



# UK-Ethiopia Investment Trade and Tourism Forum

9<sup>th</sup> June 2011

## Savoy Place, London

The conference is supported by



Development Bank of Ethiopia

Ethiopian Shipping Lines

The conference is hosted by



Macroeconomic objectives and policies of the  
Ethiopian Government in the five-years Growth and  
Transformation Plan (GTP)

(2010/11 -2014/15)

I. Main development agenda of the Ethiopian government is Poverty reduction

through:

- Broad-based;
- Accelerated; and
- Sustained economic growth

II. Towards this main agenda, the GTP has the following four major objectives

1. Maintaining at least an average real GDP growth of 11% and attain MDGs

▪ In the Five-years GTP (2010/11 – 2014/15)

	higher-case	base-case
➤ <u>Real GDP growth</u>	<u>14.9%</u>	<u>11.2%</u>
• agriculture	14.9%	8.6%
• industry	21.3%	20.0%
• services	12.8%	10.6%

- High and sustained investment and increase domestic savings
  - Gross capital formation - to - GDP ratio to reach 28.2% (in 2014/15) from 22.3% (in 2009/10)
    - Investment in infrastructure and social development (expansion and ensuring quality)
      - Easy access to power (e.g. electricity coverage from 41% to 75%)
      - Transport (e.g. average time taken to all-weather roads from 3.7hrs to 1.4hrs;
      - Communication ( e.g. fixed line telephone density from 1.36% to 3.4%)
    - Investment in industries
      - e.g.
        - sugar exports earnings to reach USD 661.7 million in 2014/15 from zero in 2009/10
        - Textile and garment export earnings to reach USD 1000 million in 2014/5 from USD 21.8 million in 2009/10

- Domestic saving-to-GDP ratio is targeted to reach 15.0% (2014/15 from 5.5% in 2009/10)
  - Broadening the tax base and increase tax collection capacity;
  - Introducing new financial saving instruments and markets such as
  - Government saving bonds introduced;
  - Other contractual saving instruments such as private pension funds to start soon.

2. Expand and ensure the qualities of education and health services and achieve MDGs in the social sector
3. Establishing suitable conditions for sustainable nation building through the creation of a stable democratic and developmental state;

## 4. Ensuring the sustainability of growth through stable macroeconomic framework

A/ The GTP takes maintaining a stable macroeconomic environment as a necessary condition to attain high and sustained real GDP growth.

The main **macroeconomic economic policy targets** include:

- Single digit inflation (6% - 9% annual average inflation throughout the period);
- Competitive and stable exchange rate (i.e. close to equilibrium exchange rate)
- Positive real interest rate

### B/ Macroeconomic policies

- Monetary Policy:
  - ✓ Reserve money as nominal anchor - operational target;
  - ✓ Required reserve and treasury bills - policy instruments

- Fiscal policy
  - Sustainable fiscal balance
    - Budget deficit –to-GDP ratio of note more than 3 percent
      - Increasing tax revenue/ GDP ratio to 15% (2014/15) from 11.3% in 2009/10
  - Towards **no resort to central bank borrowing** by the end of the plan period
- Financial sector policies
  - Establishing accessible, efficient and competitive financial system
    - Access to finance to reach 67% in 2014/15 from 20% in 2009/10
      - E.g. introducing modern national payment system
  - Strengthen the regulatory and supervisory capacity of the NBE through training its human resources and equipping with modern information technology (has already been started)

## Macroeconomic Developments and prospects through the GTP

		GTP period	
	2003/04-2009/10	2010/11 -14/15	2010/11 estimate
Real GDP growth	11.6	11.2	11
Export growth	27.4	30.0	31.5
Investment/GDP	23.6	28.7	26.2
Inflation	14.9	7.5	14
o/w food	17.6	7.0	18



# Comparison with selected SSA countries

	2004 - 2010						20011-12 projection					
	Eth	Ken	UG	TN	GN	SSA	Eth	Ken	UG	TN	GN	SSA
Real GDP growth	11.4	4.7	7.6	7.1	5.9	3.7	11.1	6.1	6.3	6.5	10.6	3.6
Inflation	14.9	8.8	8.2	7.3	13.6	5.6	8	6.1	8.6	6.8	8.7	5.4
Exports of G&S/GDP	13.6	26.4	19	24	28	29	18	30	23	27	39	28.7
Imports of G&S/GDP	32.7	38.9	32	33.5	42.3	29.4	41	46.3	38.3	42.5	45.1	31.1

## Main Challenges

- World food & fuel inflation
- Slow recovery from financial crises

Thank you