

## **REFLECTIONS ON THE ETHIOPIAN ECONOMY DURING THE CURRENT GLOBAL ECONOMIC CRISIS.**

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The economy is the main agenda of the day around the globe because the global economy continues to be on the down turn on the most synchronized manner affecting every household. According to the International Monetary Fund (IMF)'s findings for example, the global economy is the worst since World War II and the deepest since the Great Depression of the 1930s with calamitous consequences on both the developing as well as the developed nations. It is further estimated that the global economy will continue to shrink over two per cent this year leaving from fifteen to twenty-five million more people out of job unless huge stimulative fiscal policies are added and unless contingency plans for infrastructure spending are given priority from the world's major economic power houses according to IMF's prediction. Such a crisis has devastating consequences in terms of employment, on businesses, on food security and on crime rates on both the developing and the developed nations.

Economic ups and downs or economic fluctuations happen from time to time for variety of reasons; management and/or mismanagement of resources, financial and administrative misconduct and the unfair global financial system that often worked to the disadvantage of the developing nations often lead to financial instability among others. On the other hand, environmental cataclysms can also impact the financial outcome. The current global economic crisis has a direct and/or indirect impact on the economic road map on both the developed as well as developing nations; however, the impact is more pronounced on those countries that have direct financial linkages with the most influential financial institutions of the highly developed nations. Since the most developed nations are the main causes for the global financial down turn, they are the most affected by the global economic slow-down because they have dominated the global economy (85%). Few countries like Ethiopia that have their own economic road map independent from the dominant economic policy of the developed nations have been partially released from the current economic upheaval because there was less or no influence from the crisis of the grand economic power houses

upon their respective economic policy. For example, Ethiopia has scored a double digit economic growth within the last six years consecutively because it has articulated, designed and implemented its own economic road-map: agriculture lead industrialization policy. Obviously, this policy must have worked very well otherwise there wouldn't be a consecutive double digit economic growth for the last six years. Further, this policy was not influenced and/or dictated by any other country including the grand economic power houses. Instead, this policy was designed and put into effect solely by the Ethiopian government because it relates to the objective and realistic socio-economic conditions of the country. As majority of the Ethiopian people depend on agriculture for their livelihoods, it becomes pretty clear and pretty obvious to design a national economic development policy framework relating and reflecting agriculture and agriculture lead industrialization. Generally, the Country's National Development Policy Framework is designed to:

- Fight and eradicate poverty through achieving broad-based and pro-poor growth;
- Medium term Plans/Programs such as the then Sustainable Development and poverty Reduction Program (SDPRP) and the now Plan for Accelerated and Sustained Development to end Poverty (PASDEP) are primary vehicles for overall socio-economic transformation and achieving the Millennium Development Plan (MDGs):
- The SDPRP which spanned the three-year period (2002/03-2004/05) launched in 2002 following wide-ranging public consultations in 2001 was built on Agriculture, rural development and food security (Agriculture Development Led Industrialization-ADLI), decentralization and empowerment, capacity building in the public and private sector, reforms in both the justice system and the civil service;
- The Plan for Accelerated and Sustained Development to end Poverty (PASDEP) is a five-year (2005/06-2009/10) strategic framework that builds on the directions pursued under the SDPRP. The PASDEP deepens the fundamentals of the then SDPRP; private sector development, and the scaling up of resources to achieve the MDGs.

Source: Ministry of Finance and Economic Development

### **Overall Objectives of the PASDEP**

The main objective of the PASDEP is to lay out the directions for accelerated, sustained, and people-economic development as well as to pave the groundwork for the attainment of the MDGs by 2015.

In realizing this objective, the PASDEP will contribute to the attainment of Ethiopia's vision of becoming a middle income country.

The country's vision specifically on the economic sector has set the following goals:

- To build an economy which has a modern and productive agricultural sector with enhanced technology and an industrial sector that plays a leading role in the economy;
- To sustain economic development and secure social justice; and,
- Increase per capita income of citizens so that it reaches at the level of those in middle-income countries in the coming 20 years.

Source: Ministry of Finance and Economic Development

### **Growth Targets and Framework for Financing PASDEP**

#### **A: Growth Targets under the Base Case**

- Annual Average Real GDP Growth Rate of 7 percent per annum during the period of the PASDEP (2005/06 to 2009/10);
- Annual Average Agricultural Value Added Growth of 6.2 percent per annum;
- Annual Average Industrial Value added growth rate of 11.5 percent per annum; Annual Average Services Sector Value Added Growth Rate of 7.1 percent per annum;
- Inflation based on Consumer Price Index projected to average 8 percent per annum;
- Domestic Revenue was projected to increase at an average rate of 20 percent per annum while tax revenue was projected to increase at an average rate of 22 percent per annum during the period of the PASDEP

Source: Ministry of Finance and Economic Development

### Trends in Performance of the Economy: Growth Rates (%)

Item	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Per. Actual
GDP in 1999/00 Prices	-2.1	11.7	12.6	11.5	11.5	11.6
<b>Agriculture</b>	-10.5	16.9	13.5	10.9	9.4	7.5
<b>Industry</b>	6.5	11.6	9.4	10.2	10.2	10.4
O/w: Manufacturing	0.8	6.6	12.8	10.6	8.3	7.1
Construction	13.6	19.5	7.5	10.5	10.9	11.3
<b>Services</b>	6.0	6.3	12.8	13.3	14.3	17.0
O/w: Banking and insurance	10.8	19.7	24.2	28.7	15.1	24.9
Distributive services	5.5	6.4	14.7	14.2	16.0	15.2
<b>Other services</b>	6.5	6.1	10.9	12.5	13.1	14.2
Real GDP per capita GDP	-4.6	10.7	9.0	8.0	7.5	7.6
Inflation	15.1	8.6	6.1	10.6	15.8	25.3

### Trends in Growth, Poverty and Well-being

- The implementation of Ethiopia's strategies for poverty reduction has been associated with positive trends in macro-economic as well as socio-economic

### Trends in Growth, Poverty and Well-being

- In regard to industrial and service sectors, in 2007/08, the industrial and service sectors registered a growth rate of 10.4% and 17.0%, respectively, which is higher than what was registered during the preceding year (2006/07);
- Growth for Industry and Service is projected at 10.6 and 17.3 percent, respectively during this fiscal year (2008/09);
- Accordingly, overall GDP is projected to grow at 11.2% during the Fiscal Year (2008/09)
- Ethiopia's socio-economic indicators have also improved. In particular, gross primary enrolment rates have improved markedly; immunization coverage has expanded; the nutritional status of the population has improved; and the absolute number of people living below the national poverty line declined between 1999/00 and 2004/05 with much of the decline occurring in rural areas.

### **What Do the Facts Tell Us?**

- The Ethiopian Economy is on a higher growth trajectory (over 10 percent real GDP growth rate during the last 5 years ending in 2007/08) and this momentum needs to be maintained;
- Outcomes on poverty-oriented sectors such as education, health, food security, water supply and sanitation and roads have been well on track;
- The current inflationary pressure is likely to be caused by demand pressure as economic transformation sets in although monetary phenomenon may also have a role;
- The effort on the domestic front has been encouraging as reflected by the domestic revenue performance assess against both the PASDEP Target as well as the Budget during the first three years of PASDEP implementation (2005/06 to 2007/08).
- Domestic revenue has been on average increasing faster than recurrent expenditure during the last five years ending in 2007/08 (22.1 percent per annum versus 11 percent per annum, respectively);
- Tax Revenue increased at an annual average rate of about 24% during the last five years ending in 2007/08.
- Thus, so far (up until 2007/08, the increase in both domestic revenue & Tax revenue exceeds the PASDEP Target (20% and 22% per annum, respectively);
- External grants has not been forthcoming in the sprit of the MDGs though it increased from a little over 1 Billion USD in 2004/05 to about 1.7 Billion USD in 2007/08.

Source: Ministry of Finance and Economic Development