ÜNİVERSİTEPARK Bülten | Bulletin

ISSN: 2147-351X | e-ISSN: 2564-8039 | www.unibulletin.com

ÜNİVERSİTEPARK Bülten | Bulletin • Volume 9 • Issue 1 • 2020

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To cite this article: Alam, M., Yigzaw, G. S. (2020). Causes and Impacts of Foreign Currency Reserve Crises in Ethiopia. *Üniversitepark Bülten, 9*(1), 15-27.

To link to this article: http://dx.doi.org/10.22521/unibulletin.2020.91.2

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ÜNİVERSİTEPARK Bülten | Bulletin • Volume 9 • Issue 1 • 2020 • pp. 15–27.

Causes and Impacts of Foreign Currency Reserve Crises in Ethiopia

MINHAJ ALAM and GEDIFEW SEWENET YIGZAW

Abstract

The main objective of this study is to explore the current phenomena of a foreign currency reserve crisis in Ethiopia, its causes and its negative impacts upon the Ethiopian national economy. This study employed a descriptive research method due to the nature of the phenomena. Secondary data sources, such as reports of international and national financial organizations, business review reports, published articles, and online Internet sources were used, and the secondary source data were analyzed thematically. Accordingly, this study shows that foreign currency reserve crises are a considerable challenge for the sustainable development of Ethiopia. Recently, the Ethiopian economy has been significantly affected by the impact of a foreign currency crisis, with the Ethiopian Birr performing weakly against major foreign currencies within the global competitive market. Moreover, this study revealed that the widespread and severe level of corruption and the country's weak export earnings capacity are considered as the major contributing factors for the country's foreign currency crises. Resource embezzlement and fraud has led the country to a severe foreign currency reserve crisis, an upscale of the black market economy, and a considerable weakening of Ethiopia's capacity to export goods in today's international competitive market against currencies such as the US Dollar. This leads the country to an increasingly vulnerable national economy through increasing heavy debt distress. This study suggests that the Government of Ethiopia should further strengthen the capacity of anti-corruption agencies in their fight against a critical level of corruption and to develop better strategies to enhance the country's export earnings capacity.

Keywords: Foreign currency reserve crisis, corruption, debt distress, export earnings, national economy.

DOI: 10.22521/unibulletin.2020.91.2

UNIBULLETIN • ISSN 2147-351X • e-ISSN 2564-8039

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Introduction

Financial crises have become a pervasive phenomenon throughout history (Allen, Babus, & Carletti, 2009). The recent financial crisis seen in the USA that began in 2007 and its consequences have been widely denoted as the “Great Recession.” From its beginning until its extreme state of adversity in 2009, it resulted in the loss of nearly US$20 trillion worth of financial assets owned by American households. The U.S. unemployment rate during this time rose from 4.7% to 10%, and the U.S. economy hemorrhaged nearly 9 million jobs from 2007 to 2009. By 2010, college graduates fortunate enough to find a job were, on average, earning 17.5% less than their counterparts did prior to the crisis, and experts were predicting that such a decline in earnings would persist for more than a decade (Goodwin, Harris, Nelson, Roach, & Torras, 2014).

The crisis also spread beyond the borders of the US as consumption and income declined, which resulted in many countries in Africa and Europe experiencing a significant reduction in exports as well as a significant devaluation of investments held in the US. The situation became so severe that financial institutions including banks, insurance companies, security investors, and giant multinationals were forced into financial administration and bankruptcy. As a result, the global Gross Domestic Product (GDP) value declined by 2% in 2009. It has since been estimated that between 50 and 100 million people worldwide either fell into, or were prevented from escaping, the resulting extreme poverty due to the crisis (Goodwin et al., 2014).

It is in this case that currency crises have always been a feature of the international monetary system, both during the Bretton Woods system of generalized fixed parities among major industrialized countries in the post-World War II period as well as after its breakdown in the early 1970s (Glick & Hutchison, 2011).

Dramatic incidents of currency crises include the breakdown of the Bretton Woods system in 1971-1973, the Pound Sterling crisis in 1976, the near-breakdown of the European Exchange Rate Mechanism in 1992-1993, the Latin American Tequila Crisis following Mexico’s Peso devaluation in 1994-1995, the financial crisis that swept through Asia in 1997-1998 and, more recently, the global financial crisis of 2008-2009 that forced sharp depreciation in many of the world’s advanced as well as developing economies (International Monetary Fund, 2009).

Of several studies conducted on financial crises, Glick and Hutchison (2011) stated that:

A currency crisis is a speculative attack on the foreign exchange value of a currency that either results in a sharp depreciation or forces the authorities to defend the currency by selling foreign exchange reserves or raising domestic interest rates. For an economy with a fixed exchange rate regime, a currency crisis usually refers to a situation in which the economy is under pressure to give up the prevailing exchange rate peg or regime. In a successful attack, the currency depreciates while an unsuccessful attack may leave the exchange rate unchanged, but at the cost of spent foreign exchange reserves or a higher domestic interest rate. A speculative attack often leads to sharp exchange rate depreciation despite a strong policy response to defend the currency value. (p. 2.)

Krugman (1979) also stated that:

Currency crises are mainly linked with the inconsistencies between domestic macroeconomic policies, such as an exchange rate commitment and a persistent government budget deficit that eventually must be monetized. The deficit implies that the government must either deplete assets, such as foreign reserves or borrow to finance the imbalance.

Paul (2010) described that the least developed countries of the world, including many in Africa, are being affected by a declining demand for their exports as well as a decrease in private and public transfers. Segal (2019) found that a weaker currency will stimulate exports and make imports more expensive, thereby decreasing a nation's trade deficit and/or increasing its surplus over time.

Moreover, McKinnon and Pill (1995) suggested that financial liberalization combined with deposit insurance may induce banks to fuel a lending boom involving both foreign and domestic credit expansion that eventually leads to a banking and reserve currency crisis.

According to Chen (2018), the US Dollar is the primary reserve currency used worldwide, followed by the Euro, United Kingdom's Pound Sterling, the Japanese Yen, and the Swiss Franc. The Chinese Yuan is also increasingly becoming a global trading currency. Foreign exchange reserves (also called Forex reserves or FX reserves) consist of foreign currency deposits and bonds held by central banks, and commonly include foreign exchange and gold, amongst others. These are assets that central banks use to back their liabilities such as the issuance of local currency and various reserves deposited with the central bank.

A reserve currency is a large quantity of currency maintained by central banks and other major financial institutions to prepare for investments, transactions and international debt obligations, or to influence their domestic exchange rate. A large percentage of commodities, such as gold and oil, are priced in the reserve currency, causing other countries to hold this currency to pay for these goods (Chen, 2018).

Merhatsidk (2019) described reserve currencies being held in significant quantities by numerous governments and central banks as part of their foreign exchange reserves. These currencies are used as pricing currencies for global trade, particularly for commodities such as gold, oil, and coffee.

For much of the pre-World War II period, fixed exchange rate system was used in Ethiopia, pegging the Ethiopian currency to the then dominant foreign currency. In the post-World War II period, the US Dollar obviously became the anchor currency. The local currency was pegged to the US Dollar for nearly half a century from 1945 until the nation adopted a managed floating system in 1994. The peg has been revised periodically over the years. On the 1st of May 1993, Ethiopia adopted a dual rate system whereby an official peg continued to be used, parallel to an independent float determined through auctions. In this period, the official rate was periodically adjusted by the central bank according to the evolution of the auction rate. Finally, the two rates were officially unified in July 1995 (Megersa & Cassimon, 2015, pp. 8-9).

Today, the weakening of the reserve currency, which implies, the decrease or depreciation of reserve currency in terms of foreign currency rate, has become a central growth issue in Ethiopia. This currency change can negatively impact on the economic growth of the country, although numerous factors are considered in explaining its weak economic development. Policy failures to develop effective financial institutions, widespread invisible corruption in the privatizing of the public sector, and devaluation of the currency are all considered as the perceived causes which have led the country to the financial crises of the past 27 years, and resultantly created the country's reserve currency problems.

There are certain empirical studies which have assessed the impacts of global financial crises on the economic growth of African countries, and specifically the impact upon Ethiopian economic development. However, these studies have given less emphasis in exploring the current status of Ethiopia's foreign reserve currency crisis, its perceived factors, and its negative impact upon the national economy and policy directions that should be implemented in order to recover from the reserve currency crisis faced by Ethiopia as an ongoing situation. Therefore, the current study attempts to address these knowledge gaps.

The overall objective of the current study is to explore the current phenomenal causes and negative impacts of reserve currency crises in Ethiopia. In order to address this general objective, the study aims to achieve the following specific objectives:

- Assess the current status of foreign currency reserve crisis in Ethiopia;
- Analyze the perceived causes of foreign currency reserve crises faced in Ethiopia;
- Assess the possible impacts of foreign currency reserve crises on the Ethiopian economy;
- Suggest policy directions for the Ethiopian government to redress the current reserve currency crisis.

Methodology

This study employed entirely secondary sources of data from different national and international financial organizations' reports, business review reports (e.g., Ethiopian Business Review) and newspaper articles (e.g., from Reuters, Africa News, Borkena Ethiopian News, and The Reporter Ethiopia), published articles in academic journals, National Bank of Ethiopia reports, as well as other Internet sources and relevant publications. The research approach followed throughout this paper is qualitative and the research method is descriptive in nature as the study attempts to describe an existing or current phenomena, namely that of Ethiopia's foreign currency reserve crisis, its primary causes, and the impacts that foreign currency reserve crises have on the Ethiopian national economy by assessing a variety of secondary data sources. The method of data analysis applied in the current study was content analysis, which is one of the qualitative research analytical methods, was mainly reported with additional narration by the researcher.

Results and Discussion

This part of the study attempts to describe the current phenomena of foreign reserve currency crisis in Ethiopia; the perceived factors that caused the shortage of Ethiopia's foreign reserve currency and its negative impact upon the national economy. In addition, the study also highlights certain potential policy directions that could be implemented by the Ethiopian government in order to resolve the country's foreign currency reserve crisis.

Current Phenomena of Foreign Currency Reserve Crises in Ethiopia

Ethiopia continues to experience widening current account deficits and foreign exchange reserve fluctuations. The country's demand for foreign currency to finance import bills of various goods has been steadily growing year to year. However, the supply of foreign currency is constrained by a poor export sectoral performance and erratic foreign aid inflow.

This gap between the foreign currency supply and demand is persistent and widening, and has thereby resulted in either depletion or fluctuation in the reserve position of the country.

Historical records have shown that the country's gross official reserve in 1991/92 was almost nil, equivalent to 1.3 weeks of import. It stood up to 28.3 and 33.1 weeks of import as of June 1994 and 1996, respectively, due to the balance of payment support by foreign donors augmented by the increase in export earnings. But, it exhibited swinging and declined as of June 2002 to cover 4 months of imports of goods and non-factor-services of the next year. It has been further dwindled to cover respectively only 3.6, 2.3 and 2.2 months of imports as of June 2005, 2006, and 2007, which is almost equivalent to the minimum required level of the International Monetary Fund (IMF). The reserve position has declined and reached to 8 weeks of import as of 2007/08. Recent year figures also indicated similar fluctuations which reflect the fact that it is one of the challenges that could entangle the country to meet its development goals. The current level of reserve position, which is closer to the minimum required level of the IMF would merely cover strategic goods like petroleum, and hamper the ongoing private investment that set as a pillar for market-oriented economy and an engine for growth (Tesfaye, 2015, p. 88).

According to Maasho (2018), Ethiopia has recorded average annual economic growth of about 10% for the past decade, the fastest rate throughout the African continent. However, foreign investors and local businesses have complained that the severity of hard currency shortages have stifled the private sector.

The reformist leader of Ethiopia, Abiy Ahmed, talked of the seriousness of the currency crisis in the country's parliament, stating that:

The crisis with hard currency in Ethiopia today is a serious challenge for the development of the country. It will not be solved in a short period of time, nor in the next 15 or 20 years. There is an urgent need for more cooperation with the private sector to find a solution (Maasho, 2018).

The International Monetary Fund (IMF) stated in January 2018 (International Monetary Fund, 2018) that Ethiopia's foreign reserves at the end of the 2016-2017 fiscal year stood at US$3.2 billion, less than what it spends on imports in just 2 months. In terms of the Ethiopian economic outlook, the African Development Bank (2019) mentioned that gross official reserves remained low at 2.5 months of imports in 2016-2017 and 2.1 months in 2017-2018. The IMF identified inadequate reserves as a downside risk to economic growth for 2017-2018, which was forecast at 8.5%. Despite high economic growth, Ethiopia is heavily dependent upon imports. According to the IMF (International Monetary Fund, 2018), Ethiopia's export revenues in the previous year were largely unchanged, despite some volume growth, as global agricultural commodity prices remained low and exports from manufacturing remained unbalanced. Ethiopia is the biggest coffee exporter in Africa, yet its total export revenue has been hitting short of the targets set for the past few years owing to weaker commodity prices.

It is in line with this that the National Bank of Ethiopia announced a devaluation of the country's currency, the Ethiopian Birr, against the US Dollar of 15% effective from October 11, 2017, and an interest rate on deposit increase from 5% to 7% in order to stimulate savings as well as to counter inflation. The measure was seen by the global economic players (e.g., The World Bank and the IMF) as helping to boost the growth of the country's export sector which had experienced a sluggish outlook. It was also expected to reduce Foreign Exchange shortages and to ease the debt burden (Alfa Shaban, 2017).

However, the Debt Sustainability Assessment conducted by the IMF (International Monetary Fund, 2018) shows that Ethiopia remains at high risk of debt distress owing to its small export base. Public and publicly-guaranteed external debt breaches the thresholds for the current value of debt-to-exports and debt service-to-exports in the baseline. This implies that Ethiopia might lose the opportunity to borrow from international financial institutions such as the IMF to advance new infrastructural growth projects.

The repayment period of loans is determined based on the cash flow of each project and the economic life of the major investment components. However, it cannot exceed 20 years including a maximum grace period of 5 years. A grace period is a time period within the life of a project when a borrower may not be required to make a principal loan repayment. Hence, the country's economic growth over the past decade was fueled by massive borrowing that has created a debt burden of more than US$26 billion, or with a public debt-to-GDP ratio of 61.8% as of the end of June 2018. Ethiopia remains at high risk of debt distress, according to a 2018 debt sustainability analysis by the African Development Bank (2019). Accordingly, Ethiopia is critically facing a shortage of funds.

The shortage of hard currency and the pressure from the lenders such as China, has forced the government of Ethiopia to launch privatization process of the mega-state enterprises, such as Ethio-telecom, Ethiopian Airlines, and its Power Company and shipping lines, among others ("Ethiopia jails 59 corrupt officials, associates", 2019).

In addition, the government of Ethiopia has indicated that its external debt has exceeded US$26 billion, moving the country into the highly indebted category. According to the Government of Ethiopia, it plans to pay off up to 22.5 billion birr (about US$800 million) during the 2019-2020 fiscal year, with 9.6 billion birr (about US$340 million) having already been paid as of December 2019 ("Ethiopia jails 59 corrupt officials, associates", 2019).

Currently, according to the IMF (International Monetary Fund, 2018), Ethiopia's total debt represents 44% of its GDP, with the average debt-to-GDP being 33.55% from 1991 until 2017 (Trading Economics, n.d.).

Table 1. Outstanding Public Borrowing by Source (in Ethiopian birr)

	2016-2017	2017-2018		Percentage change	
	Q2	Q1	Q2		
	A	B	C	C/B	C/A
Domestic borrowing	33, 091.6	35,365.3	37,888.6	7.1	14.5
Foreign borrowing	4,816.9	5,096.4	5,226.4	2.6	8.5
Total	37,908.5	40,461.7	43,115.0	6.6	13.7

Source: NBE Second Quarter 2017/18 Fiscal Year Series (National Bank of Ethiopia, 2018)

As shown in Table 1, the total outstanding borrowing of the banking system in Ethiopia stood at 43.1 billion birr as of Q2 2018, showing a 13.7% annual increase. Of the total borrowing, 37.9 billion birr (87.9%) was domestically sourced, with 5.23 billion birr (12.1%) from external sources. This situation has led the country to a high level of debt crisis, which has fueled the foreign currency reserve crisis. This reserve foreign currency crisis presents a significant challenge to Ethiopia becoming one of the middle-income countries which it has poised to become by 2025 (The World Bank, 2019).

Ethiopia's economy experienced a strong, broad-based economic growth that averaged 10.3% annually from 2006-2007 to 2016-2017, compared to a regional average of just 5.4%, but Ethiopia's real GDP growth decelerated to 7.7% in 2017-2018 (The World Bank, 2019). However, this developmental phase is reaching its limits by exacerbating external imbalances and the public debt burden. Severe foreign exchange shortages, barriers to domestic and foreign private investment in key sectors, and low tax revenue from private activities and other institutional inefficiencies increasingly pose obstacles to the further development of the private sector and to the overall economy of the country. The World Bank also holds similar views about the development challenges faced by Ethiopia, with "limited competitiveness.....underdeveloped private sector.....political disruption associated with social unrest could negatively impact growth through lower FDI [foreign direct investment], tourism and exports" (The World Bank, 2019).

Major Causes of Foreign Currency Reserve Crises in Ethiopia

Severe Corruption

Corruption, like cockroaches, has coexisted with human society for a long time. Lawrence Summers, the renowned American economist, former Vice President of Development Economics and Chief Economist of The World Bank, senior U.S. Treasury Department official, and former Director of the U.S. National Economic Council, stated that:

If you look under most banking crises, there's always a degree of fraud and abuse, and there's often a large amount of criminal activity. Corruption threatens growth and stability in many other ways as well: by discouraging business, undermining legal notions of property rights and perpetuating vested interests (as cited by Wei, 2000).

In Ethiopia, corruption has been deep-rooted and often the cause of financial crises in the country. According to the Government of Ethiopia, the FDRE (Federal Democratic Republic of Ethiopia) Public Procurement and Property Administration Agency, Ethio-telecommunication Agency, Ethiopian Water Works Construction Enterprise, Metals and Engineering Corporations, Pharmaceuticals Fund and Supply Agency and Urban Land Management and Administration are primary public sectors which allegedly spoiled in corrupt practices. The Ethiopian government stated in 2019 that 59 government officials and investors were in custody in connection with alleged corruption ("Ethiopia Arrested 59 officials", 2019).

Moreover, the Federal Attorney General, Birhanu Tsegaye, was cited in the press on April 12, 2019:

The Ethiopian economy has cracked down due to severe and hidden corruption. An investigation has been going on over the past three months due to what he described as 'very serious crime' committed in public institutions and government projects. The investigation revealed that there has been squandering of resources from the public sectors by office leaders ("Ethiopia Arrested 59 officials", 2019).

In line with this, the FDRE Public Procurement and Property Administration Agency was investigated due to the presumption that the agency was susceptible to corruption, with the result of the investigation having showed that Ethiopia lost US$23.7 million in connection with the purchase of 400 metric tonnes of wheat. At the same time, the heads of different departments at the Ethiopian Water Works Construction Enterprise together stole 55 million birr's worth of steel during procurement. Furthermore, the findings also revealed that the Pharmaceuticals Fund and Supply Agency allegedly made purchases worth 79 million birr in contravention of procurement procedures and regulations ("Ethiopia Arrested 59 officials", 2019).

Hence, corruption continues to be a serious problem in Ethiopia today. It hinders the economic growth of the country by reducing investment, diverting public resources, enhancing foreign currency reserve crises and increasing business costs. Resource embezzlement and monetary fraud has led the country towards a severe foreign currency reserve crisis, as well as a rapid upscaling of the parallel or black market.

Weak Export Capacity of the Country

Ethiopia exports totaled US$752.50 million for the second quarter of 2018, whereas its imports totaled US$4,436.30 million for the fourth quarter of 2018 (Trading Economics, n.d.). From these amounts, the severity of financial imbalance between Ethiopia's exports and imports can be clearly understood. The gap also indicates that the export capacity of Ethiopia in today's international competitive market based on the US Dollar is very poor.

According to the Foreign Exchange Controls of Ethiopia:

Foreign exchange reserves maintained by the government of Ethiopia remain at low-levels, a longstanding challenge for those seeking to source from abroad. As of mid-2018, foreign exchange reserves were approximately US$3.4 billion, sufficient to cover less than two months of imports. In addition, the decrease in foreign exchange reserves has been exacerbated by international debt obligations to fund previously built infrastructure projects. Foreign exchange shortages due to weak export performance and high demand for foreign currency will continue to present significant market challenges, particularly for potential Ethiopian buyers of goods and services. Private sector actors widely complain about the shortage of foreign exchange and point out the adverse implications on their businesses. (International Trade Administration, 2018)

As a result of the critical shortage of foreign currency, the National Bank of Ethiopia's regulations require commercial banks to allocate foreign currency to importers based on the priorities laid out in the Growth and Transformation Plan (GTP II). State owned enterprises and government sponsored infrastructure projects are usually given priority over the private sector when competing for foreign exchange access. The foreign exchange crunch has recently intensified with delays of more than a year, especially for investors in non-priority sectors. Given the poor performance of exports in past years and the growing demand for the import of capital goods, foreign exchange availability will continue to be a challenge for businesses in the foreseeable future (International Trade Administration, 2018). The IMF observed that the preconditions for export expansion and transition to private sector-led growth, including investments in trade enhancing infrastructure, are now in place and that private direct investment is growing strongly. However, the external imbalances and inadequate reserve barriers remain key risks to the country (International Monetary Fund, 2018).

Furthermore, the demand for foreign currency has significantly increased as imports grow faster and higher than exports; widening the trade balance gap. The foreign currency demand for imports of strategic goods and services such as petroleum, education, telecommunications, and defense, as well as imports of metals, fertilizers, and other capital goods, is increasing at an alarming rate. Therefore, one can infer here that Ethiopia's weak export earning capacity, which would bring about this trade imbalance, is identified as one of the major causes of today's foreign currency reserve crisis in Ethiopia.

Negative Impacts of Foreign Currency Reserve Crises on the National Economy

Ethiopia enjoyed remarkable economic growth from 2004-2005 through to 2008-2009 which was largely due to increases in foreign transfers and capital inflows, combined with expanded domestic credit to fund private and public investments in infrastructure and housing projects.

However, higher world prices, increased domestic credit, foreign capital inflows, changes in inflationary expectations and other factors contributed to increasing the country's overall level of domestic inflation. For any developing country, remittances can be a critical tool, assisting not only with local, grass-roots development, but also contributing significantly to the country's entire economic health (Keatinge, 2014). Adequate foreign exchange reserves are an important factor of any well-managed economy. These reserves help cushion the effects of economic shocks at both the domestic and international level.

Alemu (2010) stated that the Ethiopian economy was considered to be fairly open, import-intensive, but aid-dependent. Naturally, this makes it vulnerable to reoccurring financial crises. The Ethiopian economy has already started to feel the negative impacts in the form of reduced export prices, quantities and values, as well as reduced remittances and declining foreign direct investment inflows. All these factors, and others, have exposed the Ethiopian economy to foreign exchange constraints that significantly impact on the country's import volumes, and the Ethiopian Birr has weakened as a result against the US Dollar in the international competitive market.

Ethiopia has been hit by an ongoing foreign currency crisis for the past 3 years, and the shortage has worsened in the past year as antigovernment protests have negatively impacted on the country's foreign trade ("Ethiopia's foreign currency crisis", 2016). Ethiopia's foreign currency crisis has led to a vulnerable national economy, resulting in the country's heavy debt crisis. The population may be facing severe risks of poverty and unemployment as the situation prolongs. Besides, price inflation has the widest reaching scope, which directly affects the lives of the Ethiopian population. These and other factors may negatively affect the development of Ethiopia's national economy, and lead the country into a vicious cycle of poverty, with high rates of unemployment, increased political unrest, excessive debt distress, and finally the failure of the national economy to accommodate the needs and demands of its people.

Policy Directions/Interventions

During the past decade, Ethiopia registered an impressive level of economic development, as noted by double-digit growth levels. In October 2017, the Ethiopian Central Bank devalued the Ethiopian Birr by 15% in order to encourage exports, which had stagnated for the previous 5 years owing to the Birr's strong value against major currencies (Endeshaw, 2017). However, the foreign currency reserve position of the country is not considered competitive in the world market due to multiple factors such as excessive levels of corruption, political instability, and a weak state export earnings capacity.

According to Global Financial Intelligence, Ethiopia lost US$26 billion to illicit financial outflows between 2004 and 2013, and the country continues to bleed an average of US$2 billion every year (Mogessie, 2016). Hence, Ethiopia has made substantial progress in strengthening its capacity to counter money laundering and illicit financial flows. In 2018, the Global Center on Cooperative Security marked its sixth year of partnership with the Ethiopian Financial Intelligence Center, the Federal Attorney General of Ethiopia, and other stakeholders. Ethiopia demonstrated its ability to effectively introduce anti-money laundering measures and to counter the financing of terrorism (AML/CFT) with frameworks to detect and investigate financial crimes, as evidenced by the high profile arrests of intelligence, military, and business officials over alleged corruption and human rights abuses in November 2018 (Global Center on Cooperative Security, 2018).

In pursuit of curbing such criminal activities, the Federal Ethics and Anti-corruption Agency prosecuted a number of individuals, including high-ranking government officials. In 2013-2014, the Agency investigated 3,918 cases, prosecuted 2,592 of them, and secured the criminal conviction of 1,265 individuals (United Nations Office on Drugs and Crime, 2015). In December 2018, under the auspices of an anti-corruption sweep, 56 Ethiopian government officials were arrested having been accused of misappropriation and the embezzlement of public funds (“Ethiopia arrests more than 50 officials”, 2018). In April 2019, the Government of Ethiopia announced the jailing of 59 government officials and their associates for grand corruption, including the heads of four state agencies, namely the Public Procurement and Property Administration Agency, the Pharmaceuticals Fund and Supply Agency, the Ethiopian Trading Businesses Corporation, and the Water Works Construction Corporation for their involvement in multi-million dollar purchases without adherence to the proper purchasing rules and regulations (“Ethiopia jails 59 corrupt officials, associates”, 2019). Bertelsmann Stiftung’s Transformation Index (BTI) for 2018 ranks Ethiopia 113th out of 129 countries. It adds that corruption poses a serious and multifaceted problem to the overall wellbeing of the population and to its national economy (Bertelsmann Stiftung, 2018).

Conclusion

Ethiopia’s current level of foreign currency reserve is considered to be very low against the major international currencies. The country’s economic growth has been fueled by a huge level of borrowing from both domestic and external sources, and that such actions have created a debt burden of more than US$26 billion. This shows that the double-digit economic development was driven mostly by largescale government investments sustained through extensive loans and borrowings. As a result, Ethiopia’s balance of payments has deteriorated, and foreign currency reserves have been depleted from time to time. The current study has revealed that widespread severe levels of corruption in the major government economic sectors, and a weak state of export capacity earnings were identified as the major causes for the foreign currency reserve crisis that exists in Ethiopia today. Corruption has played a significant role in the economic deterioration of the country, which has led the country to squander a huge amount of foreign currency earnings against globally competitive currencies such as the US Dollar, Sterling, and the Euro. Moreover, Ethiopia remains at severe risk of debt distress owing to its small export base and its import dependency. Thus, the country’s foreign currency crisis has led the country to a state of national economic vulnerability, with a heavy debt crisis which aggravates a vicious cycle of poverty and high unemployment. Finally, the current study recommends that the coordinated efforts of anticorruption agencies along with the relevant sectoral offices are urgently needed in order to combat the excessive corruption practices, to eliminate the black market on currency, to speed up the privatization of government dominated economic sectors through encouraging private investment, and developing the strategies of liberal economic structure so as to accommodate the public interest. Such policy directions should be implemented in order to maintain the potential foreign currency reserve position of the country.

Notes

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