions located abroad, and foreign governments, irrespective of their maturity. Foreign reserve liabilities also include foreign-currency-denominated domestic liabilities of the NBE. For calculating the criteria, foreign reserve assets and liabilities shall be valued at the exchange rates prevailing on July 7, 2009 (see Table 1). It is understood that additional SDR allocation, if any during the program period, will have no impact on the NFA of the NBE.

7. **Reporting**. Data on gross foreign reserve assets and foreign reserve liabilities of the NBE will be transmitted to the African Department of the IMF on a monthly basis within 30 days of the end of each month. The NBE will also report the breakdown between liquid and unencumbered gross foreign reserve assets and those foreign reserve assets that are pledged, swapped, or encumbered.

B. Ceiling on Net Domestic Assets (NDA) of the NBE

8. **Definition**. The NDA of the NBE are defined to include net credit to the government, credit to enterprises and individuals, claims on banks, and other items net (see the monetary survey), but exclude foreign currency valuation adjustments.

9. **Reporting**. The monthly balance sheets of the NBE will be transmitted to the African Department of the IMF within 30 days of the end of each month.

C. Limit on the Net Domestic Financing of the General Government

10. **Definition**. The net domestic financing of the general government is defined as the sum of (i) the change in the net stock of claims of domestic banks and non-banks on the general government and (ii) any pending overdue bills. Net domestic bank claims consist of NBE and domestic commercial bank claims on the general government, including treasury bills and other general government liabilities, net of general government deposits with the NBE and domestic commercial banks. Non-bank claims comprise treasury bills, bonds, and other general government paper placed with non-bank institutions or with the public. For calculating the criteria, the bonds issued by regional housing agencies for condominium projects shall be excluded.

11. **Reporting**. Data on domestic financing (bank and non-bank) of the general government (including treasury bills and government bonds held by the nonbank public) will be transmitted on a monthly basis, within six weeks of the end of each month, except for the data on regional governments, which will be furnished within twelve weeks after the end of each quarter. Reporting on domestic and external arrears (i.e., overdue bills) will be monthly, within six weeks of the end of each month.

D. Ceiling on Net Domestic Credit to public enterprises

12. **Definition**. The net domestic credit to public enterprises is defined as the change in the net stock of domestic bank and non-bank claims on public enterprises. Net bank claims on public enterprises consist of NBE and domestic commercial bank claims on public enterprises, including loans, bonds, and other liabilities, net of public enterprise deposits with domestic commercial banks. Non-bank claims comprise loans, bonds, and other debt papers placed with nonbank institutions or with the public. For calculating the criteria, the bonds issued by regional housing agencies for condominium projects, and the loans extended by the Development Bank of Ethiopia to public enterprises shall be included.

13. **Reporting**. Data on credit (bank and nonbank) to public enterprises will be transmitted on a monthly basis, within six weeks of the end of each month

E. Ceiling on External Payment Arrears

14. **Definition**. External payment arrears are defined as debt service obligations incurred directly or guaranteed by the public sector to non-residents that have not been paid at the time they are falling due, as specified in contractual agreements, except on debt subject to

rescheduling or restructuring. The program requires that no new external arrears be accumulated at any time under the arrangement.

15. **Reporting**. The accounting of nonreschedulable external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis within four weeks of the end of each month. This accounting would include, separately, arrears owed by the federal government and other public sector entities; and arrears owed to Paris Club creditors and non-Paris Club creditors. Data on the arrears that creditors have agreed to reschedule shall be provided separately.

F. Ceiling on Nonconcessional External Debt

16. **Definition**. External debt limits apply to the contracting or guaranteeing of nonconcessional external debt by the public sector. External debt includes debt as defined in the Annex (Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the IMF on August 24, 2000) as well as commitments contracted or guaranteed for which value has not been received. Excluded from this limit are short-term import credits and long-term financing operations of Ethiopian Airlines. Concessionality will be based on a currency-specific discount rate based on the ten-year average of the OECD's commercial interest reference rates (CIRR) for loans or leases with maturities greater than 15 years and on the six-month average CIRR for loans or leases maturing in less than 15 years. Under this definition of concessionality, only debt with a grant element equivalent to 35 percent or more will be excluded from the debt limits. Excluded from this performance criterion are credits extended by the IMF and financing from the World Bank and African Development Bank (AfDB), and government counter guarantees on project loans from both the World Bank and AfDB. Debt falling within the limit shall be valued in U.S. dollars at the exchange rate prevailing at the time the contract is entered into, or guarantee issued.

17. **Reporting**. A loan-by-loan accounting of all new concessional and nonconcessional loans contracted or guaranteed by the public sector, including detailed information on the amounts, currencies, and terms and conditions, as well as relevant supporting materials, will be transmitted on a monthly basis within four weeks of the end of each month.

G. Ceiling on reserve money (quantitative benchmark)

18. **Definition**. Reserve money is defined as the sum of currency issued by the NBE (including the vault cash of commercial banks and currency outside banking system) and balances of commercial banks on accounts with the NBE.

19. **Reporting**. The monthly balance sheets of the NBE will be transmitted within six weeks of the end of each month.

H. Floor on Federal government revenue collection (quantitative benchmark)

20. **Definition**. Federal government revenue is defined as the sum of all tax revenue and non-tax revenue collected by the federal government.

21. **Reporting**. Data on federal government revenue collection will be transmitted on a quarterly basis, within six weeks of the end of each quarter.

III. ADJUSTERS

I. Excess in Disbursed External Non-Project Financial Assistance

22. In case of an excess external non-project financing beyond the programmed amounts shown in Table 2 for the period July 8, 2009–July 7, 2010,

Table 2. Non-Project External Financing, 2009/10
(Cumulative quarterly flows, in millions of U.S. dollars)

July 8-Sep. 2009	Oct.-Dec. 2009	Jan.-Mar. 2010	Apr.-July 7 2010
0	250	350	670

- The floor on net foreign assets of the NBE will be adjusted upward by 100 percent of the disbursed non-project external financing in excess of the programmed amounts (comprising non project related loans and grants) at the end of each quarter, valued at the average exchange rate of the quarter.
- The ceiling on net domestic assets of the NBE will be adjusted downward by the amount of disbursed external financing in excess of the programmed amounts (comprising non project related loans and grants) at the end of each quarter, converted into birr at the average exchange rate of the quarter.
- The ceiling on domestic financing of the general government will be adjusted downward by the amount of external financing disbursed to the budget in excess of the programmed amounts (comprising non project related loans and grants) at the end of each quarter, converted into birr at the average exchange rate of the quarter.

J. Shortfall in Disbursed External Non-Project Financial Assistance

23. In case of a shortfall in external non-project financing below the programmed amounts, (comprising non-project loans and grants) shown in Table 2 for the period July 8, 2009–July 7, 2010:

- The floor on the NFA of the NBE will be adjusted downward by 100 percent of the amount of the shortfall below the programmed amount, up to a maximum adjustment of $150 million for the end-December test date and up to a maximum adjustment of $250 million for the July 7, 2010 test date The adjustment will be converted at the average exchange rate of the quarter.

- The ceiling on the NDA of the NBE will be adjusted upward by 100 percent of the amount of the shortfall below the programmed amount, up to a maximum adjustment of $150 million for the end-December test date and up to a maximum adjustment of $250 million for the July 7, 2010 test date. The adjustment will be converted into birr at the average exchange rate of the quarter.

- The ceiling on general government net domestic financing will be adjusted upward by 100 percent of the amount of the shortfall below the programmed amount, up to a maximum adjustment of $150 million for the end-December test date and up to a maximum adjustment of $250 million for the July 7, 2010 test date The adjustment will be converted into birr at the average exchange rate of the quarter.

IV. Other Reporting Requirements for Program Monitoring

K. Public Enterprise Monitoring Committee

24. The public enterprise monitoring committee, composed of senior officials from the Ministry of Finance and Economic Development, the NBE, and other relevant agencies, shall meet monthly and be responsible for monitoring public enterprises financing activities and recommending policy responses, if necessary. The committee shall provide the IMF with an update report on a monthly basis within six weeks of the end of each month.

L. Developments on Structural Performance Criteria and Benchmarks

25. The authorities will notify the African Department of the IMF of developments on structural benchmarks as soon as they occur. The authorities will provide the documentation, according to the dates in Table 2 annexed to the MEFP, elaborating on policy implementation.

C. Data Reporting

Information	Provider	Periodicity and due date
Gross international reserves and foreign liabilities of the National Bank of Ethiopia (NBE) Breakdown between liquid and unencumbered reserves and reserves that are pledged, swapped or encumbered	NBE	Monthly within 30 days of the end of each month
Net domestic assets of the NBE	NBE	Monthly within six weeks of the end of each month
Reserve Money	NBE	Monthly within six weeks of the end of each month
Net domestic financing of the general government Regional government's fiscal data	Ministry of Finance and Economic Development (MOFED)	Monthly within six weeks of the end of each month Quarterly within twelve weeks of the end of each month
Domestic Arrears	MOFED	Monthly within six weeks of the end of each month
External Arrears	MOFED	Monthly within four weeks of the end of each month
Domestic credit to public enterprises	NBE/MOFED	Monthly within six weeks of the end of each month
Federal Government Revenue	MOFED	Monthly within six weeks of the end of each month
New Nonconcessional External Debt contracted or guaranteed by the government	MOFED	Quarterly within four weeks
Non-project financial assistance	MOFED/NBE	Quarterly within 30 days
Public enterprise monitoring committee report	NBE	Monthly within six weeks
Consumer Price Index	NBE	Monthly within four weeks
National Accounts	MOFED	Within three weeks of any revision
Consolidated Budget Report of Federal and Regional Government	MOFED	Quarterly within twelve weeks
Monetary Survey	NBE	Monthly within six weeks
T-Bill auction details	NBE	Monthly within two weeks
Interbank exchange rate	NBE	Weekly within five business days
BoP data: Exports, imports, services, private transfers and capital account transactions	NBE	Quarterly within eight weeks
Volume and prices of fuel imports	NBE	Monthly within four weeks
Coffee exports	NBE	Monthly within four weeks

INTERNATIONAL MONETARY FUND

Executive Board Decision No. 6230-(79/140) (Guidelines on Performance Criteria with Respect to Foreign Debt) adopted August 3, 1979, as amended by Executive Board Decision No. 11096-(95/100) adopted October 25, 1995, and as amended on August 24, 2000
Point No. 9

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. However, arrears arising from the failure to make payment at the time of delivery of assets or services are not debt.