

GTP and Overall Balance of Payment and Current Account Balance

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The Ethiopian history of balance of payments passes through serious difficulties. These difficulties continued by the import growth of 7% and slight increase of the volume and value of exports till 2004/05. Even though the external financed and assisted investment and domestic savings show slender improvements, compared to the rising in imports dependency along with import prices hike it is still complicated. This situation forced the country to be dependent on foreign aid and debt though the country receive smallest amount of aid per capita of the Sub-Saharan Countries. Economists forecasted the country long-term foreign debt of 28.4% in 2003 projected to rise to 40%.

On the other hand, the fastest annual growth rate since 2003 change such predictions and the country over all balance of payments reach USD 1.37 billion in 2010/11. In turn the current account balance including public transfers is a surplus USD 234. This is the first time ever in its history and it is the initial mid years of GTP. This article analyses on the past five years trend of the monetary policy implementation based on the National Bank of Ethiopia yearly data report. It attempts to assess trends in the past five years regarding balance of payment and income account of the country at a glance.

**1. The Overall Trends of Structure of the Balance of Payment
and National Account in the Past Five Years**

particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Trade Balance	-3940.9	-5344.8	-6,279.2	-6,265.8	-5,506.2
Exports	1185.1	1465.7	1,447.4	2,003.1	2,747.1
Imports	5126.0	6810.5	7,726.6	8,268.9	8,253.3
Net Services	230.0	142.3	384.7	457.5	688.1
Travel	69.6	149.8	207.9	224.1	574.9
Transportation	80.6	129.2	223.0	241.3	322.5
Government (n.i.e)	258.8	134.6	160.4	225.2	247.4
Investment income	30.4	16.6	-34.6	-55.2	-69.6
Interest	47.5	30	-10.3	-28.3	-41.5
Cash (net)	47	30	-8.5	-26.1	-40.9
Arrears	0.0	0.0	0.0	0.0	0.0
Relief	-	-	1.8	-2.2	-0.6
Dividend	-17.1	-13.4	-24.3	-26.9	-28.
Other Services	-209.4	-287.9	-172.1	-177.8	-387.1
Private Transfers	1728.6	2388.3	2706.8	2709.7	3161.5

<i>Current Account Balance(excl. public transfers)</i>	-1982.3	-2814.2	-3,187.6	-3,099.5	-1,656.6
Public Transfers	1199.1	1312.5	1,551.4	1,905.6	1,891
Current Account Balance(incl. public transfers)	-783.1	-1501.7	-1,636.2	-1,193.9	234.4
Non monetary Capital	676.1	1055.8	1,647.9	1,996.2	2,473.3
Long term (net)	224.6	330.5	722.2	1,043.6	1,387.4
Disbursements	238.8	377.3	781.3	1,118.1	1,538.9
Repayments	14.2	46.8	59.2	74.5	151.5
Cash	14.2	46.8	42.3	64.7	143.7
Arrears	0.0	0.0	0.0	0.0	
Relief	-	-	16.9	9.8	7.8
Direct Investment	482.0	814.6	893.7	956.4	1,242.5
Short-term (net)	-30.5	-89.4	32.0	-3.8	-156.6
Net Errors & Omission	192.3	173.8	501.8	-485.7	-1,340.4
Overall Balance	85.2	-263.5	513.5	316.6	1,367.3
Financing	-85.2	263.5	-513.5	-316.6	-1,367.3

Reserves (:increase)	-85.2	263.5	-494.8	-304.6	-1,358.9
NBE net foreign asset	-39.6	244.4	-558.7	57.8	-915.3
CBs net foreign asset	-45.3	19.1	63.9	-362.4	-443.6
Debt Relief	102.9	28.2	18.7	-12.0	-8.4
Principal	72.9	24.1	16.9	9.8	7.8
Interest	30.0	4.1	1.8	2.2	0.6

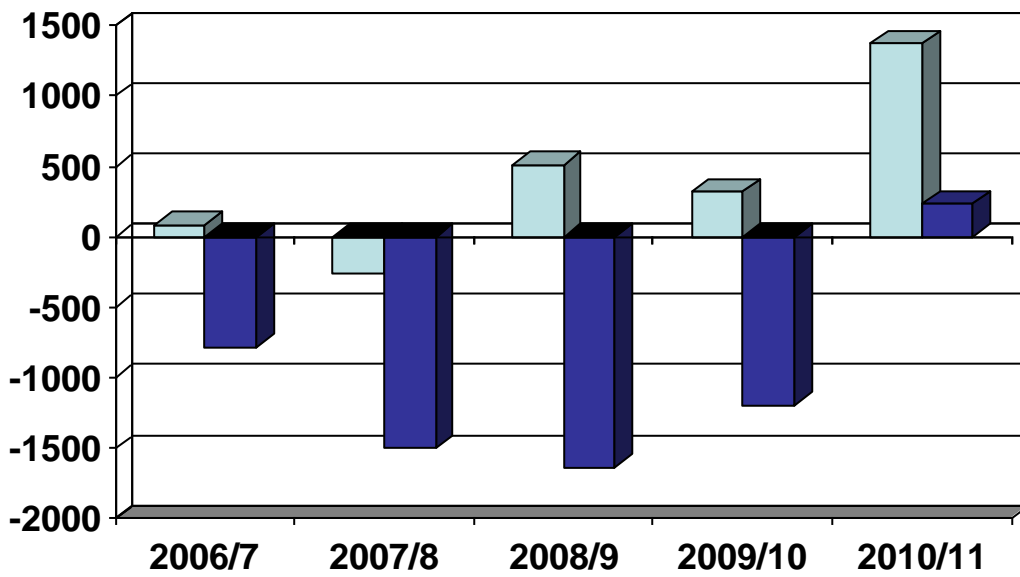
(In millions of USD)

Source: Summarized from MoFD and NBE staff compilations

The overall balance of payments in 2007/08 registered a deficit of USD 263.5 Million vis-à-vis USD 85.2 Million in the preceding year. The deficit was mostly emanated from the 13.9% and 9% failure in the year 2007/08 from its preceding for the components of trade balance and other Services recipient consecutively. This is a single incidence of deficit in the period of five years surplus though there was also fluctuation in 2009/10 from its previous year by a reduction of USD 197.9 Million.

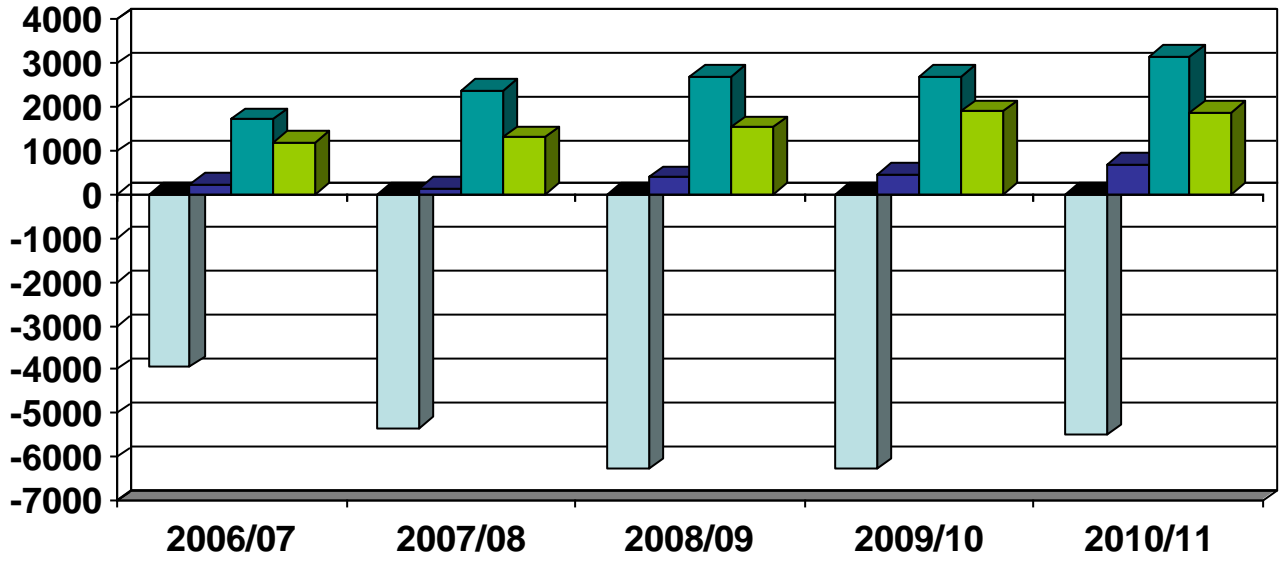
On the other hand the overall balance of payment of the following year (2010/11) was surprisingly leapfrogging to USD 1.37 Billion in the history of the country. That was a fold record from the year 2009/10 of USD 513.5 million overall balance of payment. The achievement vividly shows the extricating of the current account from USD 1.2 billion deficit in 2009/10 to the surplus of USD 234.4 million in 2010/11. In general the overall

balance of payment came to the scan of such significant surplus due to the increase in net service receipts (50.4 %) and private transfers (16.7 %), long term official loan disbursement *and estimated foreign direct investment inflows*.



Overall Balance of payment Current Account Balance

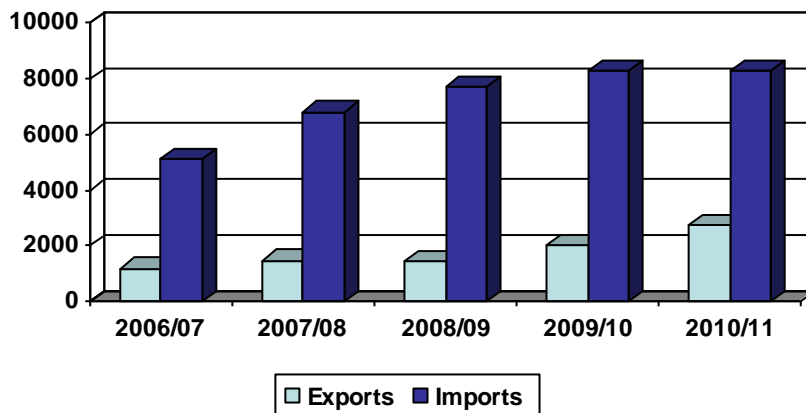
1.1 Trend in Components of the Current Account Balance



Trade Balance Net Services Private Transfers Public Transfers

The feature of trade balances of the country for the three years in the given period was trend of sever deficit. Moreover, the serious problem is its complication and continued depth of deficit from year to years. Despite this trend the 2009/10 shows slight improvement and significant improvement in 2010/11 though it remains in deficit. The 2007/08 deficit was deeper by 35.6% from its previous year and the consecutive year 2008/09 deficit intensifies by 17.5% serious falls. Changes were observed in 2009/10 by slight improvement of 1.22% decrease of deficit and by 22.35 significant narrowing of deficit in the year 2010/11. That is why the overall current account balance of the country mentioned above shown significant positive development in the history of the country.

1.2 Trends of Import and Export as per Percentage Contribution to GDP



The record of export of 2007/08 was a rise by 23.7% from the preceding year but the following year 2008/09 was a fall by -1.2%. The significant increase by 38.5% and 37.2%

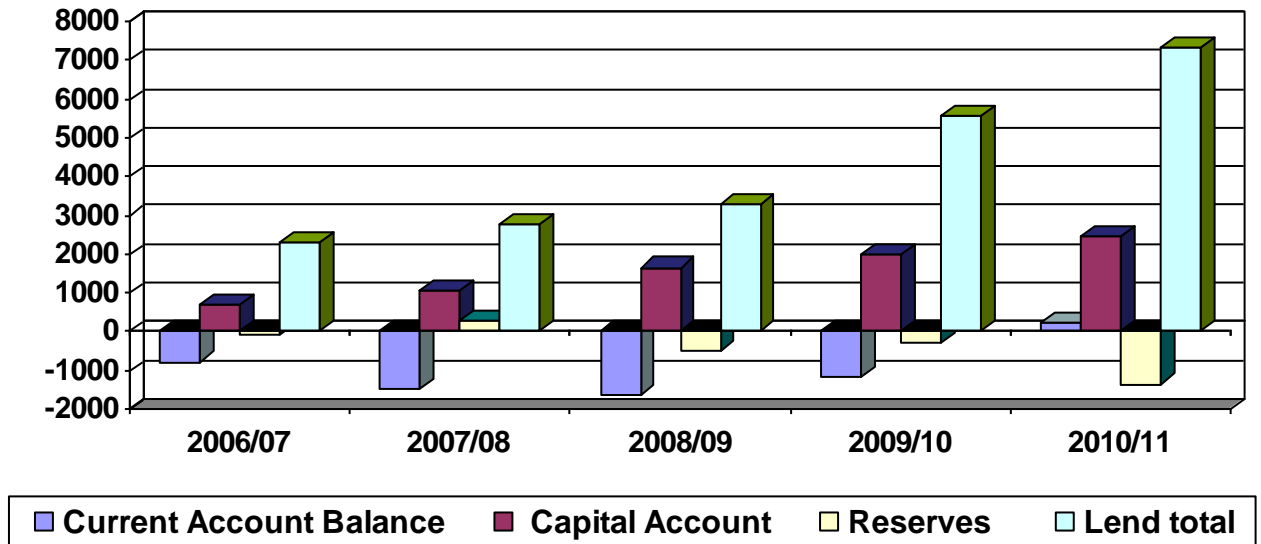
in consecutive years were promising. But the episode of fluctuation was also observed in this period with percentage difference below zero. Any way, the percentage contribution of export to total GDP recorded at increasing rate of 6.1, 5.5, 4.5, 6.7, 9.9 percent change was observed in the following years of the study period.

The import was augmented by 32.9 percent in 2007/8 from the preceding year. However the following years import trend of the country was shown downward by 13.5, 7 and below zero -1.2 percentage change in each successive year. Thus, the history of import merchandise escalation seems in change tendency. In general overall current account augmented by the net service and net private transfer contribution to GDP recorded was at deficit in the study period except 0.8 percent surplus contribution in 2010/11.

3. Trends on Overall Balances of Account

3.1 Current , Financial , and Capital Accounts in Relation to

Total Lend



The trend of current account balance as discussed in detail above had shown dominantly improvement and in the final year of the study period extricating from deficit and reach surplus of USD 234.4 million including public transfers. This is mainly labeled to higher earnings from net services and private transfers. The capital account embarks above three fold surplus rise in the end of study period (USD 2.5 billion of 2010/11) compared to the 2006/7 of USD 676.1 million. Its over all increment was significant change from year to year with out fluctuation. This was mainly due to strong growth in official long term loan from USD 224.6 at the initial year 2006/7 to USD 1.4 Billion in 2010/11. The foreign direct investment also registered augmenting scenario from USD 482 of 2006/7

to USD 1.2 Billion. In this period the country had built the ability of gross foreign reserves of NBE in covering 2 to 3.1 months of imports of goods and non-factor services since 2008/09 to 2010/11. The reserve position of the country (USD 376.7 to 1.37 billion in the end of study period) was dictated by the surpluses gained in current and capital accounts except for the unique year 2007/8.

4. External Debt to GDP Ratio and the Overall Country's Scenario

particulars	2006/07	2007/08	2008/09	2009/10	2010/11
Debt	102.9	28.2	18.7	-12.0	-8.4
Principal	72.9	24.1	16.9	9.8	7.8
Interest	30.0	4.1	1.8	2.2	0.6
Debt service ratio (%)	1.2	2.5	2.0	2.3	3.7
Debt Outstanding					
Lender total	2,300.3	2,753.6	3,304.5	5,569.8	7,318.8
Multilateral	1,188	1,531.2	2,029.1	2,729.1	3,480.9
Bilateral	663.9	946.7	1,020.5	1,389.7	1,724.5
Commercial	448.4	275.7	251	1451.2	2,114.4
Debt stock to GDP ratio (in percent)	11.8	12.3	10	18.7	26.3
Debt stock to export of goods and non-factor services	0.9	0.9	1.0	1.4	1.4
Receipts from goods and non-factor services	2,483.9	3,063.2	3,381.4	4,047.0	5,332.6

External debt from multilateral, Bilateral and commercial creditors increased from the initial year of the study 2006/7 USD 2.3 Billion to USD 7.32 Billion of 2010/11. The in five years was above three fold and significant growths were achieved every year. But the debts from commercial creditors fall down in the years 2007/8 and 2008/9.

The debt stock to GDP ratio was increased from 11.8% to 12.3% in the years 2006/7 and 2007/8 respectively. Then the external debt to GDP ratio dropped to 10.5% in the following year but continued the ratio to rise by 18.7 and 26.3 in 2009/10 and 2010/11 consecutively. The debt stock to export of goods and non-factor services ratio had fixed to 0.9 percent for the 2006/7 and 2007/8 consecutive years. Then increased to 1.0 2008/9 and followed by the stick to 1.4 for the two last years of the study period. The reason for the stick percentile ratio was “ the proportional growths in total debt and total from export of goods and non-factor services”.