Key Highlights

► Overall: As Ethiopia starts the second quarter of 2024, the macroeconomic situation remains challenging. As of May 2024, reserves are about 1 month of imports, and there are growing pressures on the fiscal and current account balances. At the end of March, an IMF team visited Addis to discuss a potential USD 10.5 billion four-year program for macroeconomic stabilization. The overall package includes USD 3.5 billion IMF loans, about USD 3.5 billion support from other donors (especially World Bank), and USD 3.5 billion debt restructuring. The Government of Ethiopia and the IMF made progress in the discussions, and negotiations are currently ongoing. The IMF remains confident that agreement will be reached in the coming two months by June 2024. The discussions have focused on four key areas: exchange rate reform, monetary policy framework, erosion of revenue base, and state-owned enterprises (SOE) reform. There have also been discussions around fiscal consolidation, central bank independence, and the asset quality of CBE.

► Economic Growth: Ethiopia’s economy grew by 7.2 percent in 2023 according to the Government figures, while the IMF estimated the economy grew by 6.1 percent. There are growing concerns that the deteriorating security situation in the country is an obstacle to free flow of investment. Investment share to GDP was in a sharp decline in the past four years, from 35.3 percent in 2019 to 22.2 percent in 2023, hampering growth prospects.

► Humanitarian aid. The humanitarian situation remains troubling. On February 26, the Ethiopian Government and humanitarian partners issued the 2024 Ethiopia Humanitarian Response Plan (HRP) costed at USD 3.9 billion. This joint appeal targets 15.5 million people with multi-sectoral assistance, amongst whom are 4 million internally displaced persons (IDPs) assessed to have enormous humanitarian and durable solutions needs. On April 16, 2024, Ethiopia’s international partners met in Geneva to address the urgent need for increased humanitarian funding, pledging a total of almost USD 630 million. According to UNICEF, 9 million children are currently out of school.

► Fiscal: The fiscal deficit/GDP ratio has reduced to 2.6 percent in FY23 against 3.1 percent in the preceding year due to fiscal consolidation efforts by the Government. Some megaprojects remain out of the Government budget. Fiscal data from July to December 2023 suggest continuation of trends. A recent speech by the Finance Minister indicates expenditures outpacing revenues by 139 billion birr for the first nine months of FY24. There has been a USD 1.4 billion suspension of debt service in FY24, giving more fiscal space. Defense has continued to eclipse social spending, and PSNP safety net continues to be underfunded.

► Monetary: Monetary policy of the central bank is accommodative although Government has issued new guidelines on interest rates and credit ceilings. Deficit financing continues to play a key role via direct advances from the NBE and issuance of T-bills between January and April 2024.

► Inflation: Inflation in Ethiopia remains high as of March 2024. There has been a slight slowdown in headline inflation at 26.2 percent in March 2024 in contrast to 34.2 percent in March 2023. Containing inflation continues to be a policy challenge for monetary authorities in FY24.

► Balance of Payments: During the first nine months of FY24 the country has registered an overall balance of payment deficit of USD 1.4 billion.

► Debt. The Paris Club has extended a deadline for Ethiopia to reach a preliminary bailout deal with the International Monetary Fund to the end of June 2024. Ethiopia faces a significant debt overhang and a USD 1 billion Eurobond debt repayment in December 2024.
Economic Growth

Growth has been achieved despite major international and local crises, such as the continued conflicts in Ukraine and Gaza and the internal security situation in Oromia and Amhara. The value of real GDP has increased from Birr 1.7 trillion in FY18 to Birr 2.4 trillion in FY23 (Figure 1). Government figures indicate that Ethiopia’s economy grew by 7.2 percent in 2023, while the IMF estimates it at 6.1 percent. The nominal GDP saw a significant increase of 41.7 percent, partly due to the high inflation rate. This trend is expected to continue in 2024, driven by inflation rate and the anticipated depreciation of the local currency, reflecting the government’s measures to boost GDP growth.

**Figure 1: Real GDP (Birr Billion)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry Excluding Construction</th>
<th>Construction</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: MoPD (2023)

The economic growth narrative in Ethiopia faces challenges. Over the past five years, the country has faced numerous challenges, including COVID-19, the Ukraine-Russia war, internal conflicts, and drought, which have all tested the economy’s resilience (ECA, 2023). According to a survey conducted by Afrobarometer in 2023, most Ethiopians perceive the country’s economic condition as bad, and less than half expect things to improve in the coming years.

The data also show that there has been a decline of 13 percentage points in the proportion of citizens who are satisfied with their living conditions in 2023 compared to 2020, from 51 percent to 38 percent. More than half of the population (61 percent) experienced moderate or high poverty levels in 2023, with no cash income, sufficient clean water, medical care, and other necessities.

Another noteworthy development in the GDP component which has profound implications for current as well as future growth outlook is investment. Ethiopia’s overall investment to GDP ratio has shown a decline in the past four years, from 35.3 percent in 2019 to 22.2 percent in 2023. This rate may be comparable to sub-Saharan Africa average for the second decade of the 2000 (21 percent). However, Ethiopia’s average for the same period was 35 percent (Figure 2).

---

1. Ethiopians report worsening economic conditions, increased poverty levels, Afrobarometer survey shows – Afrobarometer
Looking ahead, the government has set ambitious targets for economic growth as articulated in the Ministry of Planning and Development Medium-Term Development and Investment Plan (2023/24 – 2025/26). Over the past five years, the real GDP has increased at an average annual growth rate of 7 percent. The Ministry of Planning has outlined plans to further accelerate this growth, aiming for a real GDP per capita growth rate of 8.4 percent in the next three years (Figure 3). The government’s projections estimate a real GDP growth rate of 7.9 percent, 8.4 percent, and 8.9 percent in FY24, FY25, and FY26, respectively.

Most of the real GDP growth in recent years is attributed to the services sector. In FY23, 3.1 per cent of the 7.2 percent GDP growth rate was from the service sector, while 2.1 per cent and 2 per cent came from the industry and agriculture sectors. The average percentage share of agriculture in GDP between FY18 and FY23 was 33 percent, while the industry and service sectors were 28.5 percent and 39.7 percent, respectively.

The sectoral stories are interesting. Agriculture has had a mixed performance with positive developments in wheat and forestry offset by poor performance in the livestock sector. Diversification has been elusive. Climate change has also been impacting agricultural productivity negatively and led to more extreme weather events, especially droughts.

There are contrasting datasets on wheat production, with USDA taking a more conservative position.
The agriculture sector in Ethiopia has recently been facing a shortage of inputs, especially since 2023, particularly fertilizers. Farmers in the Amhara region have been concerned for timely delivery of these inputs. The shortage has led to illicit trade practices, where a quintal of fertilizer was being sold for Birr 11,000 in some cases. The government’s inability to properly regulate the distribution of fertilizers\(^3\), coupled with insufficient foreign currency stock, has contributed to the shortage.

The Ethiopian Agricultural Business Corporation (EABC) has learned from the previous year experience and is working to procure 23 million quintals of fertilizer for the current harvest season in 2024. More than 50 percent of the fertilizer has arrived and is currently under distribution. However, the Government of Ethiopia notes that the ongoing conflict is causing a delay in the distribution of fertilizer in the Amhara region.\(^4\)

Despite a slowdown between FY19 and FY22, the industry sector has become faster in 2023, mainly attributed to a recovery in the construction sector. This sector is a crucial sector that employs almost 5 percent of the total labor force (CSA, 2021).\(^5\) with an average annual growth of 11 percent since 2017.

In recent years, the growth rate of the construction sector has been declining. Cement has become more expensive over time, with the price in 2024 reaching around Birr 12,000 per quintal. Since cement is the most important input in construction, the cost of construction has increased. The outbreak of COVID-19 caused a lot of delays, suspensions and additional costs which further increased the cost of construction materials. Prices of cement, floor and wall finishing materials have gone up by more than 50 percent. Conflict has created logistical and production challenges for cement suppliers. One can witness unfinished buildings in the capital and other parts of the country. However, there has been a slight recent recovery in the sector.

The manufacturing sector has been struggling due to forex shortages, AGOA suspension, logistics costs, financing constraints, and regulatory barriers. Electricity and water have performed decently. It is also important to note that the construction sub sector continues to dominate the industrial sector. In 2023, its share stood at 72 percent, while manufacturing constituted 22 percent of the industrial sector. Unfortunately, the growth rate of the industrial sector has been declining since FY18 (Figure 4).

\[Figure 4: \text{Industry Sub-Sectoral Performance (%)}\]

\[\text{Source: MoPD (2023)}\]

The services sector has been performing better accounting for more than 40 percent of GDP, especially wholesale and retail trade, and transport and communications (Figure 5). However, there has not been any significant modernization in the sector. Wholesale and retail trade have been the main contributors for the service sector at 15.7 percent followed by transport and communication and real estate at 6.2 percent and 5 percent respectively (Figure 5).


\[4\] https://addisstandard.com/over-half-of-ethiopias-fertilizer-order-for-current-year-arrives-at-djibouti-port/

\[5\] https://addisfortune.news/construction-the-unpropitious-outcome/
In 2023, there has been growth in all service sub sectors. Wholesale and retail trade grew by 8 percent, while the highest growth was in transport and communications (12 percent). Compared to the previous year, most have had a slight improvement (Figure 6).

Despite growth, the transport and logistics industry face several challenges, including a historically limited involvement of the private sector, both foreign and local, a lack of integration between government entities (particularly the Ministry of Revenue and the Ethiopian Shipping and Logistics Services Enterprise (ESLSE)\(^6\)), underdeveloped infrastructure, and the internal conflict.\(^7\)

In FY24, there was a projected 34.6 percent increase in domestic air travel compared to the previous year, with 3.5 million passengers served. Firstly, the number of people able to afford air tickets has increased. Secondly, there has been a substitution effect from other forms of transportation, particularly road transport due to a reduction in price margins between air and bus tickets and an increase in the frequency of road closures due to conflicts and incidents of abduction along the roads in the Oromia and Amhara regions.

---

\(^6\) The Opportunities in the Transport Sector in Ethiopia - Capital Newspaper (capitalethiopia.com)

\(^7\) The Ethiopian Maritime Authority has taken a decisive move by granting the first multi-modal transport licenses to three private companies in 2024.
Inflation

Inflation in Ethiopia remains high from January to March 2024 (Figure 7). Year-on-year headline inflation stood at 26.2 percent in March 2024 indicating slow abatement compared to 34.2 percent in March 2023. Food inflation, which accounts for 53.5 percent of the CPI weight, is the major driver of the general price level. Food and non-food inflation rates stood at 29 percent and 22 percent in March 2024 in contrast to 32.8 percent and 36.3 percent, respectively in March 2023 (Figure 7). Similarly, food and non-food inflation rates abated to 28.2 percent and 29.5 percent, respectively compared to their levels of 32.8 percent and 36.3 percent in the same period. However, this does not represent a new trend yet. Central bank officials are noting a decline in inflation by one-third compared to the previous year with inflation at 23.3 percent in April 2024.

Figure 7: Inflation Rate January 2018 – March 2024 (%)

Source: Constructed based on data from ESS

Ethiopia’s inflation remains high compared to other African countries. IMF assessment finds that after peaking at almost 10 percent in late 2022, inflation in sub-Saharan Africa has nearly halved to around 6 percent in the early part of the year thanks to decisive action by central banks and slower food price increases. Inadequacy of food distribution systems explains some of the gaps. The key drivers of inflation in Ethiopia in 2024 continue to be accommodative monetary policy, imported inflation, depreciation of the local currency, domestic trading system and supply side bottlenecks among others.
**Monetary Policy**

Ethiopia’s monetary policy up to April 2024 has continued to be accommodative. Monetary authorities continue to rely on direct instruments. There has been some marginal tightening of the monetary policy stance in 2024. Due to credit ceilings, the commercial banks have begun to tighten lending. However, due to continued deficit financing and transmission lags, the impact has yet to be felt.

Deficit financing plays a key role via direct advances from the NBE and issuance of T-bills up to December 2023 (Figure 8). Broad money (M2) grew from Birr 2.1 trillion in March 2023 to Birr 2.4 trillion in March 2024. This has contributed to inflation and diversion of credit from the private sector.

The IMF recommendation for Ethiopia is to have a monetary policy framework that has market determined interest rate, as real interest rates remain negative due to high inflation rate. There are growing concerns about the financial status of CBE given its large exposure to SOEs loans, many of which have not been paid back. The Treasury Bills Market with maturity dates varying from 28 days to 364 days has supplied the Government with a total of more than Birr 350 billion during July – December 2023 (NBE Website). There is a widening gap between the auction offered and received, which can be explained by the negative real T bill interest rate reaching as low as -16.5 percent in December 2023. Nonetheless, with a widening financing gap and declining external resources, the Government will be increasingly reliant on bank advances and T-bill auctions for the remainder of FY24.
**Exchange rate developments**

Ethiopia’s foreign exchange market continues to be volatile as of May 2024, with some degree of loss of confidence. While there is convergence of objectives, the World Bank and the IMF insisting on a rapid unification of the exchange rate given the May 2024 gap between official (56 Birr/USD) and parallel market (120 Birr/USD), while the Government wants a more phased approach to correct the distortion. The IMF suggestion is to move to a more market-determined exchange rate regime (floating exchange rate) that finds the right price between the demand for foreign exchange and its supply. The important lesson from the experience of many countries, including Egypt and Nigeria, is to have abundant FX cushions to protect the currency during the devaluation.

*Figure 8: Public Sector Domestic Debt Outstanding (million Birr)*

Source: Public Debt Bulletin, MOF
The Government of Ethiopia is beginning a process of fiscal consolidation. In FY23 total government tax revenue reached Birr 597 billion or 6.8 percent of GDP (Figure 9). Tax collection has annually increased by 36.7 percent but tax to GDP ratio of 6.8 percent is in decline compared to 7.1 percent last year largely due to significant increase in nominal GDP. Ethiopia’s tax revenue to GDP ratio is very low and declining - even below the sub-Saharan average of 15 percent, implying that there is a need to agree on fiscal consolidation and bold tax reform agenda. The Government is considering property tax, revision of VAT proclamation (including utilities), and improvements in tax administration. They are also preparing a Medium Term Revenue Strategy.

Expenditure reached 10.8 percent of GDP in FY23, of which 6.7 percent was recurrent and 4.1 percent capital expenditures. Hence the budget deficit reached Birr 224 billion or 2.6 percent of GDP which was smaller than the 3.1 percent deficit in FY22.

Figure 9: Tax Revenue to GDP (%)  
![Graph showing tax revenue to GDP percentage from 2003 to 2023.](image)

Source: Constructed based on data from MoF

In terms of GDP, capital expenditure has been the lowest in FY23 (Figure 10). However, the slowdown in capital investment has begun prior to the current conflicts. In the past five years, the average capital expenditure to GDP ratio dropped to 6.6 percent from its level of 10 percent in the preceding decade. The de-investment is now supported by government reforms to shift towards a more private sector-driven economy. However, private investment has so far failed to materialize.
There are three trends to note. Some Ethiopian expenditure, such as parks and retreats, have been financed off the balance sheet. Many are beneficiaries of foreign grants from China, France, and UAE. The Government is working with Parliament on consolidating the budget. Thus, the budget deficit could potentially be understated. Third, in the FY24 budget, defense expenditure and debt service are more than Birr 160 billion, but that could change with debt relief and IMF program. Finally, there appears to be a trend whereby investment (public, private, and foreign) has been declining relative to comparator countries (Figure 11).

---

Debt

The Paris Club has extended a deadline for Ethiopia to reach a preliminary bailout deal with the International Monetary Fund by three months to the end of June 2024. Ethiopia faces a significant debt overhang and a USD 1 billion Eurobond debt repayment on the Eurobond. Debt restructuring will be predicated on an IMF program. There has been 1.4 billion in savings from debt service suspension with bilateral creditors, including China. Moreover, anecdotal evidence suggests the UAE has supported the GOE reserve position with a USD 2 billion inflow in FY24. The Government is trying to address some of the debt through LAMC (Box 1).

The stock of Ethiopia’s public sector debt stood at USD 63.2 billion at close to 39.4 percent of GDP at the end of 2023 comprising USD 27.7 billion (18 percent of GDP) external and USD 35.5 billion (22 percent of GDP) domestic debt. These are below the debt sustainability requirement for low-income countries which are 40 percent for external debt and 55 percent for total public sector debt. However, Ethiopia is facing growing liquidity challenges in servicing and paying for external debts. There is a debt liquidity that is peaking in 2023-25. On the external debt side there is a liquidity risk embedded in the existing indicators. External debt servicing to export ratio has reached 22 percent which is above the IMF recommended ceiling of 15 percent. A realistic DSA may well conclude that Ethiopia faces solvency problems rather than liquidity challenges, given its high ratio of debt service to exports in the coming years.

Box 1: SOE Loans and LAMC

In August 2021, a total liability of 398.7 billion ETB owed by several Ethiopian state-owned enterprises (SOEs) - including Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), Ethio-Engineering Group (formerly METEC) (EEG), Chemical Industry Corporation (CIC), Ethiopian Railway Corporation (ERC), and Ethiopian Sugar Corporation (ESC) - to the Commercial Bank of Ethiopia was transferred to LAMC with the MoF acting as a guarantor.

As a part of debt restructuring for state-owned enterprises (SOEs), the loans will be serviced by the LAMC using funds from privatization and the Industrial Development Fund. The SOEs are also expected to contribute to the repayment of these debts through LAMC, both directly and indirectly. The privatization process in the country has underperformed, and it was supposed to be the main source of finance for LAMC. Due to this and the limited capacity of the SOEs, LAMC is facing a financial constraint. In 2023, it only managed to pay Birr 10.8 billion, which is a little over six percent of its plan.9

9 Cash-strapped State Liability Firm Fails Debt Payment Targets (thereporterethiopia.com)
**Trade**

During the first nine months of FY24 the value of goods exported totaled USD 2.5 billion indicating a 3.7 percent shortfall compared to USD 2.6 billion obtained in the same period of FY 2023 and annual receipt of USD 3.6 billion. On the other hand, the value of goods imports totaled USD 13.4 billion in contrast to USD 13.2 billion in the same period. During the nine months fuel and consumer goods imports have declined by 10 percent and 21.2 percent, respectively while capital goods import increased by 35.9 percent in the same period. The current account deficit during the nine months of FY 2024 reached USD 5 billion which is worse compared to the USD 4.7 billion deficit recorded during FY23. The capital account increased to USD 3.0 billion compared to USD 2.7 billion in the same period mainly attributed to the 3.8 percent increase in FDI.

The country has registered an overall balance of payment of USD 1.4 billion during the nine months of FY24. This is 72.5 percent more than the nine months of FY23, which was USD 815.6 million. Major exports of the country in the past two years were coffee, flowers, gold, and pulses. However, except for pulses, the export earnings from most commodities have decreased when compared to the same quarter of FY23. To take a prominent example, the 9 months coffee export is USD 838.5 million in 2024. The Government is working to respond to the EUDR Directive on coffee deforestation. Both exports and imports have generally decreased, but the decline in imports has been greater than the decline in exports (Figure 12 and 13). Therefore, the current account deficit has decreased in the first quarter of FY24 compared to previous year.

When estimating the balance of payments (BOP), an analysis of import, export, FDI, and financial flows between Ethiopia and other countries is important. If the exchange rate depreciates, it can lead to a decrease in the imports due to price increases, while exports can have a lagged response.

*Figure 12: Export Commodities and Values (USD millions)*

*Source: Constructed based on data from NBE*

*Figure 13: Imports Values (USD million)*

*Source: Constructed based on NBE data*
Human Development and Poverty

The concerning aspects are that Ethiopia's HDI has flatlined recently and the rate of change has not improved over the past few years although still positive. Most importantly, it is possible that the human development impact of shocks – especially those that are internal to the country plus the war in Ukraine, as detailed below – have not yet fed through fully into the data. This means vigilance about downside risks to the HDI in 2024-26. In terms of poverty, the data is not positive. In Ethiopia, as of 2021, 68.7 percent of the population live in multidimensional poverty, according to the most recent publicly available survey data on Ethiopia’s Multidimensional Poverty Index (MPI) estimation from 2019. Moreover, 22 million people, which is equivalent to 18.4 percent of the population, are vulnerable to multidimensional poverty. The intensity of deprivation in Ethiopia, the average deprivation score among people living in multidimensional poverty, is 53.3 percent. The MPI value, which considers the share of the population that is multidimensionally poor adjusted by the intensity of the deprivations, is 0.367. For comparison, Rwanda and Uganda have MPI values of 0.231 and 0.281, respectively. Furthermore, when comparing the headcount of people living with income below the PPP USD 2.15 per day poverty line, the incidence of multidimensional poverty is 41.7 percentage points higher than the incidence of monetary poverty. This means that the monetary poverty rate in Ethiopia is 27 percent, which has increased from 23 percent in 2016. On top of this, PSNP remains chronically underfunded (Box 2).

Box 2: PSNP Update

PSNP has been working in Ethiopia for the last several years with the objectives of improving food security and reducing vulnerability. However recently in 2023 and 2024, the Ethiopian PSNP faces a significant funding gap. Even as the threat of famine looms in several parts of the country, the program has cut food and cash transfers to the country’s poorest households. According to the Ministry of Agriculture 10, there is a financing gap of USD 195 million due to a rise in prices and cutbacks from some donors. Since the food price inflation has peaked over 30 percent, the real value of transfers has been shrinking. As a remedy, the cash payment has increased by 34 percent but the number of months that a beneficiary receives support has been cut to 4 months instead of 6 months. Out of the total of 13 donors, some have either reduced or paused their contributions to the program. Recently, World Bank and GoE have signed a USD 1.72 billion financing agreement in the form of credit and grants. Out of this, USD 200 million is for strengthening the adaptive safety net project, while USD 82.5 million is for urban productive safety new and jobs projects. With more than 20 million people that require food assistance, PSNP will need to be protected.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Development Index, 2022</td>
<td>0.492</td>
</tr>
<tr>
<td>Poverty headcount ratio, 2016</td>
<td>National: 23.5%</td>
</tr>
<tr>
<td></td>
<td>Urban: 14.8%</td>
</tr>
<tr>
<td></td>
<td>Rural: 25.6%</td>
</tr>
<tr>
<td>Gender disparity, 2016</td>
<td>Primary Education: 0.91</td>
</tr>
<tr>
<td></td>
<td>Secondary Education: 0.93</td>
</tr>
<tr>
<td>Child Mortality, 2022</td>
<td>46.2/1000 live births</td>
</tr>
<tr>
<td>Maternal Mortality, 2020</td>
<td>267/100,000 live births</td>
</tr>
<tr>
<td>Proportion of population with access to safe drinking water source, 2016</td>
<td>65%</td>
</tr>
<tr>
<td>Life Expectancy at Birth, 2022</td>
<td>65 years</td>
</tr>
<tr>
<td>Unemployment, 2021</td>
<td>Urban: 17.9%</td>
</tr>
<tr>
<td></td>
<td>Rural: 5.2%</td>
</tr>
<tr>
<td></td>
<td>National: 8%</td>
</tr>
</tbody>
</table>