# Ethiopia
# Macroeconomic Handbook 2021

CEPHEUS
RESEARCH & ANALYTICS

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## Macro Research Ethiopia

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**We expect Ethiopia's macroeconomic conditions in 2021 will be shaped largely by developments in six key areas: covid, conflict, crops, credit, creditors, and currency. More specifically, how a number of questions surrounding these 'six Cs' are resolved (see below) will determine how well the overall economy fares in the year ahead. We offer our views in each of the six areas, including where we are mostly optimistic, where we are more uncertain, and where we see potentially emerging macro risks. Based on the above assessment, and a set of assumptions that we take to be a reasonable baseline, we also present our latest Quarterly Macro Review and economic forecasts—covering the real, monetary, fiscal, and external sectors—for 2021 & 2022.**

1. **Covid:** Is the economy recovering from the covid pandemic?
2. **Conflict:** Will the recent conflict have material macroeconomic impacts?
3. **Crops:** Is the crop harvest this year turning out to be a boom or a bust?
4. **Credit:** Are banks and businesses facing a credit crunch?
5. **Creditors:** Are relations with foreign creditors souring or strengthening?
6. **Currency:** How far and how fast will the currency move?

**To summarize our views, we are broadly optimistic that trends with respect to covid, credit, creditor relations, and the currency are moving in a positive direction, find greater-than-usual uncertainty on the outlook for crops, and see some possibly emerging macro risks linked to the recent conflict**. Reflecting this mixed backdrop, we expect Ethiopia's macroeconomic environment will show 4 percent GDP growth this fiscal year (somewhat worse than recent years), 13 percent inflation (better than recent norms), 24 percent credit growth (largely in line), a modest budget deficit (near 3% of GDP), a stable debt ratio (unchanged at 52% of GDP), a slower pace of depreciation (unlikely to exceed 15 percent by year-end), and a gradually improving balance of payments position (helped by a sharp drop in imports, the lowest trade deficit seen in a decade, and a fx reserves position that should cross $4bn by June 2021 if privatization inflows are booked by then). Downside risks to our forecasts relate mostly to fx inflows: potentially lower FDI due to weaker sentiment or privatization delays and possibly lower external grants. By contrast, over-performance is possible on both growth and inflation (if crops show upside surprises) and on net BOP inflows (depending on the remittance recovery and final debt service agreements). Overall, while this year's macro picture does present a fragile situation in some areas, we see no basis for viewing the economy as being in a downward spiral (or 'stuck in the mud' as some have put it), and are actually inclined to expect a year of two halves in 2021—one marked by cautious conditions and moderate business/economic activity till mid-year but then followed by a gradually strengthening economy (including possibly a 'roaring recovery') for the second half of 2021 and into 2022 conditional on substantive post-conflict improvements in the North, elections in June that proceed without much disruption, and a reform drive—including privatization—that gathers more attention and more momentum as implementation of the new Ten-Year Development Plan becomes a reality in the coming year.

**ETHIOPIA: Key Macro Indicators**

| | 2019-20 | 2020-21 |
|---|---|---|
| GDP growth | 6.1% | 4.1% |
| Investment/GDP | 30.8% | 30.0% |
| Nominal GDP, Birr bns | 3,374.3 | 4,141.9 |
| Nominal GDP, USD bns | $ 106.8 | $ 106.4 |
| Bank deposits, Birr bn | 1,043.0 | 1,303.7 |
| Bank credit, Birr bn | 1,068.8 | 1,325.2 |
| Deposit growth, % | 16.0% | 25.0% |
| Credit growth, % | 21.0% | 24.0% |
| Fiscal balance, %GDP | -2.6% | -3.0% |
| Public debt, %GDP | 51.6% | 52.1% |
| Exports, USD bns | $ 3.0 | $ 3.4 |
| Imports, USD bns | $ (13.9) | $ (13.2) |
| Service exports, $ bns | $ 4.7 | $ 4.9 |
| Remittances, USD bns | $ 4.7 | $ 5.1 |
| Grants, USD bns | $ 1.5 | $ 1.1 |
| Current account, %GDP | -3.7% | -2.9% |
| FDI, USD bns | $ 2.4 | $ 3.4 |
| Net Loans, USD bns | $ 1.7 | $ 0.6 |
| FX reserves, USD bns | $ 3.2 | $ 4.3 |

*Sources: NPC, NBE, IMF, and Cepheus projections*

**Inflation & Exchange Rates: End Quarter**

| | Inflation | Birr/USD |
|---|---|---|
| June 2020 | 21.5% | 34.9 |
| September 2020 | 18.7% | 36.7 |
| December 2020 | 18.2% | 39.2 |
| March 2021 | 16.5% | 40.4 |
| June 2021 | 13.4% | 41.9 |
| December 2021 | 10.0% | 44.6 |

*Sources: CSA, CBE, and Cepheus projections*

## EXECUTIVE SUMMARY:

## Ethiopia's Macroeconomic Outlook in 2021

1. **Covid:** The Covid pandemic's macroeconomic impact in Ethiopia will continue to be quite modest, in our view. Although a few relatively small sub-segments of the economy were hit hard as expected, an increasingly visible recovery is taking place across most sectors. As of early 2021, trends in the pandemic itself showed few reasons for alarm, with new case counts and daily deaths at about one-third of their peak levels, a comparatively low critical case count, a stable positivity rate, and a death rate that is just one fifth the norm seen among the world's most populous countries; the latter underscores that Ethiopia is experiencing very low mortality rates even if actual infections levels are substantially under-reported due to limited testing. With respect to impacts on the economy, recent monthly and quarterly activity data reveal a recovery for tourism, airline receipts, industrial park exports, banking, and tax collections. At the same time, the economy's largest sectors (crops, construction, wholesale/retail trading) have seen only minor or modest covid-specific impacts judging from a variety of indicators. In short, thanks to what appears to be a mild variant of the virus in Ethiopia and considering the upcoming preparations to start widespread vaccinations (the target is to soon cover 9mn people and perhaps 20% of population by year-end), we think Ethiopia will overcome the covid pandemic with comparatively fewer economic scars than in most other countries.

2. **Conflict:** Seen from a narrowly macroeconomic perspective, we continue to expect that the nation-wide macro impacts of the conflict in northern Ethiopia are likely to be limited (this does not, of course, address the conflict's major humanitarian impacts and social disruptions and thus offers only a partial and incomplete picture). A compilation of data on the Tigray region's relative weight in key economic activities—crop production, budgetary spending, exports, banking activity, cement production, investment registrations, and others—shows a median share of near 8 percent and thus suggests that nationwide macro impacts will be modest if economic activity remains largely unaffected in the rest of the country. Past episodes of conflict in the area also point to a quick recovery following the year of conflict. However, while short-term impacts will likely be modest, it is of course harder to rule out adverse longer-term impacts on investor sentiment (including FDI), donor flows, and on the overall business climate if the conflict brings a protracted period of tensions and disruptions in the region, or even beyond. For our baseline assumption for 2021, and given recent indications from Government and donors, we think it is more likely than not that policies will soon begin to meaningfully address large humanitarian needs in the Region, while also gradually restoring normalcy to infrastructure links, commerce, and economic activity.

3. **Crops:** The size of this year's crop harvest—to become apparent from official statistics in the coming months—will have major implications for GDP growth, food security, inflation, and emergency import requirements this year. While the outlook early on in the fiscal year was quite positive (thanks to good rains, high fertilizer imports, rising acreage under cultivation, increased irrigation usage, expanded commercial cluster farming, and greater use of modern machinery), a series of subsequent shocks in late 2020—locusts, conflict, harvest disruptions—imply potentially significant negative shocks in at least some localized areas. What the net effect will be remains highly uncertain, and may vary substantially by crop and by region. The latest assessment from Ministry of Agriculture officials suggests the crop harvest could be as high as 37mn tons this year versus 34mn tons last year, which if accurate would imply a bumper year with a high rate of agricultural growth. We are unsure if such a large output boost is possible and remain of the view (until the final crop estimates are released) that expecting this year's crop volumes to be close to last year's outturns may be a more realistic assumption; this remains our baseline case and forms the basis for our 4 percent overall GDP growth projection for 2020-21.

4. **Credit:** One of the biggest private sector concerns post-covid has been the potential for a sharp drop in bank credit, both on the demand side (as firms facing slowdowns avoid new borrowing) as well as the supply side (as banks reduce lending to cope with rising NPLs). While pockets of business activity have surely been affected and reduced their loan demand, the anticipated slowdown in overall credit growth has not materialized. In fact, end-2020 data show continued strong lending growth across both public and private banks, with total bank lending up 12 percent for the quarter and 33 percent year-on-year, 12 out of 16 private banks showing more than 30 percent annual loan growth, and lending at CBE up by a very substantial rate—given its size—of 25 percent. Moreover, based on data from 2020, a major system-wide NPL problem also does not appear to be emerging at private banks (aided in part by central bank forbearance) and even the likely uptick in NPLs this coming year should be one that most banks can cope with given their low initial (NPL) starting positions, good provisioning levels, and on-going growth in their lending books. A credit crunch is thus not on the horizon either for 2021 or 2022, in our view.

5. **Creditors**: The status of Ethiopia's relations with its external creditors (lenders) has recently become of some concern, given the suspension of financial support by some external partners, two credit rating agency downgrades related to anticipated debt relief, and what had been (until recently) a still-pending IMF program review. In this connection, we review the overall profile of Ethiopia's recent external borrowing plus the size of its external debt and debt service obligations, and conclude that: (1) the external support suspended so far remains quite limited (relative both to the size of Ethiopia's budget and annual fx inflows); (2) the country's external debt load still appears manageable by most metrics and a reprofiling of near-term debt service dues is likely sufficient to relieve near-term repayment pressures; and (3) concerns of a 'default' on Ethiopia's sole sovereign bond—the focus of recent credit agency downgrades—seem overblown given that its share in total debt/debt service is very small. The recent announcement of a staff-level agreement for the IMF's first and second program reviews provides a significant endorsement of the direction of macro policy reforms and should instill confidence among Ethiopia's creditors. As important, it boosts the volume of fx inflows coming in before the end of this fiscal year (June 2021) by paving the way for disbursements from the IMF, from multilaterals, and from other creditors whose anticipated debt service relief is typically aligned with an on-going IMF program.

6. **Currency**: Considering the large currency depreciation effected last year and the improvement seen in one measure of competitiveness (REER basis), there was some progress made in addressing the Birr's misalignment in 2020. Despite this, however, the gap with the parallel rate is still substantial (~25 percent) and fx waiting times still significant (in the range of 4-6 months, or more, per information from several banks). For the period ahead, as the current managed fx regime is likely to remain in place throughout 2021, we expect the central bank will continue with the gradual exchange rate crawl it has used to adjust the Birr, though doing so at a much more moderate pace from here on due to declining inflation and improving BOP prospects. This approach is unlikely to be sufficient to end the Birr's misalignment, and so we do not expect any marked improvement—for most businesses in most sectors—in the fx waiting times faced at banks. A major reform of the exchange rate regime—one that corrects the currency's misalignment and allows for its flexible movement—would eliminate fx queuing and shortages at banks and is already a clearly stated Government policy commitment, but the timing for its actual implementation remains unspecified so far. In our view, a late 2021 date for this reform might be possible if macro/BOP outturns were to significantly over-perform in the second half of 2021, but a more realistic prospect for such a major overhaul of the fx regime would be in 2022 or 2023, when inflation should be at much lower rates and foreign exchange reserves at much higher levels. In the interim, we expect that the central bank's gradualist approach to currency adjustments will still aim to avoid a real appreciation of the currency; a 15 percent year-on-year nominal depreciation would be sufficient for this purpose, thus implying a Birr level of near 42 per USD by June 2021 and near 45 per USD by December 2021.

## Section 1: Covid and the Macroeconomy

- **Recent data on the covid pandemic's spread in Ethiopia show few reasons for alarm: new case counts are roughly one-third their peak levels, ICU cases are comparatively low, and daily death figures are at one-third of their former peaks while remaining very low relative to population size. Limited testing (2 million people so far but just 2% of the population) and a 10 percent positivity rate among those tested (though likely overstated due to a sample bias in those tested) are notable areas of concern. Even so, the low overall death rate plus the imminent start of a vaccinations offer some relief and reassurances for the period ahead.**

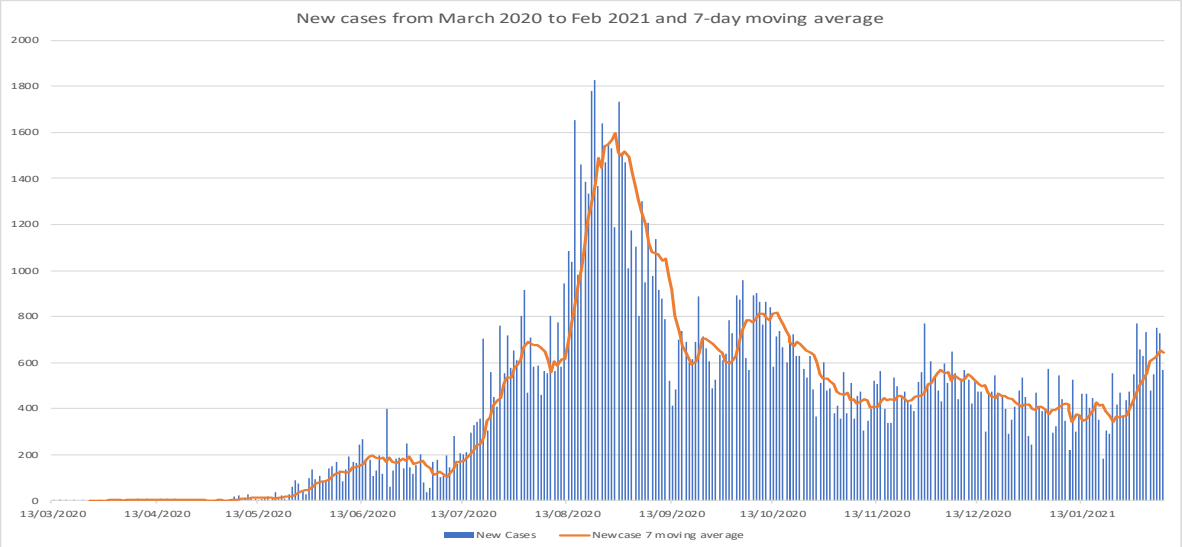
- **The first set of official GDP numbers released since the start of the pandemic show covid impacts mainly in the form of large drops in growth rates and concentrated in about five sectors; the sharpest effects were seen in transport (-20 percentage points drop in growth), hotels & restaurants (-7 ppts), public administration (-7 ppts), wholesale/retail trade (-5ppts) and construction (-5ppts).**

- **Signs of a V-shaped recovery are emerging in multiple areas, though much more strongly in some than in others. Overall, across most sectors, economic actors are adjusting to living with the new post-covid reality—the dominant crop sector was largely unaffected to begin with, while other large sectors are now either fully/mostly re-opened (construction, airline activity, public administration, education, health), or gradually recovering (tourism, hospitality).**

### Overall Covid trends

As of early 2021, trends in the Covid pandemic's spread in Ethiopia show new reported cases at roughly 600 per day or roughly one-third of their August 2020 peak of 1,800 new cases per day (Table 1.1).

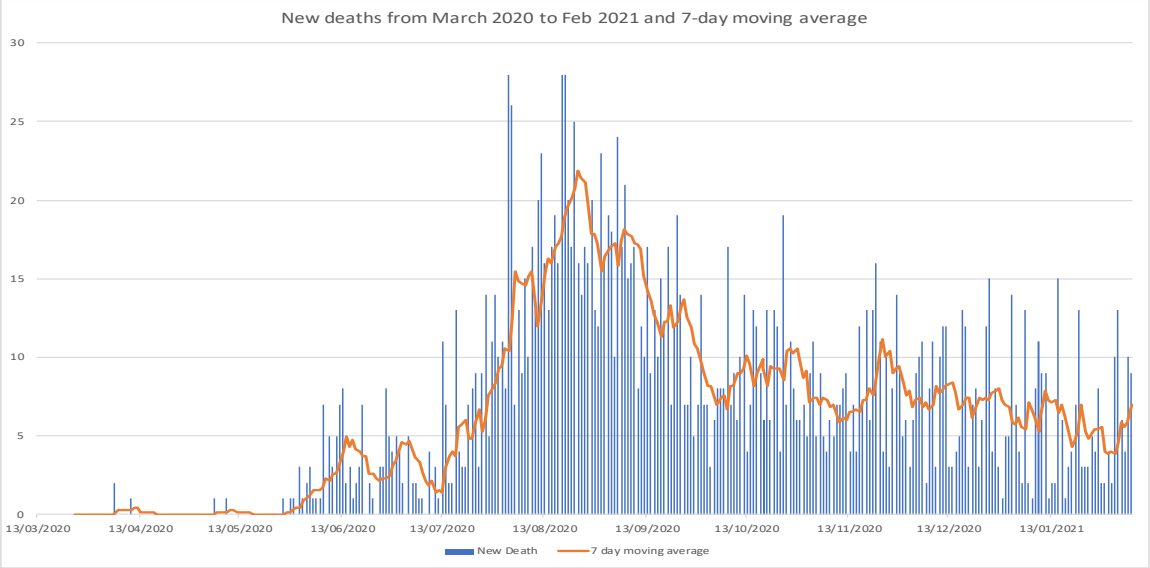
**Table 1.1 New cases from March 2020 to Feb 2021 and 7-day moving average**




*Source: EPHI*

Ethiopia's reported death rate also continues to be very low in absolute terms and relative to the size of the population. The rate of 6 deaths per day is now roughly one-fourth the peak death counts of 25 or more per day seen in August 2020 (Table 1.2).

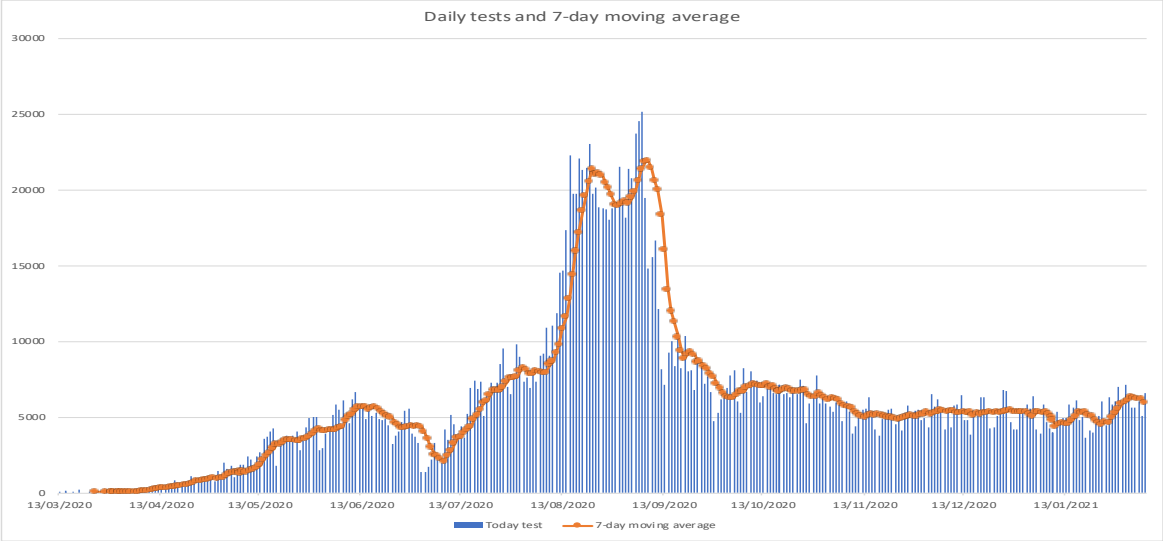
**Table 1.2 New deaths from March 2020 to Feb 2021 and 7-day moving average**




*Source: EPHI*

Testing remains minimal, at around 5,000 per day as of early February, and has shown a decline in recent months; however, a cumulative 2 million Ethiopians have been tested so far over the past 10 months (Table 1.3).

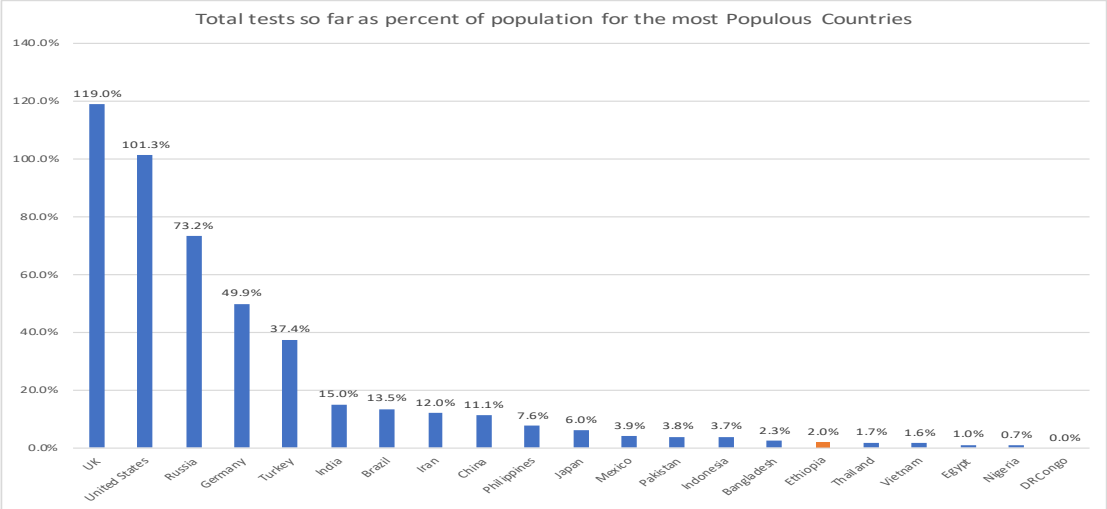
**Table 1.3 Daily tests and 7-day moving average**




*Source: EPHI*

Seen in a cross country context, the testing rate of just 2 percent of the population is one of the lowest among the world's 20 most populous countries (Table 1.4).

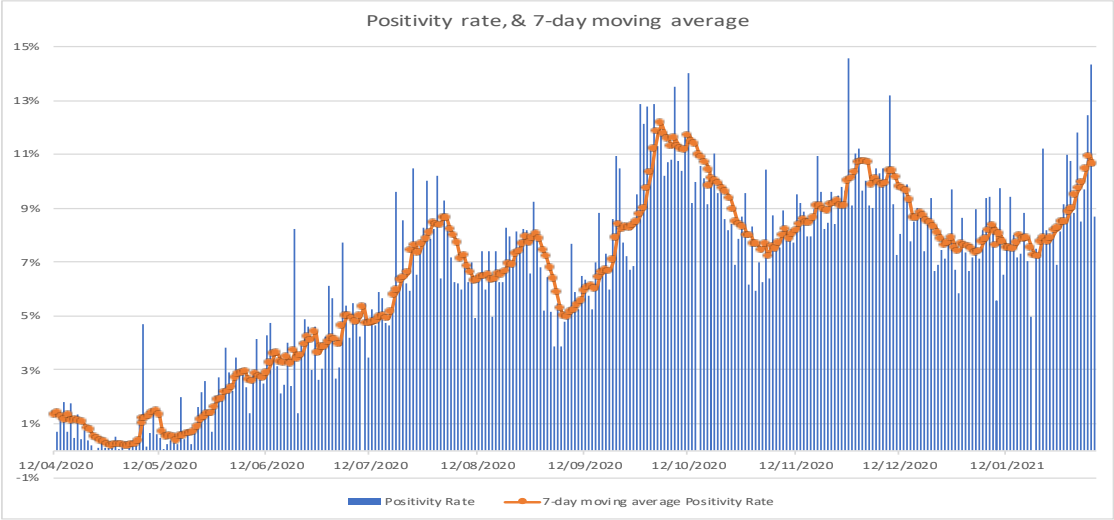
**Table 1.4 Total tests so far as percent of population for the most Populous Countries**




*Source: Johns Hopkins University data for COVID-19 cases as of February 8, 2021 a Population data from worldometers.info, except for Ethiopia which is based on CSA data*

The positivity rate, which captures the share showing positive infections among all tested, has been in the 9 to 11 percent range in recent months, which remains elevated most likely because of the limited scope of testing and the likelihood (reflecting sample bias) that a disproportionate share of those who choose to get tested are individuals encountering symptoms (Table 1.5)

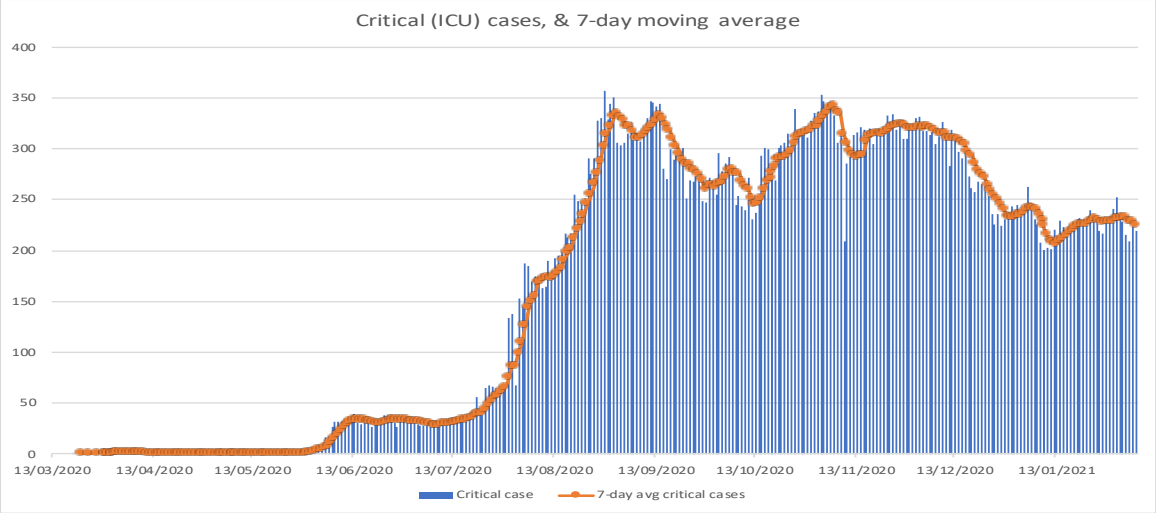
**Table 1.5 Positivity rate, & 7-day moving average**




*Source: EPHI*

The number of critical cases, represented by patients in ICU wards, shows an uptick since the start of the year but is below its peak levels seen in August 2020 and remains low relative to the overall population (Table 1.6).

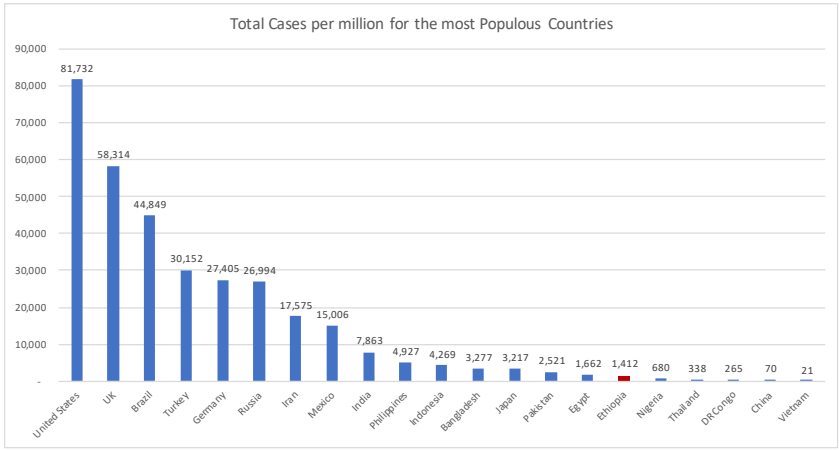
**Table 1.6 Critical (ICU) cases, & 7-day moving average**




*Source: EPHI*

Among the world's 20 most populous countries, Ethiopia has the sixth lowest case count per million people—after Vietnam, China, DRC, Thailand, Nigeria (Table 1.7).

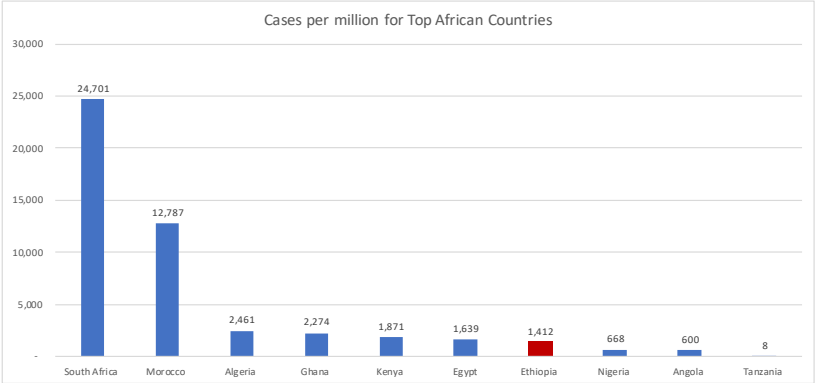
**Table 1.7 Total Cases per million for the most Populous Countries**




*Source: Johns Hopkins University data for COVID-19 cases as of February 8, 2021 a Population data from worldometers.info, except for Ethiopia which is based on CSA data*

Among Africa's 10 largest economies, Ethiopia also shows one of the lowest rates of new cases per million people (Table 1.8). This rate is just 6 percent of the South Africa's case count, though this partly reflects much more limited testing in Ethiopia (2 million tests covering 2% of the population) versus in South Africa (9 million tests covering 15% of the population).

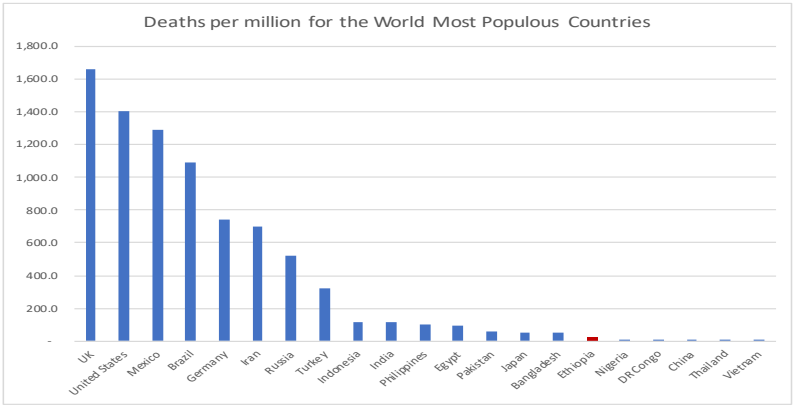
**Table 1.8 Cases per million for Top African Countries**




*Source: Johns Hopkins University data for COVID-19 cases as of February 8, 2021 a Population data from worldometers.info, except for Ethiopia which is based on CSA data*

Death rates relative to the population are particularly low when seen against the world's most populous countries (Table 1.9)…

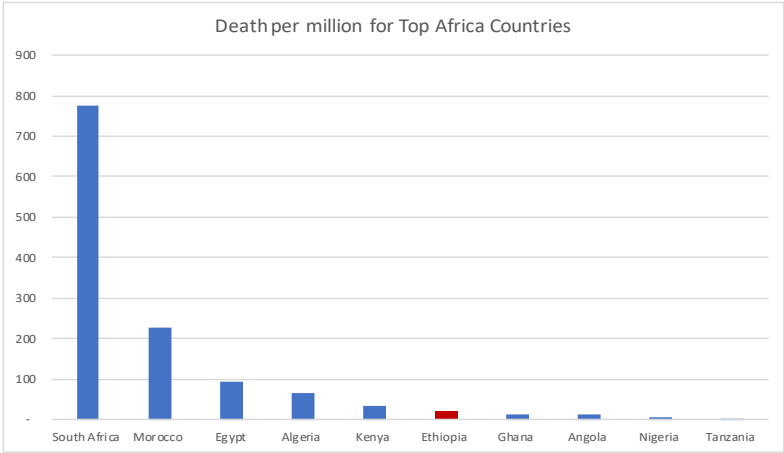
**Table 1.9 Deaths per million for the World Most Populous Countries**




*Source: Johns Hopkins University data for COVID-19 cases as of February 8, 2021 a Population data from worldometers.info, except for Ethiopia which is based on CSA data*

…but closer to the average death rate (excluding South Africa) when seen in comparison to Africa's ten largest economies (Table 1.10)

**Table 1.10 Death per million for Top Africa Countries**




*Source: Johns Hopkins University data for COVID-19 cases as of February 8, 2021 a Population data from worldometers.info, except for Ethiopia which is based on CSA data*

Like most of the recent of the continent, Ethiopia has been late to receive and start vaccinations, but recent government announcements point to several initiatives coming soon in this area (Table 1.11).

**Table 1.11: COVID Vaccination Plans for Ethiopia--As at February 2021**

| Item | Notes |
|---|---|
| Vaccine Type | AstraZeneca/Oxford AZD1222 |
| Vaccine amount | 9 million |
| Vaccine import date | March-April 2021 |
| Distribution date | April 2021 onwards |
| Initial Vaccinations | For 270,000 health workers |
| First round vaccination | 20% of the population (more than 20 million) |
| Initial Phase | 42 mn doses for 20mn people, or ~20% of population |
| Funding need/Aid | $ 405 million [COVAX support anticipated] |

*Source: Ministry of Health and press reports*

## Macro impacts from covid

The first set of official GDP numbers released since the start of the pandemic (for FY 2019-20) provide a partial picture of the Covid pandemic's macro impacts, and show about five sectors experiencing large drops in growth rates—especially for transport (which includes airline activity and showed a 20 percentage points drop in the growth rate), hotels and restaurants (-7 ppts), public administration (-7 ppts), wholesale and retail trade (-5 ppts ), and construction (-5 ppts); (Table 1.12).

**Table 1.12: Ethiopian GDP sub-components and early indications of COVID effects**

*Ranked by largest drop in growth rates*

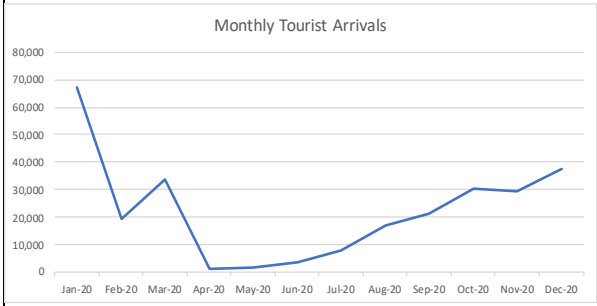
| | | Growth in 2018-19 | Growth in 2019-20 | Change in growth |
|---|---|---|---|---|
| 1 | Transport and Communications | 21.0% | 1.1% | -19.9% |
| 2 | Hotels and Restaurants | 9.0% | 2.2% | -6.8% |
| 3 | Public Administration and Defense | 9.0% | 2.3% | -6.7% |
| 4 | Whole Sale and Retail Trade | 11.7% | 6.4% | -5.3% |
| 5 | Construction | 15.0% | 9.9% | -5.1% |
| 6 | Other Community, Social & Personal Services | 6.3% | 2.5% | -3.8% |
| 7 | Financial Intermediation | 13.6% | 10.2% | -3.4% |
| 8 | Animal Farming and Hunting | 6.0% | 3.3% | -2.7% |
| 9 | Education | 3.5% | 1.8% | -1.7% |
| 10 | Health and Social Work | 14.3% | 12.9% | -1.4% |
| 11 | Small Scale and Cottage Industries | 3.0% | 2.6% | -0.4% |
| 12 | Fishing | 2.3% | 2.0% | -0.3% |
| 13 | Large and Medium Scale Manufacturing | 10.0% | 9.8% | -0.2% |
| 14 | Private Households with Employed Persons | 2.5% | 2.3% | -0.2% |
| 15 | Forestry | 3.8% | 3.9% | 0.1% |
| 16 | Crop | 3.0% | 4.7% | 1.7% |
| 17 | Real Estate, Renting and Business Activities | 7.5% | 9.5% | 2.0% |
| 18 | Electricity and Water | 4.0% | 7.2% | 3.2% |
| 19 | Mining and Quarrying | -21.9% | 91.4% | 113.3% |

*Source: NPC. Note: Given Ethiopia's July-June fiscal year, the data above effectively capture only one quarter of COVID impacts (April-June 2020), although that is likely to be the quarter with the sharpest drop in growth compared to the same quarter a year ago.*

## Recovery from covid

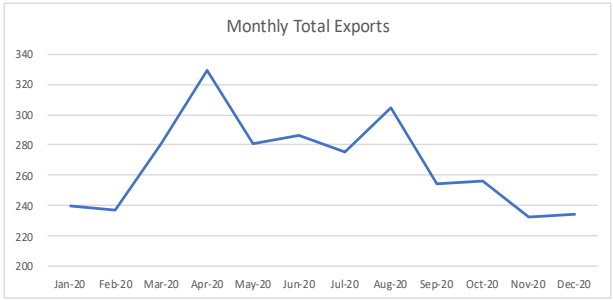
Looking at monthly and quarterly developments since the onset of the pandemic nearly a year ago, there are growing signs of a 'V'-shaped recovery emerging in several areas—though not as strongly and consistently as one might have hoped in some cases. Areas showing a strong rebound include tourism arrivals, airline activity, credit growth, industrial park exports, revenue collections, and remittances, while other activity indicators (overall exports, cement production) are less clear-cut and consistent (Table 1.13).

**Table 1.13A Monthly Tourist arrivals**



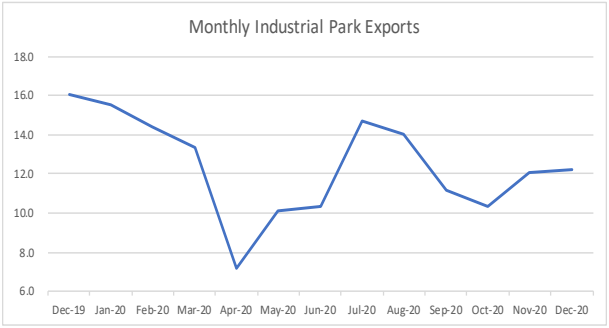

*Source: Ministry of Culture and Tourism*

**Table 1.13B Monthly Export,mns USD**



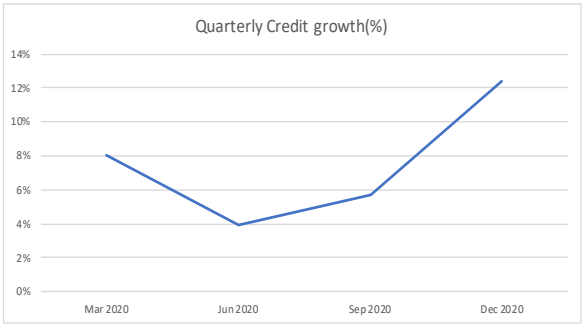

*Source: ERCA, NBE*

**Table 1.13C Monthly IP Export**



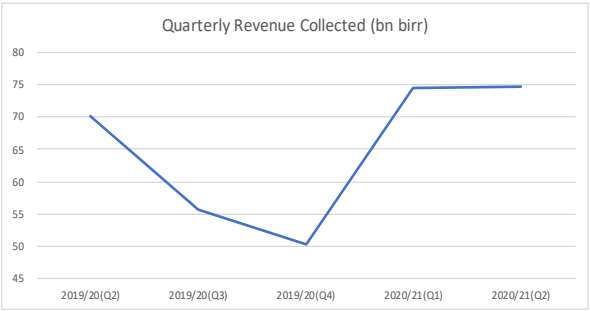

*Source: EIC*

**Table 1.13D Quarterly Credit growth(%)**



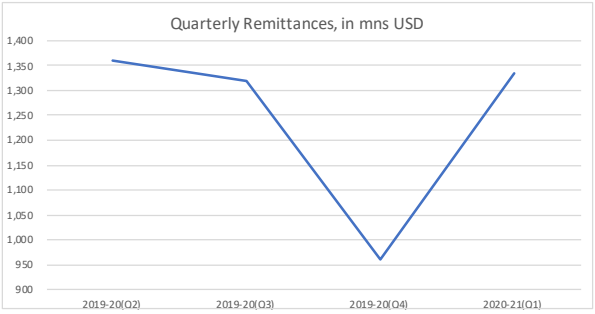

*Source: NBE, Bank's Survey*

**Table 1.13E Quarterly Revenue Collected (bn birr)**



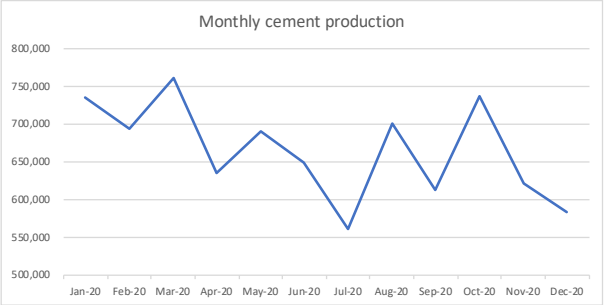

*Source: Ministry of Revenue*

**Table 1.13F Quarterly Remittances, in mns USD**



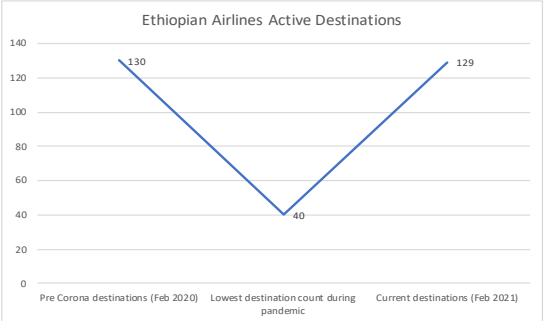

*Source: NBE*

**Table 1.13G Monthly cement production**




*Source: MOTI*

**Table 1.13H Ethiopian Airlines Active Destinations**




*Source: Ethiopian Airlines and press reports*

## Looking ahead

Looking ahead, there are strong reasons to expect that covid-specific impacts on the economy will gradually fade away during the rest of 2021: the crop sector remains largely unaffected with its output levels determined by other sector-specific factors (see Section 3); fiscal stimulus measures (~3% GDP) are still helping those affected sectors stage a recovery; monetary stimulus and regulatory accommodation continues to support banks and their borrowers; and economic actors are adjusting to living with the new post-covid reality (including in many service activities such as education, health, hospitality, trading, and travel). In such an environment, it is other conventional growth drivers—crop outturns, construction, credit developments, government spending, and BOP developments—as well as special circumstances such as the recent conflict that will have a stronger bearing on Ethiopia's macroeconomic developments and growth prospects. It is precisely these areas that are covered in the following sections, including the outlook with respect to the conflict, crops, credit, creditor relations, and the currency.

## Section 2: Conflict and the Macroeconomy

- **A compilation of data on the Tigray region's share in various economic activities—crop production, exports, banking activity, investments, cement production, and others—shows a median share of 8 percent and thus suggests that nationwide macro impacts will be modest if business activity remains largely unaffected in the rest of the country.**

- **While short-term macro impacts from the recent conflict will likely be limited, it is harder to rule out potential adverse longer-term impacts on investor sentiment (including FDI), donor flows, and on the overall business climate if the conflict brings a protracted period of tensions and disruptions in the region, or even beyond.**

- **For our baseline assumption for 2021, and given recent indications from Government and donors, we think it is more likely than not that policies will soon begin to meaningfully address large humanitarian needs in the Region, while also gradually restoring normalcy to infrastructure links, commerce, and economic activity.**

The nationwide macro impacts of the recent conflict in Tigray can be assessed by viewing the region's share in overall economic activity—particularly in areas such as total crop production, budget spending, cement output, exports, banking activity, domestic airline traffic, and FDI investment registrations (Table 2.1).

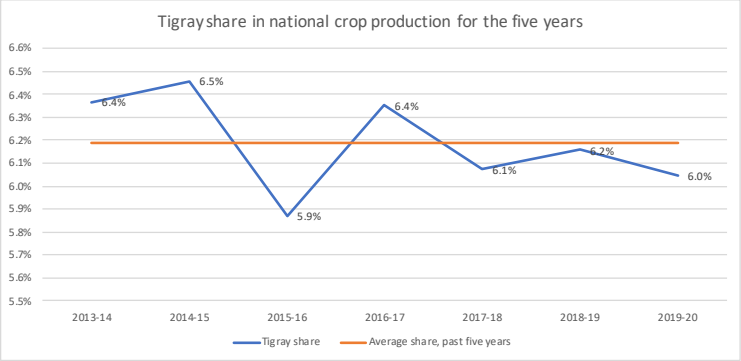
**Table 2.1: Tigray Region within the context of the National Economy**

| | | Tigray | | Ethiopia | % Share |
|---|---|---|---|---|---|
| 1 | Population, mns | 5.7 | | 103.0 | 5.5% |
| 2 | Farm output (mn quintals) | 20.2 | | 335.2 | 6.0% |
| 3 | Inflation, January 2021 | 28.1% | | 19.2% | … |
| 5 | Budgetary expenditure (Subsidies, Birr bns) | 10.4 | | 176.4 | 5.9% |
| 6 | Cement production, FY 2019/20, mn tons | 1.8 | | 8.3 | 21.1% |
| 7 | Exports (estimate), USD mns | $ 240 | $ | 3,000 | 8.0% |
| 8 | Industrial park monthly exports, USD mns | $ 1.1 | $ | 13.6 | 8.4% |
| 9 | Bank branches | 616 | | 6,124 | 10.1% |
| 10 | Domestic air destinations | 4 | | 22 | 18.2% |
| 11 | Safety net beneficiaries (mns) | 1.0 | | 8.4 | 11.9% |
| 12 | People living below poverty line, % | 27.0% | | 23.5% | … |
| 14 | New investment projects registered, Birr bns | 0.015 | | 1.32 | 1.1% |
| | | | | *Average share* | *9.6%* |
| | | | | *Median share:* | *8.2%* |

*Source: CSA, Federal Government Budget, NBE, UNOCHA, EAL, EIC, Cepheus Research compilation*

Focusing on food production, the Region's share of national crop output has averaged 6 percent in recent years (Table 2.2A). The Region has a higher-than-average contribution in the production of sesame, barley, and lentils, and especially so in the case of sesame (Table 2.2B).

**Table 2.2A Tigray's share in national crop production share for past five years**




*Source:CSA*

**Table 2.2B: Shares of Particular Crops Produced in Tigray Region**

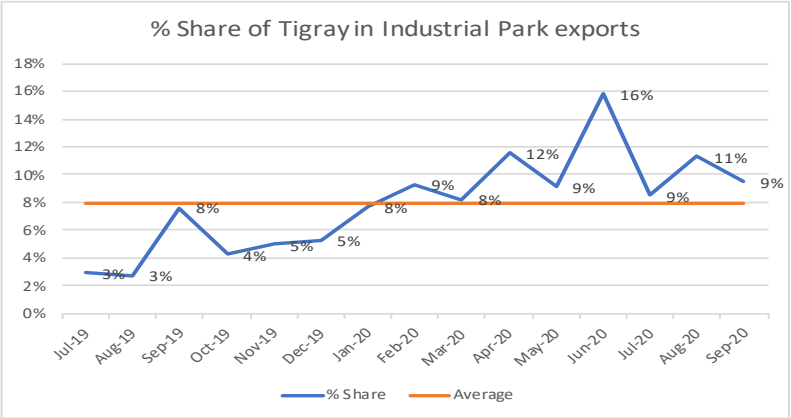
*Ranked by highest share produced in Tigray Region*

| Figures in quintals | % Tigray share | Tigray | Ethiopia |
|---|---|---|---|
| 1 Sesame | 28.6% | 752,195 | 2,627,768 |
| 2 Finger millet | 21.2% | 2,139,061 | 10,102,111 |
| 3 Sorghum | 14.1% | 7,206,253 | 51,077,961 |
| 4 Barley | 10.1% | 1,763,595 | 17,511,878 |
| 5 Lentils | 7.2% | 107,160 | 1,479,773 |
| *Average--ALL CROPS* | *6.1%* | *20,076,256* | *329,281,367* |
| 6 Wheat | 5.1% | 2,593,398 | 50,371,888 |
| 7 Grass peas | 5.1% | 134,662 | 2,628,007 |
| 8 Teff | 4.8% | 2,790,812 | 58,085,410 |
| 10 Fenugreek | 4.5% | 8,784 | 195,471 |
| 11 Linseed | 4.4% | 36,608 | 823,052 |
| 12 White haricot beans | 4.0% | 69,190 | 1,714,292 |
| 13 Red chick peas | 3.9% | 114,765 | 2,962,117 |
| 14 Field peas | 3.6% | 132,746 | 3,684,434 |
| 15 Neug | 3.3% | 92,813 | 2,824,892 |
| 16 Faba beans | 2.0% | 203,077 | 10,151,486 |
| 17 Maize | 1.8% | 1,886,451 | 102,019,166 |
| 18 Groundnut | 0.8% | 12,374 | 1,617,153 |
| 19 Mung beans | 0.6% | 4,863 | 766,450 |
| 20 Sunflower | 0.6% | 458 | 76,094 |
| 21 Potatoes | 0.5% | 49,007 | 9,515,234 |
| 22 Red haricot beans | 0.4% | 13,694 | 3,152,488 |
| 23 Rice | 0.4% | 7,088 | 1,696,800 |
| 24 White chick-peas | 0.3% | 2,674 | 882,016 |
| 25 Oats | 0.3% | 631 | 225,735 |
| 26 Rapeseed | 0.2% | 307 | 194,363 |
| 27 Soya beans | 0.1% | 2,593 | 2,086,914 |
| 28 Gibto | 0.0% | - | 323,648 |
| 29 Taro | 0.0% | - | 15,916,443 |

*Source: CSA data for FY 2019-20 crop output.*

Looking at 2020 data before the conflict, the Region's share of industrial park exports is seen fluctuating significantly but has averaged roughly 8 percent over the past two years and shown a generally rising trend (Table 2.3).

**Table 2.3: % Share of Tigray Region in total Industrial Park Exports**




*Source: EIC*

The overall composition of the economy within the Region could also matter significantly in determining its macro impacts, as sectors with different sizes in could have been exposed to the conflict to varying degrees (Table 2.4). Judging from patterns seen in most of Ethiopia's regions, agriculture (crops) is likely the single most significant sector of the regional economy, perhaps taking 30-40 percent of total activity, likely followed by trade, public administration, construction, transportation, and social services (health, education). To the extent that the largest sectors are largely unaffected (possibly for crops) or quicker to recover (public administration, education, health), then the macro impacts within the region may be correspondingly moderated (Table 2.4).

**Table 2.4: Structure of Regional Economy--Tigray**

| | Approximate ranking of Economic sub-sectors | | | Urban Employment composition in Tigray Region | |
|---|---|---|---|---|---|
| 1 | Agriculture | ~30% to 40% | 1 | Trade | 17.5% |
| 2 | Wholesale/Retail Trade | ~10% to 15% | 2 | Agriculture, forestery and fishing | 13.0% |
| 3 | Public Administration | ~5% to 10% | 3 | Construction | 8.7% |
| 4 | Construction | ~5% to 10% | 4 | Education | 8.0% |
| 5 | Transport & Communications | ~5% to 10% | 5 | Manufacturing | 6.9% |
| 6 | Education | ~5% | 6 | Accommodation and food services | 6.4% |
| 7 | Health | ~5% | 7 | Transportation and storage | 5.4% |
| 8 | Hotels & Restaurants | ~5% | 8 | Human health and social work | 3.4% |
| 9 | Manufacturing | ~5% | 9 | Public administration and defense | 3.1% |
| 10 | Finance | ~5% | 10 | Financial and insurance activities | 2.2% |

*Source: CSA for Tigray urban employment data, and Cepheus Research. Shaded sub-sectors expected to be quicker to recover from conflict.*

A partial but potentially revealing metric to see the conflict's perceived impact can be seen from risk measures as captured in the Eurobond yield. As expected, this risk measure showed a large spike at the onset of the conflict, but perceptions shifted quickly thereafter—at least as seen by foreign investors—and the yield fell to pre-conflict levels by late December; this suggests that investor perceptions of near-term economic impacts had reverted 'back-to-

normal' within about a month (until this was changed again with a debt relief announcement in late January 2021), (Table 2.5).

**Table 2.5 Eurobond spread from Sept 2020 to End-Jan 2021**


*Source: FactSet*

One other approach to assessing the macro risks of the recent conflict might be to review similar episodes of conflict in the past and the path of key macro variables following the conflict. In this context, the Ethiopian-Eritrean conflict of 1997-98 (also largely concentrated in the Tigray Region) shows a temporary deterioration in key macro variables but a quick recovery following the end of active hostilities (Table 2.6)

**Table 2.6: Economic Impacts of the 1998 Ethio-Eritrean War**

| | Year T-1 | Conflict Year | Year T+1 |
|---|---|---|---|
| Growth rate | 2.8 | -4.2 | 6.3 |
| Inflation | -6.4 | 3.6 | 7.9 |
| Export growth | 20.6 | -7.9 | 8.1 |
| Import growth | 18.4 | 9.9 | 18.4 |
| Current account deficit, % GDP | -0.5 | -4.1 | -5.9 |
| Depreciation of exchange rate | 6.71 | 7.12 | 7.94 |
| Annual Depreciation rate (%) | 2.6% | 6.1% | 9.5% |
| FX reserves, USD mns | $ 590 | $ 600 | $ 550 |

*Source: IMF World Economic Outlook and Cepheus Research compilation*
*Conflict year was in 1998 for the Ethio-Eritrean war*

Looking ahead, tracing how key macro transmission channels—namely the real, fiscal, monetary, and external sectors—might be affected suggests low to moderate impacts in many areas but potentially significant effects in certain spheres such trade, fiscal expenditure, and some fx flows. Also, the longer-term consequences of the conflict may become significant if the restoration of regular humanitarian/social services, critical infrastructure links, and commercial/economic activities is prolonged. (Table 2.7).

**Table 2.7: Macro Transmission Channels from Recent Conflict**

| Area | Sub-area | Potential impacts on regional economy and/or broader national macroeconomy | Severity of Negative Impacts for Region |
|---|---|---|---|
| **REAL SECTOR** | **Crops** | Disruption to farms due to conflict; late/disrupted harvests lowering yields | LOW |
| | **Construction** | Potentially significant in certain areas, but recovery could involve strong growth | MEDIUM to HIGH |
| | **Industry** | Potentially significant and long-lasting in certain urban areas and industries to the extent that industries have been damaged or rendered no longer functional | HIGH |
| | **Trade** | Sharp slowdowns would occur during conflict, but quick bounce back likely for wholesale/retain trade after opening of infrastructure links | HIGH, but short-lived |
| | **Public services** | After short-lived interruptions, school and medical services would be expected to be restored by Government in near-term (and already partly so per recent reports). | HIGH, but short-lived |
| | **Private services** | Potentially longer time for restoration of tourism, hotels, restaurant, & other such services | HIGH |
| **FISCAL SECTOR** | **Revenue** | Reduced regional and national revenue due to loss in income tax, VAT, other collections | LOW TO MEDIUM |
| | **Expenditure** | Large reconstruction needs will bring increased expenditure, but this may be mitigated somewhat by spending re-allocations, higher transfers likely, & private sector contributions | MEDIUM to HIGH |
| | **Transfers** | Net transfers from Govt, and external sources (intl orgs, NGOs) likely to be stepped up | ... |
| **FINANCIAL SECTOR** | **Bank deposits** | Deposit trends likely to be flat/declining, until business activity normalizes | LOW |
| | **Bank loans** | New lending likely to be stalled until commercia/business activity normalizes | LOW |
| | **Banks' NPLs** | Bank loans to regions' companies likely to face high number of non-performing cases | HIGH |
| **EXTERNAL SECTOR** | **Exports** | Drop in industrial park exports, and in crop exports such as sesame | MEDIUM |
| | **Remittances** | Remittance flows may potentially increase in response to population needs | LOW |
| | **Grants** | Conflict-related issues have led to some temporary pause in external funding; however, eventual humanitarian and reconstruction related grants may increase over time as and once recovery efforts are intensified | ... |
| | **FDI** | Drop in new FDI inflows possible: in particular, longer-term impacts are uncertain and dependent of scale and speed of the region's normalization with respect to overall stability, humanitarian/social services, infrastructure, and commercial activities | MEDIUM/UNCERTAIN |

*Source: Cepheus Research summary*

With respect to reconstruction activities as of early 2021, recent Government reports suggest an acceleration of efforts across multiple areas—including emergency food relief, health services, refugee assistance—while various infrastructure and commercial links are reported to be in the process of being gradually restored (Table 2.8). At the same time, donor reports indicate that the humanitarian needs still fall far short of the Region's large requirements but with some progress said to have taken place in recent weeks.

**Table 2.8: Status of Reconstruction Efforts as of Early February 2021**

| Area | Sub-issue | Recent Developments per Government and UN OCHA reports |
|---|---|---|
| **HUMANITARIAN ACTIVITIES** | **Food Relief** | 2.2 million people in need of aid, as of Feb 2021, per UN OHCA's latest February 19, 2021 Situation Update<br>Figure includes 0.95mn in need of aid before the conflict, and 1.3mn additional people since the conflict<br>UN OCHA reports access to and scaling up of aid deliveries in Mekele, Adigrat, Axum, Adwa and Shire<br>As of early February, Govt and WFP report 305,000 quintals of food distributed to 1.8 million people<br>UH OCHA's Feb 19, 2021 Situation Update reports that: "Despite some progress, the humanitarian response remains drastically inadequate compared to the sheer magnitude of needs across the region"<br>Besides Federal Government and Donor assistance efforts, private sector & volunteer initiatives have been launched in recent weeks, as have initiatives by other Regional Governments |
| | **IDPs** | 220,000 IDPs estimated, per UN OCHA reports |
| | **Refugees** | Around 61,000 refugees in neighboring Sudan per UN OCHA reports |
| | **Humanitarian funding** | UN OCHA reports, of $1.3bn in funding need, $727mn of funds/commitments or 57% have been received |
| **INFRASTRUCTURE** | **Ethiopian Airlines** | Flights to Mekelle, Shire, and Humera airports now restored; Axum airport under repairs<br>Three flights a day now operating to Mekelle |
| | **Road links** | Road links to Addis Ababa restored, though periodic interruptions in access also reported |
| | **Telecom** | Telecom services restored in Mekelle, and in some towns in the rest of the Region |
| | **Power** | Power services restored in some parts of the region |
| | **Bank branches** | Bank branches in major urban areas re-opened, while those in more remote areas remain closed |

*Source: Summary based on UN OCHA "Ethiopia--Tigray Region Humanitarian Update" of Feb 12 and 19, 2021, WFP Feb 6, 2021 Humanitarian Update, FEWS and press reports.*

## Section 3: Crops and the Macroeconomy

- **The size of this year's crop harvest—one of the single most important determinants of Ethiopia's GDP growth rates—could be anywhere between 335mn to 379mn quintals, per recent estimates/statements by different authorities. This large variance suggests agriculture growth could be as low as 0% or as high as 10 percent.**

- **The high level of uncertainty reflects a combination of many positive developments (good rains, high fertilizer usage, more acreage farmed, expanded irrigation, additional cluster farming, and greater use of modern machinery) alongside some negative ones that have been particularly significant in certain localities (locust invasions, conflict, harvest disruptions). What the net effect will be is unclear, and may vary substantially by crop and by region.**

- **We are inclined to expect a crop harvest that will be close to last year's outturns (thus near zero agricultural growth), and this forms the basis for our 4 percent overall GDP growth projection for 2020-21.**

*Recent performance*

Ethiopia's total crop production has shown steady increases in recent years and been a key source of the country's underlying growth; output is up 26 percent in the last five years and 86 percent over the past decade (Table 3.1).

**Table 3.1 Crop Production in Ethiopia--A Ten Year Perspective (In millions of quintals)**

| | 2009-10 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 5-Year Change | 10-Year Change |
|---|---|---|---|---|---|---|---|---|---|
| **TOTAL CROPS** | 180.3 | 270.3 | **266.6** | **290.4** | **306.1** | **315.6** | **335.2** | **26%** | **86%** |
| | - | - | | | | | | | |
| **Cereals** | **154.4** | **236.6** | **231.2** | **253.8** | **267.8** | **277.6** | **296.7** | **28%** | **92%** |
| Maize | 38.9 | 72.3 | 71.5 | 78.5 | 84.0 | 94.9 | 96.4 | 35% | **148%** |
| Teff | 31.0 | 47.5 | 44.7 | 50.2 | 52.8 | 54.0 | 57.4 | 28% | **85%** |
| Wheat | 30.7 | 42.3 | 42.1 | 45.4 | 46.4 | 48.4 | 53.2 | 26% | **73%** |
| Sorghum | 29.7 | 43.3 | 43.2 | 47.5 | 51.7 | 50.2 | 52.7 | 22% | **77%** |
| Barley | 17.5 | 19.5 | 18.5 | 20.2 | 20.5 | 17.7 | 23.8 | 29% | **36%** |
| Finger millet | 5.2 | 9.1 | 9.4 | 10.2 | 10.3 | 10.4 | 11.3 | 20% | **117%** |
| Rice | 1.0 | 1.3 | 1.3 | 1.4 | 1.5 | 1.7 | 1.7 | 35% | **66%** |
| Oats/'Aja' | 0.3 | 1.3 | 0.4 | 0.5 | 0.5 | 0.3 | 0.5 | 14% | **39%** |
| **Pulses** | **18.4** | **26.1** | **27.6** | **28.1** | **29.8** | **30.1** | **30.1** | **9%** | **63%** |
| Faba beans | 6.1 | 8.4 | 8.5 | 8.8 | 9.2 | 10.4 | 10.1 | 19% | **65%** |
| Field peas | 2.3 | 3.4 | 3.2 | 3.5 | 3.7 | 3.6 | 3.9 | 22% | **70%** |
| Red Chick-pea | 2.8 | 4.5 | 4.7 | 4.4 | 5.0 | 3.3 | 3.7 | -20% | **34%** |
| Red Haricot beans | 3.6 | 5.1 | 5.4 | 3.6 | 3.7 | 3.4 | 3.1 | -42% | **-13%** |
| Grass peas | 2.0 | 2.5 | 2.8 | 3.0 | 2.9 | 2.6 | 3.1 | 12% | **56%** |
| White Haricot beans | - | - | | 1.3 | 1.5 | 1.5 | 1.7 | ... | ... |
| Soya beans | - | 0.7 | 0.8 | 0.8 | 0.9 | 1.5 | 1.3 | 55% | ... |
| Lentils | 1.2 | 1.3 | 1.3 | 1.7 | 1.8 | 1.4 | 1.2 | -10% | **-1%** |
| White Chick-pea | - | - | | - | - | 1.3 | 0.6 | ... | ... |
| Mung bean/"Masho | - | - | | 0.4 | 0.5 | 0.6 | 0.6 | ... | ... |
| Fenugreek | - | - | | 0.5 | 0.4 | 0.3 | 0.4 | ... | ... |
| Gibto | 0.4 | 0.2 | | 0.3 | 0.2 | 0.2 | 0.4 | ... | ... |
| **Oilseeds** | 6.3 | **7.5** | **7.8** | **8.4** | **8.6** | **7.9** | **8.4** | **8%** | **33%** |
| Neug | 1.5 | 2.2 | 2.5 | 3.0 | 3.2 | 3.0 | 2.9 | 17% | **94%** |
| Sesame | 2.6 | 2.8 | 2.7 | 2.7 | 2.6 | 2.0 | 2.6 | -4% | **1%** |
| Groundnuts | 0.5 | 1.0 | 1.0 | 1.3 | 1.5 | 1.4 | 1.6 | 52% | **240%** |
| Linseed | 1.5 | 0.8 | 0.9 | 0.9 | 0.9 | 1.0 | 0.8 | -10% | **-47%** |
| Rapeseed | 0.2 | 0.5 | 0.6 | 0.4 | 0.3 | 0.4 | 0.4 | -24% | **91%** |
| Sunflower | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 43% | **71%** |

*Source: CSA*

Rising output reflected a combination of increased acreage farmed (Table 3.2), as well as notably rising yields, which are up from 2.15 tons per hectare five years ago to 2.62 tons per hectare today (Table 3.3).

**Table 3.2: Land Under Cultivation: A Ten Year Overview of Acreage Farmed**

| | 2009-10 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 5-Year Change | 10-Year Change |
|---|---|---|---|---|---|---|---|---|---|
| **Total (millions of hectares)** | **11.5** | **12.6** | **12.5** | **12.6** | **12.7** | **12.7** | **12.8** | **2.3%** | **11.1%** |
| **Cereals** | **9.2** | **10.2** | **10.0** | **10.2** | **10.2** | **10.4** | **10.5** | **5.1%** | **13.9%** |
| Teff | 2.5 | 3.0 | 2.9 | 3.0 | 3.0 | 3.1 | 3.1 | 8.4% | 24.0% |
| Barley | 1.1 | 1.0 | 0.9 | 1.0 | 1.0 | 0.8 | 1.0 | 0.7% | -13.6% |
| Wheat | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 | 7.5% | 11.8% |
| Maize | 1.7 | 2.1 | 2.1 | 2.1 | 2.1 | 2.4 | 2.3 | 7.8% | 33.8% |
| Sorghum | 1.6 | 1.8 | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 | -1.2% | 14.3% |
| Finger Millet | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.5 | -2.0% | 26.6% |
| Oats | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -3.3% | -11.3% |
| Rice | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 27.9% | 19.9% |
| **Pulses** | **1.5** | **1.6** | **1.7** | **1.5** | **1.6** | **1.6** | **1.6** | **-5.3%** | **5.7%** |
| Faba beans | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 6.1% | -8.5% |
| Chickpeas | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | -19.1% | -0.6% |
| Haricot beans | 0.2 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | -21.3% | 15.2% |
| Field peas | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.2% | -1.0% |
| Lentils | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -12.6% | -17.5% |
| Grass peas | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | -8.5% | 7.0% |
| Fenugreek | | | | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... |
| Soybeans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 43.5% | 809.1% |
| Gibto vetch | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.3% | -23.0% |
| Mung bean/ Masho | | | | 0.0 | 0.0 | 0.0 | 0.1 | ... | ... |
| **Oilseeds** | **0.8** | **0.9** | **0.9** | **0.8** | **0.8** | **0.7** | **0.8** | **-2.0%** | **8.0%** |
| Neug | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 4.2% | 16.7% |
| Linseed/flax | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -6.2% | -43.1% |
| Rapeseed | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 40.2% | 110.2% |
| Sunflower | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 29.3% | 91.4% |
| Groundnuts | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 133.6% | 281.8% |
| Sesame | 0.3 | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 | -32.3% | -16.9% |

*Source: CSA*

**Table 3.3 Agricultural Yields over the last Five and Ten years**

| | 2009-10 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 5-Year Change | 10-Year Change |
|---|---|---|---|---|---|---|---|---|---|
| **Yield (tons per hectare)** | **1.57** | **2.15** | **2.14** | **2.30** | **2.41** | **2.48** | **2.62** | **22.8%** | **66.8%** |
| **Cereals** | **1.68** | **2.33** | **2.32** | **2.48** | **2.61** | **2.67** | **0.55** | **-76.4%** | **-67.5%** |
| Teff | 1.24 | 1.58 | 1.56 | 1.67 | 1.72 | 1.76 | 0.77 | -50.9% | -38.2% |
| Barley | 1.59 | 1.97 | 1.96 | 2.11 | 2.16 | 2.09 | 5.59 | 185.3% | 251.4% |
| Wheat | 1.92 | 2.55 | 2.53 | 2.68 | 2.75 | 2.76 | 5.38 | 112.8% | 180.7% |
| Maize | 2.29 | 3.43 | 3.39 | 3.68 | 3.96 | 4.01 | 2.32 | -31.7% | 1.2% |
| Sorghum | 1.86 | 2.37 | 2.34 | 2.53 | 2.73 | 2.74 | 0.62 | -73.6% | -66.8% |
| Finger Millet | 1.44 | 2.02 | 2.02 | 2.21 | 2.26 | 2.30 | 0.10 | -95.0% | -93.0% |
| Oats | 1.38 | 1.88 | 1.83 | 1.67 | 2.08 | 2.02 | 8.02 | 338.8% | 483.1% |
| Rice | **2.15** | 2.85 | 2.80 | 2.71 | 2.83 | 2.68 | - | ... | ... |
| **Pulses** | **1.28** | **1.72** | **1.67** | **1.82** | **1.86** | **1.86** | **1.92** | **15.0%** | **50.5%** |
| Faba beans | 1.29 | 1.29 | 1.29 | 1.29 | 1.29 | 1.29 | 1.29 | 0.0% | 0.0% |
| Chickpeas | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 0.0% | 0.0% |
| Haricot bean | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 1.23 | 0.0% | 0.0% |
| Field peas | 1.16 | 1.16 | 1.16 | 1.16 | 1.16 | 1.16 | 1.16 | 0.0% | 0.0% |
| Lentils | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 0.0% | 0.0% |
| Grass peas | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 0.0% | 0.0% |
| Fenugreek | **1.12** | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | 0.0% | 0.0% |
| Soybeans | 1.27 | 1.27 | 1.27 | 1.27 | 1.27 | 1.27 | 1.27 | 0.0% | 0.0% |
| Gibto | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 | 0.0% | 0.0% |
| **Oilseeds** | **0.82** | **0.89** | **0.91** | **1.00** | **1.00** | **1.05** | **1.00** | **10.1%** | **21.3%** |
| Neug | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.61 | 0.0% | 0.0% |
| Linseed/flax | 0.86 | 0.86 | 0.86 | 0.86 | 0.86 | 0.86 | 0.86 | 0.0% | 0.0% |
| Rapeseed | 1.16 | 1.16 | 1.16 | 1.16 | 1.16 | 1.16 | 1.16 | 0.0% | 0.0% |
| Sunflower | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 | 0.84 | 0.0% | 0.0% |
| Groundnuts | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | 1.12 | 0.0% | 0.0% |
| Sesame | 0.78 | 0.78 | 0.78 | 0.78 | 0.78 | 0.78 | 0.78 | 0.0% | 0.0% |

*Source: CSA*

The recent growth record has pushed Ethiopia's output for major cereal crops to become among the highest levels in Africa (Table 3.4). However, yields are generally below those of large African producers (Table 3.5).

**Table 3.4: Production of major crops, Ethiopia vs Other Large African Countries (in mn of tons)**
**Top 10 other Africancountries**

| | Maize | Sorghum | Wheat |
|---|---|---|---|
| 1 South Africa | 11.28 | 0.13 | 1.54 |
| 2 Nigeria | 11.00 | 6.67 | 0.06 |
| 3 **Ethiopia** | **9.64** | **5.27** | **5.32** |
| 4 Egypt | 7.45 | 0.79 | 9.00 |
| 5 Kenya | 3.90 | 0.29 | 0.37 |
| 6 Angola | 2.82 | 0.03 | 0.00 |
| 7 Uganda | 2.58 | 0.40 | 0.02 |
| 8 Cameroon | 2.31 | 1.22 | 0.00 |
| 9 Zambia | 2.00 | 0.01 | 0.15 |
| 10 Zimbabwe | 0.78 | 0.04 | 0.08 |
| 11 Sudan | 0.03 | 3.71 | 0.73 |
| 12 Algeria | 0.01 | 0.00 | 3.88 |

*Source: FAO, CSA for 2019*

**Table 3.5: Crop yields across African countries, (tons/ha)**

| | Maize | Sorghum | Wheat |
|---|---|---|---|
| 1 Egypt | 7.49 | 5.16 | 6.38 |
| 2 South Africa | 4.90 | 2.51 | 2.84 |
| 3 **Ethiopia** | 4.24 | 2.88 | 2.97 |
| 4 Algeria | 4.15 | 7.02 | 1.96 |
| 5 Uganda | 2.71 | 0.85 | 1.55 |
| 6 Zambia | 2.38 | 0.80 | 6.69 |
| 7 Kenya | 1.77 | 0.95 | 2.72 |
| 8 Cameroon | 1.63 | 1.67 | 1.33 |
| 9 Nigeria | 1.60 | 1.23 | 1.07 |
| 10 Angola | 1.07 | 0.22 | 0.97 |
| 11 Sudan | 1.03 | 0.54 | 2.39 |
| 12 Zimbabwe | 0.89 | 0.38 | 1.59 |

*Source: FAO, Yield data for 2019*

### Current year output

The outlook for this year's crop output is mixed given a range of positive developments (especially early in the planting season) offset more recently by several negative ones (Table 3.6).

**Table 3.6: Crop Outlook for the Current Fiscal Year**

| Area | Sub-issue | Description and notable developments |
|---|---|---|
| POSITIVE FACTORS | Rains | National Meteorological Agency reported 'above-average' rains for most farming areas in June-Sep 2020<br>Rainfall recorded in main farming areas 14 percent above last year, when crop yields were at historic highs |
| | Acreage farmed | Extensive 'leave-no-lands uncultivated' campaign in place during planting season to raise total hectares farmed<br>Total acreage farmed estimated by MOA officials to be 13.4mn hectares vs 12.9mn last year, or 3.9% growth |
| | Fertilizers | Fertilizer imports in 2019-20 were near $600mn, up 20%, most to be used in June-Sep planting season<br>MOA officials indicate that 16 million quintals of fertilizer provided to farmers, implying 119 kgs per hectare if fully applied to farm areas under cultivation |
| | Seeds | MOA officials indicate 700,000 of improved seed varieties provided to farmers |
| | Irrigation | 1 million hectares of land covered under irrigation schemes, or 7.5 percent of farmland cultivated<br>Budget this year allocated Birr 16bn for irrigation, covering 42 separate irrigation projects of near 380mn each |
| | Commercialized cluster farming | 3 million hectares of land covered under commercialized cluster schemes that are intended to ensure better input supplies, coordinated/improved farming techniques, and higher yields; this is 22 percent of farmland. |
| | Loans to agriculture | Lending by banks to agriculture was up 13 percent last year, reaching 21bn (though still just 2% of total loans). |
| | Machinery use | 1 million hectares of land reported to be farmed using tractors or farm equipment, or 7.5 percent of the total |
| NEGATIVE FACTORS | Locusts | Successive 'locust invasions' affected crop lands during the period from June to December 2020<br>Areas affected by locusts have been variously estimated from 200,000 to 700,000 hectares, implying impacts on 1.5 to 5.2 percent of total farmland. Not all the planted crops in affected areas would be destroyed, so impacts on crop output would be even lower than this potential range of affected hectares. |
| | Conflict | Farm lands affected by conflict would face varying levels of loss depending on hectares directly affected by conflict. Total land under cultivation in Tigray is 0.9mn hectares (7.4% of last year's 12.9mn hectares national total), and it is unclear what share of this has been directly impacted by actual conflict. |
| | Harvest | The active conflict period from Nov-Dec 2020 coincided with harvest season, and lower output could be possible due to some crops being destroyed, due to insufficient labor being available to harvest crops, or due to post-harvest losses from disrupted transport links |

*Source: Cepheus Research summary based on Ministry of Agriculture officials' statements (EBC, "4 Maezen" December 16, 2020 and on January 12, 2021) and press reports.*

Recent data on ECX crop trading suggests a modest drop in crops supplied to the commodity exchange, on the order of -5 percent for all crops combined. However, this is only a partial picture as ECX currently handles mainly export-oriented crops and covers only a sub-set of the several dozen crops produced in Ethiopia (Table 3.7).

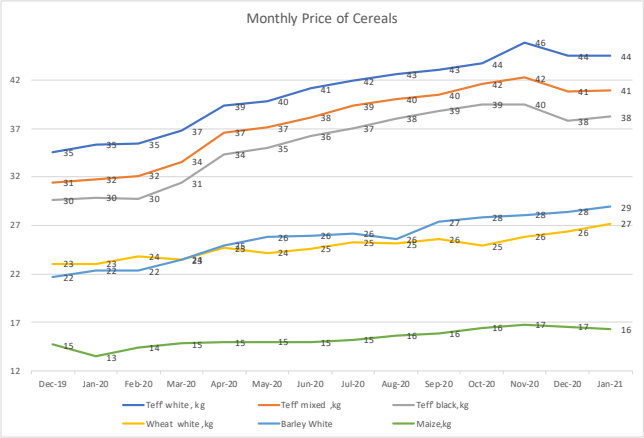
**Table 3.7: ECX Traded Commodities--All crops (in tons)**

| | July-Dec 2019 | July-Dec 2020 | % change |
|---|---|---|---|
| **Total (in tons)** | **338,253** | **320,000** | **-5.4%** |
| Sesame | 104,858 | 140,000 | 33.5% |
| Coffee | 152,214 | … | … |
| Soybean | 33,825 | 10,592 | -68.7% |
| Green mung Beans | 27,060 | … | … |
| White Beans | 16,913 | … | … |

*Source: ECX*

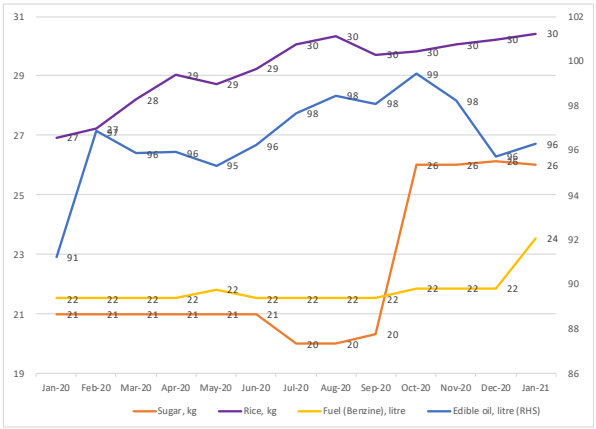
Looking at price trends for key staples (teff, wheat, maize, sugar, edible oil), these reveal increases of 18 to 25 percent from year-ago levels, suggesting on-going supply constraints (Table 3.8 and 3.9).

**Table 3.8: Monthly Price of Cereals in Addis Ababa, Birr/kg**




*Source: CSA*

**Table 3.9: Monthly Price Trends in Addis Ababa, in Birr**




*Source: CSA*

Overall, considering all of the above factors, we are inclined to expect a crop harvest that will be close to last year's outturns, though upside surprises are possible given the Ministry of Agriculture's recent statements. For our projections, we use a crop figure of near 34mn tons, or zero growth vs last year (Table 3.10).

**Table 3.10: Agricultural Production and Growth**

| Agricultural Production (Mns of tons) | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| **Major Crops** | **29.0** | **30.6** | **31.6** | **33.5** | **33.5** |
| Cereals | 25.4 | 26.8 | 27.8 | 29.7 | 29.5 |
| Maize | 7.9 | 8.4 | 9.5 | 9.6 | ... |
| Teff | 5.0 | 5.3 | 5.4 | 5.7 | ... |
| Sorghum | 4.8 | 5.2 | 5.0 | 5.3 | ... |
| Wheat | 4.5 | 4.6 | 4.8 | 5.3 | ... |
| Pulses | 2.8 | 3.0 | 3.0 | 3.0 | 3.1 |
| Oilseeds | 0.8 | 0.9 | 0.8 | 0.8 | 0.9 |

| Growth Rates--PRODUCTION | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| Major Crops | 8.8% | 5.4% | 3.1% | 6.2% | 0.0% |
| Cereals | 9.8% | 5.5% | 3.7% | 6.9% | -0.4% |
| Pulses | 1.6% | 5.8% | 1.1% | -0.2% | 3.0% |
| Oilseeds | 6.9% | 1.9% | -8.2% | 7.3% | 5.0% |

*Source: CSA's Agricultural Sample Survey Reports for historical data, Cepheus Research for projections*

Largely reflecting our expectations on crop outturns, and unchanged growth forecasts for industry (9%) and services (4%) as in our last Quarterly Macro Review, we expect overall GDP growth of 4.1% this year (Table 3.11).

**Table 3.11: Growth Outlook for 2020-21 and 2021-22 based on sector growth projections**

| | 2018-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|
| **GDP growth** | **7.7%** | **9.0%** | **6.1%** | **4.1%** | **7.5%** |
| Agriculture | 3.5% | 3.8% | 4.3% | 0.0% | 4.5% |
| Industry | 12.2% | 12.6% | 9.6% | 9.0% | 11.2% |
| Services | 8.8% | 11.0% | *5.3%* | 4.0% | 7.0% |

*Source: NPC for historical data and Cepheus Research for projections*

## Section 4: Credit and the Macroeconomy

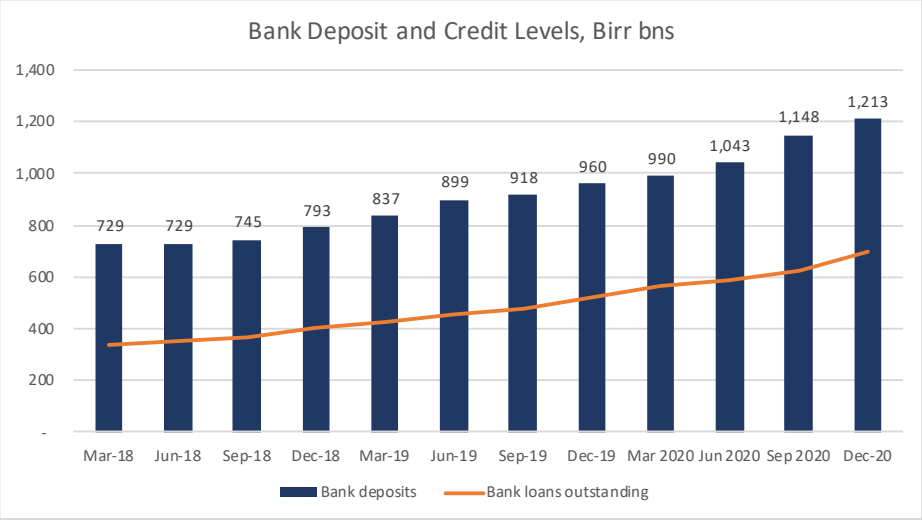
- **Nearly a year into the COVID pandemic, the anticipated slowdown in overall credit growth has not materialized, and the latest growth rates in bank lending are instead slightly above recent norms. Year-on-year growth of bank loans was 33 percent as of December 2020, versus a 30 percent average for the prior eight quarters.**

- **For banks, one potential reason to cut back on credit supply would have been a large spike in their level of non-performing loans (NPLs), but the record in this area appears benign so far, even if some uptick in the NPL ratio is possible in the coming year.**

- **Given recent trends and what appears to be a manageable NPL situation, we do not expect any sharp slowdown in credit growth for the rest of 2021. We project bank credit growth of 24 percent for this fiscal year (including banks' T-Bill and bond purchases), supported in part by strong deposit growth of near 25 percent.**

Despite expectations that there would be a credit crunch facing banks and their borrowers following the onset of the pandemic, lending by banks shows no signs of slowing. Indeed, supported by strong deposit increases (which, in turn, were boosted by the recent currency conversion), overall bank lending levels have continued to rise strongly up to December 2020 (Table 4.1).

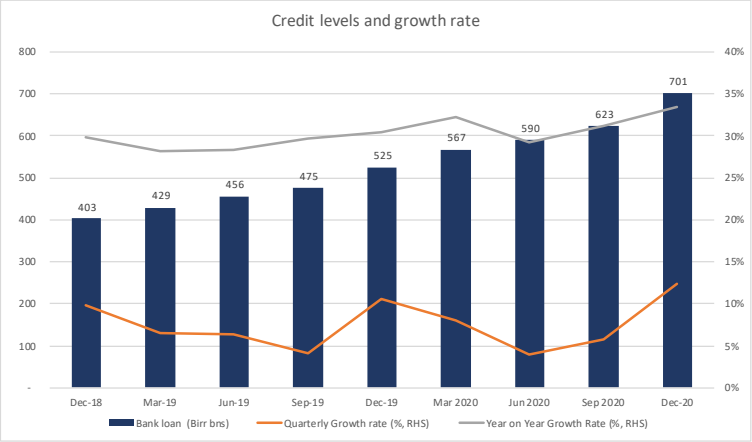
**Table 4.1 Bank Deposit and Credit, Birr bns**




*Source: Bank's Survey*

Growth trends show bank lending is now up 12 percent for the most recent quarter and also up 33 versus year-ago levels, or higher than the annual growth rates seen over the past eight quarters (Table 4.2).

**Table 4.2: Credit Levels and Growth Rate**




*Source: Bank's Survey*

The lending growth is broad-based, and is being registered at both public and private banks. Among the 16 private banks, almost all showed annual credit growth of more than 20 percent as of December 2020 and three-quarters of private banks showed annual credit growth rates in excess of 30 percent (Table 4.3).

**Table 4.3: Banking Trends and Credit Growth (Birr bns)**

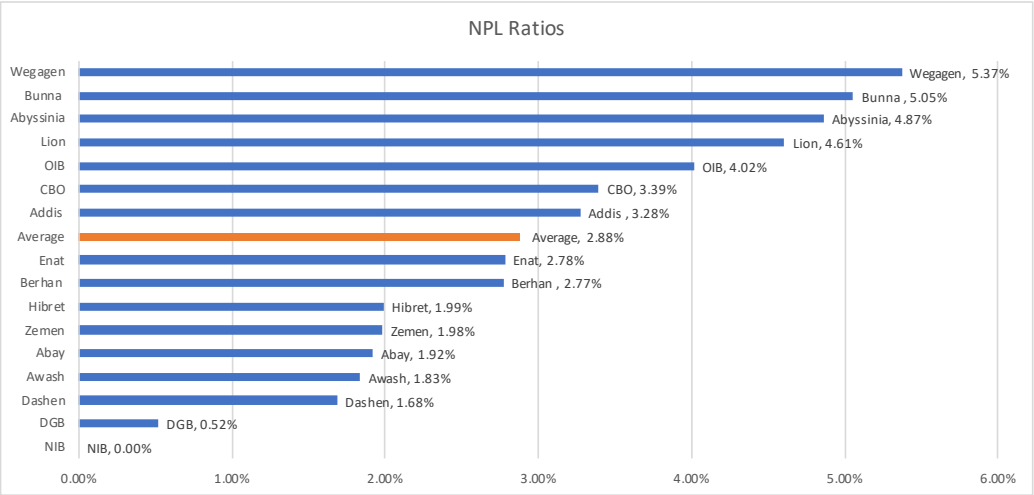
| | Jun 2017 | Jun 2018 | Jun 2019 | Dec 2019 | Jun 2020 | Dec 2020 | Y-o-Y % Change |
|---|---|---|---|---|---|---|---|
| **Bank deposits** | **567** | **726** | **899** | **960** | **1,043** | **1,213** | **26.3%** |
| CBE | 365 | 452 | 541 | 560 | 595 | 679 | 21.2% |
| Private Banks | 202 | 274 | 358 | 401 | 447 | 534 | 33.3% |
| **Bank loans outstanding** | **290** | **362** | **456** | **525** | **590** | **701** | **33.4%** |
| CBE | 154 | 180 | 197 | 212 | 243 | 265 | 24.9% |
| Private Banks | 136 | 182 | 259 | 313 | 347 | 436 | 39.1% |
| **Other indicators--all banks** | | | | | | | |
| Assets | 262 | 917 | 1,165 | 1,261 | 1,379 | 1,575 | **24.8%** |
| Paid-up capital | 21 | 66 | 74 | 77 | 82 | 86 | 12.0% |
| Branches | 3,886 | 4,424 | 5,164 | 5,607 | 5,965 | 6,326 | 12.8% |

| | |
|---|---|
| No of private banks with y-o-y credit growth > 20%, at Dec 2020: | 15 |
| No of private banks with y-o-y credit growth > 30%, at Dec 2020: | 12 |
| No of private banks with y-o-y credit growth > 40%, at Dec 2020: | 5 |

*Source: Bank's Survey*

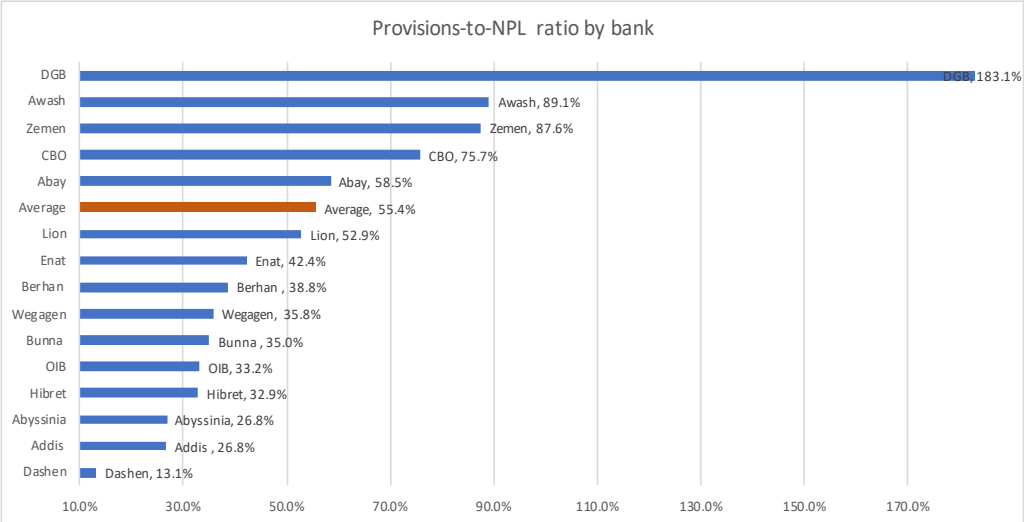
Part of the expectation for slower credit growth stemmed from fears that banks would face a large spike in NPLs following the Covid pandemic. However, judging from June 2020 data (only one quarter into the pandemic but the latest available figures), NPL ratios have not yet shown a big jump, partly due to the central bank's flexible rules allowing banks to reschedule troubled loans (somewhat higher NPLs may thus appear in banks' financial reports of only in 2020-21). Seen by individual bank, NPL ratios range from 1 to 5 percent (Table 4.4A) which, even at the upper end of this range, is still a comparatively low rate when seen in a cross-country context. Provisions are also cover a sizeable share of NPLs at most banks, and averaged 55% across the sector as a whole (Table 4.4B)

**Table 4.4A: NPL Ratios at private banks**




*Source: Banks' Annual Reports of June 2020*

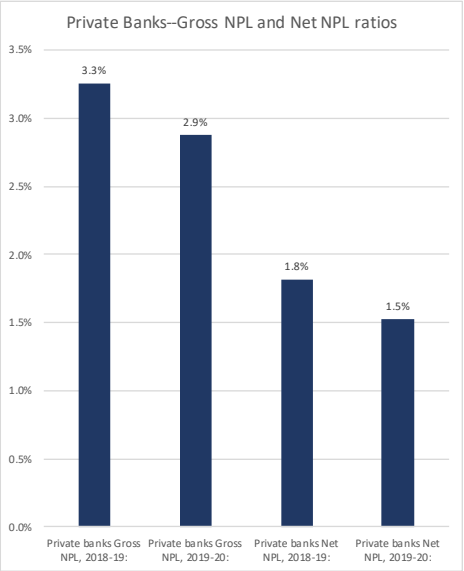
**Table 4.4B: Provisions-to-NPL ratio by bank, 2020**

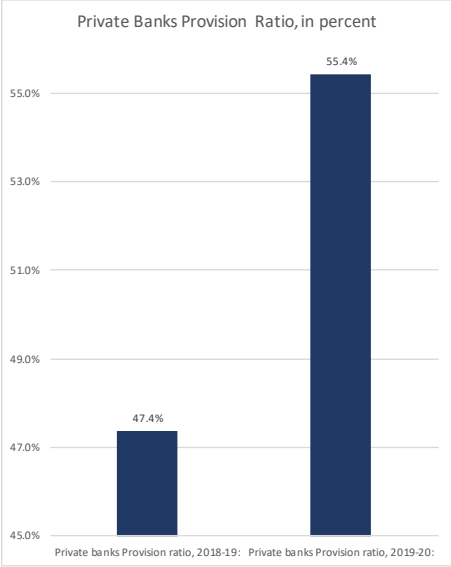



*Source: Banks' Annual Reports of June 2020*

Seen as a group, average NPLs are not only lower compared to last year, but provisions are also higher compared to year-ago levels. After accounting for provision levels that banks hold as reserve, the net NPL ratio averaged only 1.5 percent at private banks this year, down from 1.8 percent last year (Table 4.5).

**Table 4.5 Asset Quality Measures at Private Banks**




*Source: Banks' Annual Reports of June 2020*

Looking at credit developments by sector, and comparing September 2020 outturns to year-ago levels, above-average growth rates were seen for domestic trade loans, export loans and housing & construction loans, while below- average loan growth was recorded for the hotels & tourism and transport sectors (Table 4.6). Overall, it is notable that even some sub-sectors that might have been expected to be heavily covid-affected showed strong credit growth, especially for domestic trade, hotels and tourism, and exports.

**Table 4.6: Outstanding Bank loans by Sector, excluding loans to Government (Birr bns)**

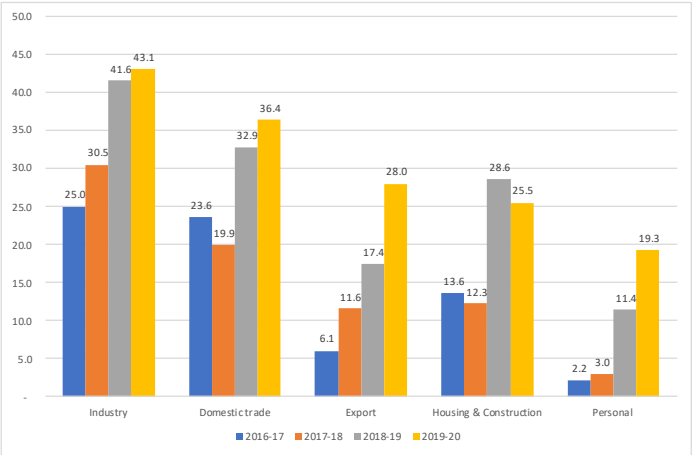
*Ranked by sector with highest loan balance*

| | Sector | Sept 2019 | Sept 2020 | % Change | % Total |
|---|---|---|---|---|---|
| 1 | Industry | 194.6 | 229.1 | 18% | 34.7% |
| 2 | Domestic Trade | 68.8 | 96.9 | 41% | 14.7% |
| 3 | Exports | 68.8 | 95.5 | 39% | 14.5% |
| 4 | Housing & Construction | 53.4 | 74.0 | 39% | 11.2% |
| 5 | Personal | 40.1 | 51.6 | 29% | 7.8% |
| 6 | Imports | 37.9 | 49.0 | 29% | 7.4% |
| 7 | Agriculture | 18.7 | 21.1 | 13% | 3.2% |
| 8 | Hotels and Tourism | 13.9 | 17.3 | 24% | 2.6% |
| 9 | Transport & Communication | 12.3 | 12.4 | 1% | 1.9% |
| 10 | Others | 9.6 | 11.6 | 21% | 1.8% |
| 11 | Mines, Power & Water Resources | 1.6 | 1.5 | -3% | 0.2% |
| | **TOTAL, excl central government** | **519.6** | **660.0** | **27%** | **100.0%** |

*Source: NBE Quarterly Report*

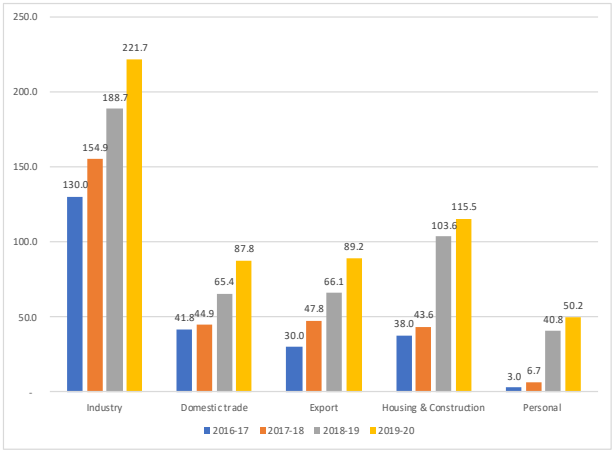
Looking at total outstanding credit levels, the sectors with the highest credit allocations are industry (35% of total loans to the non-government sector), domestic trade (15%), exports (15%), housing and construction (11%), and personal loans (8%). In general, these are also the same sectors that saw the highest increment in loans in recent years (Table 4.7A and 4.7B).

**Table 4.7A: New Credit flows to Selected Sectors--Past Four Years (Birr Bns)**




*Source: NBE*

**Table 4.7B: Total Credit Outstanding to Largest Sectors--Past Four Years (Birr bns)**




*Source: NBE*

Looking ahead, we expect still strong trends in credit growth since: (1) the NPL outlook is not threatening enough to lead banks to cut back sharply on their lending activities; (2) interest rate reductions on loans—now initiated by many banks—are likely to spur borrower demand; and (3) the broader economy is likely to strengthen, not weaken, for the period ahead. Accordingly, we expect that for both 2020-21 and 2021-22, total bank financing—a broader credit measure that captures banks' loans, T-Bill purchases, and Bond holdings—can continue to grow at the higher end of the 20-25 percent annual rate seen in recent years (Table 4.8), supported by continued robust deposit growth in both years (Table 4.8).

**TABLE 4.8: Banking Sector Trends and Growth Outlook**

| **Banking Sector Trends** | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 |
|---|---|---|---|---|---|
| Deposits at all commercial banks (Br bn) | 729.1 | 899.1 | 1,043.0 | 1,303.7 | 1,603.5 |
| Loans by all commercial banks (Br bn) | 355.4 | 456.1 | 590.0 | 767.0 | 984.8 |
| NBE Bills held by all comm banks (Br bn) | 70.1 | 88.8 | 66.6 | 50.0 | 37.5 |
| Treasury Bills held by all comm banks (Br bn) | ... | ... | 12.0 | 40.0 | 55.0 |
| Bonds held by all commercial banks (Br bn) | 291.4 | 338.6 | 400.2 | 468.3 | 566.6 |
| Total bank financing: Loans/Bills/Bonds (Br bn) | 716.9 | 883.5 | 1,068.8 | 1,325.2 | 1,643.9 |
| | | | | | |
| Deposit-to-GDP ratio (%) | 33.1% | 33.4% | 30.9% | 31.5% | 32.8% |
| Total bank financing-to-Deposit ratio (%) | 98.3% | 98.3% | 102.5% | 101.7% | 102.5% |
| Total commercial bank financing-to-GDP ratio (%) | 32.6% | 32.8% | 31.3% | 31.0% | 32.5% |
| | | | | | |
| Annual growth in bank deposits (%) | 28.4% | 23.3% | 16.0% | 25.0% | 23.0% |
| Annual growth in total bank financing (%) | 23.1% | 23.2% | 21.0% | 24.0% | 24.0% |

*Source: Banks' Survey data, and Cepheus Capital Research estimates and projections*

## Section 5: Creditors and the Macroeconomy

- **The status of Ethiopia's relations with its external creditors (lenders) has been of some concern in recent months, given the pause in financial support by some external partners, two credit rating agency downgrades (by Fitch and S&P) following recent announcements on debt relief, and the extended time taken for completion of the IMF program's first review.**

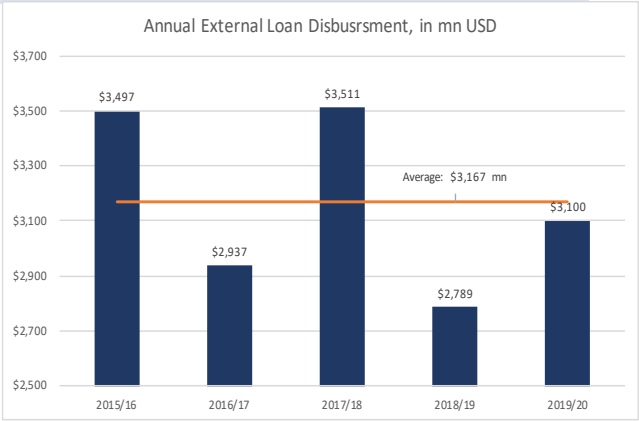
- **In this connection, we review closely recent trends in Ethiopia's external borrowing as well as the size of upcoming debt and debt service obligations. In our view, the data continue to show that Ethiopia has a manageable debt problem, though there remains a challenging near-term repayment burden given close to $2bn in annual debt service dues (to mainly multilateral/official lenders). A re-profiling of debt service dues over the coming years would largely address near-term repayment pressures, and this was indeed the approach already taken by Ethiopia (with China in 2019) even before the recent DSSI and Common Framework initiatives that arose following the Covid pandemic. Regarding the size of recently suspended external financing, we find this is still a small share of total budget support (and an even smaller share of total fx inflows), while the Government's exposure to sovereign bond creditors—the subject of much attention in recent weeks and the primary focus of rating agencies—is of such a comparatively small magnitude that it seems unlikely to be a major focus of upcoming debt service reprofilings. The likelihood of a principal debt reduction on any category of external debt appears to be extremely low.**

- **One notable area of uncertainty until recently had been the timing of the IMF first program review and the associated conclusions of the IMF's debt sustainability assessment. The latter analysis, in particular, will shape the scope of creditor reprofiling that is deemed necessary to reduce the near-term debt service burden and the associated risk of debt distress (from a 'high' to a 'medium' rating). With the recent announcement that a staff-level agreement has now been reached for the first and second reviews, as well as the positive endorsement implied on the stance of macro policies, this removes a significant cloud of uncertainty that had been in place concerning creditor relations and paves the way for substantial fx inflows over the coming months, including the IMF's own program disbursements, multilateral development bank loans, and debt service relief.**

**Recent trends in creditor relations:**

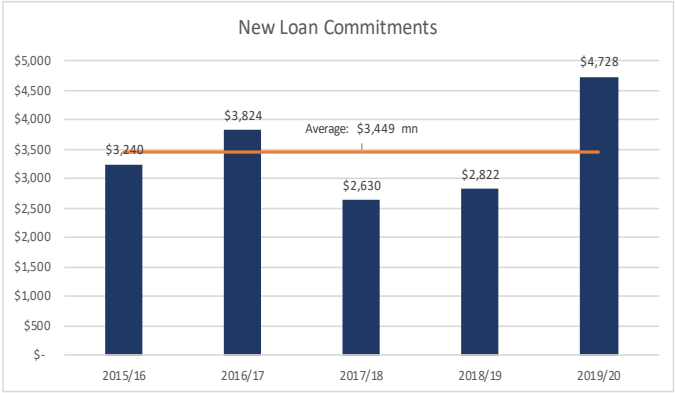
Ethiopia's relations with most of its external creditors have strengthened in recent years, with annual loan disbursements from external lenders averaging $3.2bn in recent years, about 3% of GDP. On a commitment basis, there was an even stronger trend seen in recent years, with annual loan commitments rising from $2.6bn two years ago to nearly $5bn in 2019-20 (Table 5.1A and 5.1B).

**Table 5.1A: Annual External Loan Disbursement**




*Source: MoFEC Debt Bulletin*

**Table 5.1B: New Loan Commitments, mns USD**




*Source: MoFEC Debt Bulletin*

External lenders have mostly been multilateral institutions in recent years, which implies loans with very favourable terms such as low interest rates and long maturities. On the borrower's side, the Government made up about 70 percent of new loans while state enterprises comprised only 30 percent of the total. Most borrowing by government is from multilaterals and most borrowing by SOEs is from bilateral and commercial creditors (Table 5.2).

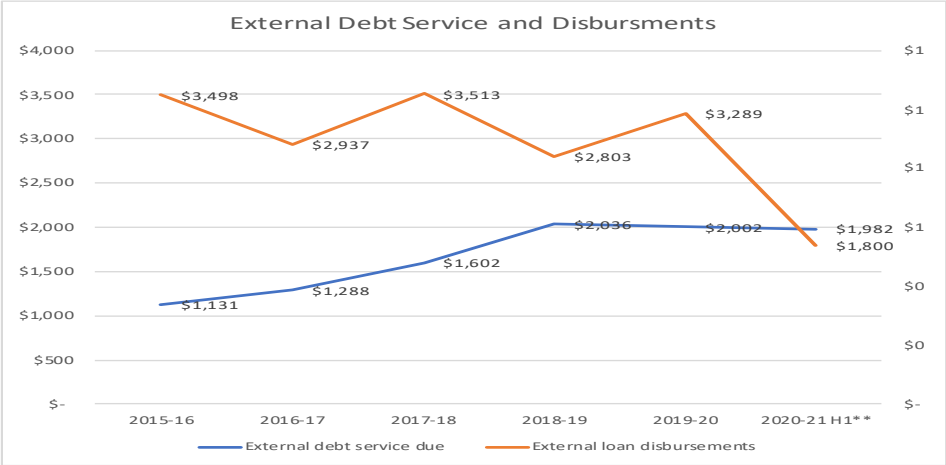
**Table 5.2--External Loan Disbursements: By lender and borrower**

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | H1 2020-21 | *% share* |
|---|---|---|---|---|---|---|---|
| **External Loan disbursements** | **$ 3,497** | **$ 2,937** | **$ 3,513** | **$ 2,803** | **$ 3,289** | **$ 900** | *100%* |
| *By lender* | | | | | | | |
| Multilaterals | $ 1,382 | $ 1,520 | $ 1,426 | $ 1,424 | $ 2,330 | $ 502 | *71%* |
| Bilaterals | $ 1,671 | $ 935 | $ 713 | $ 418 | $ 491 | $ 59 | *15%* |
| Commercial creditors | $ 444 | $ 482 | $ 1,374 | $ 962 | $ 468 | $ 338 | *14%* |
| *By borrower* | | | | | | | |
| Central government | $ 1,735 | $ 1,544 | $ 1,824 | $ 1,536 | $ 2,336 | $ 561 | *71%* |
| SOE, with govt guarantee | $ 1,684 | $ 1,162 | $ 1,152 | $ 383 | $ 502 | $ 21 | *15%* |
| SOE, without govt guarantee | $ 78 | $ 231 | $ 536 | $ 885 | $ 451 | $ 318 | *14%* |

*Source: MOFEC Debt Statistical Bulletin, No. 34. Percent shares based on full year 2019-20 data.*

Net flows (new loans less repayments) were generally positive in recent years, but stricter controls on SOE borrowing have for the first time resulted in debt service payments in July-December 2020 exceeding new debt accumulation during the same period (Table 5.3).

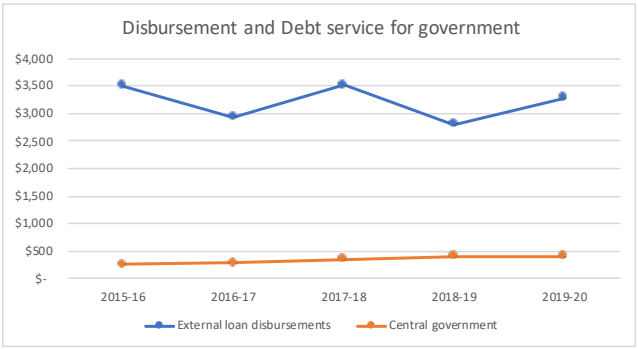
**Table 5.3 External Debt Service and Dissbursments, mn USD**




*Source: MOFEC Debt Bulletin*
*** FY 2020-21 figure is annualized based on $900mn and $991mn in loan disbursements and in external loan repayments respectively for July-Dec 2020.*

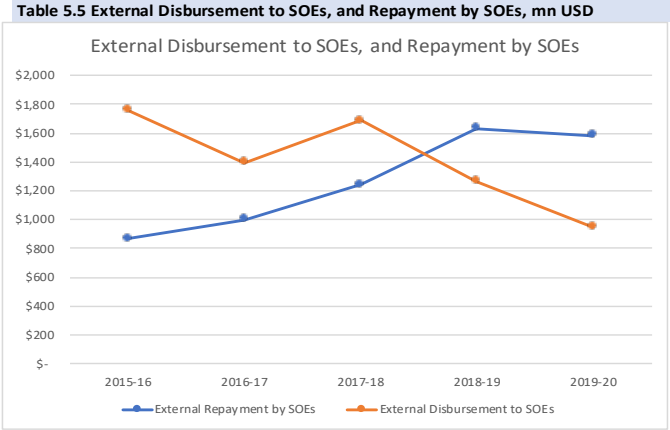
For the central government, net flows are still significantly positive, but for SOEs the size of their repayments on past loans now exceeds the new loans that they are taking on (Tables 5.4 and 5.5).

**Table 5.4 Disbursement and Debt service for government, mn USD**




*Source: MOFEC Debt Bulletin*
*** FY 2020-21 figure is annualized based on $900mn and $991mn in loan disbursements and in external loan repayments respectively for July-Dec 2020.*

**Table 5.5 External Disbursement to SOEs, and Repayment by SOEs, mn USD**




*Source: MOFEC Debt Bulletin*

Looking at the breakdown of recent borrowing from official lenders (multilaterals and bilaterals), the vast majority is seen to be directed towards agricultural, infrastructure, education, and health projects (Table 5.6).

**Table 5.6: Borrowing from Official Lenders over the past three years**

| FY 2019-20 | | Amount | Purpose: |
|---|---|---|---|
| ***Multilateral lenders*** | | **$ 3,835.3** | |
| 1 | International Fund for Agricultural Development | $ 89.8 | Lowland Livelihood Resillience Project |
| 2 | International Fund for Agricultural Development | $ 5.0 | Rural Financial Intermidiation |
| 3 | World Bank IDA | $ 75.6 | African Cdc Regional Investment |
| 4 | World Bank IDA | $ 183.8 | Second Ethiopia Growth And Competitveness. (Dpf Ii) |
| 5 | World Bank IDA | $ 40.6 | Covid 19 Emergncy Response |
| 6 | World Bank IDA | $ 126.7 | Covid 19 Suplementary Dpf Ii |
| 7 | International Monetary Fund | $ 410.1 | Rapid Financing Instrument |
| 8 | International Monetary Fund | $ 1,244.4 | Extended Fund Facility (Eff) |
| 9 | International Monetary Fund | $ 1,659.3 | Extended Credit Facility (Ecf) |
| ***Bilateral lenders*** | | **$ 529.9** | |
| 1 | Exim-Bank Of Korea | $ 86.0 | Education |
| 2 | Exim-Bank Of Korea | $ 30.0 | Land Information Management System |
| 3 | Exim-Bank Of Korea | $ 63.0 | Rapid Bus Transport |
| 4 | Saudi Fund Dev | $ 75.0 | Rehab. & Upgrading Markos Road |
| 5 | Saudi Fund Dev | $ 65.0 | One Wash National Phase Two |
| 6 | Kalifa Fund | $ 100.0 | Micro,Small &Medium Enterprise |
| 7 | Government Of Italy | $ 11.0 | Italian Contribution To Sdg |
| 8 | Government Of Italy | $ 11.0 | Improvement On Skill And Development |
| 9 | Japan International Cooperation Agency | $ 88.9 | "Jimma-Chida And Road Upgrading Project (Jimma-Chida Section)" |
| **FY 2018-19** | | **Amount** | **Purpose:** |
| ***Multilateral lenders*** | | **$ 1,385.2** | |
| 1 | World Bank IDA | 596.2 | Growth And Competitvness.Development Policy |
| 2 | World Bank IDA | 74.3 | East Africa Skills-Tevt Resilient Landscapes And Livelhoods Project |
| 3 | World Bank IDA | 97.8 | "Resilient Landscapes And Livelhoods |
| 4 | World Bank IDA | 275.9 | Project" |
| 5 | World Bank IDA | 299.0 | Lowland Livelihood |
| 6 | Arab Bank for Economic Development in Africa | 20.0 | One Wash |
| 7 | OPEC Fund for International Development | 22.0 | Dilla-Bulle-Haro Wachu Road |
| | | | Dilla-Bulle-Haro Wachu Road |
| ***Bilateral lenders*** | | **$ 664.5** | |
| 1 | Exim-Bank Of China | 167.0 | Mekele Water Supply Project |
| 2 | Government Of China | 84.3 | Mekele Water Supply Project |
| 3 | Gov Of Italy | 19.4 | Improvement Of Sanitation Facility |
| 4 | Gov Of Italy | 34.2 | Inclusive And Sustainable Development |
| 5 | Exim-Bank Of Korea | 94.0 | Southern Extension Of The Nati |
| 6 | Exim-Bank Of Korea | 170.0 | Ground Water Irrigation Dev't |
| 7 | Gov Of France | 95.7 | Public Policy Loan |
| **FY 2017-18** | | **Amount** | **Purpose:** |
| ***Multilateral lenders*** | | **$ 1,501.5** | |
| 1 | African Development Fund | 86.8 | A.A Transmission & Distribution |
| 2 | World Bank IDA | 608.1 | Additional Financing For Enh. Shared Prosp. |
| 3 | World Bank IDA | 171.2 | Livestock And Fishering Sector Dev. |
| 4 | World Bank IDA | 257.4 | Ethiopian Electrification Programme |
| 5 | World Bank IDA | 125.0 | Ethiopian Electrification Programme |
| 6 | World Bank IDA | 171.4 | Add Financing For Competitive & Job |
| 7 | World Bank IDA | 81.7 | Economic Opportunities Programme |
| ***Bilateral lenders*** | | **$ 254.8** | |
| 1 | France Development Agency | 83.6 | Bus Rapid Transit (Brt-2) |
| 2 | Exim-Bank Of China N | 89.8 | Bahirdarii-Woldiaii-Combolcha Substation Project |
| 3 | Exim-Bank Of China N | 81.4 | Bole-Lemi & Kilinto Indust. Zo |

*Source: MoFEC Debt Bulletings of June 2018, June 2019, and June 2019 (Table 13 and Table 11). Data based on new loan commitments during the fiscal year.*

For China, and seen from a decade-long perspective, the vast majority of new borrowing was directed towards the infrastructure sector, including most notably for railways, expressways, sugar factories, airports, power plants, and transmission lines (Table 5.7).

**Table 5.7: Ethiopia's Borrowing from China----Per Boston University "China's Oversears Development Finance Database"**

*Ranked based on loan amount*

| | Project | | Amount | Date | Lender | Borrower |
|---|---|---|---|---|---|---|
| 1 | Addis-Djibouti Railway (Tranche C) | $ | 1,300 | 2013 | ExImBank | Government |
| 2 | Addis-Djibouti Railway (Tranche B) | $ | 981 | 2013 | ExImBank | Government |
| 3 | Welkait Sugar Mill Construction | $ | 500 | 2014 | ExImBank | CBE |
| 4 | Addis-Ababa Light Rail Project | $ | 475 | 2011 | ExImBank | Government |
| 5 | Addis-Adama Expressway Construction (Phase I) | $ | 349 | 2009 | ExImBank | Government |
| 6 | Adama Wind Farm II (153 MW) | $ | 293 | 2013 | ExImBank | Government |
| 7 | Omo-Quraz Sugar Factory 2 Construction | $ | 290 | 2013 | CDB | Sugar Corporation |
| 8 | Omo-Quraz Sugar Factory 3 Construction | $ | 290 | 2013 | CDB | Sugar Corporation |
| 9 | Genale-Dawa III Hydroelectric Power Project | $ | 270 | 2009 | ExImBank | Government |
| 10 | Ethio-Hunan Equipment Production Cooperation Industrial Park Construction | $ | 262 | 2017 | ExImBank | Government |
| 11 | Genale Dawa III-Yirgalem II-Wolayita Sodo II-Hawassa II Transmission Project | $ | 249 | 2016 | ExImBank | Government |
| 12 | Bole Airport Expansion | $ | 239 | 2013 | ExImBank | Government |
| 13 | Addis-Djibouti Railway (Tranche A) | $ | 220 | 2013 | ExImBank | Government |
| 14 | Aysha Wind Farm II Construction | $ | 219 | 2017 | ExImBank | Government |
| 15 | Addis-Adama Expressway Construction (Phase 2) | $ | 190 | 2016 | ExImBank | Government |
| 16 | Gibe III Hydropower Project (Addis Ababa Transmission Lines and Substations) | $ | 188 | 2011 | ExImBank | Government |
| 17 | Dire Dawa-Dewalle Road Construction | $ | 187 | 2014 | ExImBank | Government |
| 18 | Modjo-Hawassa Expressway Construction (Arsi Negele-Hawassa Section) | $ | 171 | 2017 | ExImBank | Government |
| 19 | Addis Ababa Power Network Rehabilitation and Upgrading | $ | 165 | 2016 | ExImBank | Government |
| 20 | Mekelle Water Supply Project (PEBC portion) | $ | 156 | 2018 | ExImBank | Government |
| 21 | Addis-Adama Expressway- Toll Montovay Construction (Phase 2) | $ | 143 | 2013 | ExImBank | Government |
| 22 | Kessem Sugar Factory Construction | $ | 123 | 2012 | ExImBank | Sugar Corporation |
| 23 | Bole Airport Passenger Terminal Expansion | $ | 117 | 2016 | ExImBank | Government |
| 24 | Kality Ring Road Interchange-Tulu Dimtu Roundabout Project | $ | 103 | 2016 | ExImBank | Government |
| 25 | Adama Wind Farm I (51MW) | $ | 99 | 2010 | ExImBank | Government |
| 26 | Addis Ababa Deep Well Water Supply Project III | $ | 96 | 2011 | ExImBank | Government |
| 27 | Gibe III Hydropower Project (Part C) | $ | 89 | 2011 | ExImBank | Electric Power Corp |
| 28 | Addis Ababa Transmission Lines | $ | 83 | 2017 | ExImBank | Government |
| 29 | Meskel Sq-Bole Road Construction | $ | 70 | 2011 | ExImBank | Government |
| 30 | Ethiopia-Djibouti Railway Transmission Line Power Supply | $ | 63 | 2015 | ExImBank | Electric Power Corp |
| | ***Total:*** | ***$*** | ***7,980*** | ... | ... | ... |
| | *Breakdown by lender:* | *$* | *7,980* | *100.0%* | | |
| | *ExImBank* | *$* | *7,400* | *92.7%* | | |
| | *CDB* | *$* | *580* | *7.3%* | | |
| | *Breakdown by borrower* | *$* | *7,980* | *100.0%* | | |
| | *Government* | *$* | *6,625* | *83.0%* | | |
| | *Sugar Corporation* | *$* | *703* | *8.8%* | | |
| | *CBE* | *$* | *500* | *6.3%* | | |
| | *Electric Power Corp* | *$* | *152* | *1.9%* | | |

*Source: Boston University's "China Overseas Development data". Data is from 2013 to 2020 and is the gross total loans provided, not the net outstanding amounts due as of end-2020 (which will be lower reflecting past repayments). Data accessible at https://www.bu.edu/gdp/chinas-overseas-development-finance/*

With respect to non-official lenders (i.e., commercial banks, suppliers credits, and Eurobond holders), most of the recent borrowing in this area has reflected Ethiopian Airlines aircraft purchases with financing provided by European, Canadian, and Japanese banks (Table 5.8A). For Ethiopia's sole Eurobond issued in 2014, the buyers and current holders are mostly large US-based mutual funds, bond funds, and exchange-traded funds (ETFs) (Table 5.8B).

**Table 5.8A: Borrowing from Private Lenders over the past three years**

| FY 2019-20 | | Amount | Purpose: |
|---|---|---|---|
| ***Commercial Borrowing in FY 2019-20*** | | **$ 362.8** | |
| 1 | Eastern and Southern Africa Tradeand Developmen | $ 19.0 | Airbus (A350-900) 10C (375) |
| 2 | BNP Baribas France | $ 134.6 | Airbus (A350-900) 10th (375) |
| 3 | Eastern and Southern Africa Tradeand Developmen | $ 19.0 | Airbus (A350-900) 11thC (375) |
| 4 | BNP Baribas France | $ 134.6 | Airbus (A350-900) 11th (375) |
| 5 | Export Dev. Of Canada | $ 18.4 | Dash 8 400 |
| 6 | Export Dev. Of Canada | $ 18.7 | Dash 8 400 |
| 7 | Export Dev. Of Canada | $ 18.4 | Dash 8 400 |

| FY 2018-19 | | Amount | Purpose: |
|---|---|---|---|
| ***Commercial Borrowing in FY 2018-19*** | | **$ 772.6** | |
| 1 | Mufg Bank,Ltd., | $ 122.0 | Purchase of Airplane |
| 2 | Ing Capital Llg | $ 137.2 | Purchase of Airplane |
| 3 | Export-Investec Bank | $ 5.0 | Purchase of Airplane |
| 4 | Export-Investec Bank | $ 5.0 | Purchase of Airplane |
| 5 | Ing Capital Llg | $ 41.6 | Purchase of Airplane |
| 6 | Ing Capital Llg | $ 41.6 | Purchase of Airplane |
| 7 | Various Creditors | $ 7.0 | Purchase of Airplane |
| 8 | Ing Capital Llg | $ 28.0 | Purchase of Airplane |
| 9 | Various Creditors | $ 115.0 | Purchase of Airplane |
| 10 | Nat. West Bank | $ 135.8 | Purchase of Airplane |
| 11 | Nat. West Bank | $ 134.4 | Purchase of Airplane |

| FY 2017-18 | | Amount | Purpose: |
|---|---|---|---|
| ***Commercial Borrowing in FY 2017-18*** | | **$ 873.4** | |
| 1 | Uni Credit S.P.A | $ 402.8 | Koysha Facility Aggrement |
| 2 | Scb | $ 120.0 | Purchase of Airplane |
| 3 | Export-Investec Bank | $ 20.0 | Purchase of Airplane |
| 4 | The Export-Pk Air Finance | $ 125.0 | Purchase of Airplane |
| 5 | Export Novus Avation | $ 15.0 | Purchase of Airplane |
| 6 | Various Creditors | $ 26.7 | Purchase of Airplane |
| 7 | Various Creditors | $ 109.5 | Purchase of Airplane |
| 8 | Bred Banque Populare | $ 8.3 | Purchase of Airplane |
| 9 | Export-Investec Bank | $ 5.0 | Purchase of Airplane |
| 10 | Ing Capital Llg | $ 41.1 | Purchase of Airplane |

*Source: MOFEC Debt Bulletins of June 2018, June 2019, and June 2020*

**Table 5.8B: Holders of Ethiopia's Sovereign Bond Issued December 2014**

**Bondholders**

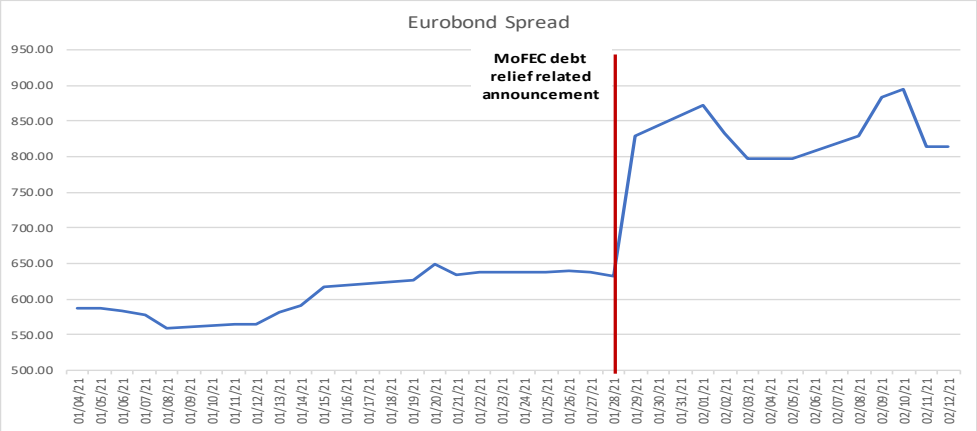
| | Name of Mutual Funds / ETFs | | Amount ($mns) | % of Total | % Portfollio |
|---|---|---|---|---|---|
| 1 | FTIF SICAV - Templeton Emerging Markets Bond Fund | $ | 65.4 | **6.5%** | 1.308% |
| 2 | Fidelity Funds SICAV - Emerging Market Debt Fund | $ | 35.9 | **3.6%** | 1.398% |
| 3 | iShares Tr. - JPMorgan (USD) Emerging Markets Bond ETF | $ | 28.8 | **2.9%** | 0.146% |
| 4 | JPMorgan Funds - Emerging Markets Debt Fund | $ | 21.7 | **2.2%** | 0.600% |
| 5 | Franklin Templeton Series II Funds - Em. Mkt. Debt Opps. II | $ | 21.0 | **2.1%** | 1.748% |
| 6 | iShares II Plc - JPMorgan USD EM Bond UCITS ETF | $ | 17.7 | **1.8%** | 0.142% |
| 7 | American Funds New World Fund | $ | 14.0 | **1.4%** | 0.025% |
| 8 | JPMorgan Funds - Global Bond Opportunities Fund | $ | 13.5 | **1.4%** | 0.212% |
| 9 | Fidelity Funds SICAV - Emerging Market Total Return Debt | $ | 13.3 | **1.3%** | 1.550% |
| 10 | Fidelity Funds SICAV - Global Multi Asset Income Fund | $ | 12.1 | **1.2%** | 0.121% |
| 11 | Deka - Multi Asset Income | $ | 10.0 | **1.0%** | 0.468% |
| 12 | BNY Mellon Investment Fds. - Global Dynamic Bond Fund | $ | 8.6 | **0.9%** | 0.325% |
| 13 | M&G (Lux) Investment Funds 1 - Emerging Markets Bond Fund | $ | 8.2 | **0.8%** | 0.346% |
| 14 | JPMorgan Funds - Income Fund | $ | 7.4 | **0.7%** | 0.095% |
| 15 | iShares VI Plc - JP Morgan (USD) EM Bond (EUR) Hedged | $ | 7.2 | **0.7%** | 0.140% |
| 16 | JPMorgan Global Bond Opportunities Fund | $ | 6.9 | **0.7%** | 0.219% |
| 17 | GMO Emerging Country Debt Fund | $ | 6.7 | **0.7%** | 0.149% |
| 18 | JPMorgan Funds - Emerging Markets Strategic Bond Fund | $ | 6.4 | **0.6%** | 0.648% |
| 19 | CIF - Capital Group EM Debt Fund (LUX) | $ | 6.1 | **0.6%** | 0.441% |
| 20 | Pictet - Global Emerging Debt | $ | 6.1 | **0.6%** | 0.180% |
| | **Top 20 Holders** | **$** | **317.1** | **31.7%** | ... |

*Source: FactSet, as of February 17,2020*

## Recent debt rescheduling initiatives and creditor/investor concerns

Following the COVID pandemic, and as part recent G-20 initiatives to assist developing countries, Ethiopia has participated in the Debt Service Suspension Initiative (or DSSI) and, more recently, indicated plans to participate in a new 'Common Framework' initiative. Ethiopia's on-going effort to improve the debt service profile of its external debt actually builds upon earlier efforts in this area with one of its official creditors (with China in 2019) but the recent 'Common Framework' announcement has generated much reaction and commentary as it potentially implied that Ethiopia would also seek debt relief from its commercial lenders, including possibly its Eurobond holders. A timeline of past efforts in this area, recent developments, investor reactions, and the near-term outlook is summarized in Table 5.9 and 5.10 below.

**Table 5.9: Eurobond spread following recent announcements on debt relief**




*Source: FactSet*

**Table 5.10: Ethiopia--Timeline of Debt Relief Approaches, Recent Developments, and Near-term Outlook**

*2019*

- Debt rescheduling agreed covering ~$3bn of state enterprise external debt owed to China by the Ethiopian Railway Corporation
- Per press reports, terms of the debt relief included a significant maturity extension from 10 to 30 years.

*2020*

- Following the COVID pandemic, Ethiopia took advantage of debt service relief under the Debt Service Suspension initiative (DSSI)
- Debt service relief under the DSSI has been around $112mn million on a six-month basis, per MOF debt data, or ~$220mn annualized

*2021*

**Common Framework**

- Ethiopia announces in late January plans to request debt relief as part of the G-20 'Common Framework' (CF) initiative
- The Common Framework initiative, led by the G-20 in November 2020, is intended to provide debt relief beyond what was already granted to many developing countries (for Covid related spending) under DSSI in 2020.
- Per the G-20 Comminique on the Common Framework, in most cases, "debt treatments will *not* be conducted in the form of debt write-off or cancellation," but some debt cancellation or write-off may be considered in "the most difficult cases"
- The expectation is also that both official creditors and private creditors will be asked to provide 'comparable treatment'

**Rating Agency and Investors reactions**

- All three major ratings agencies provided rating updates/actions after Ethiopia's announcement of its Common Framework participation
  - **Fitch**: Downgraded Ethiopia's rating from 'B' to 'CCC'. FItch noted that "the downgrade reflects the Government's announcement that it is looking to make use of the G20 'Common Framework' , which although still an untested mechanism, explicitly raises the risk of a default event. However, Fitch also adds that "there remains uncertainty over how the G20 Common Framework will be implemented in practice, including the requirement for private sector participation," and also notes that "the Paris Club [creditors] requirement for comparable treatment by other creditors can be waived in some circumstances, including when the debt represents only a small proportion of the country's debt burden"
  - **Moody's:** Kept rating unchanged at 'B' but with a negative outlook. Moody's notes in its commentary that "given the continued uncertainty regarding how the DSSI will be implemented, our view remains that the risks to private-sector creditors are captured in the negative outlook on Ethiopia's rating... For now, we continue to assume that an application for debt relief under the Common Framework--like subscribing to the DSSI--in and of itself need not necessarily entail private-creditor losses"
  - **S&P's:** Downgrade from 'B' to 'B-' on the basis of potential debt restructuring under the Common Framework
- **Sovereign Bond:** Yields on Ethiopia's sole sovereign bond jumped by around 2 percentage points, from 6.5% to 8.5% at its peak, before moderating somewhat to 8 percent as of mid-February.
- **Investor/Analyst Reactions:** Commentary from some investment banks and research analysts has included statements that generally show uncertainty about the inclusion of Ethiopia's private external bondholders under the Common Framework:. For example, analysts have observed: (1) "The key issue would be how insistent bilateral creditors would be on the private sector participating (Morgan Stanley); (2) "Private sector involvement may be necessary under the Common Framework, but it isn't' clear what form this will take... and whether Ethiopia's Eurobond will be included" (Tellimer Research); (3) "Bondholders are the least likely creditors to be approached" (Oxford Analytica); and (4) "It is not set in stone that the G-20 demands the same treatment from the private sector" (Renaissance Capital).

- **Outlook for the period ahead**
  - The very recent announcement of a staff-level agreement on the First and Second Reviews of the IMF program has, besides endorsing the Government's macro policies, now provided a framework for creditors to engage on debt service relief discussions. While the IMF Staff Report and associated Debt Sustainability Analysis has not yet been released, the press statement indicates that the IMF supports "the authories' aim to lower the risk of debt distress to medium by reprofiling debt service obligations". It also notes that "receipt of the necessary financing assurances from international partners" is anticipated which (per usual IMF procedures) is likey to have either been received or expected to be forthcoming shortly if the program is being presented for Board approval.
  - The Debt Sustainability Assessment (DSA) is expected to provide the scale of debt relief needed to reduce the debt distress risk from high to medium by the end of the IMF program period (2023). The recent IMF statement indicates expectations of only a "reprofilig of debt service obligations," which is not surprising given Ethiopia's debt ratios.
  - Ethiopia is to secure assurances for debt relief from key creditors. This would be expected to include official bilateral creditors, including Paris Club creditors and non-Paris Club creditors such as China, India, Turkey, Kuwait, Saudi Arabia, and UAE.
  - One area of uncertainty remains whether debt service relief would be sought from creditors holding Ethiopia's sole sovereign bond, which represents 3 percent of total external debt and 3 percent of 2021 debt service.
    - While the G-20 Statement on the Common Framework indicates expectations of comparable treamment, it is also the case (from past practice and as highlighted by the analyst commentary above) that G-20 and Paris Club creditors have not insisted on private sector participation when amounts are comparatively small.
    - Ethiopia's Ministry of Finance statement on this matter indicates only general principles that it will "aim to reduce debt vulnerabilities and lower the risk of debt distress to moderate by the end of the [IMF] program"
    - Regarding the issue of potential private sector inclusion, the MOF's statement indicates that only after completion of the DSA will the Ministry "be in a position to inform its other creditors of the need for broader debt treatment discussions in accordance with the comparability of treatment rule." The statement also adds that "[the Ministry] is confident that the possible implementation of the debt treatment under the Common Framework will address debt vulnerabilities of the country, while preserving long-term access to international financial markets"

*Source: G-20 Common Framework Statement, MOF press release of Feb 1, 2020, and IMF press release of Feb 23, 2021.*
*Also, rating release from Fitch, Moody's, and S&P as well as analyst reports from Morgan Stanley, Tellimer Research, Oxford Analytica, and Renaissance Capital.*

In the context of the Common Framework initiative, a review of the composition of Ethiopia's debt shows that debt relief from foreign creditors would mainly affect multilateral and bilateral lenders (Table 5.11). Most notably, multilateral institutions make up roughly half of all external debt, official bilateral lenders—including China—make up 28 percent, and private commercial lenders make up 22 percent. The latter group of private lenders includes institutions from China, Europe, US, and holders of the Eurobond.

**Table 5.11: External Debt Stock by Major Categories, $mns Dec 2020**

| | Jun-17 | Jun-18 | Jun-19 | Jun-20 | Dec-20 | % share |
|---|---|---|---|---|---|---|
| **Total External Debt: in USD mns** | **23,348** | **25,813** | **27,070** | **28,860** | **29,717** | 100.0% |
| *By borrower category* | **23,348** | **25,813** | **27,070** | **28,860** | **29,717** | 100.0% |
| Central Government | 12,988 | 14,752 | 15,967 | 18,003 | 19,102 | 64.3% |
| State Enterprises (with govt guarantee) | 6,937 | 7,564 | 7,290 | 7,242 | 6,978 | 23.5% |
| State Enterprises (without govt guarantee)* | 3,424 | 3,497 | 3,812 | 3,615 | 3,637 | 12.2% |
| *By lender category* | **23,348** | **25,813** | **27,070** | **28,860** | **29,717** | 100.0% |
| Official lenders | 17,251 | 19,032 | 20,130 | 22,307 | 23,200 | 78.1% |
| Multilateral institutions | 9,110 | 10,499 | 11,670 | 13,788 | 14,768 | 49.7% |
| World Bank/IDA | 6,564 | 7,754 | 8,848 | 10,159 | 10,992 | 37.0% |
| International Monetary Fund | 142 | 91 | 38 | 729 | 761 | 2.6% |
| Bilateral lenders (governments) | 8,141 | 8,534 | 8,460 | 8,518 | 8,433 | 28.4% |
| Paris Club | 621 | 654 | 710 | 803 | 891 | 3.0% |
| Non-Paris Club | 7,520 | 7,879 | 7,749 | 7,715 | 7,541 | 25.4% |
| Private lenders | 6,097 | 6,781 | 6,940 | 6,554 | 6,517 | 21.9% |
| Commercial banks | 2,523 | 3,440 | 3,919 | 3,791 | 3,896 | 13.1% |
| Suppliers credits | 2,574 | 2,340 | 2,020 | 1,763 | 1,620 | 5.5% |
| Bondholders | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 3.4% |
| *By currency-- in percent of total* | | | | | | |
| US dollars | 64% | 61% | 59% | 54% | 52% | ... |
| SDR (IMF and World Bank) | 30% | 32% | 34% | 39% | 41% | ... |
| Euro | 3% | 4% | 4% | 4% | 4% | ... |
| All others | 3% | 3% | 3% | 3% | 3% | ... |
| *Memo items:* | | | | | | |
| External debt, in percent of GDP | 28.6% | 30.8% | 28.3% | 27.0% | 27.9% | ... |
| USD GDP, bns | 81.6 | 83.9 | 95.7 | 106.8 | 106.4 | ... |

*Source: MOFEC Debt Bulletin. *State Enterprises borrowing without govt guarantees are Ethiopian Airlines and Ethio Telecom.*

Reflecting the different interest rates and maturities offered by different lenders, near-term debt service payments are, however, dominated by obligations due to commercial and official bilateral creditors rather than to multilateral lenders (as the latter offer very low interest rates and very long payback periods). In recent years, about 57 percent of annual debt service dues have gone to commercial creditors (of which 3 percent to Eurobond holders), 31 percent to official bilateral creditors, and 12 percent to multilateral lenders (Table 5.12).

**Table 5.12--External Debt Service Paid in the Past 5 Years: By Lender, Borrower, and Repayment Type**

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | H1 2020-21 | *% share* |
|---|---|---|---|---|---|---|---|
| **Total external debt service paid** | **$ 1,131** | **$ 1,288** | **$ 1,602** | **$ 2,036** | **$ 1,988** | **$ 991** | *100%* |
| *By lender* | | | | | | | |
| Multilaterals | $ 152 | $ 166 | $ 215 | $ 232 | $ 232 | $ 121 | *12%* |
| Bilaterals | $ 327 | $ 390 | $ 494 | $ 729 | $ 621 | $ 334 | *31%* |
| Commercial creditors | $ 652 | $ 732 | $ 893 | $ 1,075 | $ 1,135 | $ 536 | *57%* |
| *By borrower* | | | | | | | |
| Central government | $ 264 | $ 287 | $ 360 | $ 403 | $ 407 | $ 143 | *20%* |
| SOE, with govt guarantee | $ 391 | $ 521 | $ 672 | $ 931 | $ 801 | $ 480 | *40%* |
| SOE, without govt guarantee | $ 476 | $ 479 | $ 569 | $ 702 | $ 780 | $ 368 | *39%* |
| *By payment type* | | | | | | | |
| Principal | $ 773 | $ 855 | $ 1,156 | $ 1,407 | $ 1,387 | $ 703 | *70%* |
| Interest | $ 358 | $ 433 | $ 446 | $ 630 | $ 601 | $ 288 | *30%* |

*Source: MOFEC Debt Statistical Bulletin, No. 34*

Looking at debt service dues in the year ahead, namely for 2021, the largest obligations are—as in recent years—due to commercial creditors (48 percent, reflecting large SOE repayments), official bilateral creditors (35 percent) and multilateral creditors (15 percent); amounts due to bondholders are only around 3 percent of the total (Table 5.13).

**Table 5.13: External Debt Service Payment Due in 2021 (USD mns)**

*Ranked by amount due within each category*

| Lender | Total Debt Service | Principal due | Interest due | % of Total |
|---|---|---|---|---|
| **Official multilateral lenders** | **305** | **196** | **109** | **14.8%** |
| World Bank-IDA | 211 | 126 | 85 | 10.2% |
| African Development Bank | 57 | 40 | 18 | 2.8% |
| Other Multilaterals | 36 | 29 | 7 | 1.7% |
| International Monetary Fund | - | - | - | 0.0% |
| World Bank-IBRD | - | - | - | 0.0% |
| **Official bilateral lenders** | **712** | **443** | **269** | **34.5%** |
| China | 556 | 320 | 236 | 27.0% |
| India | 44 | 37 | 7 | 2.1% |
| France | 23 | 18 | 5 | 1.1% |
| Canada | 21 | 20 | 1 | 1.0% |
| Italy | 19 | 18 | 1 | 0.9% |
| Russian Federation | 18 | 15 | 3 | 0.9% |
| Turkey | 14 | - | 14 | 0.7% |
| Kuwait | 5 | 3 | 1 | 0.2% |
| Other Bilateral | 5 | 5 | 0 | 0.2% |
| Germany, Fed.Rep. Of | 4 | 4 | 1 | 0.2% |
| Saudi Arabia | 4 | 3 | 0 | 0.2% |
| United Arab Emirates | 0 | 0 | 0 | 0.0% |
| **Commercial lenders (excl bond)** | **980** | **798** | **182** | **47.5%** |
| China | 365 | 314 | 50 | 17.7% |
| United States | 278 | 236 | 42 | 13.5% |
| Switzerland | 97 | 61 | 36 | 4.7% |
| United Kingdom | 75 | 56 | 19 | 3.7% |
| France | 34 | 26 | 8 | 1.7% |
| Japan | 32 | 23 | 9 | 1.5% |
| Israel | 29 | 27 | 2 | 1.4% |
| South Africa | 26 | 21 | 5 | 1.2% |
| Sweden | 26 | 22 | 5 | 1.3% |
| United Arab Emirates | 12 | 12 | 0 | 0.6% |
| Italy | 6 | - | 6 | 0.3% |
| **Bondholders** | **66** | **-** | **66** | **3.2%** |
| **GRAND TOTAL** | **2,062** | **1,437** | **626** | **100.0%** |

*Source: World Bank Debtor Reporting System*

With Ethiopia's participation in the 'Common Framework' initiative, the 2021 external service obligations of near $2bn could be reprofiled under varying degrees of creditor coverage and percentage share of debt service dues. Depending on the universe of creditors covered and the percentage of debt service obligations considered (say from 20% up to 67% of annual amounts due), the dollar amount of debt service relief could vary considerably: for example, assuming debt service relief mainly from official bilateral creditors and commercial creditors (excluding bondholders) would provide savings of between $311mn and $577mn for the year (Table 5.14). For our balance of payments projections, we use the actual debt service paid for July-December 2020 and annualize that for the full fiscal year, which implies a DSSI-type treatment and thus likely understates the extent of debt relief Ethiopia is likely to receive this year and next. We expect the likelihood of a principal debt reduction on any category of external debt to be extremely low, as indeed

seems to be confirmed by the recent IMF statement indicating the "the authorities aim to lower the risk of debt distress rating to moderate by reprofiling debt service obligations."

**TABLE 5.14: Potential range of debt service relief under different treatment categories (USD mns)**

| | *Potential scope of debt service relief for 2021* | | | |
|---|---|---|---|---|
| *Lender category providing debt service relief* | 20.0% | 33.0% | 50.0% | 66.7% |
| 1 Multilateral and Bilateral Official (excl all commercial lenders) | 161 | 266 | 403 | 538 |
| 2 Bilateral and Commercial lenders (excl mults & bondholders) | 188 | 311 | 471 | 628 |
| 3 Multilateral, Bilateral, and Commercial lenders (but excl bondholder | 231 | 381 | 577 | 769 |
| 4 All Creditors: Mult, Bilateral, and Commercial including bondholders | 244 | 403 | 610 | 814 |

*Source: Cepheus Research estimates based on profile of 2019-20 debt service payments, as presented in MOF Public Debt Bulletin (Table 18)*

## External financing outlook

Separate from the issue of debt relief, one area of concern relating to creditor relations has also been the overall external financing outlook for the current and upcoming years. In this regard, while there has been a temporary pause of some external financing linked to the recent conflict (~$100mn from the EU for example), it is a comparatively small share of total anticipated external support (Table 5.15). It is an even smaller share of overall fx inflows, which are close to $22bn annually when considering goods exports, service exports, remittances, transfers, grants, FDI, new borrowing, and private capital flows.

**Table 5.15 External Budgetary Support for FY 2019-20**

*Ranked from highest to lowest*

| | *Birr mns* | *USD mns* | | *Birr mns* | *USD mns* |
|---|---|---|---|---|---|
| **Total Budgetary Grants, Birr mns** | **36,820.6** | **$ 1,235** | **Total Budgetary Loans** | **40,296.8** | **$ 1,352** |
| **Multilateral grants** | **31,752.3** | **$ 1,065** | **Multilateral loans** | **31,873.8** | **$ 1,069** |
| World Bank--IDA [for PBS program] | 14,870.1 | $ 499 | IDA--World Bank [for PBS program] | 19,925.9 | $ 668 |
| Global Fund | 4,006.6 | $ 134 | IDA--World Bank | 7,131.3 | $ 239 |
| Global Alliance for Vaccines Initiative /GAVI/ | 2,951.3 | $ 99 | African Development Bank | 1,919.2 | $ 64 |
| Others | 2,203.8 | $ 74 | World Bank | 1,684.0 | $ 56 |
| European Union [for PBS program] | 1,939.1 | $ 65 | Intl Fund for Agricultural Devpt | 610.5 | $ 20 |
| African Development Bank [for PBS program] | 1,189.6 | $ 40 | Arab Bank for Africa Devpt | 602.9 | $ 20 |
| United Nations Children's Fund | 920.9 | $ 31 | | | |
| Pool Fund for MDGs | 807.7 | $ 27 | | | |
| International Devpt Association (World Bank) | 803.2 | $ 27 | | | |
| European Union | 416.9 | $ 14 | | | |
| World Bank | 336.7 | $ 11 | | | |
| World Food Program | 287.2 | $ 10 | | | |
| African Development Fund | 278.2 | $ 9 | | | |
| International Fund for Agricultural Devpt | 253.5 | $ 9 | | | |
| European Development Fund | 161.0 | $ 5 | | | |
| Global Environment Facility | 135.8 | $ 5 | | | |
| African Development Bank | 133.7 | $ 4 | | | |
| Center for Diseases Control | 22.5 | $ 1 | | | |
| United Nations Fund for Population Activity | 16.3 | $ 1 | | | |
| United Nations Development Program | 11.5 | $ 0 | | | |
| World Health Organization | 6.8 | $ 0 | | | |
| **Bilateral Grants** | **5,068.3** | **$ 170** | **Bilateral loans** | **8,423.0** | **$ 283** |
| UK-Dept for International Development | 1,888.6 | $ 63 | China EXIM Bank | 2,624.6 | $ 88 |
| US Agency for International Development | 1,676.8 | $ 56 | Others | 2,611.8 | $ 88 |
| Canadian International Development Agency | 330.3 | $ 11 | China | 1,541.8 | $ 52 |
| Netherlands (KNCB) | 273.2 | $ 9 | KOICA (Korea) | 1,010.7 | $ 34 |
| Ireland | 195.3 | $ 7 | Saudi Fund | 559.9 | $ 19 |
| Germany (KFW & GTZ) | 187.5 | $ 6 | Italy | 56.6 | $ 2 |
| Italy | 168.4 | $ 6 | Kuwait Fund (KFAED) | 17.6 | $ 1 |
| Others | 113.6 | $ 4 | | | |
| Danish Intl Development Agency (DANIDA) | 71.8 | $ 2 | | | |
| Finland (DIDC) | 70.5 | $ 2 | | | |
| Sweden (SIDA) | 70.1 | $ 2 | | | |
| Spain | 15.7 | $ 1 | | | |
| China | 6.5 | $ 0 | | | |

*Source: Federal Budget Document of June 2019 for Fiscal Year 2019-20 Budget: Revenue, Grants and Loans Table*
*These figures only cover Budget grants and would not include funds provided to non-budgetary activities (e.g. direct humanitarian assistance)*

From a medium-term perspective, it is also notable that there is a substantial stock of committed but not-yet-disbursed funding, equivalent to roughly $11.4bn as of December 2020, that is still largely anticipated from a range of external creditors and that will still sustain official sector financing flows over the coming years (Table 5.16). This stock of committed funding remains significant and broad-based, considering especially the range of partnerships established across both multilateral and bilateral creditors, and often under multi-year cooperation, advisory, and lending programs. The very recent completion of the IMF program review, which endorsed the Government's macro policies and typically provides creditors with strong assurances of the stance of macro/structural policies, further boosts the likelihood that substantial external support will continue this year as well as over the medium-term. Balance of payments support linked to completion of the IMF program review will, by itself, provide near-term funding of SDR 448mn, or $646mn, judging by the disbursement schedule laid out in the IMF's original staff report.

**TABLE 5.16: Committed but not yet disbursed funds from Creditors, as of June 2020**

| | | AMOUNT | % of Total |
|---|---|---|---|
| **TOTAL** | **$** | **11,341** | **100%** |
| **CENTRAL GOVRENMENT** | **$** | **7,152** | **63%** |
| Multilateral lenders | $ | 4,337 | 38% |
| AfDB | $ | 137 | 1% |
| AfDF | $ | 307 | 3% |
| BADEA | $ | 100 | 1% |
| EIB | $ | 130 | 1% |
| IDA | $ | 3,411 | 30% |
| IFAD | $ | 136 | 1% |
| OFID | $ | 115 | 1% |
| Bilateral Lenders | $ | 2,815 | 25% |
| Abu Dhabi Fund | $ | 8 | 0% |
| China (Exim-Bank & Gov. of China) | $ | 1,426 | 13% |
| Exim Bank of Korea | $ | 548 | 5% |
| France (AFD) | $ | 273 | 2% |
| Italy | $ | 138 | 1% |
| India (Exim-Bank) | $ | 114 | 1% |
| Japan | $ | - | 0% |
| Kuwait Fund | $ | 30 | 0% |
| KHALIFA FUND | $ | 100 | 0% |
| Saudi Fund | $ | 178 | 2% |
| **OTHER PUBLIC SECTOR** | **$** | **4,189** | **37%** |
| MULTILATERALS | $ | 2,593 | 23% |
| IMF | $ | 2,593 | 23% |
| BILATERALS | $ | 766 | 7% |
| China (Exim-Bank ,ICBC & CDB) | $ | 766 | 7% |
| PRIVATE CREDITORS | $ | 830 | 7% |
| Commercial Banks | $ | 186 | 2% |
| Suppliers | $ | 644 | 6% |

*Source: MOFEC Debt Bulletin, Table 17*

## Section 6: Currency and the Macroeconomy

- **Despite a large nominal depreciation in 2020, the gap between the official and parallel rate remains substantial at the start of 2021 while fx waiting times at banks remain significant.**

- **Reform of the foreign exchange regime—one that corrects the currency's misalignment and allows for its flexible movement—would eliminate fx queuing and shortages at banks, but such a major overhaul seems likely to occur only in 2022 or 2023, when inflation should be more firmly reduced and fx reserves at more comfortable levels.**

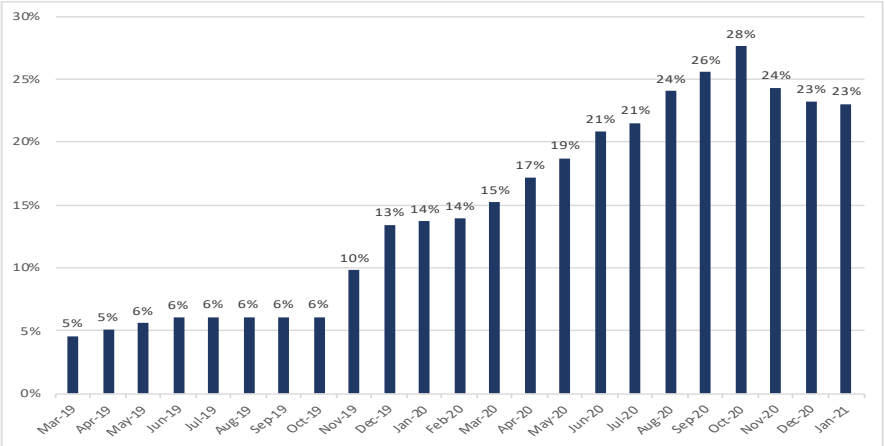
- **In the interim, we expect the central bank to continue using a gradual exchange rate crawl in managing the currency, with pace of adjustment likely to be slower this year given declining inflation and improving balance of payments conditions. We expect the Birr will depreciate by at most 15 percent over the course of 2021 compared to a 23 percent drop seen in 2020.**

To assess how far and how fast the Birr is likely to move in 2021, we review recent developments and the near-term outlook in four key areas: (1) the real effective exchange rate; (2) the parallel market gap and indicators of excess fx demand; (3) the balance of payments position, and; (4) central bank policy signals on near-term policy intentions.

### Real effective exchange rate

The Birr exchange rate vs the US dollar has moved substantially this year, reaching a peak nominal depreciation rate of 28 percent in November 2020, but moderating more recently to an annualized rate of about 23 percent as of mid-February 2021 (Table 6.1).

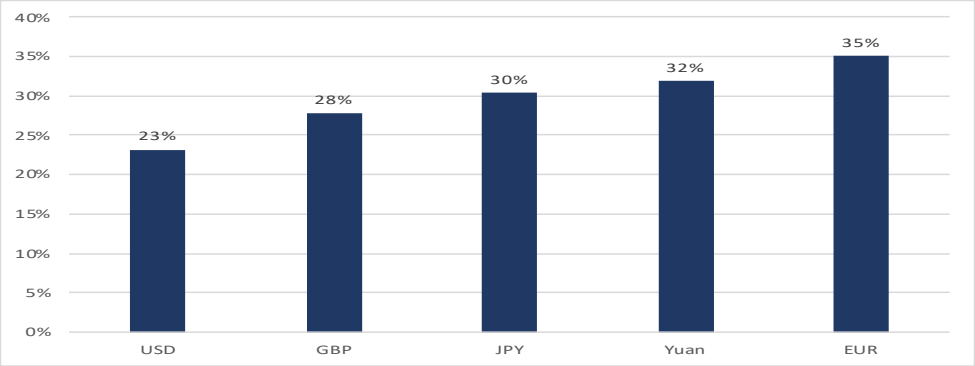
**Table 6.1: Depreciation from Year Ago Levels**




*Source: CBE Website and Cepheus Research*

The rate of currency depreciation is even sharper when seen against other currencies, as the exchange rate for the Birr is set against the USD and the USD has depreciated versus other major currencies, which further magnifies the Birr's depreciation versus those major currencies (Table 6.2).

**Table 6.2: Year on Year Depreciation for Key Currencies**




*Source: CBE Website*

Ethiopia's rate of depreciation is also significant when seen in a cross-country context, with Ethiopia showing the second sharpest currency adjustment among Africa's largest economies. Among emerging market economies, only Brazil and Turkey among showed a 20-percent plus annual deprecation in 2020 (Table 6.3).

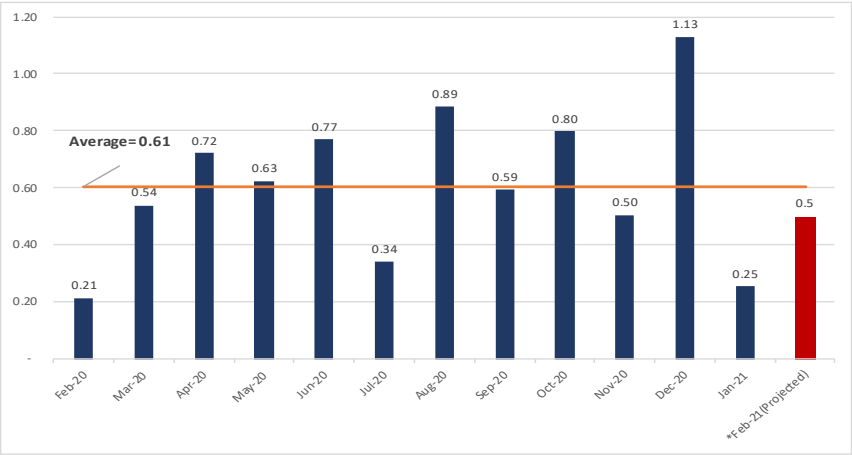
**Table 6.3 : Exchange Rate Depreciations across Selected Countries**

| *Local currency vs USD* | 31-Dec-19 | 31-Dec-20 | Y-o-Y % Deprec |
|---|---|---|---|
| *Ten Largest African economies (ranked by y-o-y depreciation rate)* | | | |
| 1 Angola | 482.2 | 655.4 | 36% |
| 2 Ethiopia | 31.8 | 39.2 | 23% |
| 3 Algeria | 119.2 | 132.1 | 11% |
| 4 Nigeria | 361.5 | 396.7 | 10% |
| 5 Kenya | 101.0 | 109.7 | 9% |
| 6 South Africa | 14.1 | 14.7 | 4% |
| 7 Ghana | 5.7 | 5.9 | 3% |
| 8 Tanzania | 2,297.0 | 2,330.6 | 1% |
| 9 Egypt | 16.0 | 15.7 | -2% |
| 10 Morocco | 9.6 | 8.9 | -7% |
| *Selected Emerging Markets (ranked by y-o-y depreciation rate)* | | | |
| 11 Brazil | 4.0 | 5.2 | 29% |
| 12 Turkey | 5.9 | 7.4 | 25% |
| 13 India | 71.3 | 73.1 | 2% |
| 14 Indonesia | 13,925.8 | 14,120.6 | 1% |
| 15 Bangladesh | 84.8 | 85.1 | 0% |
| 16 Vietnam | 23,150.8 | 23,196.3 | 0% |
| 17 China | 7.0 | 6.5 | -7% |
| *Other Currencies/Countries* | | | |
| 18 Japan (Yen per USD) | 109.12 | 103.55 | -5% |
| 19 Euro (USD per Euro) | 1.12 | 1.22 | 9% |
| 20 UK (Pound per USD) | 1.31 | 1.37 | 4% |
| *African & Emerging Markets average:* | | | 8% |
| *All 20 Currencies average:* | | | 7% |

*Source: IMF, African Markets, exchange-rates.org, and Cepheus Research compilation*
*Positive percent changes are depreciation of currency, negative figures are appreciation.*

Expressed in Birr cents, the rate of depreciation has averaged 60 cents per month for the past year, but this is now moderating substantially in early 2021 to just 25 cents in January 2021 and an expected 50 cents in February 2021 (Table 6.4).

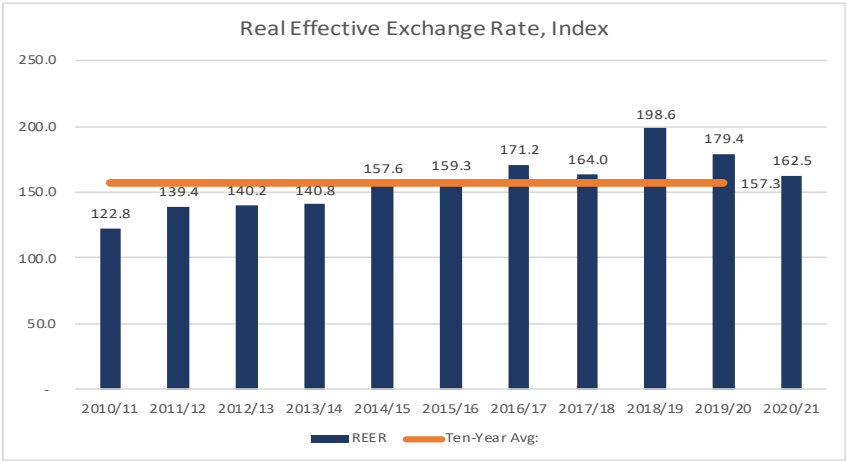
**Table 6.4: Monthly Depreciation in Cents**




*Source: CBE Website and Cepheus Research*

The real effective exchange rate, one measure of the country's competitiveness vis-à-vis trading partners, has depreciated by around 10 percent last fiscal year (2019-20) and is likely to fall by a similar magnitude this fiscal year (2020-21), reversing what had been a deteriorating trend seen for most of the past decade (Table 6.5). The current level of the REER index (at 163) stands at about 3 percent above the past ten-year average (157) and 19 percent above the past twenty-year average (137), suggesting an exchange rate that is still not as depreciated—in real terms—versus its historical norms.

**Table 6.5: Real Effective Exchange Rate Index**

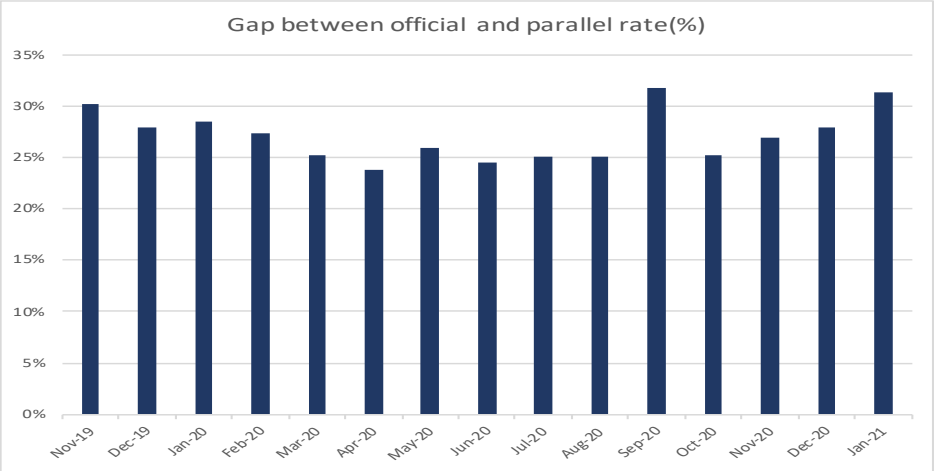



*Source: NBE. Figure for 2020-21 is projection based on trends up to Feb 2021.*

**Parallel rate and excess fx market demand**

The gap between the official and parallel market rates continues to point to a situation of excess demand and a still misaligned official rate. After some improvement in the second half of 2020, and despite several recent administrative/regulatory measures to limit those suspected to be involved in parallel market activities (i.e., limits on the size and frequency of cash withdrawals), the gap between the official and parallel market rates has stayed in the range of 25-30 percent in recent months (Table 6.6).

**Table 6.6: Gap Between Official and Parallel Rate (%)**




*Source: Cepheus Research*

Information from commercial banks also confirms extended waiting times at banks for accessing foreign exchange, involving queues of 4 to 6 months, or more, depending on the specific import product or sector (given varying priority categories in the waiting list system used by banks). Given monthly imports of $900mn (excluding franco-valuta imports that do not use banking system fx funds), the estimated backlog of unmet fx demand could be as large as $3bn to $5bn even after accounting for some likely double-counting in import applications presented to banks (Table 6.7).

**TABLE 6.7: Range of likely fx backlog at different assumed waiting times at banks (USD mns)**

| | | |
|---|---|---|
| Imports in the latest six month period | $ | 6,802 |
| Adjustment for franco valuta imports (20%) | $ | 1,360 |
| Imports using banking system fx, six month basis | $ | 5,442 |
| **Implied average monthly imports using banks' fx funds, USD mns** | **$** | **907** |

| | *Possible double-counting at banks* | | |
|---|---|---|---|
| **Range of fx backlog estimates at different assumed waiting times (USD mns):** | 0.0% | 20.0% | 40.0% |
| Four months average waiting time | $ 3,628 | $ 2,902 | $ 2,177 |
| Six months average waiting time | $ 5,442 | $ 4,353 | $ 3,265 |
| Eight months average waiting time | $ 7,255 | $ 5,804 | $ 4,353 |

*Source: NBE, MOTI for imports and Cepheus Research estimation. Adjustment for double-counting is to account for same set of L/C or P/O documents importers may place a multiple banks. Franco-valuta imports (which are in-kind goods imported without using local banks' foreign exchange funds) were 20-25% of total imports in recent years.*

**Balance of payments**

A large balance of payments deficit last fiscal year ($900mn) coincided with a sizeable Birr depreciation for the year. The BOP deficit in 2019-20 was covered by a combination of a small gross reserves drawdown ($200mn) as well as by an accumulation of net fx liabilities ($700mn). For the current fiscal year, we expect a swing to a sizeable BOP surplus reflecting the very substantial reduction in the trade and current account deficits, both of which are at decade-long lows relative to GDP thanks to lower imports (down 10 percent), strong growth in exports and airline receipts, and improving remittance inflows. At the same time, the capital account should benefit from still significant loan inflows for the year (we forecast $1.1bn in net borrowing by the government based on last six-month trends) as well as more than $3bn of FDI inflows after accounting for anticipated privatization revenue. We also include in our baseline projection the IMF Board's approval of the first and second program reviews (and associated external funding) before June 2021, which will boost fx reserves at fiscal year-end through the IMF's own disbursements, associated multilateral loans and the endorsement of debt service reprofiling by other external creditors. Reflecting all of the above, and despite possible underperformance in some sub-set of grants relative to earlier expectations, the overall BOP should register a significant surplus and thus not be a source of depreciation pressures on the currency this year (Table 6.8)

**Table 6.8: Balance of Payments (USD mns)**

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|---|
| Trade balance | (13,857) | (12,895) | (12,414) | (12,446) | (10,894) | (9,781) | (10,193) |
| Exports of goods | 2,868 | 2,908 | 2,840 | 2,667 | 2,988 | 3,406 | 3,917 |
| Imports of goods | (16,725) | (15,803) | (15,253) | (15,112) | (13,881) | (13,187) | (14,110) |
| Services Net | (245) | (61) | 237 | 39 | 419 | 377 | 267 |
| Services exports | 3,196 | 3,331 | 4,220 | 4,949 | 4,664 | 4,898 | 5,240 |
| Services imports | (3,442) | (3,393) | (3,983) | (4,910) | (4,245) | (4,521) | (4,973) |
| Income account, net | (374) | (486) | (377) | (590) | (607) | (717) | (857) |
| o/w Interest payments | (373) | (470) | (469) | (670) | (649) | ... | ... |
| Private transfers | 6,429 | 5,485 | 6,075 | 6,376 | 5,625 | 5,954 | 6,210 |
| o/w Remittances | 4,420 | 4,428 | 5,121 | 5,693 | 4,722 | 5,104 | 5,359 |
| o/w Other private transfers | 2,008 | 1,058 | 953 | 683 | 904 | 850 | 850 |
| Official transfers | 1,391 | 1,428 | 1,226 | 2,087 | 1,488 | 1,100 | 1,100 |
| Current account excl grants | (8,048) | (7,957) | (6,479) | (6,621) | (5,457) | (4,168) | (4,574) |
| Current account incl grants | (6,657) | (6,528) | (5,253) | (4,534) | (3,969) | (3,068) | (3,474) |
| Current account excl grants (% GDP) | -10.9% | -9.8% | -7.7% | -6.9% | -5.1% | -3.9% | -4.2% |
| **Current account incl grants (% GDP)** | **-9.0%** | **-8.0%** | **-6.3%** | **-4.7%** | **-3.7%** | **-2.9%** | **-3.2%** |
| Foreign Direct Investment | 3,269 | 4,171 | 3,723 | 3,015 | 2,419 | 3,400 | 3,800 |
| Government, net external borrowing | 1,628 | 1,402 | 1,632 | 1,158 | 1,947 | 1,188 | 1,500 |
| Public Sector (Non-Govt), net external borr | 1,052 | 626 | 937 | 1,326 | (234) | (592) | (400) |
| Private sector, net external borrowing | 450 | 503 | 251 | 264 | 164 | 200 | 200 |
| Short-term capital and other items net | 110 | 130 | (145) | 72 | (149) | - | - |
| **Capital Account, net inflows** | **6,509** | **6,832** | **6,398** | **5,835** | **4,147** | **4,196** | **5,100** |
| Errors and omissions | (682) | 356 | (1,346) | (1,244) | (909) | - | - |
| Overall balance of payments | (831) | 659 | (201) | 58 | (730) | 1,128 | 1,626 |
| **Foreign exchange reserves, end-of-period** | **3,402** | **3,197** | **2,843** | **3,415** | **3,209** | **4,337** | **5,963** |
| In months of imports | 2.4 | 2.4 | 2.2 | 2.7 | 2.8 | 3.9 | 5.1 |

*Source: NBE, Cepheus Capital Research for Projections*

**Central bank policy direction and currency outlook**

With respect to central bank policy directions/reforms as they relate to the currency, the NBE's foreign exchange objectives appear to be still focused on avoiding any REER appreciation, as was successfully achieved in end-2020. In other words, nominal rates of depreciation have largely moved to compensate for observed inflation outturns plus some small margin. Per its public announcements, potential reforms to the policy fx regime are so far still focused on laying out a roadmap for market-based exchange rates over the medium-term. On timing, actual implementation of the new fx regime is unlikely in 2021 and more realistic in 2022 or 2023 when supporting conditions (low inflation, strong fx reserves) will be deemed to be more firmly established. Given these considerations (a somewhat improved REER, positive BOP support, no expected change to the current 'gradual crawl' fx regime), we expect the magnitude and speed of the currency's move in 2021 will be influenced heavily by inflation outturns in the coming months and thus see a much more moderate depreciation in 2021 than in 2020. More specifically, we project that year-on-year depreciation rates will trend downwards for the rest of the year, falling from around 24 percent at present to 20 percent by mid-year and no more than 15 percent by the end of 2021 in line with expected disinflation. Reflecting this (presumed) pace of currency adjustment, the associated level implied for the currency is 41.9 Birr/USD by mid-year and 44.6 Birr/USD by end-2021 (Table 6.9).

**Table 6.9: Exchange Rate: Forecasts to December 2021**

| Actuals: End Month | Buying Rate: Birr/USD | Monthly Change: In Birr | Depreciation from year ago |
|---|---|---|---|
| December 2019 | 31.80 | 1.19 | 13.4% |
| January 2020 | 32.06 | 0.26 | 13.7% |
| February 2020 | 32.27 | 0.21 | 13.9% |
| March 2020 | 32.81 | 0.54 | 15.2% |
| April 2020 | 33.53 | 0.72 | 17.1% |
| May 2020 | 34.16 | 0.63 | 18.7% |
| June 2020 | 34.93 | 0.76 | 20.8% |
| July 2020 | 35.26 | 0.33 | 21.4% |
| August 2020 | 36.16 | 0.90 | 24.0% |
| September 2020 | 36.75 | 0.59 | 25.5% |
| October 2020 | 37.55 | 0.80 | 27.6% |
| November 2020 | 38.05 | 0.50 | 24.3% |
| December 2020 | 39.18 | 1.13 | 23.2% |
| January 2021 | 39.44 | 0.25 | 23.0% |
| **Projections: End Month** | | | |
| February 2021 | 39.94 | 0.50 | 23.7% |
| March 2021 | 40.44 | 0.50 | 23.2% |
| April 2021 | 40.94 | 0.50 | 22.1% |
| May 2021 | 41.44 | 0.50 | 21.3% |
| June 2021 | 41.94 | 0.50 | 20.1% |
| July 2021 | 42.39 | 0.45 | 20.2% |
| August 2021 | 42.84 | 0.45 | 18.5% |
| September 2021 | 43.29 | 0.45 | 17.8% |
| October 2021 | 43.74 | 0.45 | 16.5% |
| November 2021 | 44.19 | 0.45 | 16.1% |
| December 2021 | 44.64 | 0.45 | 13.9% |

*Source: CBE website for historical data and Cepheus Research for projections*

# Quarterly Macroeconomic Review
## Fourth Quarter 2020

# Macro Research Ethiopia

CEPHEUS
RESEARCH & ANALYTICS

February 25, 2021

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### Recent Developments and Outlook

*We largely retain the macro forecasts from our last quarterly review in November 2020, including our expectations for near-term growth (4.1% this year, 7.5% next year). Compared to our projections last quarter, we expect inflation will be slightly worse, the budgetary stance broadly unchanged, and the banking and BOP outlook somewhat better.*

- **Growth:** We continue to project 4.1 percent growth for the current fiscal year, on the basis of a broadly unchanged crop output, 9 percent growth in industry, and 4 percent growth in services. Although there is much uncertainty on the crop outlook (which may surprise to the upside), underlying our growth forecasts for industry and services are expectations that covid impacts are fading away, that the recent conflict will not have material macro effects, and that credit growth from the banking system will continue at its current strong pace.

- **Inflation**: After a series of low monthly price increases, a spike in food prices in January 2021 has brought an unexpected 1.6 percent month-on-month increase in prices, undermining what had been a steadily improving inflation outlook. A reversal of some excise tax cuts, fuel price increases, and the pass-through of these fuel price increases (to transport and retail prices) will keep inflation elevated in the coming months, despite favorable base effects. We adjust slightly upwards our inflation projections to 13.4% by June 2021 and 10% by end-2021.

- **Fiscal policy**: Despite multiple shocks, the budget deficit this year is likely to show a 'normal' level of near 3 percent of GDP (judging from year-to-date trends). As a result, the public debt ratio should end the year at 52% of GDP, roughly unchanged from last year, helped too by stricter limits on new SOE borrowing. Though exact magnitudes are still to be determined, debt service reprofiling by foreign lenders is likely to provide—by our estimates—some $300mn to $550mn of relief by stretching out around $2bn of repayments due in 2021.

- **Banking**: The banking sector shows no signs of slowing growth, and both deposits and loans have largely continued along their pre-covid trajectories. Mid-2020 data do not show a major spike in NPLs, and even a modest likely increase this coming year would be manageable given low initial (NPL) starting positions, good provision levels, and strong growth in new lending.

- **Balance of payments**: After a substantial deficit in 2019-20, the BOP position should swing to a sizeable surplus this fiscal year. This will be mainly due to a sharp drop in imports, which are down 10 percent and will be roughly $3.5bn lower this fiscal year compared to five years ago. Besides the much-reduced import bill, higher exports, rising airline receipts, and a recovery in remittances are also compensating for what is likely to be a lower-than-initially-expected inflow of grants. The completion of the IMF first review (for which staff-level agreement was recently announced and Board approval likely soon) will unlock substantial fx funds and debt service relief, further boosting the outlook for foreign exchange reserves.

- **Exchange rate:** A major overhaul of the fx regime does not appear on the horizon for 2021. We expect the central bank to continue using a gradual exchange rate crawl in managing the currency, with a pace of adjustment that is likely to be slower this year given declining inflation and improving balance of payments conditions. We expect the Birr will depreciate by at most 15 percent over the course of 2021 compared to a 23 percent drop seen in 2020.

**ETHIOPIA: Key Macro Indicators**

| | 2019-20 | 2020-21 |
|---|---|---|
| GDP growth | 6.1% | 4.1% |
| Investment/GDP | 30.8% | 30.0% |
| Nominal GDP, Birr bns | 3,374.3 | 4,141.9 |
| Nominal GDP, USD bns | $ 106.8 | $ 106.4 |
| Bank deposits, Birr bn | 1,043.0 | 1,303.7 |
| Bank credit, Birr bn | 1,068.8 | 1,325.2 |
| Deposit growth, % | 16.0% | 25.0% |
| Credit growth, % | 21.0% | 24.0% |
| Fiscal balance, %GDP | -2.6% | -3.0% |
| Public debt, %GDP | 51.6% | 52.1% |
| Exports, USD bns | $ 3.0 | $ 3.4 |
| Imports, USD bns | $ (13.9) | $ (13.2) |
| Service exports, $ bns | $ 4.7 | $ 4.9 |
| Remittances, USD bns | $ 4.7 | $ 5.1 |
| Grants, USD bns | $ 1.5 | $ 1.1 |
| Current account, %GDP | -3.7% | -2.9% |
| FDI, USD bns | $ 2.4 | $ 3.4 |
| Net Loans, USD bns | $ 1.7 | $ 0.6 |
| FX reserves, USD bns | $ 3.2 | $ 4.3 |

*Sources: NPC, NBE, IMF, and Cepheus projections*

**Inflation & Exchange Rates: End Quarter**

| | Inflation | Birr/USD |
|---|---|---|
| June 2020 | 21.5% | 34.9 |
| September 2020 | 18.7% | 36.7 |
| December 2020 | 18.2% | 39.2 |
| March 2021 | 16.5% | 40.4 |
| June 2021 | 13.4% | 41.9 |
| December 2021 | 10.0% | 44.6 |

*Sources: CSA, CBE, and Cepheus projections*

## RECENT ECONOMIC DEVELOPMENTS:

- Among economic indicators for which first half of (fiscal) year data is available, strong growth trends are observed in deposit growth (up 26 percent aided by the recent currency conversion), bank lending (up 33 percent), and exports (up 21 percent in dollar terms).

- Moderate growth is seen in tax collections, telecom activity, and power generation.

- Negative growth, largely reflecting covid impacts, is seen in areas such as tourism arrivals, industrial park exports, ECX trading, and fuel consumption. However, many of these same indicators show a better picture when seen sequentially (i.e. monthly trends over the course of 2020, as shown below).

**Figure 1: Economic Activity Indicators**

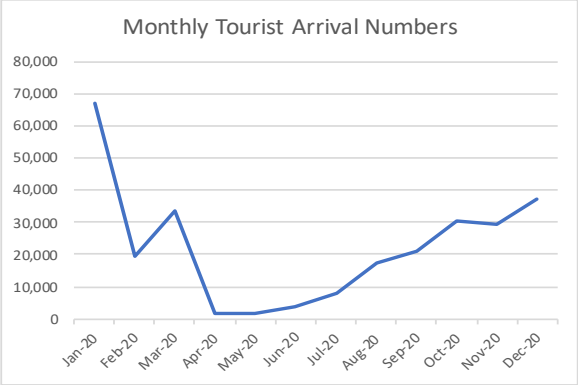
| | FY 2019-20 H1 | FY 2020-21 H1 | Nominal growth | Real growth |
|---|---|---|---|---|
| *Indicators with data to Dec 2020* | | | | |
| Tax collections (Birr bns) | 127.50 | 149.2 | 17.0% | -3.3% |
| *o/w Direct tax collections* | 73.95 | 93.30 | 26.2% | *5.8%* |
| *o/w Trade tax collections* | 53.6 | 55.90 | 4.4% | *-15.9%* |
| Bank deposits (Birr bns) | 960 | 1,213 | 26.3% | 5.9% |
| Bank lending (Birr bns) | 525 | 701 | 33.4% | 13.1% |
| Exports of goods ($mns) | 1,287 | 1,557 | ... | 21.0% |
| Imports of goods ($mns, excl aircraft) | 7,566 | 6,802 | ... | -10.1% |
| Industrial park exports ($mns) | 93.79 | 86.50 | ... | -7.8% |
| Industrial park employment | 86,246 | 73,648 | ... | -14.6% |
| Tourist arrivals | 199,145 | 96,962 | ... | -51.3% |
| Ethio Telecom revenue (Birr bns) | 22.0 | 25.5 | 15.7% | -4.6% |
| Ethio Telecom subscribers (mns) | 45.6 | 50.7 | ... | 11.2% |
| ECX Traded Commodities (Birr bns) | 17.52 | 19.8 | ... | 13.0% |
| ECX Traded Commodities (Tons) | 336,989 | 320,140 | ... | -5.0% |
| Foreign Direct Investment (USD bns) | 1.36 | 1.32 | ... | -3.1% |
| *Indicators with data to Sep 2020* | | | | |
| Fuel consumption (MT) | 1,010,292 | 878,687 | ... | -13.0% |
| Electricity power generation (Kwh mns) | 3,697 | 4,054 | ... | 9.6% |
| Govt Capital Expenditure (Birr bns) | 27.2 | 22.2 | -18.2% | -38.5% |
| SOE bond borrowing (Birr bns) | 338.5 | 414.3 | 22.4% | 2.0% |

*Source: NBE, Ministry of Revenue, Banks survey data, ECX, JCC, EIC, Ethio Telecom, ELSE, MOTI*

## Monthly or Quarterly Trends:

- Looking at monthly and/or quarterly activity trends since early 2020, many indicators show an improving trajectory, including a pronounced 'V-shaped' recovery in some areas.

**Table 2A: Monthly Tourist Arrival Numbers (March-Dec 2020)**

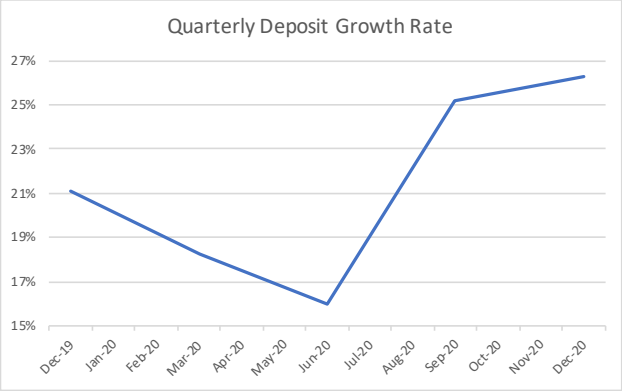



*Source: Tourism Commission*

**Table 2B: Industrial Parks Export($mn)**

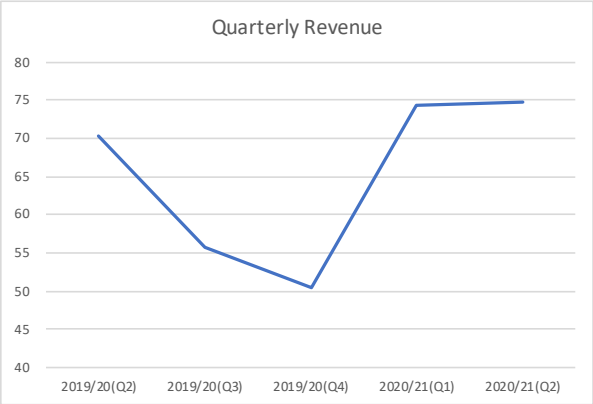

*Source: EIC*

**Table 2C: Quarterly Deposit Growth Rate(%)**



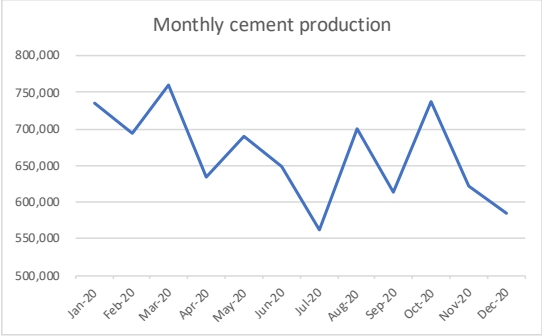

*Source: Banks survey data*

**Table 2D: Quarterly Revenue**



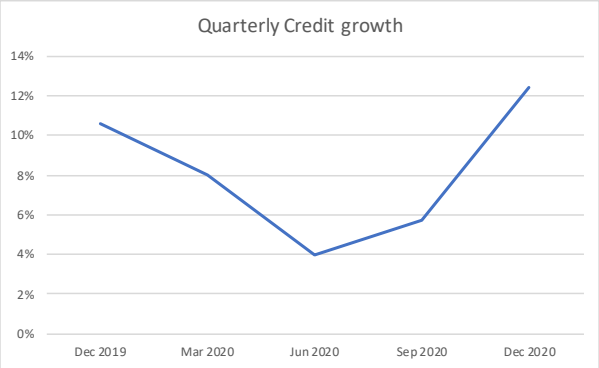

*Source: ERCA*

**Table 2E: Total Monthy Cement Production(Quintals)**



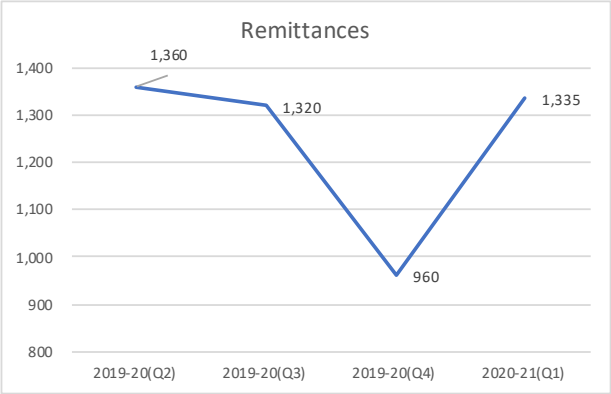

*Source:MOTI*

**2F: Quarterly Credit Growth(%)**



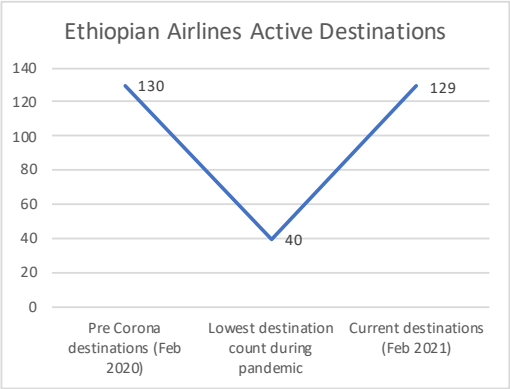

*Source:NBE, Bank's Survey*

**Table 2G: Quarterly Remittances, in mns USD**




*Source: NBE*

**Table 2H: Ethiopian Airlines Active Destinations**




*Source: Ethiopian Airlines and press reports*

## Growth Outlook

- The outlook for this year's crop harvest—one of the most important determinants of Ethiopia's GDP growth rate—is quite mixed due to a range of factors whose net impact is uncertain. We are inclined to expect a crop harvest that will be close to last year's outturn of 33.5mn tons (or 335mn quintals).

**Figure 3: Agricultural Production and Growth**

| Agricultural Production (Mns of tons) | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| **Major Crops** | **29.0** | **30.6** | **31.6** | **33.5** | **33.5** |
| Cereals | 25.4 | 26.8 | 27.8 | 29.7 | 29.5 |
| Maize | 7.9 | 8.4 | 9.5 | 9.6 | ... |
| Teff | 5.0 | 5.3 | 5.4 | 5.7 | ... |
| Sorghum | 4.8 | 5.2 | 5.0 | 5.3 | ... |
| Wheat | 4.5 | 4.6 | 4.8 | 5.3 | ... |
| Pulses | 2.8 | 3.0 | 3.0 | 3.0 | 3.1 |
| Oilseeds | 0.8 | 0.9 | 0.8 | 0.8 | 0.9 |

| Growth Rates--PRODUCTION | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| Major Crops | 8.8% | 5.4% | 3.1% | 6.2% | 0.0% |
| Cereals | 9.8% | 5.5% | 3.7% | 6.9% | -0.4% |
| Pulses | 1.6% | 5.8% | 1.1% | -0.2% | 3.0% |
| Oilseeds | 6.9% | 1.9% | -8.2% | 7.3% | 5.0% |

*Source: CSA's Agricultural Sample Survey Reports for historical data, Cepheus Research for projections*

- On the investment front, we expect that the investment-to-GDP ratio will be similar to last year's outturn, but with a small likely drop in private investment. External savings is also likely to be lower, consistent with a lower current account deficit.

**Figure 4: Investment to GDP Ratios**

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| **Investment to GDP** | **38.4%** | **34.2%** | **35.3%** | **30.8%** | **30.0%** |
| *By Investor type:* | | | | | |
| Public sector Investment-to-GDP | 14.4% | 12.6% | 11.0% | 10.0% | 10.0% |
| Private sector Investment-to-GDP | 24.0% | 21.6% | 24.3% | 20.8% | 20.0% |
| *By financing source:* | | | | | |
| Domestic Savings to GDP ratio | 22.4% | 24.1% | 22.1% | 20.9% | 20.9% |
| External Savings to GDP ratio | 16.0% | 10.1% | 13.2% | 9.9% | 9.1% |

*Source: NBE, NPC; Cepheus Research for projections*

- Our forecast of 4.1 percent GDP growth reflects near-zero growth in agriculture and expectations for moderate growth in industry and services, as covid impacts are gradually fading away and most large sub-sectors are now either fully/mostly re-opened (construction, airlines, public administration, education, health) or gradually recovering (tourism, hospitality).

- For next fiscal year, growth of 7.5 percent is a reasonable projection, in our view, with conditions normalizing for crops and further recovery in industry and services.

**Figure 5: Growth in Recent Years and the Near-term Outlook**

| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|
| | | | | | *Proj* | *Proj* |
| **GDP growth:** | **10.1%** | **7.7%** | **8.0%** | **6.1%** | **4.1%** | **7.5%** |
| **Agriculture** | **6.7%** | **3.5%** | **3.8%** | **4.3%** | **0.0%** | **4.5%** |
| Crops | 8.2% | 4.7% | 3.0% | 4.7% | ... | ... |
| **Industry** | **20.3%** | **12.2%** | **12.0%** | **9.0%** | **9.0%** | **11.2%** |
| Manufacturing | 24.7% | 5.5% | 7.7% | 7.5% | ... | ... |
| Mining | -29.8% | -20.8% | -21.9% | 91.4% | ... | ... |
| Construction | 20.7% | 15.7% | 15.0% | 9.9% | ... | ... |
| **Services** | **7.5%** | **8.8%** | **8.3%** | **5.3%** | **4.0%** | **7.0%** |
| Hotels & Restaurants | 0.1% | 6.5% | 9.0% | 2.2% | ... | ... |
| Transport & Comm | 15.1% | 6.4% | 21.0% | 1.1% | ... | ... |
| Banking Sector | 18.3% | 10.7% | 13.6% | 10.2% | ... | ... |
| Public Admin & Def. | 13.2% | 8.9% | 9.0% | 2.3% | ... | ... |
| Health & Social Work | 7.0% | 8.3% | 14.3% | 12.9% | ... | ... |

*Source: National Planning Commission and NBE; Cepheus Research for projections*

## PRICES AND INFLATION: Recent Developments and Outlook

### Inflation outturns:

- Overall inflation of 19 percent in January 2021 continues to be driven by large price increases for the three largest items in the CPI index: cereal grains (17% weight and 24% inflation), and housing and utilities (17% weight and 12% inflation), and vegetables (12% weight and 23% inflation).

- Specific line-items showing the largest inflation rates include cooking oil (35%), alcoholic beverages (34% due in part to higher excise taxes), cereal grains (24%), vegetables (23%) and miscellaneous food products (26%).

**Figure 6A: Inflation Outturns by key analytical categories -- January 2021**

| | Weight in CPI index | Weights within | Inflation (M-o-M) | Inflation (Y-o-Y) |
|---|---|---|---|---|
| **A. Domestically Produced and Domestically Consumed** | | | | **23.2%** |
| 1 Bread and Cereals | *17.1%* | 47% | 0.8% | 24.0% |
| 2 Alcoholic beverages and tobacco | *4.9%* | 13% | -2.3% | 34.3% |
| 3 Other food products | *5.6%* | 15% | 1.4% | 25.8% |
| 4 Meat | *4.2%* | 12% | 0.6% | 10.8% |
| 5 Milk, Cheese, Eggs | *3.1%* | 9% | 3.4% | 19.0% |
| 6 Sugar, jam, honey and others | *1.4%* | 4% | -0.3% | 11.5% |
| Sub-Total | *36.5%* | 100% | | |
| **B. Domestically produced but also heavily exported** | | | | **24.7%** |
| 7 Vegetables | *12.3%* | 70% | 6.4% | 23.4% |
| 8 Non- alcoholic beverage and coffee | *5.1%* | 29% | -0.6% | 28.8% |
| 9 Fruits | *0.2%* | 1% | 4.0% | 2.1% |
| *Sub-Total* | *17.6%* | *100.0%* | | |
| **C. Import-Heavy Commodities** | | | | **16.3%** |
| 10 Clothing and footwear | *5.7%* | 33% | 1.2% | 10.7% |
| 11 Furnishings, Household Equipment, and others | *4.7%* | 27% | 2.1% | 6.8% |
| 12 Oils and Fats | *4.3%* | 25% | 0.1% | 34.6% |
| 13 Miscellaneous goods | *2.5%* | 15% | 1.4% | 15.0% |
| *Sub-Total* | *17.2%* | *100.0%* | | |
| **D. Services** | | | | **13.7%** |
| 14 Housing, water, electricity, gas, other fuels | *16.8%* | 59% | 2.6% | 11.5% |
| 15 Restaurants and Hotels | *5.3%* | 18% | -0.8% | 16.1% |
| 16 Transport | *2%* | 9% | 2.6% | 22.8% |
| 17 Health | *1%* | 5% | -3.4% | 28.1% |
| 18 Communication | *2%* | 7% | 0.8% | 5.0% |
| 19 Recreation and culture | *0%* | 1% | 0.3% | 11.7% |
| 20 Education | *0%* | 1% | 2.5% | 7.5% |
| *Sub-Total* | *28.7%* | *100.0%* | | |
| ***Overall inflation*** | **100%** | **...** | **1.6%** | **19.2%** |

*Source: CSA and Cepheus Research for categorizations; shaded figures are those items with highest weight in CPI index*

### Prices and Inflation… continued:

- Focusing on this year's persistent sources of inflation—namely cereals, vegetables, and housing & utilities—there is some moderation in the latter category, whose inflation is now 11.5%, but still elevated inflation rates for cereal grains and vegetables.

**Table 6B: Inflation Excluding Certain Large Components**

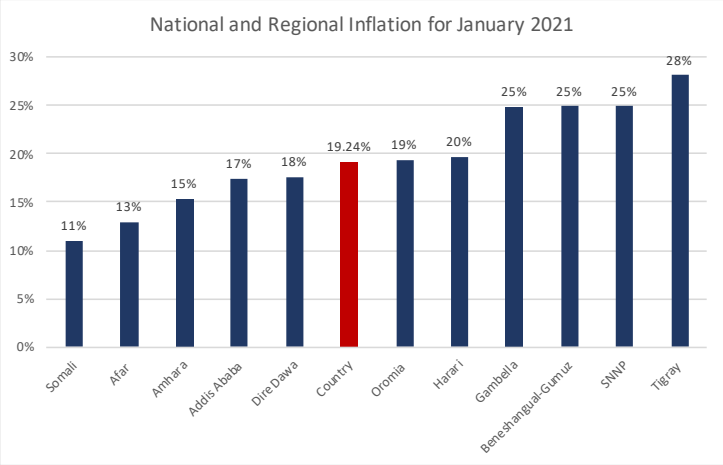
| | | |
|---|---|---|
| **Overall Inflation, End-January 2021** | | **19.2%** |
| Inflation excluding selected items | | |
| Inflation without cereals price increases | | 15.1% |
| Inflation without cereals & vegetable price increases | | 12.3% |
| Inflation without cereals & vegetable & housing/utilities | | 10.3% |
| Memo items: | Weight | Inflation |
| Cereals (including bread) | 17.1% | 24.0% |
| Vegetables | 12.3% | 23.4% |
| Housing and Utilities | 16.8% | 11.5% |

*Source: CSA and Cepheus Research*

**Prices and Inflation… continued:**

- As before, the regional variation in inflation continues to be substantial, with a 17 percentage point gap between the highest and lowest regions. This suggests that transport and logistics constraints continue to heavily affect consumer price levels across regions.

**Figure 6C: National and Regional Year on Year Inflation , January 2021**

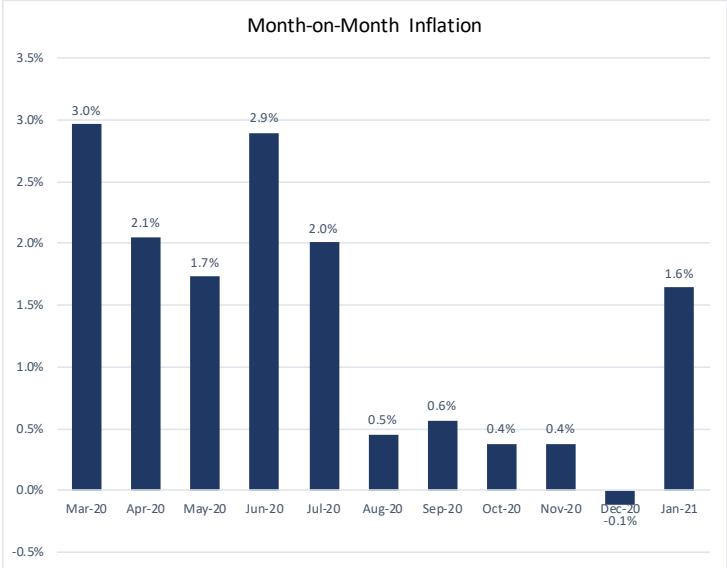



*Source: CSA*

- After five continuous months of very low (even negative) month-on-month price increases, January 2021 surprised with a large 1.6 percent jump in monthly inflation. This is equivalent to 21 percent on an annualized basis if it were to continue at this monthly pace.

- The dominant impact of food price increases is apparent from the 2.1 percent month-on-month increase for food prices versus just a 1.2 percent month-on-month increase for non-food prices.

**Figure 6D: Month-on-Month Inflation: Trend Lines in Recent Months**




*Source: CSA*

**Prices and Inflation… continued:**

- With respect to the outlook for 2021, global prices for key commodities have been rising sharply in recent months—especially fuel, wheat, and sugar—and will thus keep price levels elevated for these imported items. We thus expect a lower disinflation path than previously projected.

- The February-June period of the fiscal year normally shows a median month-on-month inflation rate of 1.25 percent, per CPI data for the past decade. However, prices during those five months rose by a much higher 2.5 percent (m-o-m) average last year, which will provide favorable base effects for year-on-year comparisons this year. Taking this into account, and utilizing average month-on-month price increase that are somewhat above the historical norm (i.e., 1.45 percent), our inflation projections show near 16 percent by March 2021 and 13 percent by June 2021.

**Figure 6E: Inflation Projections to June 2021**

| | Price index | M-o-M inflation | Y-o-Y inflation |
|---|---|---|---|
| *Actuals* | | | |
| January 2020 | 155.1 | 0.7% | 18.7% |
| February 2020 | 159.5 | 2.8% | 21.7% |
| March 2020 | 164.2 | 3.0% | 22.6% |
| April 2020 | 167.6 | 2.1% | 22.9% |
| May 20220 | 170.5 | 1.7% | 19.8% |
| June 2020 | 175.4 | 2.9% | 21.5% |
| July 2020 | 179.0 | 2.0% | 22.3% |
| August 2020 | 179.8 | 0.5% | 20.0% |
| September 2020 | 180.8 | 0.6% | 18.7% |
| October 2020 | 181.5 | 0.4% | 19.3% |
| November 2020 | 182.2 | 0.4% | 19.0% |
| December 2020 | 182.0 | -0.1% | 18.2% |
| January 2021 | 185.0 | 1.6% | 19.2% |
| *Projections* | | | |
| February 2021 | 188.3 | 1.8% | 18.0% |
| March 2021 | 191.3 | 1.6% | 16.5% |
| April 2021 | 194.3 | 1.6% | 15.9% |
| May 2021 | 196.6 | 1.2% | 15.3% |
| June 2021 | 198.9 | 1.2% | 13.4% |

*Source: CSA and Cepheus Research; M-o-M inflation projections guided by recent trends and historical medians*

**MONETARY POLICY: Recent developments and outlook**

**Monetary growth:**

- Reserve money growth has accelerated this past quarter, while broad money growth remains moderate. The spike in reserve money growth may reflect temporary end-year balance effects (linked to the currency conversion that ended in December) and it is not clear if this will still show up in upcoming months.

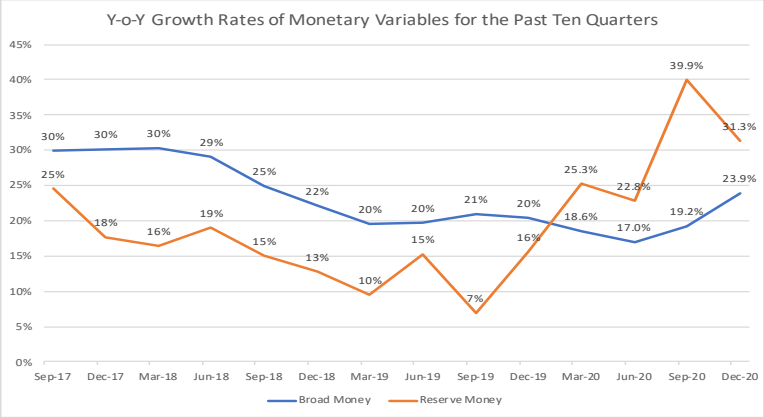
**Figure 7A: Broad Money and Reserve Money (Birr bns)**

| | Dec-19 | Jun-20 | Sep-20 | Dec-20 | Y-o-Y % Change |
|---|---|---|---|---|---|
| **Broad Money** | **950.6** | **1,037.6** | **1,085.0** | **1,177.7** | **23.9%** |
| o/w Domestic credit | 1,041.0 | 1,176.9 | 1,237.2 | 1,301.9 | 25.1% |
| o/w Net foreign assets | (14.6) | (4.7) | (28.1) | (38.6) | 163.7% |
| **Reserve Money** | **197.0** | **246.5** | **261.4** | **258.7** | **31.3%** |
| o/w Currency in circulation | 128.1 | 140.5 | 124.4 | 138.9 | 8.4% |
| o/w Bank deposits at NBE | 69.0 | 106.0 | 136.9 | 119.8 | 73.7% |

*Source: NBE*

- Seen over a three-year time frame, broad money growth continues to grow in line with its annual average growth of near 25 percent, while reserve money growth—at 31 percent—is substantially in excess of its recent norms.

**Figure 7B: Year-on-Year Growth Rates of Key Monetary Variables**




*Source: NBE*

**Loans by Sector:**

- Credit growth over the past year was strongest for domestic trade, export loans, and housing and construction loans.
- By contrast, below-average rates of loan growth are seen for the hotels & tourism and transport sectors.

**Figure 8: Outstanding Bank loans by Sector, excluding loans to Govt (Birr bns)**

*Ranked by sector with highest loan balance*

| | Sector | Sept 2019 | Sept 2020 | % Change | % Total |
|---|---|---|---|---|---|
| 1 | Industry | 194.6 | 229.1 | 18% | 34.7% |
| 2 | Domestic Trade | 68.8 | 96.9 | 41% | 14.7% |
| 3 | Exports | 68.8 | 95.5 | 39% | 14.5% |
| 4 | Housing & Construction | 53.4 | 74.0 | 39% | 11.2% |
| 5 | Personal | 40.1 | 51.6 | 29% | 7.8% |
| 6 | Imports | 37.9 | 49.0 | 29% | 7.4% |
| 7 | Agriculture | 18.7 | 21.1 | 13% | 3.2% |
| 8 | Hotels and Tourism | 13.9 | 17.3 | 24% | 2.6% |
| 9 | Transport & Communication | 12.3 | 12.4 | 1% | 1.9% |
| # | Others | 9.6 | 11.6 | 21% | 1.8% |
| # | Mines, Power & Water Resources | 1.6 | 1.5 | -3% | 0.2% |
| | **TOTAL, excl central government** | **519.6** | **660.0** | **27%** | 100.0% |

*Source: NBE Quarterly Report*

**Bond issuance:**

- Outstanding bond issuance has increased in recent quarters, after stabilizing somewhat in late 2020. The latest stock of outstanding SOE and Regional Government bond issues now stands at Birr 414bn, up 21 percent from year-ago levels.

**Figure 9: Outstanding Bonds Issued as of September 2020**

| | Sep 2018 | Sep 2019 | Jun-20 | Sep 2020 | Y-o-Y % Change |
|---|---|---|---|---|---|
| **Total Bonds Outstanding (Birr bn)** | **293.2** | **341.6** | **405.2** | **414.3** | **21%** |
| **Public Enterprises** | **248.1** | **314.2** | **359.0** | **369.1** | **17%** |
| EEPCO | 216.35 | 271.3 | 302.3 | 305.1 | 12% |
| Railways Corporation | 31.79 | 42.9 | 56.7 | 64.1 | 49% |
| **Regional Government** | **45.1** | **27.4** | **46.2** | **45.1** | **65%** |
| Addis Ababa City Govt | 44.53 | 26.9 | 45.7 | 44.6 | 66% |
| Other Regions | 0.6 | 0.5 | 0.51 | 0.48 | -12% |

*Source: NBE*

## BANKING: Recent developments and outlook

- Deposit levels across both private and public banks have risen significantly, aided in part by the currency conversion that boosted cash deposits and new account openings in late 2020.

- Bank lending also continues to show strong growth (up 39 percent at private banks and 25 percent at CBE) despite expectations that covid impacts would reduce overall loan demand and restrain new bank lending. This reveals the high level of excess demand for credit at banks, even in the midst of some expected drop in demand from covid-affected sectors.

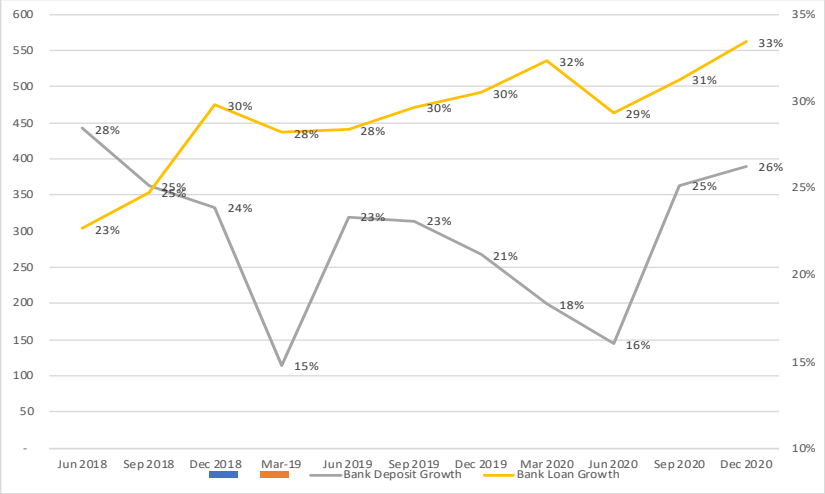
**Figure 10A: Banking Trends (Birr bns)**

| | Dec 2018 | Dec 2019 | Jun 2020 | Dec 2020 | Y-o-Y % Change |
|---|---|---|---|---|---|
| **Bank deposits** | **793** | **960** | **1,043** | **1,213** | **26.3%** |
| CBE | 482 | 560 | 595 | 679 | 21.2% |
| Private Banks | 311 | 401 | 447 | 534 | 33.3% |
| **Bank loans outstanding** | **403** | **525** | **590** | **701** | **33.4%** |
| CBE | 185 | 212 | 243 | 265 | 24.9% |
| Private Banks | 217 | 313 | 347 | 436 | 39.1% |
| **Other indicators--all banks** | | | | | |
| Assets | 1,003 | 1,261 | 1,379 | 1,575 | **24.8%** |
| Paid-up capital | 70 | 77 | 82 | 86 | 12.0% |
| Branches | 5,211 | 5,607 | 5,965 | 6,326 | 12.8% |

*Source: Bank Annual Reports and Bank Survey Data*

- Seen over a multi-year time frame, growth rates for credit are not that far off their recent averages, while deposit growth rates are noticeably above the average range seen in the past two years.

**Figure 10B: Bank Deposit, Loans Levels, and Year-on-Year Growth Rates for the Past Ten Quarters**




*Source: Bank Annual Reports and Bank Survey Data*

## FISCAL POLICY: Recent developments

### Revenue performance

- Revenue performance continues to exceed government targets, with first half figures up 17 percent from year ago levels.

- Despite a strong depreciation, there is limited (4%) growth in trade tax collections, reflecting the sharp drop in overall imports. The 26 percent growth in taxes related to domestic activity suggests expanding domestic economic activity, though one-off gains related to recent tax amnesty measures may be contributing somewhat to this strong performance.

**Figure 11A: Revenue Performance, Birr bns**

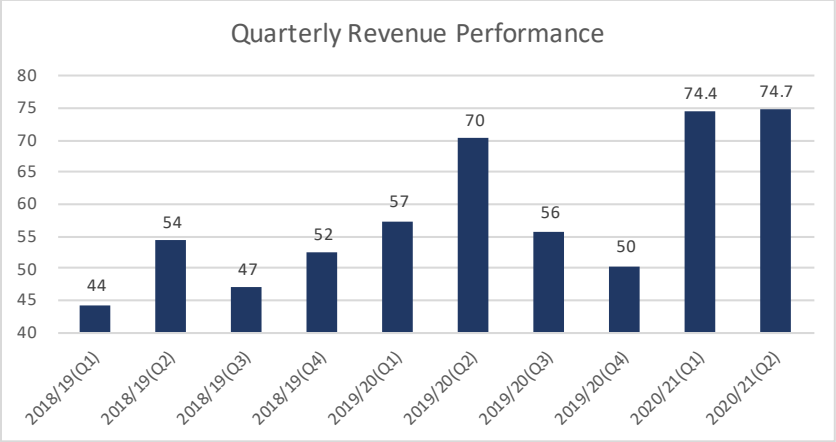
| | FY 2019-20 H1 | FY 2020-21 H1 | % change |
|---|---|---|---|
| **Taxes on domestic activity** | **73.95** | **93.30** | **26.2%** |
| *Direct tax* | … | … | … |
| *Indirect tax* | … | … | … |
| **Trade taxes** | **53.6** | **55.70** | **4.0%** |
| *Customs tarrif and tax* | … | … | … |
| *Non tax revenue* | … | … | … |
| **Lottery Sales** | **…** | 0.13 | … |
| | **…** | | |
| **TAX REVENUE TOTAL:** | **127.50** | **149.1** | **17.0%** |

*Source: Ministry of Revenue, Ministry of Finance*

## FISCAL POLICY: Recent developments

- Viewed on a quarterly basis, Q2 revenue (normally a seasonally high period of collections given October-December business tax payments) is well above post-the COVID lows seen during January to June 2020, but only 7 percent above revenue collections for the same quarter last year.

**Figure 11B: Quarterly Revenue Performance (Birr bns)**




*Source: Ministry of Revenue*

**Budget performance:**

- While only one quarter of budgetary performance data is available (to Sep 2020), the observed quarterly deficit of Birr 9bn is well below the annual budget figure of Birr 126bn.

- Capital spending appears to be showing significant restraint (slow execution), given its 36 percent decline vs last year (though this may also reflect lumpy spending patterns over the quarters).

**Figure 12: Budget Performance, Birr bns**

| | FY 2019-20 First Quarter | FY 2020-21 First Quarter | Percent change |
|---|---|---|---|
| **Total revenue and grants** | **66.0** | **74.4** | **12.8%** |
| Total Revenue | 65.7 | **74.4** | -64.4% |
| Grants | 0.3 | .... | ... |
| **Total Expenditure** | **86.7** | **83.7** | **-3.5%** |
| Current Expenditure | 25.7 | 23.3 | -9.3% |
| Capital Expenditure | 27.2 | 17.5 | -35.6% |
| Regional Transfers | 33.8 | 42.9 | 26.7% |
| **Deficit, Birr bns** | **(20.8)** | **(9.3)** | **-55.3%** |
| **Deficit, Percent of GDP** | **-0.6%** | **-0.2%** | ... |
| **GDP (Birr bns)** | **3,374** | **4,136** | **4,892** |

*Source: NBE Quarterly Bulletin*

**Public debt, in USD terms:**

- Total public sector debt reached $54.6bn as of December 2020, with nearly 55 percent now representing external debt.

- The dollar value of domestic public debt has shrunk slightly as the depreciation of the Birr has reduced the USD value of Birr-denominated debt.

**Figure 13: Public Debt, USD bns**

| | Dec-19 | Jun-20 | Sep-20 | Dec-20 | % of Total |
|---|---|---|---|---|---|
| **Total Public Debt** | **$ 53.4** | **$ 54.9** | **$ 54.7** | **$ 54.6** | **100.0%** |
| **External debt** | **$ 27.7** | **$ 28.7** | **$ 29.0** | **$ 29.7** | **54.4%** |
| Central Government | $ 16.6 | $ 17.8 | $ 18.5 | $ 19.1 | 35.0% |
| State Owned Enterprises | $ 11.1 | $ 10.9 | $ 10.5 | $ 10.6 | 19.4% |
| **Domestic Debt** | **$ 25.7** | **$ 26.2** | **$ 25.7** | **$ 24.9** | **45.6%** |
| Central Government | $ 12.3 | $ 12.4 | $ 12.2 | $ 12.0 | 22.0% |
| State Owned Enterprises | $ 13.4 | $ 13.9 | $ 13.6 | $ 12.9 | 23.6% |

*Source: MoFEC Public Debt Bulletin*

**Public debt, relative to GDP:**

- Expressed relative to GDP, public debt now stands at just 51 percent of GDP (using the Dec 2020 debt value and estimated 2020-21 USD GDP). Even with some new debt accumulation to June 2021, the public debt to GDP ratio is likely to end the fiscal year at around 52 percent of GDP.

**Figure 14: Public Debt, % GDP**

| | Dec 2019 | June 2020 | Sept 2020 | Dec 2020 |
|---|---|---|---|---|
| **Total Public Debt** | **50.0%** | **51.1%** | **51.4%** | **51.3%** |
| **External debt** | **25.9%** | **26.7%** | **27.3%** | **27.9%** |
| Central Government | 15.6% | 16.6% | 17.3% | 18.0% |
| State Owned Enterprises | 10.4% | 10.1% | 9.9% | 10.0% |
| **Domestic Debt** | **24.1%** | **24.4%** | **24.2%** | **23.4%** |
| Central Government | 11.5% | 11.5% | 11.4% | 11.3% |
| State Owned Enterprises | 12.6% | 12.9% | 12.7% | 12.1% |
| *Memo items:* | | | | |
| GDP, Birr bns | 4,136 | 3,374 | 4,136 | 4,136 |
| Exchange rate, year avg | 33.13 | 31.59 | 38.87 | 38.9 |
| GDP, USD bns | $ 106.8 | $ 106.8 | $ 106.4 | $ 106.4 |

*Source: MoFEC Public Debt Bulletin*

## External debt stocks

- External debt has trended up in the last two years, reflecting large loan disbursements following much stronger engagements with the IMF and World Bank.

- Relative to USD GDP, which will be roughly the same in 2020-21 as it was in 2019-20 due to exchange rate effects, the debt ratio has moved upwards slightly from 26 percent of GDP two years ago to near 28 percent of GDP at present.

**Figure 15: External Debt (Public Sector), In USD bns**

| | Dec 2019 | June 2020 | Sept 2020 | Dec 2020 | % of Total |
|---|---|---|---|---|---|
| **Total External Debt of Public Sector, USD bn** | **$ 27.7** | **$ 28.7** | **$ 29.0** | **$ 29.7** | **100.0%** |
| Government | $ 16.6 | $ 17.8 | $ 18.5 | $ 19.1 | 64.3% |
| EAL & Ethio-telecom | $ 7.2 | $ 7.2 | $ 7.1 | $ 7.0 | 23.5% |
| Other State Enterprises | $ 3.8 | $ 3.6 | $ 3.5 | $ 3.6 | 12.2% |
| **Total External Debt of Public Sector, % GDP** | **25.8%** | **26.7%** | **27.3%** | **27.9%** | ... |
| Government | 15.5% | 16.6% | 17.3% | 18.0% | ... |
| EAL & Ethio-telecom | 6.7% | 6.7% | 6.6% | 6.6% | ... |
| Other State Enterprises | 3.6% | 3.4% | 3.3% | 3.4% | ... |
| GDP, USD bns | $ 107.4 | $ 107.4 | $ 106.4 | $ 106.4 | ... |

*Source: MoFEC Public Debt Bulletin*

## External debt service

- Recent data on external debt service show $991mn in total principal and interest payments over the past six months, with most of this reflecting payments by state enterprises to mostly bilateral and private lenders.

**Figure 15B: External Debt Service Payments, July-Dec 2020**

| | USD mns |
|---|---|
| **Annual external debt service dues:** | **$ 991** |
| ***By payment type*** | **$ 991** |
| Interest payments | $ 703 |
| Principal payments | $ 288 |
| ***By debtor*** | **$ 991** |
| Government | $ 143 |
| State Owned Enterprises | $ 848 |
| ***By creditor*** | **$ 991** |
| Multilateral creditors (IMF, WB, etc) | $ 121 |
| Bilateal creditors (incl China) | $ 334 |
| Private lenders (banks/bondholders) | $ 536 |

*Source: MoFEC Public Debt Bulletin; as of December 2020*

## BALANCE OF PAYMENTS (BOP): Recent developments

- First quarter BOP data (July-Sep 2020) show a much improved trade deficit versus the same period last year and also notably better remittance inflows, which are up 17 percent from year-ago levels.

- On an annual basis, the trade deficit is likely to end up at just under $10bn on current trends, and thus below 10 percent of GDP for the first time in more than a decade.

- Reflecting these developments, the current account deficit in the first quarter fell to half its year-ago levels (just $729mn vs $1.4bn)

- In the capital account, first quarter trends show somewhat lower FDI (-10%) and much lower net government borrowing, both of which contributed to reduced total capital account inflows.

- The overall BOP deficit was limited to below $200mn for the quarter, substantially below that of the same period last year.

**Figure 16: Balance of Payment--recent outturns, latest available data**

| Balance of Payments in USD mns | FY 2019-20 Quarter 1 | FY 2020-21 Quarter 1 | Percent change |
|---|---|---|---|
| **Exports** | **723** | **835** | **15%** |
| **Imports** | **3,746** | **3,480** | **-7%** |
| **Trade Balance** | **(3,024)** | **(2,646)** | **-13%** |
| | - | | |
| **Services, net** | **75** | 42 | **-44%** |
| Non-factor services, net | **250** | 172 | **-31%** |
| Exports of non-factor services | 1,308 | 1,079 | **-17%** |
| Imports of non-factor services | (1,058) | 907 | **-186%** |
| Income, net | (175) | (130) | **-26%** |
| O/w Gross official int. payment | 195 | 131 | **-33%** |
| Dividend | - | | |
| **Private transfers, net** | **1,344** | **1,551** | **15%** |
| Remittances | 1,138 | 1,335 | 17% |
| **Current account balance excluding grants** | **(1,605)** | **(1,052)** | **-34%** |
| Official transfers, net | 187 | 324 | 73% |
| **Current account balance including grants** | (1,418) | (729) | -49% |
| | - | | |
| **Capital account** | **550** | **455** | **-17%** |
| Official Long-term Capital, net | 161 | 52 | -68% |
| Disbursements | 276 | 197 | -29% |
| Amortization | 115 | 145 | 26% |
| Other public long-term capital | (287) | (211) | -26% |
| Private sector, long term | 36 | 33 | -8% |
| Foreign Direct Investment, net | 700 | 632 | -10% |
| Short term Capital | (60) | (50) | -16% |
| | - | | |
| **Errors and omissions** | **(3)** | **96** | **-3818%** |
| | - | | |
| **Overall balance** | **(871)** | **(177)** | **-80%** |
| | - | | |
| **Financing** | **871** | **177** | **-80%** |
| | - | | |
| Reserves [ Increase(-), Decrease (+)] | 871 | 177 | -80% |
| Central Bank (NFA) | 758 | 27 | -96% |
| Asset | 818 | (30) | -104% |
| Liabilities | (60) | 57 | -196% |
| Commercial Banks (NFA) | 113 | 150 | 33% |

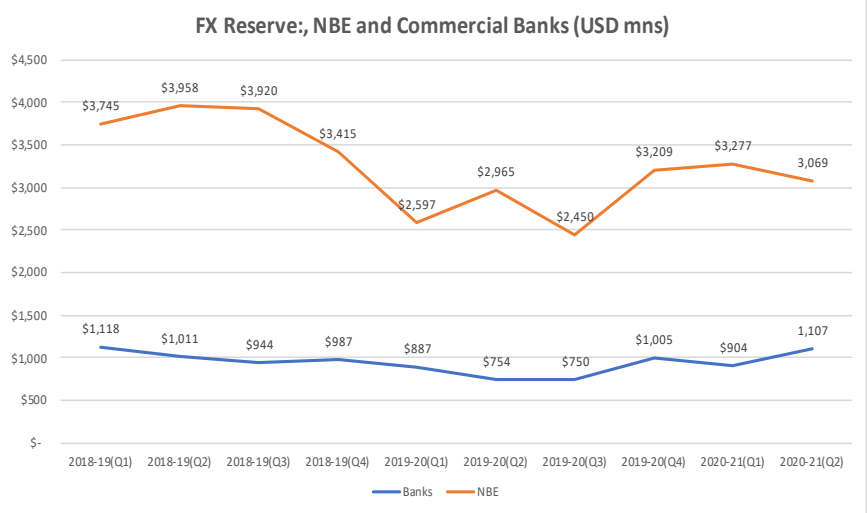
*Source: NBE Quarterly Bulletin*

**FX reserves:**

- The NBE's fx reserves stood at $3,069mn at end-December 2020, a slight decline from the peak of $3,277mn seen in September 2020, but up from the $2,965mn level of a year-ago.

- For commercial banks, their fx reserve holdings have improved notably throughout 2020, rising from $754mn at end-2019 to $1,107mn at end-2020.

**Figure 17: FX Reserve:, NBE and Commercial Banks (USD mns)**




*Source: NBE*

## TRADE PERFORMANCE: Recent developments

**Export performance:**

- Overall export performance continues to register strong growth, thanks mainly to gold.

- Besides gold, other products performing well include oilseeds (recovering from previously poor performance), chat, electricity, and flowers.

- Weak performance is seen for coffee, pulses, textile products, and leather products.

- The underlying export performance so far this year is not as strong as suggested by the headline figures; non-gold exports are down 4 percent versus the same period last year.

**Figure 18A: Export Performance FY 2020-21 H1**

*Ranked by USD levels this year*

| | FY 2019-20 H1 | FY 2020-21 H1 | Percent Change |
|---|---|---|---|
| **Total Exports** | **1,287** | **1,557** | **21.0%** |
| Gold | 14 | 336 | 2380% |
| Coffee | 365 | 306 | -16% |
| Flower | 207 | 213 | 3% |
| Chat | 174 | 188 | 8% |
| Oil Seeds | 107 | 154 | 43% |
| Pulses | 99 | 85 | -14% |
| Textile & Textile Products | 97 | 75 | -23% |
| Electricity | 25 | 42 | 66% |
| Meat & Meat Products | 35 | 32 | -6% |
| Others | 24 | 28 | 20% |
| Fruits & Vegetables | 31 | 28 | -11% |
| Live Animals | 33 | 21 | -36% |
| Leather and Leather Products | 49 | 18 | -63% |
| Electronics | 10 | 13 | 31% |
| Spices | 8 | 7 | -16% |
| Cereals and Flour | 1 | 6 | 542% |
| Chemicals & Construction Inputs | 5 | 2 | -57% |
| Natural Gum | 3 | 2 | -45% |
| Bees Wax | 1 | 1 | -21% |
| **Total Exports excluding gold** | **1,274** | **1,221** | **-4%** |

*Source: MOTI, ERCA*

**Export performance… continued:**

- Ranked by growth rates, and excluding gold as well as various small-value export items, the strongest growing export sub-sectors were electricity (up 66%), oilseeds (up 43%), chat (up 8%), and flowers (up 3%).

- Some major manufactured exports continue to show negative growth trends—including for leather products (down 63%), textiles (down 23%), and meat products (down 6%).

**Figure 18B: Export Performance--Ranked by Growth Rate**

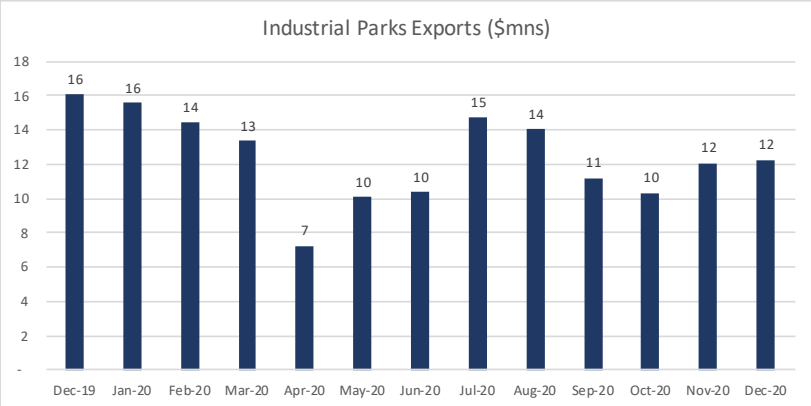
*Ranked by growth rate:*

| | FY 2019-20 Quarter 1 | FY 2020-21 Quarter 1 | Percent change |
|---|---|---|---|
| **Total Exports, USD mns** | **1,287** | **1,557** | **21.0%** |
| Gold | 14 | 336 | 2380% |
| Cereals and Flour | 1 | 6 | 542% |
| Electricity | 25 | 42 | 66% |
| Oil Seeds | 107 | 154 | 43% |
| Electronics | 10 | 13 | 31% |
| Others | 24 | 28 | 20% |
| Chat | 174 | 188 | 8% |
| Flower | 207 | 213 | 3% |
| Meat & Meat Products | 35 | 32 | -6% |
| Fruits & Vegetables | 31 | 28 | -11% |
| Pulses | 99 | 85 | -14% |
| Spices | 8 | 7 | -16% |
| Coffee | 365 | 306 | -16% |
| Bees Wax | 1 | 1 | -21% |
| Textile & Textile Products | 97 | 75 | -23% |
| Live Animals | 33 | 21 | -36% |
| Natural Gum | 3 | 2 | -45% |
| Chemicals & Construction Inputs | 5 | 2 | -57% |
| Leather and Leather Products | 49 | 18 | -63% |

*Source: MOTI, ERCA*

- Trends in industrial park exports show a welcome recovery from the post-COVID lows, but the latest monthly export figures ($12mn in both November and December) remain slightly below pre-COVID monthly exports of between $14mn to $16mn per month.

**Figure 18C: Industrial Parks Exports: Quarterly Trends**




*Source: EIC*

**Import performance:**

- A major drop in imports is being seen across virtually all key categories—including for raw materials (-14%), fuel (-37%), capital goods (-17%), and durable consumer goods (-22%).

- A sharp exchange rate depreciation is the most likely explanation for this across-the-board drop, although some product-specific factors (lower oil prices before their recent spike) are also likely an important contributor.

- Looking ahead, large increases in recent global commodity prices will partly reverse the sharp import decline of the last six months. This explains our projection for a 5 percent drop in imports for the full year (2020-21), versus the 10 percent decline seen so far in the fiscal year. Most notably, global oil prices are up 35 percent from year-ago levels (near $62 per barrel now vs $46 per barrel a year-ago), while food prices (as captured by FAO's food price index) are up 16 percent from year-ago levels and at multi-year highs for many items such as wheat, cooking oil, and sugar.

**Figure 19A: Import Performance**

| | FY 2019-20 H1 | FY 2020-21 H1 | % Change |
|---|---|---|---|
| **Total Imports** | **7,566** | **6,802** | **-10.1%** |
| **Raw Materials** | **86.6** | **74.6** | **-14%** |
| **Semi-finished Goods** | **1,411.8** | **1,085.3** | **-23%** |
| Chemicals | 320.1 | 238.9 | -25% |
| Fertilizers | 31.5 | 34.4 | 9% |
| Textile Materials | 53.1 | 67.2 | 27% |
| Others | 1,007.1 | 744.8 | -26% |
| **Fuel** | **1,232.7** | **782.3** | **-37%** |
| Petroleum Products* | 1,188.2 | 747.0 | -37% |
| Others | 44.4 | 35.3 | -21% |
| **Capital Goods** | **2,330.7** | **1,929.9** | **-17%** |
| Transport | 246.5 | 174.2 | -29% |
| Aircraft | 44.7 | 27.0 | -40% |
| Agricultural | 48.0 | 65.2 | 36% |
| Industrial | 2,036.2 | 1,690.6 | -17% |
| **Consumer Goods** | **2,201.0** | **2,848.2** | **29%** |
| Durables | 527.8 | 410.3 | -22% |
| o/w Car and Other Vehicles | 104.9 | 10.7 | -90% |
| Non-durables | 1,673.2 | 2,437.9 | 46% |
| Cereals | 490.4 | 522.9 | 7% |
| Other Food | 310.9 | 591.1 | 90% |
| Medical & Pharmaceuticals | 315.2 | 314.5 | 0% |
| Textile Fabrics | 221.3 | 285.8 | 29% |
| Others | 335.4 | 723.6 | 116% |
| Miscellaneous | 303.6 | 81.6 | -73% |
| **Non-fuel, non-aircraft imports** | **6,288.95** | **5,992.77** | **-5%** |

*Source: MOTI, ERCA*

- Capital goods imports are also down substantially from year-ago levels across virtually all key categories (except agricultural-related capital goods, which are a small sub-category).

**Figure 19B: Capital Goods Imports by sub-components**

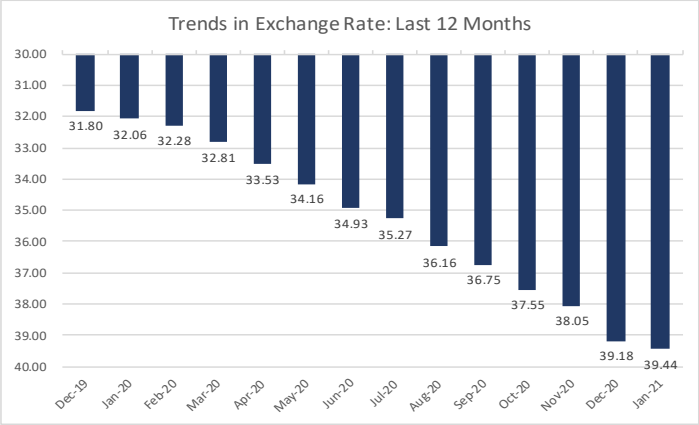
| | FY 2019-20 H1 | FY 2020-21 H1 | Percent change |
|---|---|---|---|
| **Capital Goods Imports** | **2,331** | **1,930** | **-17.2%** |
| *Of which:* | | | |
| Transport capital goods | 247 | 174 | -29% |
| Aircraft imports | 45 | 27 | -40% |
| Non-aircraft transport imports | 202 | 147 | -27% |
| Industrial capital goods | 2,036 | 1,691 | -17% |
| Agricultural capital goods | 48 | 65 | 36% |
| **Capital Goods excl transport** | 2,084 | 1,756 | -16% |

*Source: MOTI, ERCA*

## EXCHANGE RATE: Recent developments and outlook

- After moving at an average rate of 60 cents per month for 2020, the exchange rate has reach Birr 39.44 as of January 2021 versus 32.06 a year-ago

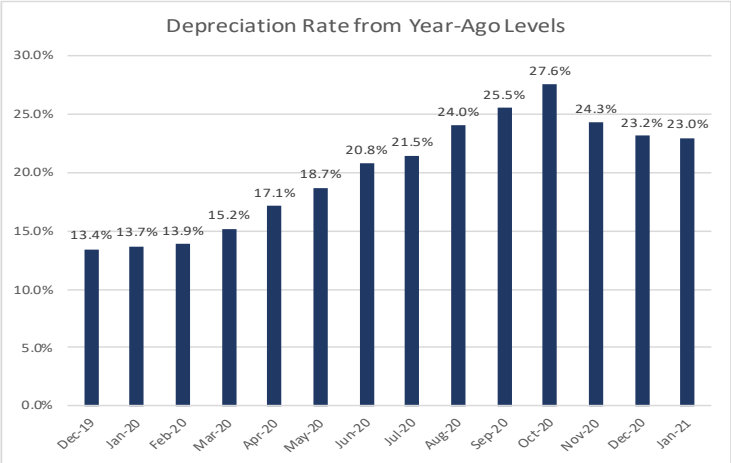
**Figure 23A: Trends in Exchange Rate: Last 12 Months**




*Source: CBE website*

- As expected, the rate of depreciation has moderated in recent months, and is now showing a 23 percent depreciation from year-ago levels versus a 28 percent depreciation in November 2020.

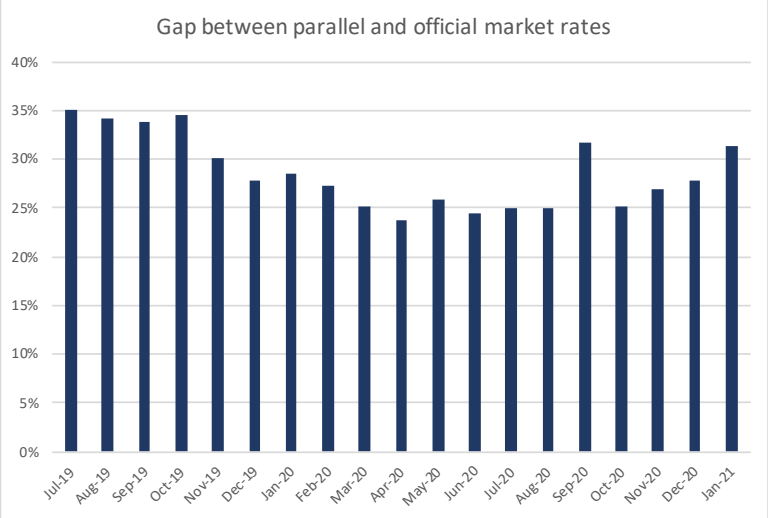
**Figure 23B: Birr Depreciation Rate from year-ago levels (%)**




*Source: CBE, Cepheus Research*

- The gap between the official and parallel market rates had declined somewhat in the second half of 2020 but has reverted back to its average range of between 25-30 percent as of early 2021.

**Figure 23C: Gap between parallel and official market**




*Source: Cepheus Research*

**Exchange rate developments and outlook:**

- For the period ahead, we expect no major change in the fx regime and thus anticipate the central bank to continue using a gradual exchange rate crawl in managing the currency.

- We expect the pace of adjustment this year will be slower given declining inflation and improving balance of payments conditions.

- With the central bank likely to focus on avoiding a real appreciation of the Birr, we expect the Birr will depreciate by at most 15 percent over the course of 2021, compared to a 23 percent drop seen in 2020. This translates into a Birr level of near 42 per USD by June 2020 and near 44 per USD by December 2020.

**Figure 24: Exchange Rate: Forecasts to December 2021**

| Actuals: End Month | Buying Rate: Birr/USD | Monthly Change: In Birr | Depreciation from year ago |
|---|---|---|---|
| December 2019 | 31.80 | 1.19 | 13.4% |
| January 2020 | 32.06 | 0.26 | 13.7% |
| February 2020 | 32.27 | 0.21 | 13.9% |
| March 2020 | 32.81 | 0.54 | 15.2% |
| April 2020 | 33.53 | 0.72 | 17.1% |
| May 2020 | 34.16 | 0.63 | 18.7% |
| June 2020 | 34.93 | 0.76 | 20.8% |
| July 2020 | 35.26 | 0.33 | 21.4% |
| August 2020 | 36.16 | 0.90 | 24.0% |
| September 2020 | 36.75 | 0.59 | 25.5% |
| October 2020 | 37.55 | 0.80 | 27.6% |
| November 2020 | 38.05 | 0.50 | 24.3% |
| December 2020 | 39.18 | 1.13 | 23.2% |
| January 2021 | 39.44 | 0.25 | 23.0% |
| **Projections: End Month** | | | |
| February 2021 | 39.94 | 0.50 | 23.7% |
| March 2021 | 40.44 | 0.50 | 23.2% |
| April 2021 | 40.94 | 0.50 | 22.1% |
| May 2021 | 41.44 | 0.50 | 21.3% |
| June 2021 | 41.94 | 0.50 | 20.1% |
| July 2021 | 42.39 | 0.45 | 20.2% |
| August 2021 | 42.84 | 0.45 | 18.5% |
| September 2021 | 43.29 | 0.45 | 17.8% |
| October 2021 | 43.74 | 0.45 | 16.5% |
| November 2021 | 44.19 | 0.45 | 16.1% |
| December 2021 | 44.64 | 0.45 | 13.9% |

*Source: CBE website for historical data and Cepheus Research for projections*

## Ethiopia: Key Macroeconomic Indicators: FY 2010-11 to FY 2021-22

| | FY 2011/12 | FY 2012/13 | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Actual* | *Actual* | *Actual* | *Actual* | *Actual* | *Actual* | *Actual* | *Actual* | *Actual* | *Projection* | *Projection* |
| **Real Sector: GDP, Prices, and Investment** | | | | | | | | | | | |
| Real GDP growth | 8.7% | 9.9% | 10.3% | 10.4% | 8.0% | 10.2% | 7.7% | 9.0% | 6.1% | 4.1% | 7.5% |
| *Agriculture growth* | *4.9%* | *7.1%* | *5.4%* | *6.4%* | *2.3%* | *6.7%* | *3.5%* | *3.8%* | *4.3%* | *0.0%* | *4.5%* |
| *Industry growth* | *19.7%* | *24.0%* | *17.1%* | *19.9%* | *20.5%* | *20.3%* | *12.2%* | *12.6%* | *9.6%* | *9.0%* | *11.2%* |
| *Services growth* | *9.6%* | *9.0%* | *13.0%* | *11.1%* | *8.6%* | *7.2%* | *8.8%* | *11.0%* | *5.3%* | *4.0%* | *7.0%* |
| Inflation: CPI (end-of-period) | 20.7% | 7.4% | 8.5% | 10.4% | 7.5% | 8.8% | 14.7% | 15.3% | 21.6% | 13.4% | 10.0% |
| Inflation: CPI (period average) | 34.1% | 13.5% | 8.1% | 7.7% | 9.7% | 7.2% | 13.1% | 12.6% | 19.9% | 17.9% | 10.0% |
| Nominal GDP growth | 45.1% | 16.0% | 22.4% | 22.4% | 20.8% | 16.9% | 20.0% | 22.3% | 25.4% | 22.7% | 18.3% |
| Nominal GDP level (Birr billions) | 747.3 | 866.9 | 1,060.8 | 1,298.0 | 1,568.1 | 1,832.8 | 2,200.1 | 2,690.8 | 3,374.3 | 4,141.9 | 4,898.3 |
| Nominal GDP level (USD billions) | $ 43.2 | $ 47.6 | $ 55.5 | $ 64.5 | $ 74.1 | $ 81.6 | $ 83.9 | $ 95.7 | $ 106.8 | $ 106.4 | $ 109.2 |
| GDP per capita (in USD) | $ 516.4 | $ 554.0 | $ 631.1 | $ 715.8 | $ 803.9 | $ 864.6 | $ 869.3 | $ 969.8 | $ 1,059.4 | $ 1,033.2 | $ 1,038.3 |
| Exchange rate (Birr/USD, year-average) | 17.28 | 18.23 | 19.11 | 20.13 | 21.16 | 22.47 | 26.23 | 28.12 | 31.5899 | 38.92 | 44.86 |
| Exchange rate (Birr/USD, end-period) | 17.73 | 18.64 | 19.58 | 20.57 | 21.80 | 23.11 | 27.26 | 28.91 | 34.93 | 41.94 | 47.34 |
| Exchange rate annual depreciation (year-average) | 7.3% | 5.5% | 4.8% | 5.3% | 5.1% | 6.2% | 16.7% | 7.2% | 12.3% | 23.2% | 15.3% |
| Investment-to-GDP ratio | 34.6% | 32.6% | 38.0% | 39.3% | 37.3% | 38.4% | 34.2% | 35.3% | 30.8% | 30.0% | 33.5% |
| *By investor category:* | | | | | | | | | | | |
| Public sector investment-to-GDP ratio | 26.1% | 24.3% | 17.0% | 17.6% | 16.8% | 14.4% | 12.6% | 11.0% | 10.0% | 10.0% | 11.5% |
| Private sector investment-to-GDP ratio | 8.5% | 8.3% | 21.0% | 21.7% | 20.5% | 24.0% | 21.6% | 24.3% | 20.8% | 20.0% | 22.0% |
| *By source of financing:* | | | | | | | | | | | |
| Domestic Savings-to-GDP ratio | 16.5% | 15.9% | 20.5% | 21.8% | 22.4% | 22.4% | 24.1% | 22.1% | 20.9% | 20.9% | 24.0% |
| External Savings-to-GDP ratio | 18.1% | 16.7% | 17.5% | 17.5% | 14.9% | 16.0% | 10.1% | 13.2% | 9.9% | 9.1% | 9.5% |

| **Banking Sector** | FY 2011/12 | FY 2012/13 | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Deposits at all commercial banks (Br bn) | 189.3 | 237.8 | 292.9 | 366.5 | 436.7 | 567.7 | 729.1 | 899.1 | 1,043.0 | 1,303.7 | 1,603.5 |
| Loans by all commercial banks (Br bn) | 85.4 | 116.5 | 145.6 | 189.3 | 232.1 | 289.8 | 355.4 | 456.1 | 590.0 | 767.0 | 984.8 |
| NBE Bills held by all comm banks (Br bn) | 11.0 | 19.1 | 25.1 | 37.4 | 49.9 | 54.6 | 70.1 | 88.8 | 66.6 | 50.0 | 37.5 |
| Treasury Bills held by all comm banks (Br bn) | … | … | … | … | … | … | … | … | 12.0 | 40.0 | 55.0 |
| Bonds held by all commercial banks (Br bn) | 64.5 | 82.8 | 111.8 | 152.7 | 188.7 | 237.8 | 291.4 | 338.6 | 400.2 | 468.3 | 566.6 |
| Total bank financing: Loans/Bills/Bonds (Br bn) | 160.9 | 218.4 | 282.5 | 379.4 | 470.7 | 582.2 | 716.9 | 883.5 | 1,068.8 | 1,325.2 | 1,643.9 |
| Deposit-to-GDP ratio (%) | 25.3% | 27.4% | 27.6% | 28.2% | 27.8% | 31.0% | 33.1% | 33.4% | 30.9% | 31.5% | 32.7% |
| Total bank financing-to-Deposit ratio (%) | 85.0% | 91.8% | 96.5% | 103.5% | 107.8% | 102.5% | 98.3% | 98.3% | 102.5% | 101.7% | 102.5% |
| Total commercial bank financing-to-GDP ratio (%) | 21.5% | 25.2% | 26.6% | 29.2% | 30.0% | 31.8% | 32.6% | 32.8% | 31.3% | 31.0% | 32.4% |
| Annual growth in bank deposits (%) | 32.1% | 25.6% | 23.2% | 25.1% | 19.2% | 30.0% | 28.4% | 23.3% | 16.0% | 25.0% | 23.0% |
| Annual growth in total bank financing (%) | 49.0% | 35.7% | 29.4% | 34.3% | 24.1% | 23.7% | 23.1% | 23.2% | 21.0% | 24.0% | 24.0% |

*Data Sources: NBE, MOFEC, CSA, and IMF; Cepheus Capital Research for projection years.*

## Ethiopia: Key Macroeconomic Indicators: FY 2010-11 to FY 2021-22

| Fiscal Sector | FY 2011/12 | FY 2012/13 | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue and grants (Birr bns) | 115.7 | 137.2 | 158.1 | 199.6 | 243.7 | 269.1 | 287.6 | 344.9 | 276.1 | 350.0 | 400.2 |
| Expenditure (Birr bns) | 124.4 | 153.9 | 185.5 | 230.5 | 272.9 | 329.3 | 354.2 | 413.1 | 364.7 | 476.0 | 542.6 |
| Fiscal balance after grants (Birr bns) | -8.7 | -16.7 | -27.4 | -30.9 | -29.3 | -60.2 | -66.6 | -68.2 | -88.6 | -126.0 | -142.4 |
| Revenue and grants (% GDP) | 15.5% | 15.8% | 14.9% | 15.4% | 15.5% | 14.7% | 13.1% | 12.8% | 8.2% | 8.5% | 8.2% |
| Expenditure (% GDP) | 16.6% | 17.8% | 17.5% | 17.8% | 17.4% | 18.0% | 16.1% | 15.4% | 10.8% | 11.5% | 11.1% |
| Fiscal balance after grants (% GDP) | -1.2% | -1.9% | -2.6% | -2.4% | -1.9% | -3.3% | -3.0% | -2.5% | -2.6% | -3.0% | -2.9% |
| Public Sector Debt (% GDP) | 30.6% | 41.9% | 45.7% | 52.9% | 52.4% | 55.2% | 58.9% | 56.2% | 51.6% | 52.1% | 54.8% |
| External Debt (% GDP) | 20.6% | 23.6% | 25.2% | 29.6% | 29.0% | 28.7% | 30.8% | 28.2% | 27.0% | 27.7% | 28.0% |
| Domestic Debt (% GDP) | 10.1% | 18.3% | 20.5% | 23.3% | 23.4% | 26.5% | 28.1% | 28.0% | 24.5% | 24.4% | 26.8% |

| External Sector: Balance of Payments | FY 2011/12 | FY 2012/13 | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 | FY 2017/18 | FY 2018/19 | FY 2019/20 | FY 2020/21 | FY 2021/22 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Exports of goods (USD mn) | 3,153 | 3,116 | 3,300 | 3,019 | 2,868 | 2,908 | 2,840 | 2,667 | 2,988 | 3,406 | 3,917 |
| Exports of services (USD mns) | 2,811 | 2,853 | 3,174 | 3,028 | 3,196 | 3,331 | 4,220 | 4,949 | 4,664 | 4,898 | 5,240 |
| Imports of goods (USD mn) | (11,018) | (11,461) | (13,712) | (16,458) | (16,725) | (15,803) | (15,253) | (15,112) | (13,881) | (13,187) | (14,110) |
| Imports of services (USD mns) | (2,639) | (2,281) | (2,461) | (3,107) | (3,442) | (3,393) | (3,983) | (4,910) | (4,245) | (4,521) | (4,973) |
| Remittances (USD mn) | 2,260 | 2,489 | 2,968 | 3,797 | 4,420 | 4,428 | 5,121 | 5,693 | 4,722 | 5,104 | 5,359 |
| Private transfers (USD mn) | 986 | 1,086 | 1,071 | 1,085 | 2,008 | 1,058 | 953 | 683 | 904 | 850 | 850 |
| Foreign official grants (USD mn) | 1,788 | 1,530 | 1,461 | 1,508 | 1,391 | 1,428 | 1,226 | 2,087 | 1,488 | 1,100 | 1,100 |
| Current account balance (USD mn) | (2,755) | (2,781) | (4,352) | (7,401) | (6,657) | (6,528) | (5,253) | (4,534) | (3,969) | (3,068) | (3,474) |
| Current account balance (% GDP) | -6.4% | -5.8% | -7.8% | -11.5% | -9.0% | -8.0% | -6.3% | -4.7% | -3.7% | -2.9% | -3.2% |
| Foreign direct investment (USD mn) | 1,072 | 1,232 | 1,467 | 2,202 | 3,269 | 4,171 | 3,723 | 3,015 | 2,419 | 3,400 | 3,800 |
| Foreign borrowing, net: GOVT (USD mn) | 938 | 1,270 | 2,309 | 3,352 | 1,628 | 1,402 | 1,632 | 1,158 | 1,947 | 1,188 | 1,500 |
| Foreign borrowing, net: SOEs (USD mn) | 231 | 882 | 332 | 2,347 | 1,052 | 626 | 937 | 1,326 | (234) | (592) | (400) |
| Overall External Balance (USD mn) | (973) | (7) | (97) | (521) | (831) | 659 | (201) | 58 | (730) | 1,128 | 1,626 |
| Stock of Foreign Reserves, (USD mn) | 2,262 | 2,368 | 2,496 | 3,249 | 3,402 | 3,197 | 2,843 | 3,415 | 3,209 | 4,337 | 5,963 |
| Stock of Foreign Reserves, months imports | 2.5 | 2.5 | 2.2 | 2.4 | 2.4 | 2.4 | 2.2 | 2.7 | 2.8 | 3.9 | 5.1 |
| External Debt Stock (Public Sector, USD bn) | 8.9 | 11.2 | 14.0 | 19.1 | 21.5 | 23.4 | 25.8 | 27.0 | 28.9 | 29.5 | 30.6 |
| External Debt Stock (Public Sector, % GDP) | 20.6% | 23.6% | 25.2% | 29.6% | 29.0% | 28.7% | 30.8% | 28.2% | 27.0% | 27.7% | 28.0% |
| Growth of Goods Exports | 14.8% | -1.2% | 5.9% | -8.5% | -5.0% | 1.4% | -2.3% | -6.1% | 12.0% | 14.0% | 15.0% |
| Growth of Goods Imports | 33.5% | 4.0% | 19.6% | 20.0% | 1.6% | -5.5% | -3.5% | -0.9% | -8.1% | -5.0% | 7.0% |

*Data Sources: NBE, MOFEC, CSA, and IMF; Cepheus Capital Research for projection years.*

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# Economic and Business News
# Fourth Quarter 2020:
# October 1 – December 31, 2020

*The compilation of economic and business news reports for the fourth quarter of 2020 is available through the links below as well as on our website at: https://cepheuscapital.com/insights/*