INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/354

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

December 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Under Article IV of the IMF.s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** for the 2018 Article IV Consultation, prepared by a staff team of the IMF for the Executive Board's consideration on November 30, 2018, following discussions that ended on September 26, 2018, with the officials of The Federal Democratic Republic of Ethiopia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 13, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA).
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for The Federal Democratic Republic of Ethiopia.

  The document listed below will be separately released.

- Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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FOR IMMEDIATE RELEASE
December 3, 2018

International Monetary Fund
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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with the Federal Democratic Republic of Ethiopia

On November 30, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Federal Democratic Republic of Ethiopia.

In 2017/18, real gross domestic product (GDP) grew by 7.7 percent, driven by favorable harvests and rapid growth in air transport and manufacturing exports. However, political uncertainty, foreign exchange shortages, and adverse terms-of-trade trends hampered economic activity. The authorities succeeded in reducing the external current account deficit to 6.4 percent of GDP in 2017/18 through determined policies to restrict public sector imports and borrowing and a tight monetary policy stance. Prudent budget execution led to a lower-than-planned fiscal deficit, estimated at 3.7 percent of GDP. Tax revenue continued to disappoint and was offset by expenditure savings, while ring-fencing pro-poor programs. Inflation, at 12 percent in September 2018, has edged down but remains above the National Bank of Ethiopia (NBE)'s single-digit target reflecting lagged effects of public sector credit expansion in 2017, passthrough of the October 2017 devaluation, and political disruptions which affected distribution networks. The NBE reduced the growth of base money from 32 percent in July 2017 to 19 percent in June 2018 to rein in inflation. However, broad money and credit growth remained strong.

Growth is expected to step up in 2018/19 to 8.5 percent, supported by stronger confidence as the political uncertainty of previous years recedes, and external financial inflows, including FDI temporarily ease external financing constraints and foreign exchange shortages. The authorities have announced a budget for the fiscal year ending June 2019 built on prudent expenditure control. Also, they have committed to refrain from non-concessional financing for new projects and to shift ongoing projects to concessional financing when possible. The NBE has adopted a further tightening of the monetary policy stance which should help inflation converge to the authorities' target. The authorities have announced their intention to

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

open key economic sectors to domestic and foreign private investment and competition, including through privatization, public-private partnerships and concession agreements.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that Ethiopia has maintained high and inclusive growth for more than a decade, achieving commendable progress in reducing poverty and improving living standards. However, the public sector led development strategy is reaching its limits, exacerbating external imbalances and raising public debt vulnerabilities. Directors commended the authorities for tightening macroeconomic policies to address these challenges. They welcomed the authorities' ambitious reform program aimed at catalyzing private investment and driving sustainable growth as set out in the Growth and Transformation Plan II.

Directors underscored the need for fiscal consolidation and higher revenue, through tax policy and administrative measures, further prioritization of public projects, reductions in the borrowing requirements of state owned enterprises (SOEs) and phasing out of implicit subsidies. Rationalization of tax exemptions and excise reform would help in this regard. Further improvements in public financial management and SOE governance and transparency are also warranted. Given the risks posed by the high debt burden, Directors called for strengthening public debt sustainability. They noted the efforts at reprofiling of non-concessional debt and welcomed the authorities' intention to contract new debt at concessional terms. Directors commended the authorities for their plans to protect social and pro poor spending.

Directors noted that the tighter monetary stance announced by the National Bank of Ethiopia (NBE) for 2018/19 is warranted to bring inflation down to target. This stance should be supported by restrictive public-sector credit policies, including gradually phasing out central bank financing of the budget. Exchange rate flexibility would help strengthen competitiveness, reduce foreign exchange shortages and support reserve accumulation. Directors recommended the elimination of the remaining exchange restrictions on current transactions.

Directors noted that financial sector reforms would increase the effectiveness of monetary policy and support development goals. These reforms should include the development of a market for government securities with market determined interest rates. Until this market develops, NBE bills should be used solely to manage liquidity in the banking system and delinked from funding of the Development Bank of Ethiopia which needs to complete a comprehensive financial assessment. Directors noted that channeling the payment of taxes

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

through banks could deepen financial intermediation, reduce opportunities for corruption and improve the business climate. Gradual opening of the financial sector to foreign investors could improve services and transfer technology and know how. Directors also noted that continued efforts are required to strengthen the AML/CFT framework.

Directors stressed that implementation of structural reforms is critical to promoting competitive markets and improving the investment climate to catalyze private investment. Privatizations, public private partnerships with adequate safeguards, and removal of obstacles to private investment could support renewed growth momentum while attracting foreign resources and know how. Directors underscored the importance of addressing data gaps and delays to improve the quality of statistics. They welcomed Ethiopia's decision to join the African Continental Free Trade Agreement and looked forward to progress toward World Trade Organization membership. Directors also welcomed the joint analysis conducted with UN Women which shows that further reducing gender disparities would yield large economic benefits over time and commended the authorities' efforts in this direction.

It is expected that the next Article IV consultation with The Federal Democratic Republic of Ethiopia will be held on the standard 12-month cycle.

The Federal Democratic Republic of Ethiopia: Selected Economic Indicators

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate	IMF staff projections				
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices (at factor cost)	10.7	7.7	8.5	7.6	7.1	7.0	7.0
GDP deflator	6.4	10.3	11.7	8.9	8.5	8.2	7.9
Consumer prices (period average)	7.3	13.0	10.6	8.2	8.0	8.0	8.0
Consumer prices (end period)	8.8	14.7	9.0	8.0	8.0	8.0	8.0
External Sector							
Exports of goods and services (U.S. dollars, f.o.b.)	2.9	13.2	12.7	12.6	12.6	13.6	14.3
Imports of goods and services (U.S. dollars, c.i.f.)	-4.8	0.2	13.6	5.9	7.5	6.0	6.4
Export volume (goods)	-1.1	2.9	11.0	9.8	8.3	10.7	14.0
Import volume (goods)	-5.4	-9.2	9.5	4.4	6.6	4.6	5.0
Nominal effective exchange rate (end of period)	-3.7	-16.1	…	…	…	…	…
Real effective exchange rate (end of period)	2.1	-7.1	…	…	…	…	…
Money and Credit							
Change in net foreign assets	66.8	3.5	-18.9	62.2	64.8	66.9	49.8
Change in net domestic assets (including other items net)	26.7	31.0	24.6	20.5	19.3	19.2	20.2
Broad money	28.8	29.2	22.3	22.0	21.4	22.2	22.8
Base money	22.7	19.1	13.3	13.5	13.5	14.0	14.0
Velocity (GDP/broad money)	3.15	2.89	2.84	2.72	2.61	2.47	2.34
	(Percent of GDP, unless otherwise indicated)						
Financial balances[1]							
Gross domestic savings	24.1	23.4	22.2	23.4	23.8	26.6	28.2
Public savings	1.6	0.6	0.7	0.8	0.8	0.8	2.2
Private savings	22.6	22.8	21.5	22.6	23.0	25.7	26.0
Gross domestic investment	39.0	38.2	37.3	37.5	37.4	39.2	39.8
Public investment	14.6	13.9	12.2	12.2	9.9	9.7	9.8
Private investment	24.4	24.3	25.1	25.3	27.5	29.5	30.0
Resource gap	-14.9	-14.9	-15.1	-14.1	-13.5	-12.6	-11.6

[1] Based on data from Central Statistical Agency (CSA), except for the current account balance, which is based on BOP data from National Bank of Ethiopia (NBE).

External current account balance, including official transfers	-8.1	-6.4	-6.2	-5.8	-5.2	-4.2	-3.8
Government finances							
Revenue	14.3	12.8	13.0	13.1	13.3	13.5	13.9
Tax revenue	11.6	11.1	11.2	11.3	11.6	11.9	12.2
Nontax revenue	2.6	1.8	1.8	1.8	1.7	1.6	1.7
External grants	0.7	0.8	1.4	0.6	0.5	0.5	0.4
Expenditure and net lending	18.2	17.4	17.5	16.7	16.7	16.7	16.9
Fiscal balance, excluding grants (cash basis)	-4.0	-4.6	-4.5	-3.6	-3.4	-3.2	-3.1
Fiscal balance, including grants (cash basis)	-3.3	-3.7	-3.1	-3.0	-2.9	-2.8	-2.7
Total financing (including residuals)	3.3	3.7	3.1	3.0	2.9	2.8	2.7
External financing	1.6	1.3	1.2	0.7	0.6	0.5	0.5
Domestic financing	1.8	2.8	1.9	2.3	2.3	2.3	2.1
Public debt [2]	57.2	61.0	57.5	56.5	55.7	55.5	54.6
Domestic debt	27.8	28.8	28.1	28.9	29.8	31.3	32.1
External debt (including to the IMF)	29.4	32.3	29.4	27.6	25.9	24.2	22.5
Overall balance of payments (in millions of U.S. dollars)	658	202	550	474	829	1,158	1,642
Gross official reserves (in millions of U.S. dollars)	3,197	2,847	3,397	3,872	4,700	5,858	7,500
(months of imports of goods and nonfactor services of following year)	2.0	1.6	1.8	1.9	2.1	2.5	3.0
GDP at current market prices (billions of birr)	1,807	2,138	2,573	3,009	3,500	4,053	4,706

[2] Non-financial public-sector debt.

Sources: Ethiopian authorities and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

November 13, 2018

KEY ISSUES

Context: In 2017/18 growth slowed due to political uncertainty and appropriately restrictive macroeconomic policies. The external current account deficit narrowed to 6.4 percent of GDP reflecting public-sector fiscal consolidation and a tight monetary policy stance. Reserves were thin and foreign exchange shortages persisted. Prime Minister (PM) Abiy Ahmed took office in April 2018, catalyzing a drive for reforms, including towards economic opening.

Outlook: Output growth is expected to accelerate to 8.5 percent in 2018/19 as political uncertainty abates and financial inflows temporarily ease external constraints. The Debt Sustainability Analysis (DSA) continues to assess Ethiopia at high risk of debt distress. Reforms announced by the authorities—including privatizations and opening key sectors to competition and private investment—pose a substantial upside growth potential.

Policy recommendations: Staff argued for a tightening of macroeconomic policies, already initiated by the authorities, to address external vulnerabilities, and reforms to step up private sector activity, as announced by PM Abiy, to maintain robust growth.

- *Fiscal policy, including SOEs:* Revenue-enhancing tax reforms, further prioritization of public projects and strengthening governance of SOEs while phasing out implicit subsidies would increase public savings and directly address external imbalances.
- *Monetary policy:* The restrictive monetary base targets and public-sector credit policies, including tighter NBE financing of the deficit, will help bring down inflation. These policies need to be complemented by a more flexible exchange rate policy aimed at correcting the birr overvaluation, improving reserve coverage, and reducing foreign exchange shortages; financial instruments with market-based interest rates; and financial development measures.
- *Structural reforms:* Consistent with the authorities' strategy, public sector retrenchment needs to be combined with reforms to crowd in private resources: privatizations, private-public partnerships (PPPs) with adequate safeguards, private concessions, removal of obstacles to domestic and foreign private investment—including in finance—and appropriate market regulation.

Approved By
Zeine Zeidane (AFR) and Kevin Fletcher (SPR)

A staff team consisting of Julio Escolano (head), Narayanan Raman, Thomas McGregor, Minoru Hasegawa (all AFR), Alberto Soler (FAD), and Rodrigo García-Verdú (SPR) visited Addis Ababa during September 10–26, 2018. The team met with Prime Minister Abiy Ahmed; National Bank of Ethiopia Governor Yinager Dessie; Minister of Finance and Economic Cooperation Abraham Tekeste; officials of ministries and government agencies; representatives of public enterprises, the private sector and labor unions; and development partners during the mission. Ms. Gasasira-Manzi (OED) attended the mission's meetings.

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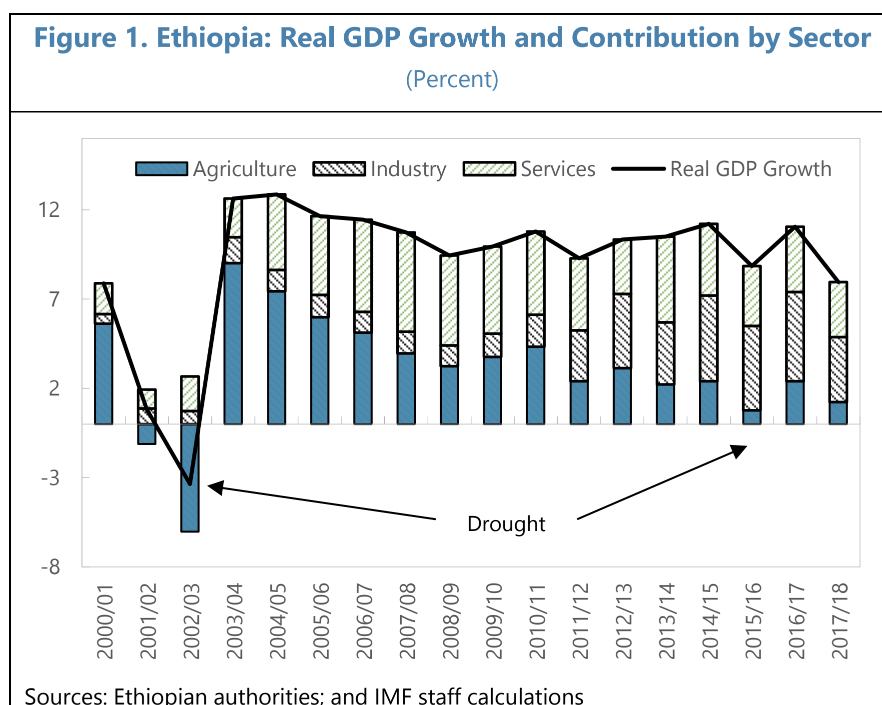
RECENT DEVELOPMENTS

1. **Real gross domestic product (GDP)[1] growth in Ethiopia slowed to 7.7 percent in 2017/18[2] due to political headwinds and external shocks (Table 1 and Figure 1).** The impulse from a favorable Meher harvest, transportation, and emerging manufacturing exports was partly offset by political uncertainty, weak commodity export prices, and public-sector expenditure cuts appropriately aimed at containing the fiscal and external current account deficits.

Figure 1. Ethiopia: Real GDP Growth and Contribution by Sector
(Percent)



Sources: Ethiopian authorities; and IMF staff calculations

2. **The authorities succeeded in narrowing the external current account deficit to 6.4 percent of GDP in 2017/18 through policy actions.** Imports of goods and services were unchanged, despite significant falls in public sector imports, while exports rose by 13.2 percent, driven by air transportation and manufacturing exports. Commodity exports were affected by weak prices for coffee and other traditional exports, while oil prices rose in the first half of 2018—resulting in a 6 percent deterioration in the terms of trade (Figure 2). While still strong at US$3.7 billion, foreign direct investment (FDI) declined from 2016/17, and inflows from new public sector borrowing also fell due to the authorities' policy restraint. As a result, international reserves fell to US$2.8 billion by end 2017/18, equivalent to 1.6 months of prospective imports of goods and services (2.1 months using the authorities' measure[3]). Foreign reserves have increased to US$3.7 billion in September, following the receipt of a US$1 billion deposit from the Abu Dhabi Fund for Development (ADFD) in the National Bank of Ethiopia (NBE) in July. However, foreign

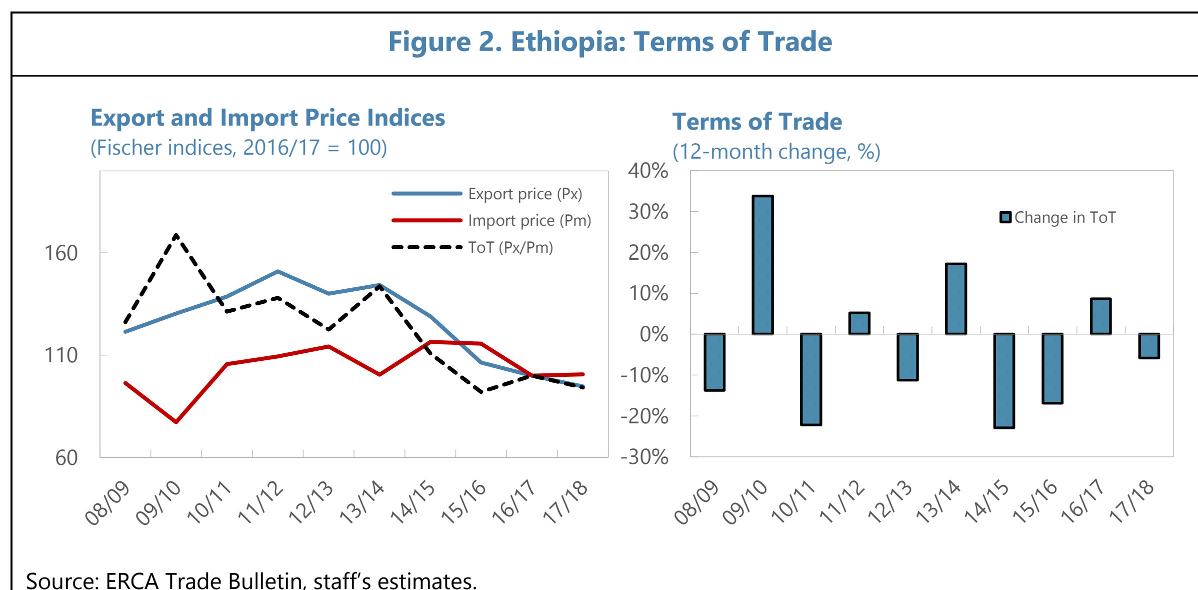
[1] Historical GDP data published by the IMF are those issued by Ethiopia's authorities. GDP measurement continues to be affected by source data issues as identified by Fund TA that are still not resolved.

[2] The fiscal year runs July-June.

[3] The NBE excludes food aid and franco valuta imports in assessing reserve adequacy.

exchange shortages persist, as evidenced by the spread between the official and parallel market exchange rates and the long wait times for businesses to obtain foreign exchange.

Figure 2. Ethiopia: Terms of Trade

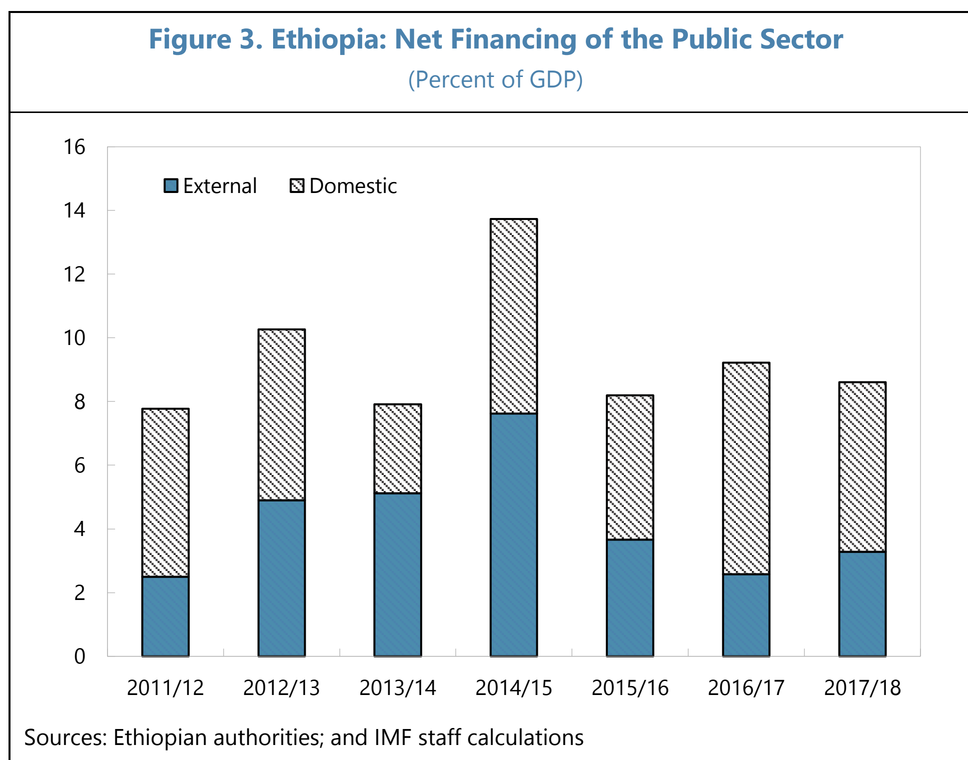


Source: ERCA Trade Bulletin, staff's estimates.

3. The overall general government deficit ratcheted up to 3.7 percent of GDP, but the broader public sector's borrowing declined slightly (Table 2). Part of this deficit was financed through privatization rather than borrowing. In the face of revenue underperformance, the Ministry of Finance and Economic Cooperation (MOFEC) appropriately reduced spending while protecting priority and poverty-reducing programs. Measuring public financial operations more broadly—including SOEs—the net borrowing requirement of the non-financial public sector in 2017/18 declined to 8.6 percent of GDP, of which 3.3 percent of GDP corresponded to external borrowing (Figure 3). This borrowing requirement, although high, has substantially declined from 13.7 percent of GDP in 2014/15 owing to stricter controls on SOEs' operations to contain external imbalances.

4. The Debt Sustainability Assessment (DSA) shows that Ethiopia remains at high risk of debt distress owing to its small export base. Public and publicly-guaranteed external debt breaches the thresholds for the present value of debt-to-exports and debt service-to-exports in the baseline. Debt service payments are expected to increase in the coming years, as grace periods on non-concessional debt acquired in the past expire. The MOFEC has announced that no new projects will be financed with non-concessional debt in 2018/19.

Figure 3. Ethiopia: Net Financing of the Public Sector
(Percent of GDP)

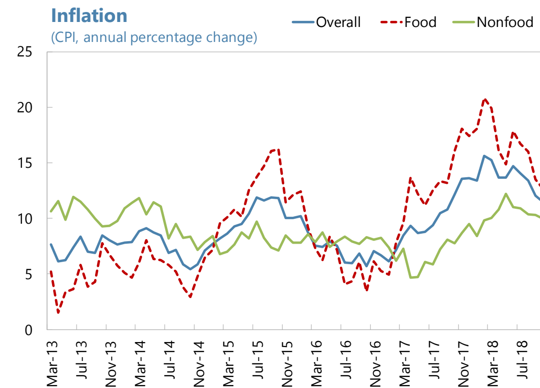


Sources: Ethiopian authorities; and IMF staff calculations

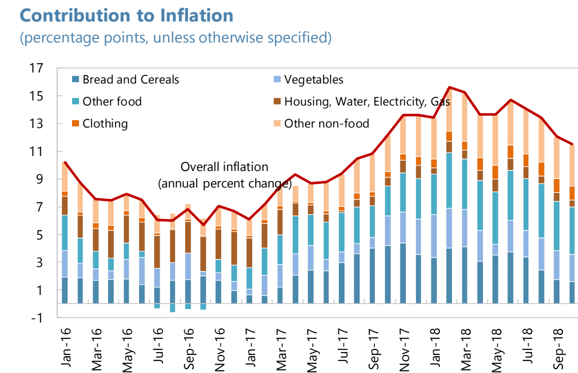
5. Inflation remains elevated due to the expansion of public sector credit in 2017, passthrough of the October 2017 devaluation, and political disruptions. Inflation stood at 11.5 percent in October 2018, above the NBE's single-digit target. In September 2017, before the devaluation, inflation was already at 10.8 percent partly due to fast growth of the monetary base and credit, and unrest-related disruption of distribution networks. The NBE cut the 12-month growth in base money from 32.5 percent in July 2017 to 15 percent in September 2018, and targets 13 percent growth in 2018/19. However, broad money growth (24.9 percent by September 2018) is diverging from base money growth, owing to strong credit dynamism (Figure 4).

Figure 4. Ethiopia: Inflation and Monetary Developments

Headline inflation driven by food price developments…

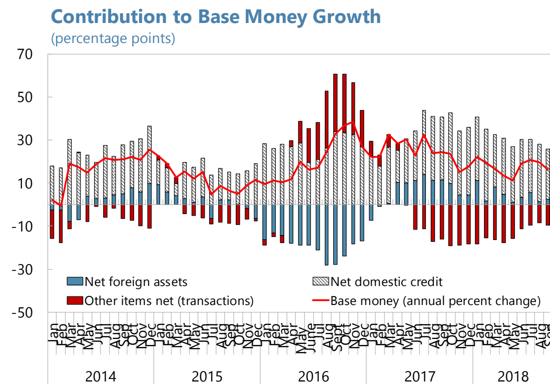


…while exchange rate passthrough is driving non-food inflation

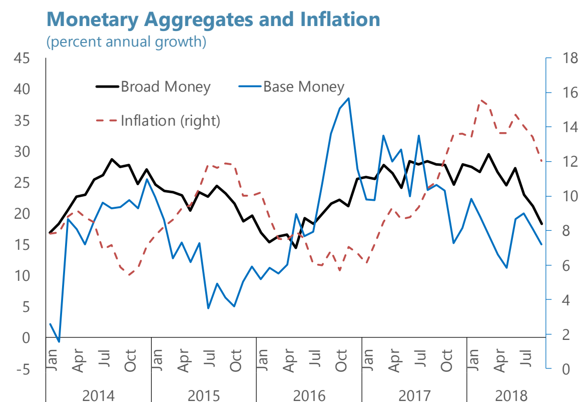


Source: Central Statistical Agency, Ethiopia

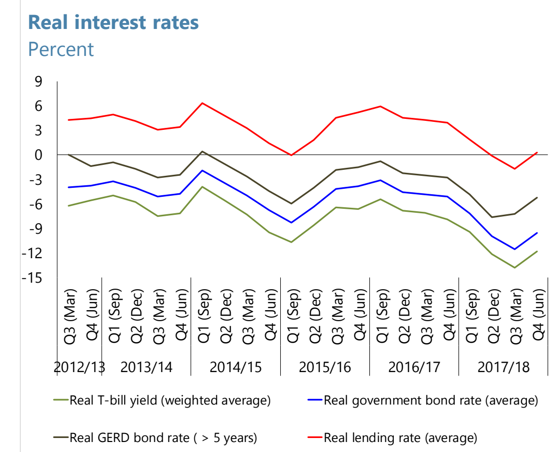
The NBE has restricted the growth of base money…



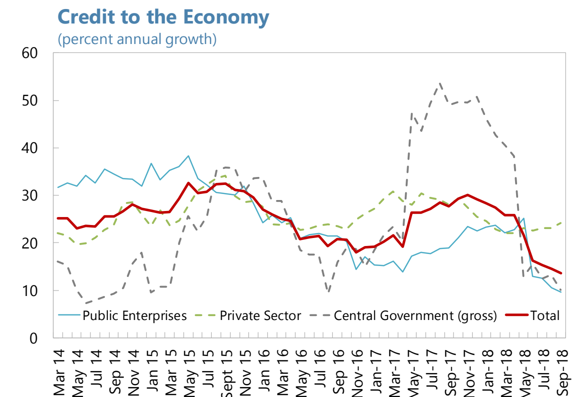
…which is transmitting to slower growth in broad money and inflation



As a result, and given administered interest rates, real interest rates rose though they mostly remain negative



Credit growth has mainly been driven by an expansion of net credit to the central government



Source: Ethiopian authorities.

6. Commercial banks appear to be mostly well-capitalized and liquid, with non-performing loans (NPLs) well below the statutory 5-percent ceiling (Table 6). However, the state-owned Commercial Bank of Ethiopia (CBE) is exposed to SOEs, whose income may be adversely affected by the phasing out of implicit subsidies, restrictions to competition, and other distortions. To map early remedial actions, the NBE has instructed the CBE to undertake a comprehensive asset quality review. Asset quality in the state-owned Development Bank of Ethiopia (DBE), a non-deposit-taking institution and hence, not part of the commercial banking system, continues to deteriorate. The DBE's NPL ratio stood at 39 percent in 2017/18, posing substantial quasi-fiscal risks—as outstanding NBE credit to the DBE represents 2.4 percent of GDP. The authorities have undertaken a financial assessment of the DBE and are considering remedial strategies.

7. Prime Minister (PM) Abiy Ahmed took office in April 2018, catalyzing a drive for reforms. PM Abiy's government opened the institutional space to political opposition, signed a peace agreement with Eritrea, and has announced its intention to open key economic sectors to domestic and foreign private investment and competition. PM Abiy has streamlined and reshuffled the cabinet—including replacing the Minister of Finance and NBE Governor. Half of the new cabinet are women—including in key positions such as defense, domestic security (Ministry for Peace), and crucial economic policy ministries—epitomizing the authorities' commitment to foster gender equality. The authorities have expressed an intention to privatize minority stakes in the main SOEs and possibly fully privatize others, rollout the recently enacted public-private partnership (PPP) framework in energy generation and other sectors and allow private operators and FDI in currently closed activities—first steps have already been taken in logistics and other sectors. The authorities also indicated, however, that this process may take time, as it entails broad-ranging changes in sectoral strategies, legislation, and institutional reforms. At the time of the mission, details and time lines for most of these economic reforms were not yet available.

OUTLOOK AND RISKS

8. Real GDP growth is expected to accelerate to 8.5 percent in 2018/19 as uncertainty abates (Table 1). Activity will be supported by continued growth in manufacturing and services, particularly expansion of air transportation, while construction may remain subdued due to restrictive public policies. Based on current policy settings, medium-term economic growth is envisaged to converge to around 7 percent, supported by rising FDI, continuing investment in infrastructure by the public sector, and rising productivity levels as export-oriented industries take root and start operations. Inflation is expected to converge to 8 percent by end-2019 as the impact of the past devaluation fades and tighter macroeconomic policies take effect.

9. Premised on policy restraint and sustained export growth, the external current account deficit is projected to continue narrowing gradually (Table 4). Restrictive public-sector policies—focused on completing ongoing projects and prudent budget execution—are expected to be maintained. FDI and remittance growth are expected to resume as political uncertainties settle following the leadership transition. External financing constraints will temporarily ease in 2018/19,

owing also to the recent US$1 billion deposit from the UAE and a US$1.2 billion World Bank Development Policy Financing (DPF) operation. As a result, international reserves are expected to reach US$3.4 billion (1.8 months of prospective imports) in June 2019—consistent with the authorities' projections (Table 1).

10. Downside risks dominate in the short term (Annex I). Adverse shocks to foreign investors' sentiment, tighter international financing conditions for developing economies, additional adverse terms-of-trade shocks (commodity export prices, oil imports), or weak external demand (trade partners' growth, international trade tensions) would deteriorate the balance of payments, where margins are thin, and could lead to an abrupt external adjustment. Ethiopia is seeking the reprofiling of non-concessional debt to increase its concessionality, which if successfully concluded, could moderately ease external financing constraints relative to the baseline. Climate shocks pose continued risks.

11. However, over the medium term, the announced ambitious reform agenda of the new administration offers large upside potential. Baseline projections do not incorporate the authorities' ambitious reform goals—some of them supported by the WB DFP—which could prompt a large positive growth impetus over the medium term. While detailed plans are not yet available, medium-term growth could exceed staff's projections—by increasing the availability of external financing, boosting efficiency, and spurring investment. The plan to establish a regulatory framework that would eventually foster competition in areas currently served by public sector monopolies will encourage long-term efficiency and growth. In some areas, steps such as awarding licenses for new entrants in the telecoms sector and privatizing the SOE, if undertaken through an open and transparent process, could raise substantial financing for development.

12. Authorities' views. The authorities agreed that the external position remains vulnerable but consider that the conditions for a sustained export take-off are now in place. This should lead to higher growth in the baseline and reduce risks. In addition, the normalization of the political environment should see an increase in FDI and remittance flows from the diaspora. Thus, they continue to view the DSA as overstating risks and considered that there was a strong case for the use of judgment to override the mechanical signal from the framework.

POLICY DISCUSSIONS

13. Ethiopia has maintained high economic growth for over a decade, achieving commendable progress in reducing poverty and improving living standards. A state-led growth strategy has provided advances in infrastructure, communications, energy generation, logistics, health, and education. The fruits of this performance have set the stage for the emergence of a dynamic private sector and an export-based take-off, as envisaged in the Second Growth and Transformation Plan (GTP II).

14. However, this development phase is reaching its limits, exacerbating external imbalances and the public debt burden. The attendant distortions and inefficiencies—epitomized

by severe foreign exchange shortages, barriers to domestic and foreign private investment in key sectors, and low tax revenue from private activities and other institutional inefficiencies—increasingly pose an obstacle to the further development of the private sector and the economy. These limitations, coupled with adverse shocks in recent years—drought, terms-of-trade deterioration—have resulted in a vulnerable external position that undermines growth prospects.

15. Staff advocated a combination of macroeconomic policy tightening, already initiated by the authorities, to address external vulnerabilities; and reforms to step up private sector activity, as announced by PM Abiy, to maintain robust growth. Determined measures to rein in import- and debt-intensive projects of public enterprises (SOEs) have substantially reduced the external current account deficit in recent years, although it remains high. Further prioritization of public projects, strengthening governance of SOEs while phasing out implicit subsidies, and raising tax revenue through policy and administration reforms would increase public savings and directly address external imbalances. The more restrictive monetary base targets and public sector credit policies, including tighter NBE deficit financing, will help bring down inflation. These policies need to be complemented by a more flexible exchange rate policy aimed at correcting the birr overvaluation, improving reserve coverage and reducing foreign exchange shortages, as well as by the development of financial instruments with market-based interest rates and other financial development measures, as discussed below. The public-sector retrenchment, however, needs to be combined with reforms to crowd in private resources: privatizations, PPPs with adequate safeguards, and removal of obstacles to domestic and foreign private investment. These reforms could reinvigorate growth momentum, improve the delivery of public services, and attract foreign resources and know-how.

16. An illustrative hypothetical scenario assuming the proposed policies points to significant improvement of medium-term growth prospects (Table 5). More restrictive macroeconomic policies would lower growth in the immediate term. But jointly with reforms aimed at opening the economy, they would increase medium-term growth by spurring private investment and productivity gains and reduce external and domestic vulnerabilities. In addition, the proposed policies would substantially reduce the risk of sudden financial and real economic disruptions—hence fostering domestic private sector development and FDI.

A. Fiscal Policy

17. The authorities plan to pursue fiscal consolidation. The Medium-Term Federal Fiscal Framework has been revised to include deficit reductions of one percentage point of GDP over 4 years—with front-loaded consolidation—and an updated and more realistic resource envelope. The 2018/19 general government deficit is forecast to decline to 3.1 percent of GDP. About 0.4 percentage point of the improvement stems from tax administration efforts, normalization of collections following past social unrest, and continued capital expenditure discipline. The authorities have announced that, in the current 2018/19 budget, no new projects will be allowed to rely on non-concessional financing, and ongoing projects will largely shift to concessional financing. The WB DPF implies a 0.7 percent of GDP increase in grants, and an equal amount of external

concessional financing. Although the authorities' preferred use of these funds has not been announced, staff's projections assume that only about 0.4 percent of GDP will be spent in the current fiscal year.

18. A more ambitious medium-term general government deficit target of 2 percent of GDP and further reductions in SOE borrowing would reduce external imbalances and improve public debt dynamics. Addressing the causes of the gradual deficit deterioration experienced since 2015/16—owing mainly to revenue underperformance—with tax policy and administration reforms would allow a 2 percent of GDP deficit over the medium term. This would entail a cumulative fiscal consolidation over the next 3 years of 1.7 percentage points focused on revenue mobilization. In addition, SOEs' operations should be rationalized, and implicit subsidies phased out to yield commensurate savings in the broader public sector—reducing further public borrowing and freeing resources for private sector development.

19. The authorities aim to address the decline in tax revenues through a comprehensive Tax Transformation Program (TTP) (Box 1). The TTP focuses on taxpayer registration; e-filing and digitalized self-assessment; compliance risk management; tax arrears management; and federal-regional tax coordination—with assistance from the Fund and other development partners. Consistent with Fund advice, the authorities are conducting cost-benefit analysis of existing tax expenditures with a view to their rationalization. In addition, the authorities could implement reforms in excises and introduce a property tax, thus generating additional fiscal space. Participation in the FAD-led Medium-Term Revenue Strategy (MTRS) initiative, including a comprehensive diagnostic of the tax system, would facilitate implementation of the authorities' strategy.

20. Poverty-targeted expenditure will appropriately remain protected and broadly stable above 11 percent of GDP in FY 2018/19, with education and roads as priorities (Figure 5). After having expanded coverage, the Productive Safety Net and Urban Productive Safety Net Programs are emphasizing improved service. The authorities intend to reform electricity tariffs over 4 years aiming at full cost-recovery, while protecting low-income segments. In this vein, staff recommended a formula-based price update mechanism for fuel (with caps to limit adverse effects) to cover increasing import costs. A review of implicit subsidies in transportation and other utilities could also be undertaken.

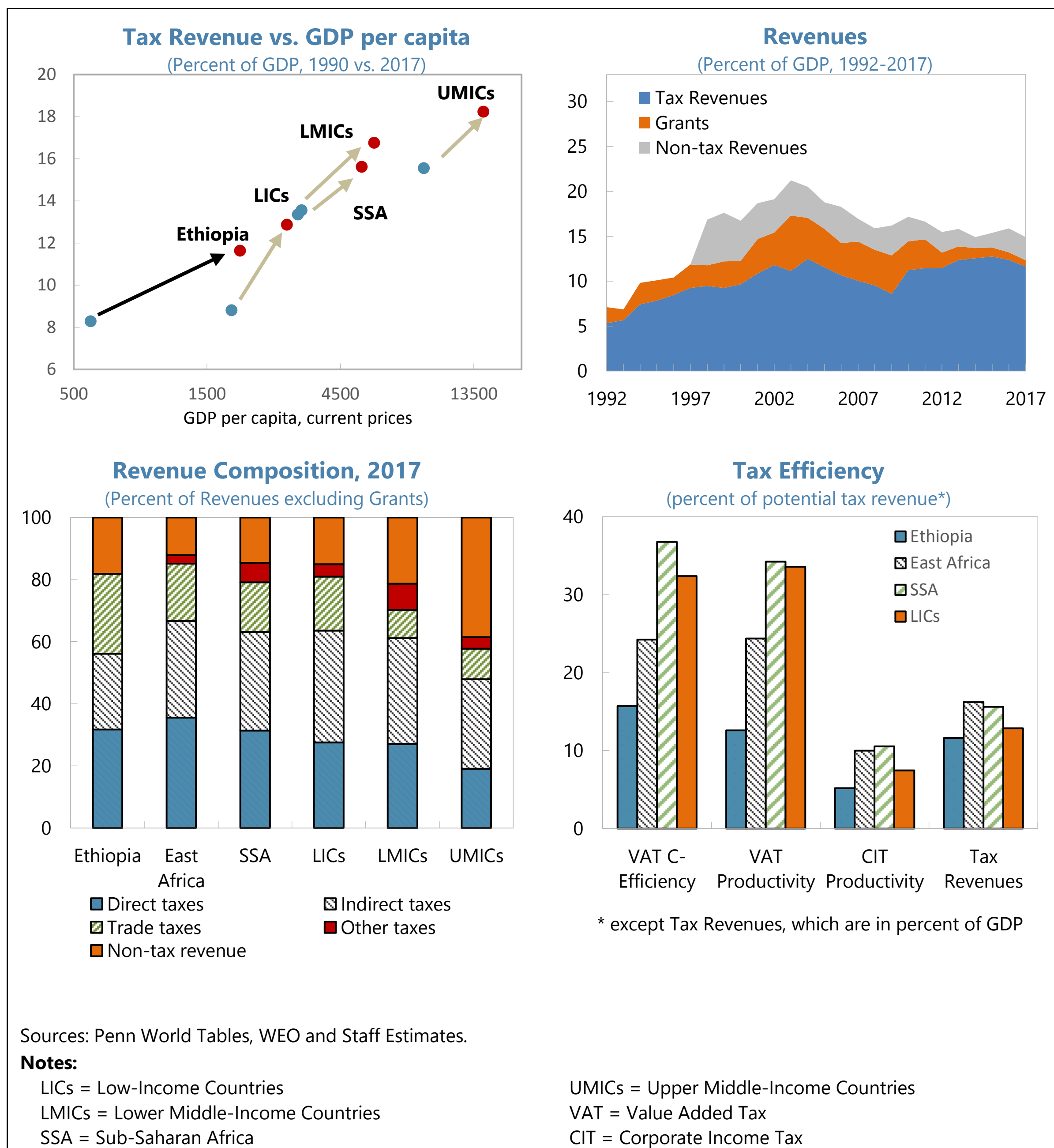
21. An expanding pipeline of PPPs will allow for private provision of public services. After enacting the PPP legal framework in February 2018, a PPP Board comprising officials and private sector representatives was set up to approve project proposals, supported by a PPP Directorate in the MOFEC—charged inter alia with minimizing fiscal risks by ensuring proper safeguards. The Board has screened 27 projects, of which 13 (up to US$10 billion) could be implemented over the next 3 years, mainly in the energy and transportation sectors.

Box 1. Revenue Mobilization

Ethiopia has made progress in mobilizing domestic revenue since the mid-1990s, but still lags countries in the region and other LICs. The tax-to-GDP ratio rose from 8.6 percent in 2008/09 to 12.7 percent in 2014/15, but it has declined since then to 11.1 percent in 2017/18.

Ethiopia relies heavily on trade taxes, while direct and indirect taxes have underperformed. Direct and indirect tax revenue was 56 percent of total revenue in Ethiopia in 2016/17, below the 64 percent average for LICs. Trade tax revenue, at 26 percent of total, is substantially above peers. Non-tax revenue plays a small role in domestic revenue.

A key challenge is increasing the efficiency of the domestic tax system. Ethiopia lags regional peers on VAT and CIT efficiency measures—a key reason for the low tax-to-GDP ratio.

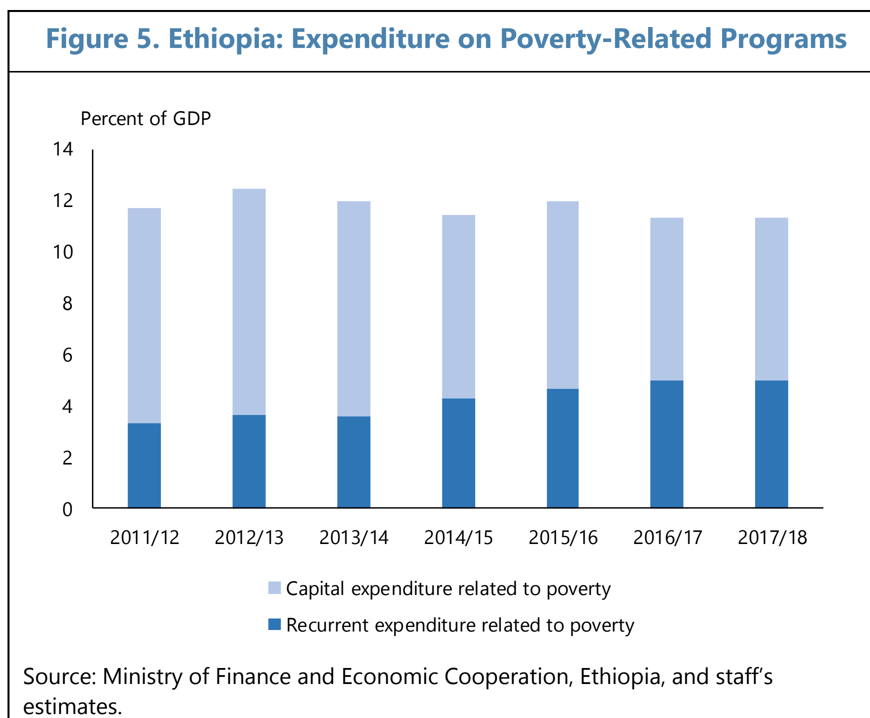


Sources: Penn World Tables, WEO and Staff Estimates.

Notes:

LICs = Low-Income Countries
LMICs = Lower Middle-Income Countries
SSA = Sub-Saharan Africa
UMICs = Upper Middle-Income Countries
VAT = Value Added Tax
CIT = Corporate Income Tax

Figure 5. Ethiopia: Expenditure on Poverty-Related Programs



Source: Ministry of Finance and Economic Cooperation, Ethiopia, and staff's estimates.

22. Progress in governance of SOEs and public financial management needs to be accelerated. Strict control by the MOFEC of SOEs' borrowing has been a key plank in addressing external imbalances and public indebtedness. This should be stepped up by closer monitoring of their financial performance and vetting investment and financial plans, while phasing out implicit subsidies. Audited IFRS-based financial accounts, not yet available for most SOEs on a current basis, should be produced in a timely manner and published, as they are a crucial component of accountability improvements and privatization plans. Likewise, a proactive public communication of budgetary plans and outturns would contribute to building consensus and improving investors' and households' understanding of policies. In particular, the budget, recent budget outturns, the medium-term budgetary framework, and financial statements should be widely available in a timely manner and easily accessible—including through the MOFEC website. Also, adoption and implementation of current international accounting and statistical standards for budgetary reporting and the inclusion of all extrabudgetary entities in the budget coverage would improve policy formulation.

Authorities' Views

23. The authorities broadly agreed with staff's recommendations. They reiterated their commitment to continue prudent budget execution. They also noted that efforts to encourage private sector participation in public projects were well in train. On revenue mobilization, the authorities intend to redouble their efforts, with support from donors, including the Fund, to strengthen revenue administration and were also considering revenue-enhancing tax policy measures—such as excise reforms. The authorities highlighted the recent adoption of the five-year Public Financial Management (PFM) Reform Strategy, which aims at Treasury Single Account

completion, results-based budgeting roll-out to the whole of the government, cash management improvements, and introduction of e-procurement.

B. Monetary and Financial Sector Policies

24. The NBE's stance of containing reserve money growth to 13.3 percent in 2018/19 is a welcome step to bring inflation to target but will need to be complemented by other policy measures. In recent years, the growth rates of reserve money and of broader credit and monetary aggregates have diverged. This signals that reserve money may be losing its effectiveness as a monetary policy instrument—a natural transition as the financial system deepens and becomes more sophisticated. Hence, the base money target needs to be complemented with policies to contain credit growth, especially to the broad public sector. Beyond the immediate term, however, the NBE's intention to develop market-based indirect monetary instruments will necessitate the creation of a market for government debt with market-determined interest rates. To this effect, the MOFEC could issue specially designed marketable securities in gradually increasing volumes to finance the budget, which could be held and transacted by banks and other appropriate institutions. In turn, the NBE would use interventions in this market to signal its interest rate stance, helping to better control broad money and credit growth. Issuance of these budget-financing securities would allow the gradual phasing out of NBE financing of the government.

25. The tighter fiscal and monetary policy stances, coupled with a more flexible exchange rate, would support external competitiveness. The competitiveness boost from the October 2017 devaluation has since been largely eroded. The birr was kept constant relative to the U.S. dollar while the latter appreciated against major currencies; and Ethiopia's inflation differential relative to trading partners has stayed high. As a result, staff assesses that the external position is weaker than medium-term fundamentals and desirable policy settings would imply, and the real effective exchange rate was overvalued by 12–18 percent as of September 2018 (Annex II)—only a modest improvement since last year's assessment. More recently, the NBE has resumed its previous policy of gradual nominal depreciation against the U.S. dollar. A more flexible exchange rate aimed at eliminating misalignments and building up reserves would help competitiveness and foster stability, while reducing foreign exchange shortages.

26. NBE bills need to be reformed and delinked from DBE funding. These 5-year NBE bills must now be purchased by private commercial banks in an amount equivalent to 27 percent of gross credit extended, irrespective of the maturity of the loans—about 75 percent of these funds are then used to fund the DBE, whose NPL ratio has steadily increased to 39 percent. NBE bills now represent 30–40 percent of private commercial banks' loans outstanding, and although the interest rate on them was recently increased, it remains negative in real terms. The bills have been successful in reducing banks' excess liquidity, but their design should be improved to better serve this purpose until a T-bills market develops—by reducing their maturity and possibly basing the purchase obligation on excess reserves. Further funding of the DBE by the NBE should be discontinued, at least until the ongoing comprehensive assessment of its financial situation is completed and resolution measures are implemented.

27. The authorities are making progress in implementing their National Action Plan (NAP) to address weaknesses in the AML/CFT framework. Based on the 2015 AML/CFT mutual evaluation report, in February 2017 Ethiopia was listed as a country with strategic deficiencies by the Financial Action Task Force (FATF) and has agreed to an Action Plan with the FATF to address them. Since then, important progress has been achieved in implementing the Action Plan by enhancing the understanding of risks, implementing a risk-based supervision approach, and focusing investigative efforts on the most significant sources of illicit proceeds. Staff supported the timely implementation of the Action Plan and the authorities' objective to be removed from the FATF list. Two more small banks lost correspondent banking relations (CBRs) over the course of 2017/18, bringing the total number of Ethiopian banks with substantially reduced or no CBRs to six. The banks that have lost CBRs account for less than 3 percent of total banking system assets, and these losses do not appear to signal systemic concerns. While addressing weaknesses in the AML/CFT framework will help in this regard, the main reason for CBR losses was the small business volume generated by these Ethiopian banks and associated costs for correspondent banks.

Authorities' Response

28. The NBE agreed that strong action to reduce inflation was needed and have tightened monetary policy further. The authorities see the creation of a government debt securities market as a critical reform and requested Fund TA on this and other matters pertaining to central bank operations. The authorities broadly agreed with many elements of staff's external sector assessment, including the assessment that the birr has appreciated in real terms since the devaluation. However, they expressed concerns about the inflationary effects of faster depreciation. They envisaged higher export and output growth than staff, and consequently saw lower external vulnerabilities. The authorities were intent on reforming the DBE and strengthening its financial performance, although they planned to continue funding its operations, noting that the majority of the DBE's customers are current on their obligations and withdrawal of support would have adverse effects on private sector development. On AML/CFT, the NBE expects to submit its self-assessment to the FATF in December 2018 and receive an assessment mission soon afterwards.

C. Structural Policies

29. Detailed plans to implement the announced privatization program are being developed. The broad outlines for the reform program, supported by the WB DPF, include strengthening competition in identified sectors and inviting foreign and domestic private investors to take stakes in key SOEs. The unbundling of regulatory, infrastructure operation, and service provision functions in sectors currently dominated by SOEs—already underway in the power and railway sectors—would encourage competition and create the conditions necessary for greater private sector participation. The authorities see the proposed privatizations as a means of improving performance in sectors seen as having important network effects and raising financing for development. SOE governance reforms to support these plans are underway, including efforts to produce up-to-date audited IFRS-compliant financial statements—critical to establish management performance objectives and conduct reliable financial oversight.

30. The authorities also announced complementary reforms to improve the business environment. The authorities intend to drastically cut red tape and streamline regulations as part of the proposed WB DPF-supported policies. Ethiopia would benefit from structural reforms such as channeling the payment of taxes through banks, which would reduce taxpayers' and administration's costs, increase financial intermediation and development, and reduce opportunities for corruption. Also, gradual entry of global banks into Ethiopia would facilitate transmission of know-how and technology and help address CBR losses. Joining the African Continental Free Trade Agreement and accelerating progress on WTO accession would also improve access to foreign markets and support exports.

31. Integrating women into the labor force on par with men, as the authorities intend, may take time but would yield large economic benefits (Selected Issues Paper). While largely in work, women face barriers to formal labor force participation (16 percentage points lower than men in 2016), have lower education attainment than men (female-male literacy ratio was 0.6 in 2011) and face significant wage gaps (gender wage gap is about 30 percent). Analytical work undertaken by staff in collaboration with UN Women shows that closing the gender gap in key areas such as educational attainment, formal employment, and access to quality agricultural land and other inputs, could boost real output by 24 percent in the long term. The magnitude of the potential gain justifies, from a macroeconomic perspective, the authorities' efforts aiming at removing gender-specific barriers that hold back women's full participation in the economy. Identifying specific challenges, including through the use of analytical tools such as gender budgeting, and formulating policies to address them, are important steps in unlocking these gains.

Authorities' Views

32. The privatization strategy is aimed at increasing competition in key sectors, securing development gains achieved to date, raising financing for development, improving the competitiveness of existing SOEs, and improving public sector credit-worthiness. The authorities cautioned that making progress on all these objectives requires significant preparatory work, which cannot be rushed. They agreed with the need to move towards the payment of all taxes through the banks and are currently trialing e-filing and e-payment systems for some large taxpayers. There was agreement on the potential economic benefits to increasing women's economic participation, and the authorities have shown strong political leadership in this area—such as electing the first female president and appointing a gender-balanced cabinet.

OTHER ISSUES

33. Ethiopia continues to maintain exchange restrictions inconsistent with Article VIII, Sections 2(a), 3 and 4. The four restrictions identified in 2017 remain in place. In October 2017, the NBE updated the priority list for the allocation of foreign exchange to include food and pharmaceuticals. The NBE also instructed all banks to surrender 30 percent of their gross foreign

currency inflows, which is being used for fuel imports.[4] At the same time, the NBE has loosened exchange control regulations on foreign currency accounts held by the diaspora, including eliminating the ceiling on their balance (previously US$50,000). Staff encouraged the authorities to remove the restrictions and recommended moving toward eventual acceptance of obligations under Article VIII. The authorities' view is that all existing restrictions affect exclusively the capital account, and that there are no exchange restrictions on current account payments; consequently, they do not intend to request their approval.

34. The NBE continues to address recommendations in the 2009 Safeguards Assessment. A fully-operational Risk Management Unit helps NBE directorates to assess risks and set out risk management frameworks. The full audited financial statements are now published on the NBE's website, in accordance with the safeguards policy. The NBE is transitioning to IFRS-compliant financial statements; a consultant has been selected for the project and full transition is expected to be completed by the end of 2018/19. However, some recommendations focused on strengthening the external audit process, and legal amendments to address safeguards weaknesses in the Central Bank Law remain outstanding. The NBE reiterated that it would not seek full legal independence, noting that it was already operationally independent in practice.

35. Improvement of economic statistics and their dissemination would strengthen policymaking and support investors' confidence. The authorities have rebased the national accounts and are now finalizing the revised sources-and-uses tables. Nevertheless, the national accounts remain confined to the supply side complemented by a few expenditure-side aggregates. Sectoral and income accounts or higher frequency indicators are not produced. Ethiopia does not provide monetary and financial data using the Standardized Report Forms. Improvements in economic statistics and their upgrading to current international standards, as well as in data transparency and dissemination are urgent tasks. These enhancements would yield high returns by informing the policymaking process, minimizing investors' uncertainty and enhancing the public understanding of policies. Participation in the IMF's Enhanced General Data Dissemination System (e-GDDS) and establishing a web-based National Summary Data Page would be important steps in this direction.

36. The Fund's TA strategy is aligned with the identified structural reform priorities (Annex IV). The updated TA strategy largely maintains previously identified priorities such as mobilizing domestic revenue, developing government debt markets, modernizing monetary policy implementation and the forex market, upgrading the quality of economic and financial statistics, and strengthening financial supervision. Additionally, the authorities requested training on the new DSA template and TA to improve monetary and financial statistics.

[4] Staff is assessing whether the measure constitutes a capital flow management measure while taking into account country-specific circumstances, based on the Fund's Institutional View on capital flows.

STAFF APPRAISAL

37. **While Ethiopia has maintained high and inclusive growth, its public sector-led development is reaching its limits, exacerbating external imbalances and public debt vulnerabilities.** The DSA shows Ethiopia remains at high risk of debt distress; the exchange rate is overvalued; and international reserves are thin. Sustained policies to reduce public sector's external borrowing and imports have substantially narrowed external imbalances in recent years. Going forward, the policy mix of tighter fiscal and monetary policies and exchange rate flexibility would help address external and domestic imbalances, while structural reforms to strengthen competitiveness and foster private investment would help support economic growth and job creation.

38. **Fiscal consolidation should be pursued to raise domestic savings and reduce external imbalances and debt vulnerabilities.** The authorities should continue public sector fiscal consolidation (including SOEs), by raising tax revenue through policy and administration reforms, further prioritization of public projects, and strengthening SOE governance while phasing out implicit subsidies. Consideration by the authorities of tax policy measures including rationalization of tax exemptions and excise reform is welcome; introduction of property taxes should also be considered. Fiscal policy should be complemented by efforts to improve public financial management and SOEs' corporate governance, disclosure, and transparency. In this context, the efforts to prepare and disseminate up-to-date audited IFRS-compliant financial statements for SOEs are welcome and should be expedited.

39. **Tighter monetary policy and exchange rate flexibility would help lower inflation and address external imbalances.** The tighter monetary stance adopted by the authorities is warranted to bring inflation down to target, and should be supported by restrictive public-sector credit policies, including gradually phasing out NBE financing of the budget. In conjunction with restrictive macroeconomic policies, a more flexible exchange rate policy aimed at reducing the real overvaluation of the birr, reducing foreign exchange shortages, and accumulating reserves would help to improve competitiveness. The current level of international reserves, which fall below rule-of-thumb and model-based adequacy metrics, preclude commitment to a predetermined nominal exchange rate path. Staff does not recommend approval of the exchange rate restrictions maintained inconsistently with Article VIII obligations as there is no planed timeline for the removal of these restrictions.

40. **While rebalancing macroeconomic policies could exert downward pressure on activity, implementation of the authorities' ambitious reform program would support growth sustainably.** Promotion of competitive markets and improvements in the investment climate can catalyze private sector development and investment. Privatizations, PPPs with adequate safeguards, and removal of obstacles to domestic and foreign private investment could support renewed growth momentum—improving delivery of public goods and services while attracting foreign resources and know-how. The unbundling of regulation, infrastructure operation and service provision underway in some sectors should be extended to other areas as appropriate to foster competition and private

participation. Staff welcomes Ethiopia's decision to join the African Continental Free Trade Agreement and encourages the government to ratify the agreement and accelerate progress on WTO accession.

41. Financial system structural reforms are needed to increase the effectiveness of monetary policy and support financial development. Strengthening monetary policy transmission requires the development of a market for government securities with market-determined interest rates. Specially designed marketable securities to be held and transacted by banks and other appropriate institutions could be issued by the MOFEC. In turn, the NBE could use interventions in this market to signal its interest rate stance, helping to better control broad money and credit growth. Allowing the payment of taxes through banks could yield significant benefits by deepening financial intermediation, eliminating opportunities for corruption, and improving the business climate. A gradual process of opening the financial sector to foreign participation would improve financial services availability while increasing FDI and encouraging transmission of technology and know-how. Staff welcomed the authorities' intention to conduct an asset quality review of the CBE.

42. Reducing gender disparities would yield large economic benefits. The significant potential gains arising from closing the gender gap in education, participation in formal economic activities, and access to quality land and other resources justifies efforts to remove gender-specific barriers. Identifying specific challenges and formulating policies to address them are needed to unlock these gains.

43. Staff recommends the next Article IV Consultation with the Federal Democratic Republic of Ethiopia take place on the standard 12-month cycle.

Table 1. Ethiopia Selected Economic and Financial Indicators, 2014/15–2022/23

Social Indicators

GDP		**Poverty indicators in 2015/16 (national definitions)**	
Nominal GDP (2016, billions of U.S. dollars)	73.0	Poverty headcount ratio (percent of population)	23.5
GNI per capita, Atlas method (2016, current US$)	685	Food poverty (percent of population)	24.8
Population characteristics		**Income distribution, 2010**	
Total (2016, million)	91.2	Income shared by highest 10 percent of population	27.4
Urban population (2015)	19.5	Income shared by lowest 20 percent of population	8.0
Life expectancy at birth (2014, years)	64.0	GINI index	30.0

Economic Indicators

	2014/15 Act.	2015/16 Act.	2016/17 Act.	2017/18 IMF Staff Est.	2018/19 IMF Staff Proj.	2019/20 IMF Staff Proj.	2020/21 IMF Staff Proj.	2021/22 IMF Staff Proj.	2022/23 IMF Staff Proj.
	(Annual percentage change)								
National income and prices									
GDP at constant prices (at factor cost)	10.4	8.0	10.7	7.7	8.5	7.6	7.1	7.0	7.0
GDP deflator	10.8	10.4	6.4	10.3	11.7	8.9	8.5	8.2	7.9
Consumer prices (period average)	7.7	9.7	7.3	13.0	10.6	8.2	8.0	8.0	8.0
Consumer prices (end period)	10.4	7.5	8.8	14.7	9.0	8.0	8.0	8.0	8.0
External sector									
Exports of goods and services (U.S. dollars, f.o.b.)	-2.6	-3.5	2.9	13.2	12.7	12.6	12.6	13.6	14.3
Imports of goods and services (U.S. dollars, c.i.f.)	25.1	2.9	-4.8	0.2	13.6	5.9	7.5	6.0	6.4
Export volume (goods)	-2.7	4.9	-1.1	2.9	11.0	9.8	8.3	10.7	14.0
Import volume (goods)	32.5	12.6	-5.4	-9.2	9.5	4.4	6.6	4.6	5.0
Nominal effective exchange rate (end of period)	3.3	-2.2	-3.7	-16.1	…	…	…	…	…
Real effective exchange rate (end of period)	10.6	1.4	2.1	-7.1	…	…	…	…	…
	(Annual percentage change, unless otherwise indicated)								
Money and credit									
Change in net foreign assets	-20.9	-37.4	66.8	3.5	-18.9	62.2	64.8	66.9	49.8
Change in net domestic assets (including other items net)	33.1	26.2	26.7	31.0	24.6	20.5	19.3	19.2	20.2
Broad money	24.8	19.9	28.8	29.2	22.3	22.0	21.4	22.2	22.8
Base money	15.2	16.3	22.7	19.1	13.3	13.5	13.5	14.0	14.0
Velocity (GDP/broad money)	3.50	3.46	3.15	2.89	2.84	2.72	2.61	2.47	2.34
	(Percent of GDP, unless otherwise indicated)								
Financial balances[1]									
Gross domestic savings	21.9	22.4	24.1	23.4	22.2	23.4	23.8	26.6	28.2
Public savings	3.8	3.8	1.6	0.6	0.7	0.8	0.8	0.8	2.2
Private savings	18.1	18.5	22.6	22.8	21.5	22.6	23.0	25.7	26.0
Gross domestic investment	39.4	38.0	39.0	38.2	37.3	37.5	37.4	39.2	39.8
Public investment	15.7	17.1	14.6	13.9	12.2	12.2	9.9	9.7	9.8
Private investment	23.8	20.9	24.4	24.3	25.1	25.3	27.5	29.5	30.0
Resource gap	-17.5	-15.6	-14.9	-14.9	-15.1	-14.1	-13.5	-12.6	-11.6
External current account balance, including official transfers	-10.2	-9.0	-8.1	-6.4	-6.2	-5.8	-5.2	-4.2	-3.8
Government finances									
Revenue	14.4	15.0	14.3	12.8	13.0	13.1	13.3	13.5	13.9
Tax revenue	12.7	12.4	11.6	11.1	11.2	11.4	11.6	11.9	12.2
Nontax revenue	1.6	2.7	2.6	1.8	1.8	1.8	1.7	1.6	1.7
External grants	1.0	0.8	0.7	0.8	1.4	0.6	0.5	0.5	0.4
Expenditure and net lending	17.3	18.2	18.2	17.4	17.5	16.8	16.7	16.7	17.0
Fiscal balance, excluding grants (cash basis)	-3.0	-3.2	-4.0	-4.6	-4.5	-3.6	-3.4	-3.2	-3.1
Fiscal balance, including grants (cash basis)	-1.9	-2.3	-3.3	-3.7	-3.1	-3.0	-2.9	-2.8	-2.7
Total financing (including residuals)	1.9	2.3	3.3	3.7	3.1	3.0	2.9	2.8	2.7
External financing	1.0	1.7	1.6	1.3	1.2	0.7	0.6	0.5	0.5
Domestic financing	1.4	2.0	1.8	2.8	1.9	2.3	2.3	2.3	2.1
Public debt[2]	53.4	54.4	57.2	61.0	56.6	55.6	54.8	54.6	53.7
Domestic debt	24.0	24.7	27.8	28.8	28.1	28.9	29.8	31.3	32.1
External debt (including to the IMF)	29.4	29.7	29.4	32.3	28.6	26.8	25.0	23.3	21.7
Overall balance of payments (in millions of U.S. dollars)	-5,350	-831	658	202	550	474	829	1,158	1,642
Gross official reserves (in millions of U.S. dollars)	3,248	3,402	3,197	2,847	3,397	3,871	4,701	5,858	7,500
(months of imports of goods and nonfactor services of following year)	1.9	2.1	2.0	1.6	1.8	1.9	2.1	2.5	3.0
GDP at current market prices (billions of birr)	1,298	1,541	1,807	2,138	2,573	3,009	3,500	4,053	4,706

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Based on data from Central Statistical Agency (CSA), except for the current account balance, which is based on BOP data from National Bank of Ethiopia (NBE).

[2] Non-financial public sector debt.

Table 2a. Ethiopia: General Government Operations, 2014/15–2022/23[1]

(Millions of Birr)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Act.	IMF Staff	IMF Staff	IMF Staff	IMF Staff	IMF Staff	IMF Staff
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	199,609	244,819	270,214	292,260	370,875	414,020	484,461	566,327	673,171
Revenue	186,589	231,805	257,737	274,265	334,744	394,761	465,323	547,344	653,539
Tax revenue	165,277	190,520	210,173	236,490	289,293	341,594	406,026	481,046	575,432
Direct taxes	60,149	71,844	81,417	98,360	113,774	134,248	157,213	188,603	217,343
Indirect taxes	105,129	118,676	128,755	138,129	175,519	207,346	248,813	292,443	358,090
Domestic indirect taxes	52,339	55,953	62,553	65,411	82,786	99,792	118,251	140,683	171,193
Import duties and taxes	52,790	62,723	66,202	72,719	92,732	107,554	130,563	151,760	186,896
Nontax revenue	21,312	41,285	47,565	37,776	45,451	53,167	59,297	66,298	78,107
Grants	13,020	13,014	12,477	17,995	36,131	19,259	19,138	18,983	19,631
Program grants	2,866	291	588	3,911	2,575	3,012	3,503	4,057	4,710
Project grants	10,154	12,724	11,889	14,084	33,556	16,247	15,635	14,926	14,921
Total expenditure and net lending (cash basis)	224,881	280,893	329,658	372,008	450,629	504,304	584,222	678,186	798,152
Recurrent expenditure [2]	107,198	136,709	176,635	209,906	254,346	297,135	351,161	413,816	490,815
Defense spending	8,814	9,498	11,940	12,138	16,009	15,717	18,278	21,167	24,580
Poverty-reducing expenditure [3]	55,674	71,690	89,918	107,119	131,044	154,965	182,792	214,892	255,645
Interest payments	5,338	7,232	8,248	11,571	14,438	17,833	23,081	29,934	38,936
Domestic interest and charges	2,835	3,639	4,126	6,181	9,047	11,336	15,737	21,677	29,696
External interest payments [4]	2,502	3,593	4,122	5,390	5,391	6,497	7,344	8,256	9,240
Other recurrent expenditure	37,373	48,289	66,529	79,079	92,856	108,619	127,010	147,823	171,654
Capital expenditure	117,683	144,184	153,023	162,102	196,283	207,170	233,061	264,370	307,337
Central treasury	92,424	109,236	115,772	126,940	149,058	167,663	200,864	232,524	270,630
External project grants	10,154	12,724	11,889	14,267	27,971	22,223	15,635	14,926	14,921
External project loans	15,105	22,225	25,362	20,895	19,255	17,283	16,562	16,920	21,787
Overall balance									
Including grants	-25,272	-36,073	-59,444	-79,748	-79,754	-90,284	-99,761	-111,859	-124,982
Excluding grants	-38,293	-49,088	-71,921	-97,743	-115,885	-109,543	-118,899	-130,842	-144,613
Financing	32,106	57,937	73,141	97,443	79,755	90,285	99,762	111,861	124,983
Net external financing	13,155	26,034	28,954	28,136	30,550	20,278	19,618	19,858	24,737
Gross borrowing	15,105	28,223	31,621	32,450	34,349	25,140	25,699	27,501	34,074
Project loans	15,105	22,225	25,362	25,469	19,255	17,283	16,562	16,920	21,787
Protection of Basic Services (PBS)	0	5,999	6,259	6,981	15,094	7,857	9,137	10,581	12,287
Amortization	-1,950	-2,190	-2,669	-4,315	-3,801	-4,863	-6,082	-7,644	-9,338
Domestic (net)	18,466	31,403	33,304	59,606	49,205	70,007	80,144	92,003	100,246
Memorandum items:									
Total poverty-reducing expenditure	148,493	184,576	204,284	229,853	278,119	326,894	382,259	445,627	522,443
Primary fiscal balance, including grants	-19,934	-28,842	-51,196	-68,177	-65,317	-72,451	-76,680	-81,926	-86,046

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Government financial statistics are reported by the authorities based on GFSM 1986.

[2] Excluding special programs (demobilization and reconstruction).

[3] Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

[4] External interest and amortization are presented after HIPC debt relief from the World Bank and the African Development Bank.

Table 2b. Ethiopia: General Government Operations, 2014/15–2022/23[1]

(Percent of GDP)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Act.	Act.	IMF Staff	IMF Staff	IMF Staff	IMF Staff	IMF Staff	IMF Staff
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	15.4	15.9	15.0	13.7	14.4	13.8	13.8	14.0	14.3
Revenue	14.4	15.0	14.3	12.8	13.0	13.1	13.3	13.5	13.9
Tax revenue	12.7	12.4	11.6	11.1	11.2	11.4	11.6	11.9	12.2
Direct taxes	4.6	4.7	4.5	4.6	4.4	4.5	4.5	4.7	4.6
Indirect taxes	8.1	7.7	7.1	6.5	6.8	6.9	7.1	7.2	7.6
Domestic indirect taxes	4.0	3.6	3.5	3.1	3.2	3.3	3.4	3.5	3.6
Import duties and taxes	4.1	4.1	3.7	3.4	3.6	3.6	3.7	3.7	4.0
Nontax revenue	1.6	2.7	2.6	1.8	1.8	1.8	1.7	1.6	1.7
Grants	1.0	0.8	0.7	0.8	1.4	0.6	0.5	0.5	0.4
Program grants	0.2	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.1
Project grants	0.8	0.8	0.7	0.7	1.3	0.5	0.4	0.4	0.3
Total expenditure and net lending (cash basis)	17.3	18.2	18.2	17.4	17.5	16.8	16.7	16.7	17.0
Recurrent expenditure [2]	8.3	8.9	9.8	9.8	9.9	9.9	10.0	10.2	10.4
Defense spending	0.7	0.6	0.7	0.6	0.6	0.5	0.5	0.5	0.5
Poverty-reducing expenditure [3]	4.3	4.7	5.0	5.0	5.1	5.1	5.2	5.3	5.4
Interest payments	0.4	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.8
Domestic interest and charges	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.5	0.6
External interest payments [4]	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Other recurrent expenditure	2.9	3.1	3.7	3.7	3.6	3.6	3.6	3.6	3.6
Capital expenditure	9.1	9.4	8.5	7.6	7.6	6.9	6.7	6.5	6.5
Central treasury	7.1	7.1	6.4	5.9	5.8	5.6	5.7	5.7	5.8
External project grants	0.8	0.8	0.7	0.7	1.1	0.7	0.4	0.4	0.3
External project loans	1.2	1.4	1.4	1.0	0.7	0.6	0.5	0.4	0.5
Overall balance									
Including grants	-1.9	-2.3	-3.3	-3.7	-3.1	-3.0	-2.9	-2.8	-2.7
Excluding grants	-3.0	-3.2	-4.0	-4.6	-4.5	-3.6	-3.4	-3.2	-3.1
Financing	2.5	3.8	4.0	4.6	3.1	3.0	2.9	2.8	2.7
Net external financing	1.0	1.7	1.6	1.3	1.2	0.7	0.6	0.5	0.5
Gross borrowing	1.2	1.8	1.8	1.5	1.3	0.8	0.7	0.7	0.7
Project loans	1.2	1.4	1.4	1.2	0.7	0.6	0.5	0.4	0.5
Protection of Basic Services (PBS)	0.0	0.4	0.3	0.3	0.6	0.3	0.3	0.3	0.3
Amortization	-0.2	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2
Domestic (net)	1.4	2.0	1.8	2.8	1.9	2.3	2.3	2.3	2.1
Memorandum items:									
Poverty-reducing expenditure	11.4	12.0	11.3	10.7	10.8	10.9	10.9	11.0	11.1
Primary fiscal balance, including grants	-1.5	-1.9	-2.8	-3.2	-2.5	-2.4	-2.2	-2.0	-1.8

Sources: Ethiopian authorities and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.

[1] Government financial statistics are reported by the authorities based on GFSM 1986.

[2] Excluding special programs (demobilization and reconstruction).

[3] Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

[4] External interest and amortization are presented after HIPC debt relief from the World Bank and African Development Bank.

Table 3. Ethiopia: Monetary Survey and Central Bank Accounts, 2014/15–2022/23

	2014/15 Act.	2015/16 Act.	2016/17 Act.	2017/18 IMF Staff Est.	2018/19 IMF Staff Proj.	2019/20 IMF Staff Proj.	2020/21 IMF Staff Proj.	2021/22 IMF Staff Proj.	2022/23 IMF Staff Proj.
	(Millions of birr, unless otherwise indicated)								
Monetary survey									
Net foreign assets	36,410	22,800	38,035	39,376	31,919	51,765	85,290	142,349	213,282
Central bank	29,973	10,506	23,977	28,759	20,559	39,610	72,284	128,433	198,391
Commercial banks	6,436	12,293	14,058	10,617	11,360	12,155	13,006	13,916	14,891
Net domestic assets	334,864	422,467	535,349	701,197	873,933	1,053,475	1,256,274	1,497,148	1,799,292
Domestic credit	370,807	465,690	600,092	732,771	919,302	1,106,265	1,336,620	1,651,972	1,970,558
Claims on government (net)[1]	30,717	47,524	85,442	102,003	127,004	162,398	202,328	248,501	298,992
Claims on nongovernment	340,090	418,165	514,650	630,769	792,298	943,867	1,134,292	1,403,471	1,671,566
Public enterprises	219,669	270,068	321,482	394,004	450,953	527,783	622,921	756,711	901,261
Private sector	120,421	148,097	193,168	236,765	341,344	416,083	511,371	646,759	770,305
Broad money	371,274	445,266	573,384	740,573	905,852	1,105,241	1,341,564	1,639,497	2,012,574
Money	154,706	178,610	216,770	281,155	339,011	410,625	492,973	593,286	717,096
Currency outside banks	60,461	66,686	73,918	86,417	98,740	116,193	133,273	151,938	173,209
Demand deposits	94,245	111,924	142,852	194,737	240,272	294,432	359,699	441,348	543,887
Quasi money	216,568	266,657	356,614	459,418	566,841	694,615	848,591	1,046,211	1,295,478
Savings deposits	174,699	217,034	293,432	382,549	471,191	576,416	702,982	865,460	1,070,140
Time deposits	41,869	49,622	63,183	76,869	95,650	118,200	145,609	180,751	225,338
Central bank									
Net foreign assets	29,973	10,506	23,977	28,759	20,559	39,610	72,284	128,433	198,391
Foreign assets	66,818	74,157	73,874	77,617	93,669	108,470	136,142	177,526	240,312
Foreign liabilities	36,844	63,650	49,897	48,858	73,110	68,860	63,858	49,094	41,920
Net domestic assets	72,494	108,658	122,281	145,416	176,711	184,308	181,863	161,306	131,911
Domestic credit	100,434	120,645	148,117	187,500	205,681	221,626	236,690	250,880	261,248
Government (net)	77,077	95,038	120,891	140,207	154,605	167,996	180,378	191,753	202,121
Other items (net)	-27,939	-11,987	-25,836	-42,083	-28,971	-37,318	-54,827	-89,575	-129,337
Base money	102,468	119,165	146,258	174,175	197,269	223,918	254,147	289,739	330,302
Currency outside banks	60,461	66,686	73,918	86,417	98,740	116,193	133,273	151,938	173,209
Commercial bank reserves	42,007	52,479	72,340	87,758	98,530	107,725	120,873	137,801	157,093
Cash in vault	14,780	15,907	20,328	26,494	32,613	28,116	31,548	35,966	41,001
Reserve deposit	27,227	36,572	52,012	61,264	65,916	79,609	89,325	101,835	116,092
	(Annual percentage change, unless otherwise indicated)								
Monetary survey									
Net foreign assets	-20.9	-37.4	66.8	3.5	-18.9	62.2	64.8	66.9	49.8
Net domestic assets	33.1	26.2	26.7	31.0	24.6	20.5	19.3	19.2	20.2
Domestic credit	22.9	25.6	28.9	22.1	25.5	20.3	20.8	23.6	19.3
Claims on government (net)	9.7	54.7	79.8	19.4	24.5	27.9	24.6	22.8	20.3
Claims on nongovernment	24.2	23.0	23.1	22.6	25.6	19.1	20.2	23.7	19.1
Public enterprises	20.8	22.9	19.0	22.6	14.5	17.0	18.0	21.5	19.1
Private sector	31.0	23.0	30.4	22.6	44.2	21.9	22.9	26.5	19.1
Broad money	24.8	19.9	28.8	29.2	22.3	22.0	21.4	22.2	22.8
Money	15.5	15.5	21.4	29.7	20.6	21.1	20.1	20.3	20.9
Quasi money	32.3	23.1	33.7	28.8	23.4	22.5	22.2	23.3	23.8
Memorandum items:									
Base money growth	15.2	16.3	22.7	19.1	13.3	13.5	13.5	14.0	14.0
Excess reserve deposit (billions of birr)	8,615	11,416	25,456	22,654	22,552	27,147	25,902	24,448	21,115
Percent of deposits	2.4	3.0	5.1	3.5	2.8	2.7	2.1	1.6	1.1
Money multiplier (broad money/reserve money)	3.62	3.74	3.92	4.25	4.59	4.94	5.28	5.66	6.09
Velocity (GDP/broad money)	3.50	3.46	3.15	2.89	2.84	2.72	2.61	2.47	2.34
Currency-deposit ratio	0.195	0.176	0.148	0.132	0.122	0.117	0.110	0.102	0.094
Gross official foreign reserves (millions of U.S. do	3,248	3,402	3,197	2,847	3,397	3,872	4,700	5,858	7,500
Birr per U.S. dollar (end of period)	20.6	21.8	23.1	27.3	…	…	…	…	…
Nominal GDP (millions of birr)	1,297,961	1,541,277	1,806,656	2,138,243	2,572,702	3,009,461	3,499,750	4,053,005	4,706,424

Sources: NBE and IMF staff estimates and projections.

[1] Claims on the general government by the banking system less deposits of the general government with the banking system.

Table 4a. Ethiopia: Balance of Payments, 2014/15–2022/23

(Millions of U.S. dollars)

	2014/15 Act.	2015/16 Act.	2016/17 Act.	2017/18 IMF Staff Est.	2018/19 IMF Staff Proj.	2019/20 IMF Staff Proj.	2020/21 IMF Staff Proj.	2021/22 IMF Staff Proj.	2022/23 IMF Staff Proj.
	(Millions of U.S. dollars, unless otherwise indicated)								
Current account balance	-6,579	-6,574	-6,551	-5,253	-5,702	-5,858	-5,697	-5,010	-4,843
(Percent of GDP)	-10.2	-9.0	-8.1	-6.4	-6.2	-5.8	-5.2	-4.2	-3.8
Current account balance, excl. official transfers	-8,087	-7965	-7979	-6479	-7907	-7512	-7433	-6819	-6743
(Percent of GDP)	-12.5	-10.9	-9.9	-7.9	-8.6	-7.5	-6.8	-5.8	-5.2
Trade balance	-13,439	-13,858	-12,895	-12,414	-14,382	-14,984	-16,003	-16,650	-17,249
Exports of goods	3,019	2,868	2,908	2,840	3,153	3,518	3,918	4,399	5,075
Coffee	780	723	883	839	888	1,031	1,184	1,319	1,459
Oil seeds	510	477	351	424	480	503	555	604	631
Gold	319	291	209	100	115	114	113	112	111
Other	1,410	1,377	1,464	1,477	1,670	1,870	2,066	2,364	2,873
Imports of goods	-16,459	-16,725	-15,803	-15,253	-17,535	-18,502	-19,920	-21,049	-22,324
Services (net)	124	-246	-61	237	478	786	1,189	1,719	2,276
Exports	3,264	3,196	3,331	4,220	4,804	5,441	6,173	7,060	8,023
Imports	-3,140	-3,442	-3,392	-3,982	-4,326	-4,654	-4,983	-5,341	-5,747
Income (net)	-262	-290	-508	-377	-625	-665	-705	-458	-425
Private transfers (net)	5,490	6,429	5,485	6,075	6,621	7,350	8,085	8,570	8,656
Official transfers (net)	1,508	1,391	1,428	1,226	2,206	1,654	1,737	1,810	1,900
Capital account balance	2,552	7,509	6,831	5,349	6,252	6,332	6,526	6,167	6,485
Foreign direct investment (net)	2,202	3,269	4,171	3,723	4,200	4,935	5,145	5,379	5,647
Other investment (net)	350	4,241	2,661	1,625	2,052	1,397	1,382	789	837
Federal government	2,567	1,628	1,402	1,333	2,415	2,097	2,240	1,673	1,937
Disbursements	2,654	1,730	1,512	1,496	2,587	2,274	2,411	1,861	2,166
Amortization	-87	-102	-111	-163	-171	-178	-171	-188	-229
Other public sector long term (net) [1]		2,052	626	187	242	-887	-1,167	-1,830	-242
Private sector borrowing (net)	350	451	503	251	-533	113	201	811	-932
Other (net)	-2,567	110	130	-145	-72	75	108	135	74
Errors and omissions	-1,323	-1,766	377	106	0	0	0	0	0
Overall balance	-5,350	-831	658	202	550	474	829	1,158	1,642
Financing	521	831	-658	-202	-550	-474	-829	-1,158	-1,642
Central bank (net; increase –)	-93	976	-555	-421	-550	-474	-829	-1,158	-1,642
Commercial banks (net; increase –)	614	-145	-103	219	0	0	0	0	0
	(Annual percentage change, unless otherwise indicated)								
Memorandum items:									
Exports of goods	-7.9	-5.0	1.4	-2.3	11.0	11.6	11.3	12.3	15.4
Imports of goods	24.6	1.6	-5.5	-3.5	15.0	5.5	7.7	5.7	6.1
Services exports	2.8	-2.1	4.2	26.7	13.9	13.3	13.5	14.4	13.6
Services imports	27.5	9.6	-1.4	17.4	8.6	7.6	7.1	7.2	7.6
Exports of goods and services (percent of GDP)	9.7	8.3	7.7	8.6	8.6	8.9	9.2	9.7	10.2
Imports of goods and services (percent of GDP)	-30.3	-27.6	-23.8	-23.5	-23.7	-23.0	-22.8	-22.3	-21.8
Trade balance (percent of GDP)	-20.8	-19.0	-16.0	-15.2	-15.6	-14.9	-14.6	-14.1	-13.4
Private transfers (net, percent of GDP)	8.5	8.8	6.8	7.4	7.2	7.3	7.4	7.2	6.7
Gross official reserves (millions U.S. dollars)	3,248	3,402	3,197	2,847	3,397	3,871	4,701	5,858	7,500
(Months of following year imports of goods and services)	1.9	2.1	2.0	1.6	1.8	1.9	2.1	2.5	3.0
(Months of imports -- authorities' definition)[2]	2.7	3.0	2.7	2.2	2.3	2.4	2.7	3.2	3.8
GDP (millions of U.S. dollars)	64,591	72,990	80,622	81,927	92,124	100,714	109,460	118,471	128,570

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Includes net borrowing by state-owned enterprises and NBE time deposits

[2] The NBE definition for import coverage excludes food-aid and franco-valuta imports.

Table 4b. Ethiopia: Balance of Payments, 2014/15–2022/23

(Percent of GDP)

	2014/15 Act.	2015/16 Act.	2016/17 Act.	2017/18 IMF Staff Est.	2018/19 IMF Staff Proj.	2019/20 IMF Staff Proj.	2020/21 IMF Staff Proj.	2021/22 IMF Staff Proj.	2022/23 IMF Staff Proj.
	(Percent of GDP)								
Current account balance	-10.2	-9.0	-8.1	-6.4	-6.2	-5.8	-5.2	-4.2	-3.8
Current account balance, excl. official transfers	-12.5	-10.9	-9.9	-7.9	-8.6	-7.5	-6.8	-5.8	-5.2
Trade balance	-20.8	-19.0	-16.0	-15.2	-15.6	-14.9	-14.6	-14.1	-13.4
Exports of goods	4.7	3.9	3.6	3.5	3.4	3.5	3.6	3.7	3.9
Coffee	1.2	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.1
Oil seeds	0.8	0.7	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Gold	0.5	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.2	1.9	1.8	1.8	1.8	1.9	1.9	2.0	2.2
Imports of goods	-25.5	-22.9	-19.6	-18.6	-19.0	-18.4	-18.2	-17.8	-17.4
Services (net)	0.2	-0.3	-0.1	0.3	0.5	0.8	1.1	1.5	1.8
Exports	5.1	4.4	4.1	5.2	5.2	5.4	5.6	6.0	6.2
Imports	-4.9	-4.7	-4.2	-4.9	-4.7	-4.6	-4.6	-4.5	-4.5
Income (net)	-0.4	-0.4	-0.6	-0.5	-0.7	-0.7	-0.6	-0.4	-0.3
Private transfers (net)	8.5	8.8	6.8	7.4	7.2	7.3	7.4	7.2	6.7
Official transfers (net)	2.3	1.9	1.8	1.5	2.4	1.6	1.6	1.5	1.5
Capital account balance	4.0	10.3	8.5	6.5	6.8	6.3	6.0	5.2	5.0
Foreign direct investment (net)	3.4	4.5	5.2	4.5	4.6	4.9	4.7	4.5	4.4
Other investment (net)	0.5	5.8	3.3	2.0	2.2	1.4	1.3	0.7	0.7
Federal government	4.0	2.2	1.7	1.6	2.6	2.1	2.0	1.4	1.5
Disbursements	4.1	2.4	1.9	1.8	2.8	2.3	2.2	1.6	1.7
Amortization	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other public sector long term (net) [1]	0.0	2.8	0.8	0.2	0.3	-0.9	-1.1	-1.5	-0.2
Private sector borrowing (net)	0.5	0.6	0.6	0.3	-0.6	0.1	0.2	0.7	-0.7
Other (net)	-4.0	0.2	0.2	-0.2	-0.1	0.1	0.1	0.1	0.1
Errors and omissions	-2.0	-2.4	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-8.3	-1.1	0.8	0.2	0.6	0.5	0.8	1.0	1.3
Financing	0.8	1.1	-0.8	-0.2	-0.6	-0.5	-0.8	-1.0	-1.3
Central bank (net; increase –)	-0.1	1.3	-0.7	-0.5	-0.6	-0.5	-0.8	-1.0	-1.3
Commercial banks (net; increase –)	1.0	-0.2	-0.1	0.3	0.0	0.0	0.0	0.0	0.0
Gross official reserves	5.0	4.7	4.0	3.5	3.7	3.8	4.3	4.9	5.8
GDP (millions of U.S. dollars)	64,591	72,990	80,622	81,927	92,124	100,714	109,460	118,471	128,570

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Includes net borrowing by state-owned enterprises and NBE time deposits

Table 5. Ethiopia: Selected Economic and Financial Indicators, 2014/15–2022/23

(Policy Reform Scenario)

Social Indicators

GDP		**Poverty indicators in 2015/16 (national definitions)**	
Nominal GDP (2016, billions of U.S. dollars)	73.0	Poverty headcount ratio (percent of population)	23.5
GNI per capita, Atlas method (2016, current US$)	685	Food poverty (percent of population)	24.8
Population characteristics		**Income distribution, 2010**	
Total (2016, million)	91.2	Income shared by highest 10 percent of population	27.4
Urban population (2015)	19.5	Income shared by lowest 20 percent of population	8.0
Life expectancy at birth (2014, years)	64.0	GINI index	30.0

Economic Indicators

	2014/15 Act.	2015/16 Act.	2016/17 Act.	2017/18 IMF Staff Est.	2018/19 IMF Staff Proj.	2019/20 IMF Staff Proj.	2020/21 IMF Staff Proj.	2021/22 IMF Staff Proj.	2022/23 IMF Staff Proj.
	(Annual percentage change)								
National income and prices									
GDP at constant prices (at factor cost)	10.4	8.0	10.7	7.7	7.0	8.0	8.5	8.5	8.5
GDP deflator	10.8	10.4	6.4	10.3	11.7	9.8	8.9	8.0	7.5
Consumer prices (period average)	7.7	9.7	7.3	13.0	11.5	9.5	8.5	7.8	7.5
Consumer prices (end period)	10.4	7.5	8.8	14.7	10.8	9.0	8.0	7.5	7.5
External sector									
Exports of goods and services (U.S. dollars, f.o.b.)	-2.6	-3.5	2.9	13.2	16.7	16.1	16.6	16.5	16.8
Imports of goods and services (U.S. dollars, c.i.f.)	25.1	2.9	-4.8	0.2	13.1	6.1	9.2	8.2	7.9
Export volume (goods)	-2.7	4.9	-1.1	2.9	12.2	14.3	16.3	18.5	19.6
Import volume (goods)	32.5	12.6	-5.4	-9.2	9.2	4.5	8.3	7.0	8.0
Nominal effective exchange rate (end of period)	3.3	-2.2	-3.7	-16.1	...	...	...	...	...
Real effective exchange rate (end of period)	10.6	1.4	2.1	-7.1	...	...	...	...	...
	(Annual percentage change, unless otherwise indicated)								
Money and credit									
Change in net foreign assets	-20.9	-37.4	66.7	3.5	68.8	53.0	51.8	41.7	33.7
Change in net domestic assets (including other items net)	32.5	26.7	26.7	31.0	16.0	14.2	13.3	16.0	15.7
Broad money	24.2	20.4	28.8	29.2	18.7	17.0	17.0	19.2	18.4
Base money	15.2	16.3	22.7	19.1	13.3	13.5	13.5	14.0	14.0
Velocity (GDP/broad money)	3.51	3.46	3.15	2.89	2.82	2.86	2.89	2.85	2.84
	(Percent of GDP, unless otherwise indicated)								
Financial balances [1]									
Gross domestic savings	21.9	22.4	24.1	23.4	24.8	25.0	27.1	28.1	23.4
Public savings	3.8	3.8	1.5	0.6	1.0	1.0	0.9	0.9	2.9
Private savings	18.1	18.5	22.6	22.8	23.8	24.0	26.2	27.1	20.5
Gross domestic investment	39.4	38.0	39.0	38.2	38.5	38.7	39.0	39.8	40.3
Public investment	15.7	17.1	14.6	13.9	12.0	10.4	8.5	8.1	7.9
Private investment	23.8	20.9	24.4	24.3	26.5	28.3	30.5	31.7	32.4
Resource gap	-17.5	-15.6	-14.9	-14.9	-13.7	-13.7	-11.9	-11.8	-16.9
External current account balance, including official transfers	-10.2	-9.0	-8.1	-6.4	-6.0	-5.4	-4.8	-4.0	-3.5
Government finances									
Revenue	14.4	15.0	14.3	12.8	13.1	14.2	15.1	15.9	16.4
Tax revenue	12.7	12.4	11.6	11.1	11.4	12.5	13.4	14.2	14.8
Nontax revenue	1.6	2.7	2.6	1.8	1.8	1.8	1.7	1.6	1.7
External grants	1.0	0.8	0.7	0.8	1.4	0.6	0.5	0.5	0.4
Expenditure and net lending	17.3	18.2	18.2	17.4	17.5	17.5	17.6	18.4	18.8
Fiscal balance, excluding grants (cash basis)	-3.0	-3.2	-4.0	-4.6	-4.3	-3.2	-2.6	-2.5	-2.4
Fiscal balance, including grants (cash basis)	-1.9	-2.3	-3.3	-3.7	-2.9	-2.6	-2.0	-2.0	-1.9
Total financing (including residuals)	1.9	2.3	3.3	3.7	2.9	2.6	2.0	2.0	1.9
External financing	1.0	1.7	1.6	1.3	0.9	0.7	0.5	0.4	0.4
Domestic financing	1.4	2.0	1.8	2.8	2.0	1.9	1.5	1.6	1.5
Public debt [2]	53.4	54.4	57.2	61.0	59.5	58.6	58.6	58.0	52.5
Domestic debt	24.0	24.7	27.8	28.8	30.0	30.6	32.1	33.0	28.9
External debt (including to the IMF)	29.4	29.7	29.4	32.3	29.5	28.1	26.5	25.0	23.6
Overall balance of payments (in millions of U.S. dollars)	-5,350	-831	658	202	745	890	1,252	1,396	1,693
Gross official reserves (in millions of U.S. dollars)	3,248	3,402	3,197	2,847	3,592	4,482	5,734	7,129	8,822
(months of imports of goods and nonfactor services of following year)	1.9	2.1	2.0	1.6	1.9	2.1	2.5	2.9	3.4
GDP at current market prices (billions of birr)	1,298	1,541	1,807	2,138	2,558	3,036	3,586	4,215	4,965

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Based on data from Central Statistical Agency (CSA), except for the current account balance, which is based on BOP data from National Bank of Ethiopia (NBE).

[2] Non-financial public sector debt.

Table 6. Ethiopia: Financial Soundness Indicators for Commercial Banks, 2012–18

(In percent, unless otherwise indicated)

	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Capital adequacy							
Capital to Risk-Weighted Assets	13.4	17.9	17.4	16.4	14.7	21.5	22.4
Regulatory Capital Tier I to Risk-Weighted Asset	13.4	17.9	17.4	16.4	14.7	21.5	22.4
Capital to Assets	6.7	7.2	7.0	6.6	6.5	9.6	8.3
Asset quality							
NPLs to Total Loans	1.4	2.5	2.0	2.1	2.9	2.6	3.0
NPLs Net of Provisions to Capital	-5.6	-0.5	-2.3	-1.1	2.9	2.1	n.a.
Earning and profitability							
Return on Assets	3.9	3.2	3.1	3.1	2.7	2.4	1.7
Return on Equity[1]	55.7	48.0	44.9	47.4	43.0	29.6	20.2
Gross Interest Income to Total Income [2]	56.8	64.9	62.8	67.9	73.9	74.9	84.1
Interest Margin to Gross Income	39.1	45.1	42.3	46.1	49.9	48.4	34.4
Non-interest Expenses to Gross Income [3]	22.9	26.9	32.7	32.1	33.1	34.2	36.2
Personnel Expenses to Non-interest Expenses	42.2	43.3	43.7	47.4	48.2	51.3	55.4
Liquidity							
Liquid Assets to Total Assets	20.6	23.2	16.2	11.7	11.9	12.9	12.7
Liquid Assets to Short-term liabilities	26.7	30.1	20.8	14.8	15.6	17.0	16.9
Total Loans and Bonds to Total Deposits [4]	94.0	93.9	100.6	105.0	107.2	107.3	100.7

Source: National Bank of Ethiopia, provided to IMF staff during the mission.

[1]The average capital used to calculate the ROE execludes retained earning and profit & loss.

[2] Total income comprises gross interest income and gross non-interest income.

[3]Gross income comprises net interest income and total non-interest income.

[4]Customer deposit includes time, current and saving deposits.

Annex I. Risk Assessment Matrix

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Domestic opposition to necessary reforms. Or policy choice to postpone adjustment for political reasons. Reforms and export competitiveness stall.	**M/H**	H. Necessary reforms are delayed or rolled back—including export-oriented as well as domestic initiatives. Investor uncertainty would increase, slowing the flow of FDI and domestic private sector development. Adverse growth impact. Weaker debt sustainability. Banks exposed to deteriorating balance sheets of their customers, higher NPLs. Substantial upside risk over the medium term if comprehensive reform agenda is implemented now. These reforms would expand fiscal space (tax system reforms, SOE reform, privatization and PPPs, etc.) and crowd in private investment and activity.	Maintain the reform momentum while expanding dialogue. Open up dialogue on implementation and sequencing of reforms to all stakeholders, including development partners, to ensure robust buy in and reduce the risk of poor implementation. Accelerate tax administration and tax policy reforms to strengthen fiscal revenues. Develop and share transparent metrics to show how and when policies are working to strengthen the coalition for reform. Protect pro-poor and social safety net programs.
Insufficient progress in reprofiling public investment program in line with export outcomes or the availability of financing that does not increase public sector external debt.	**M/H**	H. With thin reserves, any shocks to debt service or meeting other financial obligations risks could result in an undesirable import compression, withdrawal of private financing, including FDI, and a derailing of Ethiopia's growth momentum.	Continue to maintain strict control over external borrowing of the public sector. Limit domestic credit to reduce pressures on the exchange rate. Exchange rate flexibility could also help alleviate pressures by reducing domestic demand for FX.
Climate change. Increased frequency of drought conditions and flooding.	**M**	H. Food price shock leading to a higher food inflation. Adverse social impact, and stalled progress on poverty reduction. Lower agricultural exports, higher social spending, higher spending on remedial measures (food and fertilizer imports, animal feed, etc.). Underperformance in hydro-power generation leading to lower supply for domestic consumption and lower exports.	Increase food assistance. Tighten monetary policy if second-round effects are significant. Slow SOE imports and increase fiscal expenditure for social and medical protection. Develop medium-term strategies to diversify energy mix.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
External Risks[1]			
Sharp tightening of global financial conditions	**H**	H. Rising cost of external financing and higher risk premia on frontier markets like Ethiopia. If the birr is not allowed to adjust, further real appreciation, adversely affecting exports and the external deficit. Deterioration of the external debt position.	Reduce need for external financing by improving domestic revenue performance and prioritizing externally-financed capital projects. Recently-announced privatization policies could further ensure non-debt flows to alleviate financing constraints. Accelerate reforms enhancing export competitiveness. Adopt a more flexible exchange rate policy.
Weaker-than-expected global growth: China: Disorderly deleveraging in the near term; insufficient progress in rebalancing growth in the medium term (medium likelihood). Structurally weak growth in the EU	**L/M** **M**	H. Lower demand for Ethiopia's main exports leading to widening trade deficit and weaker debt sustainability. Financing from a major bilateral partner affected adversely.	Accelerate reforms enhancing export competitiveness. Adopt a more flexible exchange rate policy.
Rising protectionism and retreat from multilateralism.	**M**	H. Lower demand for Ethiopia's main exports leading to widening trade deficit and weaker debt sustainability. Reduction in remittances from diaspora.	Accelerate reforms enhancing export competitiveness. Adopt a more flexible exchange rate policy.
Reduced financial services by correspondent banks ("de-risking").	**M**	H. Reduction in availability of foreign exchange to private banks, increase in cost of cross-border transactions, including remittances. Higher current account deficit and lower growth. Lower capacity of banks to finance economic activity.	Swiftly address AML/CFT deficiencies and avoid further action by the FATF. Closely monitor status of CBR and effectively communicate respondent banks' AML/CFT compliance efforts to correspondent banks. Explore opportunities for banking sector consolidation.
Political and policy uncertainties: Intensification of the risks of fragmentation/security dislocation.	**H**	L. Intensification of the flow of refugees/displaced peoples into Ethiopia as a result of instability in neighboring countries.	Mitigated by experience, political consensus and well-established policy framework for dealing with refugees.

[1] Based on the July 2018 update of the Global Risk Assessment Matrix.

Annex II. External Sector Assessment

Based on data as of September 2018, the external position was assessed to be weaker than the level consistent with medium-term fundamentals and desirable policies. The exchange rate remains overvalued by around 12–18 percent, and international reserves are below both rule-of-thumb and model-based optimal benchmarks. An accelerated reform agenda announced by the new PM, including plans to open the economy to private sector investment, could boost capital and financial inflows and speed up export growth. The tighter fiscal and monetary stances adopted by the authorities following the October 2017 devaluation should be maintained and stepped up as planned, whilst greater exchange rate flexibility is needed.

Current Account, Capital Flows, and Exchange Rate Developments

1. The current account deficit is estimated to have narrowed further in 2017/18, but good exports remained stagnant and reserves had declined to 1.6 months of import cover by June 2018. The current account deficit fell steadily from 10.2 percent of GDP in 2014/15 to 6.4 percent in 2017/18, despite deteriorating terms of trade due to determined policies to reduce public imports and indebtedness. In 2017/18, strong growth in air transportation and manufacturing exports, and continued restraint on public sector capital imports, helped to offset stagnant commodity goods exports, reducing the trade deficit in goods and services to 14.9 percent of GDP (from 16.1 percent in 2016/17). Income transfers, including remittances and official development flows, posted 8.4 percent of GDP.

2. While net FDI inflows remained high, they stalled at around US$3.7 billion, and other financial flows declined[1], contributing to the FX shortages. Reserves stood at US$3.7 billion in September 2018, covering 1.9 months of imports.[2]

3. The real effective exchange rate (REER) appreciated significantly during the period following the October 2017 devaluation. In October 2017 the authorities devalued the birr (by 13.4 percent in U.S. dollars per birr terms) while tightening monetary policy. However, since then, Ethiopia temporarily implemented a de facto stabilized exchange rate arrangement, as it kept a constant exchange rate with the U.S. dollar. Due to appreciation of the U.S. dollar relative to major currencies and higher than envisaged inflation differentials with trading partners, the REER of the birr has significantly appreciated since October 2017. In recent months, the NBE has resumed its policy of gradual depreciation with respect to the U.S. dollar.

External Sector and Exchange Rate Assessment

4. Using three separate methods, staff assesses that the external position was weaker than medium-term fundamentals and desirable policy settings would imply in 2017. Due to the annual nature of the available data, all three estimates refer to 2017 as a whole and

[1] The decline in other official flows was mainly due to lower borrowing by the public sector—SOEs in particular.

[2] 2.5 months on the authorities' preferred measure which excludes food aid and franco valuta imports.

consequently reflect only a small part of the October 2017 devaluation. Staff estimates that the birr was overvalued by 15–20 percent in 2017.

- The first method is based on the Penn effect (Summers and Heston 1991)[3]—the empirical regularity that the price level is higher in countries with higher per capita income.[4] Staff used a variant of the approach in Rodrik (2008)[5] and fitted a log-linear model of real exchange rates against per capita PPP GDP (both measured relative to the annual sample average) in a large sample of countries for 2000–17. Fuel and commodity exporters as well as small and micro-states were excluded from the sample. Comparing the actual real exchange rate with the level estimated by the fitted curve, the birr is estimated to have been overvalued by around 20 percent in 2017, down from 24 percent in 2016.
- The second method is based on the current account (CA) model of the Fund's EBA-lite methodology.[6] The current account norm—that is consistent with Ethiopia's economic and demographic fundamentals—is 5.8 percent of GDP, a gap of -2.1 percentage points[7] compared to the actual current account.[8] The overall policy gap is estimated at 0.8 percentage points, of which the gap due to a low private credit-to-GDP ratio is partially offset by lower-than-adequate reserves, while Ethiopia's fiscal stance being moderately looser than desirable medium-term levels is more than offset by overly loose fiscal policy in the rest of the world. The sizeable negative residual (i.e., the difference between the CA gap and policy gap) may reflect unmeasured structural policy gaps. Applying estimates of trade elasticities, staff estimates an overvaluation of 20.8 percent for 2017, similar to the 21.9 percent in the last staff report.
- The third method is based on the real effective exchange rate (REER) model of the Fund's EBA-lite methodology. Using this method, the birr is estimated to be around 14 percent overvalued.

[3] Summers, R. and Heston, A., 1991: "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950–1988," The Quarterly Journal of Economics, 106(2), pp. 327–368.

[4] One explanation for this empirical finding is the Balassa-Samuelson (BS) effect, which posits productivity growth is higher in tradable sectors than in non-tradable sectors. This means that as countries become richer, the relative price of non-tradables to tradables rises leading to an appreciation of the real exchange rate. Other complementary explanations for the Penn effect include the factor-endowment theory and demand-side theories.

[5] Rodrik, D., 2008: "The real exchange rate and economic growth," Brookings papers on economic activity, 2008(2), pp.365-412.

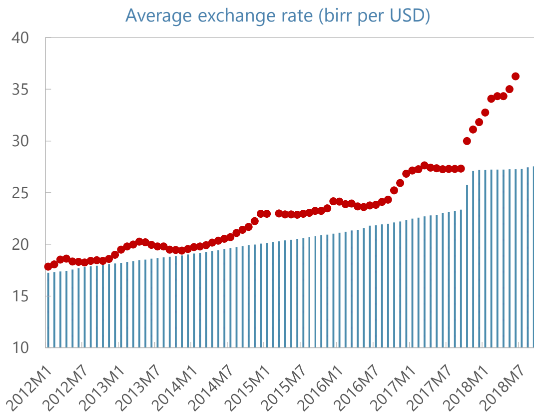
[6] Methodological Note on EBA-lite (IMF Policy Paper, February 2016).

[7] The sizeable negative residual (i.e., the difference between the CA gap and policy gap) may reflect unmeasured structural policy gaps

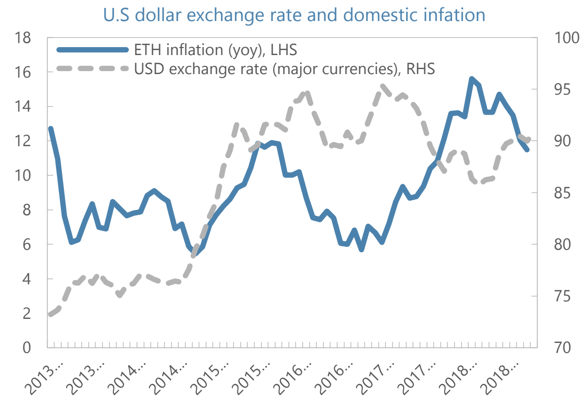
[8] Similar to the approach taken in the last two staff reports, the CA norm is adjusted for part of the imports related to public investment. This adjustment reduces the norm by 0.5 percent of GDP. No cyclical adjustments are made to the actual current account or the norm.

Figure II.1. Ethiopia: Exchange Rate Developments and Assessment

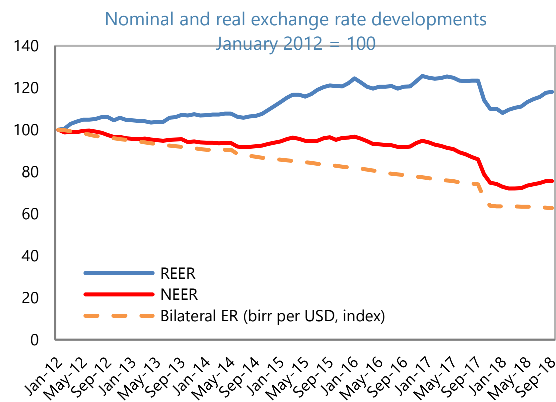
Official and parallel market rates moved in tandem, with a widening spread following the devaluation



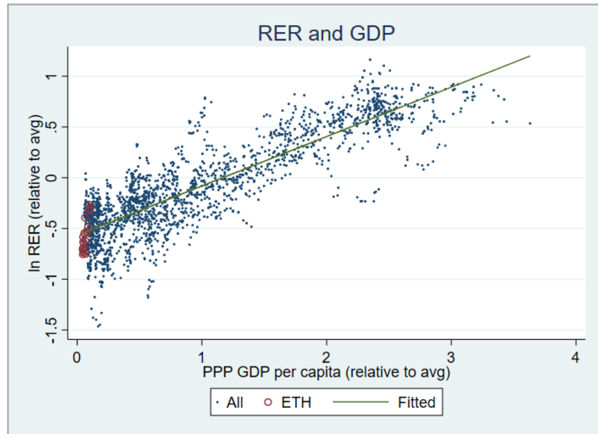
High inflation and a stable birr relative to an appreciating U.S. dollar …



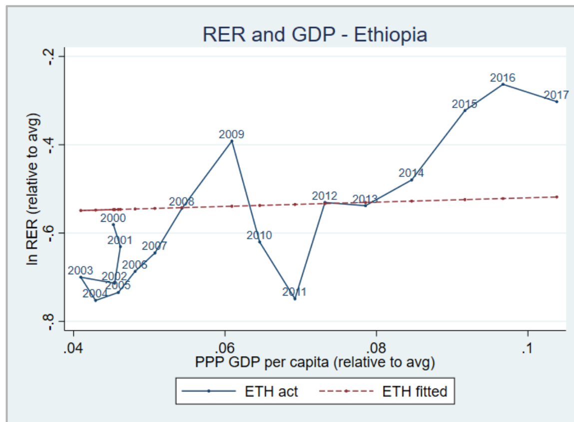
… eroded competitiveness gains from the devaluation



A strong Penn effect is present in the cross-section



Ethiopia's RER had become significantly overvalued by 2015–17



Improvement in the current account reduced the exchange rate gap in 2017

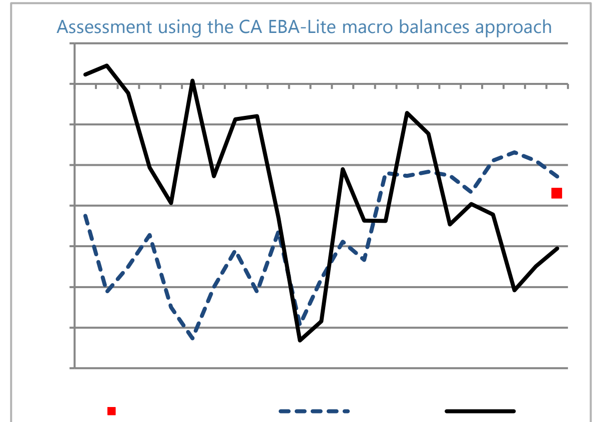


Table II.1. Ethiopia Exchange Rate Assessment

Penn Effect Model		CA EBA-Lite Model		REER EBA-Lite Model	
Log RER Actual	-0.21	CA Actual	-8.1	Log REER Actual	5.03
Log RER Model	-0.41	CA Norm	-5.8	Log REER Norm	5.16
		CA Gap	-2.1	Log REER Gap	0.14
		o/w Policy gap	0.8	o/w Policy gap	-0.02
		o/w Fiscal policy	*0.4*	*o/w Change in reserves*	*0.00*
		Change in reserves	*-0.6*	*Real interest rate*	*-0.01*
		Private credit	*1.0*	*Private credit*	*-0.01*
		Capital control	*0.0*	*Capital control*	*0.00*
		Elasticity	-0.10		
REER Gap (%)	20.0	REER Gap (%)	20.8	REER Gap (%)	14.0

5. Considering developments since 2017, staff estimates that the level of overvaluation remains around 12–18 percent as of September 2018. Since the devaluation, high inflation and virtually no further nominal depreciation have eroded competitiveness gains, and the REER resumed an appreciating course. As of September 2018, the REER was only 2.4 percent depreciated compared to the average for the 2017 calendar year, bringing the estimated overvaluation from the three methods to a 12–18 percent range (rounding off conservatively from 12.5 to 17.5 percent).

Reserve Adequacy Assessment

6. International reserves declined to 1.6 months of import cover by June 2018. Reserves stood at US$2.8 billion, sufficient to finance 1.6 months of prospective imports of goods and services, down from 2 months in June 2017. According to the NBE's preferred measure,[9] reserves amounted to 2.1 months by June 2018. Reserves have increased somewhat since then, as in July 2018, the NBE acquired a deposit of US$1 billion from the ADFD to boost reserves and alleviate foreign exchange shortages.

7. Ethiopia's foreign reserves are below both rule-of-thumb and model-based optimal benchmarks. The reserves-to-broad money ratio has trended down since early 2016 and as of June 2018 was around 10.5 percent. The current import cover of reserves of 1.6 months is also below both the normal rule-of-thumb benchmark as well as optimal levels from a model-based reserve adequacy assessment for a credit-constrained low-income country.[10] This approach gives a range of estimates for adequate reserve levels, depending on the assumptions on the costs of maintaining reserves (proxied here by the range of yields observed on Ethiopia's sovereign 10-year Eurobond between July 2015 to June 2018), possible shocks in external demand, terms of trade, foreign direct investment and aid flows, and the exchange rate regime. The model suggests that for a country like Ethiopia—with a stabilized arrangement—the optimal reserve coverage should lie between 5.9 and

[9] The NBE targets reserve coverage of 3 months of imports, excluding food aid and franco-valuta imports. This reserve target translates to import coverage slightly above 2 months under the standard definition.

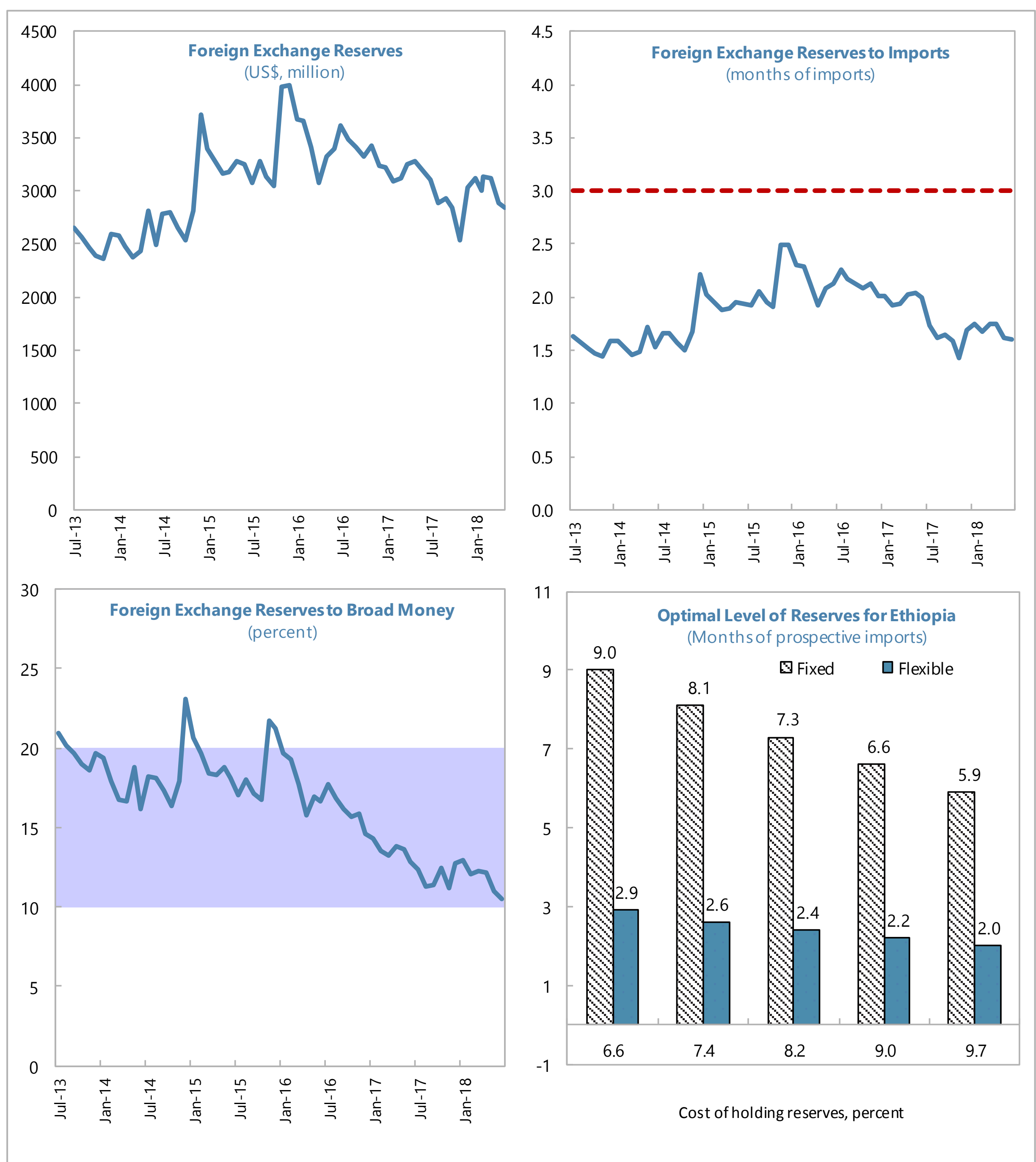
[10] Based on proposals for assessing reserve adequacy contained in the 2015 staff report on Assessing Reserve Adequacy (SM/14/334) and the June 2016 guidance note.

9 months of prospective imports. In the floating rate case, adequate reserves amount to between 2.0 to 2.9 months. In the short to medium term, achieving the NBE target of 3½ months of imports—but in accordance with the standard definition—would be a valuable step forward.

Policy Implications

8. Bringing inflation down through restrictive fiscal and monetary policies, and adopting a more flexible exchange rate regime are important for restoring and maintaining competitiveness. The NBE has maintained a tight base money stance, which may be beginning to show results as inflation edged down to 11.5 percent in October 2018. Ensuring a tight monetary policy stance and restrictive non-financial public sector borrowing policies should help bring inflation towards the target and improve competitiveness. Additionally, the NBE should also adopt a more flexible exchange rate that reflects actual inflation differentials vis-à-vis major trade partners and fluctuations of the U.S. dollar against Ethiopia's trading partners' currencies. This should reduce misalignments and foreign exchange shortages, strengthen competitiveness, and allow the NBE to rebuild international reserves.

Figure II.2. Ethiopia: Reserve Adequacy Analysis



Sources: Ethiopian authorities and staff calculations. Gaps due to missing data since December 2017.

Annex III. Authorities' Response to Past IMF Policy Recommendations

1. **Addressing external imbalances.** Staff advised the authorities to curtail public imports and borrowing plans. Significant steps have been taken in this direction since the 2016 consultation. A directive to control strictly external borrowing by public enterprises, especially non-concessional borrowing, was issued in October 2016; and public borrowing—particularly non-concessional foreign financing—was drastically reduced. Large public investment projects with high import and borrowing content were reprofiled or postponed. These policies were maintained in 2017/18. Privatization of the National Tobacco Company, starting in 2016/17, provided additional external funding. Primarily because of these actions, the current account deficit fell from over 10 percent of GDP in 2014/15 to an estimated 6.4 percent in 2017/18.

2. **Addressing overvaluation of the birr and allowing greater flexibility in the exchange rate.** Tighter macroeconomic policies and lower current account deficit reduced overvaluation estimates to about 20 percent in the 2017 Article IV Consultation. Since then, the devaluation of the birr relative to the U.S. dollar in October 2017 (13.4 percent in USD/birr terms) and subsequent developments—U.S. dollar relative strength and inflation differentials with trading partners—have brought staff's estimate of overvaluation to a range of 12-18 percent. However, no steps have been taken to make the exchange rate policy more sensitive to the evolution of the REER and improve competitiveness.

3. **Step up domestic resource mobilization and other fiscal reforms.** With the assistance of development partners (including the Fund), the authorities have advanced in some areas of the domestic revenue mobilization agenda. These include improvements in the taxpayer monitoring and registry, registration procedures, and tax arrears management. However, despite these efforts, the tax revenue ratio declined from 11.6 to 11.0 percent of GDP between 2016/17 and 2017/18, suggesting tax administration reform efforts need to be intensified and complemented with tax policy measures. The authorities are considering comprehensive FAD technical assistance along the lines of a MTRS. On other key macro-fiscal reforms, there has been clear progress on enacting and rolling out the PPP framework, with important projects now in the pipeline.

4. **Modernizing the monetary framework and developing of the financial system.** Staff recommendations on interest rates, exchange rate, and financial sector policies including: (i) allowing for flexible determination of the interest rates, (ii) improving market functioning and price setting mechanism for the exchange rate and adopting a flexible exchange rate policy, and (iii) phasing out the requirement that private banks invest in NBE 5-year bonds a 27 percent of their credit (to finance the Development Bank of Ethiopia, DBE), have had mixed traction. The decision to raise the floor on the deposits' interest rate from 5 to 7 percent announced in October 2017 helped in reducing negative real interest rates, though further steps are needed. Plans to introduce trading of government-issued securities have not yet been implemented. NPL levels in the DBE have increased to 39 percent and call for more decisive supervisory actions. Staff also called for a plan to gradually allow entry of global banks into the domestic banking system. The authorities have

indicated that there are no immediate plans to open up the financial sector but have not ruled out liberalization at a later date.

5. Addressing gaps in the quality and timeliness of economic statistics. Fund TA to improve data quality, especially for the compilation of the national accounts and balance of payments, has intensified, and the national accounts have been re-based. However, TA experts have had limited access to both the primary data and methodological tools used in the compilation of the data. There has also been little progress on migrating to more recent GFSM fiscal reporting standards, and summary consolidated accounts of the public enterprises are not produced.

Annex IV. Capacity Development Strategy for FY19–21

1. **Ethiopia is the second largest country in sub-Saharan Africa terms of population and about the sixth largest economy (by 2017 GDP in USD).** The country has undertaken significant structural and economic reforms and is experiencing high growth. However, it is still among the lowest income countries in the world, with substantial capacity development needs. PM Abiy, who took office in April 2018, has signaled his intention to undertake wide-reaching reforms, including SOE reform, privatization, and market opening. In the short term, the new leadership is expected to develop further its reform agenda and economic policy strategy. Also, PM Abiy has expressed his intention to deepen Ethiopia's engagement with the Fund. In this context, technical assistance provision could help the authorities in their current objectives and achieve significant impact.

2. **TA intensity from HQ is relatively low, and most TA is provided through the regional center in East Africa.** In FY 2018 Ethiopia received TA equivalent to 2.3 FTEs. Ongoing and planned HQ TA focuses on tax policy and administration, PFM, improvements in statistics, financial development and central bank operations. In 2016, Ethiopia benefitted from a LTX (on the development of the secondary market for government securities) funded by DFID. Also, following the authorities' request, the Fund is providing TA on the issue of quantifying and assessing tax expenditures and incentives.

3. **Given that the authorities are currently reevaluating key economic policy strategies, capacity development support could include diagnostic assessments in the relevant areas.** These could encompass an in-depth general assessment of the tax system, including tax policy and administration, possibly in the context of the FAD-led Medium-Term Revenue Strategy (MTRS) initiative; public financial management; a Financial Sector Stability Review (FSSR) to map technical assistance needs in the financial development and prudential supervision areas; and technical assistance on improving the reliability and comprehensiveness of economic statistics.

4. **In support of these policy priorities, the proposed strategy for IMF TA FY19–21 is as follows:**

Priorities	Objectives
Domestic Revenue Mobilization: Tax policy and revenue administration	Increase tax revenue to GDP ratio.
Improving the monetary policy transmission mechanism	Developing a market for government securities with market-based interest rates, a more flexible exchange rate, and an efficient management of liquidity.
Strengthening the financial stability framework and mapping financial development needs	Address gaps in supervisory and regulatory processes, assess the financial stability framework. Map financial development next steps through an FSSR.
PFM and budget efficiency	Strengthen the public finance management framework
Data quality and statistics	Enhance the reliability, coverage, timeliness, and integrity of economic statistics, including BOP and monetary statistics.

5. To achieve these objectives, it is expected that FAD, MCM, and STA will provide TA, supported by AFRITAC East. Depending on the authorities' readiness, LEG's support in strengthening AML/CFT frameworks may be needed.

6. The main risks to the impact of the TA in FY19 are capacity constraints. These include insufficient number of staff working on key capacity development issues in the various agencies, a lack of coordination between agencies involved in various TA interventions, and commitment and ownership of the authorities in implementing some of the TA recommendations. These risks could be mitigated by stronger selection of TA projects to ensure greater ownership by the authorities, earmarking dedicated staff in government agencies to implement the reforms, and close coordination with Fund surveillance activity to ensure macro-critical projects are given priority.

Authorities' Views

7. The authorities concurred with the thrust of the Capacity Development Strategy and found it broadly consistent with their objectives.

Annex V. Sustainable Development Goals

(Progress on Selected Goals)[1]

	Base Year 2014/15	Performance 2015/16	Target by 2019/20
Goal 1: End poverty in all its forms everywhere			
National poverty rate (%)	23.40	...	16.70
Share of poverty oriented sectors expenditure in total Government expenditure (%)	66	67	88
The share of pro-poor sectors' expenditure in GDP (%)	12.3	12.9	15.4
Gov't expenditure for institutions benefitting women, the poor, the vulnerable (Share in GDP in %)	17.3	18.4	22.6
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture			
Major food crops production (in millions of quintals)	270.08	267	406
Average productivity of major food crops (Qt/ha)	21.05	19.0	31
Number of households (farmers) who obtained general agricultural extension services ('000)	13,950	15,735	18,237
Number of households (farmers) who obtained improved agriculture extension services ('000)	14,014	14,549	16,776
Total number of pastoralists who received extension services ('000)	690	718	858
Quantity of improved seeds supplied ('000 Qt)	1,874	2,617	3,560
Areas covered by soil and water conservation structures in community watersheds ('000 ha)	20,170	1,062	2,134
Extent of GHG (CO2) removed using biological methods from community watersheds (million mt CO2e)	...	5	8
Land developed through medium scale modern irrigation schemes (million has)	2.35	3.0	4
Goal 3: Ensure healthy lives and promote well-being for all at all ages			
Maternal mortality rate per 100,000	420	412	199
Deliveries attended by skilled health personnel (%)	60	72.7	90
Under 5 mortality per 1000 children	64	67	30
Neonatal mortality rate per 1000 children	28	29	10
HIV/AIDS incidence rate (%)	0.03	0.03	0.01
Critical health services coverage (%)	96	98	100
Number of people with health insurance coverage (per 1000)	72	125	...
Goal 5: Achieve gender equality and empower all women and girls			
Number of women trained on different professions (millions)	1.13	1.89	3.87
Number of women benefited from vocational adult education programmes (millions)	2.97	2.35	7.60
Percent of women at parliament	38.8	38.8	50
Number of women who received certificates of Land Use Rights	8,647,118	9,492,772	19,869,312
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation			
Areas 5 Km further away from all-weather roads (%)	36.6	35.8	13.5
Value-added growth in MSE (%)	3.8	2.5	23.50
Share of medium and large industries' products in GDP (%)	3.8	4.4	5.9
Share of MSE products in GDP (%)	1.1	1	1.8
Value-added growth in manufacturing industries (%)	15.8	18.4	21.9
Value-added growth in medium and large industries (%)	23.1	22.9	23.4
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development			
Medium & large irrigation study and design (ha)	71,291	...	...
Medium & large irrigation development (ha)	39,785	...	...

Source: The Ethiopian National Planning Commission (NPC)

[1] The NPC published a Voluntary National Review report on the six selected Sustainable Development Goals highlighted in this table. See the Ethiopia 2017 Voluntary National Review on SDGs for more information.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

November 13, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Zeine Zeidane (AFR), Kevin Fletcher (SPR), and Paloma Anós Casero (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Ethiopia: Risk Rating Summary

Ethiopia
Joint Bank-Fund Debt Sustainability Analysis

Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	Public and publicly guaranteed debt remains sustainable
Application of judgment	No

In 2017/18, the authorities' strict policies to contain public imports and SOE borrowing continued driving down the current account deficit by 1.7 percentage points of GDP to 6.4 percent of GDP. Export volumes continued rising reflecting the pay-off of investments in trade-enhancing infrastructure built in recent years, while service export revenue experienced substantial growth. However, Ethiopia's export base remains small at 8.7 percent of GDP; and debt service continues to increase as Non-Concessional Borrowing (NCB) contracted in recent years matures. As a result, the two export-related indicators of the Debt Sustainability Analysis (DSA)—the present value of public and publicly guaranteed (PPG) external debt-to-exports and external debt service-to-exports—remain in breach of their respective thresholds in the baseline, as in the 2017 DSA. In addition, the debt service-to-revenue indicator shows a breach of the threshold in 2019/20-2020/21 in the stress test scenario. The application of the new Debt Sustainability Framework for Low-Income Countries resulted in a further tightening of the thresholds of the debt service indicators, leading to a significant and protracted breach, reinforcing the signal from the 2017 DSA. Overall, Ethiopia continues to be at high risk of external debt distress, and consequently is at high risk of debt distress overall.

[1] This debt sustainability analysis was conducted using the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017. Please see ¶10 for a description of the composite index-based capacity assessment and the resultant assessment thresholds.

DEBT COVERAGE[2]

Text Table 1. Ethiopia: Coverage of Public and Publicly Guaranteed Debt and Parameters for Contingent Liability Shocks for the Tailored Stress Test

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

Coverage of Public Sector Debt	
1 Central government	X
2 State and local government	X
3 Other elements in the general government	X
4 o/w: Social security fund	X
5 o/w: Extra budgetary funds (EBFs)	X
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	X

Contingent Liabilities not Covered (Combined CL Shock)	Default	User defined
Elements of the general government (1 to 5) not captured in table above	0.0	0.0
SoE's debt (guaranteed and not guaranteed by the government) 1/	2.0	4.0
PPP	0.0	0.0
Financial market (the default value of 5 percent of GDP is the minimum value)	5.0	5.0
Total (2+3+4+5) (in percent of GDP)	7.0	9.0

1/ If government-guaranteed debt is already captured under the public debt definition and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, the default shock of 2% of GDP may be reduce to 0%.

Source: Ethiopian authorities.

1. **Statistical coverage of debt datain Ethiopia is comprehensive (Text Table 1).** The Ministry of Finance and Economic Cooperation (MOFEC) publishes data, on a quarterly basis, on domestic and external debt of the central government and the non-financial public sector, including debt of state-owned enterprises (SOEs) both guaranteed and not guaranteed by the government. Data provided include debt outstanding by type of creditor, disbursements, debt service payments during the fiscal year, currency composition, and details on new debt contracts during the fiscal year. In addition, staffs have included debt from two foreign official bilateral lenders in the form of deposits with the National Bank of Ethiopia (NBE), amounting to US$2 billion in total. Ethiopia recently passed a law governing public-private partnerships (PPPs) and set up a PPP Unit in the MOFEC to administer future agreements. At this stage, some 13 possible projects have been reviewed but no substantial PPPs have been concluded. While the data coverage of potential contingent liabilities is comprehensive, staffs have used a 4-percent shock for contingent liabilities arising from SOEs, larger than the standard 2-percent shock, to cover for other

[2] PPG debt covered by the DSA includes foreign deposits of the National Bank of Ethiopia, the debt of the federal government, regional governments, and all state-owned enterprises that borrow externally, except Ethiopian Airlines (EAL). EAL meets the criteria for exclusion set out in the 2017 Staff Guidance Note on the Debt Sustainability Framework for low-income countries (Appendix III) because it is run on commercial terms, has a sizeable profit margin (as reflected in audited accounts published annually), enjoys managerial independence, and borrows without government guarantee. Nevertheless, statistical data published by the authorities includes the debt of EAL. The debt of Ethiopian Telecom (ETC), which also borrows without a government guarantee, does not meet these criteria and is therefore included in the DSA. The authorities continue to request the exclusion of ETC, which could have a material impact on the results of the DSA. An important requirement in this context is the availability of independent annual financial audits and publicly available comprehensive annual reports.

potential liabilities. These include potential losses arising from the operations of the Development Bank of Ethiopia, which is not a deposit-taking institution but a public financial company that supports long-term private sector projects.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Ethiopia reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in 2004 and benefited from debt relief under the Multilateral Debt Relief Initiative (MDRI) in 2006.**[3] Since then, public and publicly guaranteed (PPG) external debt reached a low of 18 percent of GDP in mid-2012, before rising steadily again to 33½ percent of GDP[4] by 2017/18[5], while total (including domestic) public debt stood at 61½ percent. In FY13-FY15[6], IDA set non-concessional borrowing (NCB) ceilings for Ethiopia in cooperation with the authorities at US$ 1billion. In response to a shift in the risk of debt distress rating from "low" to "moderate," the NCB ceiling was reduced to US$750 million for FY16 and further down to US$400 million for FY17. The US$400 million NCB ceiling was maintained for FY18 when the risk of debt distress rating was increased to "high". Following consecutive breaches of NCB ceilings for FY17 and FY18, IDA decided that the IDA's country allocation to Ethiopia for FY19 will be on a 50-percent grant and 50-percent credit basis. The NCB ceiling for FY19 has been set at zero.

3. **The current change in political leadership is prompting an update of the authorities' development strategy.** Following the election of Abiy Ahmed as Prime Minister in March 2018, the authorities have announced policies aimed at strengthening the role of the private sector in driving growth. The underlying policy goals are broadly in line with the government's Second Growth and Transformation Plan (GTP II)—which envisaged the continuation of an important role for the public sector but with greater private participation in the economy through measures to encourage private investment, including foreign direct investment (FDI) and public-private partnerships (PPPs). Since the political transition, the authorities have indicated they intend to move more rapidly and have since announced their intention to partially privatize key SOEs.

4. **Ethiopia was assessed to be at high risk of external debt distress in the 2017 DSA due to a deterioration in export-related indicators; the authorities have undertaken policies to mitigate these risks.** Export concentration (agricultural commodities, air passenger transportation) and low total export revenue from goods and services (about 8.7 percent of GDP) renders Ethiopia especially vulnerable to export shocks. While total public sector external debt is not comparatively high, it represents a high proportion of exports (351 percent in 2017/18). In response to heightened risks, which were flagged in the 2015 and 2016 DSAs, the authorities reined in public sector borrowing, particularly by state-owned

[3] Debt relief negotiations with a number of bilateral creditors (Bulgaria, Libya, Russia, and FR Yugoslavia) and commercial creditors from Italy, the former Czechoslovakia, India, and FR Yugoslavia are ongoing. The total principal in arrears to these creditors amounted to US$355 million as of June 30, 2018. Standard HPIC terms were assumed for this amount in the DSA.

[4] Including debt outstanding to the Fund.

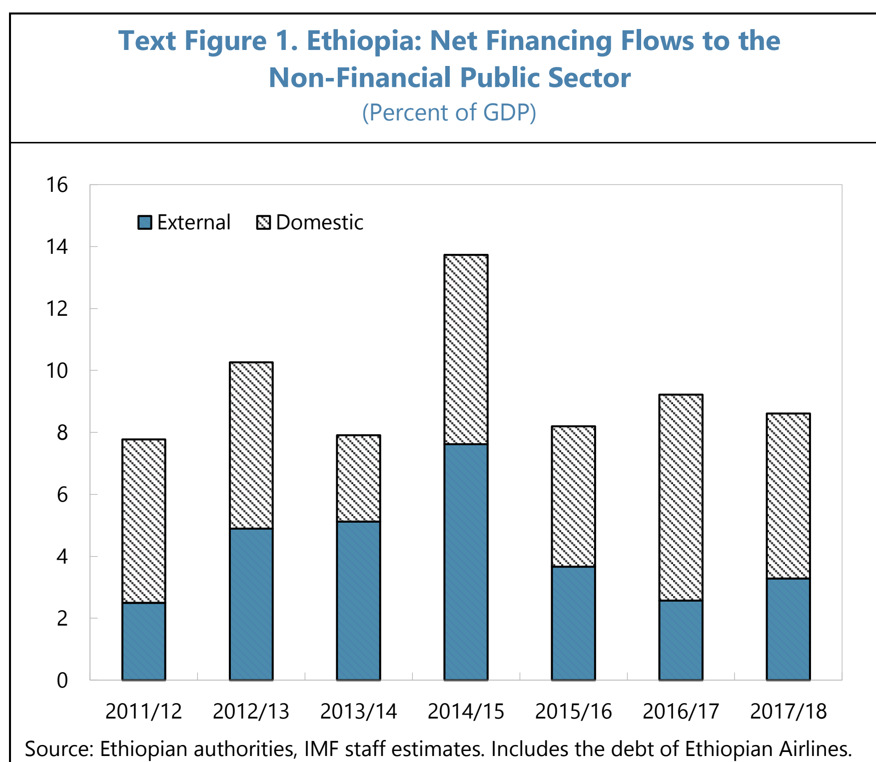
[5] The DSA is based on the Ethiopian fiscal year, which runs from July–June.

[6] Financial years mentioned in this paragraph (prefixed by FY) refer to IDA NCB ceilings and correspond to financial years of the World Bank.

enterprises (Text Figure 1). Since then, a new Public Debt Management and Guarantee Issuance Directive has come into effect, which should further strengthen debt management and buttress the authorities' efforts to control the contracting of new debt. Public sector import restraint has substantially reduced the current account deficit—from 8.1 percent of GDP in 2016/17 to 6.4 percent in 2017/18—despite adverse terms-of-trade dynamics. Aiming to enhance competitiveness, the National Bank of Ethiopia (NBE) devalued the birr by 13.4 percent against the US dollar[7] in October 2017 and tightened the monetary stance to mitigate the exchange rate passthrough.

Text Figure 1. Ethiopia: Net Financing Flows to the Non-Financial Public Sector

(Percent of GDP)



Source: Ethiopian authorities, IMF staff estimates. Includes the debt of Ethiopian Airlines.

5. Ethiopia continues to enjoy robust growth. Real GDP increased by 7.7 percent in 2017/18 on the back of sustained growth in the agriculture sector, export-oriented manufacturing and services. Preliminary data shows a strong uptick in the growth in nominal exports of goods and services (to 13.2 percent) in 2017/18, driven mainly by service exports. Volumes of some traditional exports also grew, and new export lines—mainly manufactures—have started to pick up from a low base.

6. The external deficit was mainly financed by foreign direct investment (FDI) and net borrowing by the public sector. Net FDI was US$3.7 billion (4.5 percent of GDP), a decline from 2016/17, partly due to political uncertainty, while net disbursements to the public sector rose to US$2.3 billion (3.8 percent of GDP). The authorities transferred the majority ownership of the National Tobacco Company to a foreign investor in 2017/18. New public external loans committed in 2017/18 (including loans not guaranteed by the government) amounted to US$3.5 billion. Around

[7] Based on the conventional birr-per-US dollar basis. The authorities' announcement of a 15-percent devaluation is on a US dollar-per-birr basis.

two-thirds were concessional loans from multilateral development agencies and institutions. Of the US$883 million in new loan commitments from commercial banks, around half was from Uni Credit for the Koysha Hydroelectric Project, while the remainder was used for the purchase of planes by Ethiopian Airlines.

Text Table 2. Ethiopia: Public and Publicly-Guaranteed External Debt by Creditor

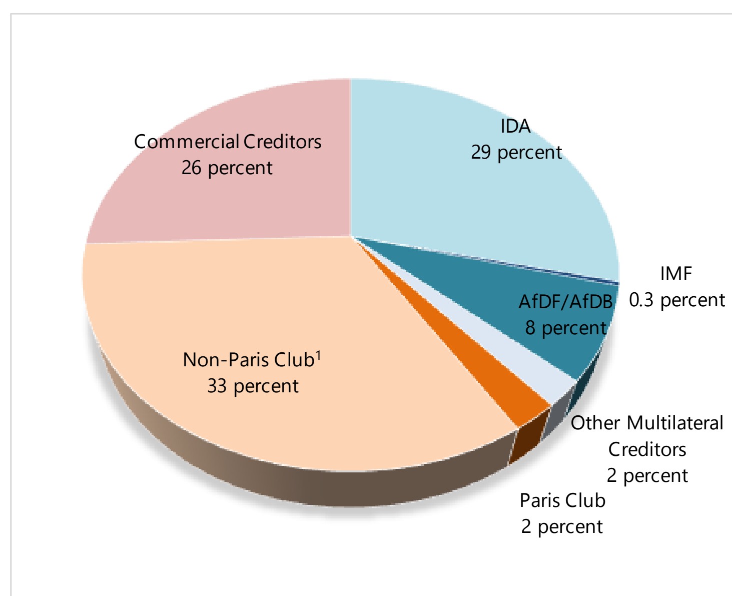
	As at end-June 2017			As at end-June 2018		
	USD, million	Percent of Total	Percent of GDP	USD, million	Percent of Total	Percent of GDP
Total[1]	**24,168**	**100.0**	**30.0**	**27,054**	**100.0**	**33.0**
Official Creditors[1]	**18,312**	**75.8**	**22.7**	**20,117**	**74.4**	**24.6**
Multilaterals	**9,105**	**37.7**	**11.3**	**10,490**	**38.8**	**12.8**
IDA	6,563	27.2	8.1	7,768	28.7	9.5
IMF	142	0.6	0.2	91	0.3	0.1
AfDF/AfDB	1,857	7.7	2.3	2,053	7.6	2.5
Other multilateral creditors	543	2.2	0.7	578	2.1	0.7
Bilaterals[1]	**9,208**	**38.1**	**11.4**	**9,627**	**35.6**	**11.8**
Paris Club	609	2.5	0.8	643	2.4	0.8
Non-Paris Club[1]	8,598	35.6	10.7	8,984	33.2	11.0
Private Creditors	**5,856**	**24.2**	**7.3**	**6,937**	**25.6**	**8.5**
Of which: Bond and Notes Holders	1,000	4.1	1.2	1,000	3.7	1.2

Sources: Ethiopian authorities and IMF staff calculations.

[1] Includes long-term external liabilities of the National Bank of Ethiopia.

Text Figure 2. Ethiopia: Composition of Public and Publicly-Guaranteed External Debt

(As at June 30, 2018)



[1] Includes external liabilities of the National Bank of Ethiopia.

Source: Ethiopian authorities, IMF staff calculations.

OUTLOOK AND KEY ASSUMPTIONS

7. The revised macroeconomic assumptions incorporate updated macroeconomic projections (Box 1 and Text Table 3), which show external vulnerabilities persisting in the near term. The projections are based on current and announced policies, and do not incorporate faster and more ambitious reforms under consideration by the authorities and supported by a series of budget support operations by the World Bank (2018-2020). The main fiscal assumptions assume a continuation of the government's record of prudent budget implementation. The near-term export outlook reflects the positive impact of earlier infrastructure investments including the Hawassa Industrial Park, the new railway line to Djibouti, and hydropower facilities and electricity transmission lines that have come online. The projection envisages the completion of ongoing upgrades to the power generation and transmission infrastructure (particularly to Kenya) and ramp-up of exports from existing and planned industrial parks. External vulnerabilities, arising from low reserve coverage, significant external imbalances and an overvaluation in the real exchange rate, are expected to decline only gradually.

8. Over the medium term, risks are broadly balanced. Downside risks include increases in the price of key imports, particularly oil; delays in the completion of export-supporting infrastructure; and external adverse shocks from lower-than-envisaged growth in global trade or in key trade and investment partners, or in investors sentiment. Ethiopia will also remain vulnerable to the vagaries of coffee prices. The main upside risks stem from implementation of a scaled-up program of reforms to crowd in private sector activity, including privatizations, PPPs, and opening new economic sectors to domestic investors and FDI. Other upside risks include a faster-than-projected ramp-up of exports—driven by industrial parks production; early completion of power transmission lines to export electricity to Kenya (now expected by mid-2019); and commercial exploitation of recently-discovered oil reserves in the Ogaden Valley.

9. The DSA assumes increased support from bilateral and multilateral development partners in the near term. The DSA includes a US$1 billion deposit with the NBE by the Abu Dhabi Fund for Development (ADFD), placed in early 2018/19 in an arrangement similar to the operation with another official bilateral donor described in the 2016 DSA. The ADFD has also agreed to invest a further US$2 billion in Ethiopia, which is assumed to be disbursed as foreign direct investment. Ethiopia is seeking the reprofiling of non-concessional debt to increase its concessionality. Pending conclusion of these negotiations, the revised terms are not included in DSA projections. However, if negotiations were completed successfully, this would improve the debt dynamics—although would not likely change the main results. The DSA also incorporates budget support operations by the World Bank over the coming three years amounting to US$2.2 billion, starting with a US$1.2 billion Development Policy Financing (DPF) in 2018/19. The DPF is envisaged to comprise of 50 percent grants, and the remainder on IDA terms. The NCB ceiling has been set at zero for 2018/19, and NCB disbursements from previously contracted loans will remain moderate until 2022/23 before prospectively picking up again at the end of the projection period. The grant element of new financing will remain high, reflecting Ethiopia's current level of development and extended need for concessional financial support over the longer term (Table 1).

Box 1. Key Macroeconomic and Debt Assumptions

Real GDP growth, at 7.7 percent in 2017/18, is expected to strengthen to 8.5 percent in 2018/19 before stabilizing at 7 over the medium term. Continuing investment in infrastructure, with an emphasis on private sector involvement, and improving productivity, as FDI and export-oriented industries expand, should ensure the growth momentum is maintained going forward. However only gradual alleviation of the forex shortages and continuing restraint on public investment underpins a moderate mark-down in medium-term growth projections. Growth in the very long term is expected to converge to 5-6 percent as Ethiopia becomes a middle-income country. CPI inflation, which is expected to be elevated in the near term, is projected to converge to the 8 percent target of the NBE by end-2019 and remain at that rate in the long run. The general government overall deficit is projected to decline to about 2.7 percent of GDP, with gradual progress in tax collection offsetting increased investment and social spending. In particular, revenue mobilization continues to lag expectations, led by shortfalls in tax collections. The projections therefore have been revised to take into account the reduced revenue ratio, which will only improve gradually as tax policy and administration reforms bear fruit.

The external current account deficit (including official transfers) is estimated at 6.4 percent of GDP in 2017/18. Gradual improvement of export performance, a moderate pick-up in capital goods imports, and steady inflows of remittances (although slowly declining as a ratio to GDP) will lead to a gradual reduction of the deficit over the longer term. Economic transformation is expected to ameliorate external imbalances, with more dynamic and diversified exports and a phase-down in public imports of capital goods.

Exports of goods and services in dollar terms are estimated to have grown by 13.2 percent in 2017/18 driven by a strong performance of service exports. Coffee export revenue declined due to adverse price dynamics. The improvement in volumes and rising manufacture exports from new industrial parks are expected to be supported by continued public investment in energy and transport infrastructure and private investment (including FDI). In addition, services exports should be sustained by growth in air transport on the back of sustained investment and route expansion by EAL over the medium term. As a result, exports of goods and services are envisaged to rise to 13.5 percent of GDP by 2038/39.

Imports of goods and services remained flat in 2017/18 after declining by 4.8 percent in 2016/17. Over the longer term, imports should expand at an annual average rate of 6.3 percent while their share to GDP will decline from 23.5 percent in 2017/18 to 19.4 percent by 2038/39.

Net FDI inflows, while remaining high, declined to US$3.7 billion (4.5 percent of GDP) in 2017/18. Net FDI inflows are projected to recover to US$5.6 billion by 2022/23. This reflects improved competitiveness and ongoing policies to attract foreign investment. Private transfers increased by 10.7 percent in 2017/18, as inflows from individuals, mainly remittances, grew sharply by 15.7 percent. Transfers from non-governmental organizations continued to decline following the improvement in drought conditions. Projections assume remittances will amount to about 2.1 percent of GDP by 2038/39.

Text Table 3. Ethiopia: Key Macroeconomic and Debt Assumptions—Comparison with the Previous Debt Sustainability Analysis

Fiscal year ending June	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2026/27	2036/37	2037/38	2038/39
	Actual	Projections								
Grant Element of New External Borrowing										
2018DSA		51.5	44.6	45.9	48.8	47.6	49.6	33.0	32.3	32.3
2017DSA		46.3	48.6	50.3	50.2	49.7	59.4	31.6	31.4	n.a.
New Non-Concessional Debt Disbursements (billions of U.S. dollars)										
2018DSA		0.000	0.637	0.550	0.184	0.434	0.300	1.250	1.250	1.250
2017DSA		0.654	0.452	0.388	0.292	0.303	0.000	1.250	1.250	n.a.
Real GDP Growth (annual percent change)										
2018DSA	7.7	8.5	7.6	7.1	7.0	7.0	6.2	5.4	4.8	4.5
2017DSA	9.0	8.5	8.3	8.1	8.0	8.0	6.2	5.0	5.0	n.a.
Current Account Balance (percent of GDP)										
2018DSA	-6.4	-6.2	-5.8	-5.2	-4.2	-3.8	-3.6	-2.9	-2.6	-2.4
2017DSA	-7.7	-7.5	-6.8	-6.1	-5.5	-5.6	-5.0	-3.3	-3.0	n.a.
Exports of goods and services (percent of GDP)										
2018DSA	8.6	8.6	8.9	9.2	9.7	10.2	10.8	12.6	13.0	13.5
2017DSA	8.3	9.1	9.5	9.9	10.3	10.6	11.6	13.3	13.5	n.a.
Exports of goods and services (annual percent change)										
2018DSA	13.2	12.7	12.6	12.6	13.6	14.3	8.2	9.5	9.3	9.8
2017DSA	12.9	13.4	13.9	14.2	14.2	12.1	8.6	8.9	8.7	n.a.
Fiscal balance (percent of GDP)										
2018DSA	-3.7	-3.1	-3.0	-2.9	-2.8	-2.7	-2.2	-1.9	-1.9	-1.9
2017DSA	-2.5	-2.5	-2.3	-2.2	-2.1	-2.7	-2.3	-1.9	-1.9	n.a.
International reserves (Billions of U.S. dollars)										
2018DSA	2.8	3.4	3.9	4.7	5.9	7.5	9.7	17.6	18.4	19.8
2017DSA	3.7	4.4	5.0	5.7	6.3	6.8	9.8	22.0	23.4	n.a.
General government revenue (percent of GDP)										
2018DSA	12.8	13.0	13.1	13.3	13.5	13.9	17.7	22.2	22.3	22.9
2017DSA	14.7	15.1	15.5	15.8	16.3	17.0	17.8	19.9	20.1	n.a.

Sources: Ethiopian authorities; IMF and World Bank staff estimates and projections.

10. Ethiopia's debt carrying capacity is assessed as "medium". The Composite Index (CI) for Ethiopia, which measures the debt carry capacity in the current LIC-DSF, stands at 2.72, within the 2.69 to 3.05 range for medium capacity countries. Underlying inputs for the calculation of the CI were sourced from the IMF's October 2018 WEO, and an update of the Country Policy and Institutional Assessment to 2017 levels. With this assessment, the DSA uses the following thresholds to assess risk of external debt distress:

- Present value of PPG external debt-to-GDP: 40 percent
- Present value of PPG external debt-to-exports: 180 percent
- External debt service-to-exports: 15 percent
- External debt service-to-revenue: 18 percent

Ethiopia qualifies for the market financing risk module by virtue of the US$1 billion Eurobond, which matures in 2024.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

A. Baseline Scenario

11. The baseline shows the stock of external public and publicly guaranteed debt remaining relatively stable through 2019/20, then declining gradually thereafter (Table 1). The present value (PV) of debt-to GDP (PVDY) remains well below its threshold[8] throughout the projection period (Figure 1), while a second stock indicator——the PV of debt-to-exports (PVDE)—— exhibits large and persistent breaches of its threshold. The threshold breach observed for the PVDE is greatest in 2018/19 (56 percentage points above the threshold) and will not fall below the threshold until 2021/22 (3 years), similar to the results in the last DSA.

12. The profiles of two debt service indicators reflects the maturity profile of NCB. As in the 2017 DSA, debt service-to-exports (DSE) shows a breach, which is now significantly larger and more persistent than in the 2017 assessment. The ratio exceeds its threshold in 2018/19 and peaks in 2019/20 (22 percent, a 7-percentage point breach above the 15-percent threshold) before declining to below the threshold in 2023/24. The indicator then breaches the threshold again in 2025/26 (2.5 percentage points). The deterioration in the DSE indicator reflects the lowering of the threshold used in assessing debt sustainability (previously: 20 percent) based on updated estimates of debt distress probabilities, and the accumulation of new liabilities amounting to US$1 billion by the NBE from a bilateral donor that increase amortization payments from 2020/21.

B. Stress Tests and Additional Analysis

13. The standard stress tests confirm that the key risks are related to the two indicators flagged in the baseline (Figure 1 and Table 3). The PVDY remains below the baseline under all stress test scenarios throughout the projection period. For both the PVDE and DSE ratios, the most significant shock is that to exports: a one-standard deviation shock to export growth[9] leads to a 7-year breach for the PVDE indicator, and an 8-year breach for the DSE indicator. The debt service-to-revenue indicator is most significantly affected by a one-time 30 percent nominal depreciation of the currency. Under this scenario, the indicator exceeds the 18-percent threshold in 2019/20-2020/21.

[8] The new LIC-DSF, similar to the previous one, assesses the risk of debt distress by observing the evolution of selected indicators against predetermined thresholds that are set according to countries' debt carrying capacities. The indicators are identical to those in the previous LIC-DSF, with the exception of the PV of debt-to-government revenues (PVDR), which is no longer used. This was dropped as it was found to add no new information in the process of determining the risk of debt distress. See IMF Policy Paper on Review of the Debt Sustainability Framework for Low Income Countries: Proposed Reforms, October 2017.

[9] This is computed relative to the projections or historical data, whichever is lower.

14. A shock to the terms of market financing worsens indicators related to debt service (Figure 5). Ethiopia's only marketable debt is the Eurobond, which matures in 2024. Under the baseline, both the near-term gross financing need and market perception of risk (the spread between the yield of the debt and the EMBI) remain below the thresholds that signal heightened risk. A shock to the financing terms would substantially worsen the debt service indicators, particularly the debt service-to-export ratio.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

15. External debt accounts for about 56 percent of total public and publicly guaranteed (PPG) debt (Text Table 4). As at end-June 2018, total PPG debt amounted to 61.8 percent of GDP,[10] an increase of 4 percentage points compared to June 2017, largely due to an increase in the domestic currency value of external debt outstanding. This mainly reflected the devaluation of the birr in October 2017. Domestic debt made up 44 percent of total debt, with domestic debt of the central government accounting for 21.4 percent of this, and the remainder corresponding to SOEs. The bulk of the domestic debt of the central government is owed to banks, primarily the NBE, largely reflecting advances to finance the budget. The remainder mainly comprises Treasury bills held by commercial banks. Domestic borrowing by the SOEs, whether through loans or bond issuance, was entirely from domestic banks.

Text Table 4. Ethiopia: Composition of Public and Publicly-Guaranteed Debt

	As at end-June 2017			As at end-June 2018		
	Billions of birr	Percent of total	Percent of GDP	Billions of birr	Percent of total	Percent of GDP
Total [1]	**1160.4**	**100.0**	**57.7**	**1404.7**	**100.0**	**61.8**
External [1]	**658.9**	**56.8**	**30.0**	**789.2**	**56.2**	**33.0**
Domestic	**501.5**	**43.2**	**27.8**	**615.5**	**43.8**	**28.8**
Central government	238.5	20.6	13.2	300.6	21.4	14.1
Banks	*178.4*	*15.4*	*9.9*	*219.6*	*15.6*	*10.3*
NBE	*135.6*	*11.7*	*7.5*	*160.1*	*11.4*	*7.5*
Other banks	*42.8*	*3.7*	*2.4*	*59.5*	*4.2*	*2.8*
Non-banks	*60.1*	*5.2*	*3.3*	*81.0*	*5.8*	*3.8*
SOEs	263.0	22.7	14.6	314.9	22.4	14.7

Source: Ethiopian authorities, IMF staff calculations.
[1] Includes external liabilties of the National Bank of Ethiopia.

16. Overall public debt does not flag additional risks to those stemming from the external debt (Figure 2). The present value of total public debt stays well below the threshold of 55 percent of GDP in the baseline and under all scenarios considered throughout the projection period. This baseline assumes a gradual increase in domestic interest rates, achieving positive real interest rates by 2030/31, and a gradual shift away from external financing towards domestic financing as domestic financial markets develop. This development assumes a gradual phasing out of monetary financing of the government by the NBE. The

[10] Including external deposits of the NBE.

debt service burden is expected to reach 4.4 percent of GDP in 2028/29 as the lower annual amortization arising from a gradual shift to domestic debt of longer maturities offsets the increase in domestic interest rates due to a shift to market-determined interest rates and greater use of debt of longer maturities.[11] Looking at the stress-tests to public debt, the combined contingent liabilities shock results in the largest impact on all the ratios.

C. Decomposing Debt Developments and Realism of Projections

17. The debt and macroeconomic projections underpinning this 2018 DSA are not significantly different from the previous 2017 vintage (Figure 3). The accumulation of debt in Ethiopia over the last 5 years has been primarily driven by the investment activity of SOEs. Going forward, the DSA assumes that the authorities will continue their policy of strictly limiting external borrowing, especially NCB, and as such debt accumulation will be lower than in the last 5 years for which data is available. The projected rate of debt accumulation is significantly below the median observed for other low-income countries (LICs), but the authorities' disciplined implementation of policies since 2015/16 accords with the projected path. The current account deficit was the main factor behind the worsened external debt dynamics in the most recent 5-year period—which was partly offset by favorable contributions from growth. Looking forward, GDP gains and a narrowing current account deficit should underpin improvement in external debt. Higher domestic interest rates will likely weigh on future domestic (and hence overall) debt dynamics.

18. The macroeconomic projections are consistent with historical patterns and those observed in other LICs (Figure 4). In particular, the amount of fiscal adjustment assumed is close to the median observed for LICs historically and would bring Ethiopia's fiscal deficit close to its historical average. The key component of the policy adjustment falls on the larger public sector, mainly the SOEs, which has been ongoing since 2016/17. This also accounts for the markdown in public investment projections in the near term relative to earlier DSAs, while over the medium term, private investment, including FDI, is expected to play an increasingly larger role in driving growth. While plausible, the macroeconomic and debt assumptions underscore the ambitious scope of the adjustment policies. Slippages could therefore further affect debt sustainability.

ASSESSMENT

19. The external DSA confirms that Ethiopia remains at high risk of debt distress. While export revenue and volumes in 2017/18 strengthened, declining commodity prices caused overall export performance to fall below expectations, keeping the two indicators related to exports above their

[11] The debt service burden in 2018/19 shown in Figure 2 reflects a methodological change in the new LIC-DSF wherein the entire stock of short-term domestic debt—mainly Treasury bills—that comes due during the year is being treated as amortization of debt. In the previous framework, short-term domestic debt maturing was excluded from debt service payments as it was expected these obligations would be rolled over. Staffs do not consider this methodological change as signaling additional risks: the authorities have been able to roll over this debt readily in the past and owing to the structure of Ethiopia's financial system and the lack of alternative instruments, staffs expects this to extend in the near term. In terms of magnitude, maturing domestic short-term debt accounts for 74.4 percent of the total public debt service coming due in 2018/19.

respective thresholds in the baseline. The main vulnerabilities remain those that arise from Ethiopia's narrow export base—concentrated in primary commodities and air transportation—and volatility of export prices. While the export mix has diversified in recent years and manufactured exports are growing at double-digit rates, the levels of most new export lines remain still low. Thus, while external debt is not comparatively high as a percent of GDP (33 percent), it represents a high proportion of exports.

20. While liquidity risks are elevated, the public debt remains sustainable. The level of debt is moderate—61.8 and 33.3 percent of GDP respectively for total and external debt (Tables 3 and 4). The debt level and debt service profiles stabilize and decline in the medium term both under the baseline and alternative scenarios. This stabilization and decline is achieved with a projected fiscal adjustment that is within the three lower quartiles of the cross-country historical distribution (Figure 4)—indicating the fiscal adjustment assumption in the baseline is realistic. In addition, the authorities could undertake stronger consolidation if extreme circumstances required it, since budget control is strong as evidenced by a track record of budget expenditure under-execution when required to meet budgetary targets. The debt structure also reduces rollover risks and hence argues for its sustainability: About 74 percent of external debt is owed to official multilateral and bilateral creditors (Text Figure 2) and a large proportion of it is concessional. A US$ 1 billion Eurobond (with remaining maturity of six years) is the only outstanding external marketable security.

21. Domestic debt dynamics do not pose additional risks; but highlight the need to mobilize domestic savings and expand financial intermediation. The projected path and composition of public debt is predicated on gradually shifting the public financing burden increasingly towards domestic markets. This assumes the development of deeper and more efficient domestic debt markets, with higher remuneration of savers and interest rates increasingly determined supply and demand. In turn, increasingly market-driven public financing costs will require efforts to generate savings in the broader public sector.

22. Adverse shocks to exports would lead to a worsening of debt sustainability prospects. The projected export growth is based on identified projects with positive spillovers and is starting to materialize. However, the large share of commodity exports, subject to volatile prices, and low NBE reserves remain sources of vulnerability. Should reforms stall, particularly regarding promotion of FDI and private sector development, fiscal and SOE savings, and financial markets development, the associated worsening of the external balance of payments could prompt debt stress episodes and adversely affect growth.

23. The authorities have implemented policies to address these risks, broadly in line with staffs' advice, but these policies need to be stepped up. NCB by SOEs is being reined in. As a result, imports and the current account deficit have declined. The exchange rate was devalued by 13.4 percent in October 2017, and the NBE also adopted a tight monetary policy stance, though credit growth and inflation remain high. The real overvaluation of the birr is estimated to have declined to a range of 12-18 percent from about 20 percent one year prior. However, gaining competitiveness and rebuilding reserves will necessitate a more flexible exchange rate policy and a continuation of measures to further restrict the fiscal and monetary policy stances. The acquisition of non-concessional liabilities by the NBE in recent years to alleviate balance-of-payments financing stress is not sustainable, as debt servicing obligations are posing increasing and substantial risks. Policies to reduce external vulnerabilities should retain their medium-term focus on competitiveness and export diversification. But, in the short term, there is a need to step up efforts

at mobilizing domestic savings, curbing debt- and import-intensive public projects, and seeking instead private sector-based funding sources for the provision of public goods and external financing such as concessions to private investors, PPPs (with adequate fiscal safeguards), and privatization proceeds. The fiscal governance framework could be further improved by strengthening transparency and oversight of SOEs, improved communication on the budget preparation and monitoring process, and over extra-budgetary funds maintained by the government.[12]

Authorities' Views

24. The authorities agreed that the external position remains vulnerable but consider the conditions for a sustained export take-off are now in place, which would reduce risks and improve the debt sustainability outlook. In addition, the normalization of the political environment should see an increase in FDI and remittance flows from the diaspora, further reducing risks. Medium-term prospects are strong as implementation of announced reforms should sustain growth and narrow external imbalances. Thus, they continue to view the DSA as overstating risks, and considered there was a strong case for the use of judgment to override the mechanical signal. The authorities argued for the exclusion of the debts of Ethiopian Telecom from the DSA, citing the company's profitability and strong balance sheet position as the basis. Staffs noted the lack of audited financial statements since 2014/15, which the authorities are currently working to rectify, and look forward to examining more recent information in future missions.

[12] The Federal Republic of Ethiopia: Staff Report for the 2017 Article IV Consultation (IMF Country Report 18/18).

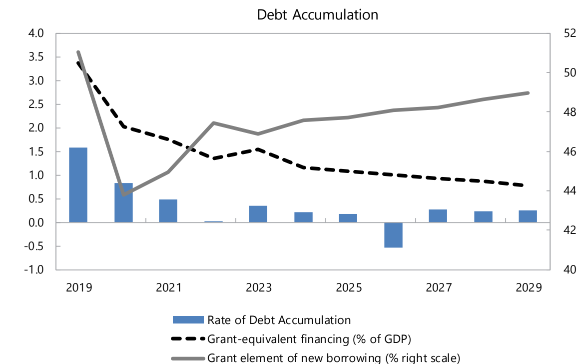
Table 1. Ethiopia: External Debt Sustainability Framework, Baseline Scenario, 2017/18–2038/39

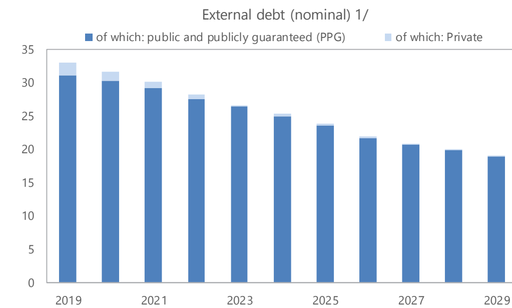
(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 9/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	34.1	33.0	31.6	30.2	28.2	26.5	25.3	19.0	11.9	25.5	25.5
of which: public and publicly guaranteed (PPG)	31.6	31.1	30.3	29.2	27.5	26.4	25.0	18.9	11.8	23.4	25.5
Change in external debt	3.2	-1.0	-1.4	-1.4	-2.0	-1.6	-1.2	-0.9	-0.6		
Identified net debt-creating flows	1.4	-1.0	-1.4	-1.5	-2.3	-2.4	-2.3	-1.0	-0.5	0.3	-1.8
Non-interest current account deficit	5.7	5.7	5.2	4.7	3.8	3.4	3.3	3.4	2.2	5.8	3.9
Deficit in balance of goods and services	-32.1	-32.4	-31.9	-32.0	-31.9	-32.0	-32.0	-31.4	-32.9	-39.9	-31.9
Exports	8.6	8.6	8.9	9.2	9.7	10.2	10.5	11.0	13.5		
Imports	-23.5	-23.7	-23.0	-22.8	-22.3	-21.8	-21.5	-20.3	-19.4		
Net current transfers (negative = inflow)	-8.9	-9.6	-8.9	-9.0	-8.8	-8.2	-7.7	-5.8	-3.7	-11.5	-7.9
of which: official	-1.5	-2.4	-1.6	-1.6	-1.5	-1.5	-1.4	-1.3	-1.1		
Other current account flows (negative = net inflow)	46.7	47.7	46.1	45.6	44.5	43.6	42.9	40.6	38.8	57.1	43.7
Net FDI (negative = inflow)	-4.5	-4.6	-4.9	-4.7	-4.5	-4.4	-4.2	-3.4	-2.3	-3.5	-4.3
Endogenous debt dynamics 2/	0.2	-2.1	-1.7	-1.5	-1.5	-1.4	-1.4	-1.0	-0.4		
Contribution from nominal interest rate	0.7	0.5	0.6	0.5	0.5	0.4	0.4	0.2	0.1		
Contribution from real GDP growth	-2.3	-2.6	-2.3	-2.1	-2.0	-1.8	-1.7	-1.1	-0.5		
Contribution from price and exchange rate changes	1.8	...	...	...	...	...	...	...	...		
Residual 3/	1.9	-0.1	-0.1	0.1	0.3	0.8	1.1	0.1	-0.2	1.8	0.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	21.4	20.4	19.4	18.3	16.9	15.9	14.9	10.6	7.5		
PV of PPG external debt-to-exports ratio	247.9	236.2	218.2	198.6	174.9	156.3	142.2	96.3	55.7		
PPG debt service-to-exports ratio	24.4	16.5	22.0	21.0	18.7	16.9	13.4	7.5	4.6		
PPG debt service-to-revenue ratio	16.4	11.0	14.9	14.6	13.4	12.4	9.2	4.3	2.7		
Gross external financing need (Million of U.S. dollars)	2945.6	2632.8	2573.3	2354.1	1469.1	1098.3	764.9	1681.5	2107.3		
Key macroeconomic assumptions											
Real GDP growth (in percent)	7.7	8.5	7.6	7.1	7.0	7.0	7.0	6.2	4.5	9.8	7.4
GDP deflator in US dollar terms (change in percent)	-5.6	3.6	1.6	1.5	1.1	1.4	1.4	1.1	1.1	2.3	1.8
Effective interest rate (percent) 4/	2.3	1.6	1.9	1.8	1.7	1.5	1.5	1.0	1.1	2.1	1.7
Growth of exports of G&S (US dollar terms, in percent)	13.2	12.7	12.6	12.6	13.6	14.3	11.4	8.6	9.8	9.2	12.9
Growth of imports of G&S (US dollar terms, in percent)	0.2	13.6	5.9	7.5	6.0	6.4	6.9	6.4	6.1	9.4	7.7
Grant element of new public sector borrowing (in percent)	...	51.0	43.8	44.9	47.4	46.9	47.6	49.0	31.4	...	46.9
Government revenues (excluding grants, in percent of GDP)	12.8	13.0	13.1	13.3	13.5	13.9	15.2	19.3	22.9	13.8	13.7
Aid flows (in Million of US dollars) 5/	689.5	4555.2	2896.0	2772.7	2322.9	3011.6	2341.5	2364.0	1607.6		
Grant-equivalent financing (in percent of GDP) 6/	...	3.4	2.0	1.8	1.3	1.5	1.2	0.8	0.4	...	1.9
Grant-equivalent financing (in percent of external financing) 6/	...	64.1	53.3	54.2	58.1	54.7	57.3	57.8	52.0	...	57.0
Nominal GDP (Million of US dollars)	81,927	92,124	100,714	109,460	118,471	128,570	139,549	202,541	386,159		
Nominal dollar GDP growth	1.6	12.4	9.3	8.7	8.2	8.5	8.5	7.4	5.6	12.2	9.3
Memorandum items:											
PV of external debt 7/	23.8	22.3	20.7	19.3	17.6	16.0	15.2	10.7	7.6		
In percent of exports	276.1	258.2	232.6	209.1	182.2	157.4	145.6	97.2	56.1		
Total external debt service-to-exports ratio 8/	28.3	19.8	24.8	23.4	20.8	18.5	14.4	7.5	4.6		
PV of PPG external debt (in Million of US dollars)	17502.0	18795.7	19552.6	20039.0	20043.9	20467.5	20739.9	21553.7	29057.9		
(PVt-PVt-1)/GDPt-1 (in percent)		1.6	0.8	0.5	0.0	0.4	0.2	0.3	0.1		
Non-interest current account deficit that stabilizes debt ratio	2.5	6.7	6.7	6.1	5.7	5.0	4.5	4.3	2.9		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Includes MLT private sector debt.

9/ Historical averages are generally derived over the past 10 years, subject to data availability. Projections averages is the first year of projection and the next 10 years.

Table 2. Ethiopia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017/18–2038/39

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 5/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**58.5**	**54.0**	**51.5**	**49.2**	**47.2**	**45.2**	**43.0**	**30.9**	**12.5**	**46.1**	**43.8**
of which: external debt	**31.6**	**31.1**	**30.3**	**29.2**	**27.5**	**26.4**	**25.0**	**18.9**	**11.8**	**23.4**	**25.5**
Change in public sector debt	5.6	-4.6	-2.5	-2.2	-2.0	-2.1	-2.1	-2.5	-0.7		
Identified debt-creating flows	**0.1**	**-4.7**	**-2.6**	**-2.5**	**-2.2**	**-2.2**	**-2.2**	**-2.5**	**-1.4**	**-4.0**	**-2.6**
Primary deficit	**3.2**	**2.5**	**2.4**	**2.2**	**2.0**	**1.8**	**1.6**	**-0.5**	**-0.8**	**1.7**	**1.4**
Revenue and grants	13.7	14.4	13.7	13.8	14.0	14.3	15.5	19.5	23.1	**15.6**	**15.6**
of which: grants	0.8	1.4	0.6	0.5	0.5	0.4	0.4	0.2	0.2		
Primary (noninterest) expenditure	16.9	17.0	16.2	16.0	16.0	16.1	17.1	19.0	22.3	**17.3**	**17.0**
Automatic debt dynamics	**-2.7**	**-7.2**	**-5.0**	**-4.7**	**-4.2**	**-4.0**	**-3.8**	**-2.0**	**-0.6**		
Contribution from interest rate/growth differential	-5.0	-6.7	-5.0	-4.8	-4.4	-4.2	-4.0	-2.1	-0.7		
of which: contribution from average real interest rate	-1.2	-2.1	-1.2	-1.4	-1.2	-1.1	-1.0	-0.2	-0.2		
of which: contribution from real GDP growth	-3.8	-4.6	-3.8	-3.4	-3.2	-3.1	-3.0	-2.0	-0.6		
Contribution from real exchange rate depreciation	2.3	-0.5	0.1	0.1	0.2	0.1	0.1	...	...		
Other identified debt-creating flows	**-0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.2**	**0.0**
Privatization receipts (negative)	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**5.6**	**0.1**	**0.1**	**0.2**	**0.2**	**0.1**	**0.1**	**0.0**	**0.7**	**6.0**	**0.1**
Sustainability indicators											
PV of public debt-to-GDP ratio	**49.2**	**44.2**	**41.4**	**39.2**	**37.4**	**35.4**	**33.6**	**23.1**	**8.5**		
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PV of public debt-to-revenue and grants ratio	**360.5**	**306.3**	**301.5**	**283.2**	**268.1**	**247.4**	**216.4**	**118.3**	**36.8**		
PV of public debt-to-revenue ratio	**384.1**	**339.4**	**316.2**	**294.9**	**277.4**	**254.9**	**221.7**	**119.7**	**37.2**		
Debt service-to-revenue and grants ratio 2/	**26.2**	**72.8**	**73.1**	**68.4**	**61.3**	**55.2**	**46.0**	**22.5**	**3.1**		
Debt service-to-revenue ratio 2/	**27.9**	**80.7**	**76.7**	**71.3**	**63.5**	**56.9**	**47.2**	**22.7**	**3.2**		
Gross financing need 3/	6.8	13.0	12.5	11.7	10.6	9.7	8.7	3.9	-0.1		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	7.7	8.5	7.6	7.1	7.0	7.0	7.0	6.2	4.5	**9.8**	**7.0**
Average nominal interest rate on public debt (in percent)	2.7	1.7	2.1	2.1	2.1	2.3	2.5	3.9	1.2	**3.0**	**2.6**
Average nominal interest rate on forex debt (in percent)	2.5	1.7	2.0	1.9	1.7	1.6	1.5	1.0	1.1	**2.2**	**1.5**
Average real interest rate (in percent)	-2.5	-3.9	-2.5	-2.9	-2.5	-2.4	-2.3	-0.6	-1.4	**-4.0**	**-2.2**
Average real interest rate on foreign-currency debt (in percent)	-1.2	-1.8	-1.8	-2.0	-1.9	-1.9	-2.0	-2.0	-2.0	**-1.6**	**-1.9**
Average real interest rate on domestic debt (in percent)	-6.7	-8.3	-6.0	-5.8	-5.1	-4.8	-4.4	-0.2	-5.1	**-7.9**	**-4.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	8.8	-1.7	...	...	...	...	...	...	...	**0.4**	**...**
Inflation rate (GDP deflator, in percent)	9.9	10.9	8.7	8.6	8.2	8.5	8.5	8.2	8.2	**13.2**	**8.7**
Growth of real primary spending (deflated by GDP deflator, in percent)	2.0	9.2	2.5	6.2	6.8	7.9	13.6	7.1	8.6	**2.7**	**8.3**
Grant element of new external borrowing (in percent)	...	51.0	43.8	44.9	47.4	46.9	47.6	49.0	31.4	**...**	**47.4**
Primary deficit that stabilizes the debt-to-GDP ratio 4/	-2.4	7.1	4.9	4.4	4.0	3.9	3.7	2.0	-0.1	**0.2**	**3.9**

Sources: Country authorities; and staff estimates and projections.

1/ The entire public sector, including SOEs. Definition of external debt is Currency-based.

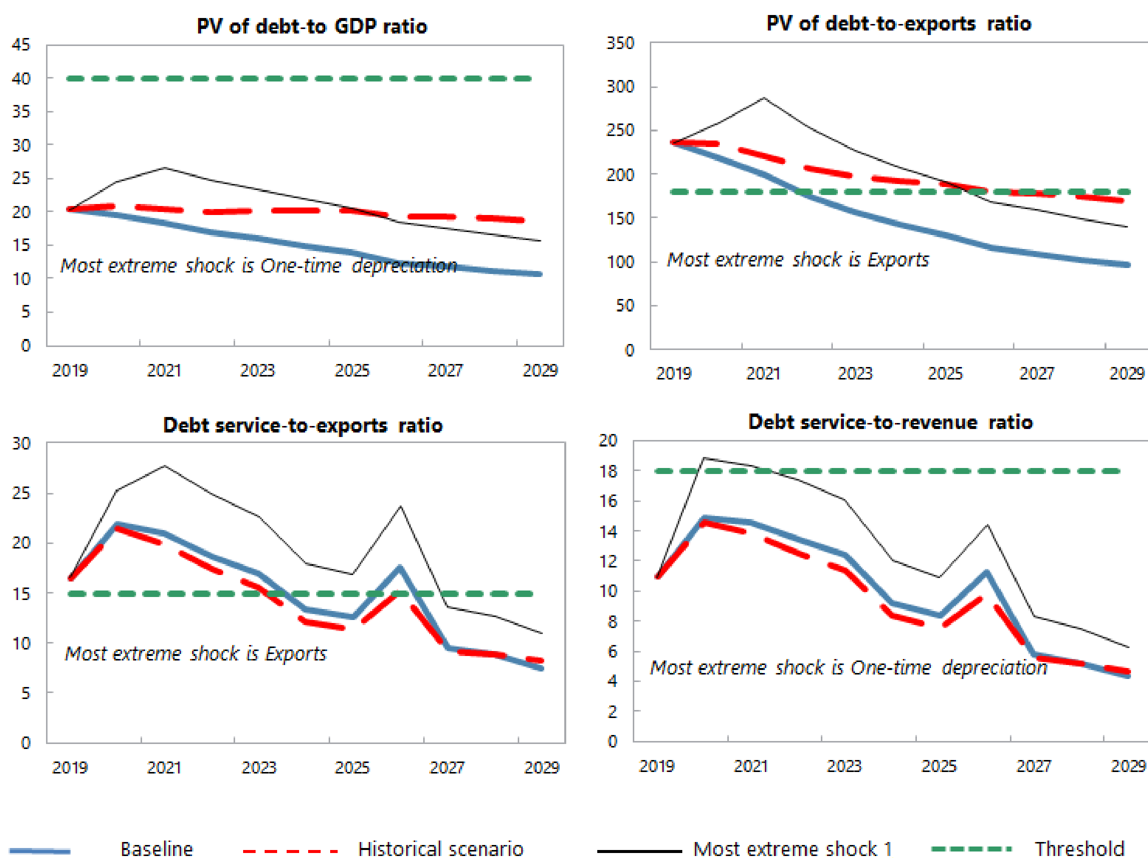
2/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

4/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

5/ Historical averages are generally derived over the past 10 years, subject to data availability. Projections averages is the first year of projection and the next 10 years.

Figure 1. Ethiopia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2019–29[1/]



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CIs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings of the stress tests. n.a. indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	100%
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period (minimum 1)	5	5

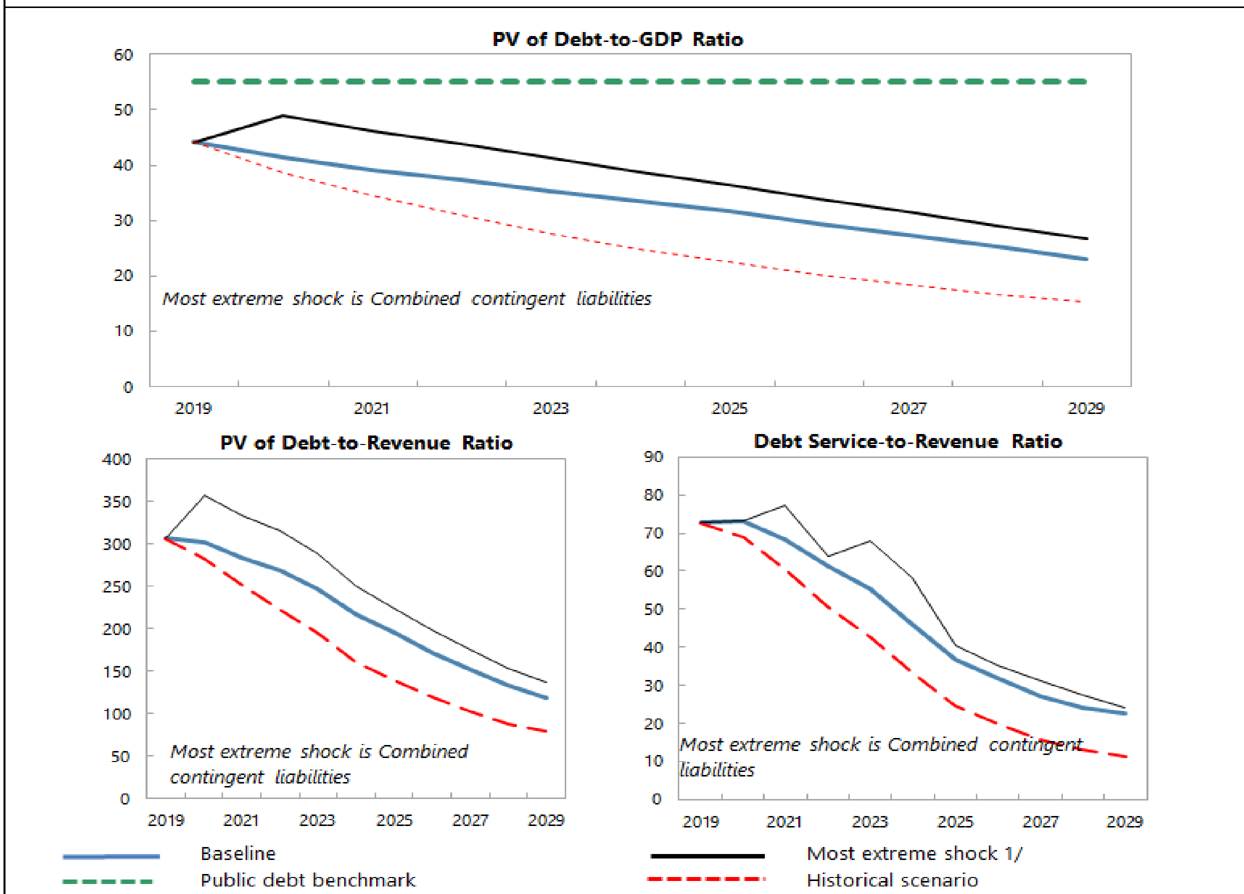
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities, and staff estimates and projections

[1/] The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches is also presented.

[2/] The magnitude of shocks are based on the commodity prices outlook prepared by the IMF Research department.

Figure 2. Ethiopia: Indicators of Public Debt Under Alternative Scenarios, 2019–29[1/]



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	34%	34%
Domestic medium and long-term	54%	54%
Domestic short-term	12%	12%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period (minimum 1)	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	-3.0%	-3.0%
Avg. maturity (incl. grace period)	4	4
Avg. grace period (minimum 1)	2	2
Domestic short-term debt		
Avg. real interest rate	-6%	-6.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities, and staff estimates and projections

[1/] The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches is also presented.

Table 3. Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

(In percent)

	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	**20.4**	**19.4**	**18.3**	**16.9**	**15.9**	**14.9**	**13.9**	**12.4**	**11.8**	**11.2**	**10.6**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	20.4	20.8	20.4	19.9	20.1	20.1	20.1	19.4	19.3	19.0	18.7
B. Bound Tests											
B1. Real GDP growth	20.4	19.8	19.0	17.6	16.5	15.4	14.4	12.9	12.2	11.6	11.0
B2. Primary balance	21.3	20.8	19.8	18.4	17.3	16.2	15.2	13.6	13.0	12.3	11.7
B3. Exports	20.4	20.1	20.1	18.7	17.6	16.5	15.4	13.9	13.1	12.4	11.8
B4. Other flows 2/	20.4	21.9	23.0	21.5	20.3	19.1	17.9	16.2	15.3	14.4	13.6
B5. One-time 30 percent nominal depreciation	20.4	24.5	26.6	24.7	23.3	21.8	20.5	18.5	17.5	16.5	15.6
B6. Combination of B1-B5	20.4	22.4	23.6	22.0	20.8	19.5	18.4	16.6	15.6	14.7	13.9
C. Tailored Tests											
C1. Combined contingent liabilities	21.3	22.2	21.2	19.8	19.0	18.1	17.1	15.5	14.9	14.3	13.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	20.4	21.8	20.7	19.2	18.0	16.7	15.5	13.7	13.0	12.3	11.8
PV of debt-to-exports ratio											
Baseline	**236.2**	**218.2**	**198.6**	**174.9**	**156.3**	**142.2**	**131.0**	**115.1**	**108.7**	**102.2**	**96.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	236.2	234.3	220.8	206.1	197.0	192.5	189.3	180.0	177.9	173.9	168.8
B. Bound Tests											
B1. Real GDP growth	236.2	218.2	198.6	174.9	156.3	142.2	131.0	115.1	108.7	102.2	96.3
B2. Primary balance	246.7	233.9	215.1	189.9	170.0	155.3	143.6	126.7	119.8	112.7	106.2
B3. Exports	236.2	258.0	286.3	253.0	226.5	206.6	190.8	168.8	158.9	148.8	139.8
B4. Other flows 2/	236.2	246.1	250.0	222.1	199.2	182.3	169.1	150.5	141.0	131.5	122.9
B5. One-time 30 percent nominal depreciation	236.2	218.2	228.7	202.5	181.4	165.7	153.3	136.4	128.2	119.8	112.3
B6. Combination of B1-B5	236.2	263.7	245.5	256.9	230.4	210.8	195.4	173.8	163.0	152.1	142.3
C. Tailored Tests											
C1. Combined contingent liabilities	246.7	249.8	230.2	204.2	186.2	173.4	161.3	144.4	138.0	131.0	124.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	236.2	219.6	201.1	177.7	158.7	143.5	130.6	113.8	107.4	101.1	95.5

Table 3. Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29 (concluded)

(In percent)

	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Debt service-to-exports ratio											
Baseline	**16.5**	**22.0**	**21.0**	**18.7**	**16.9**	**13.4**	**12.6**	**17.5**	**9.5**	**8.9**	**7.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	16.5	21.4	20.0	17.4	15.5	12.2	11.3	15.3	9.1	8.9	8.2
B. Bound Tests											
B1. Real GDP growth	16.5	22.0	21.0	18.7	16.9	13.4	12.6	17.5	9.5	8.9	7.5
B2. Primary balance	16.5	22.0	21.1	19.0	17.2	13.6	12.8	17.8	9.8	9.2	7.9
B3. Exports	16.5	25.2	27.7	25.0	22.6	17.9	16.8	23.6	13.6	12.7	10.9
B4. Other flows 2/	16.5	22.0	21.5	19.6	17.7	14.1	13.2	19.1	11.8	11.0	9.5
B5. One-time 30 percent nominal depreciation	16.5	22.0	21.0	19.2	17.4	13.8	12.9	17.9	10.8	10.1	8.7
B6. Combination of B1-B5	16.5	23.9	25.3	23.0	20.9	16.6	15.5	22.3	13.7	12.8	11.1
C. Tailored Tests											
C1. Combined contingent liabilities	16.5	22.0	21.3	19.1	17.3	13.7	13.0	17.9	9.8	9.2	7.9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	16.5	22.0	21.2	19.1	17.4	15.7	16.2	19.5	9.5	8.2	7.0
Debt service-to-revenue ratio											
Baseline	**11.0**	**14.9**	**14.6**	**13.4**	**12.4**	**9.2**	**8.4**	**11.2**	**5.8**	**5.2**	**4.3**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	11.0	14.5	13.9	12.5	11.4	8.4	7.5	9.8	5.6	5.2	4.7
B. Bound Tests											
B1. Real GDP growth	11.0	15.2	15.1	13.9	12.9	9.6	8.7	11.7	6.0	5.4	4.5
B2. Primary balance	11.0	14.9	14.7	13.6	12.7	9.4	8.5	11.4	6.0	5.4	4.5
B3. Exports	11.0	14.9	14.7	13.7	12.7	9.4	8.5	11.6	6.3	5.7	4.8
B4. Other flows 2/	11.0	14.9	14.9	14.0	13.0	9.7	8.8	12.2	7.2	6.4	5.5
B5. One-time 30 percent nominal depreciation	11.0	18.8	18.3	17.4	16.1	12.0	10.9	14.5	8.4	7.5	6.3
B6. Combination of B1-B5	11.0	15.4	15.5	14.6	13.6	10.1	9.2	12.7	7.4	6.6	5.6
C. Tailored Tests											
C1. Combined contingent liabilities	11.0	14.9	14.8	13.7	12.7	9.5	8.6	11.5	6.0	5.4	4.5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	11.0	14.9	14.7	13.7	12.8	10.9	10.8	12.5	5.8	4.8	4.0

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

Table 4. Ethiopia: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29

(In percent)

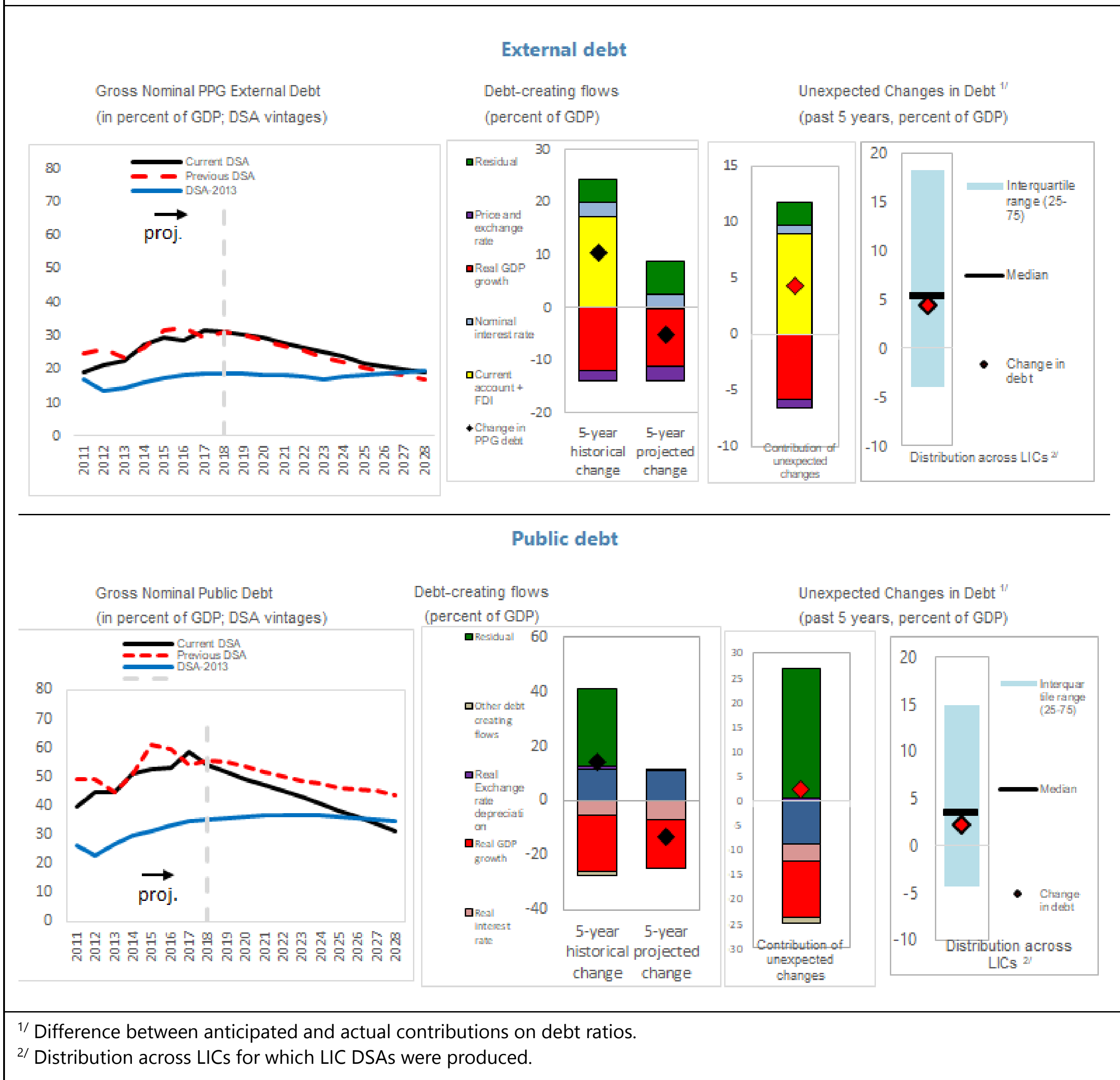
	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	44.2	41.4	39.2	37.4	35.4	33.6	31.6	29.5	27.4	25.3	23.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	44	39	35	31	28	25	22	20	18	17	15
B. Bound Tests											
B1. Real GDP growth	44	42	41	40	38	37	35	33	31	30	28
B2. Primary balance	44	42	41	39	37	35	33	31	29	27	24
B3. Exports	44	42	41	39	37	35	33	31	29	27	24
B4. Other flows 2/	44	44	44	42	40	38	36	33	31	29	26
B5. One-time 30 percent nominal depreciation	44	44	41	39	36	34	32	30	27	25	23
B6. Combination of B1-B5	44	40	39	37	35	33	31	29	27	25	23
C. Tailored Tests											
C1. Combined contingent liabilities	44	49	46	44	41	39	36	34	32	29	27
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	44	42	39	38	36	34	32	29	27	25	23
PV of Debt-to-Revenue Ratio											
Baseline	306.3	301.5	283.2	268.1	247.4	216.4	194.7	172.7	152.6	133.0	118.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	306	282	251	224	194	161	139	119	102	88	79
B. Bound Tests											
B1. Real GDP growth	306	308	299	287	268	238	217	195	175	155	141
B2. Primary balance	306	309	297	282	260	227	204	181	160	140	124
B3. Exports	306	306	297	281	259	227	204	182	160	140	124
B4. Other flows 2/	306	320	319	302	279	245	221	196	173	151	134
B5. One-time 30 percent nominal depreciation	306	319	297	278	253	220	197	173	152	133	119
B6. Combination of B1-B5	306	295	282	266	245	213	190	169	150	131	118
C. Tailored Tests											
C1. Combined contingent liabilities	306	356	333	315	288	250	224	199	175	153	137
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	306	302	285	270	249	217	194	172	152	132	118
Debt Service-to-Revenue Ratio											
Baseline	72.8	73.1	68.4	61.3	55.2	46.0	36.7	32.0	27.0	24.3	22.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	73	69	60	51	43	33	25	20	16	13	11
B. Bound Tests											
B1. Real GDP growth	73	74	71	64	58	49	40	35	30	28	26
B2. Primary balance	73	73	69	63	57	49	38	33	28	25	23
B3. Exports	73	73	69	62	55	46	37	32	27	25	23
B4. Other flows 2/	73	73	69	62	56	47	37	33	28	26	24
B5. One-time 30 percent nominal depreciation	73	70	68	61	55	45	36	33	26	24	22
B6. Combination of B1-B5	73	71	67	60	54	46	36	30	25	22	20
C. Tailored Tests											
C1. Combined contingent liabilities	73	73	77	64	68	58	40	35	31	27	24
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	73	73	69	62	56	48	39	33	27	24	22
Debt Service-to-GDP Ratio											
Baseline	10.5	10.0	9.5	8.6	7.9	7.2	6.0	5.5	4.8	4.6	4.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	10	9	8	7	6	5	4	3	3	2	2
B. Bound Tests											
B1. Real GDP growth	10	10	10	9	8	8	7	6	5	5	5
B2. Primary balance	10	10	10	9	8	8	6	6	5	5	5
B3. Exports	10	10	9	9	8	7	6	6	5	5	4
B4. Other flows 2/	10	10	10	9	8	7	6	6	5	5	5
B5. One-time 30 percent nominal depreciation	10	10	9	8	8	7	6	6	5	4	4
B6. Combination of B1-B5	10	10	9	8	8	7	6	5	5	4	4
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	11	9	10	9	7	6	6	5	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	10	10	9	9	8	7	6	6	5	5	4

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Includes official and private transfers and FDI.

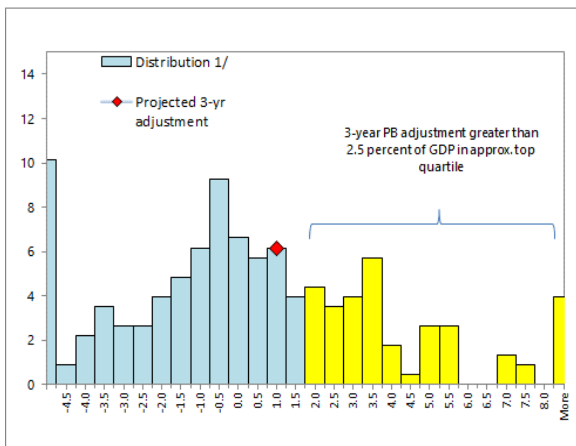
Figure 3. Ethiopia: Drivers of Debt Dynamics—Baseline Scenario



1/ Difference between anticipated and actual contributions on debt ratios.
2/ Distribution across LICs for which LIC DSAs were produced.

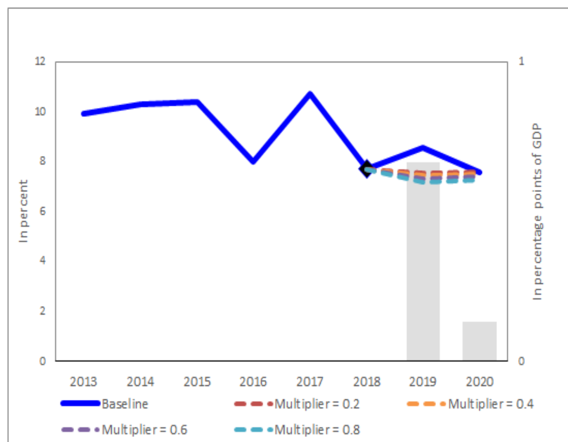
Figure 4. Ethiopia: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



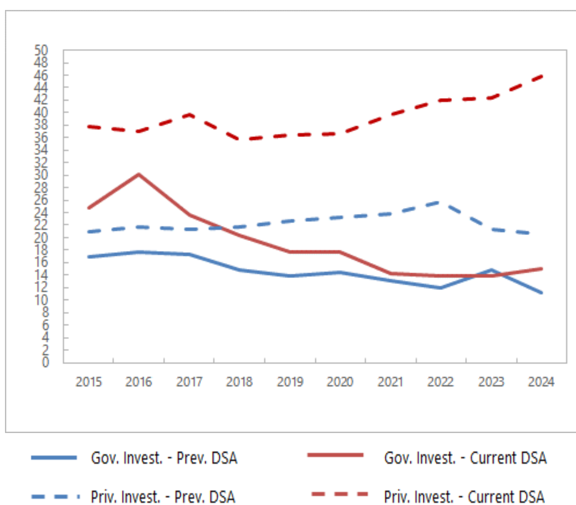
[1/] Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths[1/]



[1/] Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



Contribution to Real GDP growth
(Percent, 5-year average)

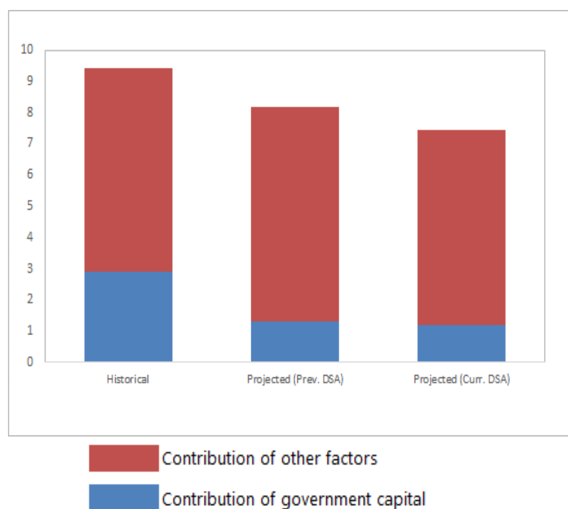
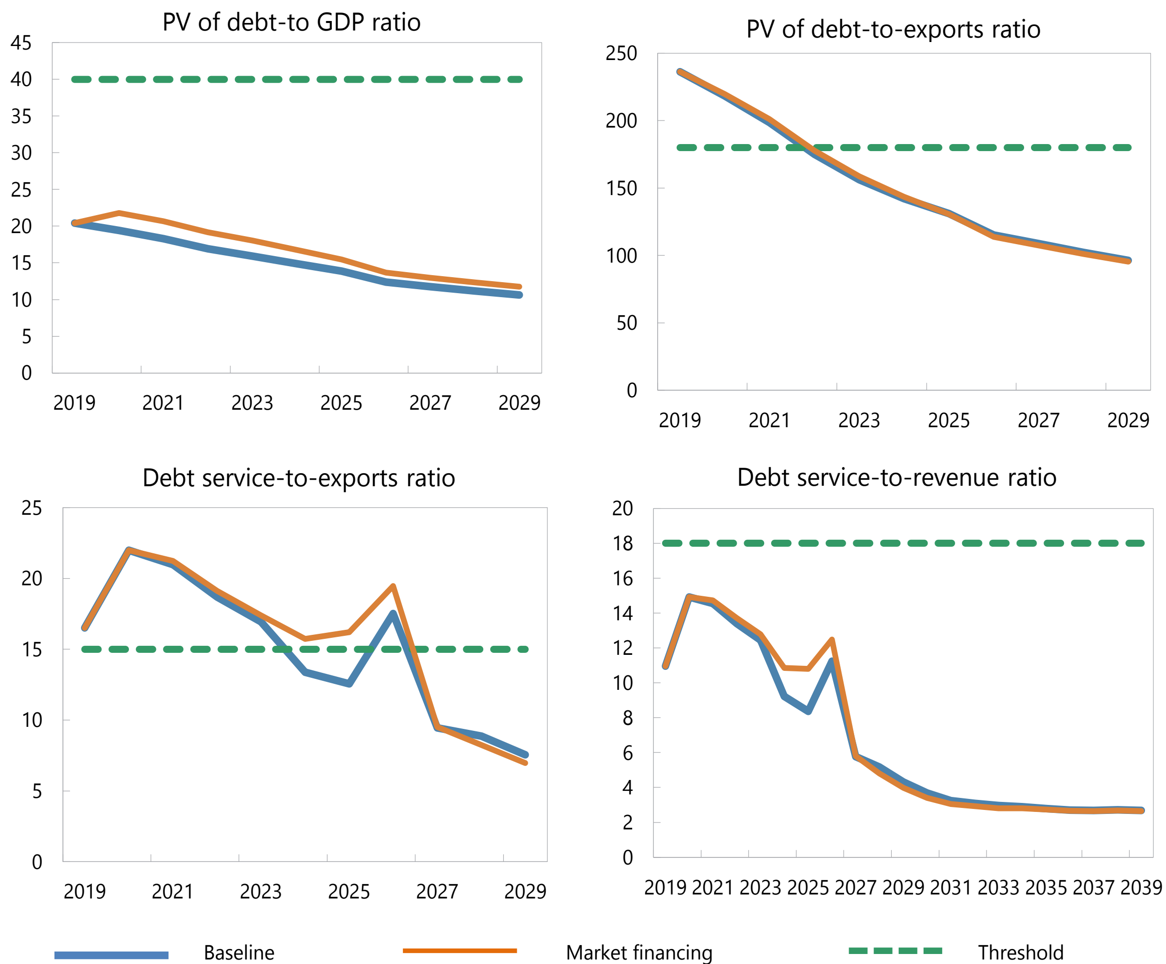


Figure 5. Ethiopia: Market Financing Risk Indicators

	GFN [1/]	EMBI [2/]
Benchmarks	14	570
Values	13	399
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

[1/] Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

[2/] EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 13, 2018

Prepared by

The African Department
(In collaboration with other departments)

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RELATIONS WITH THE FUND

(As of October 31, 2018)

Membership Status: Joined: December 27, 1945 — Article XIV

General Resources Account:	**SDR Million**	**% Quota**
Quota	300.70	100.00
IMF's holdings of currency (holdings rate)	293.30	97.54
Reserve Tranche Position	7.51	2.50

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	127.93	100.00
Holdings	4.82	3.77

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ESF Arrangement	50.81	16.90
ESF RAC Loan	3.34	1.11

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Aug 26, 2009	Nov 22, 2010	153.76	153.76
ECF [1]	Mar 22, 2001	Oct 31, 2004	100.28	100.28
ECF [1]	Oct 11, 1996	Oct 22, 1999	88.47	29.49

Overdue Obligations and Projected Payments to Fund [2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2018	2019	2020	2021	2022
Principal	8.02	34.09	12.03		
Charges/Interest	0.29	1.34	1.29	1.27	1.27
Total	8.32	35.44	13.32	1.27	1.27

Implementation of HIPC Initiative:	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	November 2001

[1] Formerly PRGF

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Assistance committed	
by all creditors (US$ million)[3]	1,982.20
of which: IMF assistance (US$ million)	60.85
(SDR equivalent in millions)	45.12
Completion point date	April 2004
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	45.12
Interim assistance	10.28
Completion point balance	34.84
Additional disbursement of interest income[4]	1.54
Total disbursements	46.66

Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR million)[5]	112.07
	Financed by: MDRI Trust	79.66
	Remaining HIPC resources	32.41
II.	Debt Relief by Facility (SDR million)	

		Eligible Debt	
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	112.07	112.07

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangement

The de-facto exchange rate arrangement was reclassified as “stabilized” from a “crawl-like” arrangement, effective October 13, 2017. The authorities describe their exchange rate regime as a managed float with no predetermined path for the exchange rate. The pace of depreciation of the nominal exchange rate, however, has been stable. The NBE continues to supply foreign exchange to the interbank market based on plans prepared at the beginning of each fiscal year, which take into account estimates of supply and demand. The transaction-weighted average interbank market exchange rate as of October 29, 2018, is Br 27.7225 = US$1.

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[3] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5] The MDRI provided 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Ethiopia maintains four restrictions on payments and transfers for current international transactions, which relate to: (i) the tax certification requirement for repatriation of dividend and other investment income; (ii) restrictions on repayment of legal external loans and suppliers of foreign partners credits; (iii) the prioritization and rationing of foreign exchange to certain imports of goods and services, debt payments and invisibles, and (iv) the requirement to provide a clearance certificate from the NBE to obtain import permits. These restrictions are inconsistent with Article VIII, Section 2(a), of the IMF's Articles of Agreement and remain unapproved. In October 2017, the NBE introduced a requirement for all commercial banks to surrender 30 percent of their gross foreign exchange inflows to the central bank. The requirement is not assessed to give rise to an exchange restriction. Staff is assessing whether the measure constitutes a capital flow management measure while taking into account country-specific circumstances, based on the Fund's Institutional View on capital flows. In addition, staff is in the process of assessing whether a significant spread between the parallel market cash rate and the official market exchange rate, or any other feature of Ethiopia's exchange system, may give rise to a multiple currency practice.

Safeguards Assessment

The National Bank of Ethiopia (NBE) was subject to an update safeguards assessment in 2009 (previous assessment was completed in 2001). The updated assessment found improved financial reporting and internal audit practices. Notwithstanding these developments, the assessment noted significant weaknesses. Recommendations focused on strengthening oversight of risks and controls, improving accounting records and the external audit process, and legal amendments to address safeguards weaknesses in the Central Bank Law. Since then, some progress has been reported on the outstanding safeguards recommendations, particularly the establishment of an audit committee, and capacity building for the internal audit function. Staff has recently received audited financial statements for the previous years together with the management letters issued by the NBE's external auditor. A full set of audited financial statements has now been published on the NBE's website.

Article IV Consultation

Ethiopia is on the standard 12-month consultation cycle, in accordance with the Decision on Article IV Consultation Cycles (Decision No, 14747-(10/96), 9/28/2010). The last consultation was concluded on January 12, 2018.

Technical Assistance (2017–present)

Ethiopia is rated as a high intensity TA recipient, with most provided through the regional center in East Africa. In FY 2018 Ethiopia received TA equivalent to 2.3 FTEs, ranking 15th among 45 SSA TA recipients. Ongoing and planned HQ TA focuses on tax policy and administration, PFM, improvements in statistics, financial development and central bank operations. With respect to external sector statistics, Ethiopia is part of the 5-year UK DFID funded Enhanced Data Dissemination Initiative 2 (EDDI2) Project for balance of payments module 1, which ends in 2020. As part of this project by way of sustained TAs and regional workshops, the NBE has started improving the coverage and quality of external sector statistics. In 2016, Ethiopia received an LTX (on the

development of the secondary market for government securities) funded by DFID, however little progress was made by the authorities and the contract was terminated early.

Recently, the authorities received, at their request, a high-level technical mission to identify possible constraints to developing functioning foreign exchange and government securities market, and possible policy options. Should the authorities find the outcomes of the discussion useful, specific TA interventions could be provided. Also, following the authorities' request, the Fund is providing TA on the issue of quantifying and assessing tax expenditures and incentives. Future TA could also address weaknesses in data reporting to the fund, with a particular focus on improving the reliability and comprehensiveness of national accounts, fiscal data, and monetary and financial statistics and enhance the transparent dissemination of key economic statistics. In particular, EDDI2 includes funds to finance an IMF mission to Ethiopia to establish a National Summary Data Page, which would provide easy access to key economic statistics. This mission would be fielded in cooperation with the African Development Bank.

Table 1. The Federal Democratic Republic of Ethiopia: Fund Technical Assistance

Department	Purpose	Time of Delivery
FAD	Tax Administration	January 2017
MCM/AFE	Establishing a Deposit Insurance System	March 2017
AFE	Enhancing Risk-Based Supervision Framework for Insurers	March 2017
FAD	Revenue Administration	April 2017
FAD	Reviewing the PFM Reform Strategy	May 2017
STA	External Sector Statistics	October 2017
FAD	Revenue Administration	November 2017
STA/AFE	Government Finance Statistics	November 2017
FAD	Tax Expenditure Reporting and Cost	January 2018
MCM/AFE	Enhancing Risk-Based Supervision for Banks	April 2018
ICD/AFE	Assessing How to Increase the Impact of Training	April 2018
FAD	Revenue Administration	April/May 2018 July 2018
STA/AFE	Producer Price Index Construction	June 2018
FAD/AFE	National Training on Macroeconomic and Fiscal Forecasting	July/August 2018
MCM	Money and Foreign Exchange Markets and Instruments	September 2018
STA	Participation in eGDDS	October 2018
FAD	Customs Administration Diagnostic	November 2018
STA	External Sector Statistics	November 2018

Resident Representative

The IMF had a resident representative in Addis Ababa since 1993 to October 2015, when the term of the last Resident Representative ended. Since then, the office has been staffed by local employees.

JOINT MANAGEMENT ACTION PLAN, JULY 2018–JUNE 2019

(As of October 31, 2018)

Title	Products	Provisional and Actual Timing of Missions	Expected and Actual Delivery Date
	A. Mutual Information on Relevant Work Program		
The World Bank work program in the next 12 months	**Economic Policy Analysis and Advice**		
	• Analytical support on macro-financial management aimed at supporting the development of a market for government bonds, addressing the shortage of foreign exchange, and improving debt management.	November 2018	June 2019
	• Analytical support on tax policy to assist the Government in raising the revenue collection, including the design of a new property tax regime and a comprehensive tax policy review.	February 2019	June 2019
	• Analytical work to inform the recent trade and regulatory policy shift, including the WTO accession and the implementation of regional agreements such as the Continental Free Trade Agreement.	March 2019	June 2019
	Technical Assistance		
	• TA on macro-financial management (in collaboration with the IMF) to support the development of a government bond market, and regulatory support to the move to a market clearing exchange rate.	November 2018	June 2019
	• TA/CB support on tax incentives restructuring and tax expenditures analysis.	February 2019	June 2019
	• TA/CB to the Ministry of Trade and Industry will focus on knowledge-building on WTO accession and institutional coordination for effective multilateral and regional negotiations.	March 2019	June 2019

The Fund work program in the next 12 months	**Macroeconomic Policy Analysis and Advice** • Article IV consultation **Technical Assistance** • Revenue administration • Financial market development • Enhanced General Data Dissemination System • Payments system oversight • Financial supervision	 September 2018 December 2018 September 2018 November 2018 August 2018 June 2018	 September 2018 December 2018 September 2018 November 2018 August 2018 June 2018
B. Mutual Information on Relevant Work Program			
Fund request to Bank Bank request to Fund	• Periodic update on all TA activities • Macroeconomic and financial data to be shared regularly • Participating in reviews of key analytical work • Periodic update on all TA activities • Macroeconomic and financial data to be shared regularly • Letter of Assessment to support proposed lending operations	Ongoing Ongoing August 2018	Ongoing Ongoing August 2018
C. Agreement on Joint Products and Missions			
Joint products in the next 12 months	• Debt Sustainability Analysis (DSA)	September 2018	November 2018

STATISTICAL ISSUES

(As of November 7, 2017)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance. However, in 2017/18 some data reported to the Fund were subject to considerable delays and revisions. The existing data weaknesses reflect capacity constraints and the authorities are seeking to address them through technical assistance (TA).

National Accounts: Deficiencies in the source data and compilation practices affect the accuracy and reliability of the GDP statistics, and issues identified by an STA TA report from 2012 have not yet been addressed. Weaknesses are particularly evident in respect to the estimation of output in key sectors, including agricultural production, and in private consumption, saving, investment, and fixed capital formation. The statistical discrepancies between the expenditure categories and output remain significant. Information provided to the Fund is subject to discrepancies. Policymaking and surveillance would benefit from improving national accounts statistics. The authorities have been receiving TA in this area from STA and AFRITAC East.

Government finance statistics: Despite some improvements, the government fiscal statistics continue to be affected by shortcomings in terms of coverage and outdated reporting standards. Data for the general government are based on Government Finance Statistics Manual (GFSM) 1986. Establishing a framework for compiling and disseminating Government Finance Statistics (GFS) and public-sector debt statistics that meet GFSM 2001 is an urgent task (the authorities are receiving TA in this area from AFRITAC East). Lack of consolidation of extra-budgetary funds into comprehensive fiscal reporting hinder proper assessment of the Government's fiscal stance, savings, and borrowing requirement. Current financial statements of public enterprises and other information on their operations is not available.

Monetary statistics: Monetary and financial statistics (MFS) have not been reported to STA since 2010. The authorities have not yet reported MFS using the Standardized Report Forms (SRFs) and existing MFS data are compiled with deviations from the recommended methodology, such as lack of detailed currency and sectoral breakdown of financial instruments. Data for Other Financial Corporations are not reported. Monetary survey data for both the central bank and commercial banks are subject to frequent delays in reporting for surveillance. Data from commercial banks is subject to significant revisions. Financial Access Survey data have not been reported since 2012.

Financial statistics: Aggregate set of Financial Soundness Indicators (FSIs) neglect many core indicators. In addition, information gaps, e.g.: commercial banks' income statements, information on distribution of non-performing loans (NPLs) by sector, NPL provisions, maturity of credit, net open position, have implications for conducting an assessment of financial sector risks.

Balance of payments: Balance of payments data require improvements in coverage, valuation, timing, and classification of current account transactions. Financial and capital account transactions are also incompletely covered. Data on FDI is based on an estimation method developed by the NBE. An exploratory survey needs to be conducted to verify the actual investment made in Ethiopia and to establish the universe of the enterprises with private cross border capital. A survey on cross-border financial flows and stocks for the private sector should also be undertaken. Full implementation of BPM6 methodology is recommended.

II. Data Standards and Quality

Ethiopia participates in the General Data Dissemination System (GDDS) and metadata were partially updated in early 2008. No Report on the Observance of Standards and Codes has been completed.

Table 1. The Federal Democratic Republic of Ethiopia: Table of Common Indicators Required for Surveillance

(As of November 30, 2018)

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange rates	10/29/2018	11/01/2018	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1/]	6/30/2018	8/9/2018	M	M	M
Reserve/base money	6/30/2018	8/9/2018	M	M	M
Broad money	6/30/2018	8/9/2018	M	M	M
Central bank balance sheet	6/30/2018	8/9/2018	M	M	M
Consolidated balance sheet of the banking system[2/]	6/30/2018	8/9/2018	M	M	Q
Interest rates[3/]	6/30/2017	9/13/2017	M	M	M
Consumer price index	6/30/2018	8/9/2018	M	M	M
Revenue, expenditure, balance, and composition of financing[4/] – central government			M	M	M
Revenue, expenditure, balance, and composition of financing[4/] – general government[5/]			Q	Q	A
Stocks of central government and central government-guaranteed debt[6/]			Q	Q	Q
External current account balance	6/30/2018	9/12/2018	Q	Q	Q
Exports and imports of goods and services	6/30/2018	9/12/2018	M	M	M
GDP/GNP	6/30/2017		A	A	A
Gross external debt	6/30/2018	8/7/2018	Q	Q	Q
International investment position[7/]	...	...	N/A	N/A	N/A

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] The authorities provide aggregate balance sheet items but not detailed enough for proper financial stability analysis.
[3] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes, and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government and local governments.
[6] Including currency and maturity composition.
[7] Reflecting capacity constraints which the authorities are addressing through technical assistance.

Statement by the Executive Director, Mr, Dumisani Hebert Mahlinza and by the Senior Advisor of the Executive Director, Ms. Gloria Gasasira-Manzi on The Federal Democratic Republic of Ethiopia
November 30, 2018

1. Our authorities appreciate the constructive engagement with staff during the recent Article IV consultations. They broadly agree with the staff analysis and policy recommendations.

2. Ethiopia has maintained strong economic growth, making significant progress in social development over the last decade. The new administration, which assumed power in April 2018, is committed to consolidating the gains already made towards achieving the country's development goals and transformation agenda. In this regard, they have initiated various far-reaching political and economic reforms since April 2018, including opening up political space and restoring regional diplomatic relations with Eritrea and enhancing cooperation with other neighboring countries. These measures, while aimed at ensuring regional peace and stability, are essential to creating conducive conditions for economic prosperity.

3. On economic reforms, the authorities have initiated a range of measures aimed at promoting private sector development, including gradually opening up some sectors of the economy that were previously dominated by key state-owned enterprises (SOEs). The authorities plan to cautiously implement these reforms to sustainably transform the economic landscape and uplift living standards. In this regard, they remain committed to the objectives under the Growth and Transformation Plan (GTPII) to sustain rapid and inclusive growth within a stable macroeconomic environment.

Recent Economic Developments and Outlook

4. The Ethiopian economy grew by 7.7 percent in 2017/18 on account of good agricultural harvests, growth in services and transportation sectors as well as manufacturing exports. The growth momentum was, however, moderated by recurrent political and social unrest, weak commodity export prices and foreign exchange shortages. This notwithstanding, growth is expected to accelerate to 8.5 percent in 2018/19 on the back of an improved political environment, higher Foreign Direct Investment (FDI) inflows, investment in infrastructure and rising productivity levels as export-oriented industries gather momentum. Over the medium term, the authorities' ambitious reform agenda and improved regional relations provide a large upside potential.

5. Monetary policy tightening continued to bring down inflation, estimated at 11.5 percent by October 2018. This remained above the authorities' single digit target. The high inflation was attributed to politically-related disruptions of economic activity, passthrough effects of the October 2017 devaluation and the expansion of public sector credit

in 2017/18. On the fiscal side, prudent budget execution and policy restraint led to a fiscal deficit of 3.7 percent of GDP in 2017/18, as spending was reduced owing to poor revenue performance.

6. The current account deficit narrowed to 6.4 percent of GDP in 2017/18 from 8.1 in 2016/17, supported by an increase in exports and policies that curtailed public sector imports and borrowing. The level of FDI remained strong at US$3.7 billion in 2017/18, though it slightly declined from US$4.2 billion recorded in 2016/17. International reserves stood at US$3.7 billion in September 2018 and foreign exchange shortages persisted.

Fiscal Policy, Debt Management and Public Financial Management

7. The authorities remain committed to prudent fiscal policy. Accordingly, they intend to maintain a fiscal deficit of 3.0 percent of GDP in 2018/19, lowering it further to 2.5 percent in the following fiscal year. This will be achieved through several measures, including restraining public-sector spending and rationalizing government subsidies, while protecting priority social spending.

8. Going forward, the authorities will undertake several reform measures to improve domestic revenue mobilization. They intend to increase the share of tax revenue to 15 percent of GDP by 2020. Efforts have been intensified to broaden the tax base and simplify the tax system to ensure equity. At the same time, measures are being implemented to improve tax administration and customs reform, with the help of development partners, including the Fund. Assessments are also being undertaken to improve value added and excise tax. In a bid to ensure transparency, the authorities have put in place a new system to review all tax breaks and incentive schemes to ensure their proper implementation, monitoring and evaluation.

9. In line with the key objectives of the GTP II, priority will be given to pro-poor spending, specifically in education, health, water and sanitation, agriculture and infrastructure development, particularly roads. An expenditure minimization strategy implemented in 2017/18 is expected to enhance savings by government bodies and will continue to be strengthened together with Public Financial Management (PFM) reforms to improve the efficiency and effectiveness of spending as well as mobilize domestic resources. Within this strategy, the authorities will continue strengthening their rural and urban social safety net programs, aimed at uplifting households out of poverty in the medium term.

10. To improve debt sustainability, the authorities have committed to contract only highly concessional debt. Concessional financing will also be sought to complete ongoing projects, while ensuring greater prioritization of new public investments and maximizing participation of the private sector in infrastructure financing through public-private partnerships (PPPs). In addition, ongoing negotiations with bilateral creditors to reprofile non-concessional debt is expected to improve the debt situation. In the meantime, export revenues are expected to increase with the completion of the industrial parks and their full-scale operation. The authorities also plan to strengthen debt management policy, including through firmer controls

over SOEs' borrowing policy and improvements in their governance and efficiency. The privatization of SOEs, together with increased FDI and remittance flows will also support debt sustainability.

11. Implementation of the Treasury Single Account (TSA) and the further roll out of IFMIS and results-based budgeting to public institutions and bodies remain a priority. In addition, a public procurement and property proclamation revision has been completed and sent to parliament for approval. Meanwhile, preliminary work has commenced on the implementation of e-government procurement. Going forward, monitoring and evaluation of public bodies to improve the quality of their financial reporting and delivery, including through the implementation of electronic systems and strengthening of institutional capacity, will be prioritized.

Monetary and Financial Sector Policies

12. The National Bank of Ethiopia (NBE) is committed to taking appropriate policy measures to bring inflation to the single digit target by the end of the fiscal year. In this regard, efforts to strengthen the monetary policy framework are underway, including further development of the government securities market and establishment of market-based indirect monetary policy instruments. In this regard, technical assistance (TA) has been requested from the Fund to strengthen the central bank operations, specifically, the development of a government debt securities market, strengthening monetary statistics, and exchange rate management.

13. The financial sector remains healthy, characterized by adequately capitalized, liquid and profitable banking institutions. Non-Performing Loans (NPLs) remain low at 2.96 percent, below the regulatory cap of 5 percent; while provisioning has been adequate. Notwithstanding, the ratio of NPLs has continued to increase to 39 percent at the Development Bank of Ethiopia (DBE), above the supervisory target of 15 percent for development finance institutions. This has been attributed to the low productivity in agricultural projects, political unrest in parts of the country and low international competitiveness of textile projects, to which the Bank has exposure. The NBE is undertaking a comprehensive assessment of the Bank, including its financing to ensure viability.

14. The NBE continued to make progress in deepening financial inclusion. Some of the initiatives, in this regard, include ongoing work to expand the credit reference bureau to cover microfinance institutions and the development of the financial consumer protection framework. Further, the National Financial Education Strategy (NFES), will be launched in December 2018. At the same time, the authorities continue to make progress in strengthening the AML/CFT framework with measures to address identified deficiencies, contained in the FATF action plan, expected to be completed before the next review in December 2018.

Structural Reforms

15. The structural reform agenda continues to gain momentum, with the strengthening of existing policy and administrative measures to boost exports, generate jobs, improve competitiveness and support inclusive growth remaining a priority. In this regard, efforts are being made to fully operationalize industrial parks and complete key infrastructure projects. Other initiatives include, agricultural modernization and enhancing the contribution of the services sector, with a special focus on ICT and tourism sectors.

16. The authorities recognize the importance of private sector participation in the development process. To this end, they have announced an intention to privatize some of the key SOEs, particularly within the telecom, transport and logistics, and energy sectors. In this regard, a governance structure to guide the privatization process has been put in place and regulatory reforms in these sectors have begun. In addition, efforts to improve the ease of doing business, skilled manpower development and increased access to finance are being stepped up, with a view to support small and medium-sized enterprises (SMEs). Further, the authorities plan to develop financial and capital markets.

17. Ethiopia continues to actively engage in initiatives to reinforce its investment promotion efforts, including the G20 Compact for Africa. In addition, they have signed the African continental Free Trade Area Agreement, as part of an effort to enhance regional value chains and FDI flows. They have also eased visa requirements to foster closer cooperation and regional integration. Further, the improved relations with Eritrea are expected to open new opportunities, including alternative ports to facilitate a reduction in cost, time and efficiency of trade logistics. Complemented by the privatization of logistics services and related policy reforms, export competitiveness and FDI inflows are expected to significantly improve.

18. In the context of reform implementation, the authorities acknowledge the need for strong institutions, improved governance, transparency and accountability to underpin the reform process. As such, the Prime Minister has taken a number of reform measures including, appointment of a leaner cabinet with 20 Ministries, down from 28; streamlined government agencies to improve their governance and efficiency while clarifying and publishing their mandates and deliverables for the next two years; and committed to reform the judiciary. In addition, a strong stance has been taken against corruption and illicit flows. Commitment to equal representation of women at leadership levels has been demonstrated and gender parity achieved in the cabinet where 50 percent of the Ministers are women. Key decision-making positions have also been taken up by women, including the Presidency and the head of the Supreme Court. In this context, the authorities welcome the analysis in the Selected Issues Paper (SIP) on *Women and the Economy in Ethiopia* and agree on the need to address the challenges affecting women’s economic participation.

19. With support from development partners including the Fund, the authorities have made progress in data compilation, dissemination as well as improvements to the quality of national accounts. They remain committed to further strengthening statistics with a view to improve their capacity to monitor economic performance. In this regard, they have also requested technical assistance in various areas including monetary policy statistics and have already started planning, together with the Fund, the upgrade to Enhanced General Data Dissemination System (e-GDDS), expected to be completed in the first quarter of 2019.

Conclusion

20. Having taken appropriate measures to respond to recent political and economic challenges, as noted in the staff report, the authorities reiterate their commitment to taking additional measures to sustain the economic gains made so far. Combined with strong policy implementation, these reforms should improve competitiveness, reduce external imbalances and rebuild buffers, while raising the growth potential of the economy in the medium term. Against this background, our authorities continue to value their engagement with the Fund and look forward to Executive Directors' support in completion of the Article IV consultation.