EVALUATION OF ETHIOPIAN ECONOMIC REFORM PROGRAMME: THE PERFORMANCE OF FISCAL AND MONETARY POLICIES

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Abstract

Faced with severe macroeconomic problems such as falling export earnings, worsening balance of payments, mounting debts and declining economic growth, the country undertook Economic Reform Program (ERP) since 1992/93, following the major economic shift from Central Planning to Market oriented system. Among the elements of ERP, this paper deals with the assessment of the monetary and fiscal policies performance. Using major monetary and fiscal policies and their achievements, the reform program was evaluated and the conclusion is that the monetary and fiscal policies were relatively tight during the reform period under consideration. Also, using real GDP growth rate, investment to GDP and export to GDP ratios, and inflation rate, the economy has performed well in the period in question. Finally, the potential problems that need attention to maintain the achievements so far attained have been pointed out. These included the sustainability of growth, the issue of expanding the tax base and the problem of debt burden.

1. INTRODUCTION

Between 1974 and 1991 the economic performance as measured by real GDP growth was 1.8% per annum whereas the average population growth rate was 2.9%. During this period the country faced both internal and external imbalances. The overall government budget deficit including grant averaged 7% of GDP. The current account deficit including grant averaged about 3.7% of GDP (5.2% of GDP excluding grant).

With the aim of stabilising the economy, an Economic Reform Program (ERP) has been implemented in the country since 1992/93. Thus, among the elements of the ERP, this paper will deal with the assessment of the monetary and fiscal policies performance.

The objectives of the paper are to examine and identify the major conditions for the successes or failures of major monetary and fiscal policies, and to indicate problems that need future attention. The paper will also try to examine the sustainability of the achievements (if any) of the reform program.

To assess the performance of monetary and fiscal policies that have been implemented after 1992/93, a comparative analysis of targets versus actual performance of key policy variables will be made. Moreover, a comparison of pre- and post-reform period policies will be used to indicate the changes that have been recorded in the reform period.

The scheme of the paper is as follows. In Section 2, the basis and nature of the reform program and basic monetary and fiscal measures that have been undertaken in the reform period are highlighted. Section 3 deals with the performance of monetary and fiscal policies. Problems which need attention in the future are identified in Section 4. Finally, concluding remarks are made in Section 5 of the paper.

2. AN OVERVIEW OF THE ECONOMIC REFORM PROGRAM

2.1. The Basis and Nature of the Reform Program

As it has been stated in the introduction, the average performance of the economy has worsened during the 1970's and 1980's. Between 1974 and 1991 the average real GDP growth rate was about 1.8% per annum while the population growth rate was 2.9% per annum. This was translated into substantial decrease in the standard of living of the people with per capita income declining at an average rate of 1.1% per annum. In the same period, the country has also experienced serious internal and external macroeconomic imbalances.

Between 1974 and 1991, the overall government budget deficit including grant averaged 7% of GDP (excluding grant 10% of GDP) mainly caused by high level of government expenditure (government expenditure was about 27% of GDP against government revenue, excluding grant being 18% of GDP). During the period 1985/86–1991/92, Gross Domestic Fixed Capital Formation was on the average 14% of GDP while that of Gross Domestic Savings was 7% of GDP. As a result, the resource gap was about 7% of GDP. The current account deficit, including grant between 1986/87 and 1990/91, was, on the average, 4.2% of GDP (6.8% excluding grant). The consequences of these imbalances were increasing inflationary pressure, mounting national debt and causing monetary and social dislocations.

Historically, Ethiopia has been a low inflationary country. This was partly explained by its fiscal, income and price policies. The inflation rate between 1974/75 and 1990/91 was on the average about 9% but it was as high as 21% in 1990/91 and 1991/92.

The broad money supply expansion during 1973/74–1990/91 was on the average about 12.5% per annum which was mainly caused by high growth rate of domestic credit particularly that of the government. In 1990/91 broad money supply recorded the highest growth rate (18%) owing to bank financing of fiscal deficit (government credit increased by 25% in the same period). The result was increased inflationary pressure and negative real interest rate, particularly in the late 1980's, while the level and structure of the nominal interest rate remained unchanged.

The official exchange rate of Birr was overvalued compared to the parallel market rate. This situation reduced incentives to exporters. The official rate was around Birr 2.07 to a dollar as compared to the estimated parallel rate of around two to three times the official exchange rate. This misalignment made exports too expensive.

As a result of the expansive fiscal and monetary policies, the country also experienced severe negative external shock. With the deterioration of the terms of trade and the fall in export earnings, the external imbalances resulted in mounting national debt. The country's economic and commercial external debt, including U.S.S.R debt, was about USD 9.12 billion in 1991 (see, Table 8).

Faced with severe macroeconomic problems such as falling export earnings, worsening balance of payments, mounting debts and declining economic growth, the country undertook various policy measures since 1992/93 following the major economic shift from central planning to market-oriented system. These were contained in the stabilisation and structural adjustment program (SAP). The objectives of these policies have invariably included the following:

- Maintaining inflation below a reasonable level;
- Promoting economic growth so that real GDP grows at the rate of 5.6% per annum;
- Reducing budget deficits and ultimately balancing the budget;
- Attaining external balance in the long run; and
- Reducing poverty through pursuance of deliberate poverty alleviation policies.

2.2. Major Monetary and Fiscal Measures

On the monetary front, the above objectives were translated into the following specific policy targets:

- Maintain the growth rate of money supply parallel with the growth of nominal GDP.
- Average growth rate of money supply was targeted at 11.5% per annum for the period 1992/93 - 1997/98;
- Reduce, and ultimately (at the end of 1993/94) stop financing government budget deficit through money creation;
- Attain positive real interest rates so as to enhance savings mobilisation;
- Reduce, and ultimately eliminate, the overvaluation of the Birr to attain a market-determined exchange rate for Birr; and
- Accumulate and maintain adequate external reserves for the country.

On the fiscal front, the major fiscal policy targets were:

- To reduce government budget deficits and improve its financing. These include:
  - Budget deficit including grant was targeted not to exceed 1% of GDP by the year 1997/98 (6.7% of GDP, excluding grant);
  - The growth of government domestic credit was targeted on the average to be zero for the period 1992/93 – 1997/98;
- To maintain inflation below 10%;
- To increase tax collection above 17% of GDP; and
- To reduce the parastatal sector dependence on the government budget by:
  - Liquidating economically non-viable parastatals,
  - Divesting those enterprises that would operate efficiently under the private sector, and
  - Restructuring public enterprises with a view to boosting their efficiency and reducing their reliance on the government budget subsidy.

These policies have been vigorously pursued with the help of resources from the International Monetary Fund (IMF), the World Bank (WB), and other multilateral and bilateral donors.

3. PERFORMANCE OF MONETARY AND FISCAL POLICIES

3.1. Monetary Policy Performance: Money Supply and Its Determinants

As important instruments of stabilisation, quantitative targets on the growth of net bank credit to central government, domestic credit and broad money supply were set as performance criteria.

As shown in Table 1, net bank credit to central government was not contained at the planned target. The increase in bank credit to central government that was planned to reach at an average growth rate of zero percent per annum between 1992/93 and 1997/98 turned up with an annual average growth rate of 4.8%. However, due to unexpected lower growth rate in credit to other sectors since 1994/95, the target set to domestic credit as a whole was realised. The growth rate of domestic credit during the same period was 10.5%, which is a little higher than the targeted growth rate of 10%

The decline in the growth of credit to other sectors from 66.9% in 1994/95 to 13.7% in 1997/98 could be because either there is a limited absorption capacity in the economy or it may be a reflection of the constraints that hinder the growth of private investment such as problems in the provision of land, collateral, etc.

Consistent with the trend in domestic credit, the growth of broad money supply was slightly higher than what was expected. During the period 1992/93 – 1997/98, broad money supply expanded on the average by 13% per annum against the targeted growth rate of 11.6%. A relatively faster growth of about 24% has been observed in 1994/95 as a result of the wind fall gain from coffee export (World coffee price in

1994/95 increased by 106% as compared to 1993/94) and the substantial increase in credit expansion to the private sector by about 67%. The variation between the target and the actual growth rate of money supply in the reform period is mainly explained by the growth of Net Foreign Asset (NFA), which has increased by 88% per annum for the same period (the average growth rate of NFA in the 1980's was about -4% per annum).

The El Nino weather condition and the Ethio-Eritrean conflict that the country faced in 1997/98 were believed to have an effect on the growth of money supply and its determinants. As a result, the growth of money supply, domestic credit and credit to government exceeded the planned target growth rates.

Generally, when a 13% average growth rate of money supply is compared to a 14% nominal GDP growth rate, monetary policy during the reform period could be considered to be tight. This is highly attributed to the restricted growth of total domestic credit that was 10.5% on the average per annum against the targeted 10% growth rate.

As to the composition of money supply, before 1992/93 domestic credit was relatively the only factor that determined the expansion of money supply. But after 1992/93, NFA has become an important element in determining the expansion of money supply. This can be seen from the fact that the share of NFA in broad money supply has increased from 4.5% in 1991/92 to 31.4% in 1997/98. The change in the composition of the determinant of money supply has been explained largely by a huge inflow of official development assistance (ODA) to support the reform program and a relatively good performance of exports. For instance, between the period 1992/93 and 1998/99, the country mobilised about USD 5.4 billion from external loan and assistance. In the same period, export earnings increased, on the average, by 19% per annum.

Table 1. Growth Rate of Money Supply and its Determinants (in %)

Year	Money Supply		Domestic Credit		Credit to Gov't		Credit to Other Sectors	NFA
	Target	Actual	Target	Actual	Target	Actual		
1992/93	19.6	12.7	18.3	14.4	6.4	29.8	-20.1	113.0
1993/94	13.4	14.4	9.7	9.9	2.2	5.4	26.6	117.0
1994/95	12.6	24.2	10.0	12.2	-0.4	-5.8	66.9	51.6
1995/96	8.0	8.7	8.0	7.4	-1.6	-12.9	42.1	9.2
1996/97	7.1	5.7	5.0	6.7	-2.7	0.7	13.0	-9.8
1997/98	8.7	12.1	9.1	12.6	-4.5	11.5	13.7	3.7
Av. 92/93-97/98	11.6	13.0	10.0	10.5	0.1	4.8	23.7	87.7

Source: MEDaC, National Accounts (various years).

Interest Rate

Before 1993/94, the nominal interest rate was prescribed administratively by the National Bank of Ethiopia (NBE) and in most cases it was below the prevailing inflation rate. In other words, the financial repression was in place with all its adverse consequences on saving mobilisation and effective utilisation of financial resources. After 1994, interest rate was made an active instrument and was targeted to achieve positive real interest rate in order to encourage savings mobilisation. In line with this, NBE adjusted the minimum deposit and maximum lending rates for about seven times between the period 1994 and 1997. Moreover, to increase the efficiency of resource allocation, the NBE eliminated the use of discriminatory interest rate. In January 1998, NBE fixed the minimum deposit rate at 6% and the determination of lending rate was left to market forces.

To illustrate the impact of interest rate on savings, Table 2 presents the trend of non-central government saving and time deposits as a ratio of GDP for the period 1988/89–1997/98. The ratio was lower in 1990/91, indicating that the financial repression was intensified. Since 1992/93, however, the ratio has shown an increasing trend, signifying an improvement in saving mobilisation. During the same period (except 1994/95), real interest rates have also exhibited positive values.

In addition to the interest rate policy measures, the entry of national private financial institutions was allowed in 1993/94. As a result, up to 1998/99, five private commercial banks and eight insurance companies have started operation. At the end of 1997/98, the share of private commercial banks in total capital, saving mobilisation, outstanding loan, and number of branches has reached about 5.6, 10.5, 5.7, and 14.1%, respectively. But this does not mean that the private commercial banks have tangible role in the financial sector at the moment. In such a situation, even if the determination of lending rate is left to market forces, this may not be practical, at least in the short run, due to the dominant power of government-owned banks (like the Commercial Bank of Ethiopia).

Table 2. Saving & Time Deposits in Commercial Bank of Ethiopia as % of GDP and Real Interest Rate

Year	Non-Central Government Deposit (in million Birr)	GDP at Market Price (in million Birr)	Bank Deposit as % of GDP	Nominal Interest Rate	nflation Rate	Real Interest Rate
1988/89	1,530.6	15,742.1	9.7	6.0	9.6	-3.6
1989/90	1,718.2	16,825.7	10.2	6.0	5.2	0.8
1990/91	1,827.5	19,195.3	9.5	6.0	20.9	-14.9
1991/92	2,165.7	20,792.0	10.4	6.0	21.0	-15.0
1992/93	2,810.1	26,671.4	10.5	8.0	10.0	-2.0
1993/94	3,225.5	28,328.9	11.4	10.0	1.2	8.8
1994/95	3,828.5	33,885.0	11.3	10.0	13.4	-3.4
1995/96	5,744.5	37,937.6	15.1	10.5	0.9	9.6
1996/97	6,531.9	41,465.1	15.8	10.0	-0.8	10.8
1997/98	7,556.5	45,034.9	16.8	6.0	2.3	3.7

Source: NBE, Quarterly Bulletin Vol. 13, No. 4, 1997/98.

Foreign Exchange Market

Foreign exchange market, as one of the financial instruments, was also reformed in October 1992 when the Birr was devalued from 2.07/USD to 5.0/USD. Later on, the retail auction system was introduced in May 1993 as a step toward the liberalisation of foreign exchange market. In July 1995, the official exchange rate was merged with the marginal rate and, in September 1998, the retail auction was replaced by the wholesale auction system. As a result, as shown in Table 3, the exchange rate has been successively depreciated. The deferential between the marginal and parallel exchange rate has been progressively narrowed to about 2.4% in 1998/99 from 51.4% in 1992/93, though currently the trend appears an increasing one. This is a significant achievement made in the foreign exchange market. However, in the medium and long term this market has to be supported by improved export performance instead of high dependency on external loan and assistance. Another feature of this market is that, over the years, the supply of foreign exchange in the auction always lags behind its demand.

Table 3. Performance of Foreign Exchange Auction

Year	Marginal Rate	Dollar Supplied in mill.	Dollar Demanded in mill.	Supply as % of Demand	Parallel Market Rate	Difference b/n Marginal & Parallel Rate in %
1992/93	5.02	26.94	38.96	69.2	7.6	51.4
1993/94	5.789	261.7	442.3	59.2	7.05	21.8
1994/95	6.250	401.4	476.3	84.4	7.30	16.8
1995/96	6.320	697.6	780.6	89.4	7.64	20.9
1996/97	6.506	917.6	1,363.9	67.3	7.16	10.1
1997/98	6.884	956.9	1,279.0	74.8	7.09	3.0
1998/99	7.510	–	–	–	7.369	2.4

Source: MEDaC, National Accounts (various years).

Treasury Bills (T-bills)

A monthly T-bill auction has started in January 1995 with 91-day maturity. The main objectives of the introduction of T-bill market are: i) to raise non-inflationary finance to the government budget, and ii) to control the level of money supply in the economy. Since December 1995, the types of T-bills have increased to three with the maturity date of 28, 91 and 128 days and the auctions take place every 15 days.

As shown in Table 4, the T-bill market has served in financing government budget. However, it has failed to meet the monetary objective of controlling the volume of money supply as the number of participants in the market is very limited and the return from T-bill does not serve as a signal for the determination of bank rate.

Since the returns from the purchase of T-bills are much lower than the bank deposit rate, the number of participants in the market is limited. The dominant participants of the T-bill market are financial institutions and public enterprises. This is because of the fact that the T-bill market is attractive to financial institutions, which are more liquid like CBE, and public enterprises, which are not allowed to put their money in saving and time deposit accounts.

Table 4. Performance of T-bills Market

	1994/95	1995/96	1996/97	1997/98
No. of Participants	82	84	125	219
Demand for T-bills	2,284.2	6,669.1	6,639.6	6,025.5
Supply of T-bills	1,580.0	4,526.0	8,519.0	5,086.0
Sold T-bills (in million Birr)	1,395.5	4,526.0	5,017.2	5,090.6
Banks	797.4	2,623.4	1,500.3	1,561.0
Non-Banks	598.1	1,902.6	3,516.9	3,529.6
Return of T-bills	4.25	4.83	3.87	3.68

Source: MEDaC, National Accounts (various years).

The other monetary variable, which can be used to control the stock of money supply, is reserve requirement ratio. Currently the required reserve ratio is 5% of the total deposits within the banks. In this respect, all banks held excess reserve beyond the required. In particular, the Commercial Bank of Ethiopia's actual reserve has exceeded the required by more than two folds (for instance, in 1997/98 the required and actual reserves were Birr 1117.7 and 2742.2 million, respectively). This shows that this instrument could not be used to control the stock of money supply by influencing the loanable funds of the banks. Moreover, it indicates that a large sum of money that can be used in the economy is kept as idle balance.

3.2. Fiscal Policy Performance

After 1992/93, fiscal policies were reoriented to meet basic needs for public services and infrastructure, while eliminating inflationary budget deficit financing. In line with this objective, fiscal policies were geared to substantially improve revenue performance, and raise expenditures only moderately so that a reduction in the consolidated overall budget deficit would be realised.

As shown in Table 5, fiscal policies were relatively tight during the reform period as the overall fiscal deficit on the average was 4.6% of GDP (7.8% excluding grants), against the planned 5.9% (13.3% excluding grants) with bank financing of about 1.03% of GDP, which exceeded the planned target by only 0.7%. The level of external loan financing was, on the average, 3.4% of GDP, which was below the planned by 5.5%. The shift of deficit financing method towards external loan in the reform period has an important implication for the debt level and the capacity of future debt payment and servicing.

This commendable achievement of tightening fiscal policy has been made mainly by raising revenue from 11% in 1991/92 to 16.5% of GDP in 1997/98 and due to low performance of expenditure, which averaged 24.3% of GDP against the planned 30% In the reform period both current and capital expenditures were much lower than the planned target due to lower external assistance inflow relative to the expected, limited outlays on materials (including operations and maintenance expenditure) and safety measures, and significantly lower outlay for capital budget. These indicate that the achievement made in the fiscal policy was partially possible at the expense of growth.

One important feature of the expenditure that has been observed during the reform period is that though total expenditure in nominal terms has increased relative to the pre-reform period, its share in GDP has declined. The recurrent expenditure has declined from 19.7 to 14.8% of GDP for the periods 1984/85-1991/92 and 1991/92-1997/98, respectively while the share of capital expenditure remained the same (8.8% of GDP) in both periods (see, Table 6). Moreover, an increase in the share of capital expenditure has also been observed in the reform period relative to recurrent expenditure.

When we see the structure of capital expenditure over the pre- and post-reform period, there is a significant shift towards road construction and social infrastructure (primary education & health) (see, Table 7). In addition, though the share of capital expenditure from the total is relatively small, it has been observed that external financing of capital expenditure has declined from 49.7 to 30.5% while domestic financing has increased from 50.6 to 69 7%.

Table 5. Major Indicators of Public Finance Targets and Achievements Measured as a Share of GDP (1992/93)

	1992/93		1993/94		1994/95		1995/96		1996/97		1997/98		Average	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Domestic Revenue	19.8	12	12.6	13.9	16.4	17.4	17.5	18.4	17.8	19.0	18.2	18.6	17.0	16.5
Expenditure	43.7	19.6	27.7	25.0	29.3	24.7	30.4	26.9	25.5	24.2	24.9	25.4	30.0	24.3
External Assistance	11.5	1.7	8.1	3.4	6.0	3.4	6.5	2.9	6.1	4.7	5.9	2.8	7.4	3.2
Budget Deficit including grants	-11.8	-5.9	-6.9	-7.7	-6.8	-3.9	-6.4	-5.6	-2.9	-0.5	-0.8	-4.0	-5.9	-4.6
Budget Deficit excluding grants	-23.3	-7.6	-15.0	-11.1	-12.8	-7.3	-12.9	-8.5	-4.0	-5.2	-6.7	-6.8	-13.3	-7.8
Deficit Financing	23.3	7.6	11.5	11.1	12.8	7.3	12.9	8.5	4.0	5.2	6.7	6.8	13.3	7.8
External Assistance	11.5	1.7	4.6	3.4	6.0	3.4	6.5	2.9	1.1	4.7	5.9	2.8	7.5	3.4
External Loan	8.8	2.7	6.1	6.0	6.9	3.7	7.0	3.7	2.2	2.8	2.1	1.7	5.5	3.4
Domestic Credit	3.0	3.2	0.8	1.7	-0.2	0.2	-0.6	2.0	0.7	-2.2	-1.2	1.3	0.35	1.03

Source: MEDaC, National Accounts (various years).

Table 6. Average Recurrent, Capital and Total Expenditure

	Expenditure in million Birr		Distribution in %		Share in GDP in %	
	1984/85-1990/91	1991/92-1997/98	1984/85-1990/91	1991/92-1997/98	1984/85-1990/91	1991/92-1997/98
Recurrent expenditure	3219.4	4956.7	69.2	62.9	19.7	14.8
Capital expenditure	1433.9	2929.8	30.8	37.1	8.8	8.8
Total expenditure	4653.3	7886.5	100.0	100.0	28.5	23.6

Source: MEDaC, National Accounts (various years).

Table 7. Structure of Capital Expenditure

	1984/85-1990/91	1991/92-1997/98
Economic Sector	**90.7**	**74.1**
Agriculture & Allied activities	25.3	24.7
Mining & Energy	14.1	11.9
Industry	20.0	8.7
Road Construction	13.6	19.0
Transport & Communication	6.4	7.3
Social Sector	**8.1**	**20.0**
Education	6.9	10.0
Health	3.0	5.0
Urban Development	2.3	3.7
Other	**1.2**	**5.5**
Total Capital Expenditure	**100.0**	**100.0**
Domestic Source of Finance	50.6	69.5
External Assistance	12.4	6.3
External Loan	37.0	24.2

Source: MEDaC, National Accounts (various years).

Although the fiscal deficit as a share of GDP has declined, a shift in the method of deficit financing towards external source might lead to debt problem. In this regard, the level of debt stock (including Ruble-dominated USSR debt) has increased from USD 8.63 in 1990 to 10.08 billion in 1997 (see Table 8). Moreover, the ratios of Debt to GNP and Debt to export have increased significantly indicating that the total debt is well above the nation's GNP and the country's debt burden is becoming a very serious problem (see Table 8). The ratio of Debt service to export is relatively lower in the reform period with the exception of 1996 This is not because of an increase in debt payment capacity of the country. It is rather due to the fact that during 1989-92 the Derg Regime had terminated debt payment and, during 1992-95, the country has enjoyed debt relief from the Paris club countries. Moreover, most of the debt in the reform period has not yet matured.

Generally, the fiscal policy during the reform period was relatively tight and the shift in the method of deficit financing toward external source has led to a higher debt burden.

Table 8. Indicator of Debt burden

Year	Total Debt in Billion USD	Debt/GNP (in %)	Debt/Export (in %)	Debt Service/Export
1985	5.21	78.1	932.1	28.4
1986	6.13	88.0	891.0	32.6
1987	7.36	99.0	1,150.4	38.9
1988	7.70	100.5	1,189.0	47.7
1989	7.84	98.6	1,034.8	40.1
1990	8.63	126.6	1,276.3	34.9
1991	9.12	171.6	1,666.7	25.2
1992	9.34	169.2	2,036.9	23.9
1993	9.70	157.6	1,889.2	18.5
1994	10.07	208.5	1,788.0	19.8
1995	10.31	180.3	1,276.5	19.1
1996	10.08	168.9	1,224.4	42.2
1997	10.08	159.0	962.9	9.5

Source: Alemayehu Geda, Macroeconomic Performance in Post-reform Ethiopia (2000).

3.3. Overall Performance of the Economy

The monetary and fiscal policies during the reform period were tight and relatively successful. However, to clearly see the success of the reform, the impact of these measures on the economy as a whole has to be assessed. To make the pre- and post-reform comparison, five major economic performance indicators will be used. These are real GDP growth rate, domestic investment to GDP ratio, saving to GDP ratio, export to GDP ratio, and domestic inflation.

Although the growth rate of GDP is erratic in its nature, during the reform period it increased, on the average, by 4.5% per annum against the 1.8% growth rate of the pre-reform period. Investment has been increasing to the level of 18% of GDP in 1997/98 while the share of investment from GDP during the reform period was on average about 15.6 (it was 14.2% of GDP in the pre-reform period). Contrary to this, the saving ratio declined during the reform period (see, Table 9). The opposite trend of the performance of investment and saving resulted in an increase of the resource gap to 9.6% of GDP, from 7% of GDP in the pre-reform period.

The export sector performance measured as a ratio of export to GDP has increased steadily from 4.5 in 1991/92 to 16.1% of GDP in 1997/98. The post-reform period performance of the sector appears to be a great success compared to the pre reform declining trend performance.

In general, inflation in Ethiopia is stable. In the pre-reform period, this is partly explained by restricted fiscal, income and price policies of the Derg regime. Inflation between 1974 and 1991, on the average, was about 9% but towards the end of the regime (in 1990 & 1991) it increased to 21%. In the reform period inflation has been contained below 10% except the 1994/95 13% inflation rate (caused by increase in domestic credit to other sectors and NFA of the country: see, Table 2). This is considered as a major achievement of the reform program, which is partly explained by the tight monetary and fiscal policies of the government.

Table 9. Major Economic Performance Indicators

Year	Real GDP Growth Rate	Investment to GDP Ratio	Saving to GDP Ratio	Export to GDP Ratio
1988/89	0.4	14.4	8.9	9.0
1989/90	4.1	12.5	7.9	7.7
1990/91	(4.3)	10.4	3.4	5.5
Average 1973-90	**1.8**	**14.2**	**7.2**	**8.7**
1991/92	(3.7)	9.2	3.0	4.5
1992/93	12.0	14.2	5.6	8.3
1993/94	1.7	15.2	5.0	11.4
1994/95	5.4	16.4	7.4	14.5
1995/96	10.6	16.9	7.0	13.1
1996/97	5.2	17.0	9.9	16.2
1997/98	(0.5)	17.6	7.4	16.1
1998/99	6.3	18.0	2.4	14.5
Average 1991-98	**4.6**	**15.6**	**6.0**	**12.3**

Source: MEDaC. The figures in parenthesis are negative values.

4. OUTSTANDING ISSUES

There are imminent problems that need to be addressed in the near future if the pace of economic growth so far attained is to be sustained and accelerated. These include the question of sustainability of the growth trend, the issue of expanding the tax base and the increasing debt burden. The achievement so far recorded may be lost in the long run unless these problems are cautiously addressed.

Even though an average economic growth rate of 4.5% was attained during the reform period, the question that remains is, have the stabilisation and structural adjustment programs brought about a real change in the structure of the economy? If so, is the change sustainable in the long run? So far, it is well-known that the successes have been backed by considerable inflow of external resources as well as the good will of the government. Yet, it is also known that such inflows and good will are highly sensitive to political changes (a case in point is the termination of resource inflows due to the Ethio-Eritrean conflict). Therefore, the sustainability of the successes so far attained does not appear to be firmly grounded.

A more detailed analysis of Ethiopian government revenue structure (source: MOF, 1997/98) shows the following major features. First, over 26% of the revenue comes from foreign trade tax (24% from import, and 2% from export tax). Second, non-tax revenue accounted over 35%. Third, income tax and indirect tax have contributed around 35%. Fourth, following the abolition of the export taxes except on coffee, the agricultural sector is hardly directly taxed (it has contributed around 1%). Fifth, other sectors of the economy such as the informal sector and property income (real estate) have also been hardly taxed. Thus, the burden of taxation falls on workers with transparent incomes, the formal industrial sector (particularly public enterprises), and the importers. In view of structural adjustment and globalisation, which are for lower tax rate, the taxation of these sectors has been already over-stretched. Thus, for sustained growth, there is an urgent need to expand the tax base. The net tax must be widened to cover the informal sectors of the economy. Furthermore, improving the productivity of the agricultural sector will have a paramount effect on tax collection.

Finally, the debt problem will have to be solved. Ethiopia's debt has increased from USD 8.6 billion in 1990 to USD 10.1 billion in 1997. Will this debt be reduced or completely eliminated in the long run? This can only be realised if adequate capacity is created so that the economy expands to produce surplus to pay off the debt in the long run. Is this possible or probable in Ethiopia as a result of implementing the reform program? That is, have we used wisely the external resources to create additional capacity in the economy to enable us paying off the debt in the future?

5. CONCLUSION

In this paper, the performance of monetary and fiscal policies in the reform period has been highlighted. The conclusion is that, when a 13% average growth rate of money supply is compared to a 14% nominal GDP growth rate, monetary policy during the reform period could be considered tight. This is highly attributed to the restricted growth of total domestic credit that was 10.5%, on the average, per annum, against the targeted 10% growth rate. Fiscal policy was also tight during the reform period. This has been made mainly by raising revenue from 11% in 1991/92 to 16.5% of GDP in 1997/98 and due to low performance of expenditure which averaged 24.3% of GDP against the planned 30%.

Moreover, using major economic indicators, which include real GDP growth rate, investment to GDP and export to GDP ratios, and inflation rate, the impact of monetary and fiscal policies on the economy as a whole is assessed and found that monetary and fiscal measures that have been undertaken during the reform period had positive impact on the economy. Finally, the potential problems, which need future attention, have been pointed out. These include the sustainability of growth, the issue of expanding the tax base and the problem of the debt burden.

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