EXECUTIVE BOARD MEETING

SM/18/270

November 15, 2018

To: Members of the Executive Board

From: The Secretary

Subject: **The Federal Democratic Republic of Ethiopia—Staff Report for the 2018 Article IV Consultation**

Board Action:	Executive Directors' **consideration** (Formal)
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Questions:	Mr. Escolano, AFR (ext. 36382) Mr. Raman, AFR (ext. 34689) Mr. McGregor, AFR (ext. 38661)
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***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**

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.

CONTENTS

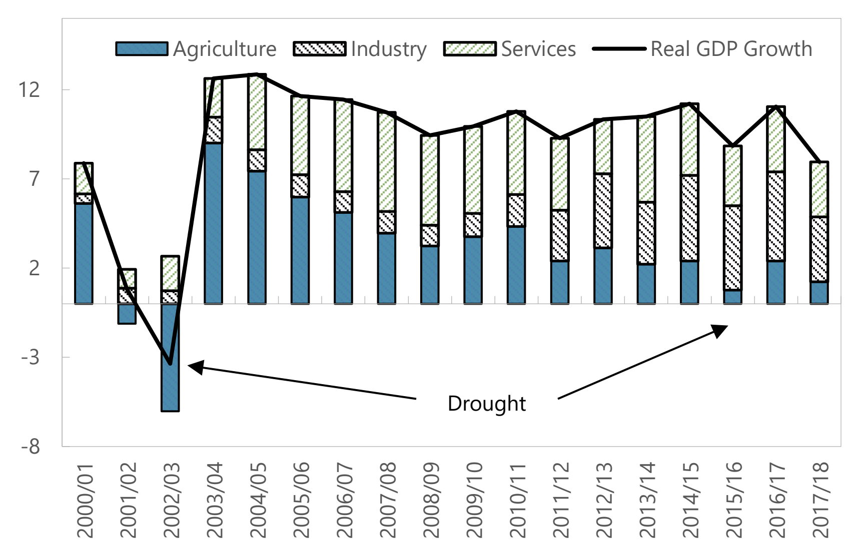
ANNEXES

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

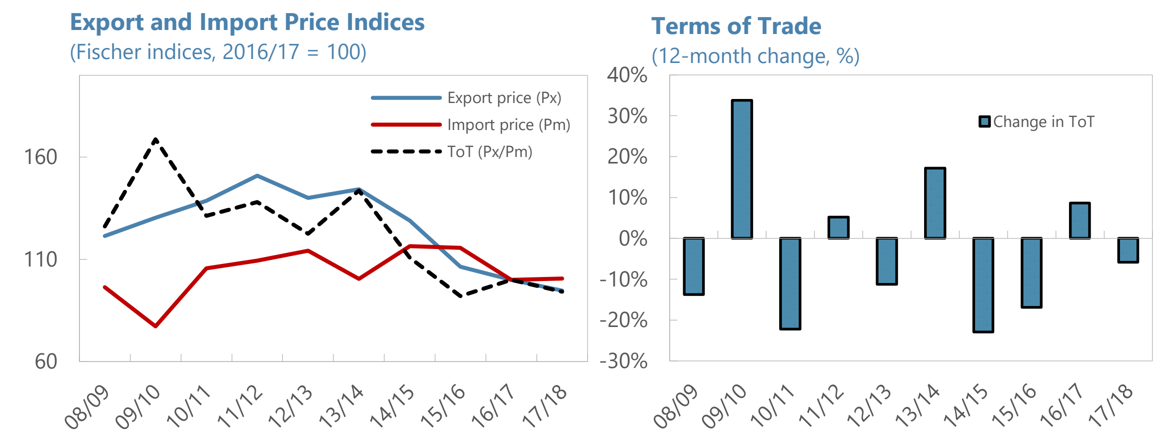
[1] Historical GDP data published by the IMF are those issued by Ethiopia's authorities. GDP measurement continues to be affected by source data issues as identified by Fund TA that are still not resolved.

[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



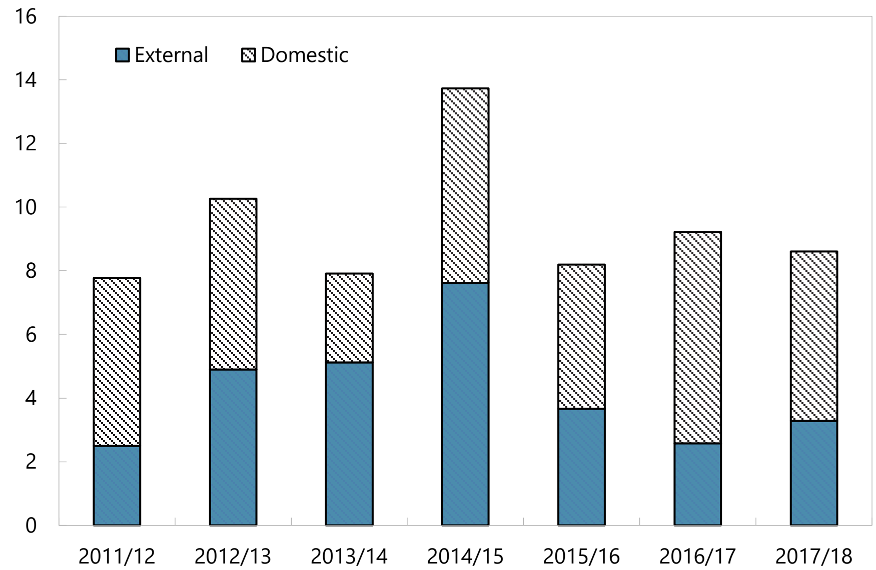
Source: ERCA Trade Bulletin, staff's estimates.

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)



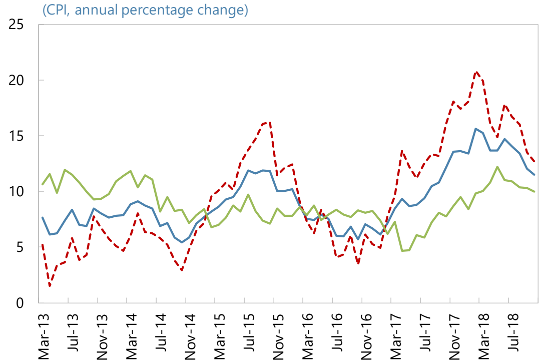
Sources: Ethiopian authorities; and IMF staff calculations

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

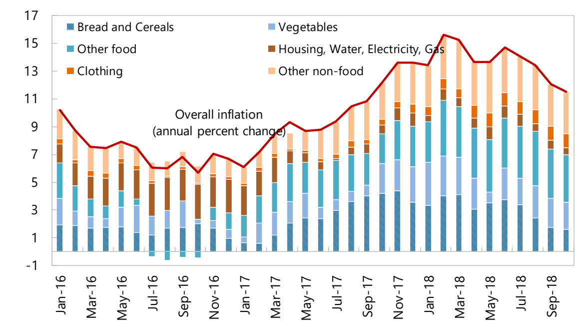
Headline inflation driven by food price developments…

Inflation
(CPI, annual percentage change)



…while exchange rate passthrough is driving non-food inflation

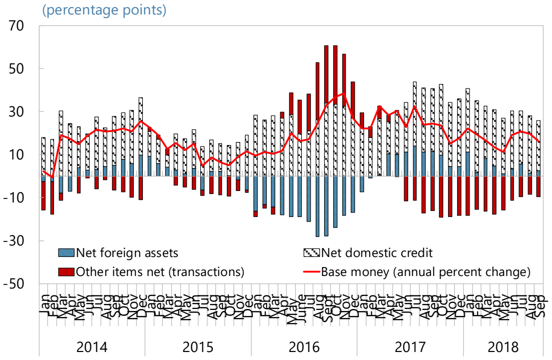
Contribution to Inflation
(percentage points, unless otherwise specified)



Source: Central Statistical Agency, Ethiopia

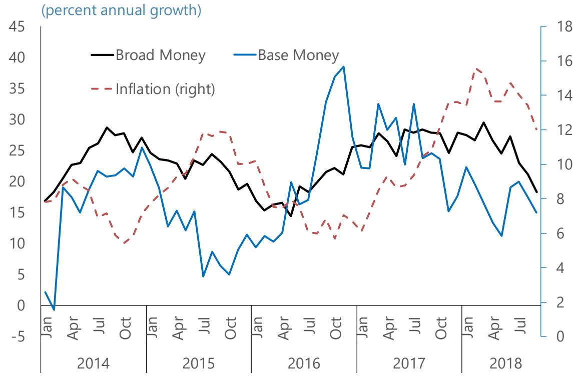
The NBE has restricted the growth of base money…

Contribution to Base Money Growth
(percentage points)



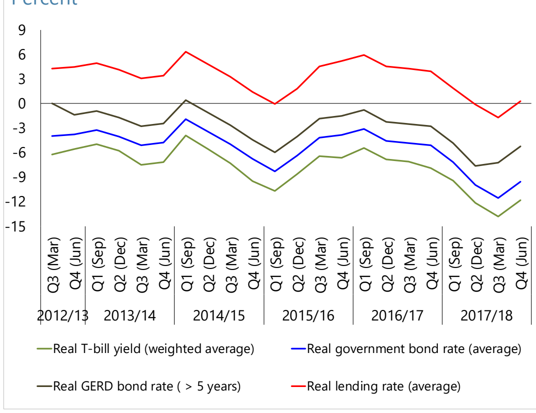
…which is transmitting to slower growth in broad money and inflation

Monetary Aggregates and Inflation
(percent annual growth)



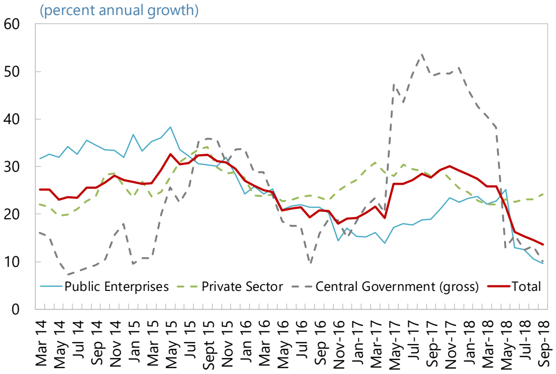
As a result, and given administered interest rates, real interest rates rose though they mostly remain negative

Real interest rates
Percent



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

Credit to the Economy
(percent annual growth)



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

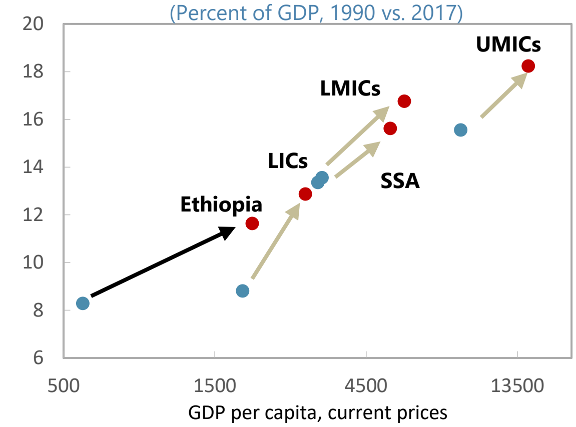
Ethiopia has made progress in mobilizing domestic revenue since the mid-1990s, but still lags countries in the region and other LICs. The tax-to-GDP ratio rose from 8.6 percent in 2008/09 to 12.7 percent in 2014/15, but it has declined since then to 11.1 percent in 2017/18.

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.

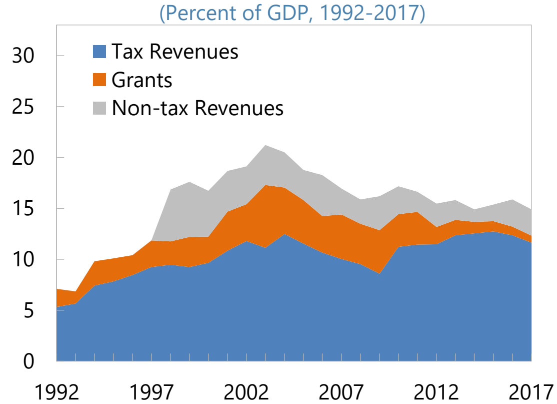
Tax Revenue vs. GDP per capita

(Percent of GDP, 1990 vs. 2017)



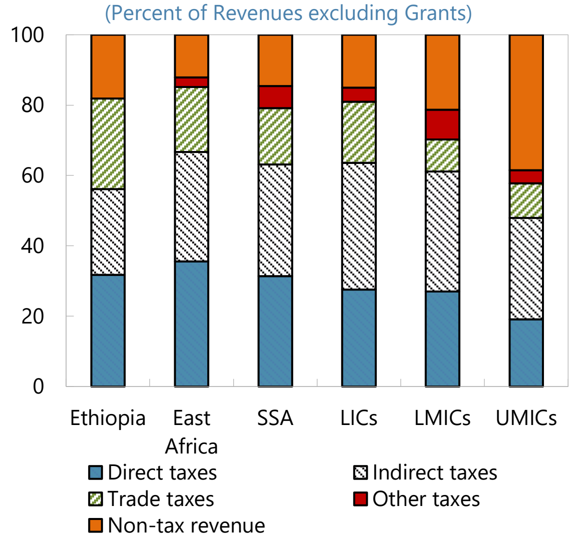
Revenues

(Percent of GDP, 1992-2017)



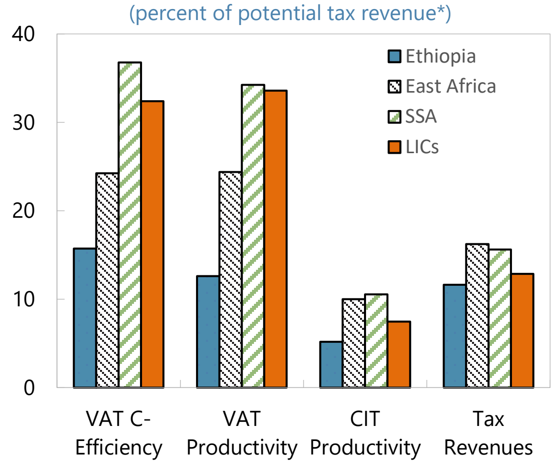
Revenue Composition, 2017

(Percent of Revenues excluding Grants)



Tax Efficiency

(percent of potential tax revenue*)



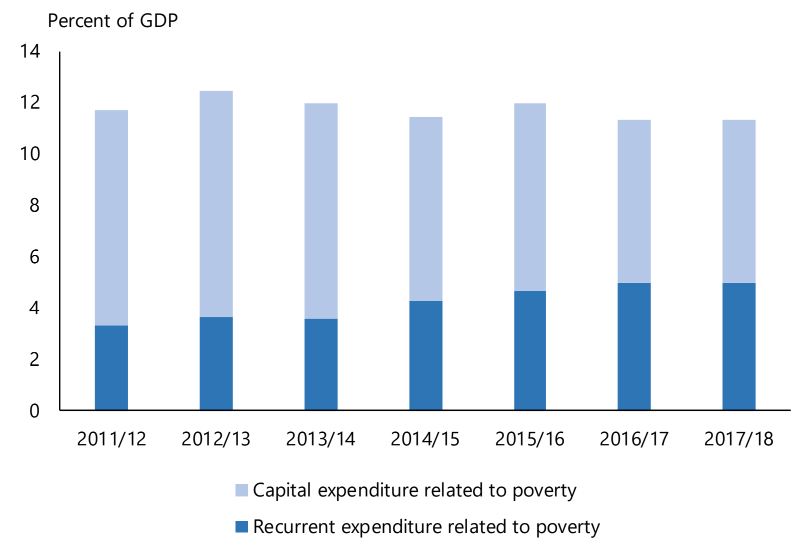
* except Tax Revenues, which are in percent of GDP

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 Est.	IMF Staff Proj.	IMF Staff Proj.	IMF Staff Proj.	IMF Staff Proj.	IMF Staff 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

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[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.

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[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.

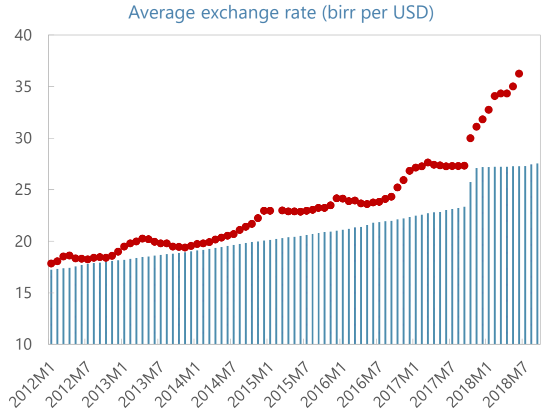
[6] Methodological Note on EBA-lite (IMF Policy Paper, February 2016).

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

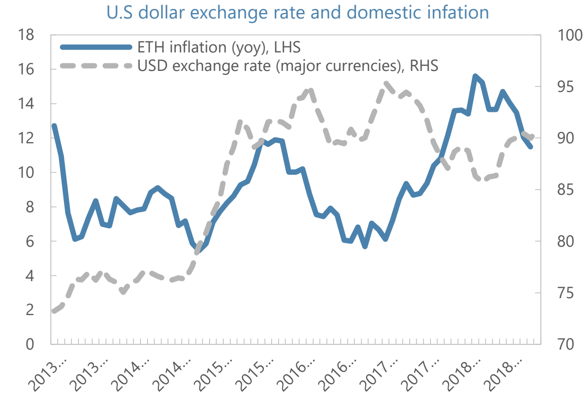
[8] Similar to the approach taken in the last two staff reports, the CA norm is adjusted for part of the imports related to public investment. This adjustment reduces the norm by 0.5 percent of GDP. No cyclical adjustments are made to the actual current account or the norm.

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

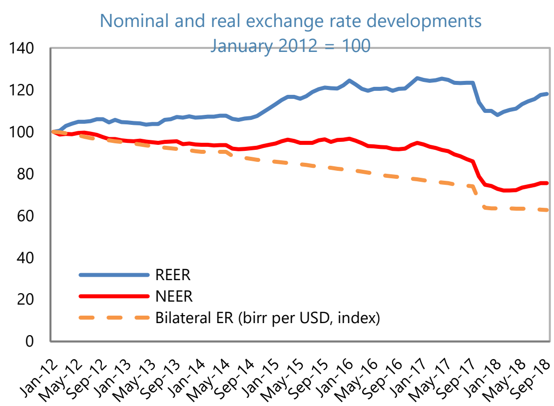
Official and parallel market rates moved in tandem, with a widening spread following the devaluation



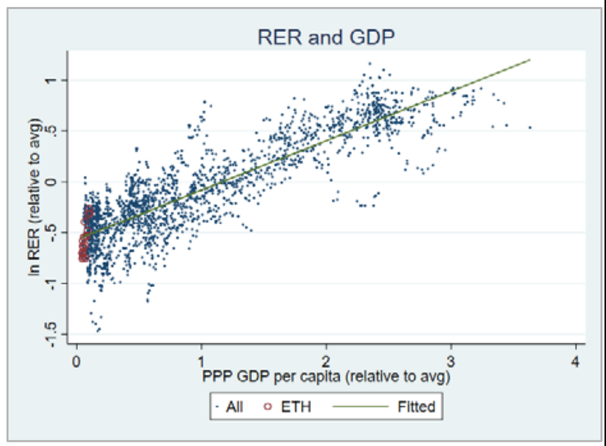
High inflation and a stable birr relative to an appreciating U.S. dollar …



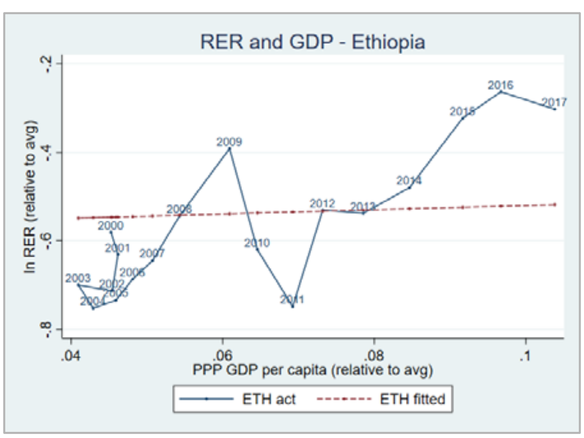
… eroded competitiveness gains from the devaluation



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

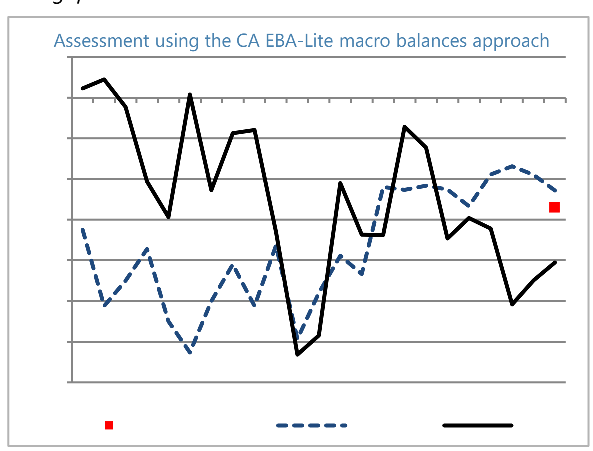


Table II.1. Ethiopia Exchange Rate Assessment

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.

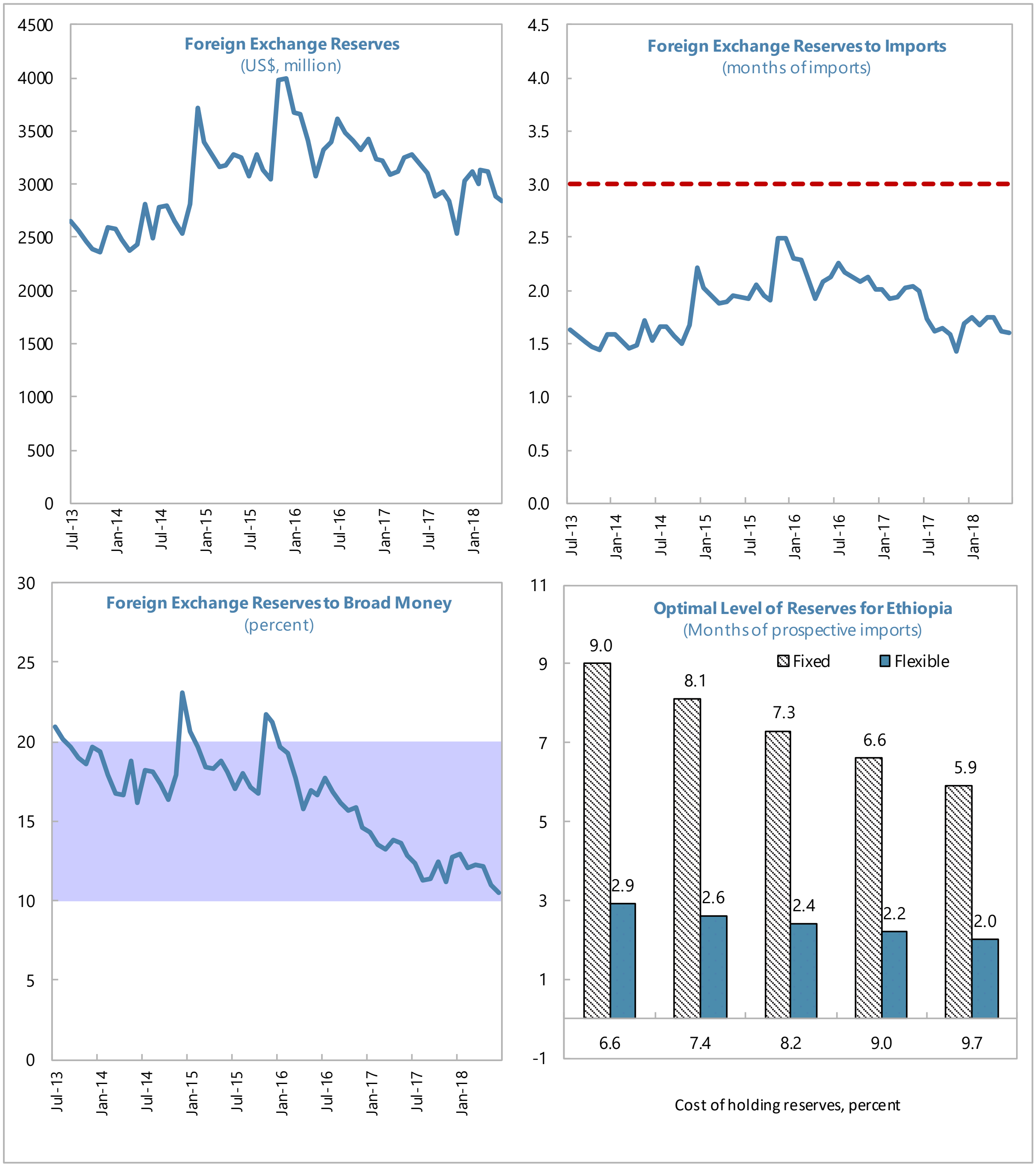
[10] Based on proposals for assessing reserve adequacy contained in the 2015 staff report on Assessing Reserve Adequacy (SM/14/334) and the June 2016 guidance note.

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

COMMUNICATIONS DEPARTMENT

Annex VI. Draft Press Release

Press Release No. 18/xx
FOR IMMEDIATE RELEASE
[November xx, 2018]

International Monetary Fund
700 19th Street, NW
Washington, 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 11.5 percent in October 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 15 percent in September 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 open key economic sectors

[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.

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

Executive Board Assessment[2]

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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.

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

[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).

The Federal Democratic Republic of Ethiopia: Selected Economic Indicators (concluded)							
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Estimate			IMF staff projections		
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
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	56.6	55.6	54.8	54.6	53.7
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	28.6	26.8	25.0	23.3	21.7
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 the 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.