Ethiopia

QUARTERLY ECONOMIC PROFILE

February 2026

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Key Highlights

- **Ethiopia continues to move forward on macroeconomic stabilization in a complex global environment.** The IMF has successfully concluded the Fourth Review after discussions from October 30 – November 13, 2025. On the positive side, due to continued strong Government leadership, macroeconomic indicators are up, with increases in economic growth, declines in inflation, increase in exports, and strengthening in reserves. Reform momentum has been sustained. Two challenges persist – an exchange rate premium and underinvestment in social sectors.
- **Economic Growth:** The IMF projects Ethiopia's economy will expand by 7.2 percent in 2025,[1] and continue to be one of sub-Saharan Africa's fastest-growing economies, with growth expected to be at 7.1 percent in 2026. All sectors—industry, agriculture, and services—are expected to expand during this period. Mining, especially gold, has been a strong performer.
- **Forex and currency:** As of January 2026, the gap between Ethiopia's official and parallel foreign exchange markets has persisted. Banks are selling birr at close to 151 Birr/US$, while the parallel market reached above 180 Birr/US$ by January 2026. This is like some other countries like Nigeria and Sri Lanka, which floated their currency.[2] There have been an increasing number of auctions of dollars by National Bank of Ethiopia (NBE). Under the leadership of the new NBE Governor, there has been a crackdown on illegitimate operators in the currency market, greater transparency, and stronger regulation of banks.
- **Fiscal:** Ethiopia is returning to fiscal prudency in the aftermath of shocks. The fiscal deficit/GDP is projected to remain below 2 percent in 2025 thanks to expenditure rationalization and prioritization, coupled with a strong push for domestic revenue mobilization. Tax revenues have continued to perform well.
- **Monetary and inflation.** Due to tighter monetary policy and persistence of credit caps, inflation has been contained. As of December 2025, headline inflation in the country has abated to 9.7 percent, although there have been price hikes on selected commodities.
- **Balance of payments:** The reserve position has more than tripled between 2024 and 2025 to over 3 months of imports and provided a strong buffer. From July to December 2025, the current account deficit (excluding official transfers) stood at $991 million, marking a significant improvement from the $1.8 billion deficit in the same period of the previous year. The balance of payments surplus however shrunk to US$ 1.2 billion from US$ 1.7 billion in the same period.
- **Debt.** In December 2025, Ethiopia and the Eurobond holders continued the discussions to conclude on the restructuring of the $1 billion bond. Ethiopia continues to seek a solution to balance official and private creditors under comparability of treatment of the Common Framework. In early 2026, the OCC, co-chaired by France and China, declined Eurobond restructuring terms.
- **Human development and poverty.** Macro-micro links are still of concern. The UNDP Human Development Index (HDI) for Ethiopia has been stagnant in recent years. In a recent study, the World Bank forecasts that poverty could rise to 43 percent by 2025, up from 33 percent in 2016 when measured at $3 per day in 2021 purchasing power parity (PPP).

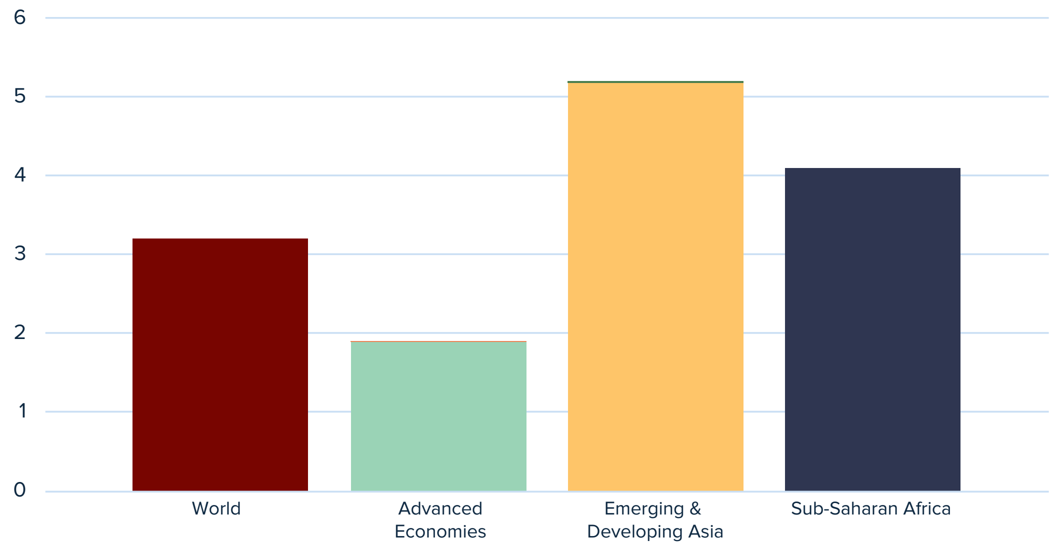
1 The Ethiopian Fiscal Year starts on July 8 and ends on July 7 of the following year. 2025 here refers to the Fiscal Year 2024/2025.

2 Addis Standard, November 24, 2025

Global Economic Outlook

Global economic uncertainty has deepened throughout 2025. It has been driven by multiple factors, including the ongoing Russia–Ukraine war, the Israel–Gaza conflict, and a marked shift in U.S. trade policy toward protectionism. According to the IMFs *World Economic Outlook* (October 2025), global GDP is projected to expand by 3.2 percent in 2025 and 3.1 percent in 2026 (Figure 1). At the same time inflation is declining, and the global economy is adjusting to a landscape impacted by new policy measures. However, this growth is below the historic average, 3.7 percent (2000 – 2019). Much of the growth is anticipated to stem from emerging and developing economies, where output is expected to rise by over 4 percent, compared to a modest 1.5 percent growth in advanced economies. Nevertheless, the global recovery remains fragile and uneven, as developing nations continue to grapple with elevated debt vulnerabilities, limited fiscal space, and tightening external financing conditions.[3] From the UN perspective, there is a similar diagnosis. While lower inflation and monetary easing offer relief, trade tensions, high debt burdens, and geopolitical risks cloud the outlook.[4]

Figure 1: Growth Outlook for 2025 (%)



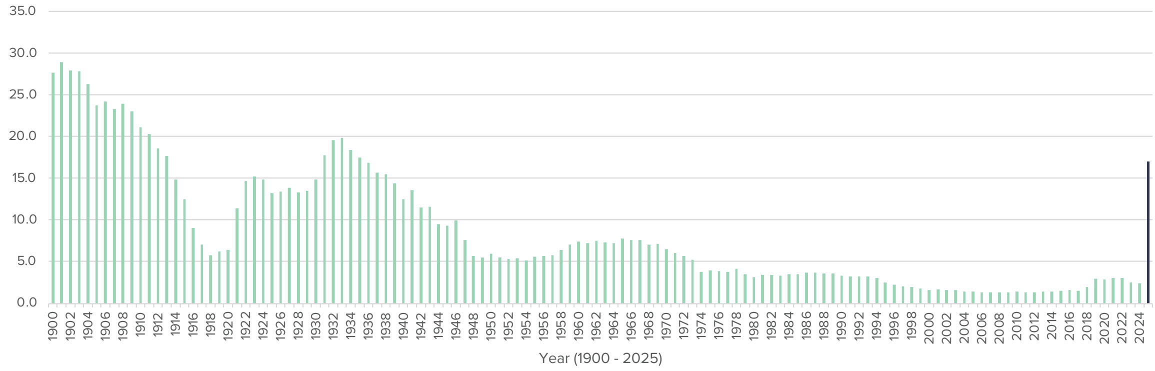
Source: IMF

In 2025, global trade has been shaped by unprecedented policy uncertainty, driven by sudden tariff changes in major economies. According to the Yale Budget Lab's Policy Uncertainty Index and UNCTAD's trade volatility measures, uncertainty reached its highest level in over two decades during the first half of the year. A key factor was the U.S. decision to increase import duties on critical manufacturing and technology sectors, raising the average effective tariff rate to around 18 percent, which is about six times higher than earlier in 2025 (Figure 2). This has created complexity in the global supply chain and investment decisions.

3 IMF October 2025 World Economic Outlook

4 UN World Economic Situation and Prospects 2025

Figure 2: US Effective Tariff Rate (percent)[5]



Source: Constructed based on data from The Budget Lab at Yale

UNCTAD's Global Trade Update (September 2025) notes that the sharp increase in U.S. tariff rates, now averaging around 18 percent, has disproportionately affected African countries. Many African LDCs rely on preferential access to U.S. markets for exports such as textiles, apparel, and agricultural goods. The erosion of trade preferences and the expiration of programs like AGOA (African Growth and Opportunity Act) have exposed these countries to higher tariffs, undermining their competitiveness and threatening key employment sectors, such as textiles.

Commodity price fragility has further compounded these challenges. According to the World Bank's *October 2025 Commodity Markets Outlook*, energy and metals prices fell due to oversupply and weaker demand, while gold and other precious metals rose amid geopolitical uncertainty. Fertilizer and food prices stayed high because of supply disruptions. These divergent trends, combined with global growth slowdown and external shocks resulted in volatility in commodity markets.[6]

The implication of the global economic outlook for Ethiopia is mixed. There are both challenges and opportunities. On the one hand, slower global growth and trade uncertainties may limit export demand globally and adversely impact FDI. However, on the other hand, the major export items for Ethiopia, gold and coffee, have had favorable price increases. Remittance inflows, which tend to be countercyclical, are a key source of foreign exchange for Ethiopia.

5 https://budgetlab.yale.edu/research/state-us-tariffs-october-17-2025
6 The World Bank, Commodity Markets Outlook, October 2025

Economic Growth

Ethiopia achieved significant economic growth in 2025, although there is not a consensus regarding the growth. The Government projects 9 percent real GDP growth,[7] while the IMF projects slightly over 7 percent. There has clearly been a reform led recovery that was anchored with IMF Extended Credit Facility program of US$3.4 billion. The country has clearly emerged from the multiple shocks and the pandemic - induced slowdown (6.3 percent growth in 2020) and the associated foreign exchange shortages and fiscal imbalances. Ethiopia's economy experienced substantial nominal expansion, with GDP at current market prices rising from ETB 2.7 trillion in 2018 to ETB 15 trillion in 2025.

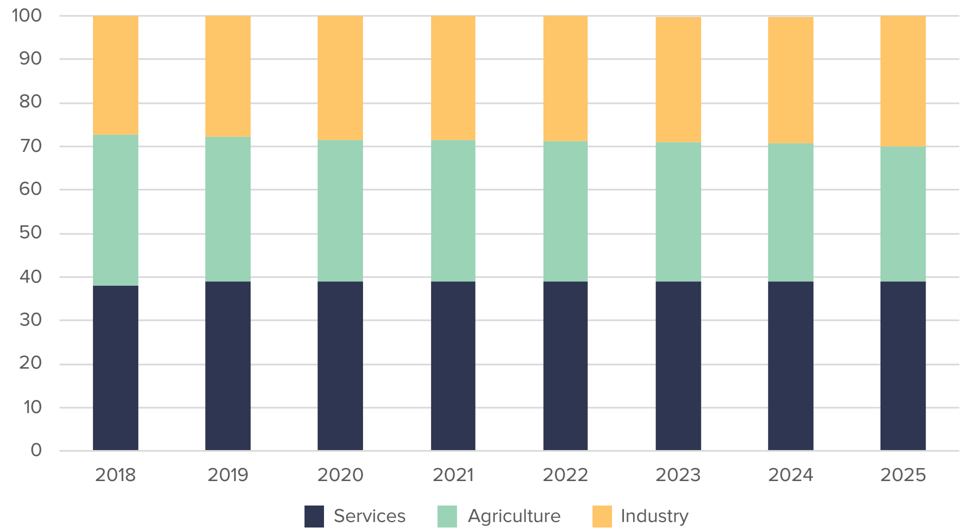
Sustaining this growth trajectory will require continued reform momentum. This is both on the macroeconomic and microeconomic sides. Nonetheless, questions remain whether macro stability is translating into improvements in household welfare, especially given that the devaluation of the birr is leading to a decline in household purchasing power.

Sectoral performance reveals uneven dynamics, with agriculture on the rebound. Agriculture continues to anchor the economy, having 31 percent share in GDP in 2025, down from 32.4 percent in 2020 (Figure 3). Crop production has been the main driver, growing at 7.5 percent, with some evidence of marketable surplus in some regions.

Positive developments are improved harvests and contract farming. During 2025 total harvest of crops reached more than 500 million quintals showing some resilience despite challenges in global input prices such as high fertilizer prices. For 2026, more than 26 million hectares of land are being planted nationwide. The sector is projected to grow by 7.8 percent.[8] Moreover, the contract farming proclamation was approved in June 2024, encouraging private sector participation and improved coordination between farmers and processors. The Ministry of Agriculture reported that 2.1 million hectares were cultivated under contract farming, producing about 38 million quintals of crops in 2025. The policy prioritized export crops for contract farming such as sesame and soybean to boost foreign currency earnings, as well as crop like barley and durum wheats to supply for local agro-industries.[9]

But there are challenges in agriculture. Despite the good performance, vulnerabilities related to climate change and productivity constraints remain. There are issues around production capacity, input provision, and food distribution across the regions. According to FEWSNET, acute food insecurity remains widespread across Ethiopia, driven by a combination of weather-related shocks, failed seasonal rains, and the lingering effects of conflict.[10]

Figure 3: GDP by Sectoral Distribution (%)



Source: MOPD

7 MoPD National Accounts Statistics

8 Gov't reports strong early-year economic performance, job growth, and revenue gains – Welcome to Fana Media Corporation S.C

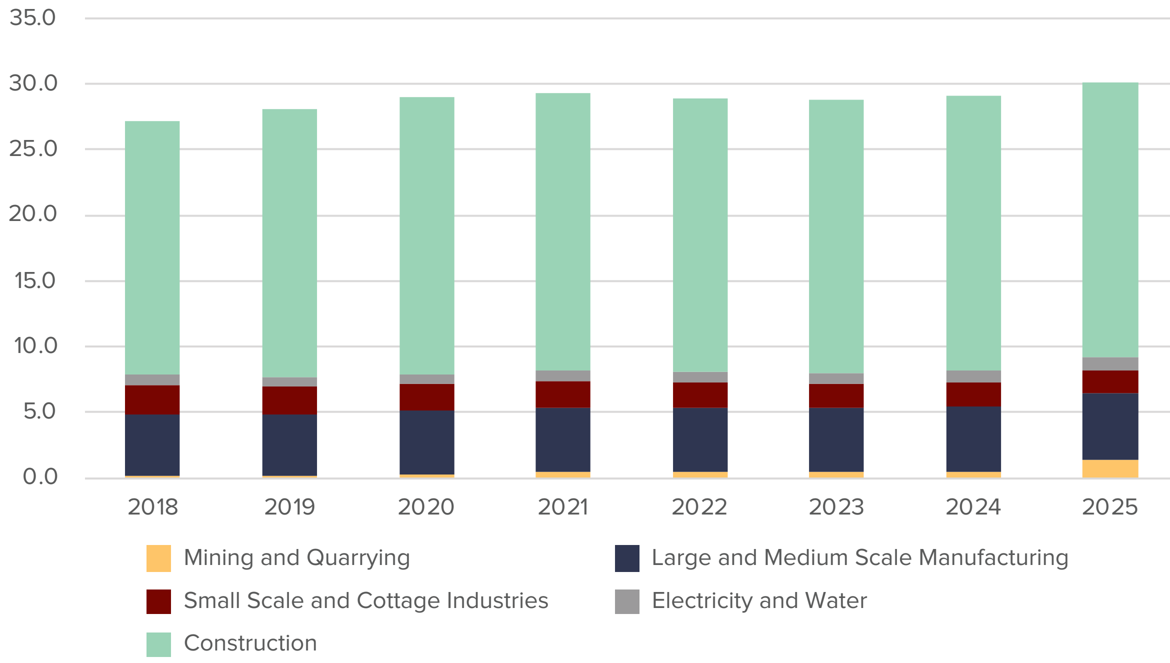
9 Ethiopia: MoA Announces Major Expansion in Contract Farming for 2024/25 Harvest

10 FEWS Net

The share of industry in GDP rose marginally, increasing from 27 percent in 2018 to 30 percent in 2025. This underscores slow structural transformation (Figure 3). In 2025 the growth of manufacturing sector was 10.3 percent, double the 5.1 percent growth in 2020. Large and medium scale manufacturing grew from 9.8 percent in 2020 to 12.6 percent in 2025, while small scale and cottage Industries grew from 2.6 percent to 4.2 percent during the same period. This reflects early signs of some degree of import substitution.

Mining is on the ascent. Mining and quarrying, despite its potential, contributed just 0.5 percent of GDP in 2020 and remained below 0.5 percent until 2023. In 2025, its share rose to 1.4 percent following a growth surge largely linked to strong performance in the gold sector. Ethiopia is experiencing a strong gold rush driven by high international and domestic prices, entrepreneurial artisanal miners, a strong resource endowment, and NBE policy. According to government reports, the mining sector is gaining momentum and is in the path of attracting strong local and foreign investor interest. [11] (Figure 4)

Figure 4: Contribution of Industry Sub Sector to Real GDP (%)

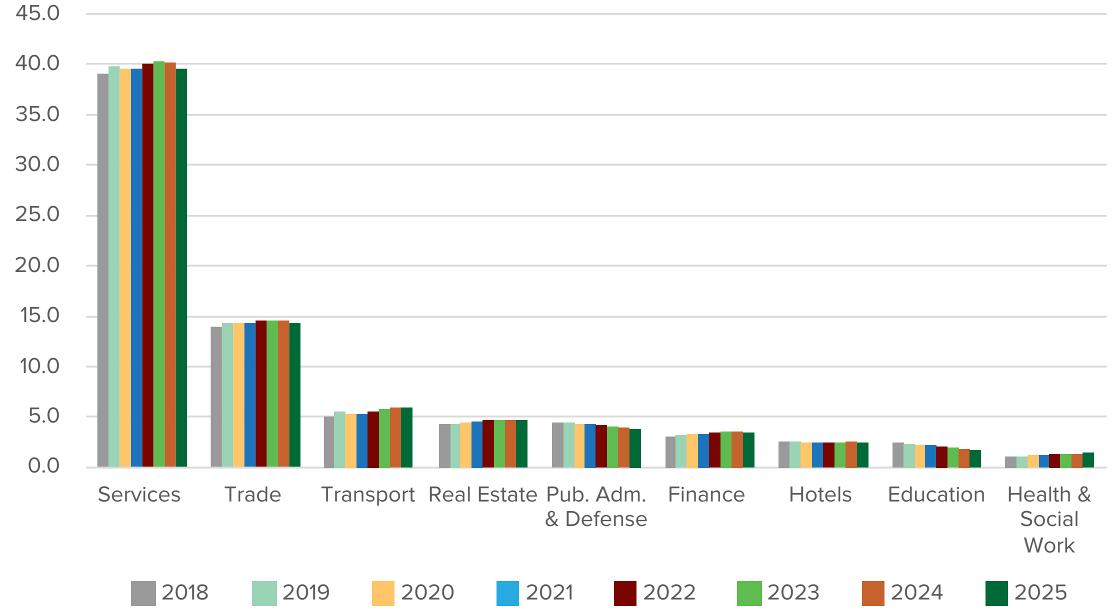


Source: MOPD

Services have been consistently contributing nearly 40 percent of GDP between 2018 and 2025. The dominance of wholesale and retail trade contribution to GDP, averaging around 14 percent, reflects an economy driven by consumption and imports. However, high value services such as financial intermediation, health, and education contribute very minimally to GDP averaging around 3 percent, 2 percent and 1 percent, respectively during 2018 and 2025. (Figure 5).

11 Ethiopia's Mining Sector Offers Promise for Both Local, Global Investors: Mining Minister - ENA English

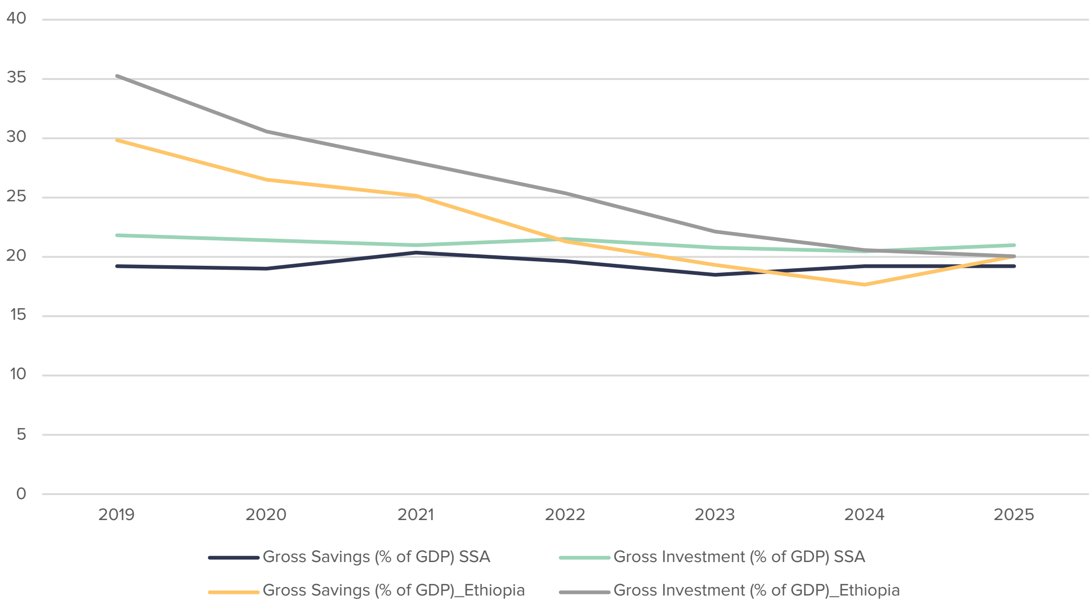
Figure 5: Contribution of Services Subsectors to Real GDP (%)



Source: constructed based on GDP data from MoPD

One area of concern is capital investment. The gross national savings rate declined from close to 30 percent of GDP in 2018 to close to 20 percent in 2025, while the investment rate fell from 35.3 percent to 20.1 percent. These trends suggest reduced fiscal space and reduced capital formation, which could constrain future growth. Household savings rates have declined as private consumption expanded significantly from ETB 1.9 trillion to ETB 12.2 trillion between 2020 and 2025. Government consumption also increased, reaching ETB 881 billion in 2025, although its share of GDP remained modest.

Figure 6: Gross Saving and Investment in (%) of GDP



Source: Ethiopia MoPD National Accounts Data
SSA: IMF World Economic Outlook October 2025

In some respects, Ethiopia is converging to the African average. Although Ethiopia had begun with higher saving and investment ratios to GDP, compared to the Sub-Saharan Africa (SSA), it has started converging to the levels in other African countries between 2022 and 2025. SSA countries maintained relatively stable savings and investment ratios, with savings hovering around 19 percent and investment around 21 percent. (Figure 6)

As part of measures to increase future growth, Ethiopia has launched a mega project of $10 billion to build a new airport in Bishoftu envisioned as the biggest airport in Africa. The project is in very early stages. The country is seeking $8 billion in debt financing being facilitated through the African Development Bank (AFDB), while the remaining $2 billion is envisaged to be financed by the Ethiopian Air Lines (EAL). The aim is to build an airport city about 40 km from Addis with a capacity of serving 110 million passengers each year. While AfDB leads resource mobilization, it has pledged to allocate $500 million. [12] At the same time the project is attracting various bilateral development partners of Ethiopia.

The Ethiopian Capital Market Authority (ECMA) is moving faster in 2025. The second Regional Capital Market summit was conducted in early December 2025 bringing together cross border regional capital market actors, financial market leaders, and policy makers. In 2025 ECMA has licensed 11 capital market providers, among them 3 are investment banks, CBE, Wegagen and First Addis.[13] [14] Companies listed with ESX so far are three - Wegagen Bank, Geda Bank and Ethio Telecom. However, according to Dr. Tilahun Kassahun, CEO of the Ethiopian Securities Exchange (ESX), the number of listed companies is expected to increase soon having more than 70 companies in the pipeline.[15]

Ethiopian Investment Holdings (EIH) is also expected to list SOEs under its oversight. Established in 2021 to transform the management of state-owned enterprises (SOEs), EIH has strategically expanded its portfolio to 40 SOEs. EIH is ranked as Africa's biggest sovereign wealth fund and is ranked as the 34th globally by the Sovereign Wealth Fund Institute (SWFI). It is expanding its footprints in the economy with a plan to reshape the management of Ethiopia's state-owned enterprises. It is also doing a program called Jump Start-Up.[16]

12 https://corporate.ethiopianairlines.com/Press-release-open-page/ethiopian-airlines-signs-a-contract-with-dar-al-handasah-to-develop-a-mega-airport-city

13 A Big Step Forward for Ethiopia's Capital Market! – Ethiopian Capital Market Authority

14 https://ecma.gov.et/licensees

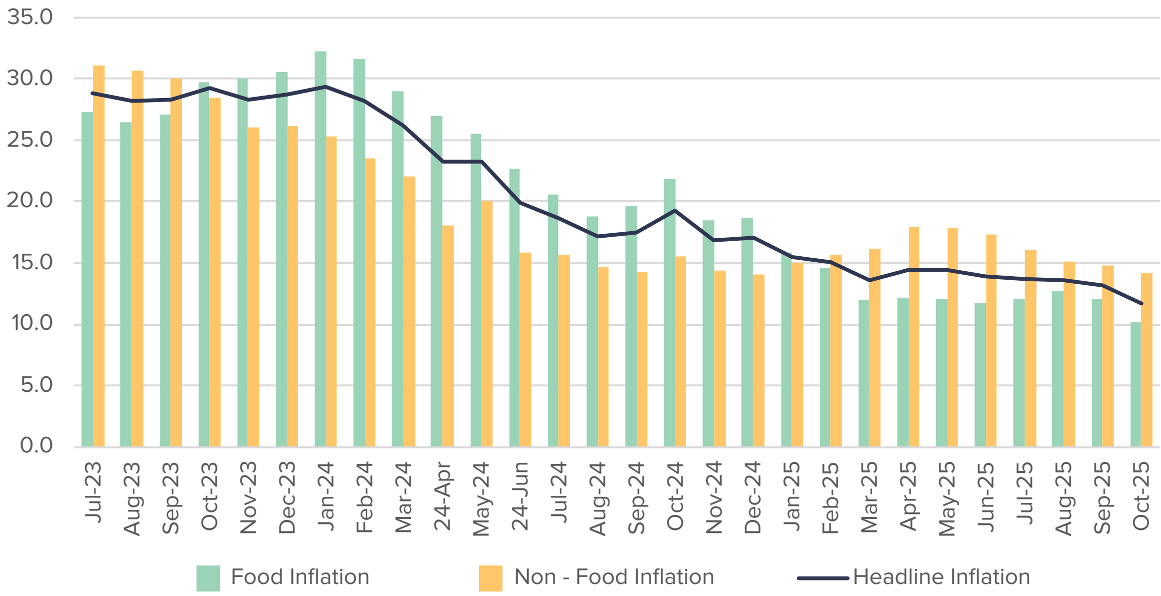
15 Four Companies Set for Listing in the Coming Weeks, Says ESX CEO Dr. Tilahun Kassahun | StockMarket.et

16 Ethiopia's Sovereign Wealth Fund Prepares to Launch Startup Incubation Program Within SOEs

Inflation

In the wake of macroeconomic reforms, inflation continues to decline. From July to December 2025, there has been a notable decline in the inflation trajectory compared to preceding years. According to the Ethiopian Statistical Services (ESS) data, year-on-year headline inflation rate declined from 13.7 percent in July to 9.7 percent in December 2025, marking the lowest rate since 2019 (Figure 7). However, it is important to note that although headline inflation is easing, it is falling from levels that eroded purchasing power in 2023 and 2024. This has been compounded by a depreciating currency.

Figure 7: Inflation Trends YoY (July 2023 – October 2025) (%)



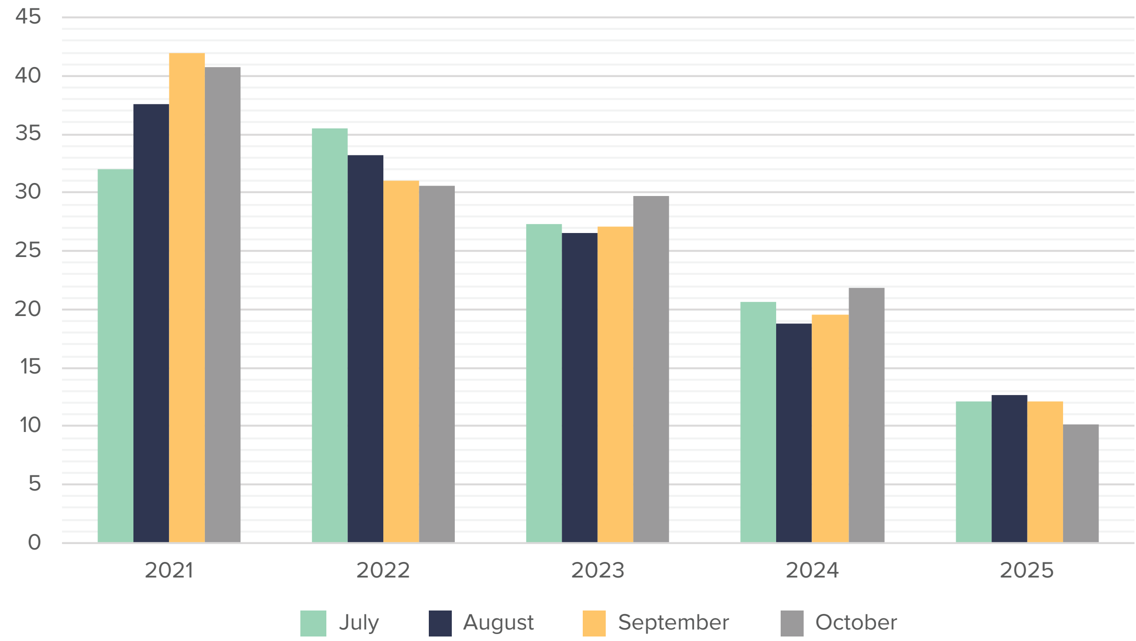
Source: Constructed based on ESS data

Food inflation has declined. In December 2025, food inflation eased to 9.8 percent year-on-year, marking the lowest rate since 2019 (Figure 8). This decline signals a moderation in the prices of essential goods. It is important to note that food is the most significant component of Ethiopia's commodity basket (53.5 percent).

The government has responded with mitigation measures. It is supporting vulnerable populations with targeted measures, such as subsidies for fertilizers while systematically phasing out fuel subsidies, which are expected to be fully removed by the end of the 2026 fiscal year. Ethiopia has officially removed fuel subsidies, ending support for gasoline and jet fuel in May 2025 and most diesel products in June 2025, while retaining subsidies for public transport vehicles to shield the urban population.[17]

17 https://www.addisinsight.net/2025/06/21/ethiopias-government-officially-ends-fuel-subsidy-prices-to-follow-global-market-rates/

Figure 8: Food inflation YoY (% rate)



Source: constructed based on data from ESS

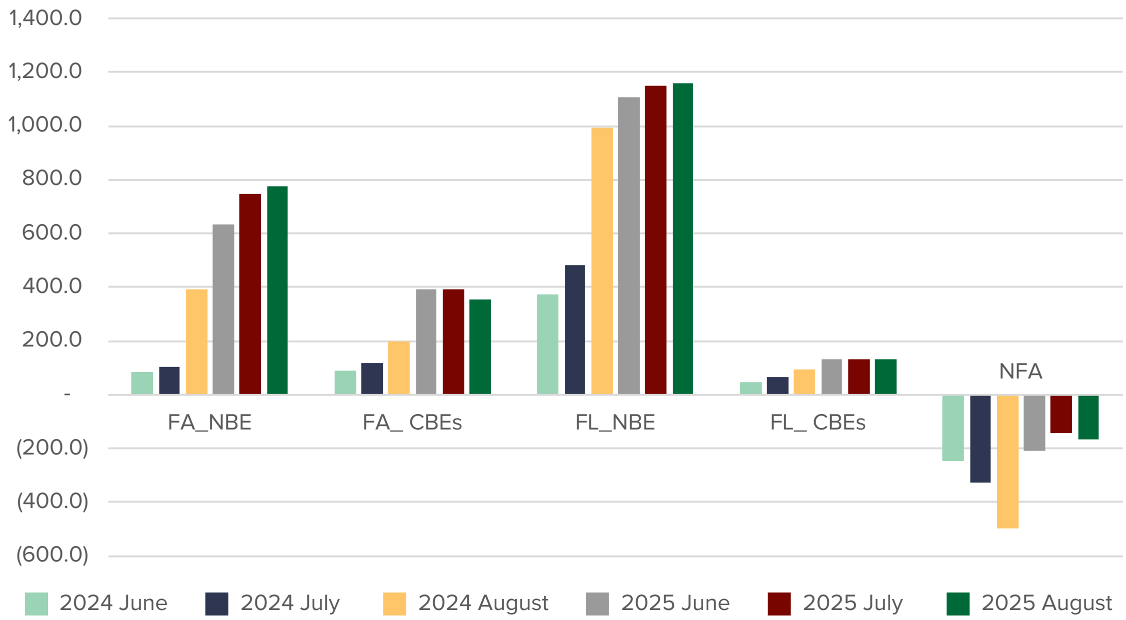
Monetary Policy

Ethiopia is in the middle of some of the most substantial reforms in monetary policy in decades. There has been a philosophical and operational shift in policy. The Government has adopted a tighter monetary policy following the macroeconomic reforms in July 2024. The National Bank of Ethiopia has maintained the 15 percent policy rate which supports the control of demand. In a bid to curtail liquidity, the credit growth ceiling was maintained at 18 percent during 2025. This was recently raised to 24 percent by the Monetary Policy Committee (MPC) to address liquidity constraints. The NBE also uses openmarket operations and has discontinued direct central-bank advances. With strict monetary management, supported by improved agriculture output, the target for inflation is to achieve single digit inflation rate. [18] [19] The country is also reforming the operating model and governance framework of Commercial Bank of Ethiopia (CBE) and Development Bank of Ethiopia (DBE) to make them more commercially viable.

The National Bank of Ethiopia's balance sheet shows sharp recent shifts due to an increase in inflows. Foreign assets rose from ETB 82 billion in June 2024 to over ETB 773 billion by August 2025, reflecting higher gold, coffee, remittances, and IMF disbursements, together with valuation changes due to exchange rate reforms.

Ethiopia's net foreign assets (NFA) have changed. In June 2024, the NFA stood at ETB -245.3 billion deteriorating further to ETB -498.9 billion by August 2024. However, by June 2025 it dropped to ETB -211.5 billion, and by August 2025 further to ETB -164.7 billion (Figure 9). These numbers are important because they reflect decreasing macroeconomic vulnerabilities via a reduction in the external imbalance. Foreign liabilities have increased at a slower pace relative to assets, allowing the net position to improve.

Figure 9: Assets and Liabilities of NBE and CBE (Billion Birr)



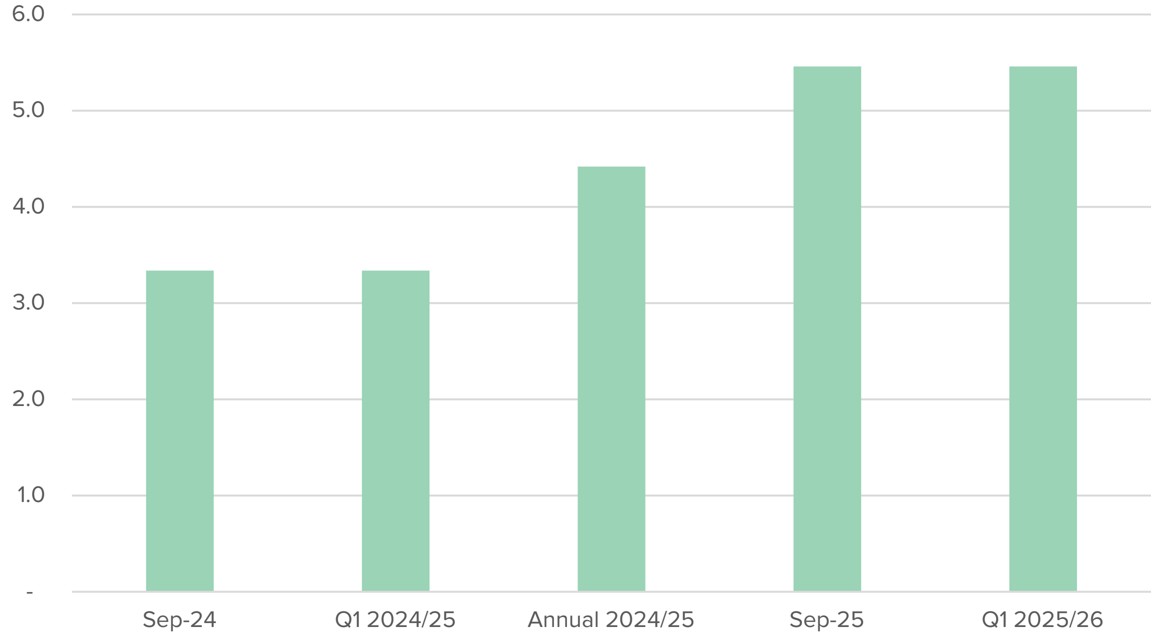
Source: Constructed based on NBE data

NBE's gross reserves rose from $3.3 billion in September 2024 to $5.5 billion in the first quarter of 2026. This strengthens external stability and gives macroeconomic buffers. It provides an increase in import coverage from just over two months to about three and a half months. (Figure 10)

18 NBE, September 29, 2025, Monetary Policy Committee Meeting No. 004

19 https://www.bloomberg.com/news/articles/2025-03-25/ethiopia-retains-key-rate-at-15-to-curtail-elevated-inflation

Figure 10: Gross Reserves in Billion US$



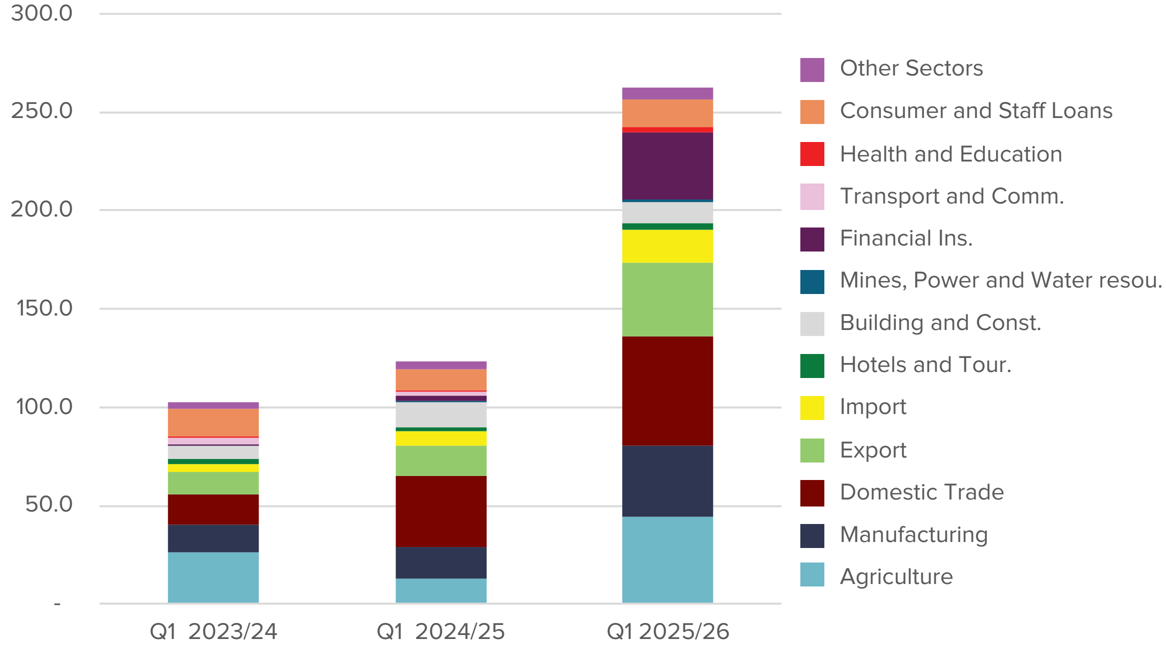
Source: BoP data from NBE

Domestic credit grew steadily, but challenges remain. Monetary conditions have eased, leading to domestic credit to go up from ETB 2.8 trillion in June 2024 to about ETB 3.45 trillion by August 2025. This reflects a monetary easing and a relaxation of the credit cap. This pattern suggests a rebalancing between public and private credit, with government borrowing easing as private sector credit picked up. However, according to the IMF, overall credit is expected to remain stable as a share of GDP over the medium term and private credit growth is projected to contract slightly as a share of GDP.

Credit disbursements in the first quarters of 2024, 2025, and 2026 highlight the impact of changes in the credit cap. However, despite increases in nominal values, the shares of sectoral disbursements have remained unchanged or have declined. Total credit disbursement expanded markedly from July to September. The sharp rebound reflects the gradual relaxation of the credit cap policy (18 percent), which initially constrained lending growth but was later adjusted upward (24 percent).

The credit is still not going fully to the real economy. Agriculture's share fell sharply from 25.6 percent in 2024 to 10.3 percent in 2025, before partially recovering to 17 percent currently. Manufacturing has remained relatively stable in terms of share, hovering around 13 – 14 percent, which indicates modest credit allocation. Financial institutions experienced the most dramatic shift, rising from less than 1 percent of total disbursement in 2024 to nearly 13 percent in 2026. Although growth in the sectoral allocation of credit is reshaped by changes in the credit cap, the share signifies rigid structure in the credit allocation.

Figure 11: Credit Disbursement in Billion Birr



Source: Constructed based on data from NBE

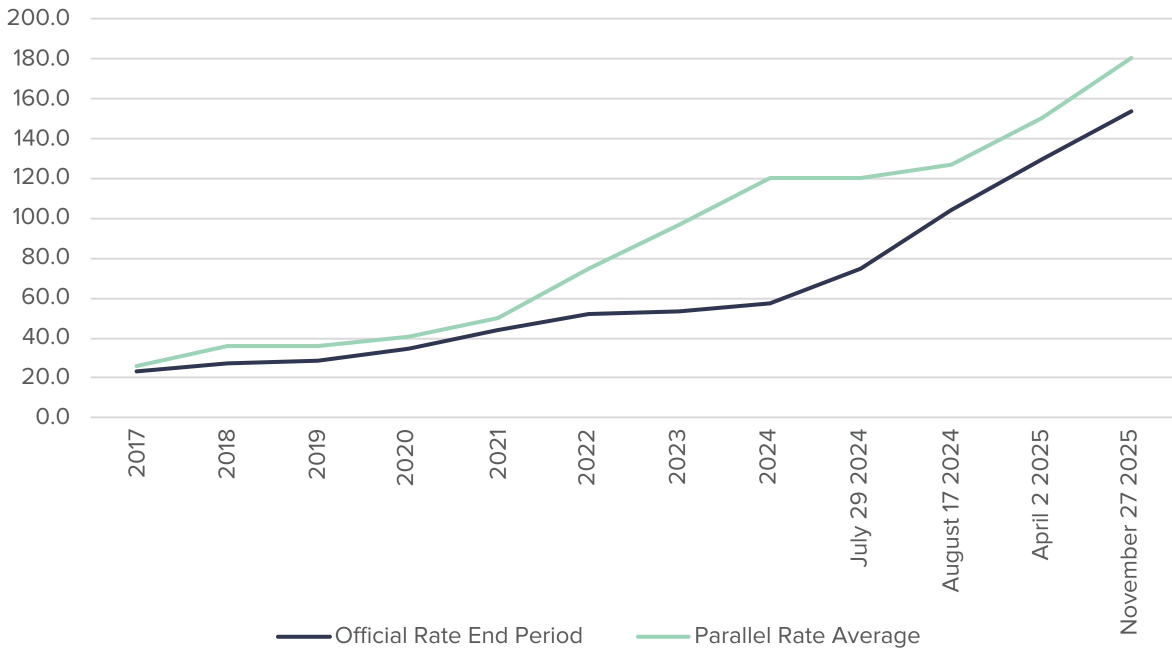
Exchange Rate Developments

Ethiopia is in the middle of major exchange rate reform, and the market remains volatile as of December 2025 After the significant transition from a regulated foreign exchange market to one that is more market-driven, the exchange rate has not stabilized. From the IMF perspective, the reform was central as surrendering FX earnings at the overvalued official rate acted as a heavy tax on exports, while allocating FX to the import of selected commodities acted as a subsidy for consumers of those items. The international experience shows that exchange rate reforms have been complex in countries from Nigeria to Egypt, and often it is challenging to find an equilibrium where supply and demand equal.

Ethiopia's foreign exchange inflows have improved significantly, but exchange rate unification has been a challenge. Gross reserves have surpassed $5 billion as of September 2025.[20] This has improved foreign exchange availability. However, the parallel market continues to operate with notable push suggesting an excess demand for foreign exchange. As of end November 2025, the parallel exchange rate has risen to around Birr 180 per US$, compared to the official rate of approximately Birr 150–153 per US$. While the premium has narrowed relative to pre-reform levels, its persistence underscores continued demand for foreign currency outside formal banking channels.

To tackle the supply problem, the National Bank of Ethiopia (NBE) has announced a forward-looking bi-weekly foreign exchange auction schedule totaling $520 million for the early 2026. This consists of $100 million allocated for December 2025 and $420 million for January - March 2026. December will see two auctions of $50 million each, followed by bi-weekly $70 million auctions through March, marking one of the largest consecutive commitments in recent years. The plan aims to boost transparency, predictability, and liquidity for priority sectors amid persistent gap between the parallel and official exchange rates. The structured schedule has offer greater clarity and confidence in navigating the forex market. [21]

Figure 12: Official and Parallel Exchange Rate (Birr/US$)



Source: Constructed based on NBE data for the official and anecdote for the parallel since July 2024.

20 NBE BoP data for 1st Quarter of Fiscal Year 2025
21 Ethiopia's Central Bank Sets $520 Million FX Auction Plan Through March 2026 - Addis Insight

There are reasons for the persistence of the black market. There is always the large structural gap between exports and imports. There are speculators, and there are those who have obtained Birr from gold sales who are seeking dollars. And there are broader structural factors. According to the IMF,[22] the combination of moderate parallel market spread is due to: (i) relatively closed capital and financial accounts; (ii) financial market underdevelopment (lack of hedging instruments, limited competition among banks); and (iii) remaining current account restrictions. Furthermore, deeper structural factors, such as security and property rights, can be encouraging outflows through the parallel market.

In early November 2025, under the leadership of the Governor, the NBE carried out major reforms. First, there has been a nationwide crackdown on illegal forex dealers with the objective of creating stability in the forex market. Authorities stressed that illegal foreign exchange activities undermine macroeconomic reforms, weaken the Birr, and drain legitimate reserves. The crackdown extended to importers, exporters, and unlicensed transfer operators, with regulatory action taken against violators, and officials warned that decisive enforcement will continue to protect economic stability and national security.[23] The NBE is also formalizing the remittance market and has issued Directives to banks to ensure that foreign exchange holdings are communicated to NBE daily. Finally, the National Bank of Ethiopia (NBE) will exit the gold market towards end of December 2026, giving venue for private banks involvement in the gold business. The central bank has been purchasing gold from domestic suppliers, with a 15 percent premium margin on the international market price. But this has led to significant losses for the central bank, necessitating a policy shift.

22 IMF Third Review

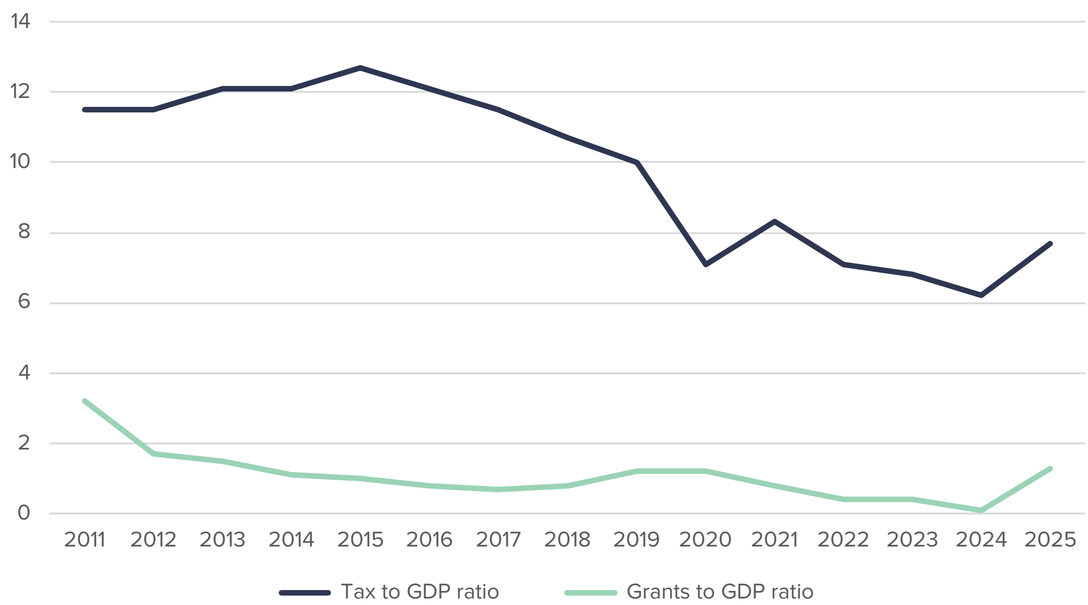
23 Ethiopia Arrests 112 in Nationwide Crackdown on Illegal Foreign Exchange Networks - Addis Insight

Government Finance

Ethiopia is rationalizing its fiscal policy with a combination of higher revenue mobilization and more controlled fiscal spending. The Government is focused on implementing the National Medium-Term Revenue Strategy (NMTRS 2024/25 – 2026/27) that aims to enhance domestic revenue mobilization by modernizing tax administration, broadening the tax base, and improving compliance. Ethiopia's revenue to GDP ratio is very low at below 7 percent compared to the Sub-Saharan Africa average of 15 percent.

The strategy aims to increase tax to GDP ratio by 6.9 percentage points by 2027. Revenue mobilization has started supported by the exchange rate reform and tax legislation. Accordingly, the government has introduced fiscal measures to enhance revenue mobilization by a) improving tax administration, projected to contribute 2.9 percent of GDP through enhanced compliance and digitalization; b) broadening the tax base including updating VAT and introducing new taxes such as on utilities and property tax which is expected to generate 3 percent of GDP through expanding the tax net and incorporating previously untaxed sectors; and c) macroeconomic adjustments, primarily driven by foreign exchange liberalization, is anticipated to add 1 percent of GDP (Figure 13). These strategic reforms aim to modernize Ethiopia's tax system, improve efficiency in revenue collection, and reduce reliance on external financing as well as enhancing fiscal sustainability. Trends in tax revenue collection and external grants is depicted in Fig 13 which indicates increasing revenue in 2025.[24] [25]

Figure 13: Trends in Tax and Grants ratio to GDP (%)



Source: constructed based on MoF Fiscal Data

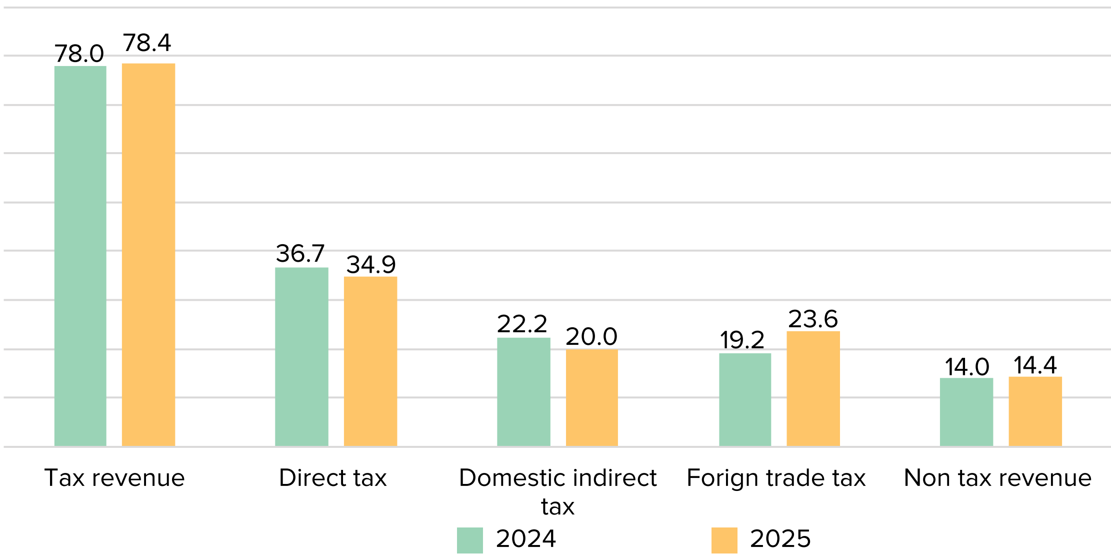
Ethiopia's fiscal performance in 2025 shows notable progress toward revenue mobilization targets. The government set a total domestic revenue collection budget of ETB 1.55 trillion for fiscal year 2025 (1.3 percent of GDP). ETB 1.4 trillion had been collected, indicating 89 percent of the budget and 61.7 percent increase compared to the amount collected in 2024. Similarly, tax revenue collection amounted ETB 1.17 trillion in 2025 against budget of ETB 1.25 trillion, indicating 61.2 percent annual increase driven by efforts in enhanced tax administration, broadening the tax base, and the macroeconomic reform measures.[26] Figure 14 below depicts significant changes in domestic revenue mobilization in fiscal year 2025 compared to 2024.

24 Ethiopia publishes its first National Medium-Term Revenue Strategy | Taxdev

25 Statement by the Executive Director, Mr. Willie Nakunyada, and by the Advisor of the Executive Director, Mr. Mawek Tesfaye Mengistu, on The Federal Democratic Republic of Ethiopia October 18, 2024 in: IMF Staff Country Reports Volume 2024 Issue 318 (2024)

26 The period saw Birr 57 billion collected from non-tax sources putting the total domestic revenue in the first nine months of fiscal year 2025 at Birr 570.4 billion or 67.5 % of the annual target.

Figure 14: Domestic Revenue Mobilization in 2024 & 2025 (%of total budget)

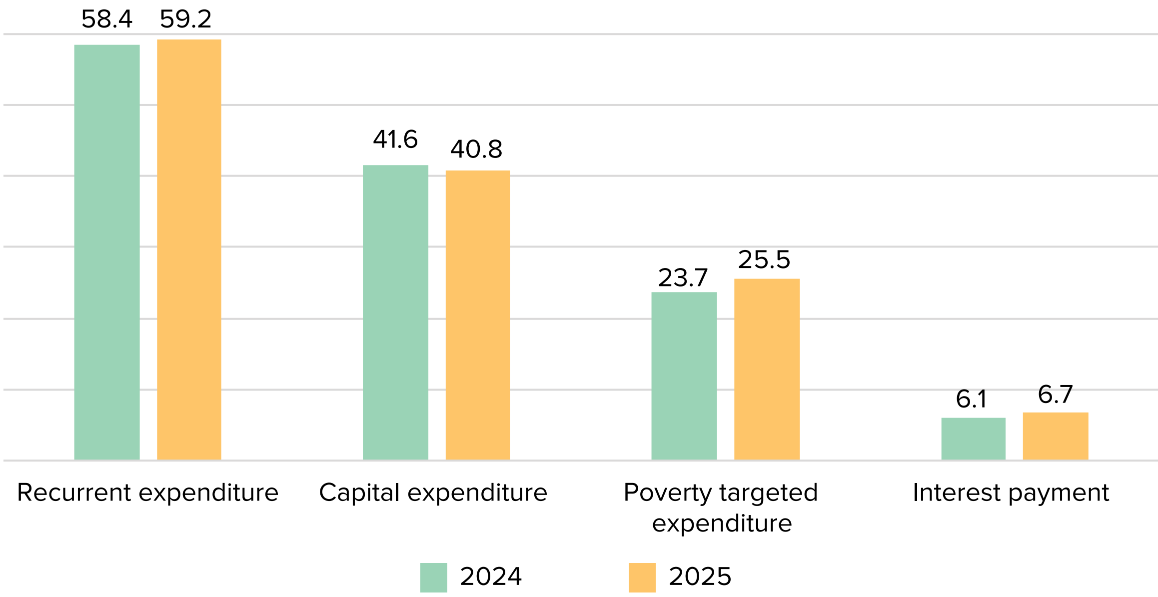


Source: Constructed based on data from MoF

Ethiopia has achieved over 100 percent of budget performance in foreign trade taxes in 2025. Import duties and taxes collected during fiscal year 2025 totaled ETB 352.6 billion against a budget of ETB 350.6 billion indicating 100.5 percent achievement and 97.6 percent increase compared to the amount collected in the previous year. Value Added Tax (VAT) in 2025 reached ETB 298.2 billion, indicting 88 percent of the budget and more than 44 percent increase compared to the amount collected in the previous year. This increase came due to updated VAT policy, enhanced tax administration, and stricter enforcement measures.

Total government expenditure reached a nominal ETB 1.8 trillion in 2025. It went up by 59 percent annually in nominal terms but not in real terms**.** Recurrent expenditures including transfers to regional states surged to ETB 1.1 billion, increased by 61 percent compared to performace last year. Capital expenditure rose by 56 percent nominally, reflecting stronger investment commitments. Despite a significant rise in expenditure, improved revenue generation and grants, which grew by 76.5 percent, supported the overall rise in spending, which was 59 percent higher than the previous year. In real terms, the budgets are like the previous year (Figure 15).

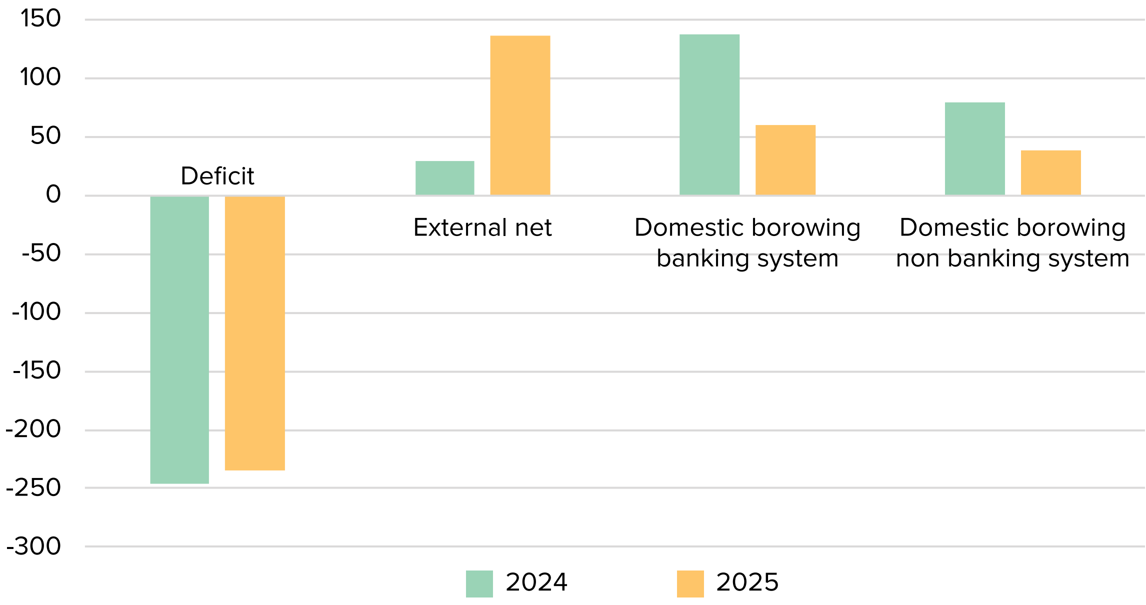
Figure 15: Government Expenditure in % of total Budget



Source: constructed based on data from MoF

External resource inflows have helped to narrow the fiscal deficit in 2025. With total revenue and grants collected ETB 1.57 trillion and expenditure at ETB 1.8 trillion, the deficit stood at ETB 234.7 billion or 1.5 percent of GDP which is sustainable. Fig 15 depicts real government expenditure performance in 2025 compared with that of 2024 in real terms as percent of budget.

Figure 16: Public Expenditure (% of total budget)



Source: Source: constructed based on data from MoF

Government upheld its commitment to zero deficit financing from the central bank (NBE). Owing to the reforms launched in July 2024, government had better coffers in 2025 that resulted from exchange rate valuations and external grants. The budget deficit was 1.5 percent of GDP in 2025. Unlike the preceding years, nearly 60 percent of the deficit was financed by external budget support in 2025 followed by 42 percent by domestic borrowing (25.5 percent from banking system and 16.6 percent from nonbanks) and no direct advance was used from NBE. Figure 16 shows the deficit financing.

Federal Government Budget 2026

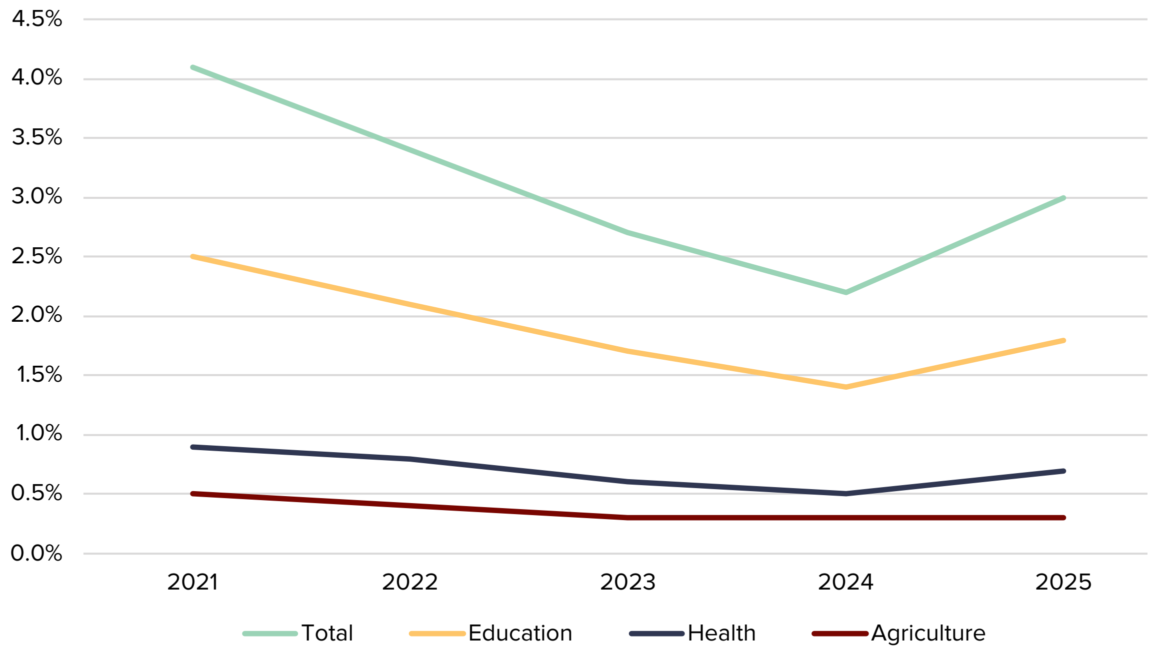
Ethiopia has a new 2026 budget. The Ethiopian Parliament approved ETB 1.9 trillion budget for 2026, indicating 26.5 percent nominal increase compared with the budget of ETB 1.5 trillion (including supplementary budget) approved for 2025. Although in nominal terms the budget has shown significant increase; in US$ terms, it declined from approximately $22 billion in 2025 to around $14 billion in 2026 due to the depreciation of the ETB under the new floating exchange rate regime.[27] Of the budget, 60 percent is devoted to recurrent spending, while 22 percent of the budget is allocated for capital expenditure, and the balance is block grants to reginal states.

There is a long-term shift in the budget's allocation pattern, with recurrent expenditure increasingly outweighing capital investment. The relatively low allocation to capital expenditure raises concerns about Ethiopia's ability to sustain long-term growth and development. Capital budgets are essential for financing infrastructure, expanding access to basic services, and stimulating job creation. A constrained capital budget may limit the government's capacity to address structural bottlenecks. On top of this, it is also important to improve the quality of capital expenditure.

One trend that has been challenging is fiscal spending on social sectors in the past few years. It reached a low in 2024 (Figure 17). In 2025, however, a slight rebound was observed, with total expenditure rising to 3 percent of GDP. Education and health spending also saw modest increases to 1.8 percent and 0.7 percent, respectively. Meanwhile, agricultural spending remained flat at 0.3 percent, reflecting continued fiscal constraints.

27 https://ethiopianreporter.com/142191

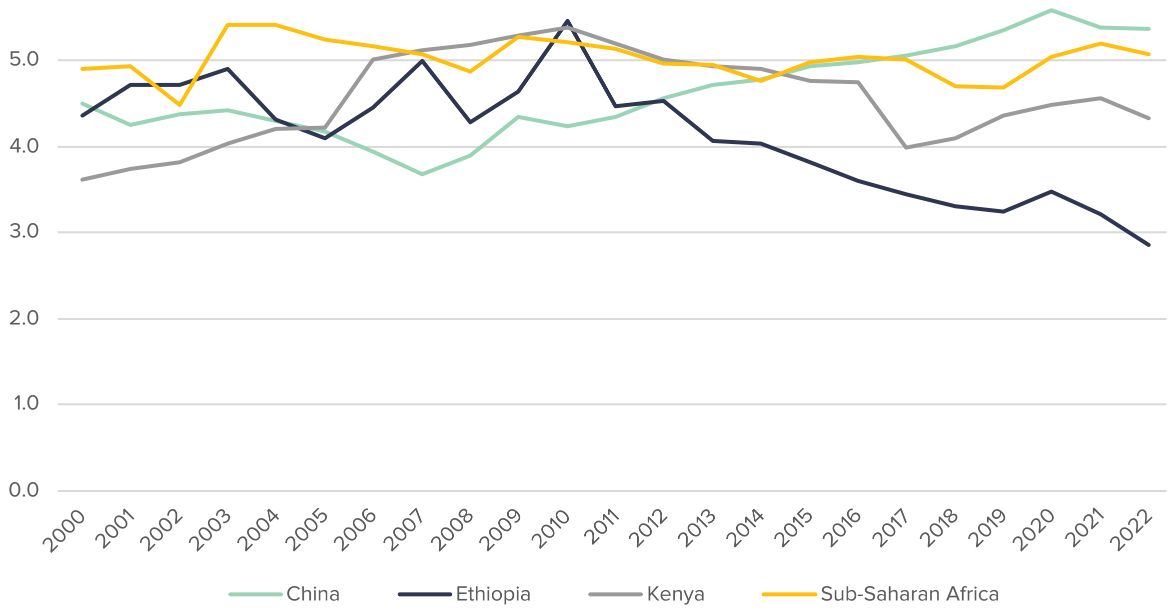
Figure 17: Poverty Related Expenditure (percent of GDP)



Source: constructed based on data from the IMF Second Review Report (January 2025)

The trends are not positive. According to World Development Indicator (WDI) data, there has been a downward trend in Ethiopia's health expenditure as a share of GDP, averaging 3.8 percent between 2010 and 2022. It has remained below the Sub-Saharan Africa average of around 5 percent. (Figure 18)

Figure18: Health Expenditure (percent of GDP)

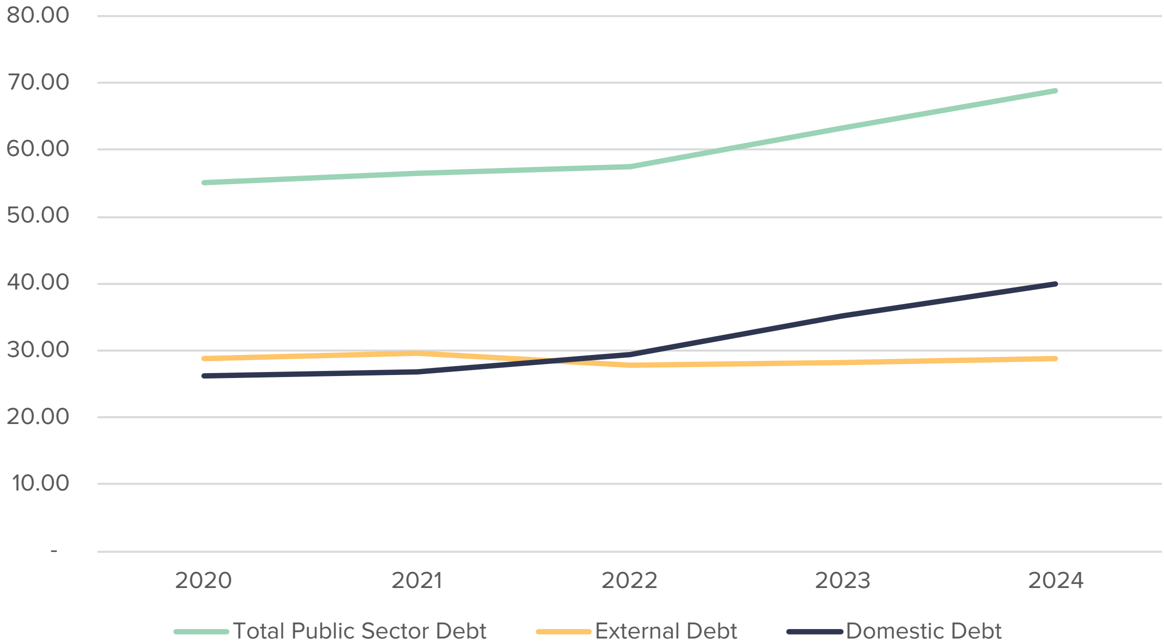


Source: constructed based on WDI data

Debt

Ethiopia's debt is significant and has been a challenge. Ethiopia's public debt stock currently stands at $68.8 billion, comprising $28.8 billion in external loans and $39.3 billion in domestic debt (Figure 19).[28] From the IMF perspective, Ethiopia's debt continues to be unsustainable and in distress. There are protracted breaches in export-related debt vulnerability indicators. To address this, Ethiopia will require $3.5 billion in external debt treatment through 2028 to cover the balance of payments (BOP) financing gap. Ethiopia is currently engaged in debt restructuring with multilateral, bilateral, and private creditors.

Figure 19: Public Debt Stock of Ethiopia by June 2024 (Billion US$)



Source: Constructed based on data from MoF

The country has been doing debt restructuring under the following chronology and milestones:

- December 2014. Ethiopia issued a $1 billion sovereign bond. It represented a first-ever entry into global capital markets.[29] Deutsche Bank and J P Morgan were actively involved. The bond was sold at a 6.6 percent yield. [30] The due date was December 2024. The money was to be used to set up industrial parks and sugar factories.
- June 2015 to December 2023. The federal government has been paying interest on the sovereign bond since June 2015, while interest payments are made twice a year.
- September 2021. An Official Creditor Committee under the G20 Common Framework (OCC) was formed.
- November 9, 2023. There was an agreement to suspend debt service due in 2023 and 2024.
- December 26, 2023. Ethiopia did not make $33 million payment on Eurobond, in large part to the Common Framework process and comparability of treatment.
- October 2024. The Ethiopian government made a restructuring proposal of $800 million to bondholders out of total of $1 billion. But it was rejected by bondholders as insufficient. Bondholders have asked for full repayment.

28 MoF, September 2024, Public Sector Debt Statistical Bulletin.No.50.

29 South Africa was the first country on the continent to issue Eurobond in 1995.

30 The largest holders of the debt were the American Beacon Frontier Markets Fund (125 million dollars), Templeton Emerging Markets Bond Fund (65 million dollars), Pictet (51 million dollars), and JP Morgan's Emerging Markets Bond Fund (32 million dollars).

- January 17, 2025 the Committee formally demanded immediate payment of the 2024 Notes, including principal and accrued but unpaid interest and costs.
- March 21, 2025. An agreement in principle (AIP) on the key terms for a debt treatment between the OCC and the Ethiopian authorities was reached. A Memorandum of Understanding on this debt treatment has been finalized.
- September 2025. Discussions between bondholders and Government of Ethiopia were begun but were completed without an agreement.
- January 2026. The OCC has declined the restructuring terms agreed with the Eurobond holders, especially in terms of the Value Recovery Instrument (which provides Eurobond holders with a percent from future export earnings). [31]

The issues have been several. The Eurobond holders have consistently argued that Ethiopia's debt issues are liquidity-related, and that the country has overperformed on reserves and growth. Secondly, the Eurobond holders have asked for a value recovery instrument (VRI) that gives them a certain percentage of future export wins. From the OCC perspective, the VRI claims from bondholders are excessive as they violate comparability of treatment. Third, the lack of direct communication between the OCC and bondholders has created an additional challenge.

31 Value Recovery Instruments (VRI) are instruments that entitle creditors to receive additional payments beyond the restructured principal or interest obligations, conditional on the realization of specific economic outcomes.

External Trade

Ethiopia's export sector from July 2025 -December 2025 demonstrates the combined effects of favorable commodity prices and macroeconomic reforms. Total export earnings increased by 53 percent, rising from $3.3 billion in the first half of 2025 to $5.0 billion in first half of 2026. Excluding gold, exports grew by 28 percent in the same period, underscoring the broadbased nature of this expansion.

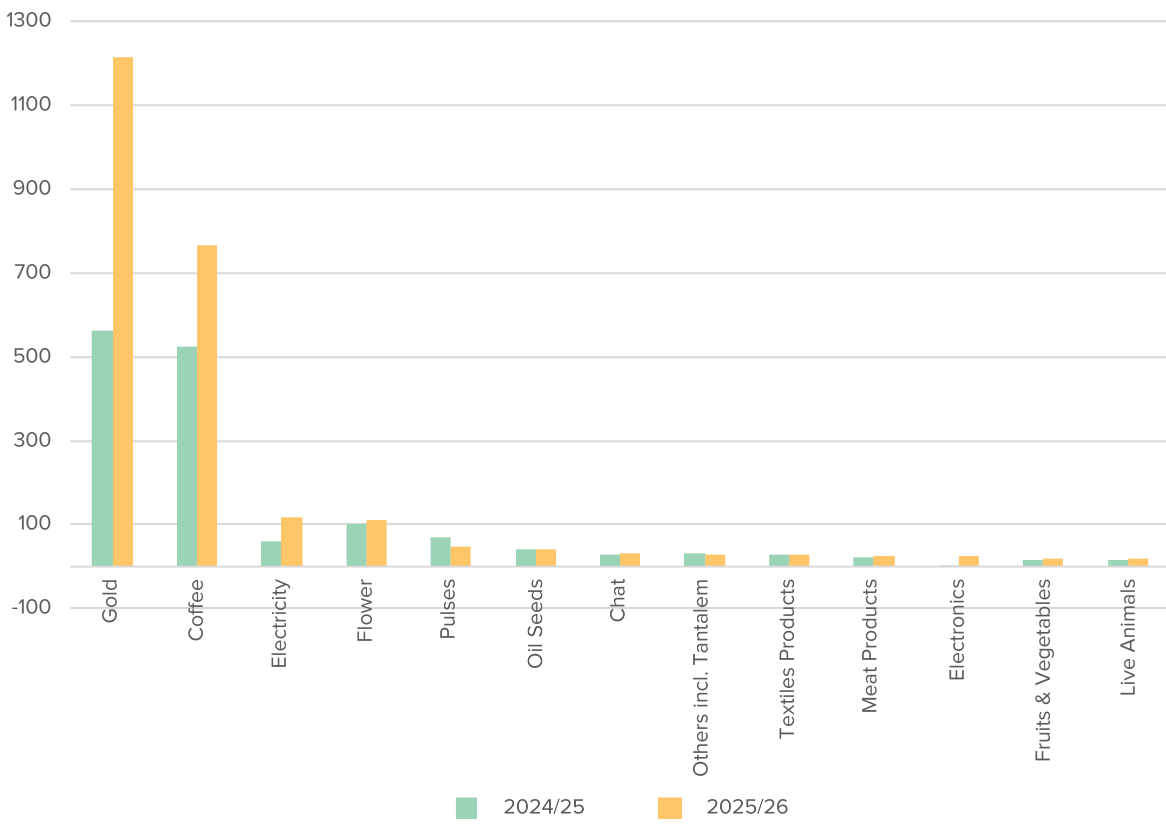
Gold continued to be the standout performer. In the first half of 2026, the value of gold exports nearly doubled, rising from $1.36 billion in 2025 to $2.56 billion in the same period. This surge was driven by both higher volumes, which grew by 29.5 percent, and unit prices, which rose by close to 45 percent. Currently the gold supply is characterized by dominance of artisanal miners while big firms struggle to produce as planned due to several factors (Figure 19).

From July to September 2025, coffee exports reached $1.3 billion, marking a 47 percent increase compared to its level in the same period of the previous year. This growth was driven by higher unit prices, which rose by 54.7 percent, in large part due to droughts in Brazil and rains in Vietnam. Volumes declined slightly by 5 percent. (Figure 20)

Electricity exports also expanded significantly, nearly doubling to $247 million, supported by higher volumes of power supplied to neighboring countries. Ethiopia's export sector benefited from favorable global commodity prices and growing market opportunities. To sustain the progress, it is essential to strengthen the competitiveness of exports (Figure 19).

The recent surge in gold export volumes reflects the impact of exchange rate reforms and price incentives introduced by the National Bank of Ethiopia. While these exceptional volumes have delivered gains, they also pose longer-term sustainability challenges if the supply of gold and incentive structures can persist. Most current exports are sourced from artisanal miners, underscoring the need for strong governance, effective oversight, and an efficient formalization process. At the industry level, the picture is mixed: although the sector continues to attract new local and foreign investors, existing large-scale miners are falling short of their production targets.

Figure 20: Export Performance 1st Quarter FY 2025 and 2026 ($ million)

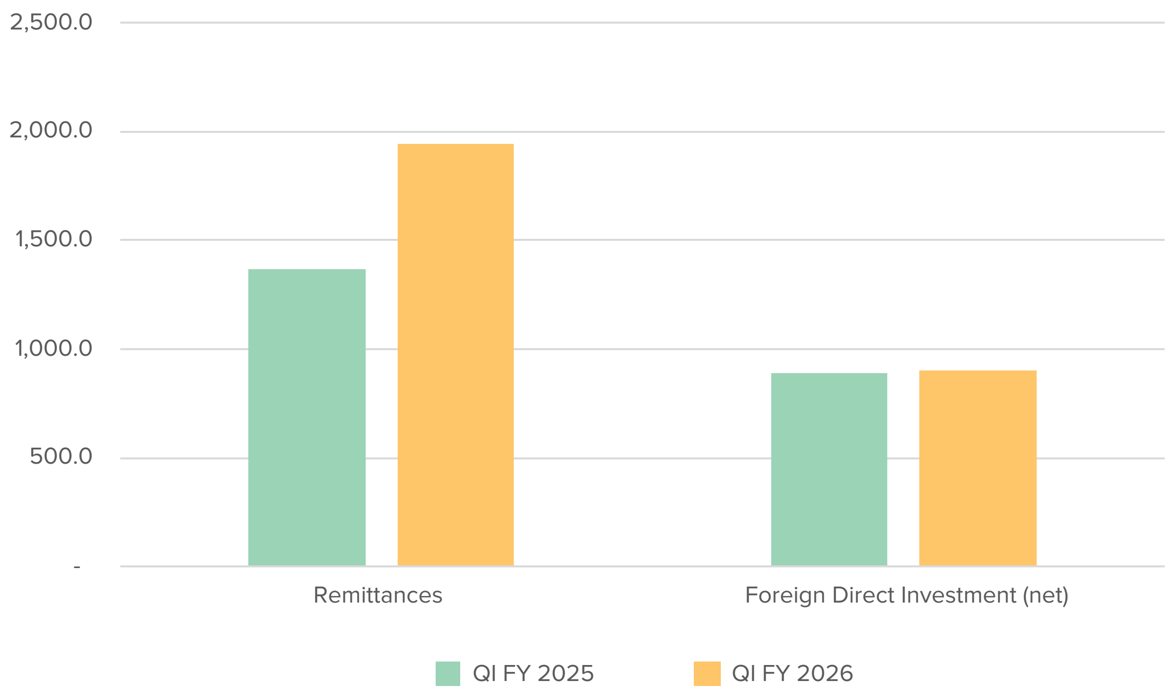


Source: constructed based on BoP data from NBE

The import data shows some compression. Total imports from July to December 2025 rose by 23.3 percent to $11.3 billion from the level in the previous year. It was driven primarily by increases in semi-finished goods which was up by 61.2 percent and capital goods (32.1 percent). Fertilizer imports became very expensive in this period, more than tripling in value, while there has been contraction in raw materials imports of 22.4 percent.

Ethiopia's overall balance of payments position has improved. The current account deficit excluding official transfers narrowed sharply to just $992 million from July to December 2025 compared to $1.8 billion in the same period of the previous year. This indicates improved external performance driven by stronger exports as well as private transfers. On top of this, remittances rose by close to 35 percent to $3.8 billion, reinforcing their role as a critical stabilizer of Ethiopia's external accounts (Figure 21). The improvement in the balance of payments strengthens Ethiopia's resilience to external shocks.

Figure 21: Trend in FDI and Remittance 1st Quarter of FY 2025 and 2026 (US$ Millions)



Source: constructed based BOP data from NBE

Poverty and Human Development [32]

Ethiopia had endured a confluence of internal and external shocks. The shocks had reversal impacts on development gains such as in poverty reduction and human development. In response to these shocks, government geared intensified recovery efforts to mitigate the adverse impacts of the poly-crises and aims to reduce headcount poverty to 16.5 percent by 2024 and to 11.75 percent by 2030.[33]

A World Bank 2025 Report indicated that the poverty level in Ethiopia is increasing. Poverty increased from 33 percent in 2016 to 39 percent in 2021 with expectation to further increase in the subsequent years and by 2025 poverty is projected to reach 43 percent while gradual decline is expected by 2026.[34] Human capital indicators show low performance such as 86 percent of adults in rural areas had not completed elementary education, half of rural households have at least one stunted child. However, a recent Ethiopian Economics Association report indicated that poverty in Ethiopia has declined from 30.9 percent in 2018/19 to 26.1 percent in 2021/22; real consumption expenditure declined for most of the households and the poorest households experienced the greatest decline in welfare during this period.[35]

According to UNDP HDR 2025, Ethiopia's Human Development Index (HDI[36]) score stands at 0.497, placing the country in the low human development **category.** Despite a slight improvement in the absolute score, Ethiopia's global ranking declined from 176th in 2022 to 180th in 2023, indicating that other countries advanced more rapidly over the same period. This relative deterioration highlights the need for a more accelerated progress in health, education, and income dimensions to improve human development.[37]

While health sector in Ethiopia plays crucial role in human capital development the sector is under significant strain due to multiple socio-economic shocks. As noted, the health sector budget nominally increased from ETB 59.4 billion in 2021 to ETB 143.4 billion in 2025, but the real budget declined from ETB 59.4 billion to 54.5 billion in the same period and real per capita health budget remains low at ETB 488 in 2025 compared to ETB 485 in 2021. This budget is lower than the 15 percent target of the 2001 Abuja declaration. This poses challenges in health infrastructure and improving primary health care.[38]

According to UNICEF, there are challenges in health expenditure. [39] First, the decline in the real value of the budget in US$ undermines the country's purchasing power, especially for capital expenditures dependent on imported medicines and medical supplies. Second, the share remains lower than international standards and not consistent with Abuja Declaration. Third, at the regional level, capital budget allocation remains low at just 20 per cent, posing a major challenge to strengthening infrastructure and improving primary healthcare services. An increase in the capital budget allocation at the regional level are crucial for communities and especially for restoring access to healthcare in communities impacted by conflict and climate-related shocks.

The outcomes are challenging. The current health worker per population ratio is 17.2 per 10,000 people which is below the WHO recommended level of 44.5 per 10,000 people. The number of health posts declined from 17,699 in 2021 to 15,531 in 2025 while the number of health centers and public hospitals only increased by 22.3 percent and 4.7 percent, respectively in the past five years. In addition, domestic health sector financing declined from 65.6 percent in 2021 to 54.6 percent in 2025 and external financing increased from 34.4 percent to 45.4 percent which is not sustainable.

32 Human Development Index (HDI) is a composite index that tracks progress in human development, measuring average achievements in three basic dimensions of—long and healthy life (measured by life expectancy at birth), access to knowledge (measured by expected and mean years of schooling), and standard of living (measured by GNI per capita).

33 VNR 2025. Ministry of Planning and Development

34 WB (2025)

35 Ethiopia Economics Association, 2025, https://eea-et.org/the-eea-launches-the-report-on-the-ethiopian-economy-a-landmark-return-after-seven-year-hiatus/

36 Human Development Index (HDI) is a composite index that tracks progress in human development, measuring average achievements

37 UNDP, May 2025, HDR Report

38 UNICEF Report 2025

39 UNICEF National Health Budget Brief 2025

There are commendable changes in health insurance. Community-Based Health Insurance (CBHI) had expanded to over 1,050 Woredas, enrolling 11million households and covering about 52.4 million people across the country. This initiative aims to enhance healthcare access and reduce financial strains, particularly benefiting vulnerable communities nationwide. This expansion has significantly strengthened healthcare system, improving financial protection and access to medical services for millions. By reducing out-of-pocket healthcare costs, the program enhances affordable healthcare access, particularly benefiting low-income and vulnerable communities. [40]

Declining budget allocation and quality of education are key challenges of the education sector. Education sector budget nominally increased from ETB 137.5 billion in 2021 to ETB 238 billion in 2025, but the real budget declined from ETB 137.5 billion to ETB 90.5 billion in the same period and real per capita education declined from ETB 3.2 to 1.5. The share of education budget to the total budget declined from 23.6 percent to 12 percent. While the share of regional states allocation to education increased from 59.3 percent in 2021 to 74.8 percent in 2025, allocation by federal government decreased from 40.7 percent to 25.2 percent in the same period. Improving the quality of education is one of the critical challenges of Ethiopia's education system. A recent 2024 ActionAid International report covering six African countries, including Ethiopia documents a 50 percent reduction in school budgets over the past five years, a student-teacher ratio of 1:55, and health spending at just 7 percent of national revenue in Ethiopia.

UNICEF has reviewed the trends in the education budget over time. First, there has been a declining trend.[41] Compared to 2021, the real value of education spending in 2025 dropped by 34 per cent. Second, the proportion of the national budget allocated to education has been decreasing over time, dropping from 16.7 per cent in 2024 to 12 percent in 2025. Third, this is especially the case for regional governments, who allocate a significantly higher proportion of their budgets to recurrent expenditure and are left with insufficient resources to undertake capital investments in general education. It is fair to note that the quality of capital investment spending by regional governments in past had gaps and was sometimes not matched with recurrent spending, leading to cases where hospitals did not have medicines, and schools did not have textbooks.

40 https://press.et/herald/?p=103276

41 UNICEF National Health Budget Brief 2025

Productive Safety Net Program

Launched in 2005, Ethiopia's Productive Safety Net Program (PSNP) is a flagship program. It has shifted from heavy reliance on emergency food aid toward the integration of a more predictable and development oriented safety net program, designed to operate alongside existing humanitarian efforts.[42] PSNP was launched following a drought disaster leading 13 million people in need of emergency assistance in 2003. In its first phase, PSNP reached 5 million chronically food-insecure individuals across Amhara, Oromia, SNNPR, and Tigray regions, offering multi-year predictable transfers and public works employment.[43]

World Bank financial support, together with Government resources, have led to a major improvement in the sustainability of PSNP. In a dire situation, there was the risk that 2 million beneficiaries would have been dropped in 2024. However, the World Bank provided additional Financing of $200 million in March 2024, and leveraging the Development Policy Operation, the World Bank negotiated with the Government of Ethiopia to increase their commitment to safety net programming. The Government demonstrated its commitment by significantly increasing with a pledge of ETB 60 billion annually for both rural and urban safety net programming.

There have been positive developments in PSNP. According to recent World Bank estimates from June 2025, the government scaled up its contribution from $130 million to $450 million annually (ETB 45 billion), following a major funding shortfall in 2024. The Government also financed the Urban Productive Safety Net program – currently receiving approximately $150 million/ year (ETB 15 billion). Furthermore, Following the signing of Ethiopia's Extended Credit Facility (ECF) arrangement with the IMF in July 2024, the government committed to increasing its domestic financing for the PSNP to 0.5 percent of GDP. [44] [45]

The results and empirics are striking. Most important, two million most vulnerable beneficiaries continue to receive direct cash transfers to smooth their consumption. PSNP V, covering 8 million beneficiaries across 492 woredas, has broadened its reach through enhanced livelihoods support (318,000 clients, 44 percent women), over 21,000 climate-resilient public works projects, and near-universal digitization of payments and monitoring systems. This was operationalized in November 2024. 46 Although this expansion demonstrates deepening national commitment and strengthened donor collaboration to integrate social protection with Ethiopia's resilience, equity, and development goals; insufficient funding has been a persistent challenge in the implementation of PSNP. [47]

42 The World Bank, 2013, Ethiopia's PSNP Integrating Disaster and Climate Risk Management: Case Study
43 IDS, 2006, PSNP Final Report
44 https://doi.org/10.5089/9798400299513.002
45 As of mid-2025, no updated figures have been published detailing government PSNP spending.
46 The World Bank
47 UNU WIDER, 2024, Securing Food, Building Livelihoods?

Outlook and Global Risks

Ethiopia's economy remains vulnerable to a range of macroeconomic risks in 2025 and beyond. Key threats include global commodity price volatility, particularly for oil, food, coffee, as well as gold, tightening global financial conditions, and rising external debt servicing costs. Domestically, inflationary pressures, foreign exchange shortages, and climate-related shocks continue to challenge economic stability. These risks underscore the importance of sustained macroeconomic reforms, export diversification, and enhanced fiscal and external buffers to build long-term resilience.

Selected Socio-Economic Indicators

Human Development Index (HDI), 2023	0.497
Poverty headcount ratio, 2016	National: 23.5% Urban: 14.8% in Rural: 25.6% a
Gender disparity, 2016	Primary Education: 0.91 Secondary Education: 0.93
Under 5 Mortality Rate, 2025	51/1000 live births
Maternal Mortality, 2025	141/100,000 live births
Proportion of population with access to safe drinking water source, 2016	65%
Life Expectancy at Birth, 2020	68.8 years
Unemployment, 2021	Urban: 17.9% Rural: 5.2% National: 8%

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