Ethiopia

QUARTERLY ECONOMIC PROFILE

June 2026

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Key Highlights

- **Ethiopia has been impacted by the onset of the Iran crisis in early 2026, which has destabilized the global macroeconomy.** The conflict has disrupted energy and fertilizer markets globally. The tension around the Strait of Hormuz, which is one of the world's major transit mainly for oil and fertilizer, has had ripple effects on African economies. The oil price has moved from an average of US$62 a barrel in 2025 to $115 in May 2026. In Ethiopia, the immediate effects have been an increase in fuel prices in March 2026 and a decline in the supply of diesel. As a result, headline inflation in April rose to 11.7 percent from 9.4 percent in March 2026. As of end of June 2026, the conflict has abated with peace discussions, and oil price is at US$ 70 per barrel.
- **Strong leadership and measured policy responses by Government of Ethiopia, especially at Ministry of Finance, Ministry of Planning, and NBE have so far contained the impact of the crisis.** The oil supply of Ethiopia is mainly through Government to Government (G2G) agreements, especially with the Government of Kuwait, which has experienced some disruption. The Government has responded with a multi-pronged strategy: spot market purchase of fuel (especially diesel); rationing and conservation measures; a partial increase of pump prices coupled with some maintenance of subsidy; prioritization of key sectors; crackdown on smuggling, and resource mobilization from international financial institutions.
- **Part of Ethiopia's resilience is due to stable buffers amid continued macroeconomic reforms.** The IMF projects Ethiopia's economic growth to cross 9 percent in 2026 and continue to be one of sub-Saharan Africa's fastest-growing economies. The growth has been broad-based with all sectors - industry, agriculture, and services contributing.
- **The country continues to have strong reserve buffers.** Ethiopia's reserves position reached above $5 billion in May 2026 which can cover more than 3 months of imports. Gold and coffee exports are the main drivers of the reserve build-up. Remittance inflows reached $3.3 billion by May 2026.
- **As of May 2026, the gap between Ethiopia's official and parallel foreign exchange market rates has stabilized.** As per the weighted indicative rate of the NBE, the official exchange rate is 159.6 Birr/US$, while the parallel market remains close to 180 Birr/US$. This has been achieved through tighter NBE oversight on bank dollar holdings, increase in auctions, and formalization of remittance market.
- **Ethiopia's fiscal position has been challenged in the aftermath of the various shocks.** The fiscal deficit/GDP ratio may widen due to the increase in the fuel subsidies following the Middle East crisis. Due to macro reform, tax revenues have continued to perform well.
- **Due to tighter monetary policy, inflation has been contained.** Year-on-year headline inflation was 9.4 percent in March 2026. However, the spillover from the crisis has led to an increase in inflation to 11.7 percent in April 2026.
- **The stock of Ethiopia's external debt reached $34.4 billion in December 2025.** The Government is working closely with bilateral creditors to restructure debt. However, a group of private creditors are threatening legal action over a defaulted $1 billion Eurobond. But, end June 2026, Ethiopia has reached a restructuring agreement with bondholders for the $1 billion.
- **Human Development and Poverty: Macro-micro links are still of concern.** The UNDP Human Development Index (HDI) for Ethiopia has not improved in recent years. The World Bank had forecasted that poverty would rise to 43 percent by 2025. Government poverty estimates for 2025 are expected to be released in a few months after the completion of the 2024-25 Integrated Household Income Consumption Expenditure (IHICE) Survey. The Demographic and Health Survey 2025 data indicate a mixed performance in health.

Global Economic Outlook:

Middle East Crisis

The escalation of conflict in the Middle East, starting in late February 2026, has evolved into a significant global supply chains disruption and economic shock. The crisis has further intensified existing global economic uncertainties, which were already elevated due to the prolonged Russia - Ukraine war, lingering effects of the Israel - Gaza conflict, and a shift toward global fragmentation. Prior to the recent ceasefire and reciprocal blockades, threats to commercial shipping in the Strait of Hormuz caused daily transit to plunge by 95 percent, dropping from an average of 135 ships to fewer than 10. This disruption impacted global markets, affecting up to 30 percent of oil transport, 20 percent of LNG, and 30 percent of the global fertilizer supply (Table 1).[1] However, in spite of the strong shocks, recent developments in June 2026 indicate a potential thawing of the conflict. There are signs of a longer lasting peace agreement but there is considerable uncertainty.

Table 1: Strait of Hormuz: Pre-crisis baseline

	**130+ vessels per day** Average daily ship transits before the blockade		**20+ million barrels/day** Oil & refined products flowing through the strait of Hormuz per day.
	**20% of global oil consumption** One in every five barrels the world uses passed through here.		**30% of global seaborne fertilizer trade** A major blow to world agriculture and food security
	**$65 per barrel** Brent crude price before the crisis.		**$111/ barrel** Sharpest spike after the blockade - one of the fastest and largest oil price surges in modern history.

Source: UNCTAD
Images from Adobe Stock

Global projections have changed. Before the Middle East conflict, in October 2025, the IMF projected global GDP growth at 3.3 percent for 2026, trailing the long-term average of 3.7 percent seen from 2000 to 2019. In April 2026, the global growth projection dropped to 3.1 percent. The IMF now defines the crisis as a major global shock that simultaneously drives up inflation and slow growth, raising the risk of stagflation in multiple economies. Ultimately, the scale of the economic damage will depend largely on the conflict's duration and the effectiveness with which governments implement policy responses to manage these shocks. In parallel, UNDP characterizes the 2026 Middle East conflict as a 'global development reversal'. It warns that the disruption of energy and fertilizer supply chains through the Strait of Hormuz risks pushing 32 million people into poverty globally.[2]

The numbers are striking. According to Bloomberg, at the time of the ceasefire deal, there have been 800 - 1000 vessels stranded inside the Persian Gulf, on both sides of the strait. Vessel transit through the Strait of Hormuz remained tightly controlled reaching only about 14 percent of normal levels. This reflects significant congestion and continues operational constraints.[3] The 2026 Strait of Hormuz Crisis is the most severe oil disruption in history (see Table 2). Since the ceasefire, the Strait of Hormuz has remained unstable with reciprocal blockades.

1 International Monetary Fund (IMF). How the War in the Middle East Is Affecting Energy, Trade, and Finance. IMF Blog, 30 March 2026.

2 https://www.undp.org/press-releases

3 https://hormuzstraitmonitor.com/

Table 2: Selected Historical Oil Shocks

Crisis Event	Market Share Lost	Peak Oil Price Impact	Primary Disruption Driver
1973: Arab Oil Embargo	4.5 million barrels /day about 7%	$3 - 12/barrel	Embargo by OAPEC countries. Triggered global recession and led to the formation of the IEA and strategic petroleum reserves.[4]
1979: Iranian Revolution	4.8 million barrels /day 4 - 5% net 7% gross	$14 to 40/barrel	Production collapse in Iran due to revolution and strikes. Other producers partially offset the loss, but panic buying amplified the impact.[5]
1990: Gulf War	4.3 million barrels / day combined Iraq and Kuwait output)	$17 - $36/barrel	Invasion removed combined output from global markets. Coalition forces later secured shipping lanes.[6]
2019: Abqaiq Strike & Tanker Attacks	5.7 million barrels / day 5%	15% single-day spike	Attack on Saudi Aramco's Abqaiq facility and Khurais field (largest single-day disruption on record).[7]
2026: Strait of Hormuz Crisis	20 million barrels /day	$65 to $110+	Total blockade of the Strait of Hormuz, halting 20% of global oil supply/transit.[8]

Source: UNDP Compilation from various sources

4 "How does the current global oil crisis compare with the 1973 oil embargo?," Al Jazeera, 24 March 2026.

5 Brookings Institution. (2019, March 5). What Iran's 1979 revolution meant for US and global oil markets. https://www.brookings.edu/articles/what-irans-1979-revolution-meant-for-us-and-global-oil-markets/

6 U.S. Energy Information Administration (EIA). (2011, March 30). Effects of crude oil supply disruptions: How long can they last? Today in Energy. https://www.eia.gov/todayinenergy/detail.php?id=730

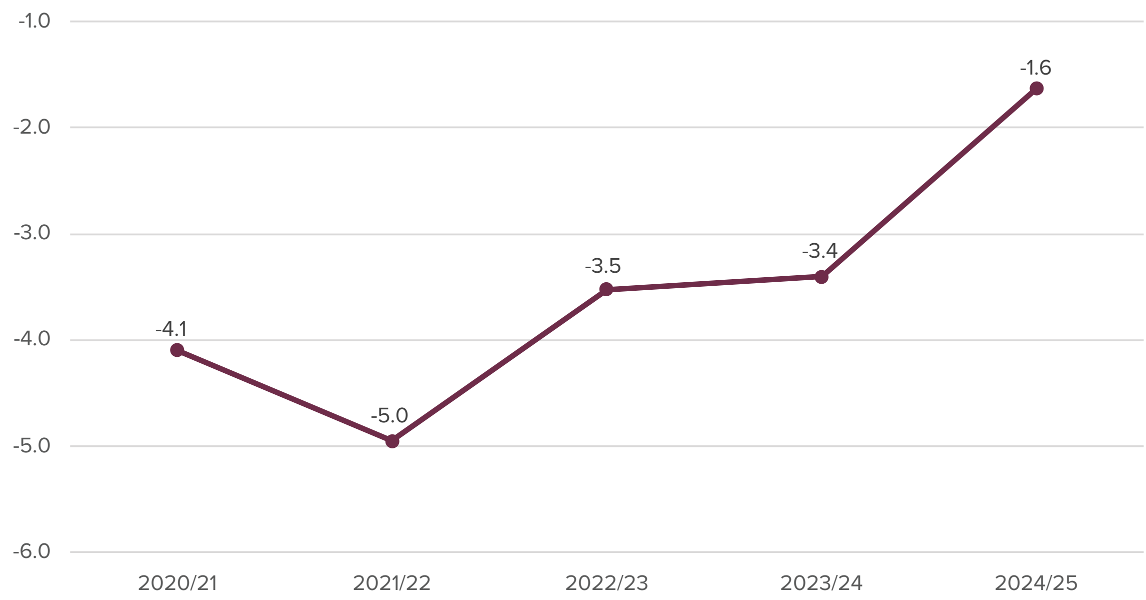
7 CNBC. (2019, September 16). Oil prices: Saudi strikes wipe out 5 percent of global supply. https://www.cnbc.com/2019/09/16/oil-prices-saudi-drone-strikes-wipe-out-5percent-of-global-supply.html

8 U.S. Energy Information Administration (EIA). (2025). World Oil Transit Chokepoints (updated data, with 2024–2025 flows through the Strait of Hormuz averaging ~20.9 million b/d). https://www.eia.gov/international/content/analysis/special_topics/World_Oil_Transit_Chokepoints/

Transmission Channels

External Trade Vulnerability: Ethiopia's import dependence represents a key structural vulnerability. The annual import bill of approximately $18 billion, equivalent to nearly 15 percent of GDP. The country relies heavily on fuel imports, which account for 20 percent of the total import bill (approximately 5 billion liters). Largely sourced from Gulf countries, these fuel supplies comprise nearly 60 percent diesel, 17 percent benzene, and 22 percent jet fuel. In addition, Ethiopia spends around $1 billion annually on fertilizer imports. Together, fertilizer, medical supplies, and cereals amount to approximately $2.9 billion (15.6 percent) of total imports, while capital goods account for about $7 billion (36 percent). Due to reforms, there has been improvement in the external position, with the current account deficit narrowing to about 1.6 percent of GDP in 2025, down from 5 percent in 2022 (Figure 1). See Table 3 for details of transmission channels

Figure 1: Current Account Balance Excl. Official Transfers, Ratio to GDP (percent)



Source: UNDP calculation based on data from NBE

Table 3: Summary of the Transmission Channels

Impact Description	Key Transmission Channel	Consequences	Impact on Ethiopia
Global Shock	Middle East Crisis (Strait of Hormuz / Red Sea disruptions)	Global oil prices surged; 180,000 metric tons of fuel shipments stalled; supply disruptions	Energy supply shortage and high energy prices in the domestic market and huge subsidy cost.
External Sector	Trade Balance and Current Account Balance shock	Higher fuel and essential import prices; Increased monthly fuel import bill (Ethiopia imports 100% of fuel needs)	Wider trade deficit; Higher import bill ($3.5 - 4 billion annually only for fuel)
Foreign Exchange Market	Pressure on the international reserve position of the country	Increased demand for USD; Pressure on birr (USD/ETB ≈ 156 in April 2026)	Potential Birr depreciation: to reverse the gains from the macro reform,
Fiscal	Congested Fiscal Space: High subsidy burden & increased public spending	Fuel subsidy burden reached 272 billion birr (172% above plan); Recent 16.6% fuel price hike	Severe fiscal pressure; Subsidy overruns

Impact Description	Key Transmission Channel	Consequences	Impact on Ethiopia
Domestic Prices	Cost push inflation. imported inflation: from the global commodity price increases.	Higher transport & logistics costs. Rising prices of imported goods and fuel	Elevated inflation Food has 54% weight of CPI, while transport and energy are weighted
Production Sectors	Agriculture, Manufacturing, Services	**Agriculture:** ↑ fertilizer + transport costs **Manufacturing:** ↑ energy + raw material costs **Services:** ↑ operating costs (esp. transport and goods price)	Reduced output leading to decline in GDP growth.
Households & Welfare	Cost of Living	Rising prices for food, transport, energy; Diesel 163 birr/liter, Petrol 142 birr/liter. Food insecurity and poverty exacerbated.	Reduced real income; Welfare deterioration (especially low-income groups)
Macro economic Outcome	Overall economy	Slower growth momentum resulting from higher inflation; External imbalances; Fiscal strain.	Reversal of reform gains.

Source: UNDP constructed

Ethiopia's fuel import structure is a centralized, state-led system primarily managed by the Ethiopian Petroleum Supply Enterprise (EPSE). Due to the absence of refinery capacity, Ethiopia relies almost entirely on imports of refined petroleum, with Kuwait historically serving as a primary supplier under specialized settlement arrangements. Financing these imports is a major pillar of national policy, requiring an annual foreign exchange allocation of $3.5 - 4 billion. Ethiopia, as a land locked country is logistically dependent on the Port of Djibouti, which handles over 90 percent of Ethiopia's total goods trade. The Government has implemented emergency conservation directives, price adjustments, costly subsidies, and spot purchases of fuel globally. In parallel, Ethiopian Airlines has increased freight tariffs by 20 percent on perishable exports, a move that reflects rising operational pressures linked to fuel costs, insurance, and broader regional instability. [9]

Ethiopia's fuel consumption structure is dominated by diesel making up a 63 percent (Figure 2A and 2B). This has led to high demand from heavy-duty freight trucks, transport and the industrial sector. Benzene accounts for below 20 percent of the total, and jet fuel is about 10 percent (Figure 2). The reliance on diesel means that any disruption to this specific product effectively chokes the country's logistical efficiency as well as industry productivity.

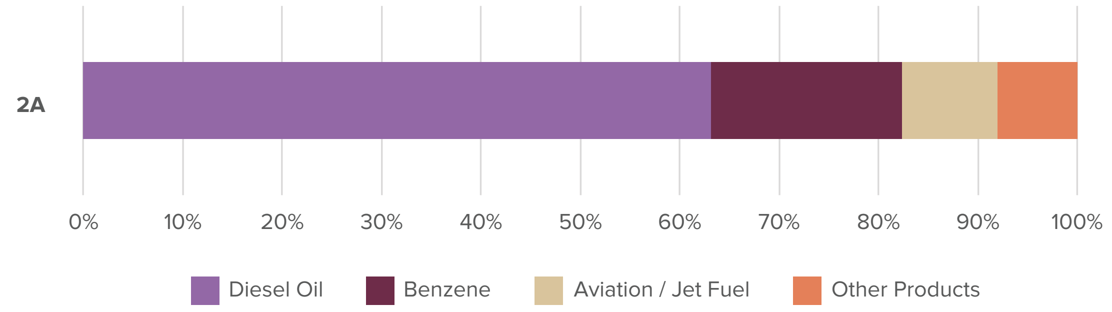
Supply Bottlenecks: According to the briefing statement of Ministry of Trade and Regional Integration (MoTRI) on April 2, 2026, the oil supply structure of Ethiopia is mainly through Government to Government (G2G) agreements, where the government of Kuwait supplies 100 percent aviation, and 60 percent diesel, while 100 percent gasoline/fuel oils and 40 percent diesel are supplied through international tender. By the time of the briefing, three ships carrying 120,000 MT of diesel and 60,000 MT of aviation fuel are stranded at the Strait of Hormuz. Domestically, Ethiopia's current fuel security is anchored by a network of 13 strategic oil depots distributed across the country. In aggregate, these facilities provide a cumulative storage capacity of 367,000 cubic meters (367 million liters) of petroleum products.[10] EPSE is drawing emergency reserves from these depots to mitigate shortages, but the limited buffer has

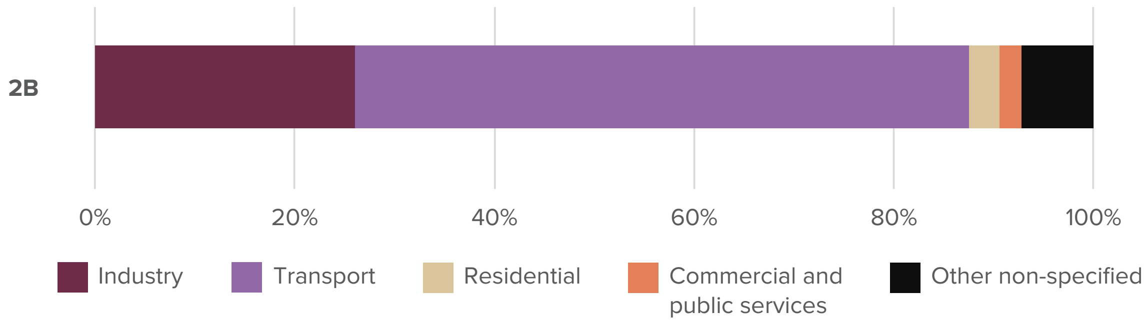
9 https://birrmetrics.com/ethiopian-airlines-raises-cargo-tariffs-as-export-costs-climb-under-geopolitical-strain

10 "EPSE to float international tender for fuel tankers," The Reporter Ethiopia, 24 June 2017. Available at https://www.thereporterethiopia.com/5758/.

triggered nationwide long queues at petrol stations. As of early May, the Government has purchased diesel fuel from spot market at more expensive prices, restoring the prewar supply level.

Figure 2A and 2B. Consumption by Fuel Type and Sectoral Share





Source: UNDP Compiled, Data from EIA for the year 2023

Fiscal: Ethiopia was moving towards a gradual reduction of subsidies under the IMF program. The government's policy framework was designed to substantively eliminate fuel subsidies by end-February 2026 and cap annual subsidy expenditures at Birr 100 billion (0.6 percent of GDP) in 2026.[11] Government estimates show that targeted subsidies is more than Birr **270 billion** (1.3 percent of GDP). This could widen the budget deficit to over 3 percent of GDP in 2026. This creates a fiscal dilemma: reduce other essential spending or reorient the programs intended to support the poor. Poverty related expenditures are planned at 3 percent of GDP for 2026. There is a gap between pre-war and current subsidies and prices (Table 4), but the situation is evolving on the ground.

The Government response to the fuel supply disruption has been a measured one. The Government has passed on some of the prices to consumers but retained a subsidy element. This has been financed through fiscal buffers and support of international financial institutions.

11 IMF, "Ethiopia: Fourth Review Under the Extended Credit Facility Arrangement," IMF Country Report No. 26/20 (January 2026).

Table 4: Pre and Current Fuel Subsidy (January - April 2026)

	January 2026 Price and Subsidy (Birr/Liter)			April 2026 Price and Subsidy (Birr/Liter)		
	Import Cost at Djibouti	Retail Price	Subsidy	Import Cost at Djibouti	Retail Price	Subsidy/ Liter
Diesel	182.8	129.1	53.7	234.2	163.1	71.0
Gasoline (benzene)	157.9	129.1	28.8	174.4	142.2	32.0

**Iran war began on end of February 2026*
Source: Government briefing, Minister of Trade and Regional Integration April 2, 2026

As an importer, Ethiopia is vulnerable to international prices. The Iran conflict has added a few percentage points to inflation, which is 11.7 percent in April 2026. Econometric evidence shows that import prices, particularly for energy and industrial inputs, act as a dominant cost-push catalyst that establishes a structural floor for domestic inflation. For 1 percent increase in import goods prices, inflation increases by 0.33 percent in the long run.[12] Recently, Ethiopia successfully achieved single-digit headline inflation between December 2025 and March 2026, with rates stabilizing between 9.4 percent and 9.7 percent. However, the Iran conflict has created global pressure on prices. The Monetary Policy Committee (MPC), during its meeting on March 21, 2026, continued a restrictive monetary stance, to mitigate the pass-through of global shocks to the domestic market.

Remittances are an important source of FX, at over $6 billion, which is about 5 percent of GDP in 2025. Following the July 2024 exchange rate reforms, formalized inflows of remittances have increased providing a stable buffer to the Ethiopian macroeconomy.[13] The disruption in these Middle Eastern economies (growth is projected to slow to 1.3 percent in 2026 from 4.4 percent in 2025) [14] will directly affect remittance inflows to Ethiopia. This could lead to a drop of $0.5 to $1 billion.

Ethiopia annual fertilizer imports is approximately $1 billion to meet a national demand of 16 million quintals. While the Ministry of Agriculture has reported successfully securing 21 million quintals for the 2026 season, logistical and financial hurdles can adversely affect the 2027 planting season.

12 Ayal, B. A., Aynalem, M. M., & Bekalu, K. Y. (2024). Determinants of inflation in Ethiopia: An econometric analysis using ARDL bounds testing approach. Journal of Economics, Finance and Accounting (JEFA), 11(2), 85–96.

13 A large portion of remittances comes from Ethiopians working in the Gulf countries, particularly Saudi Arabia which accounts for 20 percent of the remittances. Institute of Foreign Affairs, March 2026, Ethiopia's Remittance Buffer: Managing Gulf Labor Exposure

14 The World Bank, April 2026, MENA & Pakistan Economic Update

Growth

Ethiopia's economic growth prospects present a dynamic interplay between strong domestic reforms and volatile global headwinds. Domestically, the Ethiopian government maintains an optimistic outlook, recently revising its GDP growth projection upward to a double-digit target of 10.2 percent for 2026 (Figure 3).[15] According to the projections of the IMF, Ethiopia's economy is expected to maintain strong momentum, and real GDP growth is forecasted to be 9.2 percent in 2026.

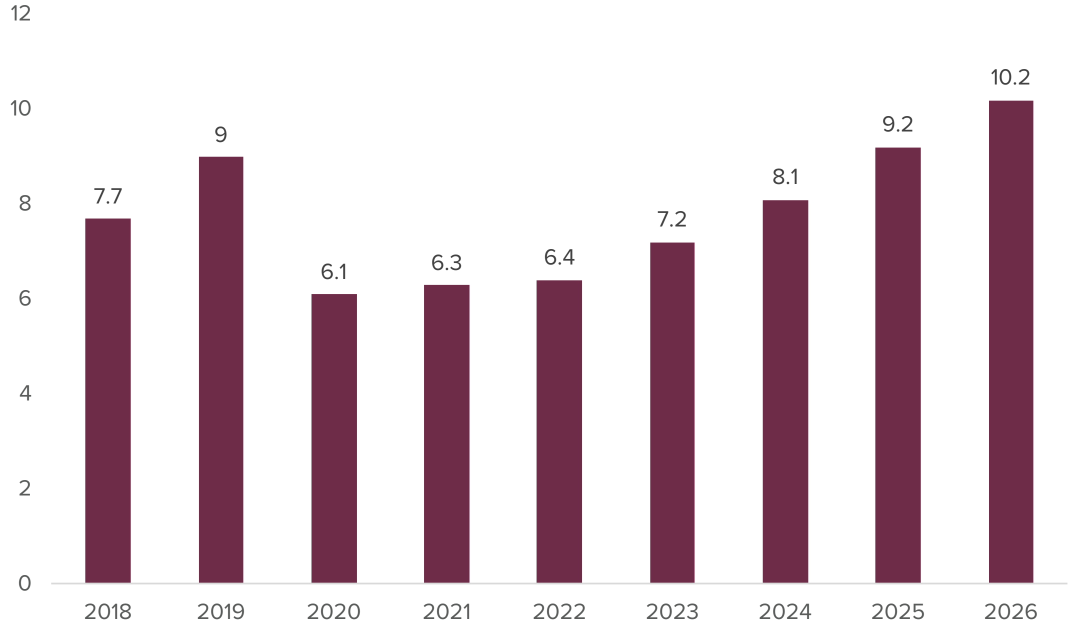
There have been important developments in terms of strategic projects to boost growth. Under the Prime Minister's initiative, the Ethiopian Government is pushing to secure funding from governments, multilateral development banks, and industry partners for the Bishoftu International Airport project, which can be Africa's largest aviation infrastructure project. Capitalizing on the strong success of Ethiopian Airlines, the total projected investment is $13.9 billion. At the same time, Ethiopia is partnering with Nigerian entrepreneur Aliko Dangote on a 3-million-ton and $4 billion investment fertilizer plant in Gode, Somali region. The project is designed to boost agricultural output and reduce dependence on fertilizer imports. In May 2026, the Ethiopian government has also signed a Euro€ 54.6 million concessional loan agreement with France to modernize and overhaul its aging electricity transmission network using advanced digital technologies.

The Government is increasing its pitch to investors with some important wins. Ethiopia has recently conducted the fourth edition of the Invest in Ethiopia High-Level Business Forum (HLBF), held from March 26–27, 2026, in Addis Ababa, served as a validation of the country's recent macroeconomic and foreign exchange reforms. Under the theme *"Ethiopia is Ready for Business,"* the Forum secured $13.1 billion in capital investment commitments across priority sectors including renewable energy, manufacturing, and the digital economy.

There have been visible investment outcomes. Key agreements included a $10 billion commitment from Ming Yang Smart Energy Group for green ammonia production and a $2 billion injection by Global Future Investment Ltd. into a specialized economic zone. The forum's success underscored a growing international confidence in Ethiopia's market-based exchange rate regime and its transition toward a private sector-led growth model. Furthermore, this surge in investment commitments is expected to catalyze the nation's economic expansion, which the government has recently revised upward to a double-digit growth projection of 10.2 percent for 2026.

15 MoPD

Figure 3: Real GDP Growth (percent)



Source: IMF, MoPD for 2026

Ethiopian agriculture has been resilient to some of the shocks. The Meher season accounts for 90 percent of national production and was harvested prior to the current disruptions. Production is expected to remain stable this year across both wheat and non-cereal crops. However, the impact of geopolitical risks on Ethiopia's agricultural sector could manifest with a time lag. Irrigation initiatives can face rising costs for fertilizer and energy. Global fertilizer prices have significantly increased due to the conflict. These rising costs directly impact productivity, as studies indicate a 1 percent increase in fertilizer prices can drop usage by more than 2 percent, potentially not only draining foreign currency reserves, but also reducing agricultural output. [16] [17]

The industrial sector continues to be stable. There has been progress in the Made in Ethiopia initiative. However, it has been impacted by an increase in operational costs and disruption of production across energy-intensive and import-dependent sub-sectors.

16 https://www.thereporterethiopia.com/50065/

17 Ayal, B. A., Aynalem, M. M., & Bekalu, K. Y. (2024). Determinants of inflation in Ethiopia: An econometric analysis using ARDL bounds testing approach. Journal of Economics, Finance and Accounting (JEFA), 11(2), 85–96.

Inflation

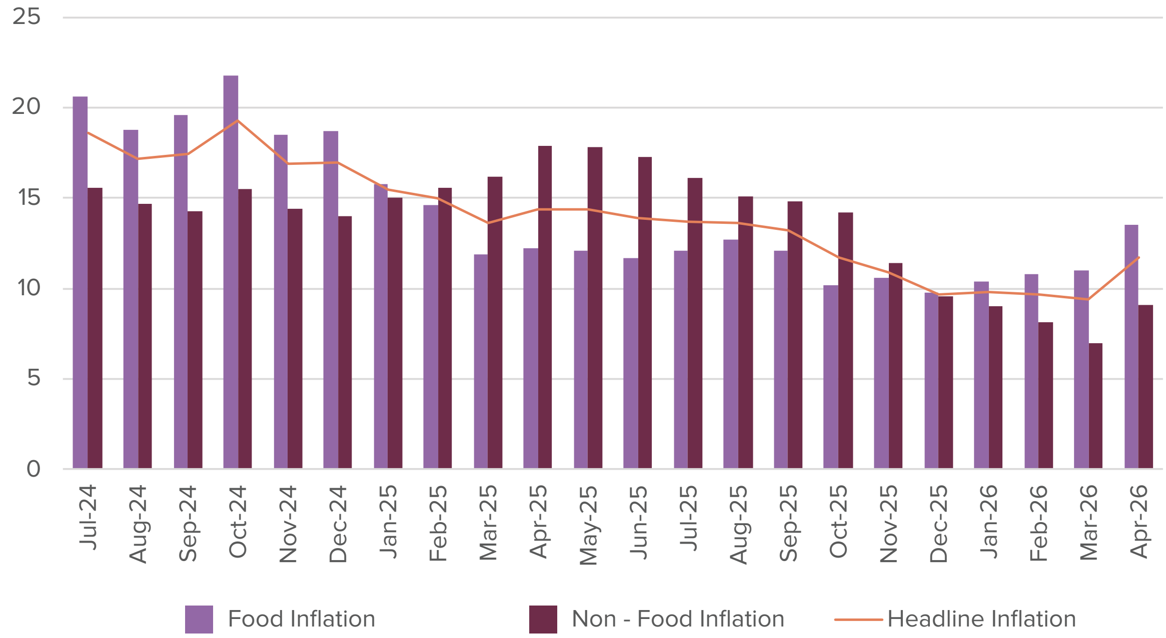
Ethiopia's headline inflation rate has demonstrated a consistent decline. It began the year at 15.5 percent, declined throughout and reached single digits of 9.7 percent by December 2025. This downward momentum continued into early 2026, with headline inflation rate recorded 9.4 percent in March 2026, marking the lowest level in recent years. (Figure 4) However, the Strait of Hormuz crisis has posed significant risk of reversing these hard-won gains through higher domestic fuel prices, and higher transportation and shipping costs. Hence, the year-on-year headline inflation rate rose to 11.7 percent in April 2026.

Oil prices have had a major global surge due to the Iran crisis. The surge in global oil prices from approximately $65 – $70 in late February 2026 to over $110 – $120 per barrel in March 2026 has driven up domestic fuel costs (Birr 142.2/liter), including diesel reaching around Birr 163/liter). Since the war began the government has adjusted retail prices twice. Some goods have had price increases, partly linked to global conflict-linked shortages (Table 5). By June 2026, oil prices have been heading downward, reaching $70 per barrel.

Table 5: Selected Commodity Prices in Addis

Commodity	Pre - War Price	Post - war Price	% increase
Teff	130/kg	150/kg	15.4
Edible Oil	350/liter	480/liter	37.1
Liquid Soap	170/liter	200/liter	17.6
Meat	1300/kg	1800/kg	38.5
Bar Soap	75/pieces	110/pieces	46.7

Figure 4: Inflation Trends YoY (July 2024 – March 2026) (percent)



Source: Constructed based on ESS data

Food inflation is down. Food inflation in Ethiopia has followed a clear downward trend starting from early 2024, after reaching a peak of 32.2 percent in January 2024. It gradually eased throughout the year and accelerated its decline in 2025, falling from 15.8 percent in January to 11.7 percent in June, before reaching a low of 9.8 percent in December 2025. (Figure 5). A slight uptick was observed in early 2026, with food inflation rising to 10.4 percent in January and 11 percent in March. This was due to the combined effects of improved agricultural outputs and macroeconomic stabilization measures implemented since July 2024. After the crisis, food inflation in April increased by 13.5 percent.

Figure 5: Food inflation YoY (percent rate)

Source: constructed based on data from ESS

In parallel, Ethiopia's non-food inflation trajectory reveals a shift. It has moved from persistent double-digit volatility to 7 percent by March 2026. Although this progress is largely attributed to the National Bank of Ethiopia's (NBE) restrictive monetary policy; the gains remain highly vulnerable to external shocks. (Figure 6). Due to the crisis nonfood inflation has also increased by 9.1 percent in April 2026.

Figure 6: Non- Food inflation YoY (percent rate)

Source: constructed based on data from ESS

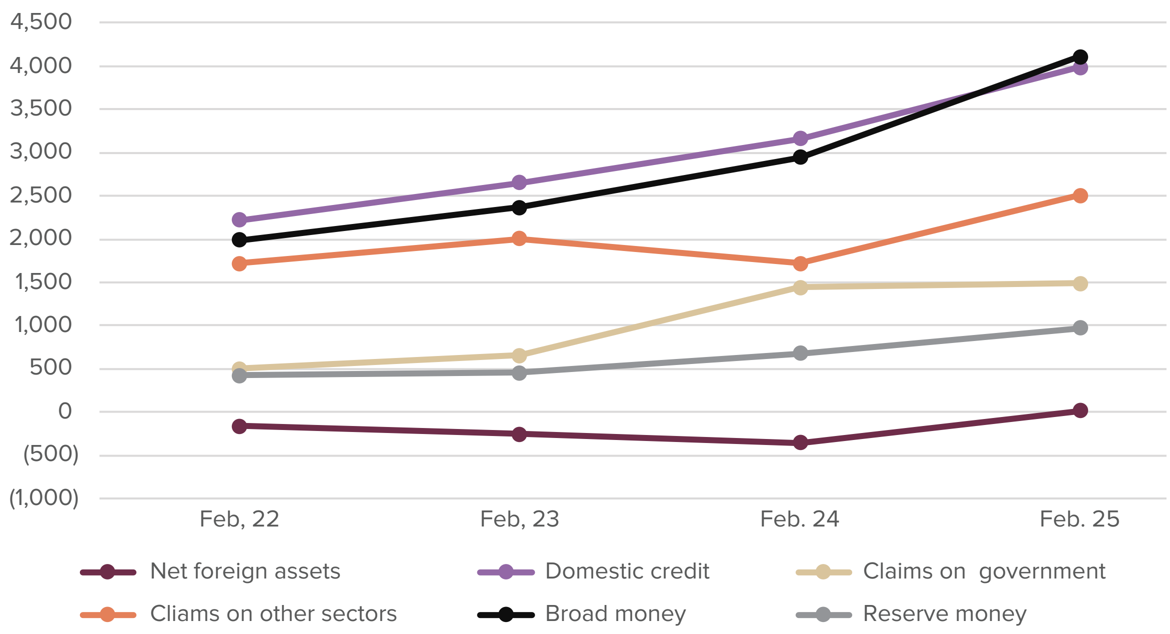
Monetary Policy

In the wake of reforms, Ethiopia is pursuing a more modern monetary policy stance. There has been a shift in policy transitioning towards using indirect monetary instruments. The Government has adopted a tighter monetary policy following launch of the macroeconomic reforms in July 2024. The National Bank of Ethiopia (central bank) has introduced and maintained the 15 percent policy rate marking a transition to interest rate-based regime. In a bid to curtail liquidity, the credit growth ceiling of commercial banks has been maintained at 18 percent through September 2025. Since then, however, the Monetary Policy Committee (MPC) decided to raise it to 24 percent to address liquidity constraints. The NBE also uses open-market operations and has discontinued direct advances to the Treasury. With strict monetary management, supported by improved agriculture output and exports, inflation had subdued to 9.4 percent in February 2026.

Reserves have increased. Owing to the macroeconomic reform and significant inflows, NBE's gross international reserves have been increasing and reached USD 5.5 billion in February 2026 compared to USD 1.4 billion before the reform.[18] This reserve build-up helps to boost confidence and increases in import coverage from a few weeks to about three and a half months.

The net foreign assets (NFA) position has been negative but turned positive in February 2026. In August 2024, NFA was Birr (498.9) billion, in February 2025 it improved to Birr (211.5) billion, and in February 2026 it became Birr 18 billion (Figure 7). Domestic credit reached Birr 4.0 trillion at the end of February 2026 indicating annual nominal growth of 26 percent. While over 94 percent of the credit was held by non-government sectors, claims on government accounted for only 5 percent. Domestic liquidity measured by broadly defined money supply reached Birr 4.1 trillion at the end of February 2026 indicating annual nominal growth of 39.3 percent. Similarly, reserve money increased nominally by 43 percent in the same period mainly driven by increases in banks' deposit with the central bank and currency outside banks.

Figure 7: Trends in monetary aggregates (Bn Birr)



Source: UNDP Constructed based on data from NBE

18 IMF fourth review

Loan disbursements have increased. During the first eight months of fiscal year 2026 totaled Birr 862.8 billion, indicating a more than 80 percent nominal increase compared to the amount disbursed in the same period of the preceding year, partly owing to the relaxation in the credit cap to 24 percent. Over 90 percent of the new loans were disbursed to the private sector. In terms of sectoral distribution nearly half of these loans or 46.5 percent was disbursed to the trade sector (24.4 percent to domestic and 22.1 percent to international trade). However, only 30 percent of the disbursement went to the productive sectors (agriculture 19.2 percent and manufacturing 10.8 percent). Disbursement to building and construction, especially real estate, was 10 percent.

Deposit mobilization by the banking system reached Birr 4.3 trillion at the end of February 2026 indicating a 40 percent nominal increase. Despite the negative real savings rate, savings deposits accounted for 56 percent of the total deposit, indicating absence of alternative instruments followed by demand deposits at 36.2 percent. Private banks jointly held 51.5 percent of the total deposits and public banks (Commercial Bank of Ethiopia) held 48.5 percent.

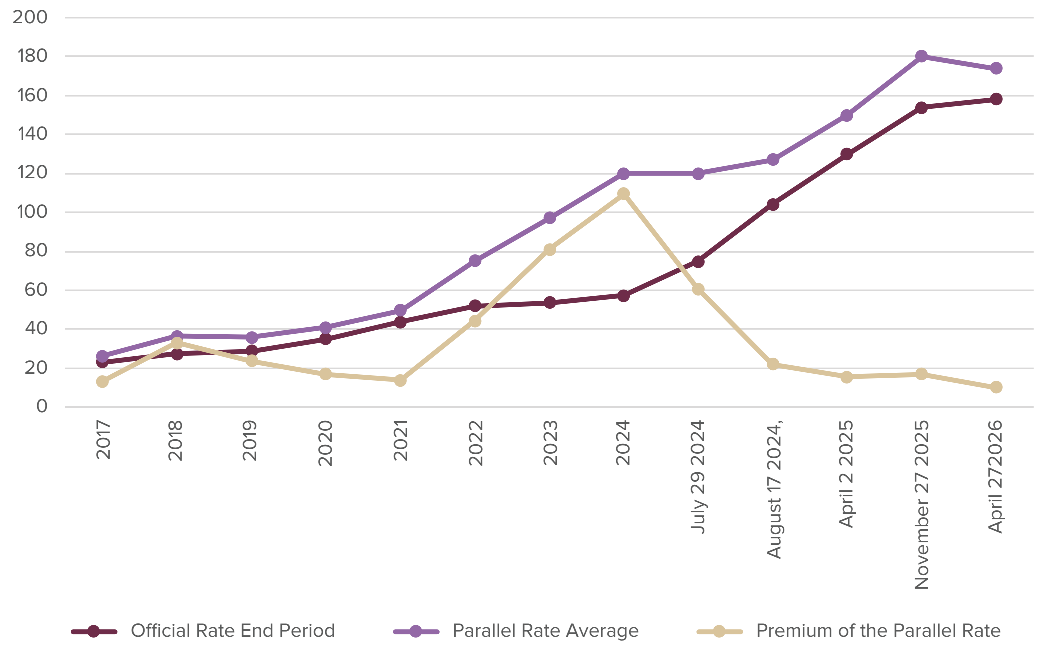
Exchange Rate Developments

Ethiopia is in the middle of a major exchange rate reform which began in mid-2024. The National Bank of Ethiopia (NBE) introduced substantial liberalization measures in its amendment directive dated February 12, 2026. Building on the landmark shift to a market-based exchange rate in July 2024, the government has decentralized forex approvals, eased account requirements, and introduced advanced financial instruments. This directive essentially dismantled several bureaucratic bottlenecks that contributed to leakages in formal foreign currency inflows:

- **100 percent Forex Retention:** Service exporters are legally permitted to retain 100 percent of their foreign exchange proceeds.
- **Removal of Minimum Deposit Requirements**: The minimum deposit requirements are eliminated.
- **Decentralized Approvals:** Commercial banks are granted independent authority to approve external loans, supplier credits, and repatriation of FDI profits.
- **Streamlined and Expanded Business FX Accounts:** Commercial banks are authorized to open foreign currency accounts for FDI companies and domestic profit-making institutions without the need for NBE approval.
- **Increased Forex Bureau Cash Holdings:** Authorized independent Forex Bureaus can hold up to 25 percent of their paid-up capital in cash (increased from 10 percent) to handle localized cash needs.

Strong reforms by NBE have led to a decline in the parallel market premium. The official exchange rate reached approximately 154 ETB/US$ by April 2026, while the parallel market stabilized in the 177-180 ETB/US$ range. The premium of the parallel market sustained at 15 - 20 percent by April 2026 (Figure 8). This has been achieved through tighter NBE oversight on bank dollar holdings, increase in auctions, formalization of remittances market, and decrease in FX demand due to Middle East conflict. NBE transitioned to predictable, bi-weekly auctions increasing its auction amount to $500 million from the previous amount of around $50 – 100 million supply per auction.

Figure 8: Official and Parallel Exchange Rate (Birr/USD)



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

One final reform is in banking consolidation. National Bank of Ethiopia (NBE) is pushing commercial banks to consolidate due to concerns that many banks are too small for the market. Current banking data shows that 25 of the country's 31 banks operate with a combined market share of less than 25 percent. The push for consolidation is meant to strengthen the efficiency of the banking sector as new foreign banks can be entering in the coming years.

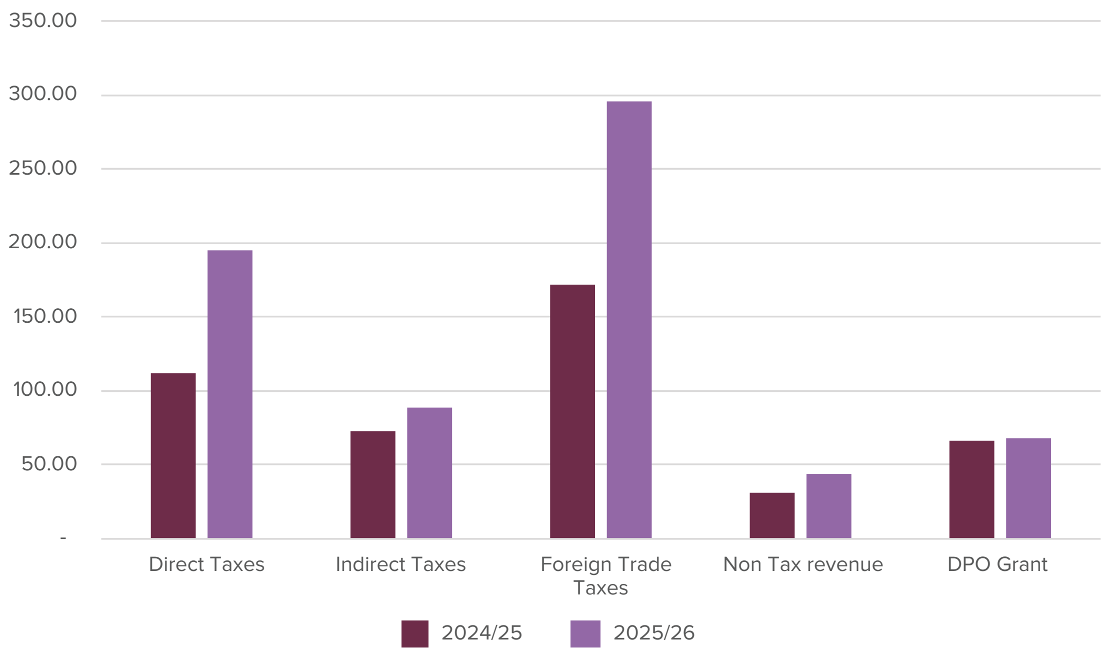
Government Finance

The macro reform aided to achieve strong fiscal prudence. Federal government fiscal performance indicates that during the nine months from July to March 2026 tax collection in nominal terms reached Birr 906 billion compared to Birr 514 billion collected in the same period last year, indicating 82.5 percent increase. In nominal terms, total expenditure in the same period was Birr 1.2 trillion of which Birr 559 billion was for recurrent and Birr 331 billion for capital expenses. The balance of Birr 317 billion was transferred to regional states. Nearly 60 percent of the recurrent expenditure went to debt services and other subsidies.

Ethiopia is currently moving to a more sustainable fiscal path. The policy objective is to correct macroeconomic imbalances, restore fiscal discipline, and reverse a declining tax-to-GDP ratio that had fallen to roughly 6 percent in the years prior to the reform. The ongoing reform seeks to improve domestic resource mobilization to broaden the tax base and rationalize expenditures. From July 2025 to March 2026, total revenue and grants increased more than 50 percent from the previous year.

This performance was driven by strong domestic revenue collection, particularly from taxes. In nominal terms, direct taxes were more than 107 percent higher than their level in the same period of the previous year, driven mainly by taxes from businesses, which were up more than 140 percent (Figure 9). This increase in revenue is mostly attributed to several measures: tax administration amendments, including making a tax on total sales mandatory for businesses, requiring quarterly tax payments in advance rather than annually, restricting cash transactions to force transparency, and taxing smaller businesses on their gross revenue rather than net profits.

Figure 9: Federal Government Revenue Structure (Six Month) (Billion Birr)



Source: constructed based on data from MoF

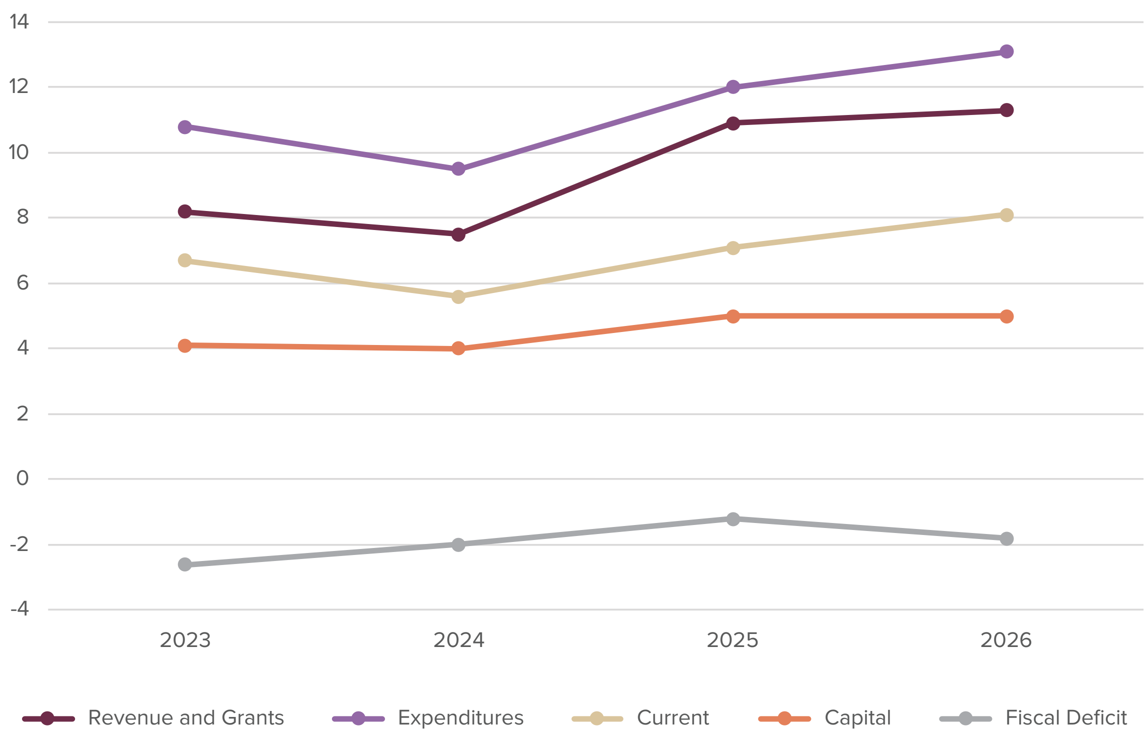
Note: Nominal numbers are used because there is no Government estimate of six- month GDP.

Other taxes have increased in nominal terms. Domestic indirect taxes are up more than 33 percent between July 2025 and March 2026. Foreign trade taxes experienced growth, rising by more than 78 percent during the same period. This expansion was driven by a significant increase in excise taxes, which led to a collection of Birr 67.4 billion. Additionally, VAT on imports grew by 85.7 percent. Many businesses, including small and medium-sized firms, have voiced concern about the increasing tax burden.

One challenge to revenue mobilization has been illicit financial flows (IFF). According to a recent assessment by the African Development Bank,[19] the main channels of IFF in Ethiopia are mainly from import over invoicing, export over-invoicing, and export under-invoicing. Global Financial Integrity (GFI) data indicate that between 55-80 percent of the illicit financial outflows from Ethiopia came from trade mis-invoicing, which constitutes roughly 6-23 percent of the total value of Ethiopia's trade. According to the IMF, IIF is estimated to cause the loss of an average GDP growth of 2.2 percent per year and an estimated 10 percent to 30 percent of the government's total revenue.[20]

Expenditure also increased marginally. The fiscal position is mildly expansionary with expenditures as a percentage of GDP going up from 9.5 to 12.0 percent between 2024 and 2025 (Figure 10). Recurrent expenditure has increased, in part driven by domestic interest payments.

Figure 10: Fiscal Indicators (percent of GDP)



Source: IMF

The IMF Fourth Review has defined the fiscal framework articulated in agreement with the Ministry of Finance. From the IMF perspective, **co**nstrained financing limits the scope for expenditure growth, and there is limited fiscal space.[21] There is a projected decline in external budget support from 1.5 percent of GDP in 2025 to an average of 0.5 percent of GDP over the next two years, although the recent World Bank budget support of $1.5 billion does increase the fiscal space. The key pillars of the Government's fiscal strategy are:

- reducing fuel subsidies (a saving of 0.5 percent of GDP per year from 2027)[22]
- raising domestic financing from 1 to about 1.5 percent of GDP from 2027
- revenue mobilization, with growing contributions from tax and customs administration reforms, of around 0.3 percent of GDP in 2027.

19 AFDB (2025)

20 IMF (2016)

21 IMF Fourth Review, Ethiopia, January 2026

22 Fuel and fertilizer subsidies are 1.3 percent of GDP, of which 0.9 percent is fuel subsidies that will be phased out, and 0.4 percent is now on-budget fertilizer subsidies)

There are several concerns about the budget. First, there is a lack of substantial growth in the public investment budget. The share of the budget devoted to capital spending has fallen to 22 percent in 2026, compared to significantly higher ratios in previous years. Secondly, there continues to be underinvestment in the social sectors relative to the requirements. According to UNICEF, [23] the share of the budget allocated in 2025 for sectors the government classifies as pro-poor – education, health, road, water and agriculture – is 37.1 per cent down from 45.2 per cent in 2024 and further declined to 35.7 percent in 2026. The decline in the share of spending on social sectors, mainly education, health and water, will have adverse implications for human capital development.

Third, block grants have declined over the years as a share of the total budget and in real terms. Allocation for block grant as share of total federal budget has been declining. In 2026, it declined to 14.6 percent compared to 36.3 percent in 2022, 26.6 percent in 2023 and 26.7 percent in 2024. Despite this however, there have been significant transfers to regions in the form of temporary subsides to mitigate the impacts of the macro reform in the form of fertilizer, salaries, and other subsides.

In nominal terms, block grants have increased. The 2026 budget for block grant was Birr 314 billion which increased nominally by close to 40 percent from last year. Regional transfers, in the nine months of fiscal year 2026, were Birr 317 billion compared to Birr 200 billion transferred in the same period of last year. This nominal increase is primarily driven by a close to 60 percent expansion in recurrent block grants, which are utilized to cover the day-to-day operational costs of regional administrations. While capital transfers also experienced a nominal increase of 50 percent. (Figure 11)

Figure 11: Federal Government Expenditure (Billion Birr) July 2025 March 2026

Source: constructed based on data from MoF

There have been some shifts. One of the most important is the debt servicing cost. This shift has led to significantly higher, market-determined interest rates.

There have also been **reforms in civil service salaries and social subsidies.** To cushion the poorest citizens and civil servants against anticipated inflationary shocks resulting from broader economic reforms, the government has increased public sector wages. Furthermore, significant recurrent funds have been allocated to subsidize essential imported goods like fertilizer and fuel. Finally, **the T bill yield has increased** from an average of 7 percent - 9 percent before the reform to 17.7 percent, for example for a 365-day T bill yield.[24]

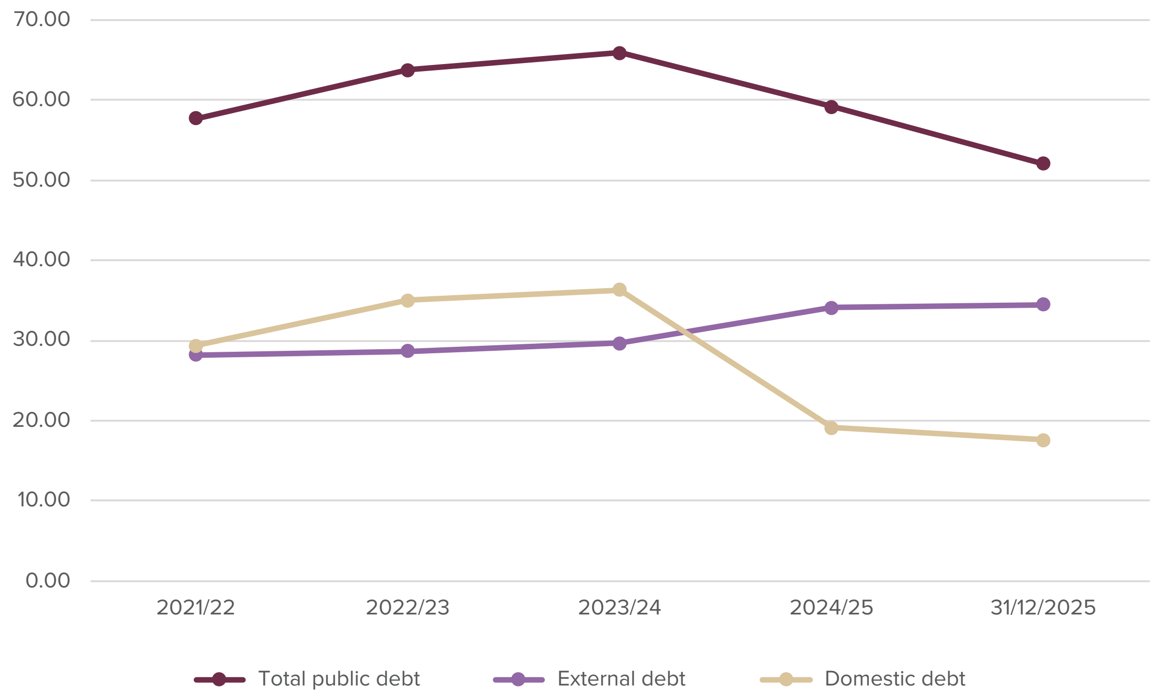
23 UNICEF (2025)

24 NBE, Monetary Policy Committee (MPC) press release, March 31, 2026

Debt

Ethiopia's debt remains a challenge. According to the Ministry of Finance's latest debt analysis, the country's total external debt increased to $34.4 billion by the end of December 2025 after remaining at $30 billion for the period 2020-2024 (Figure 12), partly driven by new disbursements from the IMF and WB. From the IMF Fourth Review perspective, Ethiopia's external debt is at high risk of debt distress and unsustainable based on the pre-restructuring debt sustainability analysis (DSA), mainly due to protracted breaches of exports-related external debt indicators. [25] Domestic debt has been increasing (Figure 13).

Figure 12: Public Debt Stock of Ethiopia by December 2025 (Billion USD)



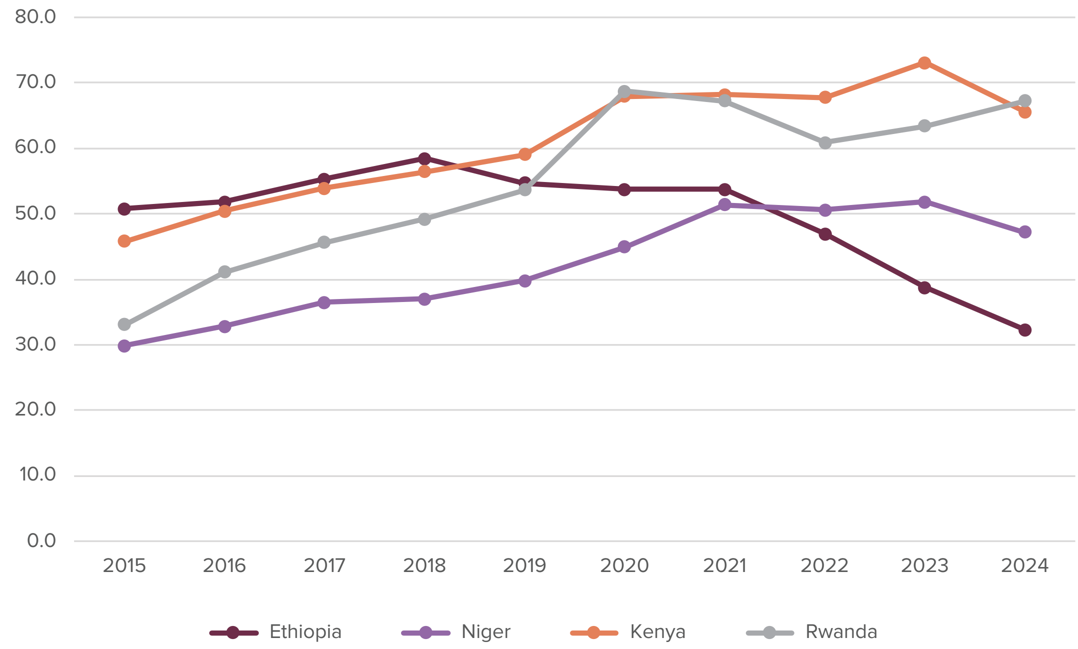
Source: Constructed based on data from MoF

Compared to its peers, Ethiopia's debt is manageable. Ethiopia's debt-to-GDP ratio is 45 percent in 2026, with external debt at 30 percent and domestic debt at 15 percent. In contrast, Senegal has a debt to GDP ratio of 130 percent, and Mozambique has a ratio of close to 100 percent. In the East Africa, Kenya and Rwanda remain elevated at around 65–70 percent.[26] Although Ethiopia's ratio looks favorable, the underlying debt challenges remain (Figure 13 and 14).

25 This is based on a weak Debt Carrying Capacity (DCC).

26 Ethiopia's domestic debt has decreased in dollar terms due partly to birr depreciation in July 2024.

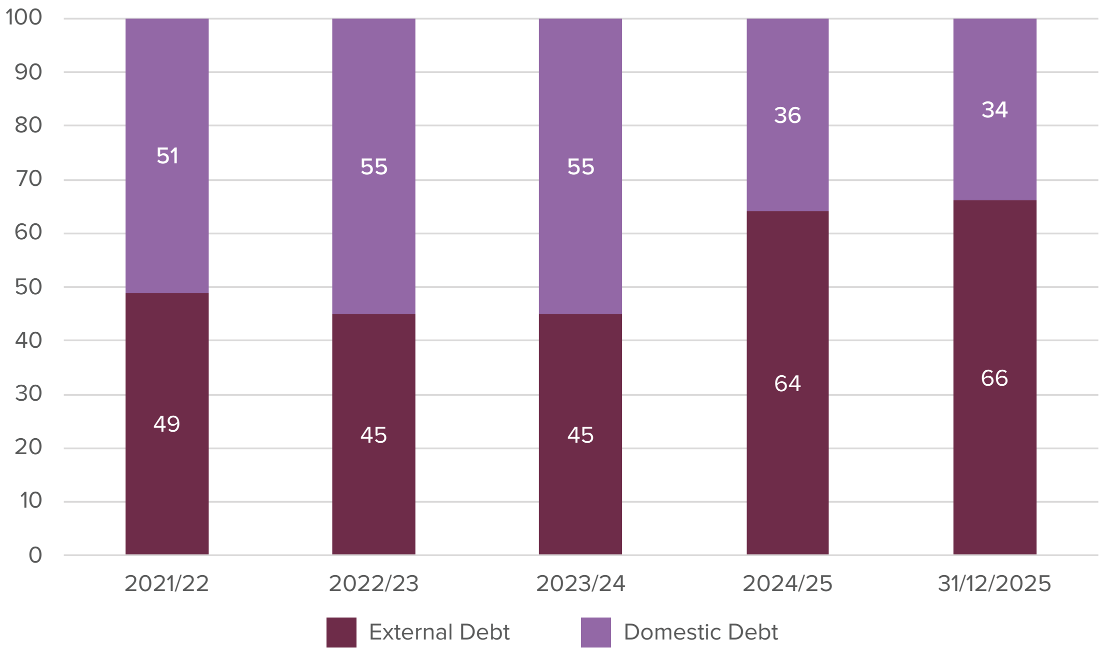
Figure 13: Debt to GDP Ratio (percent) Ethiopia and Selected African Countries



Source: IMF [27]

As of June 2026, Ethiopia is continuing efforts to address its sovereign debt restructuring under the G20 Common Framework. In March 2025 Ethiopia reached Agreement in Principle (AIP) with its Official Creditor Committee (OCC) on the main financial parameters of a debt treatment under the G20 Common Framework, covering approximately $8.4 billion of outstanding public debt. A series of bilateral agreements have been signed with creditors. On April 3, 2026, Ethiopia's Ministry of Finance announced the conclusion of a formal debt treatment agreement with China, representing a significant advance in the country's sovereign debt resolution process.

Figure 14: External and Domestic Debt Share (percent) in Total Debt



Source: Constructed Based on Data from MoF

27 https://www.imf.org/external/datamapper/d@FPP/USA/FRA/JPN/GBR/SWE/ESP/ITA/ZAF/IND

However, negotiations with private creditors over the defaulted $1 billion Eurobond remain highly volatile. In May 2026 Ethiopia said negotiations with holders of its one-billion-dollar Eurobond have collapsed after a committee representing bondholders rejected the government's revised restructuring proposal. The earlier proposal from the bondholders was rejected by the OCC as not providing private creditors support for debt restructuring. The value recovery instrument (VRI) whereby bondholders obtain a percent of future export revenue was rejected by China and the Paris Club as being excessive and not aligned with the principle of comparability of treatment. While the bondholders favor debt haircuts coupled with more immediate debt payments and the VRI, the OCC favors maturity extensions. It has been hard to find the right formula.

Ethiopia has faced litigation risks. The bondholder committee formally warned in February 2026 that they are preparing to initiate legal proceedings in international courts to enforce their claims against the Ethiopian government. Eurobond holders are starting preparation for legal action in London commercial courts in response to the stalled restructuring of defaulted $1 billion Eurobond.[28]

There have been some recent positive developments. In June 2026, Ethiopia reached an Agreement in Principle to restructure its defaulted $1 billion Eurobond into a new $880 million bond (6.15 percent coupon) repayable by July 2029. This represents a 12 percent principal haircut. There are three main features of the agreement.

- **New Bond:** A restructured bond to replace the defaulted 2024 Notes, with key financial terms agreed in prior round of talks (concluded 28 May 2026), though the specific coupon, maturity, and amortization details are not disclosed in this announcement.
- **New Money Warrant:** A detachable warrant giving existing bondholders subscription rights to purchase a future Ethiopian international bond on agreed commercial terms, effectively deferring additional repayment capacity to a later issuance.
- **Exchange Offer:** The mechanism for implementation will be an exchange offer and/or consent solicitation, meaning existing 2024 Note holders swap their defaulted notes for the new instruments above.

28 Ethiopia reaches resolution with China on debt treatment | Reuters

External Trade

Ethiopia's external sector demonstrated resilience from July 2025 to March 2026. Value of total goods exports increased by 43 percent to reach $7.6 billion, up from $5.3 billion in the same period of the previous fiscal year. This reflected gains across both traditional and emerging export categories, underpinned by favorable global commodity prices, improved domestic production, and ongoing macroeconomic reforms. The performance in exports outpaced a 16.4 percent increase in imports, contributing to a stronger overall balance-of-payments position.

Gold has remained Ethiopia's leading foreign-exchange earner from July 2025 to March 2026 generating $3.9 billion. This is due to both 21.7 percent volume and a close to 50 percent price increase, reflecting both improved formalization of artisanal and small-scale mining (shifting supply from informal channels to official NBE purchases) and strong global gold prices. Policy reforms, including the NBE's premium pricing for gold, have boosted exports. Gold now accounts for more than 50 percent of total merchandise earnings, helping drive the overall export boom and reserve accumulation.

There have been recent changes in the gold policy. The NBE, which previously acted as the monopoly buyer, is now phasing out its premiums, allowing private commercial banks to participate directly in gold purchases. It is preparing a long-term strategy to fully exit direct participation in the gold market by end-December 2026. [29] This transition aims to reduce risks to the NBE's balance sheet and reposition the central bank as a regulator and supervisor rather than a dominant player, while still safeguarding implications for international reserve accumulation.

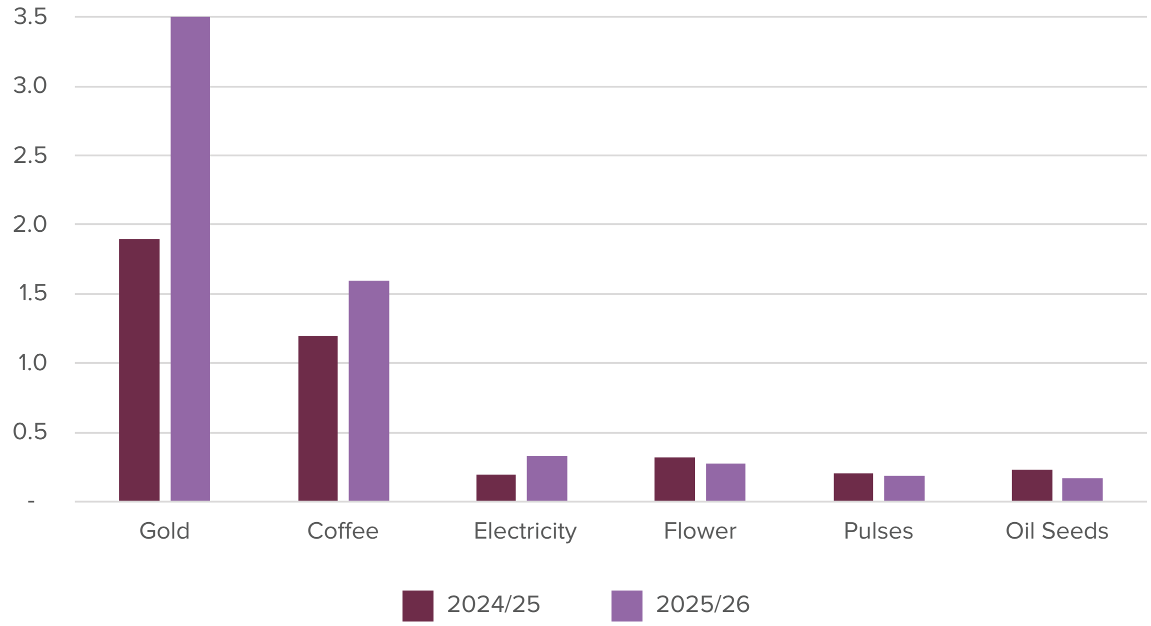
Gold continues to be promising and a strong anchor for the economy. Looking ahead, sustained high global prices (currently trading well above USD 4,000 per ounce with forecasts reaching USD 5,400 - 6,300 by end-2026 amid geopolitical tensions)[30] offer continued upside for Ethiopia despite the uncertainties surrounding the ongoing NBE exit and the lack of preparedness of commercial banks in expertise, liquidity, and infrastructure for handling gold trading.

Coffee continues to perform well. Exports have gone up from July 2025 to March 2026 to $1.9 billion despite a volume drop of 8.0 percent. The performance was helped by a 38 percent rise in unit price to $7.0 per kg. One challenge faced by the sector has been a rise in red cherry prices, which more than tripled to around $1.50 per kg from $0.45 per kg last season. This, coupled with a recent fall in international prices, has led to exporters facing losses and tightening profit margins. Some have resorted to speculative hoarding waiting for the prices to rise. This has created conflict with the government, which has issued warnings urging faster sales.[31] [32] The current outlook for global prices is on the decline which stems mainly from expectations of a record Brazilian crop (about 75 million bags) in 2026-27,[33] potentially creating a large coffee surplus in the global market.

Another bright light has been electricity exports, which have expanded significantly. These exports have risen by 66 percent to $327 million (July 2025 to February 2026) from $197 million from the same period in the previous year. Total exporter volume reached 9000 Kwh, nearly 85 percent higher than that of last year. (Figure 15)

29 https://thereportermagazines.com/5149/from-buyer-to-referee-imf-backed-gold-reform-redefines-nbes-role/
30 https://www.reuters.com/world/asia-pacific/jp-morgan-raises-long-term-gold-price-forecast-4500-2026-02-25/
31 https://addisstandard.com/authority-urges-coffee-suppliers-to-release-stocks-amid-global-price-decline/
32 https://birrmetrics.com/speculative-hoarding-drags-ethiopian-coffee-exports-25-below-target/
33 https://www.barchart.com/story/news/1097604/arabica-coffee-prices-slip-on-improved-crop-outlook-in-brazil

Figure 15: Top Performing Exports July 2024-December 2024, July 2025- December 2025 ($ billion)



Source: constructed based on BoP data from NBE

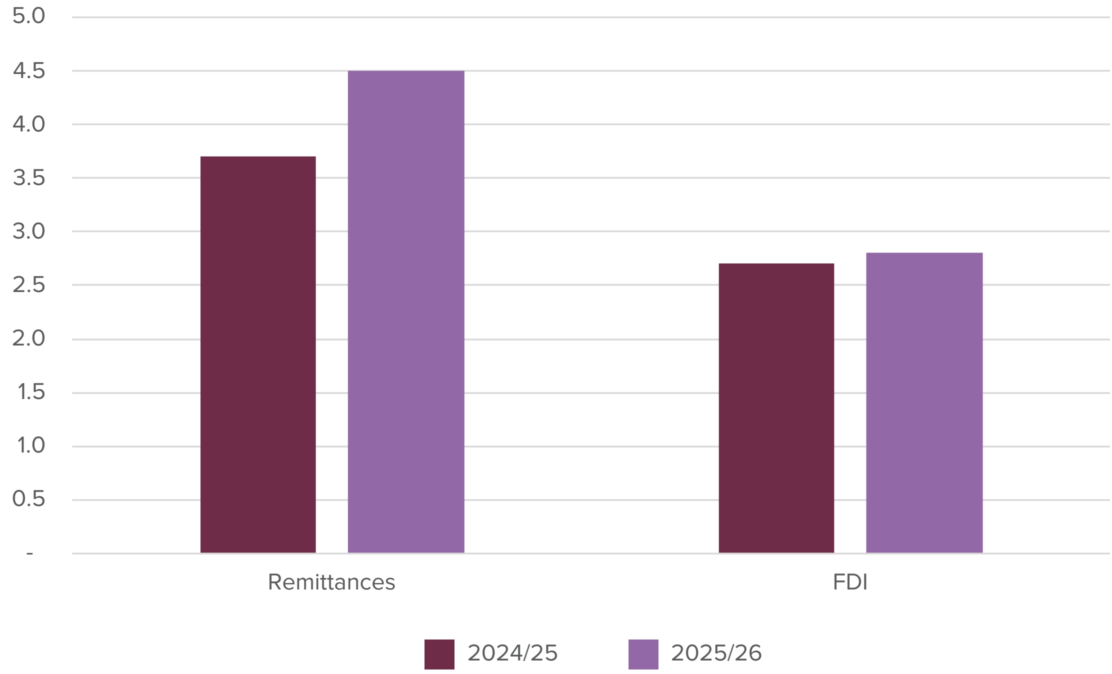
Total imports have risen by 16.4 percent to $16.6 billion from July 2025 to March 2026. This expansion reflects sustained domestic demand. However, import growth was not uniform for all import categories, partly indicating deliberate import restrictions and mild substitution. The Ministry of Trade has announced an import substitution value of $2.7 billion in domestic production for the first eight months of FY 2026.[34] Raw materials imports declined by 9.1 percent to $88.8 million. The contraction in this category indicates either domestic sourcing or a temporary slowdown in the production sector. Semi-finished goods recorded the fastest growth among major categories, expanding by 27.3 percent to reach $3.3 billion. The increase was led by fertilizer (up 46.5 percent), iron and steel (up 44 percent), and plastics (up 16 percent), reflecting the global commodity price hikes, particularly for fertilizers. Fuel imports, increased by 3.6 percent to $2.7 billion. Capital goods imports and consumer goods increased by 20.3 percent and 12.2 percent respectively. The government has used a multi-pronged policy shift, aided by favorable global market conditions prior to the geopolitical disruptions in the Middle East. Ethiopia has banned gas-powered cars,[35] pushing the population toward electric vehicles, making fuel more expensive through phased subsidy removals, and floating the currency.

Ethiopia's external position showed a mixed but notable performance from July 2025 to February 2026. Overall balance of payments recorded a surplus of $1.8 billion, marking an improvement from the $1.5 billion surplus registered in the prior year. The current account deficit, excluding official transfers, narrowed by a fourth, improving from a deficit of $2.7 billion in the previous year to $1.9 billion. This improvement was driven by a combination of stronger export performance and a significant increase in remittances. It reached $4.5 billion, up from $3.7 billion during the same period last year. (Figure 16)

34 https://www.ena.et/web/eng/w/eng_6271755

35 Electric Cars in Ethiopia: Government Push and Market Reality - EV24.africa - Buy Electric Cars for Africa

Figure 16: Trend in FDI and Remittance 1st Eight Months of FY 2025 and 2026 ($ billions)



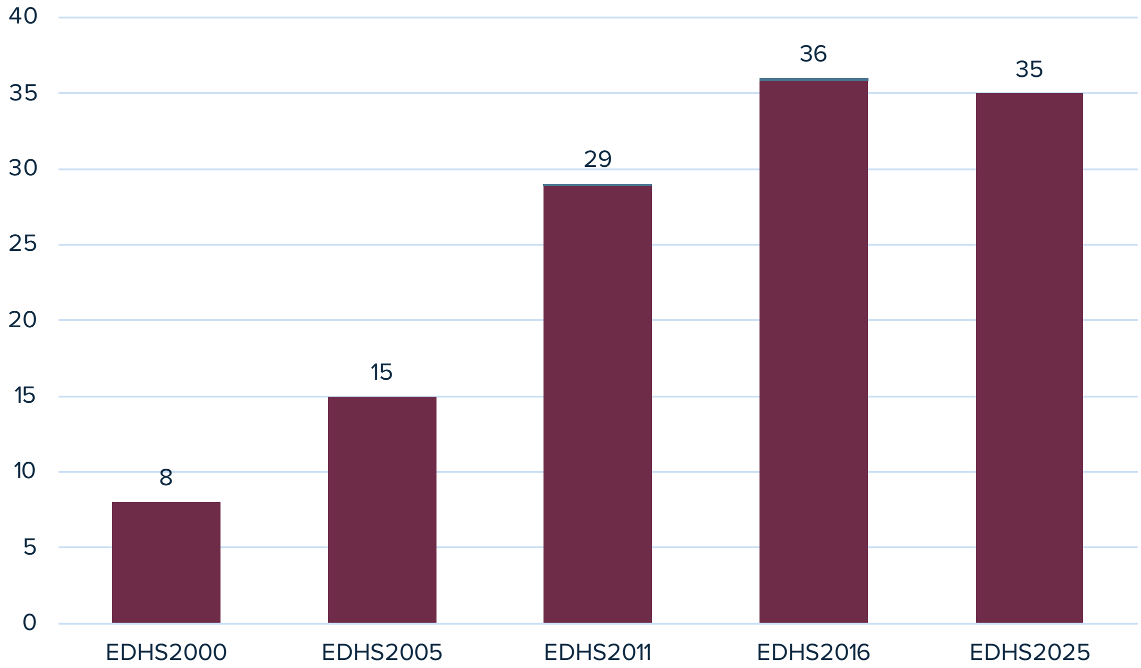
Source: constructed based BOP data from NBE

Poverty and Human Development[36]

Macro-micro links are still of concern. The UNDP HDI index for Ethiopia has not improved in recent years. In a recent study, the World Bank forecasts that poverty could rise to 43 percent by 2025. Government poverty estimates for 2025 are expected to be released in a few months after the completion of the 2024-25 Integrated Household Income Consumption Expenditure (IHICE) Survey. There has been mixed performance of social indicators in the regions.

According to the Ethiopia Demographic and Health Survey (EDHS) 2004/25 report published recently, the performance of the health sector has bene mixed. There has been significant improvements in several metrics, including infant mortality and maternal mortality, but some slippages in several indicators, including vaccination rates, which stagnated, and stunting in children, which increased from 38 percent in 2016 to 40 percent in 2025. Stunting is the highest in Benshangul Gumuz at 52 percent followed by 46 percent in Afar, 43 percent in Amhara and the lowest is 15 percent in Addis Ababa. Fertility measured by average number of births per woman has been steadily declining and reached 4 children in 2025 from 5.5 children in 2000. While fertility in rural areas has been declining, urban fertility increased to 3.2 children in 2025 from its level of 2.3 children in 2016. Use of family planning by married women has also steadily been increasing from 8 percent in 2000 to 36 percent in 2016 but declined to 35 percent in 2025 (Figure 17).

Figure 17: Married Women Using Family Planning (percent)



There is some good news. Maternal mortality referring to deaths of women associated with pregnancy, childbirth, and termination of pregnancy excluding deaths caused by accidents and violence has been declining. Maternal Mortality Rate (MRR) declined from 871 deaths out of 100,000 in 2000 to 169 deaths in 2025.

36 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).

Concluding Remarks and Risk Outlook

Ethiopia's macroeconomic trajectory through 2026 reflects a reform story. The macroeconomic reforms, including the July 2024 exchange rate liberalization, delivered tangible results: reserves climbing from $1.4 billion to over $5 billion, inflation subdued to single digits by late 2025, export revenues reaching historic highs, and international investor confidence reflected in $13.1 billion in commitments at the Invest in Ethiopia Forum.

The Middle East crisis has impacted the risk outlook. Oil prices surging from $62 to over $115 per barrel has increased the fuel subsidy bill, risking to pushing the fiscal deficit beyond 3 percent of GDP. Inflation has already rebounded from 9.4 percent in March to 11.7 percent in April, and remittance inflows face a potential $0.5 - 1 billion contraction as Gulf economies slow. Particularly concerning scenario is one where the crisis proves protracted and oil prices stabilize high, and reliance on costly spot market purchases that erode foreign exchange reserves, keep the annual fuel import bill structurally elevated and compress fiscal space in the 2026-27 budget. On the other hand, a resolution of the Iran conflict can lead to downward decline in oil prices, proving to be beneficial to Ethiopia. Climate change also poses significant downside risks.

Looking ahead, the Council of Ministers has approved a draft federal budget of Birr 2.3 trillion. This is approximately $14.6 billion for the 2026-27 fiscal year, the largest in Ethiopia's history. This signals the government's ambition to consolidate reform gains. However, containing the rising subsidy burden remains a challenge. This will remain an important topic during the IMF Fifth Review discussions.

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, 2019[37]	51/1000 live births
Maternal Mortality, 2020 [38]	141/100,000 live births
Proportion of population with access to safe drinking water source, 2016	65%
Life Expectancy at Birth, 2020[39]	68.8 years
Unemployment, 2021	Urban: 17.9% Rural: 5.2% National: 8%

37 https://www.moh.gov.et/en/fact-sheets?language_content_entity=en
38 https://www.moh.gov.et/en/fact-sheets?language_content_entity=en
39 https://www.moh.gov.et/en/fact-sheets?language_content_entity=en

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