THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON DEVELOPING COUNTRIES

THE IMPACT IN ETHIOPIA

Amdissa Teshome

In what ways is the global financial crisis being felt in Ethiopia?

The Ethiopian Economy is one of the least monetised in the world with over 85 per cent of the population having little access to banking and financial services. From this perspective it might appear that Ethiopia has little to fear from the current global crisis. The Ethiopian Prime Minister told Parliament 'In general, we don't expect drastic effects on our economy, our financial structure is not as liberalized as those of affected countries and the economy is not intertwined to Western economies to face a crisis.'

There are three areas in which the global financial crisis might affect Ethiopia – reduced aid, investment and remittance.

Ethiopia relies on the outside world to finance many of its development programmes. The funds come in a form of aid or investment from countries hard hit by the crisis. Therefore, the crisis is likely to reduce the flow of aid and investment as countries strive to solve the domestic financial crisis (e.g. the numerous bailout programmes launched in North America, Europe and Asia). The Ethiopian Prime Minister has acknowledged that this situation might affect aid and investment flow during his address to the Parliament.

The Ethiopian Electric Power Corporation, the only provider of electricity in Ethiopia, has indicated that its investment plans will be severely affected due to the crisis (www.ethiopiareporter.com). According to the Chief Executive Officer, giant international banks such as Morgan ING and others have started to invest in the power sector in Ethiopia. Since these banks are affected by the market turmoil, the Corporation expects a knock on effect – a reduction in investment.

Finally, there are hundreds of thousands of Ethiopians leaving abroad mainly in Europe and North America who transfer money to their relatives back home. As the financial crisis bites, the ability of these people sending remittance will be severely affected. This will have negative effect on the livelihoods of those who depend on remittance.

Ethiopia is not as isolated as one would expect after all!

How is the crisis being discussed and characterised by policymakers, in the media and in the research community in Ethiopia?

As indicated above, the Prime Minister briefed the Parliament on the current global crisis and the former debated the issue. The local media provides regular reports on the crisis. The government has been revising fuel prices every three months in such a way that the price fluctuations do not have immediate effect on the economy. That is, a given price stays for thee months regardless of what happens to global fuel prices during that period. During the next three months, the government increases oil price even if the price starts to come down globally with a view to recouping the subsidies during the previous three months. The government had a plan to supplement fuel with a locally produced ethanol in order to reduce fuel price. The plan came into force during the current crisis and it is expected that consumers will enjoy the benefits of reduced petrol prices in the long run.

In addition to these local debates on the inflationary situation and the financial crisis, there are exchanges over the Internet on the potential and actual effects of the financial turmoil on Africa in general and Ethiopia in particular.

Read more briefings in this series at www.ids.ac.uk/go/financial-crisis-impact

***Amdissa Teshome** holds an MSc degree in Agricultural Economics and a PhD degree in Distance Education from University of London. Over the last ten years, he has been engaged in private consultancy in a range of areas such as disaster management, food security, safety nets, and education. Amdissa has written for newspapers, journals and contributed a book on policies, strategies and programmes of the Ethiopian Government. He also coordinates Future Agricultures Consortium work in Ethiopia.*