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Businesses say they may have to close shop

The existing severe hard currency shortage is paralyzing local industries that import raw materials for their production. The shortage of foreign currency reserve observed in the past several months has already forced many businesses to slow down their activities in the different sectors where production depends on imported materials.

Both state and private banks do not seem to have enough foreign currency available to sell to meet the rising demand. Sources at one of the biggest manufacturing industries in the country told Capital that they have been forced to halt production for the last three weeks having run out of basic raw materials. Their letter of credit (LC) application entered several months back has not been met with a positive response so far, and they do not know how long it will take. They have received virtually no authorization to purchase foreign currency from the central bank. The situation leads manufacturing industry to a high stagnation risk and the consequences are being felt.

One of the biggest painting and chemical industry for instance had suspended production for weeks due to the lack of foreign currency in the market and lack of raw materials. It did commence production in the past few weeks, though below capacity, sources explained.

Other sources from the plastic industry reiterated to Capital that the industry is highly affected by the foreign currency shortage. They said that the industry's input suppliers could not import sufficient amount of raw materials that can meet the demand.

“We are now using a very small amount of raw materials that was imported six and seven months back and we are producing below capacity; still we could not order additional material due to the hard currency scarcity,” they explained.

According to traders in Merkato, the biggest market in the country, products are currently becoming more and more scarce on the market but added that there has not been any notable price increment for now. “The market is not that much vibrant; that is why prices did not rise that much in the retailing market,” traders elaborated. However these traders fear that the price hike on consumer goods will be very sharp if the situation continues like this.

The hard currency shortage was significantly observed since the beginning of the Ethiopian New Year, in September 2012; although signs of the shortage were observed in the beginning of the budget year, i.e. July 2012.

Currently, governmental projects and export oriented businesses get priority to obtain foreign currency permit. Other foreign currency applications have been waiting for more than five months. This situation feeds upon itself as it pops up the exchange rate versus the birr on the black market, and forces purchasers to pay higher rate for access to currency. Hence the black market business has grown significantly in the last couple of months.

At present the government is undertaking mega developmental projects such as power generation and sugar production ventures that consume huge amount of hard currency for importing construction materials.

Melaku Taye, Director of Corporate Communication Directorate at the Ministry of Industry, told Capital that the country is distributing ample hard currency mainly for the ongoing huge governmental projects and for industries that manufacture import substitutes and export oriented manufacturing. “For instance textile, leather, agro industry and chemical manufacturers are the priority focus sectors that are specially handled,” he added.

However, the Director added, “not a single industry has complained about the hard currency shortage.”

According to experts, one of the major factors for the hard currency shortage is the decrease in export volume seen in the past year, combined with the low price of coffee fetched internationally that reduced the total income projection by half.

Ethiopia earned 3.1 billion dollars from export in the last budget year (2011/12); a 15 percent growth from the 2010/11 budget year. However, last budget year’s performance was roughly 70 percent of the target set which was 4.6 billion dollars.

Noting the dismal performance of coffee export during the last budget year, the Ministry of Trade envisions collecting 5 billion dollars in revenue for the current budget year.

Previously, private banks used to purchase hard currency through auctions from the National Bank of Ethiopia (NBE), but the practice has been suspended for the last several months. No official explanation has been given from the regulatory body. “This practice has also played a role to shrink the hard currency accessibility at private banks” experts explained. Meanwhile, Prime Minister Hailemariam Desalegn told parliamentarians in his latest address that the country has sufficient hard currency reserve that enables it to undertake activities for a period of three months.