

Ethiopia EIU (October)

Highlights

Outlook for 2009-10

- The Economist Intelligence Unit expects the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) to remain firmly in power over the forecast period.
- Political tensions will begin rising during 2009 as all parties begin to regroup and plan for the next general election, due in May 2010.
- Relations with Eritrea and Ethiopia's involvement in Somalia will continue to dominate the foreign policy agenda throughout the forecast period, and tensions in the region will remain high.
- Sustained growth in agriculture, horticulture and services will keep real GDP growth robust, at 7.5% in 2009 and 7% in 2010, supported by healthy inflows of donor aid and foreign direct investment.
- Inflation is estimated to average 41% in 2008, reflecting continued strong increases in food and oil prices. Monetary tightening and lower food and oil prices should bring the rate down to 15% in 2009 and 12% in 2010.
- The current-account deficit is forecast to widen to 6.9% of GDP in 2009 as the trade gap offsets gains in exports. In 2010 gains on the services and current transfers accounts should narrow the deficit slightly, to 6.7% of GDP.

Monthly review

- The EPRDF re-elected Meles Zenawi—the prime minister—as party leader in mid-September.
- Ethiopia's invasion of Somalia in December 2007 in support of the Transitional Federal Government is proving ever more costly in terms of both money and lives.
- Ethiopia has moved up 12 places to 126th position (out of 180 countries) in the latest Corruption Perceptions Index from Transparency International, a Berlin-based non-governmental organisation.
- Ethiopia marked the completion of the first year of the US\$3.6bn Road Sector Development Programme—phase III—in September.
- Construction of a new sugar refinery at Tendaho, along with expansion at existing refineries at Fincha and Wonji, by Indian-owned Overseas Infrastructure Alliance has been delayed after a legal challenge in India.
- The current-account deficit rose to US\$342m in the first quarter of 2008, despite strong growth in exports and capital investments, as high oil prices drove stronger growth in imports.

Outlook for 2009-10: Domestic politics

The Ethiopian People's Revolutionary Democratic Front (EPRDF) will remain firmly in control at all levels of government until the next election, which is scheduled for May 2010. The EPRDF lost ground to the opposition in 2005 but the clampdown on the most successful opposition party, the Coalition for Unity and Democracy (CUD; which has now fragmented), following post-election violence, coupled with a mass recruitment drive in both urban and rural areas (that has seen EPRDF membership rise to 4.5m, almost one in 20 of the population), appears to have reversed the trend. The EPRDF's strong performance in by-elections in April 2008 highlighted the coalition's increased popularity. However, the bulk of the opposition did not participate in April.

The newly formed Unity for Democracy and Justice (UDJ), which is closest in spirit and membership to the original CUD, was unable to register in time for the April poll but is expected to contest the 2010 general election. The UDJ includes several ex-CUD leaders freed from prison in 2007 and an ex-CUD faction in parliament. Birtukan Mideksa (the former CUD vice-president) was elected party chairman at the UDJ's inaugural general assembly in June. The United Ethiopian Democratic Forces (UEDF)—the largest opposition group in parliament—boycotted the April by-elections because of alleged harassment and intimidation of candidates, and a similar problem may confront the opposition in 2010. However, the regime will probably lower the barriers sufficiently to ensure the participation of the mainstream opposition—including the UDJ and the UEDF—in 2010, thereby adding legitimacy to the results. However, even if this proves to be the case, the underfunded and fragmented opposition will struggle to pose a real challenge to the EPRDF's well-resourced electoral machinery. Although elections can always surprise, the Economist Intelligence Unit expects the EPRDF to register a convincing win.

Radical elements, including the Oromo Liberation Front and the Ogaden National Liberation Front (ONLF,) will continue to challenge the authorities. The volatile Ogaden region will remain a key battleground. The government will try to maintain security in the region but risks sparking further accusations of human rights abuses if it continues to be heavy-handed. The ONLF and others are likely to launch more attacks (with support from Eritrea and Somalia's Islamists) but do not represent a serious threat to the EPRDF regime.

Outlook for 2009-10: International relations

Ethiopia's relations with Eritrea will continue to dominate the foreign policy agenda throughout the forecast period. The long-standing border dispute between the two countries remains at an impasse and all attempts at a diplomatic solution have failed. The independent Eritrea-Ethiopia Boundary Commission (EEBC) closed its operations in November 2007, as the two countries had still not demarcated the designated border. Ethiopia is not prepared to hand over the symbolic town of Badme (as called for by the EEBC ruling in 2002) and Eritrea refuses further negotiations. Given the lack of progress, the UN Security Council decided in July to withdraw its peacekeeping force, the UN Mission in Ethiopia and Eritrea (UNMEE). This raises the risk of a new conflict,

although a continued stalemate is still the most likely scenario, especially as the two countries are already engaged in a bitter proxy war in Somalia.

Ethiopia wants to withdraw its troops from Somalia, where they are supporting the Transitional Federal Government (TFG), but feels compelled to remain engaged until some form of settlement is agreed (and is backed by a large expansion of African Union peacekeeping forces), as the prospect of a hostile, radical regime in Somalia is more unsettling than the rising costs of the conflict. The TFG and the moderate wing of the Alliance for the Re-Liberation of Somalia (ARS) are edging towards a ceasefire, but radical Islamists, backed by Eritrea, plan to fight on, which means that Ethiopia's withdrawal is not imminent. Somalia will remain a source of tension in the Horn of Africa, and Ethiopia will continue to be involved in order to protect its regional interests and domestic security.

Outlook for 2009-10: Policy trends

Ethiopia lacks a formal IMF programme, but the government will generally stick to an IMF-style policy framework in order to win donor backing for its plan for accelerated and sustained development to end poverty (PASDEP), which runs from 2006/07 to 2010/11 (fiscal years ending July 7th). The PASDEP is based on Ethiopia's strategy of agriculture-led industrialisation and calls for massive investment of Birr342bn (US\$39.3bn), focused on infrastructure, although this may not be realised in full. The main policy challenge during the forecast period will be to restore macroeconomic equilibrium and cut inflation (expected to average 41% in 2008) without undermining GDP growth: the IMF recommends a tightening of fiscal and monetary policy and a rise in donor support.

Donor financing is likely to be scaled up during the forecast period, after post-election violence in 2005 led to a downturn in flows and the redirection of resources away from the federal government and towards the woreda (district) level via the protection of a basic services programme. The World Bank will implement a new, full country assistance strategy (CAS) between July 2008 and June 2011, based on funding of US\$635m in the first year (2008/09), but future disbursements will depend on how quickly donors replenish World Bank coffers and how well Ethiopia performs. The CAS aims to support the PASDEP and will focus on four main areas: fostering growth; improving service delivery; building food security; and enhancing governance. In addition, donors remain committed to a wide array of projects, including roadbuilding, energy, information and communications technology, public-sector capacity building, and private-sector development. Although implementation of these projects, and related policy reforms, will help to improve the environment for private business, serious challenges will remain, including unfair competition from companies linked to the ruling party.

Outlook for 2009-10: Fiscal policy

According to provisional figures, Ethiopia ran a budget deficit of 4.4% of GDP in 2007/08 (year ending July 7th). The deficit excluding grants was closer to 8.4% of GDP, highlighting the importance of donor funding, which will remain the case during the

forecast period. The budget for 2008/09 projects a steep nominal rise in spending to Birr54bn and higher revenue of Birr45bn, producing a deficit of Birr9bn (3% of GDP), but the target is ambitious, and we expect a shortfall of nearer to 3.5% of GDP. The focus of spending will again be on capital projects and transfers to regions, which are far larger than federal current expenditure. The government initially planned to push domestic borrowing to over 3% of GDP in 2008/09, but cut the figure to about 2% of GDP after the IMF recommended that greater reliance be placed on concessional, foreign borrowing, although the target will be hard to achieve. Domestic revenue as a proportion of GDP remains low, even by African standards, but the government hopes to improve performance by creating a single, unified revenue agency—the Ethiopian Revenue and Customs Authority—during 2008/09. Despite improved revenue collection, continued high levels of capital spending will keep the fiscal deficit largely unchanged at 3.6% in 2009/10.

Outlook for 2009-10: Monetary policy

Monetary policy during the forecast period will remain focused on trying to control growth in money supply and bringing core, non-food inflation back beneath the 3% target ceiling. However, the task of the National Bank of Ethiopia (NBE, the central bank) will be complicated by several factors, including a lack of sophistication in financial markets (which weakens the link between interest rates and prices), the strength of world oil prices, and a lack of co-ordination between fiscal and monetary policies. In particular, the fiscal deficit and the government's growing appetite for domestic borrowing will make the NBE's job much harder. We forecast that domestic borrowing will be around 3% of GDP during the forecast period. In an attempt to contain monetary pressures we expect the NBE to maintain interest rates and the minimum reserve requirement at their current levels throughout 2009. As a result of continued lower inflation in 2010 the NBE is likely to lower rates in the first part of the year.

Outlook for 2009-10: International assumptions

Growth in the global economy is forecast to fall back from 3.8% in 2008 to 3.2% in 2009, owing to the economic slowdown in the US and the EU, before recovering to 4% in 2010. Ethiopia's fuel import bill will benefit from a projected fall in oil prices from US\$110/barrel in 2008 to US\$91/b in 2009, but will suffer from an expected slump in coffee prices to 105.8 US cents/lb in 2009 and 96.5 US cents/lb in 2010, owing to global oversupply.

Outlook for 2009-10: Economic growth

We estimate that real GDP growth was robust in fiscal year 2007/08 (ending July 7th), at about 8.5%, owing to another good harvest, the fifth in a row, which underpinned activity in agro-industry and services. However, power shortages in April-June knocked about 0.5 percentage points off the growth rate. We project that growth will remain healthy in 2008/09, at about 7.5%, as the main rains have been satisfactory, which will lead to higher farm output—the main food harvest takes place in October-December—and will

boost hydroelectricity. The pending start-up of new hydroelectric dams during the forecast period is expected to meet rapid growth in demand, but there is a possibility of further power cuts if projects are delayed or due to drought. Growth in 2008/09 will continue to benefit from public investment in infrastructure, although the global economic slowdown may impose constraints on external financing (from exports, remittances and official transfers). Tighter fiscal policy and high inflation will also serve to dampen domestic demand.

We project that growth will edge down to 7% in 2009/10, as the margin for gains in agriculture will be lower after six consecutive good seasons. However, growth should remain relatively healthy (barring serious drought) because of the ongoing movement of subsistence farmers into the commercial economy, which is being facilitated by the expansion of supporting infrastructure, especially roads and markets, and by institutional reforms. Improvements in policy and infrastructure will make it easier and cheaper to conduct business, although the country will remain vulnerable to drought (and to a sustained downturn in external financing).

Outlook for 2009-10: Inflation

Inflation reached 29.6% in July on a 12-month average basis (64.2% year on year), owing to the twin pressures of higher food prices and soaring world oil prices. The government will continue to implement a new anti-inflation package, involving fiscal and monetary measures, to try to stem the rise, but it is too early to judge how effective this will be. The start of the main harvest in mid-September (which is expected to be good) and the recent fall in world oil prices will ease some pressure. However, we expect average inflation to reach 41% in 2008, before declining to 15% in 2009 and 12% in 2010 as tighter monetary policy, lower oil prices and healthy harvests lower prices.

Outlook for 2009-10: Exchange rates

The birr has experienced weakness in 2008 to date, driven by pressure on foreign-exchange reserves, which have fallen to about one-and-a-half months of import cover. The birr averaged Birr8.95:US\$1 in 2007, but fell steadily, to reach Birr9.7:US\$1, in August 2008—a fall of 6.3% in the first eight months of the year. We expect moderate depreciation to continue through the rest of 2008, as reserves will remain tight, but the continued flow of donor disbursements and remittances from the Ethiopian diaspora will offer some relief. We expect the birr to fall from an average of Birr9.57:US\$1 in 2008 to Birr10.05:US\$1 in 2009 and Birr10.40:US\$1 in 2010.

Outlook for 2009-10: External sector

We expect that exports in 2008 will benefit from higher volume sales and world prices for coffee, and from increased earnings from other commodities such as oilseeds, pulses, flowers and gold. However, imports will also soar (driven by high oil prices), pushing up the trade deficit. Non-merchandise earnings, especially remittances and donor transfers, will continue to climb, but we expect the current-account deficit to grow to 6.2% of GDP.

Coffee exports will struggle owing to lower international prices in 2009-10, but growth in non-traditional exports, such as flowers, oilseeds and gold, will remain healthy. The projected start of electricity exports to neighbouring states will also help exports to increase during the forecast period. Imports will continue growing in 2009-10, spurred by large capital investments, although the softening of world oil prices will help to dampen the pace of increase slightly.

We expect non-merchandise earnings to continue growing in 2009-10, owing to a further rise in donor inflows and private remittances, helped to a lesser extent by increasing conference tourism. However, the slowdown in rich-country markets is likely to limit the rate of expansion of private remittances. Overall, we predict that the current-account deficit will rise to 6.9% of GDP in 2009, before dipping to 6.7% of GDP in 2010, provided that donor support remains in place.

Outlook for 2009-10: Forecast summary

Forecast summary

(% unless otherwise indicated)

	2007 ^a	2008 ^b	2009 ^c	2010 ^c
Real GDP growth ^d	11.1 ^b	8.5	7.5	7.0
Consumer price inflation (av)	17.2	41.0	15.0	12.0
Lending interest rate (%)	8.0 ^b	9.0	9.0	8.8
Government balance (% of GDP) ^d	-3.3 ^b	-4.4	-3.5	-3.6
Exports of goods fob (US\$ m)	1,287.9	1,438.5	1,574.3	1,653.6
Imports of goods fob (US\$ m)	5,164.8	6,218.1	7,095.9	7,957.4
Current-account balance (US\$ m)	-826.8	-1,609.0	-2,126.6	-2,421.7
Current-account balance (% of GDP)	-4.7 ^b	-6.2	-6.9	-6.7
External debt (year-end; US\$ m)	2,620.8 ^b	3,158.3	3,749.9	4,377.9
Exchange rate Birr:US\$ (av)	8.95	9.57	10.05	10.40
Exchange rate Birr:¥100 (av)	7.60	9.03	9.76	10.59
Exchange rate Birr:€(av)	12.25	14.31	14.15	14.20
Exchange rate Birr:SDR (av)	13.74	15.30	15.60	16.09

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

^d Fiscal years ending July 7th.

 [Download the numbers in Excel](#)

The political scene: The ruling EPRDF re-elects Meles Zenawi as leader

The ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) re-elected Meles Zenawi—the prime minister—as party leader in mid-September at the EPRDF's seventh congress (since being founded in 1989), and Addisu Legesse was retained as his deputy. The congress, held in Awassa in the Southern Nations, Nationalities and Peoples Region (SNNPR) region, brought together the four pillars of the EPRDF alliance—the Tigray People's Liberation Front (TPLF), the Amhara National Democratic Movement (ANDM), the Oromo People's Democratic Organisation (OPDO), and the Southern Ethiopia People's Democratic Movement (SEPDM)—which represent the country's main

ethnic groups. The TPLF is the smallest of the four but also the most influential, being the prime minister's party. Each faction sends an equal number of delegates to congress and has an equal share of places on the EPRDF's executive committee.

The congress, which is held every two-to-three years, was, as usual, well stage-managed; however, in contrast to former gatherings, it was open to the independent media as well as to state-run outlets. The main theme was one of continuity: there were no significant changes to either personnel or policy. The congress mainly trumpeted the party's achievements in terms of health, education, economic growth and a massive rise in membership to about 4.5m following a recruitment drive after the 2005 election (which showed that support for the party was weaker in the cities than in the countryside). Mr Meles admitted to delegates that inflation (64% in July 2008) was a problem, but remains convinced that policy action, including subsidised food sales, will prove sufficient. There was no suggestion of slowing the pace of government investment. Education was probably the most talked-about issue at congress.

The EPRDF hopes that the congress will translate into votes at the next election, which is scheduled for May 2010. The event was certainly a reminder of the party's formidable organisational and financial resources, compared with the underfunded and fragmented state of the opposition. However, the EPRDF's growing authoritarianism, including lower tolerance of opposition parties, critical civil society groups and the media (notwithstanding the invitation to attend congress) risks stifling the development of democracy.

The political scene: The conflict in Somalia continues to rage

Ethiopia's invasion of Somalia in December 2007 in support of the Transitional Federal Government (TFG) is proving ever more costly in terms of both money and lives. Despite some initial successes against the deposed United Islamic Courts regime, the security situation continues to deteriorate, marked by fresh gains by the Al-Shabaab ("Youth") insurgent brigades and by bitter fighting in Mogadishu, which has sparked a new wave of refugees, adding to the more than 1m already displaced. Ethiopia would like to withdraw its 6,000-10,000-strong force—and Mr Meles says that the country's commitment is not "open-ended"—but feels compelled to remain engaged until some form of settlement is agreed (and is backed by a large expansion of Africa Union peacekeeping forces), as the prospect of a hostile, radical regime in Somalia is more unsettling than the current costs of conflict.

Ethiopia backs the deal brokered at UN-led talks in Djibouti in August between the TFG and a moderate, breakaway faction of the Alliance for the Re-Liberation of Somalia (ARS) led by Sheikh Sharif Ahmed, which aims for a formal ceasefire and the phased withdrawal of Ethiopian troops pending the installation of a new, unity government. However, a final settlement was not signed in September as had been hoped for, and has been postponed for another month, until mid-October (and may face further delay). Part of the problem is a power struggle within the TFG between the president, Abdullahi Yusuf, and the prime minister, Nur Hassan Hussein, although Ethiopia now appears to

have forced them to compromise, after a week of talks in Addis Ababa. Far more serious, however, Al-Shabaab and the radical wing of the ARS, which is hosted and supported by Eritrea, continue to reject the talks' process and vow to carry on fighting. An early end to hostilities is not in prospect.

Economic policy: Ethiopia registers a small decline in corruption

Ethiopia moved up 12 places to 126th position (out of 180 countries) in the latest Corruption Perceptions Index from Transparency International, a Berlin-based non-governmental organisation. This reflects the improvement in Ethiopia's score to 2.6 in 2008 (on a scale where zero is totally corrupt and 10 is totally clean), from 2.4 in 2007, although the country is far from being in the "clean" category (5.0 and above)—in fact, only two Sub-Saharan African countries reach this mark, Mauritius and Botswana. Ethiopia shares 126th position with Eritrea, Mozambique and Uganda (in Sub-Saharan Africa) and with Indonesia, Guyana, Honduras and Libya on a global basis. The corruption index is based on opinion, not facts, but is considered to be a useful indicator of graft in the public sector.

Ethiopia's improvement in 2008 probably stems from the increasingly vigorous and high-profile approach adopted by the Federal Ethics and Anti-Corruption Commission (FEACC)—the main graft-fighting body—which has conducted a string of arrests and prosecutions in the past year. In FEACC's latest report to parliament, in May, covering the first nine months of the 2007/08 financial year (year ending July 7th), the commission brought 92 new charges before the courts and secured guilty verdicts in 25 out of 29 cases. FEACC said that tip-offs from the public had more than doubled from a year earlier, to over 2,500, and were a key source of information. Ethiopia is also edging towards a system of wealth declarations for public officials, which will be implemented for all employees of the newly created Revenue and Customs Authority in the first instance.

Two major court cases are currently under way, both initiated by FEACC in the past year. In the first, Tesfaye Biru, the former head of the Ethiopian Telecommunications Corporation (ETC)—the parastatal monopoly—along with 14 fellow executives, were charged in February with taking kickbacks from questionable procurement contracts (dating from 2003-06), which caused the ETC to run-up a Birr1.54bn (US\$171m) loss. The trial started in July and will resume in November. In the second case, 11 employees of the National Bank of Ethiopia (NBE)—the central bank—and the Ethiopian Geological Survey, as well as ten business associates, stand accused of organising the sale of fake gold bars to the NBE, which has cost the authorities at least Birr154m (US\$16m), and possibly nearer Birr500m (January 2008, Economic policy). The NBE is partly to blame, according to a probe by the auditor-general in mid-2008, for not having robust checking procedures. Formal charges were laid in April and the trial started in July.

A third long-running case, initiated by FEACC in 2001, finally ended in mid-2008 when the court convicted over 20 executives from the Commercial Bank of Ethiopia (CBE),

including the former head, Tilahun Abbay, of handing out illegal loans. The bankers were exonerated on some, but not all, of the charges, but were in any case freed because of time already served. The CBE saga, which some observers linked to in-fighting within the TPLF, fuelled accusations that FEACC's work was politically driven. This perception has dimmed over time—as FEACC has spread its net wider and become a more efficient prosecutor—although the close links between top EPRDF officials and party-owned business ventures remain a concern.

Economic performance: The road network expands but high costs are a constraint

Ethiopia marked the completion of the first year of the Road Sector Development Programme (RSDP)—phase III—in September, at a conference attended by a string of major donors. The RSDP, which initially started in 1997, has received substantial donor assistance and is a key plank of Ethiopia's development strategy. Roads carry about 95% of domestic traffic, dwarfing the contribution of the railway network. The RSDP-III runs for three years, to mid-2010, and is expected to cost Birr35bn, of which four-fifths has already been secured, according to officials. At the conference it was revealed that the road network grew from 26,550 km in 1997 to 44,359 km currently (and has expanded by 4.5% over the past 12 months), while the proportion of roads in "good" condition jumped from 22% in 1997 to 53% in 2008. The aim is to expand the road network to 50,000 km by 2010, although this remains low compared with the size of the country and the population. Numerous roadworks are under way as part of the RSDP-III, but although officials described progress in the first year as "good", they also noted delays in some projects. A key challenge has been the sharp rise in construction costs, owing to high inflation, as well as shortages of skilled manpower and machinery.

Meanwhile, in a significant boost to internal road transport, the prime minister opened a major new bridge in September, dubbed "Hidasie" (Renaissance), which spans the Abay (the Blue Nile) about 200 km north of the capital. This cuts the travel time between Addis Ababa and Dejen from ten hours to four and provides a more direct connection to key agricultural areas in the north and with Sudan. The bridge (costing US\$14m) was built and funded by Japan as part of the US\$34m Goha Tsion-Dejen road project.

Economic performance: Planned Indian investment in the sugar sector is delayed

Ethiopia had been hoping that work would by now be well under way on the construction of a new sugar refinery at Tendaho, along with expansion at exist-ing refineries at Fincha and Wonji, after securing the promise of a US\$640m soft loan from India's Export-Import bank in January 2008 and signing up Overseas Infrastructure Alliance (OIA; an Indian private firm) as lead contractor in the same month. Work should have started within 36 days—backed by initial funding of US\$122m—but has still not commenced, leading the minister of trade and industry, Girma Birru, to warn in September that Ethiopia's patience was running out. However, the main problem is the legal action launched in India against OIA by a disgruntled losing bidder, Uttam Sucrotech, alleging that the tendering process was unfair and "non-transparent". Uttam was offered the consolation of the Wonji project, as sub-contractor, but did not find the terms

satisfactory. The Mumbai High Court has now blocked the transfer of the Indian loan—which was earmarked to cover 39% of total project costs—until the affair is settled, which may leave Ethiopia seeking alternative investors. Ethiopia hopes to raise sugar output significantly and turn from being a net importer to a net exporter, but the process has been slow to date.

Economic performance: The current-account deficit expands despite export gains

Exports recorded a best-ever performance in the first quarter of 2008, rising by 39% year on year to US\$474m, owing to a 73% jump in coffee earnings to US\$192m (40% of the total). This reflects a combination of greater volume sales and higher coffee prices. Exports of pulses (which more than doubled to US\$49m) and flowers (up by 50% to US\$33m) also posted rapid growth and, like coffee, recorded volume and price gains. Oilseed growth, by contrast, was constrained by volume decline. Imports—on a carriage, insurance and freight (cif) basis—rose by 27% year on year in the first quarter to US\$1.77bn as fuel imports leapt by 71% to US\$408m (and despite a fall in capital goods purchases), which offset the export gains and pushed the trade deficit higher. However, the trade deficit was virtually static quarter on quarter.

Non-merchandise (invisible) earnings rose by 26% year on year in the first quarter to US\$955m, driven by growth in private remittances (up by 26% to US\$564m) and official grants (up by 44% to US\$396m), although this was not sufficient to prevent a rise in the current-account deficit (up by 16% to US\$342m). The current-account shortfall also increased on a quarter-on-quarter basis, but was lower than the recent peak recorded in the third quarter of 2007. Capital inflows, driven by foreign direct investment (FDI), remain significant—although FDI was almost unchanged year on year in the first quarter at US\$177m—but are failing to finance the current-account shortfall. The balance of payments was therefore in the red for the second quarter in succession, which is mirrored by the shortage of foreign-exchange reserves (now down to about six weeks' import cover).