

Macroeconomic Development During GTP-I and Plan for GTP-II

UK-Ethiopia Trade & Investment Forum 2015

October 2015



The Presentation Covers

GTP-I: 2010/11-2014/15

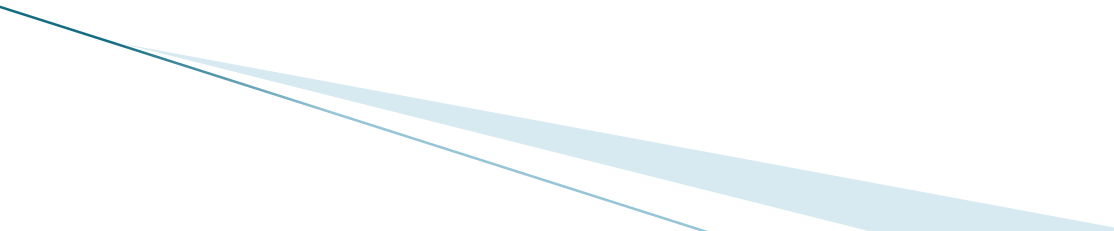
- Macroeconomic Objectives and Targets
 - Main Macroeconomic Targets
 - Macro Policies
- Macroeconomic Outcomes in the First Four Years

GTP-II periods (2015/16- 2019/20)

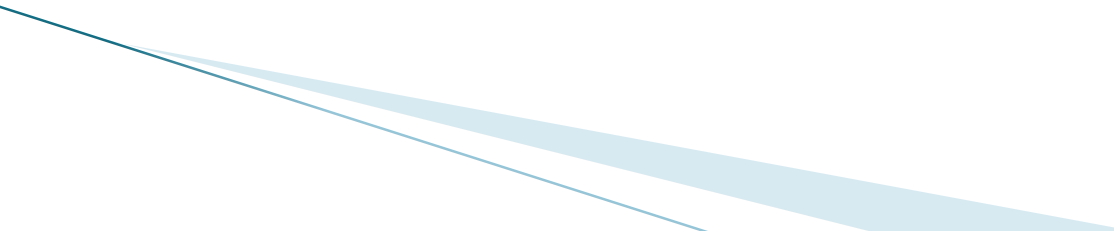
- Main Macroeconomic Objectives and Targets
 - Macro Policies
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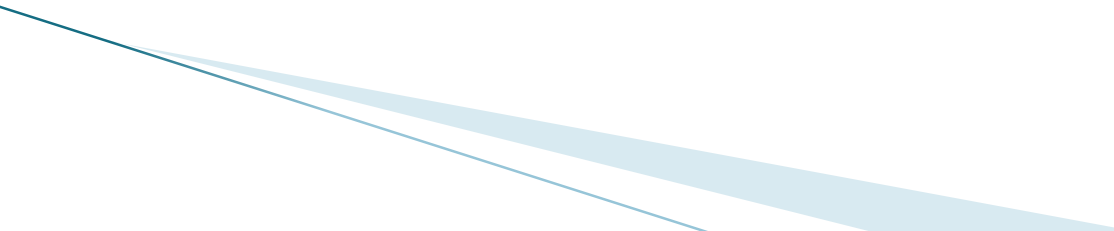
Ethiopia's Vision

Become a lower-middle income country by 2025



I. Macroeconomic Objectives, Targets and Outcomes During GTP-I



1. Macroeconomic Objectives and Targets
 - A. Rapid, Sustainable and Broad based Growth
 - B. Stable Macroeconomic Environment
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A. Broad-based, Rapid & Sustainable Growth

A.1 Broad-Based and Inclusive

- Agriculture
 - Contributed about 42 percent of aggregate economic output
 - Employed more than 80 percent of the labour force
- Industry
 - Source of technology transfer and productivity growth
 - Sustainable export growth and import-substitution
- Service
 - Significant contribution to employment
 - Contributes more than 46 percent to GDP

A. Broad-based, Rapid & Sustainable... (Cont'd)

A.2 Rapid Growth

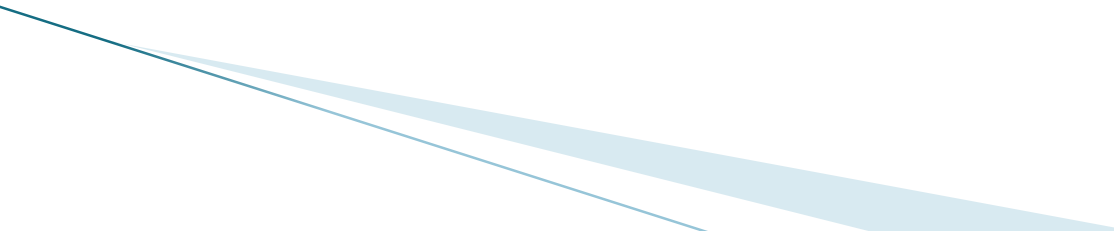
- ▶ Real GDP Target: 11.2% (annual average)
 - Agriculture: 8.6%
 - Industry: 20.0%
 - Services 10.6%

A. Broad-based, Rapid & Sustainable... (Cont'd)

A.3. Sustainable

	<u>2009/10</u>	<u>2014/15</u>
Investment/GDP	24.9%	28.2%
Domestic Saving/GDP	<u>9.6%</u>	<u>15%</u>
Saving-Investment Gap	15.3%	13.2%

B. Stable Macroeconomic Environment

1. Inflation: single digit
 2. Exchange rate: Stable and equilibrium
 3. Availability of Adequate Credit for Investment
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Macro Policies

- Prudent Monetary policy
 - Reserve money to grow in line with Nominal GDP
- Prudent Fiscal Policies
 - Government borrowing: Not more than 3% of GDP

2. What Have Been Achieved During the First Four Years (2010/11 – 2013/14) of GTPI?



2.1 Economic growth

Rapid:

- **Real GDP** grew at annual average rate **10.2 percent** between 2010/11 – 2013/14 .

Broad-based

- **Agriculture :** **6.6 percent**
 - Mainly from small holder farmers
- **Industry:** **20.0 percent**
 - Job creation in micro and small enterprises benefited the poor and unemployed
- **Service:** **10.7 percent**

Inclusive growth:

○ Poverty Reduction

- Proportion of the population below poverty line:
 - declined from **29.6 percent in 2010/11** to **24.7 percent in 2013/14**
- Ethiopia among the few countries that achieved fast poverty reduction within a short period of time.
- Pro-poor expenditure rose on average by 27.9 percent.

○ Income distribution

- GINI Coefficient 0.33

2.2 Sustainability

	2014/15	2013/14
	<u>Target</u>	<u>Actual</u>
Investment/GDP	28.2%	40.3%
Saving/GDP	15.0%	22.5%
Saving-Invest. Gap	13.2%	17.8%

NB: 58.0 percent of total Gov. expenditure was allocated to capital expenditure

▶ Domestic Savings Growth:

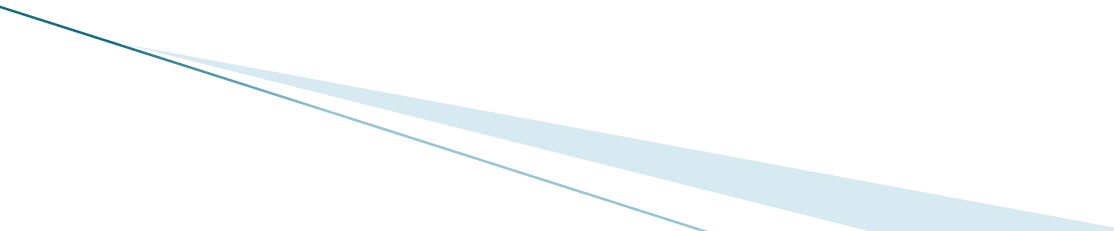
- New Financial Saving Instruments Introduced
 - Private Pension Funds Introduced
 - Housing Saving Scheme Introduced
 - Public Pension Fund contribution raised
 - Grand Renaissance Bond
- Banks branches and deposits

	<u>2009/10</u>	<u>2013/14</u>
Bank branches	681	2208
Bank Deposits (Bill. Birr)	95.8	289.6
MFIs deposits (Bill. Birr)	2.7	11.8

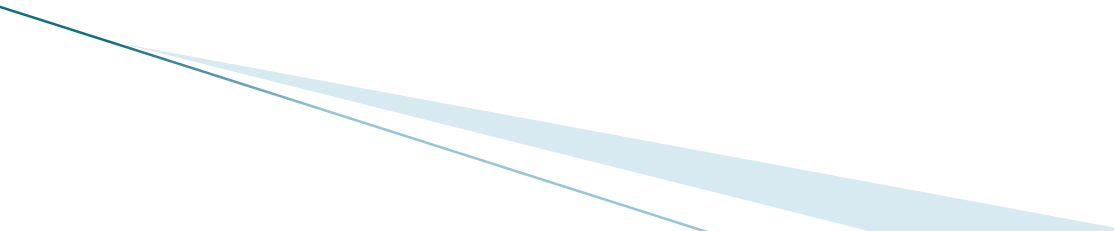
3. Stable Macroeconomic Environment

- ▶ This strong economic growth is attributed to
 - 1/ Sound economic policy and strategies,
 - 2/ Stable macroeconomic environment,
 - Except the first two years, inflation was in **single digits**
 - The first two years: largely **int'l food and fuel price surges**
 - **Stable Exchange rate**
 - Inflation in the first two years slightly eroded some the competitiveness of the exchange rate
 - **Budget deficit** at less than 3 percent of GDP.
 - Conducive investment climate

▶ **Challenges**

- Volatile international food and fuel prices
 - Volatile commodities prices
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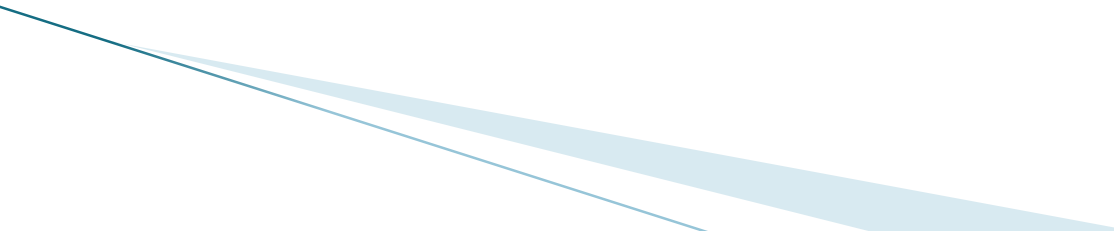
II. Macroeconomic Objectives and Targets During GTP-II 2015/16 -2019/20



Ethiopia's Vision

- ▶ Become a lower-middle income country by 2025
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GTP-II Main Objectives

1. Rapid, sustainable, and inclusive economic
 2. Ensure stable macroeconomic environment conducive for investment and international competitiveness
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1. Rapid, Sustainable, and Inclusive Economic Growth

▶ Rapid Growth

Real GDP growth: 11.0 percent annual average growth

▶ Broad based:

- Agriculture: 8.0 percent
 - Productivity and large scale commercial farming
- Industry: 19.2 percent
 - Mfg. 24.4 percent
 - Large scale industries
 - Small and Medium Scale Industries
- Services: 10.1 percent

Agriculture

- Productivity in small holder agriculture
 - Scaling up best practices of small holder farmers
- Large scale commercial farming

Industry

- Manufacturing
 - Large scale industries
 - Small and Medium Scale Industries
- 

Sustainable

	2014/15	2013/14
	<u>Target</u>	<u>Actual</u>
Investment/GDP	36.3%	41.3%
Saving/GDP	<u>19.5%</u>	<u>29.6%</u>
Saving-Invest. Gap	16.8%	11.7%

NB. Revenue/GDP excluding grants to increase from 14.4% to 18.8 %

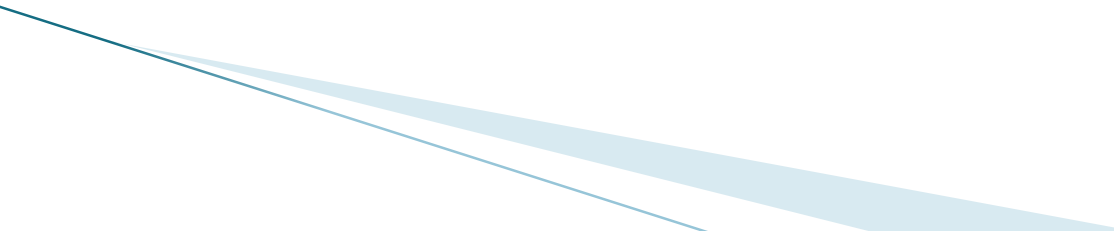
2. Structural Transformation

	<u>2014/15</u>	<u>2019/20</u>
Agriculture/GDP	41.0	35.6
Industry /GDP	15.6	24.0
Mfg/GDP.	4.2	8.1
Services/GDP	45.6	40.4

Goods export are projected to grow on average by 28.6 percent



3. Maintain macroeconomic stability:

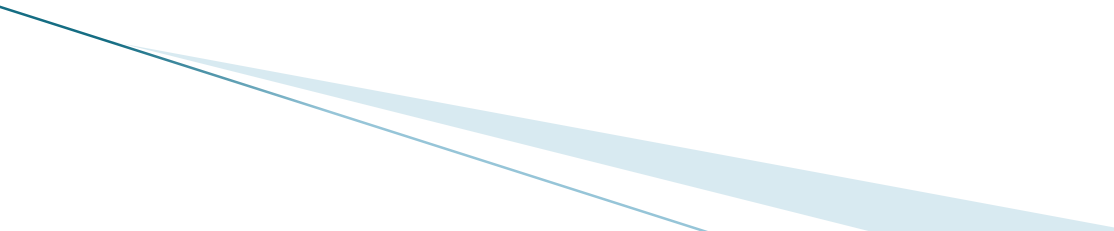
- Containing inflation in **single digit**,
 - Ensuring **exchange rate stability** to enhance export competitiveness; and
 - Government **Budget financing**: Not exceeding 3% of GDP
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Macro Policies

- **Prudent Monetary policy**
 - Reserve money to grow in line with Nominal GDP
- **Prudent Fiscal Policies**
 - Government borrowing: not more than 3% of GDP

4.To Conclude

On the macro side, there are four important issues to underline for the success of the Plan

- 1/ Raising domestic savings capacity
 - 2/ Expanding manufacturing production capacity
 - 3/ Maintaining stable macroeconomic environment
 - 4/ Enhance foreign exchange earning capacity
 - export growth
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Thank You

