



## AN OVERVIEW OF MACROECONOMIC PERFORMANCE IN ETHIOPIA

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**Abstract:** *In order to have sustainable and broad-based economic growth Ethiopia has implemented the third poverty reduction strategic plan, viz., The Growth and Transformation Plan(GTP) during 2010-11 to 2014-15. However, in spite of economic growth achieved during this period several macro economic problems such as employment generation, poverty eradication, inflation and fiscal deficit are still haunting the economy of Ethiopia. Therefore, this paper verifies the major macroeconomic policy objectives of the five year Growth and Transformation plan (GTP) with the available empirical data. In view of this the researcher reviewed a wide range of National Surveys by Central Statistics Agency of Ethiopia and Policy Documents and Studies, including Government Policy Documents and Strategies. The study finds that the economic growth registered so far is broad-based and pro-poor. Growth has continued to generate employment, improving incomes and reducing poverty. However, despite the progress made, employment generation and poverty eradication still remain as the major development agenda. Ethiopia, therefore, should remain committed to sustaining inclusive and pro-poor development strategy over the coming years to further address the poverty and employment generation challenges.*

**Keywords:** *Growth and Transformation plan, Poverty eradication, employment generation, Millennium Development Goals*

### INTRODUCTION

According to UN Report, Ethiopia has been categorized as one of the least developed countries in the world. Ethiopia's main development challenge continues to be generating economic growth that will substantially reduce its still high poverty levels, particularly in rural areas. It is observed that a significant number of population continue to live below the poverty line for various reasons. These include low agricultural sector production and productivity, low domestic resource mobilization, high levels of unemployment, especially



among the youth, poor quality and inequitable distribution of basic social services, low access to finance, and a poor private business climate. Despite these challenges, Ethiopia has favorable economic opportunities and prospects. The country has abundant natural resources, a low cost and trainable labor force, an emerging middle class, and a developmental State with an ambitious vision, commitment, and strong sense of policy ownership (ADBG, 2016).

In Ethiopia, changing political regimes have recurrently forced people to obey changing policies. The repeated changes in land policy, including the misappropriation of land and resettlement schemes which are bound to be responsible for reduced agricultural production, the prevention of harvest surpluses or generation of more income. Consequently, poverty, mismanagement, food insecurity and poor education are prevailing in the country.

To improve the country's economy and to have sustainable and broad-based economic growth, the Government of Ethiopia has implemented the third Poverty Reduction Strategic Plan i.e., the Growth and Transformation Plan (GTP).

Its long –term vision is:

*“To become a country where democratic rule, good-governance and social justice reigns, upon the involvement and free will of its peoples; and once extricating itself from poverty and becomes a middle-income economy.”*

This GTP has been initiated to generate employment, increase income and reduce poverty. However, despite the progress made, employment generation, poverty eradication, inflation and fiscal deficit problems still remain as number one development agenda of the Government.

In view of the above, an attempt is made in this paper to verify to what extent the major macroeconomic policy objectives of the five year Growth and Transformation Plan (GTP) are found helpful in achieving a rapid, sustainable and broad-based economic growth through creating conducive macroeconomic environment. This paper is based on Secondary data. The Sources of data include the Central Statistics Agency Survey Reports of Ethiopia (CSA) and Policy Documents and Studies, including Government Policy Documents and Strategies.



## **MACROECONOMIC PERFORMANCE OF ETHIOPIA**

### **Economic Growth**

The main macroeconomic policy objective of the five year Growth and Transformation Plan (GTP) was achieving a rapid, sustainable and broad-based economic growth through creating conducive macroeconomic environment. It is observed that during the first four years of GTP implementation i.e., (2010-11 to 2013-14), real GDP growth rate averaged at 10.1 per cent, slightly lower than the target set for the period i.e., 11 per cent.

### **GDP growth rate by major economic sectors**

The major economic sectors of Ethiopia are Agriculture, Industry and services. It is found that the shares of agriculture, industry and service in GDP are about 43 per cent, 12 per cent and 45 per cent respectively during this period. Further, all sectors registered positive and significant growth. Agriculture, industry and services have registered annual average growth rates of 6.6 per cent, 20.0 per cent and 10.7 per cent respectively during GTP implementation period of 2010-11 to 2013-14.

In Ethiopia, agriculture has been contributing to both output and employment. The service sector is closing gaps in terms of output share but remains far behind agriculture in employment share. Structural change in the form of shift from agriculture to industry has not been observed so far. The observed shift was rather from agriculture to services, where expansion of the wholesale and retail trade, real estate, renting and related business were found to be the driving force (MoFED, 2014).

The share of the service sector to GDP increased from 38 per cent to 45 per cent in the past 10 years while the share of agricultural declined from 52 per cent to 43 per cent in the same period. However, agriculture will continue to be the main source of employment as the service sector has not been able to generate much employment. This implies that the productivity of the much fewer service sector workers far outweighs labor productivity of the large number of people employed in the agriculture sector. It is well known fact that creation of employment in service sector is more expensive than in agriculture and also service sector provides employment to skilled labour. It also means that the quality of jobs and wages/incomes in the service sector is higher than those in the agriculture sector. In this context, measures to raise productivity in the smallholder agriculture as well as to boost private investments in commercial agriculture is imperative to the growth and



transformation of the whole economy through diversification and linkages with other sectors, improving the quality of employment and reducing rural poverty.(UNDP,2014) .

### **Inflation**

Historically Ethiopia has been one of the low inflation economies with average inflation rate of less than 5 per cent. Since 2006 however Ethiopia has no longer been considered a low inflation country and in July 2008 an all-time high inflation rate of 64 per cent was recorded. The major causes were the then high fuel and food prices shocks, weaker foreign exchange earnings, and rising demand for imports that depleted international reserves of the country. The highest price increase was observed in food, housing, fuel and transport services, making the urban poor the most vulnerable to the effects of inflation. Owing to strong policy measures and abated world price shocks inflation rates declined during the years 2010 and 2011. Inflation re-emerged in 2012 and reached a peak of about 40 per cent in September 2012. Looking at the components, the food and non-alcoholic beverages category has been the main drivers of overall price movement. Both internal and external factors contributed again to the hike in inflation. Well-coordinated monetary and fiscal policy stance coupled with slowdown in the world commodity prices have resulted in significant decline in inflation. Inflation rate for the month of December 2016 declined to a single digit of 6.7 per cent (CSA, 2016).

### **Interest Rates**

The central bank's policy on interest rate is that it sets the minimum (floor) bank deposit rate, currently at 5 per cent, but the banks are free to pay above the minimum and to set their own lending rates. While the minimum bank saving rate was controlled at 5 per cent, average saving rate was 5.4 per cent and lending rate at 11.88 per cent in 2012-13. Real saving rates remained negative as the inflation rate is found to be still higher than the nominal interest rate. The relatively insensitive nature of savers to interest rate, due to the absence of alternative financial instruments, has allowed the banks to hover around the minimum deposit rate (UNDP, 2014).

### **Fiscal Policy and Public finance**

The fiscal policy of the Government has been aimed at generating the required budgetary finance to support Ethiopia's rapid, sustainable, inclusive and equitable development. Accordingly, tax revenue increased at an annual average rate of 33 per cent during the first



four years of GTP and the share of tax revenue in GDP increased from 11.3 per cent in 2009-10 to 12.7 per cent in 2013/-14. Despite the significant increase in tax revenue in absolute terms from 43 Billion Birr in 2009-10 to 133 Billion in 2013-14, the tax effort which reached about 13 per cent by 2013-14 is still below the GTP target and also compared to the social security administration (SSA) average of 15per cent. As such, it is pertinent to pursue further enhancement of tax collection through improving tax administration systems, tax administration capacity, enforcement of tax laws, broadening the tax base and automation of tax administration information system.

On the expenditure side, total public expenditure increased from 72.6 billion Ethiopian Birr (ETB) in 2009-10 to 185.5 billion ETB in 2013-14. Of the total public expenditure, on average, capital expenditure accounted for 60 per cent and recurrent expenditure for the remaining 40 per cent during the first four years of GTP implementation. Spending on poverty oriented sectors accounted for about 70 per cent of total public spending during the same period. In general, the fiscal policy implemented during the last four years had been directed both to increasing domestic revenue and mobilizing external resources and channeling them to poverty reduction endeavors, infrastructure development and towards provision of basic services.

### **Monetary Policy and External Sector**

With regard to the external sector, the key policy goal during the first GTP period was to increase the share of export (both goods and non-factor services) in GDP to 22.5 percent by the end of the plan period. However, the share of export in GDP reached 12.4 percent by the end of 2013-14 which was far below the target. As a result, foreign exchange earnings from merchandise export covered only 33.3 per cent of import in 2009-10 and 23.7 per cent in 2013-14. The major factors behind the weak performance of exports were both supply and demand side factors. Demand side factors were mainly attributed to the drop in the international commodity prices of the major export items (coffee and gold).

On the supply side, short-falls in volume of export, limited diversification and inability to export new manufactured products as planned were the major factors. Thus, improving production capacity, utilizing the opportunities in the international market and encouraging the manufacturing sector to engage in the production of manufactured exports have been the key lessons drawn during GTP implementation period. There have been also positive



developments on the balance of payment of the country. In 2013-14, the balance of payment deficit stood at USD \$91.4 million. This is a significant improvement compared to the USD \$114.2 million for the years 2012-13. This was mainly due to the improvement recorded in services, private remittances and in foreign direct investment flows. The total FDI flows during first four years of GTP stood at USD \$5.01 billion

### Unemployment

Unemployed population in urban areas of the country was 1,509,227 with unemployment rate of 16.9 per cent. This means that about 17 persons are unemployed out of 100 economically active persons aged ten years and above. The differentials of unemployment rate by sex show that female unemployment rate (24.7 per cent) is more than double as compared to male unemployment rate which is 9.4 per cent(CSA,2016).

The graph below shows the trend of Ethiopian unemployment rate during the period 2009-2015



**Figure1: Ethiopian Unemployment rate during 2009-2015**

Source: Central Statistical Agency of Ethiopia

From the above graph it may be observed that, the total unemployment rate shows a declining trend from 20.4 per cent in 2009 to 19.9 per cent in 2010, 18.0 per cent in March 2011, 17.5 per cent in March 2012 and 16.8 per cent in March 2015. The survey also observed that, females are more affected by the incidence of unemployment compared to the males. They are more likely to be engaged in unproductive jobs, such as domestic work due to their low educational attainment, high fertility rate and social norm problems.



However, the pattern of unemployment trend for females shows a straight downward than their male counterparts until March 2015 due to government's attention towards women's access for better education, training and credit.

### **Poverty Eradication**

The first and the most prominent UN Millennium Development Goal aims at reducing the proportion of people whose income is less than one dollar by half between 1990 and 2015, and also halve the proportion of people who suffer from hunger and to achieve decent employment for women, men, and youngsters.(UN,2014)

Accordingly Ethiopia has translated the rapid economic growth registered over the past years into declining incidence of poverty from 39 per cent in 2005 to 29 per cent in 2011. Significant progress has also been achieved in the other Millennium Development Goals (MDGs). However, it is observed that severity of poverty persists from time to time in Ethiopia .

### **CONCLUSION AND RECOMMENDATION**

The main macroeconomic policy objectives of the five year Growth and Transformation Plan (GTP) were achieving a rapid, sustainable and broad-based economic growth through creating conducive macroeconomic environment. The economic growth registered so far found to be broad-based and pro-poor. Growth has continued to generate employment, improving income and reducing poverty. However, despite progress made, employment generation and poverty eradication still remain as number one development agenda of Ethiopia. Therefore, the Government should remain committed to sustaining inclusive and pro-poor development strategy through creating labor intensive public work programs, subsidizing price for commodities that are important components in the budget of the poor and by building projects such as schools, water and sewage systems over the coming years to further address the poverty and employment generation challenges.

To regulate inflation Government should adopt appropriate fiscal and monetary policy as well as regulatory and administrative measures. It is well known that fiscal policy controls inflation through increasing tax and reducing Government spending and monetary policy lowers inflation through increasing interest rate. as a regulatory and administrative measure the Government should import and distribute basic commodities to stabilize domestic market prices and to protect low income group. Government also should take regulatory



measures to increase the efficiency and transparency of domestic market. As a sustainable measure Government should help in improving agricultural productivity and manufacturing growth to remove supply side constraints.

To improve tax revenue the Government should pursue further enhancement of tax collection through improving tax administration systems, tax administration capacity, enforcement of tax laws, broadening the tax base and tax administration information system.

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