Ethiopia
Macroeconomic Handbook 2023

CEPHEUS
RESEARCH & ANALYTICS

Macroeconomic Handbook 2023

Macro Research Ethiopia

The Ethiopian economy stands at a critical juncture at the start of 2023, following two years of conflict that brought immense humanitarian, social, and material losses. In the face of major economic challenges, whether macro policies in the coming year take a mostly 'status quo approach' or instead follow a series of 'breakthrough policies' is a key unknown for the period ahead. To assess which of these divergent paths may lie ahead, we first take stock of Ethiopia's latest macroeconomic indicators and conditions. We then lay out two potential macro scenarios involving either 'status quo policies' or 'breakthrough policies' and chart out how each scenario could unfold alongside the attendant implications for growth, inflation, budgets, banking, and foreign exchange conditions in the two cases. Reflecting some recent policy signals, changes in central bank leadership, and an admittedly optimistic bias, we think that a 'breakthrough year' (involving a reversal of emergency conflict-related macro measures, a revival of reforms, and a re-engagement with external partners) is more likely than the alternative, and offer accordingly our projections for the real, fiscal, monetary, and external sectors under this presumed scenario.

CEPHEUS
RESEARCH & ANALYTICS

January 31, 2023

research@cepheuscapital.com

Macroeconomic Conditions at the Start of 2023: An Overview after Two Years of Conflict

1. **Growth:** A slowdown overall but understandable given global and conflict conditions
2. **Investment:** Down sharply from 35% to 25% of GDP due to cutbacks in both the public and private sectors
3. **Inflation:** Still high, broad-based, and persistent—with policy sources arguably now more significant
4. **Deficits and debt:** Both under control for now, but there is a growing dependence on domestic lenders
5. **Monetary policy:** Helping to cover the budget deficit but at a cost of crowding out private credit
6. **Banking sector:** Another year of strong performance, but mostly in nominal not in real terms
7. **Balance of payments and foreign exchange:** A $2bn deficit has sharply reduced foreign exchange reserves

Macro Prospects and Outlook: Two divergent paths possible

8. **A thematic overview and implications for the outlook:** A macro stocktaking suggests four key priorities
9. **A 'status quo policies' scenario:** Such a prospect cannot be ruled out but is not our central expectation
10. **A 'breakthrough policies' scenario:** This seems more likely than the alternative, and guides our 2023-24 forecasts

EXECUTIVE SUMMARY

Recent developments

1. Growth: A slowdown overall but understandable given global and conflict conditions

- **Three years of 6 percent growth**: GDP growth for the fiscal year ending in June 2022 ended up at 6.4 percent per Government statistics, nearly identical to the two prior year figures of 6.1% and 6.3%, but a drop from the previous five-year average of 9 percent. Growth was strongest in services (up 7.6% reflecting expansion in government spending and a post-COVID recovery in transport, hotels, and tourism), followed by agriculture, where favourable rains in most food-growing regions and multiple initiatives to expand hectares cultivated for wheat and other grains appear to have driven the reported 6.1% expansion. Growth was slowest in industry, reflecting bottlenecks in the dominant construction sector, which grew by only 5 percent (versus past growth rates of above 20%) due to dysfunctional markets for cement and other inputs; the manufacturing sub-sector saw similarly minimal growth on account of forex constraints and ease-of-doing-business related challenges.
- **Non-GDP indicators of economic activity broadly mirror the GDP statistics**: For 2021-22, high-frequency data showed strong growth in the trade and service sectors (exports, tourism, remittances and telecom activity) but mostly negative trends for industry sector proxies such as electricity production and capital goods imports.
- **Latest six months data show strength in services and agriculture, but weakness in exports and industry**: Looking at the July to December 2022 period, for which GDP data is not available, signs of weakness are most notable in exports (down 7 percent after three years of positive growth), in industrial park output (-26%), and in cement production (-23%). Growth is still being registered in many service sector indicators and this also appears to be the case in the dominant agricultural sector (based on reported hectares under cultivation, on-going wheat farming initiatives, and data on fertilizer import volumes).

2. Investment: Down sharply from 35% to 25% of GDP due to cutbacks in both the public and private sectors

- **Large drop in investment rate**: New investment spending has fallen sharply to 25% of GDP in FY 2022 from 28% the prior year, 35% as recently as three years ago, and a past ten-year average of 35% of GDP.
- **Public investment has dropped more than private investment:** The Government's capital spending budget has shrunk from 6% to 2% of GDP in recent years due to conflict-related and other spending priorities, while investment by state enterprises has also fallen as their scope for borrowing (especially of non-concessional debt) has been cut back due to deliberate policies to limit overall debt accumulation. Taken together, we estimate that public sector investment outlays more than halved from near 10% to 4% of GDP. Private foreign investment as well as private domestic investment declined moderately (relative to GDP) or remained broadly unchanged.
- **If not reversed, lower investment rates will soon bring lower growth rates:** Ethiopia's record growth rates of 8%-10% growth in the five years to 2019 coincided with average investment rates of near 36% of GDP; a drop in investment rates towards the mid-20s or below (in percent of GDP) would imply long-term growth remaining at rates of just 5-6 percent assuming similar capital formation-to-output ratios from recent norms.

3. Inflation: Still high, broad-based, and persistent—with policy sources arguably now more significant

- **A key macro challenge**: Ethiopia's inflation rate averaged 34% during 2022, having previously averaged an already high 27% throughout 2021. The latest reading for December 2022 shows year-on-year inflation at 33.8% (a slight improvement from the May 2022 peak of 37.2%), while month-on-month price increases—which better capture latest trends—are also moving in a positive direction, averaging just 1.1% in Q4 of 2022 versus 3.1% and 2.8% in Q2 and Q3 respectively. The average monthly price increase seen in the final quarter of 2022 is now equivalent to just 14% when expressed at an annualized rate, implying a positive outlook if the recent trend were to continue. However, such drops in (month-on-month) inflation have often turned out to be short-lived over the past two years and it is not clear yet if there is a decisive downward shift in inflation rates.

- **Food inflation is moderating, non-food inflation is worsening:** Non-food prices (up 35% y-o-y) are becoming dominant contributors to overall inflation, with large price jumps seen for fuel, transport, alcoholic beverages, furnishings, and housing. By contrast, food inflation has declined by 10 percentage points since early 2022 (33% now vs 44% then) and showed negative month-on-month inflation rates for two of the past three months following the recent *kiremt* harvests. Food prices are yet to show any *level* declines, however, despite the fact that global food price measures (such as the FAO food price index) are now around 20% below their 2022 peaks.
- **Services inflation vs imported inflation:** Domestically offered services are showing lower inflation rates (of near 27%), presumably reflecting more elastic local supplies and competitive conditions in this space. By contrast, mostly imported commodities are showing 50% y-o-y inflation, which is similar to the percentage change in the parallel exchange rate (and suggests many consumer goods are actually being secured in that market).
- **Policy sources of inflation:** Administrative measures such as recent fuel price increases, excise/tariff adjustments, and import bans on selected consumer goods appear to be having a greater role in recent monthly inflation, and likely explain why non-food inflation has now exceeded food inflation over the past three months. Fiscal and monetary policies, already quite expansionary for most of FY 2021-22, have become even more so over the last six months (judging by M2 growth and use of central bank advances—see below) and inflation is thus unlikely to decline meaningfully unless this loose policy stance is restrained somewhat in the period ahead.

4. Deficits and Debt: Both under control for now, but there is a growing dependence on domestic lenders

- **Deficits have widened but not dramatically so**: At close to 4 percent of GDP for both the current and last fiscal years, budget deficits have risen slightly from previous norms of near 3% of GDP. Still, the fact that the deficits were not even higher—despite COVID, global shocks, and conflict—is a positive sign of fiscal control.
- **Debt ratios are falling and debt composition changing**: As of September 2022, public debt stood at $57bn (45% of FY 22 GDP) with the external component at just $27bn or 21% of FY22 GDP. Domestic debt now makes up over half of total public debt, reflecting recent drops in external borrowing and the shift to domestic lenders.
- **Debt servicing remains a burden, though mostly on external debt**: Annual external debt service payments of $2.1bn were paid in the last fiscal year, and such dues continued to be paid till end-2022. Most of this $2.1bn in annual foreign loan repayments reflect state enterprise debt, and are thus not obligations covered by budgetary outlays, but their fx needs still means a large drain on fx reserves. The lack of progress in the IMF/G-20 'Common Framework' initiative has meant there has been no relief yet on any of these external debt service obligations.
- **Latest fiscal trends**: Revenue collections are up strongly so far this fiscal year, with Birr 226bn in collections in the six months to December 2022, or an increase of 32% from the same period last year. This performance is only just managing to keep up with inflation, however, and together with high spending plans (of Birr 787bn) and low chances of much grants and loans for the current fiscal year, the deficit is likely to reach close to the Birr 300bn anticipated in the budget (~4% of GDP and virtually all of which is to be financed domestically).

5. Monetary policy: Helping to cover the budget deficit but at a cost of crowding out private credit

- **Fiscal deficit is driving monetary policy:** Given large deficit financing needs, around two-thirds of net new credit provided by the financial system in 2021-22 was directed to the public sector last fiscal year (Birr 290bn of Birr 449bn), of which net new credit to the government alone was Birr 208bn (3.4% of GDP); the most recent quarter (ending Sep 2022) for which data is available shows 70% of new credit is being absorbed by the public sector.
- **A spike in central bank lending to Government**: A large share of credit flowing to the government is now coming from direct central bank advances (which contributes directly to money creation) rather than from local lenders such as commercial banks and pension funds. Central bank advances now make up a quarter of the Government's outstanding domestic debt stock (Birr 220bn out of Birr 926bn) as of September 2022 though this source of financing had almost been eliminated just two years ago (then only Birr 31bn or 7% of the domestic debt stock).

- **Crowding out of the private sector**: Growth in credit to the private sector was only 23 percent y-o-y in September 2022, per our estimates, or below the rate of inflation and a decline relative to GDP.

6. **Banking**: **Another year of strong performance, but mostly in nominal not in real terms**

- **Strong headline numbers:** Banks showed 25% growth in deposits, 30% growth in loans, and 43% growth in profits for FY 2021-22. Data for end-2022 show even stronger growth rates so far this fiscal year.
- **Lending spreads of 9 percent and high fx fees continue to propel profits**: Profits rose from Birr40bn to Birr57bn at all banks (and from Birr 20bn to 30bn at private banks). The combined profit pool is now $1.2bn in USD terms.
- **EPS returns have turned negative in real terms:** Average earnings per share were 31 percent at private banks last year, exactly in line with the prior five-year average. However, once accounting for inflation, real EPS returns have fallen to -2%, or the first such negative real return since the start of private banking.
- **Disruption ahead**: The sector continues to be in the midst of a rapidly changing market environment marked by a shifting regulatory framework (with periodic changes to policies governing cash transactions, fx surrender rules, credit allocations), large numbers of new banks, new types of service providers, and the very near-term prospect of intensifying competition from fintech firms, telecom companies, foreign banks, and capital markets.

7. **BOP and foreign exchange position: A $2bn deficit has sharply reduced foreign exchange reserves**

- **A large BOP deficit has reduced reserves**: Despite pockets of good performance seen within the BOP last year (for exports, service income, and FDI), a $4bn jump in imports plus a drop in grants and loans contributed to a $2bn BOP deficit in FY 2021-22. This deficit was covered by drawing down $1.4bn of central bank reserves and another $0.5bn of commercial banks' reserves. Following these drawdowns, fx reserves at the central bank stood at $1.5bn as of June 2022 (latest reported period) while fx assets at commercial banks were $1.2 bn.

- **Latest BOP trends**: The BOP continued to be under pressure in the last six months of 2022. While import growth has slowed sharply in recent months (to just 8% y-o-y growth), export growth has turned negative, grants and loans remain low, and debt service remains a major drain on fx reserves. Accordingly, we estimate fx reserves have fallen slightly over the last six months and are likely in the range of $1.2bn to $1.5bn as of end-2022.

- **Stable official rate but falling parallel rate**: The large BOP deficit and related tightening of fx supplies has resulted in a sharp fall in the parallel market rate, which stood at close to 100 Birr/USD at end-2022 versus an official rate of near 53 Birr/USD. Over the course of 2022, the Birr depreciated by only 8% year-on-year in the official market (from 49.2 to 53.3) but fell by 50% (from 64 to 96) in the parallel market. The spread between these two rates is now at its highest in years and a major indication of an unrealistic official exchange rate.

Future Prospects and Outlook

8. **A Thematic Overview and Implications for the Outlook**: **A macro stocktaking suggests to four key priorities**

- **Stocktaking after two years of conflict**: A stocktaking of the recent policy record shows that, despite pockets of continued reform, macro policies have moved backwards in multiple areas due to emergency conflict-related measures. On macro outturns, the overall scorecard has been a mix of 'the good, the bad, and the unknown'—with severe setbacks clearly seen in many areas (inflation, investment, industry, foreign financing, fx reserves) but also signs of resilience in some economic sub-segments (agriculture, service exports, tourism, banking).
- **Priorities Ahead:** Considering current economic conditions and judging from the messages coming out since the end of the conflict, the primary focus areas of policymakers for the year ahead are bound to be on: (1) large reconstruction spending; (2) reviving growth and investment; (3) reducing inflation and (4) resolving foreign exchange constraints and distortions.

- **Policy paths:** Given the priorities above, a key question is whether policymakers will adopt a largely 'status quo' approach or instead follow a series of 'breakthrough policies' for the year ahead. In our judgement, the former approach risks providing only a partial and temporary relief to macroeconomic pressures, while the latter approach promises to more comprehensively address the many daunting challenges ahead.

9. **A 'status quo policies' scenario: Such a prospect cannot be ruled out but is not our central expectation.**

- **A 'status quo' set of policies**: The prospect of a 'status quo' approach cannot be ruled out given many internal and external circumstances that could constrain policy choices and execution in the period ahead. In particular, a lack of further progress on the domestic political, security, or governance front and/or geo-political factors could all hold back government's ability to plan, execute, and deliver as intended on its policy reform agenda.
- **'Muddling-through':** With a largely 'status quo approach' it is likely there will be limited reversals of emergency macro measures, limited structural/sector reforms, and limited re-engagement with external partners. Under this state of affairs, the probabilities are high that investment remains at its subdued levels, that the industrial sector continues to face many stresses (fx, credit, ease of doing business constraints), that foreign investment eventually wanes, and that funds for reconstruction and rebuilding fall far short of expectations. Macro outturns can only be expected to reflect these weak supportive conditions and would thus exhibit reduced growth, high inflation, persistently large fiscal/BOP deficits, and ultimately a 'vicious cycle' of poor performance.

10. **A 'breakthrough policies' scenario: This seems more likely than the alternative, and guides our 2023-24 forecasts**

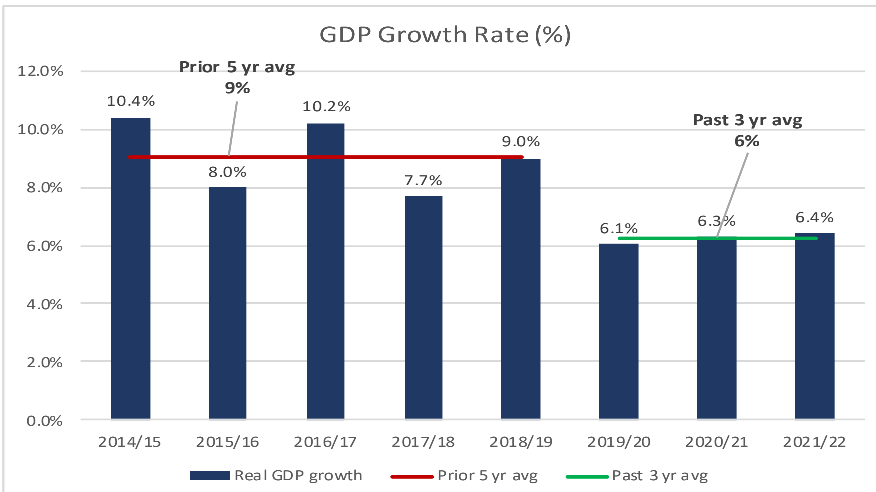
- **Possibly a distinct break from past policies**: In our view, current economic conditions provide strong grounds for embarking on a set of 'breakthrough' policies this year, especially as policymakers re-focus policy attention towards the economy and considering the need to ensure reconstruction funding, increase overall investment, reduce inflation, and boost fx resources. Upcoming revisions in the Homegrown Economic Reform Plan, statements of intention to resume an IMF program for macro policy support, and new leadership at the central bank all suggest that a move towards such 'breakthrough' policies is a realistic prospect for 2023—though the scope, speed, and execution of such policies of course remains uncertain.
- **'Reverse, Restart, Re-engage'**: Conditional on a deep and comprehensive reform approach being taken, it will be indispensable—in our view—for actual policy implementation to focus on three urgent and near-term priorities: (1) *reversing* adverse and emergency macro policies put in place in the context of a war-time economy (high fx surrender rules, reliance on central bank advances, mandatory bond-buying requirements, etc); (2) r*estarting* delayed or discontinued macro/structural/sector reforms (especially in the ease-of doing-business domain and in the monetary and foreign exchange regime); and (3) *re-engaging* deeply with external partners (defined broadly to include donors, lenders, foreign investors, and trading partners).
- **Brighter outlook with 'breakthrough policies'**: Our baseline macro forecast for 2023 assumes that the near-term reforms anticipated above (reversing emergency macro policies and re-engaging with external partners) would take place only gradually in the first half 2023, thus yielding limited immediate payoffs for macro conditions and outcomes in the 2022-23 fiscal year. However, as these changes are more firmly in place by the start of the upcoming fiscal year, and as longer-term structural/sector reforms also begin to kick in, a more conducive set of conditions should be in place to boost investment, raise growth, and reduce fiscal/BOP deficits. Accordingly, for the coming two-year period, we find it reasonable to expect: growth reverting to its past norms of 8-10 percent as investment rates return to 30% of GDP; an initial spike in inflation (due to presumed exchange rate reforms) followed by a gradual drop thereafter; a modest tightening of monetary conditions as some of the recent excesses in credit to government are reversed to allow for growth in private sector credit; and an improvement in foreign exchange supplies on account of better global conditions, gradually rising donor flows, a re-engagement with international financial institutions, and an official exchange rate that is meaningfully more depreciated than its current levels and allowed to move in line with its market-determined levels.

SECTION 1: Growth and Recent Economic Activity

- **GDP growth for the fiscal year ending in June 2022 ended up at 6.4 percent per Government statistics, nearly identical to the prior year figures of 6.1% and 6.3%, but a drop from the previous five-year average of 9 percent.**

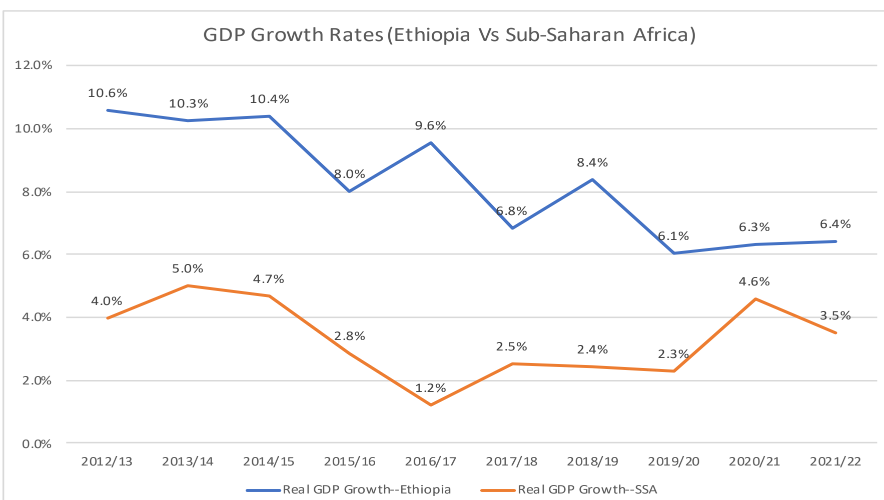
- **Growth remains well above African averages, though the gap has been shrinking in recent years with the level drop in Ethiopia's growth.**

Figure 1.1: Growth Rates in Real GDP (%)



Source: MoPD

Figure 1.2: Real GDP Growth Rates--Ethiopia versus Sub-Saharan Africa



Source: MoPD, WB, IMF

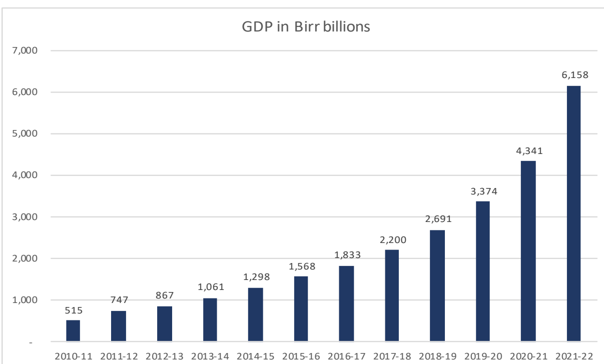
Growth and Recent Economic Activity, part 2

- **Ethiopia's nominal GDP crossed Birr 6 trillion last year, marking a more than 2x increase in the past three years and 8x increase in the last 10 years. Nominal GDP growth has averaged 26 percent per year over the past decade, with 8% per year on average representing real growth while the remainder (~70% of average nominal GDP growth) reflecting a level increase in prices.**

- **Reflecting net income from the rest of the world, the country's net disposable income is about six percent higher than reported GDP, or Birr 6.5 trillion.**

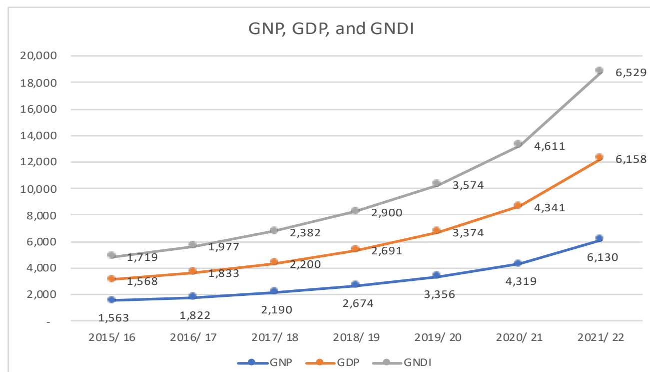
- **At the official exchange rate, Ethiopia's dollar GDP has reached $126bn as of last year, though a conversion at the parallel market rate would imply a reduced US dollar GDP.**

Figure 1.3: GDP in Birr bns



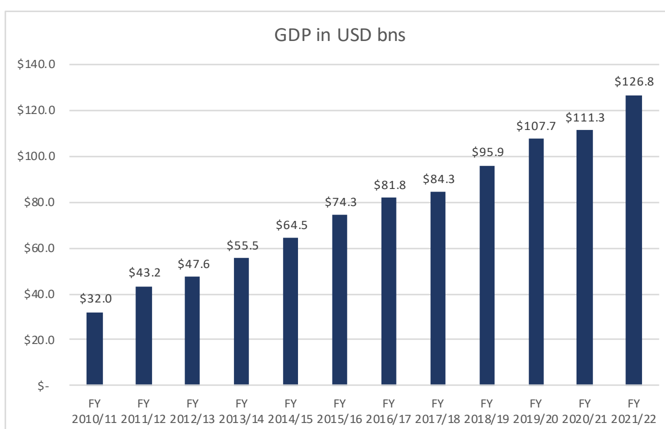
Source: MoPD

Figure 1.4: GNP, GDP, GNDI



Source: MoPD

Figure 1.5: GDP in USD bns



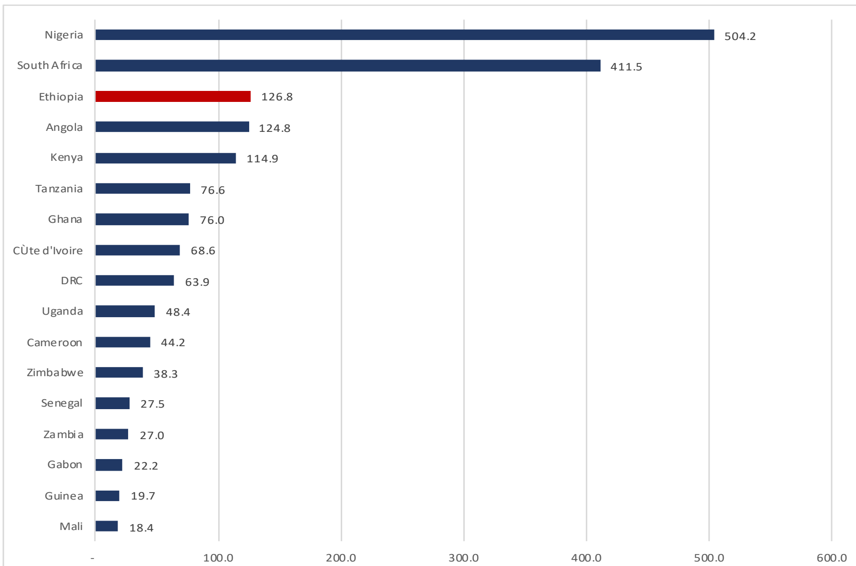
Source: MoPD

Growth and Recent Economic Activity, part 3

- **Within Sub-Saharan Africa, Ethiopia's USD GDP now stands at third place, significantly behind South Africa and Nigeria (with near $400bn and $500bn GDP levels respectively), but close to those of Kenya and Angola.**

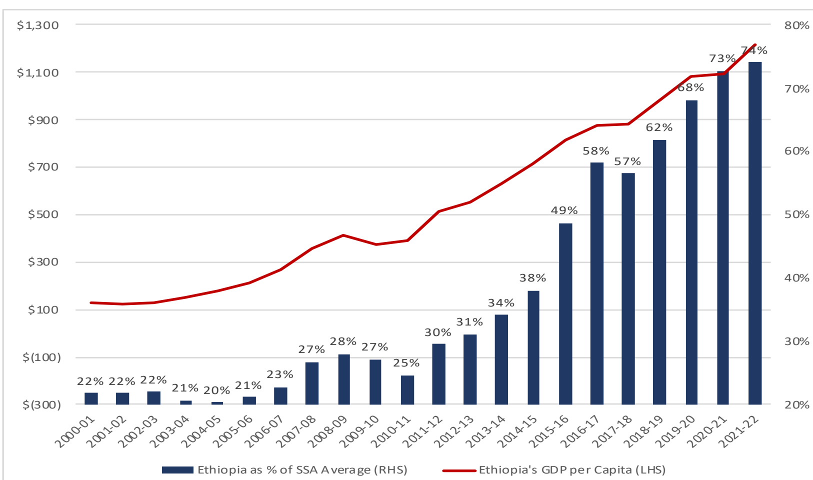
- **Seen over a twenty year perspective, and reflecting faster growth relative to most of the continent, Ethiopia's GDP per capita—which now stands at $1,210 at the official exchange rate—has risen to 74 percent of the SSA average from just 22 percent at the start of the millennium.**

Figure 1.6: Sub-Saharan African Countries, By USD GDP, bns



Source: MoPD for Ethiopia, IMF October 2022 WEO for other countries

Figure 1.7: Ethiopia per capita GDP (USD) and Share of SSA average(%)



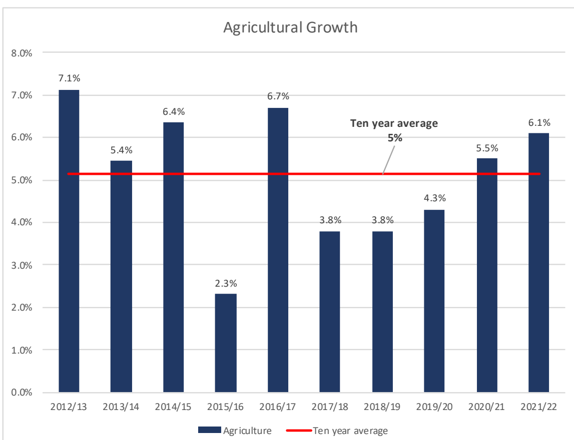
Source: MoPD for Ethiopia, IMF October 2022 WEO for other countries

Growth and Recent Economic Activity, part 4

- **Looking at sector growth rates, recent growth is noticeably below the long term average for both industry and services but above trend for the agricultural sector. The sharp decline in industry growth reflects slowing growth in the construction sector, which is in turn a feature of declining government/SOE capital expenditure and dysfunctional markets for key inputs such as cement. Similarly weak growth in the manufacturing sector reflects forex constraints and ease-of doing-business related challenges.**

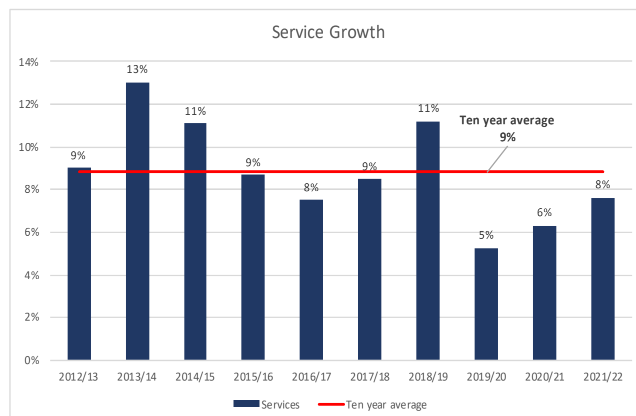
- **Agriculture growth, by contrast, appears to be well above trend per official data and has been on a rising trajectory over the past five years. This could be explained by what have been favourable rains in most parts of the country in recent years as well as multiple government initiatives in cluster farming, mechanization, fruits/vegetable farming, and low-land, irrigation-based wheat cultivation.**

Figure 1.8: Agricultural Growth (%)



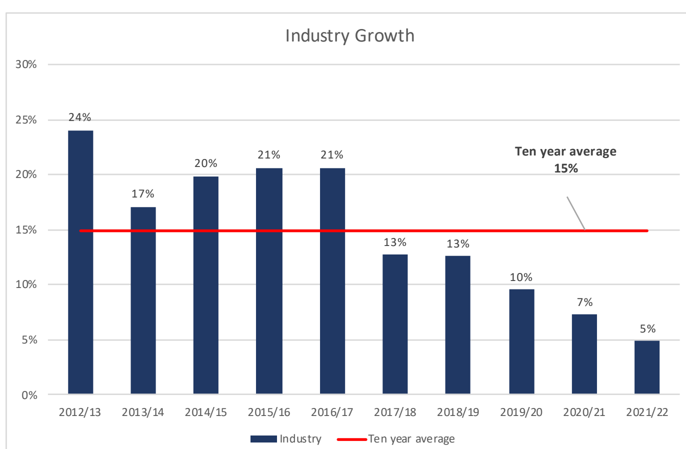
Source: MoPD

Figure 1.9: Service Growth (%)



Source: MoPD

Figure 1.10: Industry Growth (%)



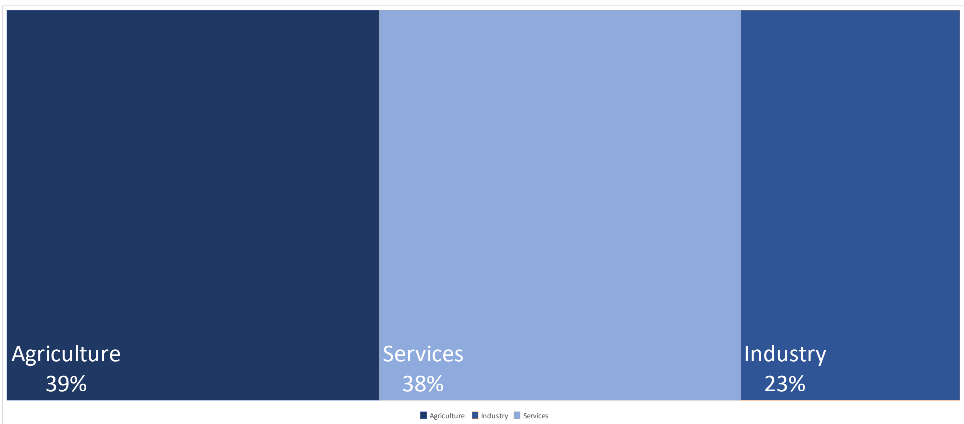
Source: MoPD

Growth and Recent Economic Activity, part 5

- **The structure of Ethiopia's real GDP shows agriculture and services both with nearly equal shares of the economy (at around 38-39 percent) followed by industry (which is mostly construction) at 23 percent.**

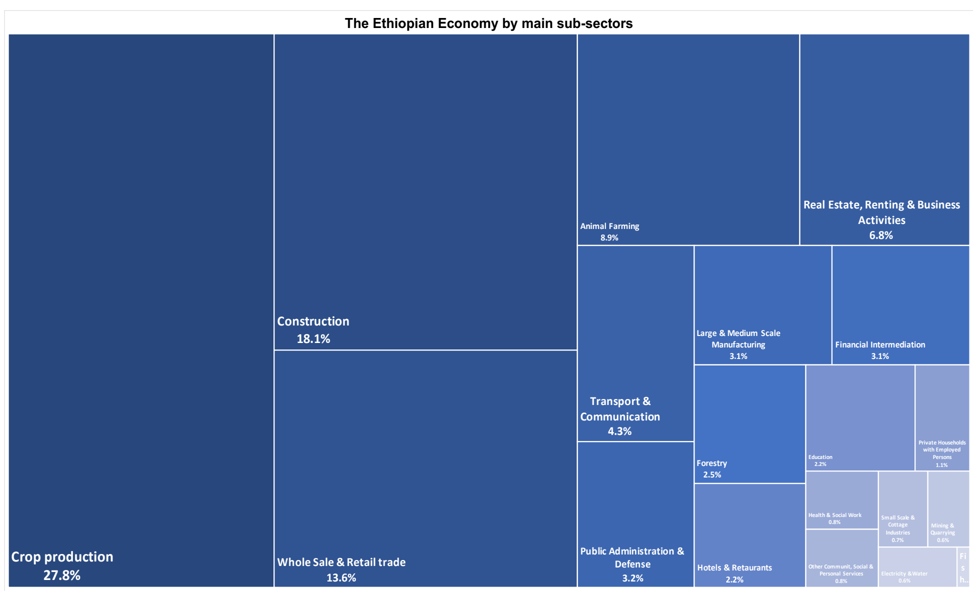
- **A more detailed decomposition by the 19 sub-categories by which GDP data is reported shows that crop farming, construction, and wholesale/retail trading are Ethiopia's three largest economic activities with a combined 60 percent of GDP. Other sizeable segments of the economy are the livestock sector (8% of GDP) as well as real estate and renting related activities (7% of GDP). Sectors such as manufacturing, banking, hotels, education all stand out for their relatively small shares of just 2 to 4 percent of GDP.**

Figure 1.11: GDP Composition by the three main economic sub-sectors



Source: MoPD

Figure 1.12: The Composition of the Ethiopian Economy, GDP by 19 main sub-sectors and their shares in total GDP



Source: MoPD

Growth and Recent Economic Activity, part 6

- **Growth rates for detailed GDP sub-categories show the strongest recent growth rates in mining (reflecting a low base), healthcare (COVID-related), banking, and construction over the past five years. While construction still registered 5% growth, this marks a sharp and continuous decline from the much more rapid growth rates of above 20 percent it registered five years ago; this deceleration is acting as a major drag on overall growth given construction's dominant (2nd largest) share in total GDP.**

- **The composition of GDP by the 19 main sub-categories shows the largest change in construction (+1.5ppts of GDP), followed by the financial and trade sub-sectors.**

Figure 1.13: GDP Growth rate by Sector

Ranked by Five year average growth rate

	Sectors	2017-18	2018-19	2019-20	2020-21	2021-22	5-Yr Avg
1	Mining and Quarrying	-21%	-22%	91%	115%	6%	34%
2	Health and Social Work	8%	14%	13%	13%	11%	12%
3	Financial Intermediation	11%	14%	10%	9%	11%	11%
4	Construction	16%	15%	10%	7%	5%	10%
5	Transport and Communications	6%	21%	1%	7%	10%	9%
6	Whole Sale and Retail Trade	11%	12%	6%	6%	8%	9%
7	Real Estate, Renting and Business Activities	6%	8%	10%	9%	9%	8%
8	Large and Medium Scale Manufacturing	8%	10%	10%	6%	6%	8%
9	Fishing	11%	2%	2%	2%	22%	8%
10	Electricity and Water	10%	4%	7%	9%	6%	7%
11	Public Administration and Defense	9%	9%	2%	5%	5%	6%
12	Hotels and Restaurants	6%	9%	2%	3%	8%	6%
13	Crop sector	5%	3%	5%	6%	7%	5%
14	Animal Farming and Hunting	1%	6%	3%	6%	5%	4%
15	Forestry	3%	4%	4%	4%	4%	4%
16	Other Community, Social & Personal Services	5%	6%	3%	2%	2%	4%
17	Small Scale and Cottage Industries	4%	3%	3%	3%	2%	3%
18	Private Households with Employed Persons	4%	3%	2%	2%	2%	3%
19	Education	4%	4%	2%	2%	2%	3%

Source: MoPD

Figure 1.14: Compostion of GDP by Sub-sector

Ranked by % of GDP in 2021-22

	Sectors	2017-18	2018-19	2019-20	2020-21	2021-22	5-Yr Change
1	Crop sector	22.8%	21.5%	21.3%	21.1%	21.2%	-1.6%
2	Construction	19.3%	20.3%	21.1%	21.1%	20.8%	1.5%
3	Whole Sale and Retail Trade	14.1%	14.3%	14.3%	14.3%	14.6%	0.5%
4	Animal Farming and Hunting	9.0%	8.7%	8.5%	8.4%	8.3%	-0.7%
5	Transport and Communications	5.0%	5.6%	5.3%	5.3%	5.5%	0.5%
6	Large and Medium Scale Manufacturing	4.5%	4.7%	4.8%	4.8%	4.8%	0.3%
7	Real Estate, Renting and Business Activities	4.3%	4.3%	4.4%	4.5%	4.6%	0.3%
8	Public Administration and Defense	4.5%	4.5%	4.3%	4.2%	4.2%	-0.3%
9	Financial Intermediation	3.0%	3.2%	3.3%	3.4%	3.5%	0.5%
10	Forestry	3.1%	2.9%	2.9%	2.8%	2.8%	-0.3%
11	Hotels and Restaurants	2.6%	2.6%	2.5%	2.4%	2.4%	-0.2%
12	Education	2.5%	2.3%	2.3%	2.2%	2.1%	-0.4%
13	Small Scale and Cottage Industries	2.3%	2.1%	2.1%	2.0%	1.9%	-0.4%
14	Health and Social Work	1.1%	1.1%	1.2%	1.3%	1.3%	0.2%
15	Other Community , Social & Personal Servic	1.2%	1.1%	1.1%	1.1%	1.0%	-0.2%
16	Electricity and Water	0.7%	0.8%	0.8%	0.8%	0.8%	0.1%
17	Private Households with Employed Persons	1.0%	0.9%	0.9%	0.9%	0.8%	-0.2%
18	Mining and Quarrying	0.2%	0.1%	0.3%	0.5%	0.5%	0.3%
19	Fishing	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%

Source: MoPD

Growth and Recent Economic Activity, part 7

- **The largest share of GDP, crop production, remains dominated by small holder producers (some 16 million households as of 2022) producing close to 356mn quintals. Corn, wheat, and teff remain the three largest grains produced taking up around two-thirds of the total volumes farmed.**

- **Commercial farms (both private and state-owned entities) make up only 4 percent of total production.**

- **Recent low-land and irrigation-based wheat farming initiatives are also becoming a growing part of Ethiopia's crop production base, though the exact volumes from this third source is so far uncertain (with total additional output of much as 15-20mn quintals reported per press accounts).**

Table 1.15 Grain Crops Production (mns Quintals)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Meher Season	**231**	**252**	**270**	**267**	**290**	**306**	**316**	**335**	**342**	**328**
Cereals	197	216	236	231	254	268	278	297	302	291
Corn	62	65	72	72	78	84	95	96	106	108
Wheat	34	39	42	42	45	46	48	53	58	58
Teff	38	44	48	45	50	53	54	57	55	56
Pulses	28	29	27	28	28	30	30	30	32	32
Oilseeds	7	7	8	8	8	9	8	8	8	5

Source: CSA, FY 2021/22 Excluding Tigray

Figure 1.16: Structure of Crop Production in Ethiopia

Based on 2020-21 data, milliions of quintals

Category		2020-21
1	**Smallhoder producers**	**356.6**
	Meher season harvest	341.8
	Cereals	302.1
	Pulses	32.0
	Oilseeds	7.8
	Belg season harvest	14.8
2	**Commercial farm production**	**14.1**
3	**New initiatives reported for low-land/irrigation farming**	**14.6**
	Wheat	5.2
	Corn	9.4
	Total excl new reported initiatives	**370.7**
	Total with reported initiatives	385.3

Source: CSA, Press reports and Cepheus Research compilation

Figure 1.17: Top 10 Crops and shares in total

Based on 2020-21 data, milliions of quintals

	Crop	Quintals, mn	Percent share
1	Corn	105.6	31%
2	Wheat	57.8	17%
3	Teff	55.1	16%
4	Sorghum	45.2	13%
5	Barley	23.4	7%
6	Finger millet	12.0	4%
7	Faba beans	10.7	3%
8	Field peas	3.8	1%
9	Red Chick-pea	3.7	1%
10	Red Haricot bea	3.7	1%
	Sub-total, top ten:	***320.95***	***94%***
	Total, Meher:	341.83	

Source: CSA

Figure 1.18: Top Five Regions and shares in total

Based on 2020-21 data, milliions of quintals

	Region	Quintals, mn	Percent share
1	Oromia	169.6	50%
2	Amhara	110.9	32%
3	SNNP	28.9	8%
4	Tigray	20.3	6%
5	Benz. Gumu	7.1	2%

Source: CSA

Growth and Recent Economic Activity, part 8

- **Looking beyond GDP data, a review of high-frequency indicators for the 2021-22 fiscal year shows strong growth in trade and services (exports, tourism, remittances, and telecom activity) but mostly negative trends for industry sector proxies such as electricity and capital goods imports.**

- **Particularly strong growth rates were seen in service sectors recovering from prior-year COVID impacts, i.e., tourism arrivals (+110%), EAL revenue (+45%), and Ethiopian Shipping Lines revenue (+94%).**

Figure 1.19: High-Frequency Activity Indicators

Data available to end-December 2022	FY 2021-22 H1	FY 2022-23 H1	Nominal growth	Real growth
Tax collections (Birr bns)	171.3	225.9	31.9%	-2.0%
o/w Direct tax collections	105.4	138.8	31.7%	-2.2%
o/w Trade tax collections	65.9	87.1	32.1%	-1.8%
EthioTelecom revenue (Birr bns)	28.2	33.8	19.9%	-14.0%
Ethio Telecom subscribers (mns)	60.8	70.0	…	15.1%
Deposit levels (Birr bns)	1,481	1,944	31.3%	-2.6%
Loan levels (Birr bns)	865	1,216	40.5%	6.6%
Foreign Direct Investment ($bns)	1.63	1.89	…	16.3%
Exports of goods ($mns)	1.89	1.76	…	-6.8%
Agricultural Exports (USD bns)	1.32	1.36	…	2.7%
Tourist Arrivals	306,170	454,840		48.6%

Data available to end-September 2022	FY 2021-22 Q1	FY 2022-23 Q1	Nominal growth	Real growth
Industrial parks exports ($mns)	46	34.2	…	-26.2%
Imports of goods ($mns)**	5,562	6,181	…	11.1%
Cement Production (ton)*	2,361,747	1,817,770	…	-23.0%
Capital Goods Import($mns)**	953	1,219	…	27.9%

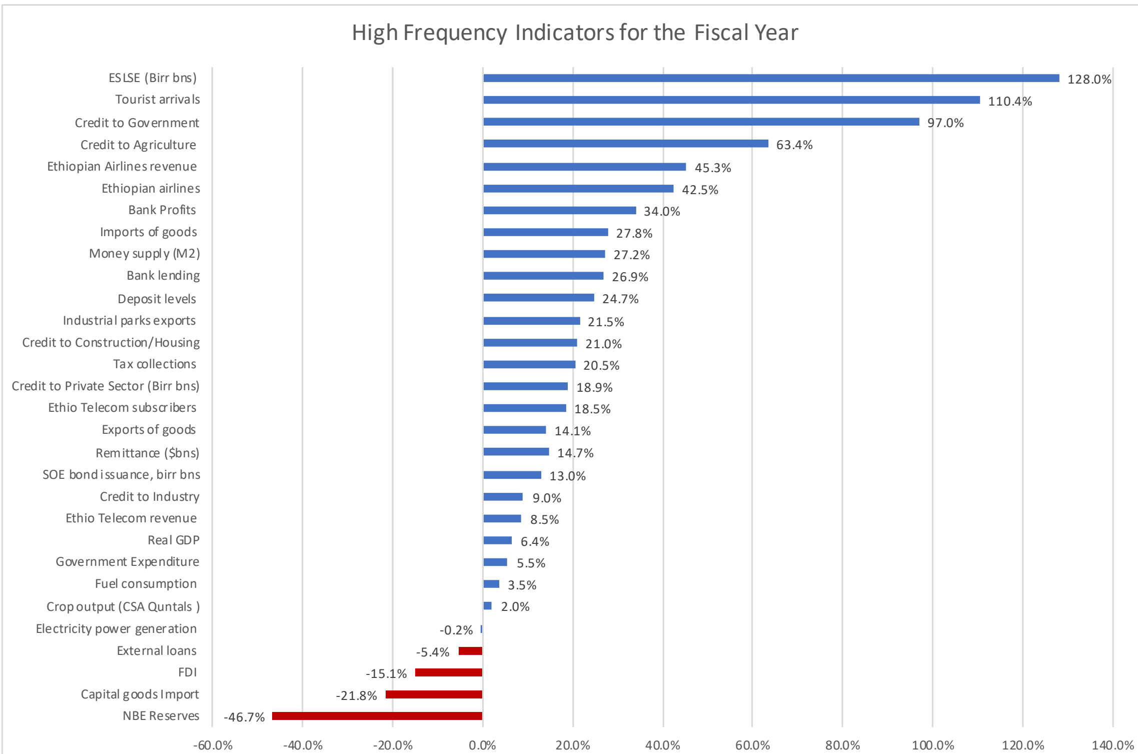
Data up to end-June 2022	FY 2020-21	FY 2021-22	Nominal growth	Real growth
Tax collections (Birr bns)	280	337	20.5%	-13.3%
o/w Direct tax collections	167	196	17.7%	-16.1%
o/w Trade tax collections	112	140	24.9%	-8.9%
Industrial parks exports ($mns)	161	196	…	21.5%
Exports of goods ($mns)	*3,597*	4,104	…	14.1%
Imports of goods ($mns)	*14,157*	18,092	…	27.8%
FDI ($bns)	3.90	3.31	…	-15.1%
Deposit levels (Birr bns)	1,361	1,698	24.7%	-9.1%
Loan levels (Birr bns)	809	1,026	26.9%	-6.9%
Tourist arrivals	355,531	747,885	…	110.4%
Remittances ($bns)	4.9	5.6	…	14.7%
Ethio Telecom revenue (Birr bns)	56.5	61.3	8.5%	-25.3%
Ethio Telecom subscribers (mns)	56.2	66.6	….	18.5%
Bank Profits	*50.3*	67.4	34.0%	0.2%
Ethiopian Airlines revenue ($bns)	*3.51*	5.10	…	45.3%
Ethiopian Shipping Lines (ESLSE) revenue (Birr bns)	22.5	51.40	128.0%	94.2%
Fuel consumption (MT)	3,719,624	3,849,168	…	3.5%
Electricity power generation (Kwh mns)	15,532	15,504	…	-0.2%
Capital goods Import($mns)	3,880	3,036		-21.8%

Source: NBE, Ministry of Revenue, EIC, Banks survey data, MOCT, PMO, Four month data, ** Five month data*

Growth and Recent Economic Activity, part 9

- **For 2021-22, the most notable areas of negative performance were related to external and balance of payments developments, including in foreign loans, FDI, capital goods imports, and fx reserves. For many monetary/fiscal variables (money supply, loans, deposits, and tax collections), growth rates look strong in nominal terms but these often translate to negative growth when expressed in real terms.**

Figure 1.20: High Frequency Indicators for the Fiscal Year 2021/22

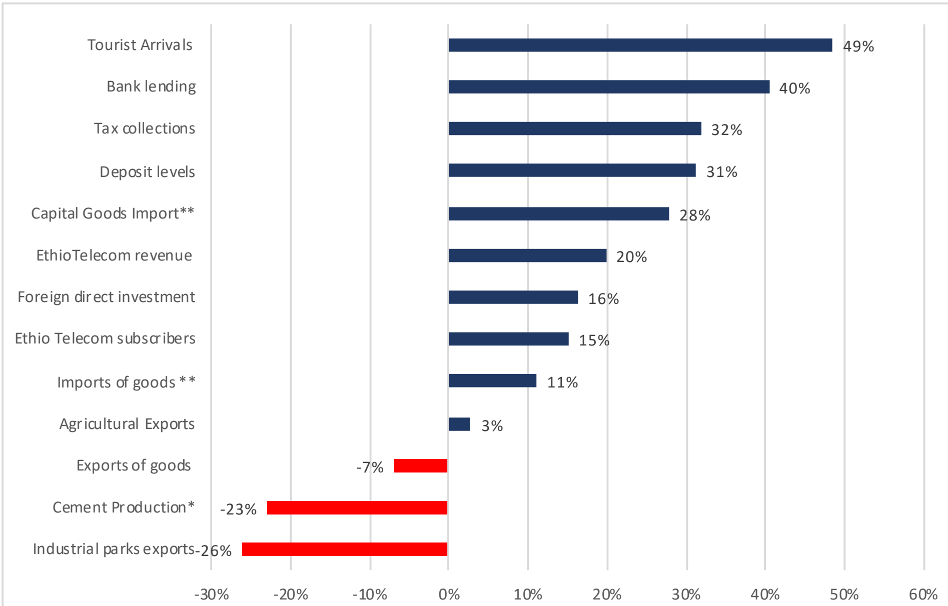


Source: NBE, MoR, MoT, Bank's Survey, EIC, EthioTelecom, MoPD, MOF

Growth and Recent Economic Activity, part 10

- **For the latest six month period, July-December 2022, the most notable areas of weakness are in exports (down 7 percent after three years of positive growth), in industrial park output (-23%), and in cement production (-23% and a cause of continued construction sector under-performance). By contrast, the last six month record has been positive for tourist arrivals, deposit/loan levels, tax collections, and FDI.**

Figure 1.21: High Frequency Indicators for First Half of FY 2022-23



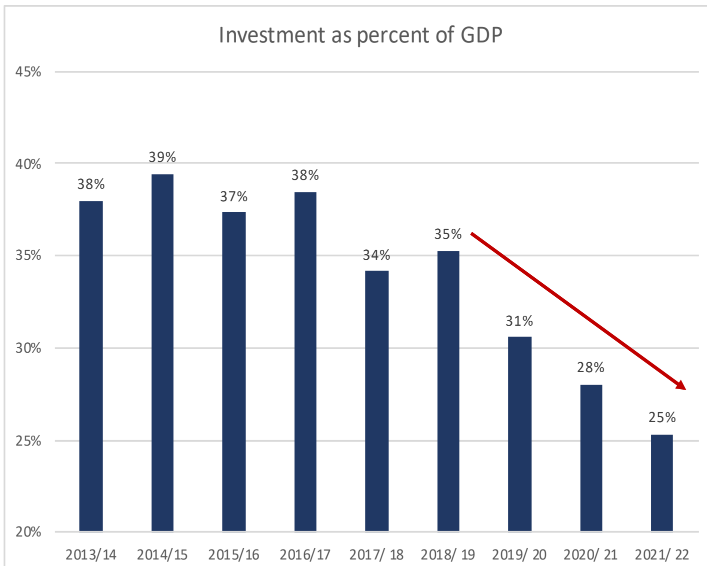
Source: EIC, NBE, Bank's Survey, NBE, MoR; are end Oct 2022data, ** End Nov 2022*

SECTION 2: Investment Trends

- **Ethiopia's investment rate has fallen to just 25% of GDP, from 38% five years ago and 35% just a few years ago, which is a downward trend that poses serious risks to long-term growth if not soon reversed.**

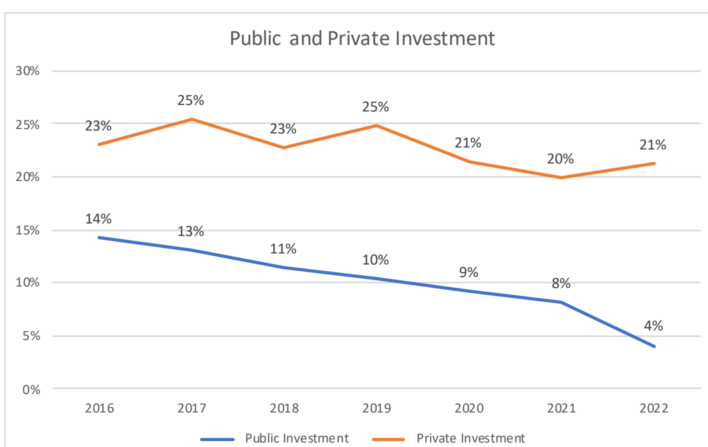
- **The counterpart to the drop in investment has been a rising share of consumption-to-GDP, reflecting in particular large current expenditure by outlays by Government.**

Figure 2.1: Investment Rate (In percent of GDP)



Source: MoPD

Figure 2.2: Public and Private Investment (% of GDP)



Source: MoPD, Cepheus Research

Investment trends, part 2

- **Public investment has dropped more than private investment. The Government's capital spending budget has shrunk from 6% to 2% of GDP in recent years as spending was re-allocated to conflict-related and other priorities, while investment by state enterprises fell as their scope for borrowing (especially non-concessional debt) has been cut back due to deliberate policies to limit overall debt accumulation.**

- **Total public investment, reflecting both government and state enterprise activity, has more than halved from around 10% of GDP to near 4% of GDP as of 2022, by our estimates. At the same time private foreign investment and private domestic investment declined moderately (relative to GDP) or were broadly unchanged.**

Figure 2.3:Total Investment Indicators

Data in Birr billions	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total Investment	**704.6**	**751.6**	**948.9**	**1,032.0**	**1,216.6**	**1,560.3**
Public Investment	**242.8**	**257.5**	**288.0**	**319.0**	**351.3**	**251.0**
Federal Government (based on budget)	152.6	143.7	174.9	204.2	235.4	129.4
State Enterprise (based on ∆ in debt)	90.2	113.8	113.0	114.8	115.9	121.6
New external debt, in Birr bns	32.0	44.9	35.7	30.0	14.9	14.6
New net domestic debt, in Birr bns	54.1	63.4	70.0	75.0	88.0	82.0
From SOE own earnings estimate	*4.1*	*5.5*	*7.3*	*9.8*	*13.0*	*25.0*
Private Investment (residual)	**461.8**	**494.1**	**660.9**	**713.0**	**865.3**	**1,309.3**
Foreign private investment (BOP data)	93.5	97.2	84.6	76.4	155.7	161.7
Domestic private investment (residual)	368.3	396.9	576.3	636.6	709.6	1,147.6

Data in USD billions	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total Investment	**$ 31.4**	**$ 28.8**	**$ 33.8**	**$ 32.7**	**$ 30.9**	**$ 31.9**
Public Investment	$ 10.8	$ 9.9	$ 10.3	$ 10.1	$ 8.9	$ 5.1
Federal Government (based on budget)	$ 6.8	$ 5.5	$ 6.2	$ 6.5	$ 6.0	$ 2.6
State Enterprise (based on ∆ in debt)	$ 4.0	$ 4.4	$ 4.0	$ 3.6	$ 2.9	$ 2.5
Private Investment (residual)	$ 20.6	$ 18.9	$ 23.6	$ 22.6	$ 22.0	$ 26.8
Foreign private investment	$ 4.2	$ 3.7	$ 3.0	$ 2.4	$ 4.0	$ 3.3
Domestic private investment	$ 16.4	$ 15.2	$ 20.5	$ 20.2	$ 18.0	$ 23.5

Data in Percent of GDP	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Total Investment	**38.4%**	**34.2%**	**35.3%**	**30.6%**	**28.0%**	**25.3%**
Public Investment	**13.2%**	**11.7%**	**10.7%**	**9.5%**	**8.1%**	**4.1%**
Federal Government (based on budget)	8.3%	6.5%	6.5%	6.1%	5.4%	2.1%
State Enterprise (based on ∆ in debt)	4.9%	5.2%	4.2%	3.4%	2.7%	2.0%
Private Investment (residual)	**25.2%**	**22.5%**	**24.6%**	**21.1%**	**19.9%**	**21.3%**
Foreign private investment	5.1%	4.4%	3.1%	2.3%	3.6%	2.6%
Domestic private investment	20.1%	18.0%	21.4%	18.9%	16.3%	18.6%

Memo items:	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Exchange rate, year-average	22.41	26.11	28.05	31.59	39.36	48.89
GDP, Birr bns	1,832.8	2,200.1	2,690.8	3,374.7	4,341.0	6,157.5
FDI, USD bns	$ 4.171	$ 3.723	$ 3.015	$ 2.419	$ 3.955	$ 3.308

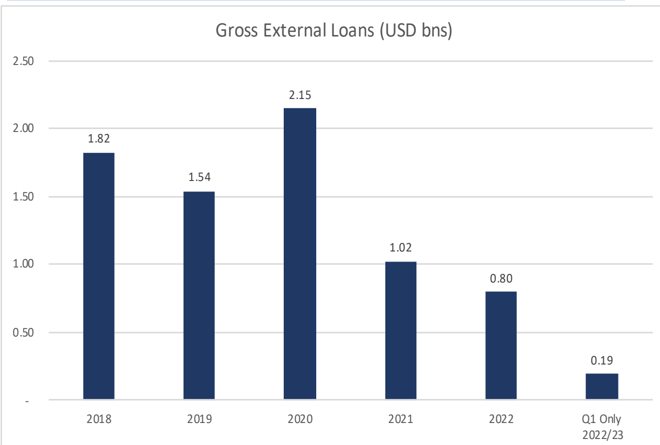
Source: NBE, MOF, and Cepheus Research estimates

Investment trends, part 3

- **On the public sector side, some of the underlying sources of the decline in investment reflect reduced external borrowing for large infrastructure projects. Gross external borrowing of the Government is down from over $2bn in 2019-20 to just $0.8bn in 2021-22, or from 2.0% of GDP to 0.6% of GDP.**

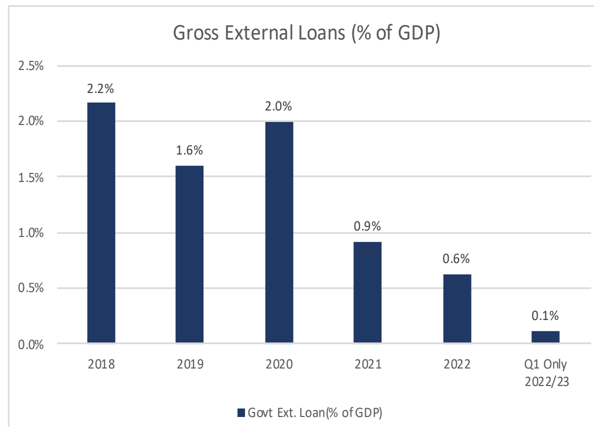
- **On the private sector side, part of the flat or moderately negative investment rate seen reflects a falling number of new investment project registrations and the corresponding capital from these projects.**

Figure 2.4 Government Gross External Loans (USD bns)



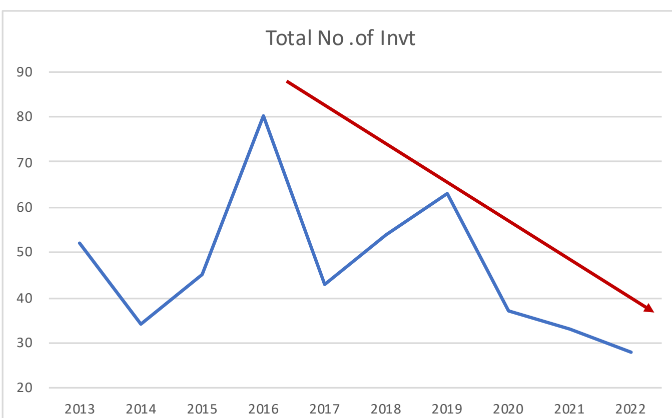
Source:MoF

Figure 2.5: Government Gross External Loans (% of GDP)



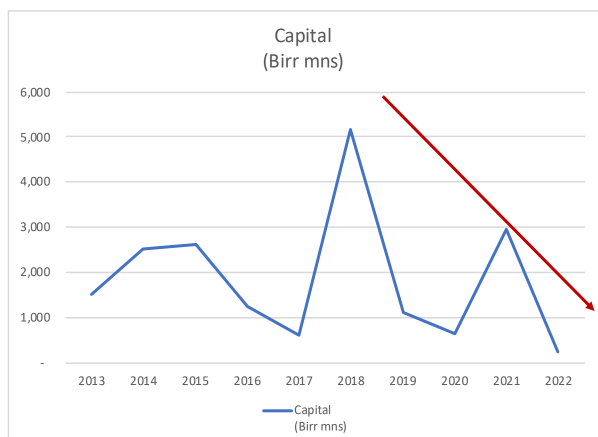
Source:MoF

Figure 2.6: Total Number of Licensed Foreign Investment



Source: NBE

Figure2.7: Registerd Capital



Source: NBE

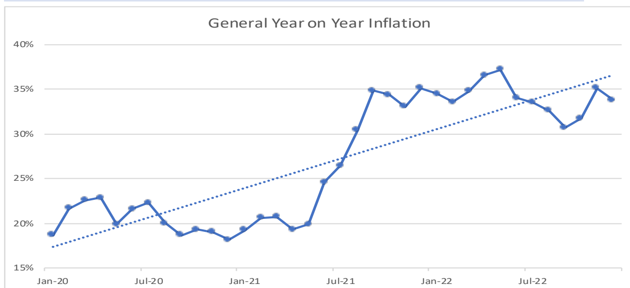
SECTION 3: Inflation trends and dynamics

- **Ethiopia's high inflation problem has persisted this past year and become even more entrenched in several respects—with the rate of price increases now remaining above 30% for over a year. Inflation were mostly in the teens in 2019 and 2020 but rose to an average of 27% in 2021 and 34% in 2022.**

- **The latest inflation reading for December 2022 shows year-on-year inflation of 33.8 percent, which is identical to the 2022 average though a slight improvement from the May 2022 peak of 37.2%.**

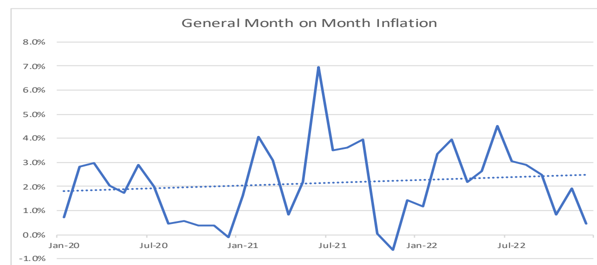
- **Month-on-month inflation rates (which better capture latest trends) showed some slight improvement in the last quarter of 2022 for overall prices, but remain high for non-food prices.**

Figure3.1A: General Year on Year Inflation



Source: CSA

Figure 3.1B: General Month on Month Inflation

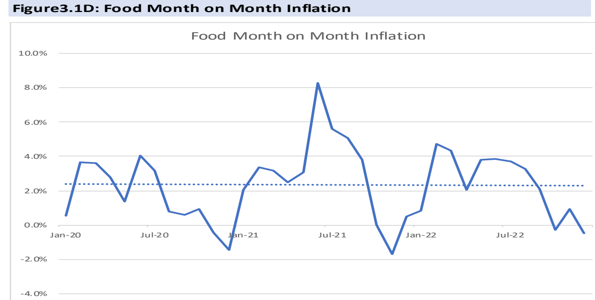


Source: CSA

Figure 3.1C: Food Year on Year Inflation

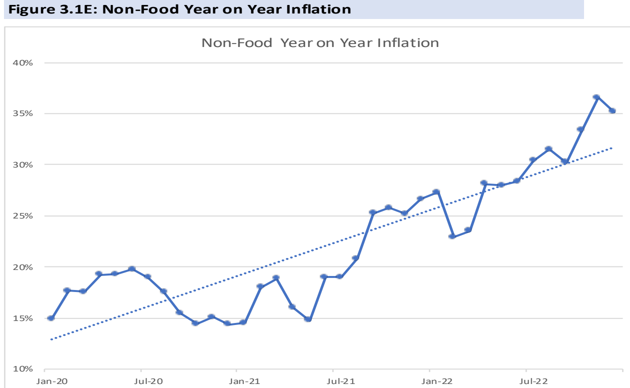
Source: CSA

Figure3.1D: Food Month on Month Inflation



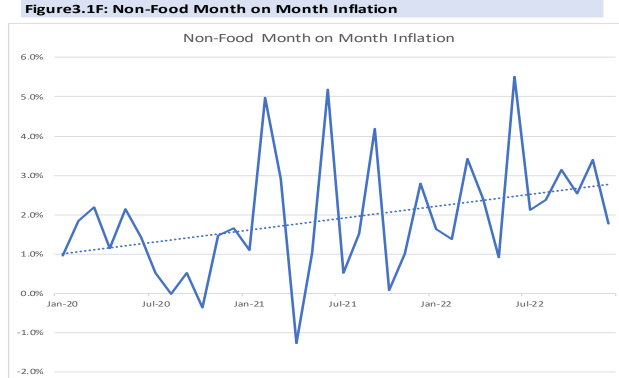
Source: CSA

Figure 3.1E: Non-Food Year on Year Inflation



Source: CSA

Figure3.1F: Non-Food Month on Month Inflation

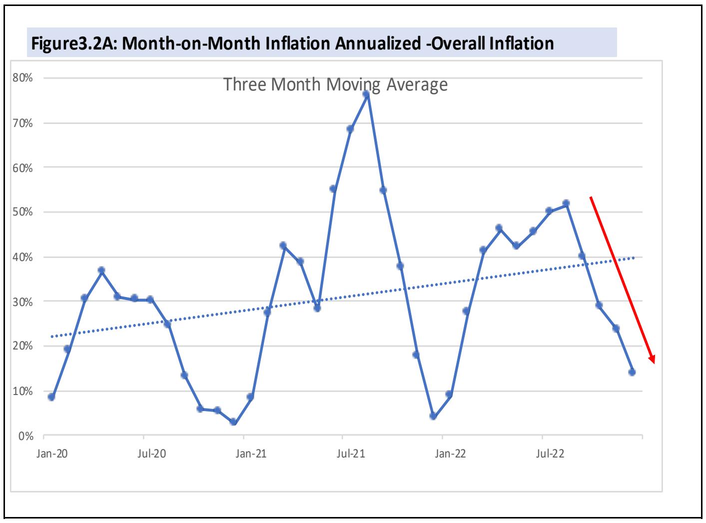


Source: CSA

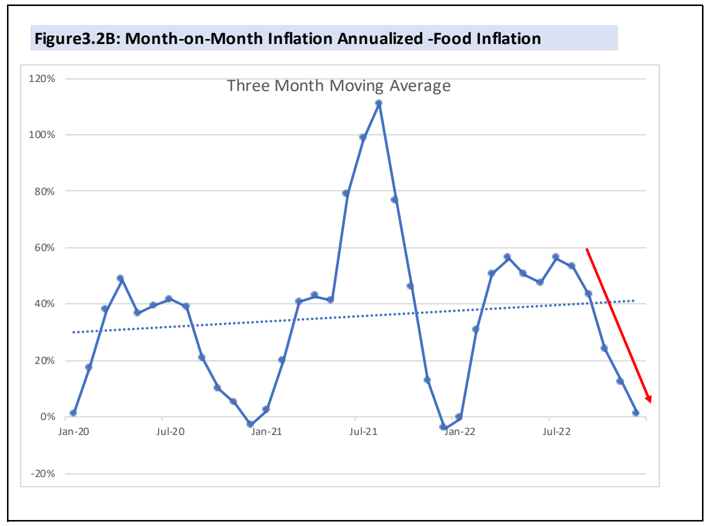
Inflation trends and dynamics, part 2

- **The annualized rate of month-on-month inflation (a measure of what inflation will be from here on if the current monthly pace continued) has shown a sharp drop for the past three months which bodes well for the 2023 outlook.**

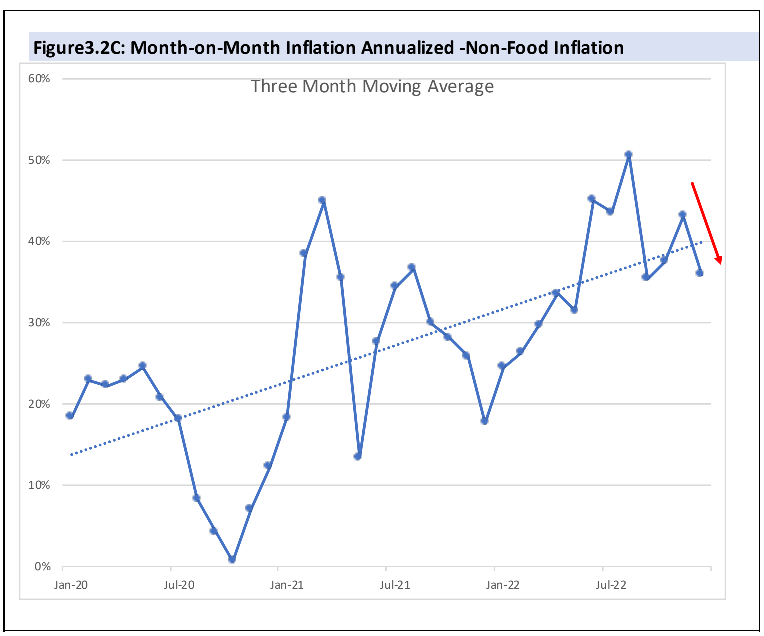
- **However, such drops in (month-on-month) inflation have often turned out to be short-lived over the past two years and it is thus not clear yet if there is a decisive downward shift in inflation rates.**



Source: CSA



Source: CSA



Source: CSA

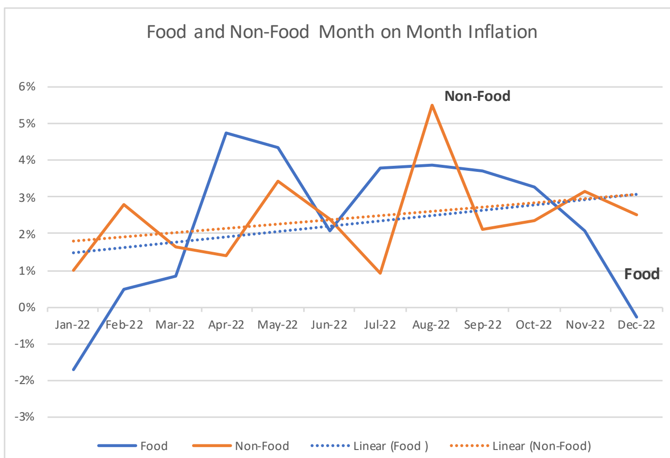
Disclaimer: This report represents solely the views, analysis, and judgement of the Cepheus research team and does not necessarily reflect the views or opinions of the Fund's Managing Partners, Advisors, or Investors.

Inflation trends and dynamics, part 3

- **While food inflation is moderating, non-food inflation (up 35% y-o-y) is becoming a more dominant contributor to overall inflation, particularly given large jumps seen for fuel, transport, alcoholic beverages, furnishings, and housing. By contrast food inflation has declined by 10 percentage points since early 2022 (now at 33% vs 44% then) and showed negative month-on-month inflation rates for two of the past three months following recent *kiremt* harvests.**

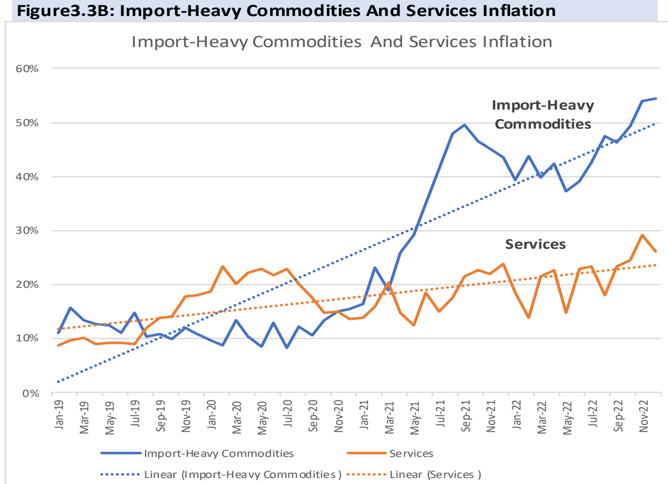
- **Splitting the inflation data into its various components shows that domestically offered services are showing lower inflation rates (of near 27%), presumably reflecting more elastic local supplies and competitive conditions in this space. By contrast, mostly imported commodities are showing 50% y-o-y inflation, which is similar to the percentage change in the parallel exchange rate (and suggests many consumer goods are actually being secured in that market).**

Figure3.3A: Food and Non-Food Month onMonth Inflation



Source: CSA

Figure3.3B: Import-Heavy Commodities And Services Inflation

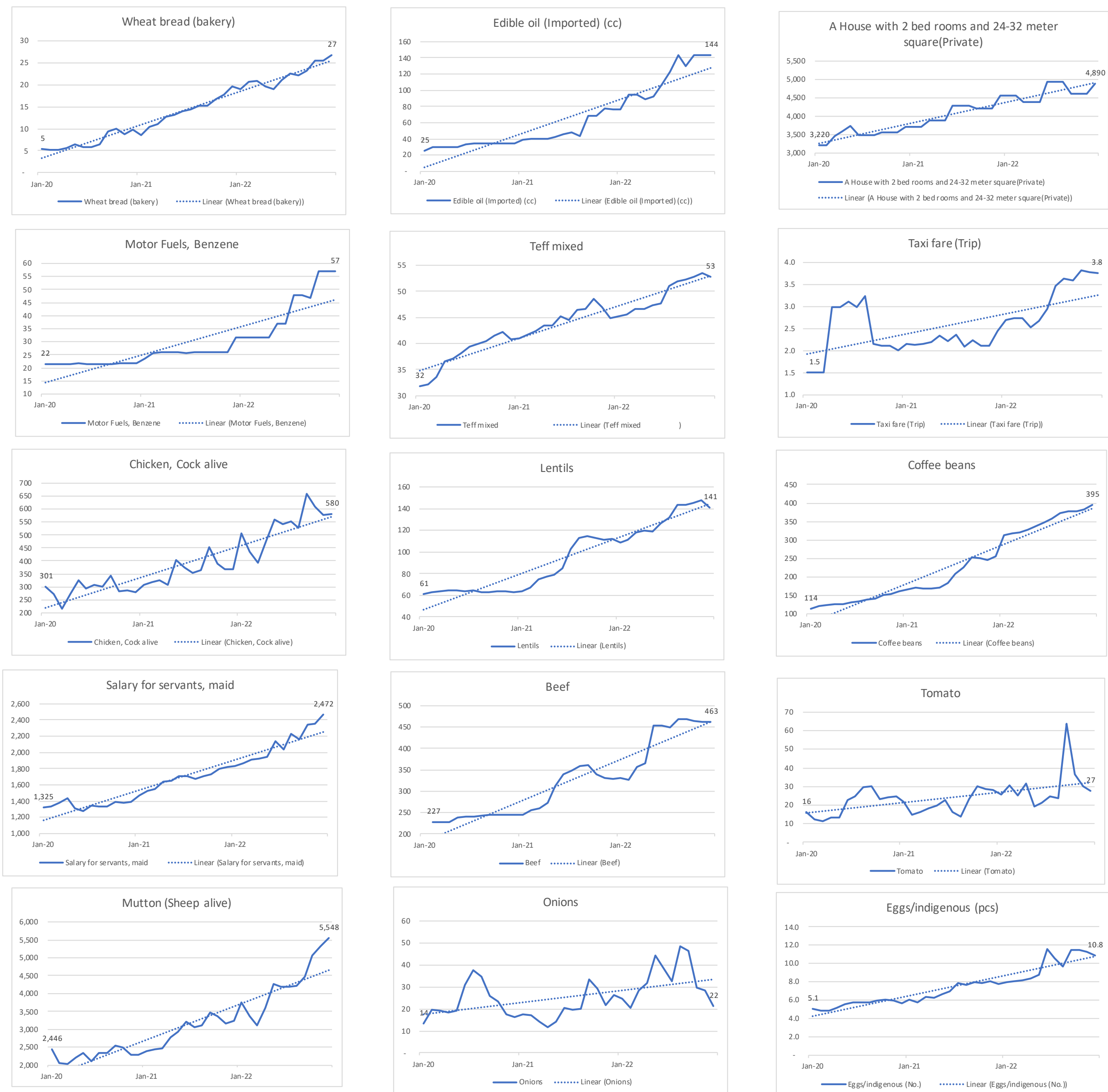


Source: CSA

Inflation trends and dynamics, part

- **Price trends for selected products with large weights in the consumer price index show large and steady level increases over the past three years. Most notable are increases in staples (such as teff, bread and vegetables) as well as in labour, fuel, and transport costs.**

Figure3.4: Addis Ababa Selected Commodities Prive Level Data for Jan 2020 to Dec 2022, in Birr



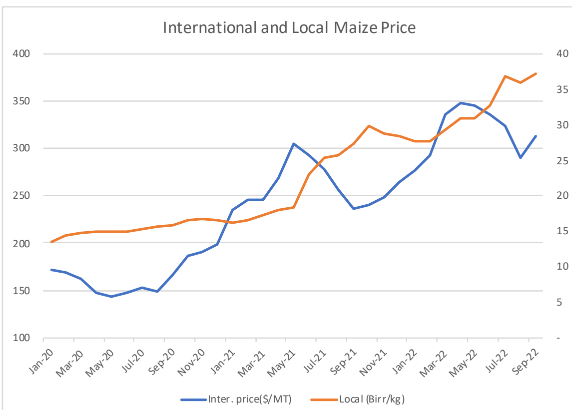
Source: CSA

Inflation trends and dynamics, part 5

- **A significant source of Ethiopia's inflationary pressures continue to emanate from large price spikes seen in global commodities such as maize, wheat, fuel, and edible oil.**

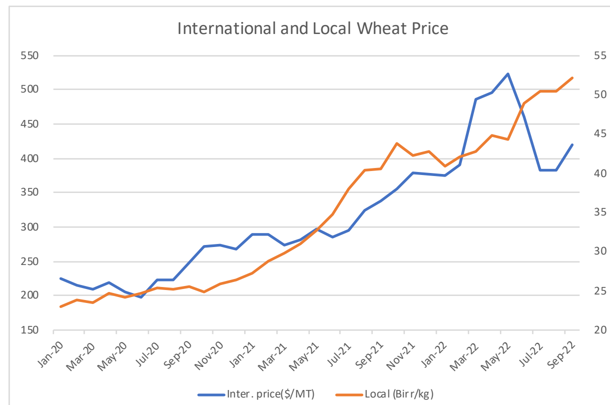
- **Local prices for these commodities have largely followed the global trends, though more recently the local price trends for items such as wheat and corn have not (yet) turned downwards despite a decline in the international price indices.**

Figure3.5A: International and Local Maize Price



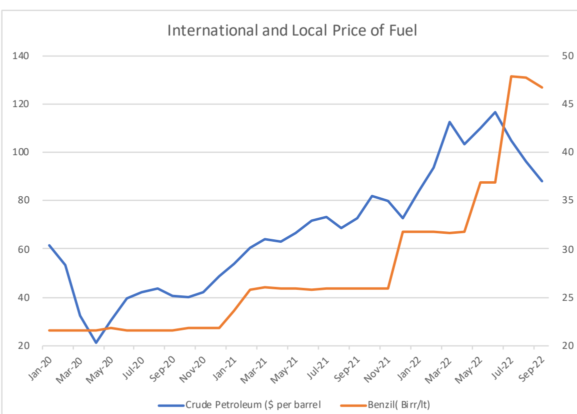
Source: CSA, indexmundi.com

Figure3.5B: International and Local Wheat Price



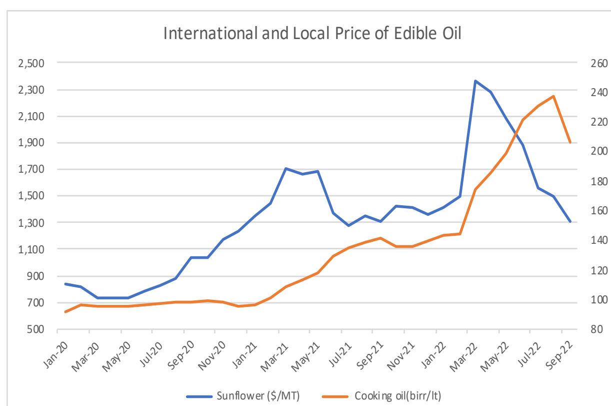
Source: CSA, indexmundi.com

Figure3.5C: Intenational and Local Price of Fuel



Source: CSA, indexmundi.com

Figure3.5D: International and Local Price of Edible Oil



Source: CSA, indexmundi.com

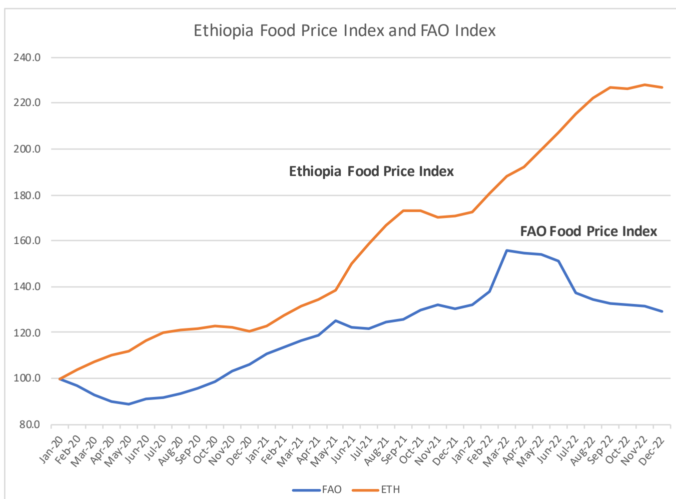
Inflation trends and dynamics, part 6

- **Looking specifically at the food price index, this has now flattened out but not shown any level price declines. By contrast, the global food price index shows a level decline in prices of 20 percent, as seen in the FAO aggregate good price index.**

- **This divergence suggests continued shortfalls in food supply (especially farmers' marketable surplus) relative to demand and/or the presence of still other factors contributing to food inflation such as bottlenecks in transport, distribution, and retailing systems.**

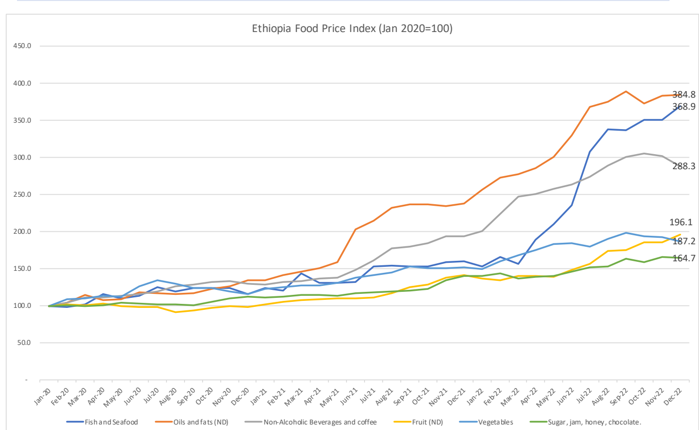
- **Looking at the inflation variability among specific food items, and seen over a three-year period, prices for cooking oil (virtually all imported) are now at 4x their January 2020 prices, beverages are at 3x those prices, and fruits & vegetables (domestically produced) are at 2x their prices of just three years ago.**

Figure 3.6A: Ethiopia Food Price Index and the Global Food Price Index (FAO Index)



Source: FAO, CSA

Figure 3.6B: Ethiopia Food Price Index (Jan 2020=100)



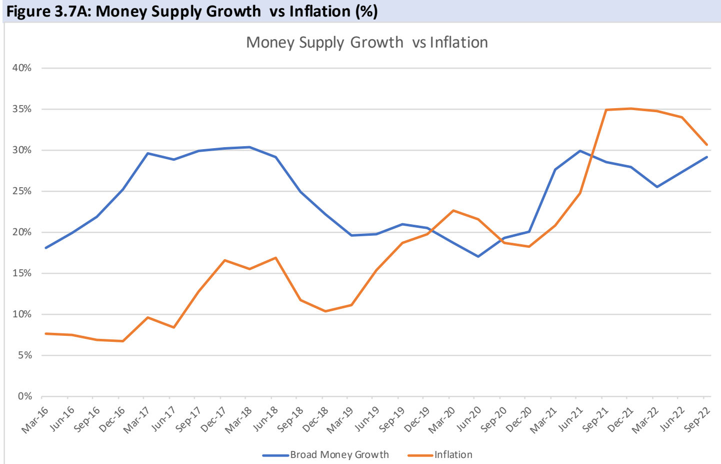
Source: CSA, Cepheus Research

Inflation trends and dynamics, part 7

- **The observed correlation between money supply growth rates with recent inflation rates continues to suggest a partial contributory effect of monetary growth to inflation; broad money growth rates of near 20% in 2018-19 and 2019-20 corresponded to inflation rates in those two years of between 15-20 percent, while broad money growths of near 25-30 percent in the last two fiscal years have coincided with inflation rates of 25-30 percent. Plotting money supply growth of two quarters ago against current inflation shows a tight fit for the last two year period, implying lagged effects may also be important.**

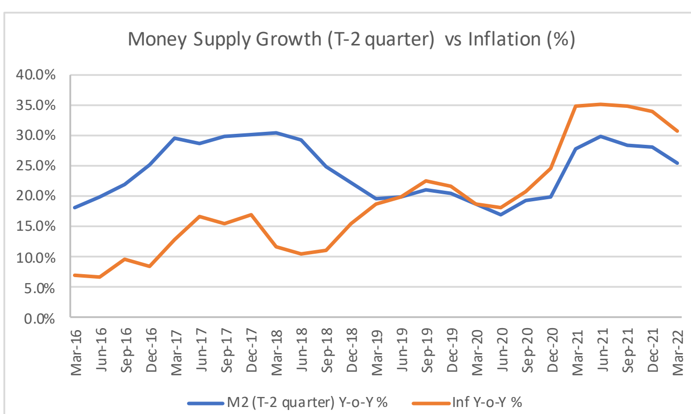
- **At the same time, however, the longer-term relationship between these two variables is not very tight or consistent, which indicates that monetary influences are only one of many determinants of inflation and suggests that non-monetary sources of inflation (such as food supply shocks, global price pressures, dysfunctioninng product markets, and exchange rate depreciation effects) also require attention.**

Figure 3.7A: Money Supply Growth vs Inflation (%)



Source: NBE, CSA

Figure 3.7B: Money Supply Growth (T-2 quarter) vs Inflation (%)



Source: NBE, CSA, Cepheus Research Compilation

SECTION 4: Deficits and Debt

- **Ethiopia's budget deficit has worsened recently, but not dramatically so, given the deterioration from near 3% of GDP in 2020-21 to an estimated 4.6% of GDP last year.**

- **There has, however, been a significant change in the way the deficit has been financed, with a switch from external to domestic borrowing that has resulted in virtually all of the deficits being covered by local lenders last year.**

Figure 4.1: Government Revenue and Grants (Birr bns)

	2019-20	2020-21	2021-22	Budget 2022-23
Revenue and Grants	**395.0**	478.9	**351.6**	**477.8**
Total Revenue	354.3	444.6	351.6	438.9
Tax Revenue	311.5	388.8	326.8	400.2
Direct Tax	132.2	174.0	112.1	124.8
Indirect Tax	179.3	214.8	214.7	275.5
Non tax Revenue	42.8	55.8	24.8	38.6
Grants	40.7	34.3	-	38.9
Total Expnediture	**480.1**	**599.0**	**631.9**	**786.6**
Current Expenditure	276.0	363.6	304.2	345.1
Capital Expenditure	204.2	235.4	129.4	218.1
Regional Transfers	-	-	198.3	223.4
Total Financing	**85.2**	**120.1**	**280.3**	**308.8**
External	59.5	21.8	3.3	42.8
Domestic/Other	25.6	98.3	277.0	266.0

Source: NBE

Figure 4.2: Government Revenue and Grants (% of GDP)

	2019-20	2020-21	2021-22	Budget 2022-23
Revenue and Grants	**11.7%**	**11.0%**	**5.7%**	**5.6%**
Total Revenue	10.5%	10.2%	5.7%	5.1%
Tax Revenue	9.2%	9.0%	5.3%	4.7%
Direct Tax	3.9%	4.0%	1.8%	1.5%
Indirect Tax	5.3%	4.9%	3.5%	3.2%
Non tax Revenue	1.3%	1.3%	0.4%	0.5%
Grant	1.2%	0.8%	0.0%	0.5%
Total Expnediture	**14.2%**	**13.8%**	**10.3%**	**9.2%**
Current Expenditure	8.2%	8.4%	4.9%	4.0%
Capital Expenditure	6.1%	5.4%	2.1%	2.5%
Regional Transfers	0.0%	0.0%	3.2%	2.6%
Total Financing	**2.5%**	**2.8%**	**4.6%**	**3.6%**
External	1.8%	0.5%	0.1%	0.5%
Domestic	0.8%	2.3%	4.5%	3.1%

Source: NBE, FY 2022/23 % of GDP reflects our projected figure of Birr8.6trillion

Deficits and Debt, part 2

- **Public debt expressed in dollar terms was broadly flat at $57bn for 2022, with about 53 percent of this now made up of domestic debt (in local currency) and the remaining 47 percent representing foreign debt.**

- **Relative to GDP, the debt stock fell to 50% of GDP by June 2022. For the current fiscal year, using the expected USD GDP denominator for 2022-23 would imply that debt-to-GDP has fallen to 36% of GDP as of September 2022 (though this ratio reflects a conversion into USD GDP at the official exchange rate).**

Figure 4.3: Public Debt, USD bns

	Jun-19	Jun-20	Jun-21	Jun-22	Sep-22	% of Total
Total Public Debt	**$ 53.7**	**$ 54.9**	**$ 55.6**	**$ 57.3**	**$ 57.0**	**100.0%**
External debt	**$ 27.0**	**$ 28.7**	**$ 29.5**	**$ 27.9**	**$ 26.9**	**47.2%**
Central Government	$ 16.0	$ 17.8	$ 19.5	$ 19.0	$ 18.4	32.2%
State Owned Enterprises	$ 11.1	$ 10.9	$ 10.0	$ 8.9	$ 8.5	14.9%
Domestic Debt	**$ 26.7**	**$ 26.2**	**$ 26.1**	**$ 29.4**	**$ 30.1**	**52.8%**
Central Government	$ 12.5	$ 12.4	$ 13.7	$ 16.8	$ 17.6	30.9%
State Owned Enterprises	$ 14.2	$ 13.9	$ 12.4	$ 12.6	$ 12.5	21.9%

Source: MoFEC Public Debt Bulletin

Figure 4.4: Public Debt, % GDP

	June 2019	June 2020	June 2021	June 2022	Sept 2022
Total Public Debt	**44.7%**	**51.4%**	**50.4%**	**50.3%**	**35.6%**
External debt	**16.7%**	**26.8%**	**26.8%**	**24.5%**	**16.8%**
Central Government	16.7%	16.7%	17.6%	**16.7%**	11.5%
State Owned Enterprises	0.0%	10.2%	9.1%	**7.8%**	5.3%
Domestic Debt	**28.0%**	**24.5%**	**23.7%**	**25.8%**	**18.8%**
Central Government	13.1%	11.6%	12.5%	**14.7%**	11.0%
State Owned Enterprises	14.9%	13.0%	11.2%	**11.1%**	7.8%
Memo items:					
GDP, Birr bns	2,691	3,374	4,341	5,861	8,554
Exchange rate, year avg	28.1	31.6	43.7	51.4	53.4
GDP, USD bns	$ 95.7	$ 106.8	$ 110.3	$ 113.9	$ 160.2

Source: MoFEC Public Debt Bulletin

** Sept 2022 % of GDP figures reflect anticipated 2022-23 nominal GDP of Birr 8.6trn.*

Deficits and Debt, part 3

- **There has been a significant drop in public sector external borrowing, from a peak of $3.5bn (in gross terms) five years to just $1.1bn last fiscal year and an even lower figure likely for the current fiscal year.**

- **In net terms, or after accounting for annual debt service payments, net external borrowing has declined from near $2bn five years ago to a negative $1.1bn this past fiscal year, or a swing of $3bn dollars in annual net loan-related flows over the past five years.**

- **The sharp swing in such net external loan flows is particularly concentrated for the state enterprise sector, whose new borrowing has almost ended in the last two years as part of deliberate policies intended to limit debt accumulation and associated debt sustainability risks.**

Figure 4.5: Trends in External Borrowing by Government and State Enterprises

	2017-18	2018-19	2019-20	2020-21	2021-22	Q1 only 2022-23
NET External Borrowing by Public Sector, USD bns	**$ 1.9**	**$ 0.8**	**$ 1.3**	**$ (0.5)**	**$ (1.1)**	**$ (0.4)**
Net Government borrowing, USD bns	$ 1.5	$ 1.1	$ 1.7	$ 0.7	$ 0.2	$ (0.0)
Net State Enterprise borrowing, USD bns	$ 0.5	$ (0.4)	$ (0.4)	$ (1.2)	$ (1.3)	$ (0.4)
Gross External Borrowing by Public Sector, USD bns	**$ 3.5**	**$ 2.8**	**$ 3.3**	**$ 1.4**	**$ 1.1**	**$ 0.19**
Government borrowing	$ 1.8	$ 1.5	$ 2.1	$ 1.0	$ 0.8	$ 0.19
State Enterprise	$ 1.7	$ 1.3	$ 1.2	$ 0.4	$ 0.3	$ -
External Repayments by Public Sector, USD bns	**$ 1.6**	**$ 2.0**	**$ 2.0**	**$ 1.9**	**$ 2.1**	**$ 0.6**
Government repayments	$ 0.4	$ 0.4	$ 0.4	$ 0.3	0.57	$ 0.2
State Enterprise repayments	$ 1.2	$ 1.6	$ 1.6	$ 1.6	1.57	$ 0.4
NET External Borrowing by Public Sector, % GDP	**2.3%**	**0.8%**	**1.2%**	**-0.4%**	**-0.8%**	**-0.2%**
Net Government borrowing, % GDP	**1.7%**	**1.2%**	**1.6%**	**0.6%**	**0.2%**	**0.0%**
Net State Enterprise borrowing, % GDP	0.5%	-0.4%	-0.4%	-1.1%	-1.0%	-0.2%
Gross External Borrowing by Public Sector, % GDP	**4.2%**	**2.9%**	**3.1%**	**1.3%**	**0.9%**	**0.1%**
Government borrowing, % GDP	2.2%	1.6%	2.0%	0.9%	0.6%	0.1%
State Enterprise, % GDP	2.0%	1.3%	1.1%	0.4%	0.2%	0.0%
External Repayments by Public Sector, USD bns	1.9%	2.1%	1.9%	1.7%	1.7%	0.4%
Government repayments, % GDP	0.4%	0.4%	0.4%	0.3%	0.4%	0.1%
State Enterprise repayments, % GDP	1.5%	1.7%	1.5%	1.4%	1.2%	0.2%

Source: MoF Public Debt Bulletin September 2022

Figure 4.6: External Debt Service Payments (USD mns)

	2021-22	Q1 only 2022-23
Public Debt Service Payments:	$ 2,139	$ 576
By payment type		
Principal payments	$ 1,643	$ 441
Interest payments	$ 495	$ 132
By debtor		
Government	$ 568	$ 197
State Owned Enterprises	$ 1,570	$ 376
By creditor		
Multilateral creditors (IMF, WB, etc)	$ 309	$ 94
Bilateal creditors (incl China)	$ 615	$ 258
Private lenders (banks/bondholders)	$ 1,214	$ 222

Source: MoF Public Debt Bulletin

Deficits and Debt, part 4

- **The net increase in Government debt of Birr 248bn (4.3% of GDP) last year was more than fully covered by domestic lenders given a Birr 24bn equivalent net repayment to foreign creditors.**

- **The largest sources of borrowed funds were provided by CBE and NBE (each contributing about 28 percent of the total), followed by private banks (24%) and pension funds (21%). By instrument, Treasury bills provided about three-quarters of total funding followed by NBE direct advances.**

- **State enterprises saw a net debt accumulation of Birr 107bn (1.9% of GDP last year), reflecting a Birr 25bn increase in their external debt stock (partly due to exchange rate effects) and well as Birr 82bn of net new loans from CBE.**

Figure 4.7: Net Change in Government Debt, For Fiscal Year 2021/22

	FY 2021-22		
	Birr bns	% of GDP	% of Total
NET Change in Government Debt, End-June 2021 to End June 2022:	**247.9**	**4.3%**	**100.0%**
External Debt: NET Change, Birr bns	**(24.3)**	**-0.4%**	**-9.8%**
Domestic Debt: NET Change , Birr bns	**272.2**	**4.6%**	**109.8%**
By lender	*272.2*	**4.6%**	**100.0%**
From Commercial Bank of Ethiopia	76.4	1.3%	28.1%
From National Bank of Ethiopia	75.5	1.3%	27.8%
From Private Banks	64.5	1.1%	23.7%
From Pension Funds	55.8	1.0%	20.5%
From Development Bank of Ethiopia	(0.0)	0.0%	0.0%
From Others (non-banks, non-pension funds)	0.1	0.0%	0.0%
By instrument	*272.3*	**4.6%**	
Treasury Bills	196.7	3%	72.3%
Direct Advances	76.0	1%	27.9%
Treasury Bonds	(0.5)	0%	-0.2%
Treasury Notes	-		0.0%

Source: MoF Public Debt Bulletin June 2022

Figure 4.8: Net Change in State Enterprise Debt, For Fiscal Year 2021/22

	FY 2021-22		
	Birr bns	% of GDP	% of Total
NET Change in State Enterprise Debt, End-June 2021 to End June 202	**107.1**	**1.9%**	**100.0%**
External Debt: NET Change, Birr bns	**25.2**	**0.4%**	**10.2%**
Domestic Debt: NET Change , Birr bns	**81.9**	**1.4%**	**33.0%**
By lender	*81.9*	**1.4%**	**30.1%**
From Commercial Bank of Ethiopia	81.9	1.4%	30.1%
From National Bank of Ethiopia	-		0.0%
From Private Banks	-		0.0%
From Pension Funds	-		0.0%
From Development Bank of Ethiopia	-		0.0%
From Others (non-banks, non-pension funds)	-		0.0%
By instrument	*81.9*	*1.4%*	
Bonds	54.0	*0.9%*	65.9%
Loans (including loans re-classified to LAMC)	27.9	0.5%	34.1%

Source: MoF Public Debt Bulletin June 2022

Deficits and Debt, part 5

- **A review of the latest composition of Government domestic debt shows that, by lender, NBE comprises nearly half of all such debt, followed by pension funds (28%) and CBE (13%). The DBE and private banks hold small shares of the domestic debt of government at just 6% and 8% of the total respectively.**

- **By instrument, central bank advances now make up close to a quarter of the Government's outstanding debt stock (Birr 220bn out of Birr 927bn) as of September 2022 though this source of financing had almost been eliminated just two years ago (then only Birr 31bn or 7% of the total).**

- **For state enterprise debt, this was mostly owed to CBE in the past, though a re-assignment of most of this debt to the Liability and Asset Management Corporation (LAMC) now shows this entity to be the largest creditor of state enterprises (at 64 percent of the total) per government debt statistics.**

Figure 4.9: Domestic Credit to Government, By Lender--In Birr bns

	June 2018	June 2019	June 2020	June 2021	June 2022	Sept 2022
Birr billions						
By Lender	**300.9**	**361.9**	**432.4**	**600.6**	**872.8**	**926.9**
Commercial Bank of Ethiopia	26.7	26.6	26.5	69.0	145.4	117.8
National Bank of Ethiopia	160.1	194.7	230.2	281.9	357.4	417.0
Pension Funds	78.3	103.9	133.9	181.7	237.4	258.1
Development Bank of Ethiopia	32.8	32.8	32.8	53.8	53.8	53.6
Private Banks	-	0.7	5.6	12.6	77.0	78.7
Others (non-banks, non-funds)	3.0	3.3	3.3	1.7	1.7	1.8
By Instrument	**300.9**	**361.9**	**432.4**	**600.6**	**872.8**	**926.9**
Treasury Bills	111.5	31.8	23.7	121.0	317.7	315.1
Direct Advances	152.3	187.3	31.0	83.5	159.5	219.5
Treasury Bonds	-	36.6	-	248.5	248.0	244.7
Treasury Notes	-	-	149.4	147.7	147.7	147.7
Percent of total	**June 2018**	**June 2019**	**June 2020**	**June 2021**	**June 2022**	**Sept 2022**
By Lender	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Commercial Bank of Ethiopia	9%	7%	6%	11%	17%	13%
National Bank of Ethiopia	53%	54%	53%	47%	41%	45%
Pension Funds	26%	29%	31%	30%	27%	28%
Development Bank of Ethiopia	11%	9%	8%	9%	6%	6%
Private Banks	0%	0%	1%	2%	9%	8%
Others (non-banks, non-funds)	1%	1%	1%	0%	0%	0%
By Instrument	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Treasury Bills	37%	9%	5%	20%	36%	34%
Direct Advances	51%	52%	7%	14%	18%	24%
Treasury Bonds	0%	10%	0%	41%	28%	26%
Treasury Notes	0%	0%	35%	25%	17%	16%

Source: MOF Debt Bulletin, Table 21, 23

Figure 4.10: Domestic Credit to State Enterprise, By Lender--In Birr bns

Birr billions	June 2018	June 2019	June 2020	June 2021	June 2022	Sept 2022
By Lender	**342**	**412**	**487**	**575**	**657**	**664**
Development Bank of Ethiopia	2	2	2	2	-	-
CBE Corporate Bond	241	303	364	147	201	201
CBE long term loans	94	105	121	28	36	36
LAMAC	-	-	-	399	421	428
CBE short term loans	5	2	-	-	-	
By Instrument	**342**	**412**	**487**	**575**	**657**	**664**
SOE Bonds	241	303	364	147	201	201
SOE Loans	96	107	123	30	36	36
LAMC	-	-	-	399	421	428
SOE Short term loans	5	2	-	-	-	
Percent of total						
By Lender	100%	100%	100%	100%	100%	100%
Development Bank of Ethiopia	1%	0%	0%	0%	0%	0%
CBE Corporate Bond	71%	74%	75%	25%	31%	30%
CBE long term loans	27%	26%	25%	5%	5%	5%
LAMAC	0%	0%	0%	69%	64%	64%
CBE short term loans	1%	0%	0%	0%	0%	0%
By Instrument	100%	100%	100%	100%	100%	100%
SOE Bonds	71%	74%	75%	25%	31%	30%
SOE Loans	28%	26%	25%	5%	5%	5%
LAMC	0%	0%	0%	69%	64%	64%
SOE Short term loans	1%	0%	0%	0%	0%	0%

Source: MOF Debt Bulletin, Table 21, 23

Deficits and Debt, part 6

- **The Treasury Bill market became the largest source of Government financing (by Instrument) last year, with close to Birr 300bn of outstanding funding provided via this market as of December 2022, up from Birr 201bn a year ago. The net financing provided to Government by this market has dropped sharply however, to just 19bn in the last six month period vs Birr 78bn in the same period last year.**

- **Nearly two-thirds of T-Bills sold are now of 365-day maturities while another quarter are of 182-day maturities. Effective interest rates (based on a weighted average of the four types of T-Bill maturities) have trended upwards since the market's establishment and now stand at near 10% as of end-December 2022, with some maturities (91-day Bills) yielding an even higher rate of 13% (reflecting participants apparent preference to hold just the shorter-dated Bills).**

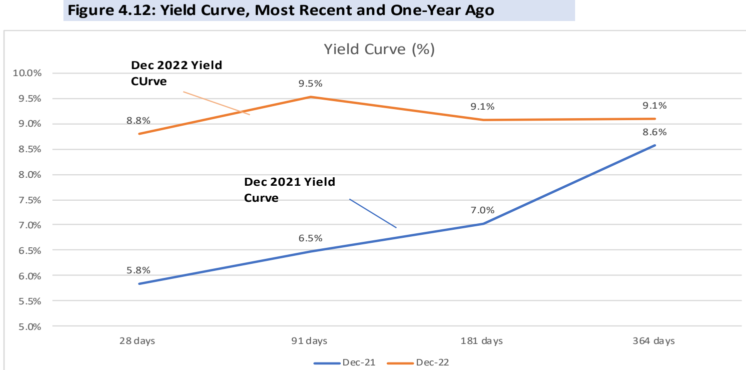
- **The yield curve as of December 2022 has shifted upwards from its year-ago levels, revealing higher financing costs for Government across all maturities, and especially for the shortest T-Bill maturities.**

Figure 4.11: Treasury Bills Market: Financing Amounts June 2020- December 2022

	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Dec-22
T-BIlls Outstanding, Birr bns	**23.7**	**54.6**	**118.8**	**200.6**	**278.6**	**297.4**	***% Share***
28-Day T-Bills	0.4	0.8	9.7	0.4	4.4	6.9	*2.3%*
91-Day T-Bills	11.6	19.6	47.9	19.5	5.4	19.7	*6.6%*
182-Day T-Bills	11.8	30.8	30.7	61.4	80.3	76.4	*25.7%*
365-Day T-Bills	-	3.4	30.6	119.3	188.5	194.3	*65.4%*
Effective borrowing rate:		**7.3%**	**10.3%**	**8.9%**	**8.4%**	**9.7%**	
28-Day T-Bills		5.2%	5.2%	4.5%	7.4%	9.8%	
91-Day T-Bills		7.8%	6.2%	6.3%	7.4%	12.9%	
182-Day T-Bills		7.2%	7.2%	6.5%	7.5%	8.8%	
365-Day T-Bills		…	…	…	7.5%	9.1%	
Implied net borrowing for 6-Month Period		**30.9**	**64.2**	**81.7**	**78.0**	***18.8***	

Source: Cepheus Research compilation based on NBE data provided on their website.

Figure 4.12: Yield Curve, Most Recent and One-Year Ago



Source: NBE,Cepheus Research

Deficits and Debt, part 7

- **Key debt sustainability metrics continue to show relatively moderate ratios for overall public debt to GDP and external debt to GDP. In addition, debt stock ratios when seen against current account inflows (exports, services, and remittances) are on a downward trend, However, public debt ratios relative to revenue have worsened due to the falling value of government revenue in USD terms.**

- **On the debt service side, there is a markedly heavier burden observed, with annual external debt service of $2bn equivalent to roughly half of annual goods exports. Relative to all current account receipts, however, annual external debt service stands at about 13-16 percent of such annual fx inflows.**

Figure 4.13: Ethiopia's Debt Sustainability Metrics

	2018-19	2019-20	2020-21	2021-22
Public Debt indicators				
Public Debt, USD bns	**$ 53.7**	**$ 55.3**	**$ 55.6**	**$ 57.3**
Public Debt to GDP, In %	56.1%	51.8%	50.5%	45.2%
Public Debt to Revenue, in %	485%	493%	719%	797%
External Public Debt indicators				
External Public Debt, USD bns	**$ 27.1**	**$ 28.9**	**$ 29.5**	**$ 27.9**
External Public Debt to GDP, in %	28%	27%	27%	22%
External Public Debt to Exports of Goods, in %	1015%	967%	816%	680%
External Public Debt to Exports of G & S, in %	356%	378%	348%	267%
External Public Debt to Exports of G & S & R, in %	203%	234%	218%	175%
External Public Debt to Revenue, in %	245%	258%	381%	388%
Net Present Value (NPV) indicators				
NPV of External Public Debt, USD bns	**$ 19.5**	**$ 19.7**	**$ 20.5**	**$ 19.4**
NPV of External Public Debt to GDP, In %	20.4%	18.4%	18.6%	15.3%
NPV of External Public Debt to Exports, In %	731.4%	659.4%	567.8%	472.4%
NPV of External Public Debt to Exports of G&S, In %	394.1%	422.4%	421.5%	306.1%
NPV of External Public Debt to Exports of G&S&R, In %	146.5%	159.2%	151.5%	121.3%
NPV of External Public Debt to Revenue, In %	176.2%	175.7%	265.4%	269.5%
External debt service payments				
External Public Debt Service, USD bns	**$ 2.036**	**$ 2.003**	**$ 1.903**	**$ 2.130**
External Public Debt Service to Revenue, in %	18.4%	17.9%	24.6%	29.6%
External Public Debt Service to Exports, in %	76.4%	67.0%	52.6%	51.9%
External Public Debt Service to Exports of G&S&R, in %	15.3%	16.2%	14.0%	13.3%
Macro indicators	2018-19	2019-20	2020-21	2021-22
USD GDP bns	$ 95.7	$ 106.8	$ 110.3	$ 126.8
Revenue, USD bns	$ 11.1	$ 11.2	$ 7.7	$ 7.2
Revenue, Birr bns	311	354	305	352
Exch rate year-avg, Birr/USD	28.1	31.6	39.4	48.9
Exports of Goods, USD bns	$ 2.7	$ 3.0	$ 3.6	4
Exports of Services, USD bns	$ 4.9	$ 4.7	$ 4.9	$ 6.3
Remittances, USD bns	$ 5.7	$ 4.7	$ 5.1	$ 5.5
Exports of G&S, USD, bns	$ 7.6	$ 7.7	$ 8.5	$ 10.4
Exports of G&S&R, USD bns	$ 13.3	$ 12.4	$ 13.6	$ 16.0
Nominal to NPV Debt conversion factor, %	72%	68%	70%	69%

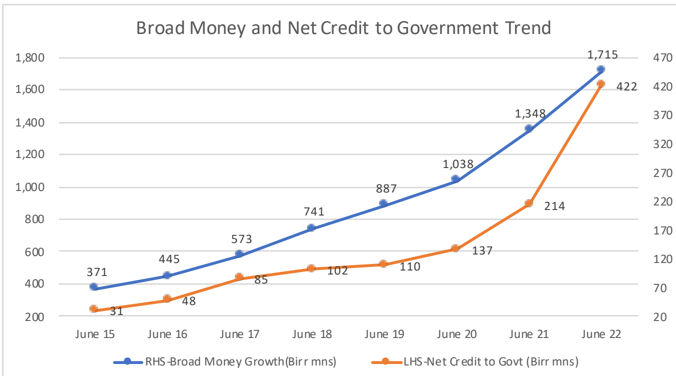
Source: MOF Debt Bulletin and 2020 IMF Staff Report.
Note: Nominal to NPV conversion factor based on 2020 IMF Staff Report's Debt Sustainability Analysis.
"Exports of G & S & R" refers to Exports of goods and services and remittances

SECTION 5: Monetary Policy

- **Broad money supply has been growing at annual rates of 25-30 percent in recent quarters and is heavily being driven by a need to finance an enlarged budget deficit.**

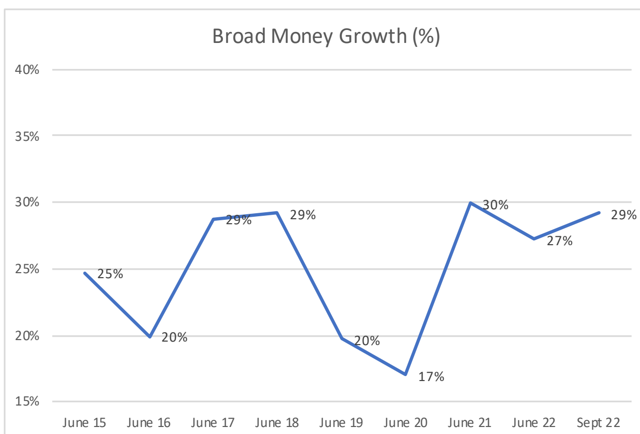
- **Net credit to Government now represents about a quarter of outstanding money supply (Birr 422bn of Birr 1,715bn) while it only represented about one-tenth of M2 (Birr 85bn of Birr 573bn) five years ago.**

Figure 5.1: Broad Money and Credit to Government Trend



Source: NBE

Figure 5.2: Broad Money Growth (%)



Source: NBE

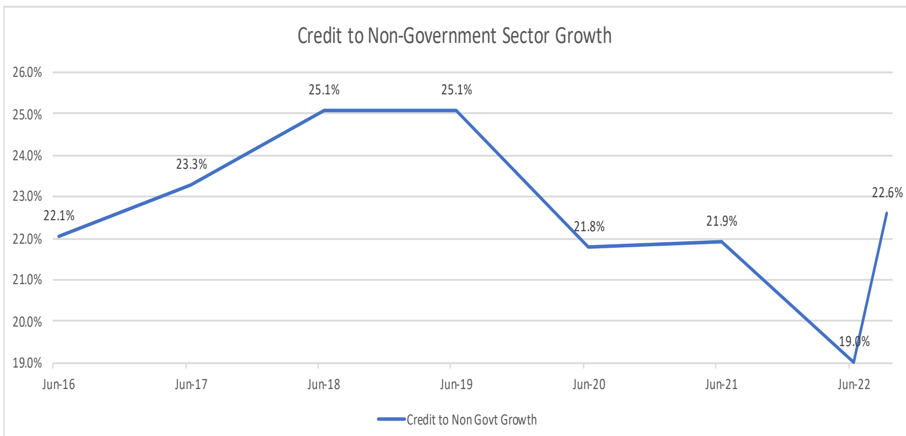
Disclaimer: This report represents solely the views, analysis, and judgement of the Cepheus research team and does not necessarily reflect the views or opinions of the Fund's Managing Partners, Advisors, or Investors.

Monetary Policy, part 2

- **Credit to the non-government sector (including private sector) has been growing at rates of near 20 percent for the last year despite growth of nearer 25 percent in the prior two years.**

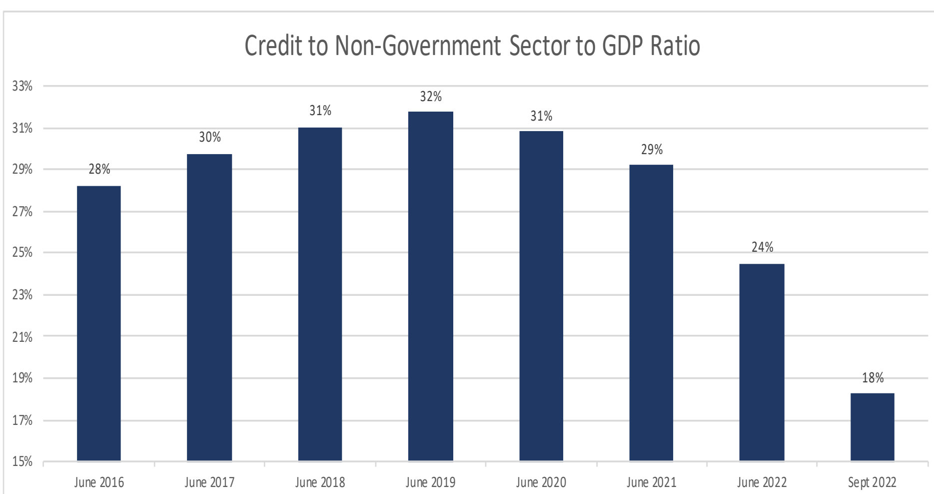
- **Relative to GDP, credit to the non-government sector is shrinking from a peak of 32 percent three years ago to just 18 percent as of September 2022; this reflects much lower growth rates in lending to the private sector and to state enterprises relative to growth in nominal GDP.**

Figure 5.3: Credit to Non-Government Sector Growth



Source: NBE

Figure 5.4: Credit to Non-Government Sector to GDP Ratio (Percent)



Source: NBE

Monetary Policy, part 3

- **Estimates suggest that only about one-third of new credit flows in the past year were directed towards the private sector, or around Birr 159bn of the Birr 449bn in new banking system lending.**

- **By contrast, almost half of new lending flowed to the Government while about 18% flowed to state enterprises.**

Figure 5.5: Trends on Total Credit and Estimated Credit to the Private Sector, In Birr billions

	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	Jun-22
TOTAL CREDIT OUTSTANDING, by Sector	**604**	**785**	**978**	**1,177**	**1,482**	**1,931**
Government Sector (net)	85	102	124	137	214	422
Non-Government	518	683	854	1,040	1,268	1,508
State-Owned Enterprises (SOEs)	281	342	412	487	575	657
Private Sector	237	341	442	553	692	851
Loans by Private Banks	133	179	259	347	516	700
Loans by Others (CBE/DBE)	104	162	183	206	176	152
CHANGE IN TOTAL CREDIT, by Sector	**…**	**181**	**194**	**199**	**305**	**449**
Government Sector (net)	…	17	22	13	77	208
Non-Government		683	336	357	414	241
SOEs	…	61	70	75	89	82
Private	…	104	101	111	139	159
COMPOSITION OF NEW CREDIT FLOWS	…	100%	100%	100%	100%	100%
Government	…	9%	11%	6%	25%	46%
State-Owned Enterprises	…	34%	36%	38%	29%	18%
Private Sector	…	57%	52%	56%	46%	35%

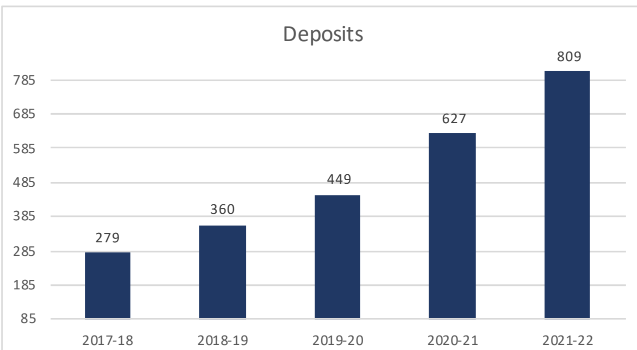
Source: NBE and IMF Monetary Survey Data, as well as MOF Public Debt Bulletin Public Sector Domestic Debt Tables
Credit to private sector figures are estimates calculated as residuals after subtracting Government and SOE credits.
Note: Total Credit Outstanding represents the Domestic Credit Line-item in the Monetary Survey.

SECTION 6: Banking Sector

- **The banking sector continued to show a significant expansion in 2022 with respect to deposits, loans, capital build-up, and operations (branches and employees).**

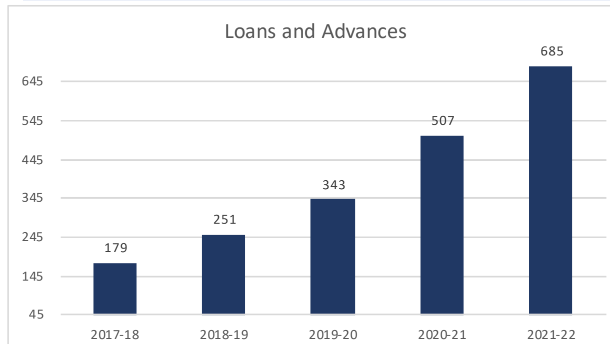
- **At private banks, loans were up 35 percent for the fiscal year as virtually all of the Birr 181bn increase in deposits (from 627 to 809bn) went into net new lending of Birr 177bn (from 507 to 685bn).**

Figure 6.1A: Deposits at Private Banks (Birr bns)



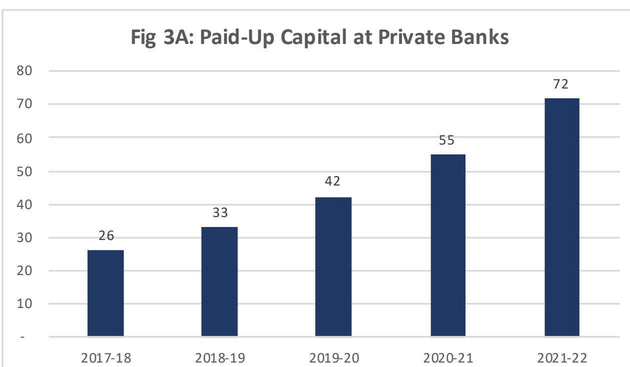
Source: Banks Annual Reports and NBE

Figure 6.1B: Loans at Private Banks (Birr Bns)



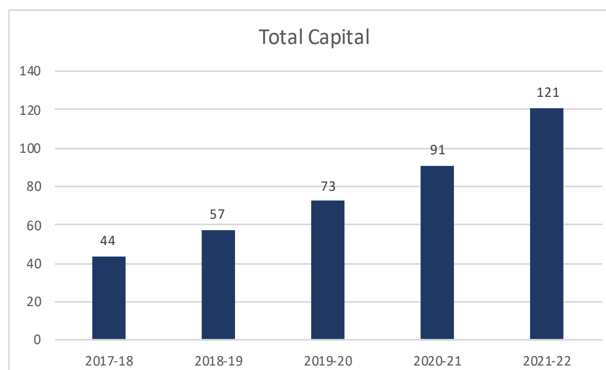
Source: Banks Annual Reports and NBE

Figure 6.1C: Paid-Up Capital at Private Banks (Birr bns)



Source: Banks Annual Reports and NBE

Figure 6.1D: Total Capital at Private Banks (Birr bns)



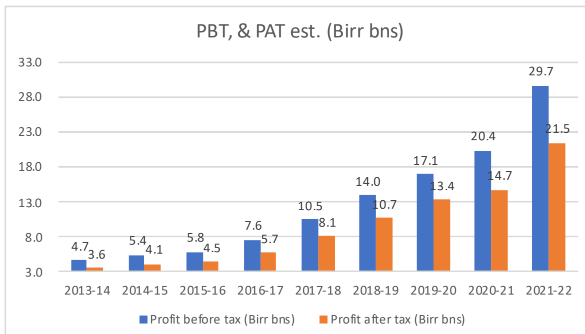
Source: Banks Annual Reports and NBE

Banking sector, part 2

- **Profits continued to grow at both the private banks and the state bank. Pre-tax profits of Birr 30bn are roughly double their levels of just three years ago at private banks, and an almost similar record is seen at CBE, whose reported profits are only slightly below the combined profits of all private banks.**

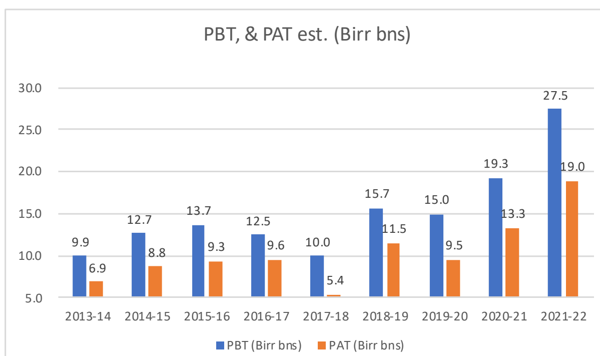
- **These profit levels have translated into an average Earnings Per Share (EPS) at private banks of 31.2 percent in 2021-22, exactly in line with the prior five-year average.**

Figure 6.2A: PBT, and PAT at Private Banks



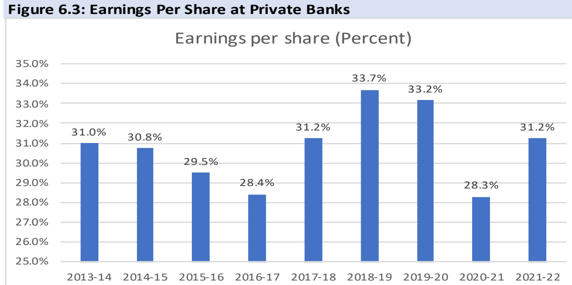
Source: Banks Annual Reports and NBE

Figure 6.2B: PBT, and PAT at Commercial Bank of Ethiopia



Source: Banks Annual Reports and NBE

Figure 6.3: Earnings Per Share at Private Banks



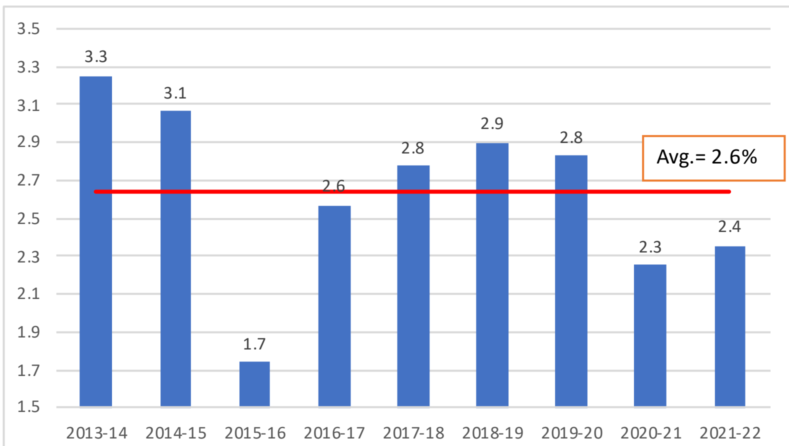
Source: Banks Annual Reports and NBE

Banking sector, part 3

- **Both the return on average equity (ROAA) and return on average assets (ROAE) were below their long-term averages.**

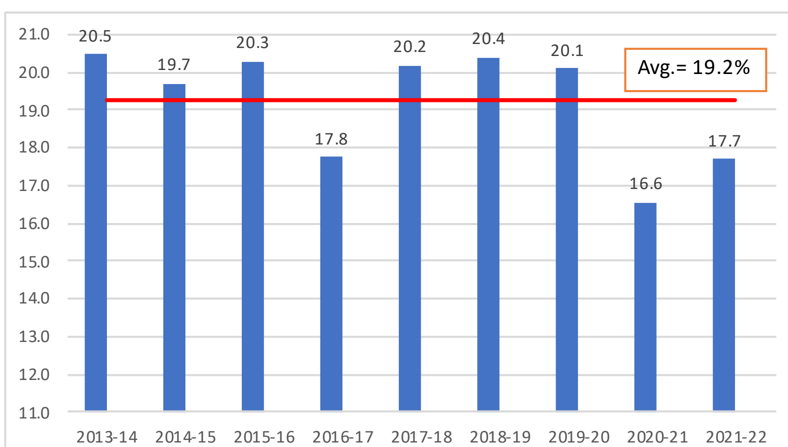
- **The ROAA decline reflects a slightly greater reliance on the asset-heavy lending business segment (versus income from forex operations) while the ROAE decline is due in part to more aggressive capital raising efforts in recent years.**

Figure 6.4: Return on Average Assets at Private Banks (RoAA)



Source: Banks Annual Reports and NBE

Figure 6.5: Return on Average Equity at Private Banks (RoAE)



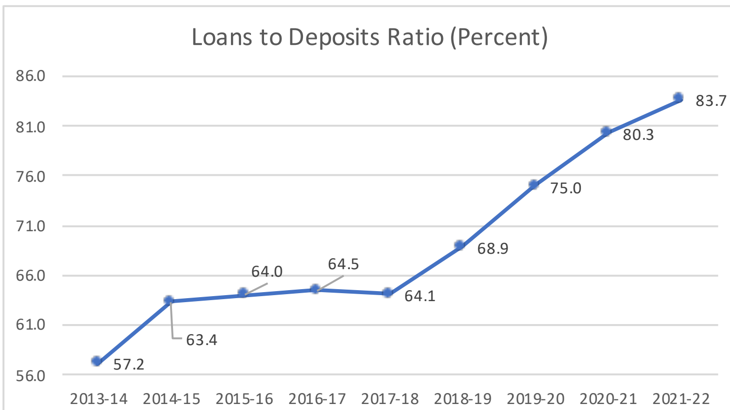
Source: Banks Annual Reports and NBE

Banking sector, part 4

- **Banks continue to display very high and steadily rising loan-to-deposit ratios, reflecting a desire to maximize their lending capacity for a given stock of deposits mobilized.**

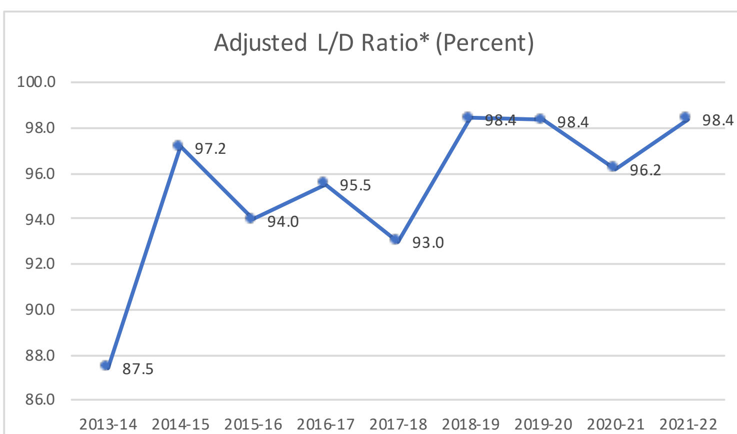
- **Accounting for reserve requirements and banks' T-bill holdings, banks show what is effectively a near 100 percent loan-to-deposit ratio over the last three years. This very high effective loan-to-deposit ratio implies a very limited cushion is being set aside for meeting unexpected customer cash withdrawal requests and explains frequent liquidity constraints faced at banks with high such ratios.**

Figure 6.6: Loans to Deposits Ratio at Private Banks



Source: Banks Annual Reports and NBE

Figure 6.7: Adjusted Loans to Deposits Ratio at Private Banks



Source: Banks Annual Reports and NBE

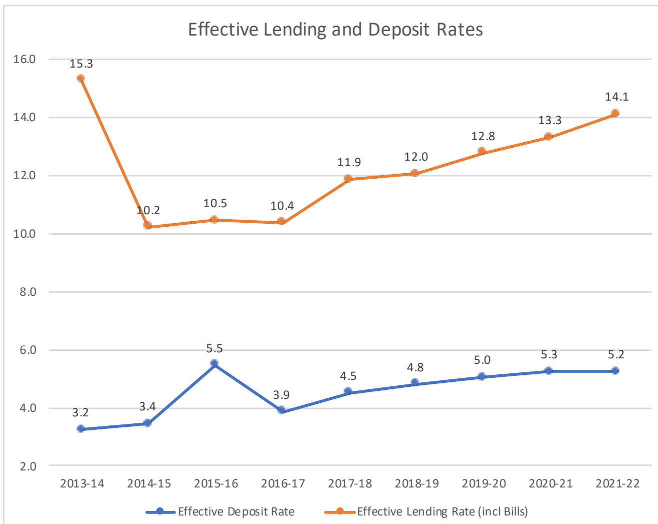
**Adjusted for reserve requirements and private banks' holdings of T-Bills.*

Banking sector, part 5

- **Effective lending rates have trended upwards over the last five years, from an average of near 10 percent to 14 percent. At the same time, effective deposit rates (reflecting banks' mix of saving and checking accounts) have only risen by 1 percentage point over the same period, allowing for an increase in the spread from around 7 to 9 percent.**

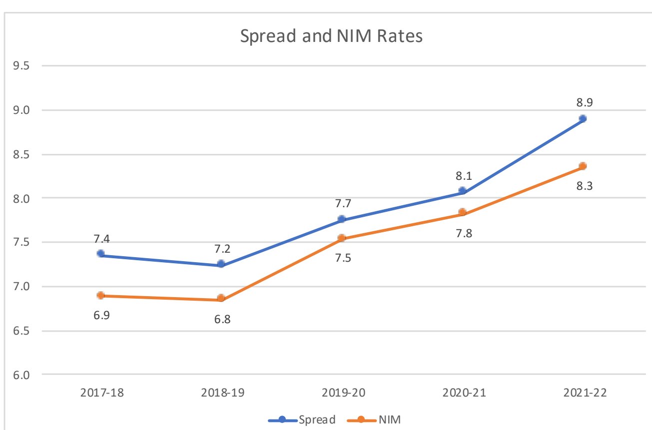
- **Net interest margins, which capture net interest income expressed relative to the average loan balance of all private banks, have been slightly lower at 8 percent but have also trended upwards in recent years.**

Figure 6.8: Effective Lending and Deposit Rates (%)



Source: NBE and Banks Annual Reports

Figure 6.9: NIM, and spread Rates at Private Banks



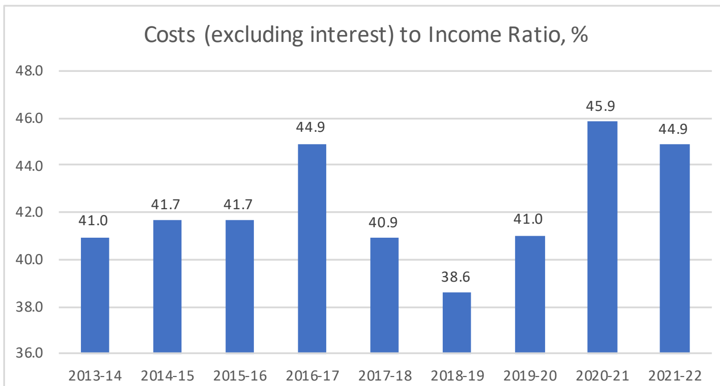
Source: NBE and Banks Annual Reports

Banking sector, part 6

- **Cost-to-income ratios remain favourable from a cross-country perspective but have moved upwards in the past two years reflecting on-going branch/staff expansions, large IT investments and higher compensation expenses.**

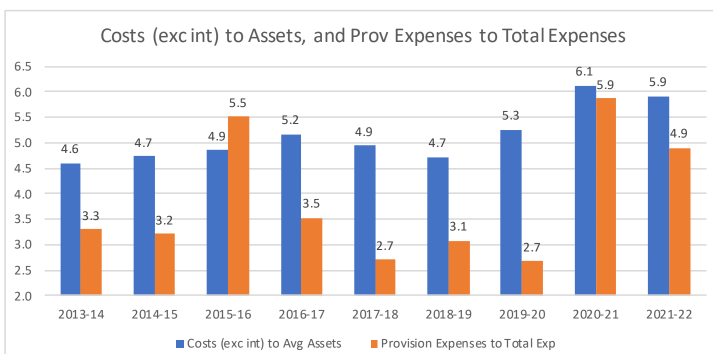
- **Provisions for bad loans have also become an increasing cost line-item for the industry as a whole, rising from just 3 percent of total expenses a few years ago to 5 or 6 percent of total expenses in both of the last two fiscal years.**

Figure 6.10A: Costs to Income Ratio at Private Banks



Source: Banks Annual Reports, and NBE

Figure 6.10B: Costs to Assets, and Prov. Expenses to Tot Expenses Ratio at Private Banks



Source: Banks Annual Reports and NBE

Banking sector, part 7

- **Seen over a decade-long perspective, and applying a Dupont analysis to banks' underlying earnings, the primary contributors to the strong returns of Ethiopian banks continues to be their sizeable net interest margins (6% of assets), significant other income (mainly fx fees and 3% of assets), low operational costs (5% of assets), and generally low provisions (0.5% of assets).**

- **Looking at individual bank performance, the significance of net interest income earnings vary from a low of 3.2% to a high of 8.0% of assets while 'other income' ranges from a low of 0.6% to a high of 7% of assets. Similarly large variations are seen across banks in operating costs (ranging from 3.6% to 6.9% of assets) and in provision expenses (0% to 1.6% of assets).**

Figure 6.11A: Dupont Analysis for Private Banking Sector

Dupont Decomposition	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Interest income to Assets	5.8%	6.2%	6.7%	7.3%	7.1%	8.4%	8.0%	9.5%	10.0%	10.1%
Interest cost to Assets	-2.3%	-2.3%	-2.5%	-4.9%	-2.9%	-3.5%	-3.8%	-3.9%	-4.1%	-4.1%
Net interest income to Assets	3.5%	3.9%	4.1%	3.2%	4.3%	4.9%	4.7%	5.6%	5.9%	6.0%
Other income to Assets	4.8%	4.9%	4.7%	4.4%	4.3%	3.7%	2.6%	3.3%	3.3%	3.1%
Operating income to Assets	8.3%	8.8%	8.8%	7.5%	8.6%	8.6%	8.6%	8.9%	9.2%	9.1%
Operational costs to Assets	-3.5%	-4.3%	-4.5%	-4.5%	-4.9%	-4.7%	-4.2%	-5.0%	-5.5%	-5.4%
Operational profit to Assets	4.2%	4.5%	4.3%	4.4%	3.7%	3.8%	3.1%	3.8%	3.7%	3.7%
Provisions to Assets	-0.5%	-0.3%	-0.2%	-0.4%	-0.3%	-0.2%	-0.2%	-0.2%	-0.6%	-0.5%
Profits-Before-Tax to Assets	3.8%	4.2%	4.1%	4.0%	3.4%	3.6%	3.1%	3.6%	3.1%	3.2%
Taxes to Assets	-1.1%	-0.9%	-1.0%	-0.9%	-0.8%	-0.9%	-0.7%	-0.8%	-0.8%	-0.8%
Profits-After-Tax to Assets (ROAA)	3.2%	3.3%	3.1%	1.7%	2.6%	2.8%	2.9%	2.8%	2.3%	2.4%
Leverage ratio (Assets to total equity)	6.8	6.4	6.5	6.8	7.2	7.4	7.8	7.3	7.7	7.8
Profits to Equity (ROAE)	21.6%	20.5%	19.7%	20.3%	17.8%	20.2%	20.4%	20.1%	16.6%	17.7%
Total Equity to Paid-up Equity	1.67	1.52	1.56	1.45	1.60	1.54	1.65	1.66	1.64	1.59
Earnings Per Birr 1,000 Share	36.0%	31.1%	30.8%	29.5%	28.4%	31.2%	33.7%	33.4%	27.2%	31.2%

Source: Cepheus Research compilation based on Banks' Annual Reports

Figure 6.11B: Dupont Analysis: Bank by Bank Analysis for FY 2020-22

	Awash	Dashen	Abyssinia	Wegagen	NIB	United	CBO	Lion	Zemen	OIB	Bunna	Berhan	Abay	Addis	Enat	Debub
Gross interest income to Assets	9.1%	7.5%	11.3%	9.8%	10.6%	11.0%	8.3%	11.6%	8.1%	9.5%	12.2%	10.6%	10.0%	8.4%	10.5%	13.4%
Gross interest expense to Assets	-2.8%	-2.8%	-3.3%	-4.4%	-4.4%	-3.8%	-2.8%	-5.4%	-3.1%	-3.6%	-4.3%	-4.2%	-3.2%	-4.3%	-7.4%	-6.3%
Net interest income to Assets	6.3%	4.7%	8.0%	5.4%	6.2%	7.2%	5.5%	6.2%	5.0%	5.9%	7.9%	6.5%	6.8%	4.1%	3.2%	7.0%
Other income to Asssets	4.2%	2.2%	2.5%	2.3%	1.5%	2.3%	4.1%	0.6%	5.6%	2.8%	2.9%	3.4%	2.2%	7.1%	3.2%	3.1%
Operating income to Assets	10.4%	6.9%	10.5%	7.7%	7.7%	9.5%	9.5%	6.8%	10.5%	8.8%	10.8%	9.9%	9.1%	11.2%	6.3%	10.1%
Operating expenses to Assets	-5.1%	-4.4%	-6.3%	-6.6%	-4.4%	-5.5%	-6.0%	-4.3%	-3.6%	-5.5%	-6.5%	-6.8%	-5.1%	-5.7%	-3.8%	-6.9%
Operating profit to Assets	5.3%	2.5%	4.2%	1.1%	3.3%	4.0%	3.5%	2.5%	6.9%	3.3%	4.3%	3.1%	3.9%	5.4%	2.5%	3.3%
Provisions to Assets	-0.5%	-0.2%	-0.5%	-0.3%	-0.3%	-0.9%	-0.6%	-1.6%	-0.2%	0.0%	-0.3%	-1.1%	-0.3%	-0.6%	-0.1%	-0.4%
Profit before tax to assets	4.8%	2.3%	3.7%	0.8%	3.0%	3.1%	2.9%	1.0%	6.7%	3.2%	4.0%	1.9%	3.7%	4.8%	2.4%	2.9%
Taxes to assets	-1.4%	-0.7%	-1.1%	-0.1%	-0.7%	-1.3%	-0.8%	-0.1%	-1.8%	-0.7%	-1.0%	-0.3%	-1.0%	-1.3%	-0.4%	-0.7%
Profit after tax to assets (ROAA)	3.4%	1.6%	2.6%	0.8%	2.3%	1.8%	2.1%	0.8%	4.9%	2.6%	2.9%	1.6%	2.6%	3.5%	2.0%	2.2%
Leverage ratio (assets/total equity)	8.5	8.6	11.1	7.8	7.6	8.8	10.6	8.7	5.6	7.6	6.8	7.3	7.0	5.2	6.8	6.5
Return on equity (ROAE)	29.0%	14.1%	28.3%	6.1%	17.6%	15.8%	22.2%	7.2%	27.5%	19.5%	19.9%	11.7%	18.5%	18.2%	13.5%	14.0%
Effective Total to Paid-Capital Ratio	2.0	3.8	2.0	2.7	1.7	1.7	1.5	1.5	1.7	1.6	1.5	1.3	1.6	1.6	1.4	1.3
Earnings per share, estimated	57.0%	53.2%	56.8%	16.6%	29.2%	26.5%	34.0%	10.6%	45.5%	30.7%	29.8%	15.6%	29.5%	28.2%	18.5%	18.2%

Source: Cepheus Research based on Banks' Annual Reports. Shaded cells show bank with best performance for given line-item

Banking sector, part 8

- **Non-performing loans at private have more doubled in the past two years (from Birr 10bn to 26bn) but remain low (only 4 percent) relative to total loans. Even including 'special mention loans' (those late by 30 to 90 days), the combined stock of NPL and Special Mention loans is only around 8% of total loans.**

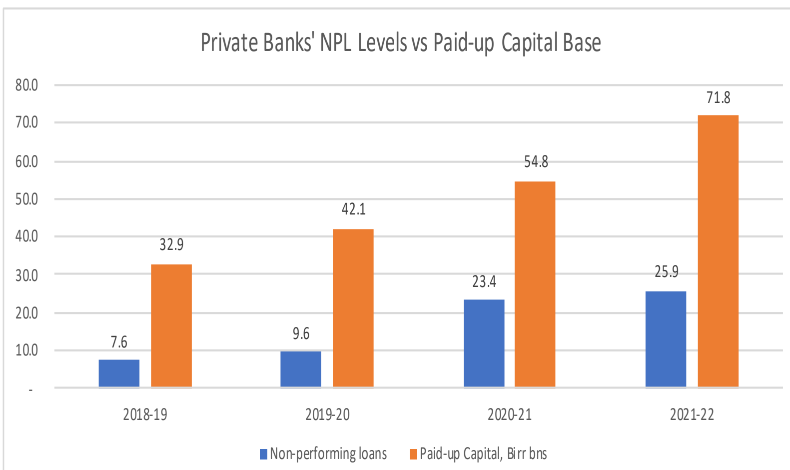
- **The NPL levels within the private banking system are more than fully covered by banks' paid-up capital, which has reached Birr 72bn, implying minimal financial stability risks given this large cushion. Most loans are also backed by collateral held by banks and so NPLs would not affect capital levels until recoveries are first exhausted from such collateral holdings.**

Figure 6.12A: Private Banks' Asset Quality and NPL Metrics

	2018-19	2019-20	2020-21	2021-22
Total Loans--private banks, Birr bns	**250.3**	**340.0**	**507.2**	**676.8**
Pass loans	229.6	308.5	453.5	592.6
Special mention loans	13.2	21.9	37.1	31.0
Non-performing loans	7.6	9.6	23.4	25.9
NPL ratio, %	3.0%	2.8%	4.6%	3.8%
Provisions held	3.4	4.7	8.5	11.6
Provisions to NPL ratio, %	45.0%	48.3%	36.2%	44.9%
Net NPL ratio (after provisions), %	1.7%	1.5%	2.9%	2.1%

Source: Cepheus Research compilation based on Annual Reports of 16 private banks

Figure 6.12B: Private Banks' NPL Levels vs Paid-Up Capital Bases, Birr bns



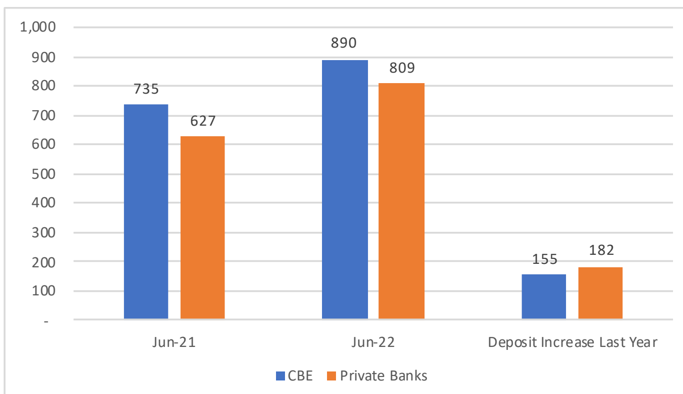
Source: Cepheus Research compilation based on Annual Reports of 16 private banks

Banking sector, part 9

- **Market share developments continue to show CBE having slightly more than half of total deposits in the banking system. Private banks' have, however, been collectively moving towards the 50% mark in recent years and stood at 48% as of 2022.**

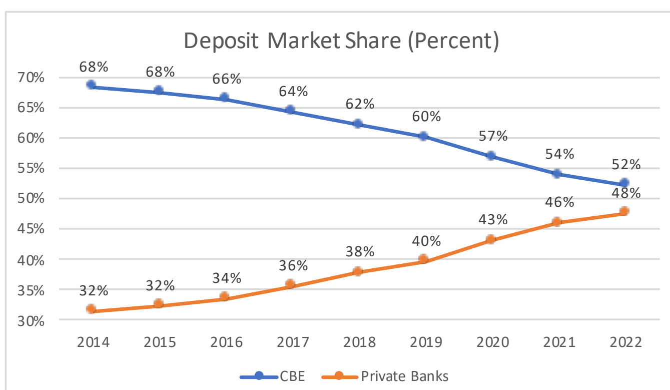
- **Of last year's Birr 337bn deposit increase, slightly more than half (Birr 182bn or 52%) of the deposit increase came from private banks, showing that private banks are already collectively gaining more deposit market share on an incremental basis.**

Figure 6.13A: Deposit Levels in 2021-22 at Banks (Birr bns)



Source: Banks Annual Reports and NBE

Figure 6.13B: Deposit Market Share Trends at Banks



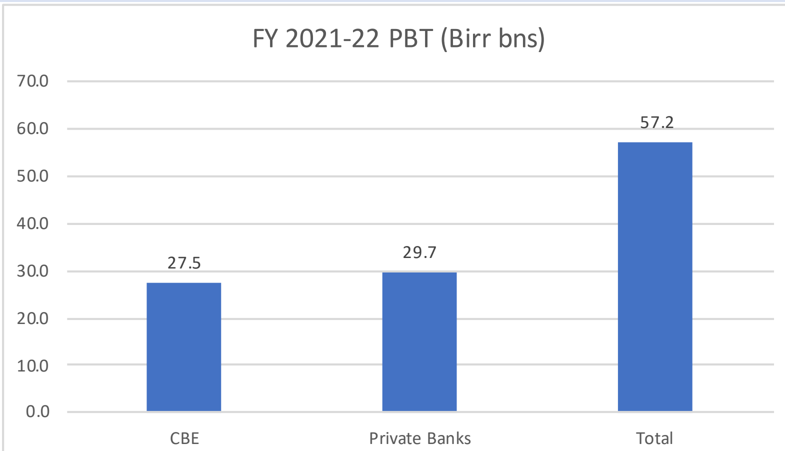
Source: Banks Annual Reports and NBE

Banking sector, part 10

- **Pre-tax profits rose from Birr 40bn to Birr 57bn at all banks, and from Birr 20bn to Birr 30bn at private banks. The combined banking sector profit pool is now $1.2bn in USD terms.**

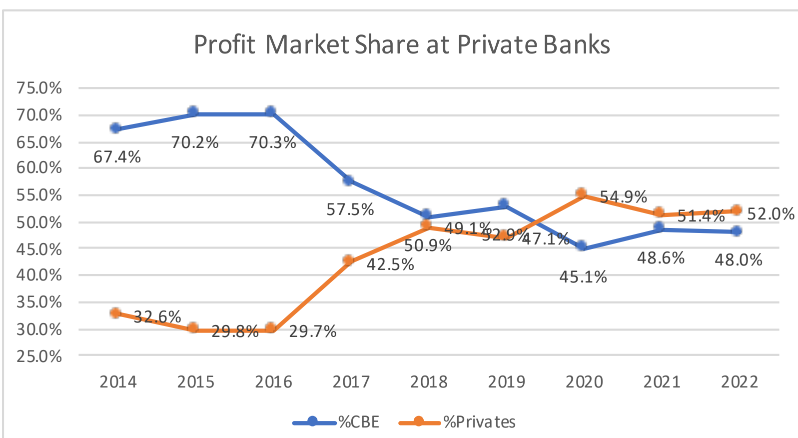
- **With respect to profit market share, private banks have collectively taken a slight lead three years ago and showed a 52 percent market share in 2022.**

Figure 6.13C: FY 2021-22 Profit Levels at Private Banks



Source: Banks Annual Reports and NBE

Figure 6.13D: Profit Market Share at Private Banks



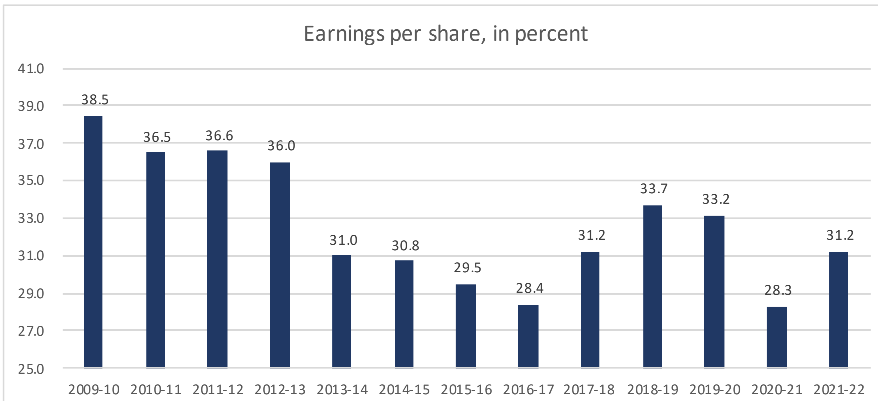
Source: Banks Annual Reports and NBE

Disclaimer: This report represents solely the views, analysis, and judgement of the Cepheus research team and does not necessarily reflect the views or opinions of the Fund's Managing Partners, Advisors, or Investors.

Banking sector, part 11

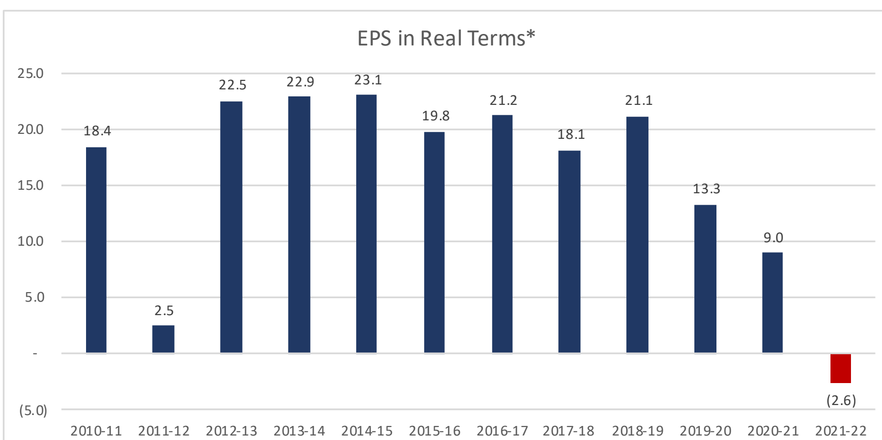
- **After accounting for inflation, real EPS returns have shown a downward trend for the last three years and turned negative for the first time last year (given a nominal EPS return of 31.2% and year-average inflation of 33.8%)**

Figure 6.14: EPS Trends at Private Banks, in percent



Source: Cepheus Research compilation based on Banks' Annual Reports

Figure 6.15: EPS Trends in Real Terms at Private Banks



Source: Cepheus Research compilation based on Banks' Annual Reports
**EPS returns less year-average inflation for the relevant fiscal year.*

Banking sector, part 12

- **Shareholder returns averaged 31 percent for the sector as a whole last year, with a wide dispersion seen around the average. Some of the best performing banks continued to see EPS returns above 40% while returns were in the mid- to high-teens for those at the lower end.**

- **The dispersion in returns continues to reflect large variations in banks' balance sheet composition, income structure, lending margins, cost structures, and efficiency metrics as seen the Figure 6.18**

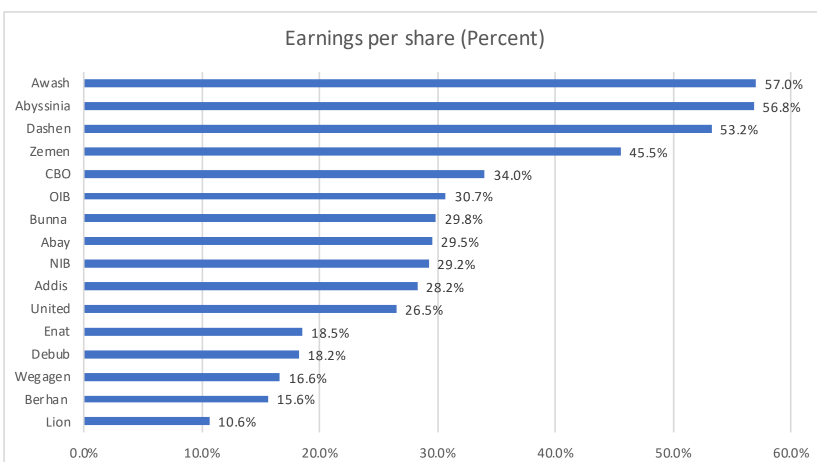
Figure 6.16: Private Banks: Earnings per share, in percent

Ranked by EPS average since 2010

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	**Average**
1 Dashen Bank	60.9	75.3	92.6	82.3	67.0	58.9	48.7	39.2	43.0	40.8	49.0	47.1	53.2	**58.3**
2 Awash Bank	49.3	56.0	46.9	45.6	47.5	44.5	37.1	40.9	54.3	63.2	51.0	47.0	57.0	**49.3**
3 Zemen Bank	38.7	58.1	57.7	41.0	32.1	32.0	35.0	38.4	28.6	39.8	46.2	46.9	45.5	**41.5**
4 Abyssinia Bank	44.7	56.7	54.4	50.2	38.1	27.8	31.5	37.6	24.4	28.9	28.8	39.1	56.8	**39.9**
5 United Bank	47.7	52.8	52.8	47.7	34.1	29.8	32.4	27.2	35.4	39.2	29.8	28.9	26.5	**37.2**
6 Coop Bank of Oromia	17.0	29.0	45.0	52.0	61.0	50.0	4.4	22.0	42.0	36.4	47.0	40.0	34.0	**36.9**
7 NIB Bank	37.6	38.0	34.4	29.4	28.6	27.4	25.8	31.4	26.8	30.8	33.2	30.8	29.2	**31.0**
8 Lion Bank	...	17.6	24.4	31.5	23.6	42.5	47.9	31.2	30.2	38.0	33.6	14.4	10.6	**28.8**
9 Wegagen Bank	38.0	44.8	37.8	33.0	26.1	24.4	22.2	28.0	36.5	25.6	31.3	4.2	16.6	**28.3**
10 Oromia Intl Bank	12.3	20.5	14.8	19.2	31.0	36.4	31.0	27.8	52.5	37.4	32.0	27.0	30.7	**28.7**
11 Bunna Bank	...	10.7	13.3	21.1	22.8	28.7	34.0	24.2	28.6	28.7	22.5	29.3	29.8	**24.5**
12 Berhan Bank	...	17.5	20.6	20.5	23.9	20.7	39.9	32.8	20.4	24.7	25.9	7.4	15.6	**22.5**
13 Abay Bank	...	-2.5	12.2	14.4	16.3	27.2	23.1	22.9	28.4	34.3	27.0	33.4	29.5	**22.2**
14 Debub Global Bank	...	...	...	...	9.1	6.6	22.8	17.4	13.1	32.3	34.7	16.6	18.2	**19.0**
15 Addis International Bank	...	...	5.7	15.9	19.6	18.7	19.3	18.7	17.1	20.7	22.5	25.0	28.2	**19.2**
16 Enat Bank	...	...	...	...	14.9	16.4	16.8	14.9	18.4	18.5	16.1	15.8	18.5	**16.7**
Average	***38.5***	***36.5***	***36.6***	***36.0***	***31.0***	***30.8***	***29.5***	***28.4***	***31.2***	***33.7***	***33.2***	***28.3***	***31.2***	***32.7***
Median	*38.7*	*38.0*	*36.1*	*32.2*	*27.4*	*28.3*	*31.3*	*27.9*	*28.6*	*33.3*	*31.7*	29.1	29.4	*31.7*
Older six	*46.4*	*53.9*	*53.1*	*48.0*	*40.2*	*35.5*	*33.0*	*34.1*	*36.7*	*38.1*	*37.2*	32.8	39.9	*40.7*
Newer ten	*22.7*	*21.5*	*24.2*	*27.0*	*25.4*	*27.9*	*27.4*	*25.0*	*27.9*	*31.1*	*30.8*	25.6	26.1	*26.4*
Maximum	*60.9*	*75.3*	*92.6*	*82.3*	*67.0*	*58.9*	*48.7*	*40.9*	*54.3*	*63.2*	*51.0*	47.1	57.0	*61.5*
Minimum	*12.3*	*-2.5*	*5.7*	*14.4*	*9.1*	*6.6*	*4.4*	*14.9*	*13.1*	*18.5*	*16.1*	4.2	10.6	*9.8*

Source: Cepheus Research compilation based on Banks' Annual Reports

Figure 6.17: Private Banks: Earnings Per Share (In Percent), June 2022



Source: Cepheus Research compilation based on Banks' Annual Reports

Banking sector, part 13

Figure 6.18A: Private Banks Overview: FY 2021-22

Balance Sheet	**AIB**	**DB**	**BOA**	**WB**	**NIB**	**UB**	**CBO**	**LIB**	**ZB**	**OIB**	**Bunna**	**Berhan**	**Abay**	**Addis**	**Enat**	**DGB**
Assets	**183,391**	**117,144**	**149,451**	**43,122**	**61,491**	**67,409**	**114,606**	**32,973**	**35,120**	**52,045**	**34,104**	**33,065**	**40,696**	**10,788**	**17,209**	**14,086**
Loans and Advances	126,895	74,868	111,580	28,911	38,936	45,056	82,699	23,793	21,122	31,255	25,392	20,944	26,595	6,026	11,206	9,350
NBE Bills	-	-	-	273	366	5,150	-	-	2,306	-	-	3,300	-	36	1,306	-
Foreign Assets	6,336	3,036	1,186	799	39	862	1,227	600	3,646	2,691	375	248	1,052	601	418	126
Liabilities																
Deposits	148,029	91,236	122,045	33,916	49,758	53,810	96,769	25,938	26,872	43,521	27,184	26,027	32,397	7,749	13,050	10,985
Paid-up Capital	10,291	6,863	8,320	3,391	4,824	4,298	7,732	2,575	3,645	4,365	3,315	3,159	3,971	1,444	1,935	1,628
Total Capital	20,951	14,380	14,216	5,614	8,116	7,247	11,312	3,834	6,257	6,843	5,065	4,464	5,857	2,173	2,592	2,189
Income Statement																
Interest Income	14,160	7,964	14,351	4,052	6,132	6,678	8,084	3,788	2,433	4,468	3,669	3,180	3,543	823	1,676	1,718
Interest Expense	4,377	2,960	4,232	1,806	2,519	2,312	2,701	1,762	938	1,685	1,303	1,245	1,126	422	1,171	813
Net Interest Income	9,783	5,004	10,120	2,246	3,614	4,366	5,383	2,026	1,495	2,783	2,366	1,935	2,417	401	505	905
Other Income	6,484	2,295	3,138	938	864	1,416	3,970	201	1,678	1,322	867	1,024	789	699	503	400
Expenses Incl provisions	8,813	4,873	8,603	2,839	2,724	3,910	6,509	1,917	1,153	2,587	2,047	2,376	1,905	627	631	935
o/w: Salaries and Benefits	5,677	2,145	4,389	1,600	1,768	1,693	2,321	788	650	1,543	1,184	1,209	1,095	313	360	429
o/w: Provisions	855	249	630	107	164	548	631	519	61	16	104	337	92	62	20	50
o/w: Admin and all other	2,281	2,479	3,584	1,132	792	1,670	3,557	610	443	1,028	759	830	718	252	250	455
o/w: Rent expenses	5	23	-	2	-	-	353	-	4	68	-	-	-	93	-	-
Profit before tax	7,453	2,427	4,655	572	1,763	1,879	2,843	311	2,019	1,519	1,187	583	1,301	473	377	370
Tax	2,112	701	1,419	21	424	788	798	42	543	317	306	105	368	128	63	93
Profit after tax	5,341	1,726	3,236	551	1,339	1,091	2,045	269	1,476	1,201	881	479	933	345	314	277
Key YOY growth rates																
Assets	42.5	23.7	43.9	8.7	13.5	24.6	40.9	2.4	39.6	24.8	31.4	22.8	35.7	21.6	17.7	21.1
Loans and Advances	47.5	21.4	47.9	11.0	13.8	26.8	54.3	9.0	50.6	25.3	41.6	22.8	33.9	34.1	25.0	12.8
Foreign Assets	(17.0)	92.6	(29.8)	(44.0)	(44.2)	23.6		45.8	(6.0)	86.2	(33.9)	(68.1)	(6.3)	(29.9)	(19.7)	7,315.8
NBE Bills	-100.0	-100.0	-100.0	-95.0	-94.5	-19.1	-100.0	-100.0	-17.3	-100.0	-100.0	-13.0	-100.0	-95.8	-22.7	-100.0
Deposits	44.7	22.4	37.3	7.7	14.3	22.8	36.1	-0.2	41.5	26.7	32.9	19.9	35.5	23.4	16.1	26.2
Paidup capital	25.7	56.4	60.5	3.3	13.2	11.1	66.2	2.5	32.6	26.0	32.2	8.7	41.2	30.3	25.4	17.1
Total Capital	32.2	42.0	64.4	11.9	15.7	11.8	59.4	5.3	39.5	25.1	33.0	19.1	38.5	34.0	25.8	24.2
Total Income	50.2	0.0	67.6	-0.3	20.2	33.0	50.1	-1.1	43.4	28.1	37.7	21.9	32.1	31.6	31.7	23.4
Total Expenses	47.9	0.0	53.1	-3.5	24.9	33.8	45.4	1.6	33.2	25.8	42.1	16.4	42.5	33.1	31.9	20.2
Profit before tax	54.5	0.0	126.9	196.3	8.6	30.7	67.6	-25.0	55.7	34.5	26.6	72.8	12.8	28.2	30.3	41.2
Per share data																
Earnings per share (%)	57.0	53.2	56.8	16.6	29.2	26.5	34.0	10.6	45.5	30.7	29.8	15.6	29.5	28.2	18.5	18.2
Total Capital/Paid-up Capital	2.0	2.1	1.7	1.7	1.7	1.7	1.5	1.5	1.7	1.6	1.5	1.4	1.5	1.5	1.3	1.3
No. of:																
Branches	725	582	748	400	410	423	593	278	80	400	343	326	373	112	104	133
Employees	17,393	12,406	9,677	4,824	7,578	4,971	6,547	4,189	1,325	5,004	2,932	6,278	6,990	1,060	978	2,332
Compensation costs																
Wages & Salaries, Birr mn	5,677	2,145	4,389	1,600	1,768	1,693	2,321	788	650	1,543	1,184	1,209	1,095	313	360	429
Employees	17,393	12,406	9,677	4,824	7,578	4,971	6,547	4,189	1,325	5,004	2,932	6,278	6,990	1,060	978	2,332
Average monthly salary, Birr	27,200	14,409	37,798	27,631	19,439	28,375	29,537	15,675	40,849	25,693	33,658	16,042	13,050	24,615	30,695	15,340

Source: Cepheus Research compilaton based on Banks's Annual Reports

Banking sector, part 14

Figure 6.18B: Private Banks Overview: FY 2021-22

Balance Sheet Ratios (%)	AIB	DB	BOA	WB	NIB	UB	CBO	LIB	ZB	OIB	Bunna	Berhan	Abay	Addis	Enat	DGB
Loans/Assets	69	64	75	67	63	67	72	72	60	60	74	63	65	56	65	66
Loans/Deposits	85.7	82.1	91.4	85.2	78.3	83.7	85.5	91.7	78.6	71.8	93.4	80.5	82.1	77.8	85.9	85.1
Assets/Total Equity	875	815	1,051	768	758	930	1,013	860	561	761	673	741	695	496	664	644
Deposits/Liabilities	91	89	90	90	93	89	94	89	93	96	94	91	93	90	89	92
Capital Ratio (%)																
Capital/Assets	11	12	10	13	13	11	10	12	18	13	15	14	14	20	15	16
Deposit Composition																
Total Deposits	148,029	91,236	122,045	33,916	49,758	53,810	96,769	25,938	26,872	43,521	27,184	26,027	32,397	7,749	13,050	10,985
% Saving Deposits	61.3	59.3	67.5	61.0	62.9	52.8	58.6	82.2	47.3	54.3	77.8	60.1	66.4	49.5	47.2	49.5
% Checking Deposits	33.6	35.0	28.5	28.0	18.7	32.2	33.9	7.3	44.6	32.9	15.1	33.2	28.0	26.8	14.2	13.9
% Time Deposits	5.1	5.6	3.9	11.0	18.4	15.0	7.5	10.5	8.1	12.9	7.1	6.7	5.6	23.7	38.6	36.7
Revenue Composition (%)																
Net Interest Income/Income	60.1	68.6	76.3	70.5	80.7	75.5	57.6	91.0	47.1	67.8	73.2	65.4	75.4	36.5	50.1	69.4
Non-interest-Income/Income	39.9	31.4	23.7	29.5	19.3	24.5	42.4	9.0	52.9	32.2	26.8	34.6	24.6	63.5	49.9	30.6
Cost Ratios (%)																
Costs (exc int)/Income	42.7	47.5	49.2	56.9	38.9	48.3	54.0	48.0	28.1	44.7	45.1	56.5	44.0	41.2	28.9	44.1
Costs (exc int)/Avg Assets	5.6	4.6	6.8	6.9	4.7	6.4	6.6	5.9	3.8	5.5	6.8	7.9	5.4	6.4	4.0	7.3
Personnel Expenses/Total Exp	43.0	27.4	34.2	34.4	33.7	27.2	25.2	21.4	31.1	36.1	35.4	33.4	36.1	29.9	20.0	24.6
Rent Expenses/Total Exp	0.0	0.3	-	0.0			3.8			1.6			-	8.9	-	-
Provision Expenses/Total Exp	6.5	3.2	4.9	2.3	3.1	8.8	6.9	14.1	2.9	0.4	3.1	9.3	3.0	5.9	1.1	2.9
Effective Tax Rate	28.3	28.9	30.5	3.6	24.1	41.9	28.1	13.5	26.9	20.9	25.7	18.0	28.3	27.1	16.7	25.2
Margins																
Effective Deposit Rate	3.5	3.6	4.0	5.5	5.4	4.7	3.2	6.8	4.1	4.3	5.5	5.2	4.0	6.0	9.6	8.3
Effective Lending Rate (incl Bills)	12.7	10.8	14.8	13.4	15.3	14.5	11.1	15.3	12.1	14.3	16.0	14.1	14.4	14.4	14.5	18.4
Spread	9.2	7.2	10.8	7.8	9.9	9.8	7.9	8.5	8.0	10.0	10.5	8.9	10.4	8.4	4.8	10.1
NIM	8.8	6.8	10.4	7.4	9.0	9.5	7.4	8.2	7.4	8.9	10.3	8.6	9.8	7.0	4.4	9.7
Profitability Ratios (%)																
RoAA	3.4	1.6	2.6	0.8	2.3	1.8	2.1	0.8	4.9	2.6	2.9	1.6	2.6	3.5	2.0	2.2
RoAE	29.0	14.1	28.3	6.1	17.6	15.8	22.2	7.2	27.5	19.5	19.9	11.7	18.5	18.2	13.5	14.0
EPS	57.0	53.2	56.8	16.6	29.2	26.5	34.0	10.6	45.5	30.7	29.8	15.6	29.5	28.2	18.5	18.2
Efficiency Ratios																
Branch productivity (Birr mns)																
Deposit per branch	204.2	156.8	163.2	84.8	121.4	127.2	163.2	93.3	335.9	108.8	79.3	79.8	86.9	69.2	125.5	82.6
Revenue per branch	28.5	17.6	23.4	12.5	17.1	19.1	20.3	14.3	51.4	14.5	13.2	12.9	11.6	13.6	21.0	15.9
Profit per branch	7.4	3.0	4.3	1.4	3.3	2.6	3.4	1.0	18.5	3.0	2.6	1.5	2.5	3.1	3.0	2.1
Employee productivity (Birr '000s)																
Revenue per employee	1,186.9	827.0	1,807.4	1,034.5	923.3	1,628.3	1,841.0	952.3	3,102.8	1,157.1	1,547.3	669.7	619.8	1,435.3	2,227.8	908.4
Profit per employee	307.1	139.1	334.4	114.3	176.6	219.5	312.4	64.2	1,114.2	240.0	300.6	76.2	133.5	325.3	321.3	118.9

Source: Cepheus Research compilaton based on Banks's Annual Reports

Banking sector, part 15

Figure 6.18C: Commercial Bank of Ethiopia: Summary Financials, Birr mn unless otherwise stated

	2016-17	2017-18	2018-19	2019-20	2020-21
Balance Sheet					
Assets	**490,068**	**573,894**	**712,882**	**819,279**	**991,319**
Loans and Advances	388,495	469,261	570,455	655,219	712,966
Corporate Bonds	197,616	247,844	313,493	368,317	433,757
Foreign Assets	9,553	10,156	12,808	18,564	12,808
Liabilities					
Deposits	365,102	451,858	540,941	593,041	735,296
Paid-up Capital	40,000	40,000	40,000	40,000	40,000
Total Capital	44,554	47,206	50,249	49,882	53,827
Income Statement					
Interest Income	25,977	37,329	45,675	53,770	65,313
Interest Expense	9,206	14,750	20,057	24,680	33,143
Net Interest Income	16,771	22,578	25,618	29,090	32,170
Other Income	6,263	5,482	8,120	14,822	16,642
Expenses Incl provisions	10,530	18,055	15,277	24,663	25,190
o/w: Salaries and Benefits	4,637	7,779	9,673	16,748	…
o/w: Provisions	1,206	1,548	3,268	940	2,653
o/w: Admin and all other	4,687	8,728	2,336	6,975	5,790
o/w: Rent expenses	-	-	-	-	-
Profit before tax	12,504	10,006	15,700	14,957	19,278
Tax	2,939	4,640	4,213	5,423	5,990
Profit after tax	9,565	5,366	11,487	9,534	13,287
Key YOY growth rates (%)					
Assets	27.4	17.1	24.2	14.9	21.0
Loans and Advances	20.0	20.8	21.6	14.9	8.8
Foreign Assets	10.4	6.3	26.1	44.9	(31.0)
Corporate Bonds	124.6	125.4	126.5	117.5	117.8
Deposits	26.5	23.8	19.7	9.6	24.0
Paidup capital	394.9	-	-	-	-
Total Capital	176.6	6.0	6.4	(0.7)	7.9
Total Income	16.5	32.8	25.7	27.5	19.5
Total Expenses	41.3	66.2	7.7	39.6	18.2
Profit before tax	(8.8)	(20.0)	56.9	(4.7)	28.9
Per share data (ETB)					
Total Capital/Paid-up Capital	1.1	1.2	1.3	1.2	1.3
No. of:					
Branches	1,222	1,287	1,444	1,604	1,700
Employees	33,706	32,739	37,894	37,552	*39,800*
Compensation costs					
Wages & Salaries, Birr mns	4,637	7,779	9,673	16,748	…
Employees	33,706	32,739	37,894	37,552	39,800
Average monthly salary, Birr	11,464	19,800	21,271	37,165	…

	2016-17	2017-18	2018-19	2019-20	2020-21
Balance Sheet Ratios (%)					
Loans/Assets	79.3	81.8	80.0	80.0	71.9
Loans/Deposits	106.4	103.9	105.5	110.5	97.0
Assets/Total Equity	1099.9	1215.7	1418.7	1642.4	1841.7
Deposits/Liabilities	82.0	85.8	81.6	77.1	78.4
Capital Ratio (%)					
Capital/Assets	9.1	8.2	7.0	6.1	5.4
Deposit Composition					
Deposits	365,102	451,858	540,941	593,041	735,296
% Saving Deposits	51.8	51.7	50.0	51.0	*54.7*
% Checking Deposits	44.6	45.0	45.6	46.5	*44.1*
% Time Deposits	3.6	3.4	4.4	2.5	*1.2*
Revenue Composition (%)					
Net Interest Income/Income	72.8	80.5	75.9	66.2	65.9
Non-interest-Income/Income	27.2	19.5	24.1	33.8	34.1
Cost Ratios (%)					
Costs (exc int)/Income	32.7	42.2	28.4	36.0	30.7
Costs (exc int)/Avg Assets	2.1	3.1	2.1	3.0	2.5
Personnel Expenses/Total Exp	23.5	23.7	27.4	33.9	…
Rent Expenses/Total Exp	0.0	0.0	0.0	0.0	0.0
Provision Expenses/Total Exp	6.1	4.7	9.2	1.9	4.5
Effective Tax Rate	23.5	46.4	26.8	36.3	31.1
Margins (%)					
Effective Deposit Rate	2.8	3.6	4.0	4.4	5.0
Effective Lending Rate (incl Bills)	7.2	8.7	8.8	8.7	9.5
Spread	4.4	5.1	4.7	4.4	4.6
NIM	4.7	5.2	4.9	4.7	4.7
Profitability Ratios (%)					
RoAA	2.2	1.0	2.2	1.8	1.9
RoAE	31.5	11.7	29.2	27.6	34.0
Efficiency Ratios					
Branch productivity (Birr mns)					
Deposit per branch	253.8	298.8	351.1	374.6	369.7
Revenue per branch	24.3	26.4	33.3	37.3	42.8
Profit per branch	8.2	7.8	4.2	8.0	5.9
Employee productivity (Birr '000s)					
Revenue per employee	1.0	1.3	1.4	1.8	2.1
Profit per employee	0.0	0.0	0.0	0.0	0.0

DATA IN USD TERMS:

Balance Sheet, USD mns	2016-17	2017-18	2018-19	2019-20	2020-21
Assets	**$ 21,208**	**$ 21,051**	**$ 24,659**	**$ 23,457**	**$ 22,581**
	$ 16,812	$ 17,213	$ 19,732	$ 18,760	$ 16,240
Corporate Bonds	$ 8,552	$ 9,091	$ 10,844	$ 10,546	$ 9,880
Foreign Assets	$ 413	$ 373	$ 443	$ 532	$ 292
Liabilities					
Deposits	$ 15,800	$ 16,575	$ 18,711	$ 16,980	$ 16,749
Paid-up Capital	$ 1,731	$ 1,467	$ 1,384	$ 1,145	$ 911
Total Capital	$ 1,928	$ 1,732	$ 1,738	$ 1,428	$ 1,226
Exchange rate, end-period	23.1	27.3	28.9	34.9	43.9

Income Statement, USD mns	2016-17	2017-18	2018-19	2019-20	2020-21
Interest Income	$ 1,156	$ 1,423	$ 1,742	$ 1,702	$ 1,659
Interest Expense	$ 410	$ 562	$ 765	$ 781	$ 842
Net Interest Income	$ 746	$ 861	$ 977	$ 921	$ 817
Other Income	$ 279	$ 209	$ 310	$ 469	$ 423
Expenses Incl provisions	$ 469	$ 688	$ 582	$ 781	$ 640
Profit before tax	$ 206	$ 297	$ 369	$ 530	…
Tax	$ 54	$ 59	$ 125	$ 30	$ 67
Profit after tax	$ 209	$ 333	$ 89	$ 221	$ 147
Exchange rate, year-avg	22.5	26.2	28.1	31.6	39.4

Source: Commercial Bank of Ethiopia Annual Reports and Cepheus Research compilation

Banking sector, part 16

Figure 16.19: Private Banking Sector (all private banks): Summary Financials, Birr mn unless otherwise stated

	2017-18	2018-19	2019-20	2020-21	2021-22
Balance Sheet					
Assets	**348,597**	**447,000**	**560,555**	**773,546**	**1,006,699**
Loans and Advances	178,801	251,483	343,333	509,952	684,627
NBE Bills	71,262	89,951	81,017	81,089	12,737
Foreign Assets	10,959	11,104	11,635	23,719	23,245
Liabilities					
Deposits	278,532	359,629	448,898	627,329	809,288
Paid-up Capital	26,184	32,919	42,091	54,812	71,755
Total Capital	43,995	57,358	72,681	91,054	121,110

	2017-18	2018-19	2019-20	2020-21	2021-22
Income Statement					
Interest Income	25,871	35,603	48,701	65,244	86,721
Interest Expense	10,344	14,620	19,173	24,749	31,372
Net Interest Income	15,527	20,983	29,528	40,495	55,349
Other Income	9,287	11,649	13,745	20,111	26,588
Expenses Incl provisions	14,440	18,568	26,201	40,165	52,448
o/w: Salaries and Benefits	8,230	10,575	14,347	19,976	27,162
o/w: Provisions	609	1,063	1,466	4,106	4,446
o/w: Admin and all other	5,602	6,930	10,387	16,084	20,840
o/w: Rent expenses	1,627	1,930	1,224	566	549
Profit before tax	10,483	13,999	17,073	20,440	29,732
Tax	2,364	3,260	3,688	5,702	8,226
Profit after tax	8,119	10,739	13,385	14,738	21,505

	2017-18	2018-19	2019-20	2020-21	2021-22
Key YOY growth rates					
Assets	35.8	30.6	26.9	35.4	25.9
Loans and Advances	38.2	41.1	40.5	46.6	29.9
Foreign Assets	21.6	123.6	136.8	171.0	484.4
NBE Bills	43.9	30.0	(10.8)	0.1	(78.6)
Deposits	39.0	30.9	26.9	37.7	25.4
Paidup capital	29.8	25.3	27.7	28.7	28.3
Total Capital	34.3	31.7	27.9	23.9	30.1
Total Income	44.9	36.5	32.8	36.9	29.3
Total Expenses	44.0	34.7	37.8	45.1	28.0
Profit before tax	49.7	38.3	24.7	15.7	47.6

	2017-18	2018-19	2019-20	2020-21	2021-22
Per share data					
Earnings per share (%)	31.2	33.7	33.2	28.3	31.2
Total Capital/Paid-up Capital	1.6	1.6	1.6	1.6	1.6

	2017-18	2018-19	2019-20	2020-21	2021-22
No. of:					
Branches	3,162	3,734	4,366	5,036	6,030
Employees	54,776	58,788	70,255	78,004	94,484

	2017-18	2018-19	2019-20	2020-21	2021-22
Compensation costs					
Wages & Salaries, Birr mns	8,230	10,575	14,347	19,976	27,162
Employees	54,776	58,788	70,255	78,004	94,484
Average monthly salary, Birr	12,521	14,991	17,018	21,340	23,957

	2017-18	2018-19	2019-20	2020-21	2021-22
Balance Sheet Ratios (%)					
Loans/Assets	50.0	54.1	59.6	64.4	66.2
Loans/Deposits	64.1	68.9	76.1	81.0	83.7
Assets/Total Equity	750.4	739.9	729.1	795.4	769.1
Deposits/Liabilities	91.3	91.6	91.4	91.5	91.5
Capital Ratio(%)					
Capital/Assets	14.1	14.2	14.3	13.1	13.5

	2017-18	2018-19	2019-20	2020-21	2021-22
Deposit Composition					
Deposits	278,532	359,629	448,898	627,329	809,288
% Saving Deposits	57.9	59.8	60.8	60.4	59.8
% Checking Deposits	27.2	25.3	25.0	25.9	26.6
% Time Deposits	14.9	14.9	14.1	13.7	13.5

	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Composition (%)					
Net Interest Income/Income	57.9	59.7	64.5	64.6	66.6
Non-interest-Income/Income	42.1	40.3	35.5	35.4	33.4

	2017-18	2018-19	2019-20	2020-21	2021-22
Cost Ratios (%)					
Costs (exc int)/Income	40.9	38.6	41.1	45.9	44.9
Costs (exc int)/Avg Assets	4.9	4.8	5.3	6.1	5.9
Personnel Expenses/Total Exp	31.7	30.7	30.5	29.1	30.8
Rent Expenses/Total Exp	7.0	6.4	4.4		1.5
Provision Expenses/Total Exp	2.7	3.1	2.7	5.9	4.9
Effective Tax Rate	22.7	22.1	20.8	27.5	24.2

	2017-18	2018-19	2019-20	2020-21	2021-22
Margins					
Effective Deposit Rate	4.5	4.8	5.0	5.3	5.2
Effective Lending Rate (incl Bills)	11.9	12.0	12.8	13.3	14.1
Spread	7.4	7.2	7.7	8.1	8.9
NIM	6.9	6.8	7.5	7.8	8.3

	2017-18	2018-19	2019-20	2020-21	2021-22
Profitability Ratios (%)					
RoAA	2.8	2.9	2.8	2.3	2.4
RoAE	20.2	20.4	20.1	16.6	17.7
EPS	31.2	33.7	33.2	28.3	31.2

	2017-18	2018-19	2019-20	2020-21	2021-22
Efficiency Ratios					
Branch productivity (Birr mns)					
Deposit per branch	100.5	102.4	107.3	123.0	130.1
Revenue per branch	12.9	14.0	15.6	17.7	19.2
Profit per branch	3.0	3.4	3.6	3.3	3.9
Employee productivity (Birr '000s)					
Revenue per employee	787.5	937.6	1,041.0	1,248.2	1,366.8
Profit per employee	181.8	220.9	233.7	226.1	268.6

DATA IN USD TERMS:

Balance Sheet, USD mns	2017-18	2018-19	2019-20	2020-21	2021-22
	$ 12,787	**$ 15,462**	**$ 16,050**	**$ 17,620**	**$ 19,362**
Loans and Advances	$ 6,559	$ 8,699	$ 9,830	$ 11,616	$ 13,167
NBE Bills	$ 2,614	$ 3,111	$ 2,320	$ 1,847	$ 245
Foreign Assets	$ 402	$ 384	$ 333	$ 540	$ 447
Liabilities			$ -	$ -	$ -
Deposits	$ 10,217	$ 12,440	$ 12,853	$ 14,290	$ 15,565
Paid-up Capital	$ 960	$ 1,139	$ 1,205	$ 1,249	$ 1,380
Total Capital	$ 1,614	$ 1,984	$ 2,081	$ 2,074	$ 2,329
Exchange rate, end-period	27.3	28.9	34.9	43.9	52.0

Income Statement, USD mns	2017-18	2018-19	2019-20	2020-21	2021-22
Interest Income	$ 986	$ 1,266	$ 1,542	$ 1,657	$ 1,774
Interest Expense	$ 394	$ 520	$ 607	$ 629	$ 642
Net Interest Income	$ 592	$ 746	$ 935	$ 1,028	$ 1,132
Other Income	$ 354	$ 414	$ 435	$ 511	$ 544
Expenses Incl provisions	$ 551	$ 660	$ 829	$ 1,020	$ 1,073
Profit before tax	$ 400	$ 498	$ 454	$ 507	$ 556
Tax	$ 90	$ 116	$ 46	$ 104	$ 91
Profit after tax	$ 310	$ 382	$ 424	$ 374	$ 440
Exchange rate, year-avg	26.2	28.1	31.6	39.4	48.9

Source: Cepheus Research compilaton based on Banks's Annual Reports

Banking sector, part 17

- **Latest banking data available up to December 2022 show total deposits reaching Birr 1.9 trillion, or up by 29 percent from year ago levels. Loans were up 37% year-on-year as of December 2022, pointing to still strong banking expansion for the first half of this fiscal year.**

- **However, as was the case last fiscal year, most of this year's nominal growth figures are being exaggerated somewhat by high inflation, such that *real* growth rates are actually negative (except for lending) in the case of deposits, assets, and capital.**

Figure 6.20A: Latest Banking Trends, as of Dec 2022(Birr bns)

	Jun 2018	Jun-19	Jun-20	Jun-21	Jun-22	Dec-22	Y-o-Y % Change Dec 2022
Bank deposits	**729**	**899**	**1,043**	**1,363**	**1,699**	**1,908**	**29%**
CBE	453	541	595	735	890.1	978.8	19%
Private Banks	276	358	447	627	809.3	929.3	41%
Bank loans outstanding	**355**	**456**	**590**	**775**	**1,011**	**1,187**	**37%**
CBE	177	197	243	*268*	326.4	330.5	13%
Private Banks	179	259	347	507	684.6	856.7	50%
Other indicators--all banks							
Assets	914	1,165	1,379	1,765	2,163	2,401	23%
Paid-up capital	66	74	82	94.81	112	121	18%
Branches	4,442	5,164	5,965	6,734	7,854	8,528	16%

Source: Bank Annual Reports and Bank Survey Data

Figure 6.20B: Banking Growth Rates, Nominal vs Real Growth

Indicator	Fiscal Year 2021-22 Nominal Growth	Fiscal Year 2021-22 Real Growth	Latest Six Months Nominal Growth	Latest Six Months Real Growth
Deposits	25.4%	-8.4%	28.9%	-5.0%
Loans	29.9%	-4.0%	37.2%	3.3%
Capital	30.1%	-3.7%	18.2%	-15.7%
Assets	25.9%	-7.9%	23.1%	-10.8%
Profit before tax	47.6%	13.8%	…	
Profit after tax	45.9%	12.1%	…	
Earnings per share, %	31.2%	-2.6%	…	

Source: Banks Annual Reports and CSA inflation data.
Note: Year-average inflation rate used to compute real growth rates

Banking sector, part 18

- **The composition of the banking system has been under-going rapid change within the last year with the entry of at least 12 'third-generation' private banks; these new entrants include Amhara, Ahadu, Siinqee, Tsehay, Hijra, Zamzam, Tsedey, Goh, Omo, Shabelle, Gadaa, and Sidama banks.**

- **These banks join the state bank, Commercial Bank of Ethiopia, six private 'first generation banks' (Awash, Dashen, Abyssinia, Hibret, Wegagen, NIB) and ten private 'second-generation banks' (Coop, Lion, Zemen, Oromia, Bunna, Berhan, Abay, Addis, Enat and Debub Global).**

- **Based on December 2022 data, the new entrants to the banking sector already represent 41 percent of the total bank count (12 out of 29), 13% of paid-up capital, 9% of bank branches, 5% of banking customers, 4% of bank employees, and 2% of overall bank deposits and loans.**

Figure 6.21: Banking Industry as of December 2022, Selected Metrics

	As of Dec 2022	% of Total
Bank count: TOTAL	**29**	**100.0%**
Commercial Banks	1	3.4%
Private Banks ("1st & 2nd Generation")	16	55.2%
Private Banks ("3rd Generation")	12	41.4%
Deposits: TOTAL in Birr bns	**1,944**	**100.0%**
Commercial Banks	979	50.4%
Private Banks ("1st & 2nd Generation")	929	47.8%
Private Banks ("3rd Generation")	36	1.8%
Loans and Advances: TOTAL in Birr bns	**1,216**	**100.0%**
Commercial Banks	331	27.2%
Private Banks ("1st & 2nd Generation")	857	70.5%
Private Banks ("3rd Generation")	28	2.3%
Assets: TOTAL in Birr bns	**2,454**	**100.0%**
Commercial Banks	1,240	50.5%
Private Banks ("1st & 2nd Generation")	1,161	47.3%
Private Banks ("3rd Generation")	53	2.1%
Paid-up Capital: TOTAL in Birr bns	**139**	**100.0%**
Commercial Banks	40	28.8%
Private Banks ("1st & 2nd Generation")	81	58.6%
Private Banks ("3rd Generation")	18	12.6%
Total Capital: Birr bns	**211**	**100.0%**
Commercial Banks	60	28.2%
Private Banks ("1st & 2nd Generation")	136	64.3%
Private Banks ("3rd Generation")	16	7.4%
Profit before tax, provisional-- TOTAL in Birr bns	**37**	**100.0%**
Commercial Banks	13	34.8%
Private Banks ("1st & 2nd Generation")	24	64.4%
Private Banks ("3rd Generation")	0	0.7%
No of Customers: TOTAL in numbers	**96,429,157**	**100.0%**
Commercial Banks	38,098,765	39.5%
Private Banks ("1st & 2nd Generation")	52,996,187	55.0%
Private Banks ("3rd Generation")	5,334,205	5.5%
No of Branches: TOTAL in numbers	**9,371**	**100.0%**
Commercial Banks	1,879	20.1%
Private Banks ("1st & 2nd Generation")	6,649	71.0%
Private Banks ("3rd Generation")	843	9.0%
No of Employees: TOTAL in numbers	**135,294**	**100.0%**
Commercial Banks	38,802	28.7%
Private Banks ("1st & 2nd Generation")	91,451	67.6%
Private Banks ("3rd Generation")	5,041	3.7%

Source: Banks Survey Data.
'First Generation' private banks are Awash, Dashen, Abyssinia, Wegagen, Hibret, NIB
'Second Generation' private banks are COOP, Lion, Zemen, Oromia, Bunna, Berhan, Abay, Addis, Enat, Debub Global
'Third Generation' private banks are Amhara, Ahadu, Siinqee, Tsehay, Hijra, Zamzam, Tsedey, Goh, Omo, Shabelle, Gadaa, Sidama

SECTION 7: Balance of Payments (BOP) and Foreign Exchange Positions

- **Ethiopia faced a $2.1bn deficit in the balance of payments last fiscal year, reflecting a $4.8bn current account deficit that was only partially offset by a capital account inflows of $2.7bn. The BOP deficit was financed by drawing down central bank reserves (for about $1.5bn of the deficit) as well as the use of commercial bank fx (for the remaining $0.5bn).**

- **The biggest contributor to the large BOP deficit was the $4bn jump in imports (from $14bn to $18bn), which was offset only partly by higher exports, service income, and FDI inflows.**

- **Seen relative to GDP, imports were higher by 1.4 ppts of GDP, FDI was lower by 1.0 ppts of GDP, and government net external borrowing was lower by 0.5 ppts of GDP. Despite some offsets from higher services income (+0.6ppts) and remittances (+0.4ppts), the net impact of all BOP items was a BOP deficit equivalent to 1.7 percent of GDP ($2.1bn).**

Figure 7.1: Balance of Payments

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Balance of Payments Trends: USD billions						
Current account balance	**(6,528)**	**(5,253)**	**(4,534)**	**(3,969)**	**(3,154)**	**(4,773)**
Exports of goods	2,908	2,840	2,667	2,988	3,617	4,104
Exports of services	3,331	4,220	4,949	4,664	4,895	6,332
Imports of goods	(15,803)	(15,253)	(15,112)	(13,881)	(14,288)	(18,092)
Imports of services	(3,393)	(3,983)	(4,910)	(4,245)	(4,308)	(5,130)
Income account, net	(486)	(377)	(590)	(607)	(557)	(558)
Remittances	4,428	5,121	5,693	4,722	4,931	5,624
Private transfers, other	1,058	953	683	904	1,187	1,854
Foreign official grants	1,428	1,226	2,087	1,488	1,369	1,093
Capital account balance,	**6,832**	**6,398**	**5,835**	**4,147**	**3,818**	**2,730**
Foreign direct investment	4,171	3,723	3,015	2,419	3,955	3,308
Foreign borrowing by GOVT, Net	1,402	1,632	1,158	1,947	894	429
Foreign borrowing by SOEs, Net	626	937	1,326	(234)	(849)	(978)
Private and other flows	633	106	336	15	(182)	(29)
Current and Capital account balance	**303**	**1,145**	**1,302**	**179**	**664**	**(2,043)**
Errors and Omissions	356	(1,346)	(1,244)	(909)	(324)	(81)
Overall External Balance	**659**	**(201)**	**58**	**(730)**	**340**	**(2,124)**
Change in Banking System NFA (- is increase)	**(659)**	**201**	**(58)**	**730**	**(340)**	**2,124**
Balance of Payments Trends: In Percent of GDP						
Current account balance	**-8.0%**	**-6.3%**	**-4.7%**	**-3.7%**	**-2.9%**	**-3.8%**
Exports of goods	3.6%	3.4%	2.8%	2.8%	3.3%	3.3%
Exports of services	4.1%	5.0%	5.2%	4.4%	4.4%	5.0%
Imports of goods	-19.4%	-18.2%	-15.8%	-13.0%	-13.0%	-14.4%
Imports of services	-4.2%	-4.7%	-5.1%	-4.0%	-3.9%	-4.1%
Income account, net						
Remittances	5.4%	6.1%	5.9%	4.4%	4.5%	4.5%
Private transfers, other	1.3%	1.1%	0.7%	0.8%	1.1%	1.5%
Foreign official grants	1.8%	1.5%	2.2%	1.4%	1.2%	0.9%
Capital account balance	**8.4%**	**7.6%**	**6.1%**	**3.9%**	**3.5%**	**2.2%**
Foreign direct investment	5.1%	4.4%	3.2%	2.3%	3.6%	2.6%
Foreign borrowing by GOVT, Net	1.7%	1.9%	1.2%	1.8%	0.8%	0.3%
Foreign borrowing by SOEs, Net	0.8%	1.1%	1.4%	-0.2%	-0.8%	-0.8%
Private and other flows	0.8%	0.1%	0.4%	0.0%	-0.2%	0.0%
Current and Capital account balance	**0.4%**	**1.4%**	**1.4%**	**0.2%**	**0.6%**	**-1.6%**
Errors and Omissions	0.4%	-1.6%	-1.3%	-0.9%	-0.3%	-0.1%
Overall External Balance	**0.8%**	**-0.2%**	**0.1%**	**-0.7%**	**0.3%**	**-1.7%**
Change in Banking System NFA (- is increase)	**-0.8%**	**0.2%**	**-0.1%**	**0.7%**	**-0.3%**	**1.7%**
Memo items:						
Official Foreign Reserves, (USD mn)	3,197	2,843	3,415	3,209	2,881	1,535
Official Foreign Reserves, months imports	2.4	2.2	2.7	2.8	2.4	1.0
Official Foreign Reserves, % GDP	3.9%	3.4%	3.6%	3.0%	2.6%	1.2%

Sources: NBE, MOF, CSA, and IMF, Cepheus Research Compilaton

Balance of Payments and Foreign Exchange Positions, part 2

- **Gross fx inflows amounted to $23.4bn last, with the five largest items being service exports ($6.3bn), remittances ($5.6bn), goods exports ($4.1bn), FDI ($3.3bn), and other private transfers ($1.9bn). Splitting inflows by their type, private sector inflows were above their historical average, but aid and official sector inflows (grants and government/SOE borrowing) were below their recent norms.**

- **Per latest BOP data, gross fx inflows actually rose by about $2bn last year, but fx needs rose by an even higher amount and explain the tighter fx conditions; in approximate terms, imports alone rose by $4bn, so the increase in gross fx inflows of $2bn still left a $2bn gap which was covered by a drawdown of reserves.**

- **Regarding the operations of Ethiopia's foreign exchange market, it is worth noting that gross fx inflows are close to $2bn *per month* and it is these inflows that cover recurrent monthly payments for imports, debt service, and other foreign obligations. Overall fx demand is evidently well above this monthly inflow figure, however, which explains the long waiting times to secure fx funds at banks. Contrary to popular perceptions, the level of NBE fx reserves (which represents a stock of accumulated savings from past fx inflows) is thus not the primary determinant of fx supplies and conditions but rather the volume and consistency of the monthly/yearly fx inflows noted above.**

Figure 7.2A: Composition of fx inflows--USD mns

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Gross fx inflows:	**$ 20,437**	**$ 20,463**	**$ 19,946**	**$ 21,724**	**$ 22,345**	**$ 20,773**	**$ 21,480**	**$ 23,445**
Exports of goods	$ 3,019	$ 2,868	$ 2,907	$ 2,840	$ 2,667	$ 2,988	$ 3,617	$ 4,104
Exports of services	$ 3,028	$ 3,196	$ 3,331	$ 4,220	$ 4,949	$ 4,702	$ 4,864	$ 6,332
Interest earnings	$ 13	$ (1)	$ 30	$ 30	$ 31	$ 33	$ 30	$ 29
Remittances	$ 3,797	$ 4,420	$ 4,428	$ 5,121	$ 5,693	$ 5,124	$ 5,175	$ 5,624
Other private transfers	$ 1,085	$ 2,008	$ 1,058	$ 953	$ 682	$ 904	$ 1,184	$ 1,854
Official transfers (grants)	$ 1,508	$ 1,391	$ 1,428	$ 1,226	$ 2,087	$ 1,488	$ 1,227	$ 1,093
Loan disburements to Government	$ 2,219	$ 1,736	$ 1,537	$ 1,816	$ 1,544	$ 2,148	$ 1,021	$ 776
Loan disbursements to Rest of Public sector	$ 3,706	$ 1,763	$ 1,393	$ 1,689	$ 1,267	$ 953	$ 392	$ 325
Foreign direct investment	$ 2,202	$ 3,269	$ 4,171	$ 3,723	$ 3,015	$ 2,419	$ 3,970	$ 3,308
Private sector capital flows (other)	$ 384	$ 561	$ 633	$ 105	$ 410	$ 15	$ -	$ -

Source: NBE and Cepheus Research estimates for some of the FY 2020-21 items.

Figure 7.3: Trends in BOP: Private Sector Flows vs Official and Aid-Related Flows

Selected External Financial Flows	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Prior Five-Yr Average**	**2021-22**	**2021-22 vs prior 5-yr average**
Total Foreign Exchange Flows	**$ 20,254**	**$ 21,588**	**$ 21,904**	**$ 20,725**	**$ 21,450**	**$ 21,095**	**$ 23,416**	**111%**
Private sector flows	**$ 14,837**	**$ 15,904**	**$ 16,324**	**$ 15,233**	**$ 17,626**	**$ 15,613**	**$ 19,368**	**124%**
Exports of goods	$ 2,907	$ 2,840	$ 2,667	$ 2,988	$ 3,617	$ 2,981	$ 4,104	138%
Exports of services	$ 3,331	$ 4,220	$ 4,949	$ 4,702	$ 4,864	$ 4,210	$ 6,332	150%
Remittances	$ 4,428	$ 5,121	$ 5,693	$ 5,124	$ 5,175	$ 4,993	$ 5,624	113%
Foreign direct investment	$ 4,171	$ 3,723	$ 3,015	$ 2,419	$ 3,970	$ 3,428	$ 3,308	97%
Aid-related flows	**$ 5,417**	**$ 5,684**	**$ 5,580**	**$ 5,492**	**$ 3,824**	**$ 5,482**	**$ 4,048**	**74%**
Official Grants	$ 1,428	$ 1,226	$ 2,087	$ 1,488	$ 1,227	$ 1,474	$ 1,093	74%
Private Transfers (excl remittances)	$ 1,058	$ 953	$ 682	$ 904	$ 1,184	$ 1,132	$ 1,854	164%
Loans to Government	$ 1,537	$ 1,816	$ 1,544	$ 2,148	$ 1,021	$ 1,634	$ 776	48%
Loans to State Enterprises	$ 1,393	$ 1,689	$ 1,267	$ 953	$ 392	$ 1,243	$ 325	26%

Source: NBE and IMF Balance of Payments data

Balance of Payments and Foreign Exchange Positions, part 3

- **Export growth has turned negative since mid-2022 and the first six months of the fiscal year (July-Dec 2022) showed only $1.76bn of exports vs $1.89bn in the same period last year, or a decline of 7 percent. The largest export declines were seen in gold, chat and oilseeds.**

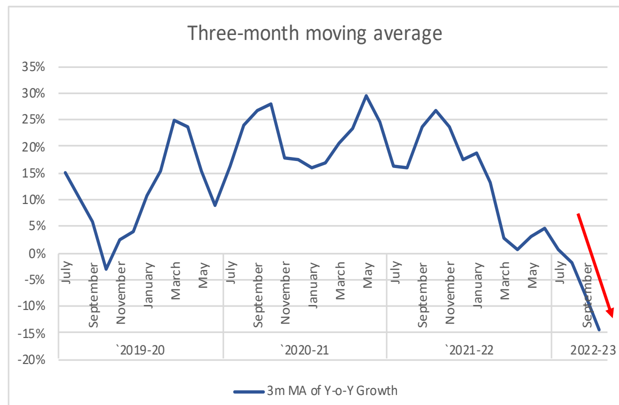
- **Trends in the year-on-year growth of monthly export data, which better capture underlying trends, show that the export slowdown has accelerated since mid-2022 (to negative year-on-year growth rates) and especially so in the final quarter of 2022.**

Figure 7.4A: Export Performance, Latest Six Months, USD mns

Commodity	July-Dec 2021	July-Dec 2022	Percent change
Coffee	578.7	659.4	13.9%
Flowers	246.5	301.9	22.5%
Chat	199.1	135.0	-32.2%
Gold	273.0	102.9	-62.3%
Pulses	95.4	99.0	3.7%
Textile & Textile Products	92.0	86.8	-5.7%
Oil Seeds	145.7	83.7	-42.6%
Food, Drings and Pharmaceuticals	46.8	64.0	36.8%
Fruts & Vegitables	39.4	59.9	52.1%
Meat & Meat Products	55.3	50.0	-9.6%
Elecricity	46.4	40.2	-13.4%
Leather and Leather Products	21.5	16.4	-24.0%
Live Animals	9.2	7.8	-15.4%
Chemicals & Construction Inputs	11.1	7.2	-35.4%
Spices	6.2	3.0	-51.2%
Electronics	9.8	1.0	-89.9%
Natural Gum	1.8	0.5	-73.8%
Others	13.4	41.5	210.2%
Total	**1,891.3**	**1,760.1**	**-6.9%**

Source: NBE, MoPD

Figure 7.4B: Year-on-Year Growth of Monthly Export Levels (percent)



Source: NBE and Cepheus Research compilation.

Note: Three month moving average of y-o-y growth applied to smooth the series for underlying trends

Balance of Payments and Foreign Exchange Positions, part 4

- **Import growth has also slowed sharply from the 27 percent seen last fiscal year to just 8 percent in the first five months of this fiscal year (latest available data). Excluding fuel, whose imports are largely externally determined by global oil prices, underlying import growth has turned slightly negative.**

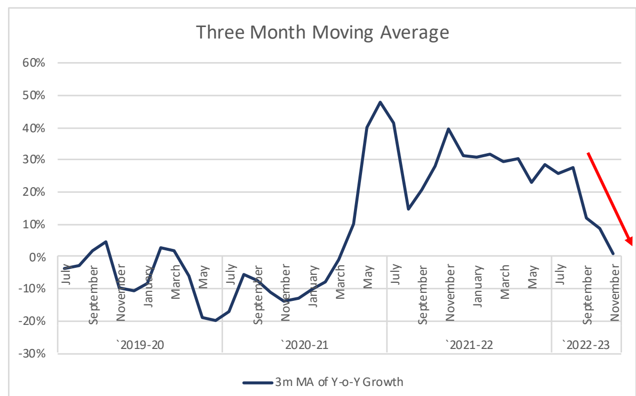
- **As in the case of exports, analysis of the year-on-year growth in monthly data captures the most recent import momentum, and this reveals a sharp deceleration in import growth (to near zero y-o-y growth as of December 2022). This appears to reflect drops in global commodity prices and suggests import-related BOP pressures may have already peaked in mid-2022 and could thus ease going forward.**

Figure 7.5A: Imports, Latest Five Months, USD mns

	July-Nov 2021	July-Nov 2022	% Change
Raw Materials	**46.2**	**50.8**	**9.8%**
Semi-finished Goods	**1,068.9**	**1,261.6**	**18.0%**
Chemicals	253.8	226.3	-10.8%
Fertilizers	112.4	263.1	134.0%
Textile Materials	72.9	100.3	37.7%
Others	629.8	671.8	6.7%
Fuel	**1,173.1**	**1,802.8**	**53.7%**
crude petroleum	0.1	0.1	73.9%
Petroleum Products	1,147.8	1,744.5	52.0%
Others	25.3	58.1	129.8%
Capital Goods	**1,149.0**	**1,524.4**	**32.7%**
Transport	155.0	112.5	-27.4%
Tyres for Heavy Vehicles	34.7	47.0	35.4%
Heavy Road Motor Vehicles	31.7	44.5	40.5%
Aircraft	83.7	18.4	-78.1%
Others	4.9	2.7	-46.5%
Agricultural	26.6	29.4	10.7%
Industrial	967.4	1,382.5	42.9%
Consumer Goods	**3,494.2**	**2,904.1**	**-16.9%**
Durables	303.3	371.1	22.3%
Radio & T.V.	15.7	46.9	199.1%
Tyres for cars & Other Vehicles	16.6	20.0	20.2%
Cars & Other Vehicles	5.7	7.3	28.1%
Others	265.3	296.8	11.9%
Non-durables	3,190.8	2,533.0	-20.6%
Cereals	1,059.9	660.5	-37.7%
Other Food	733.6	620.3	-15.4%
Medical & Pharmaceuticals	349.4	194.6	-44.3%
Textile Fabrics	145.8	131.6	-9.8%
Others	902.0	926.0	2.7%
Miscellaneous	**51.5**	**55.7**	**8.1%**
Total Imports	**6,983.0**	**7,599.3**	**8.8%**
Total Imports, excluding fuel	**5,809.9**	**5,796.5**	**-0.2%**

Source: NBE

Figure 7.5B: Year-on-Year Growth of Monthly Import Levels (percent)



Source: NBE and Cepheus Research compilation.

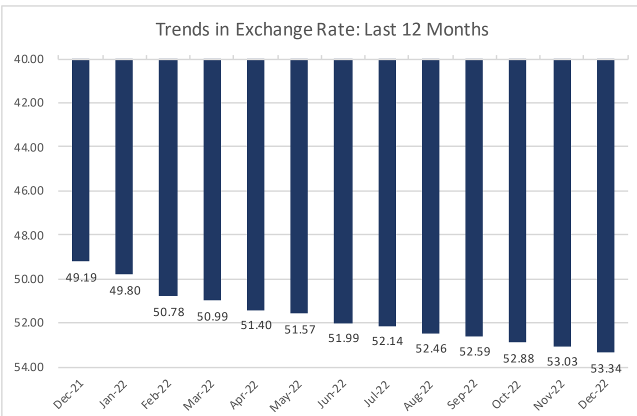
Note: Three month moving average of y-o-y growth applied to smooth the series for underlying trends

Balance of Payments and Foreign Exchange Positions, part 5

- **There has been a significant moderation in the annual depreciation rate, with the Birr exchange rate in the official market moving from 49.2 Birr/USD to 53.3 Birr/USD between end-2021 and end-2022.**

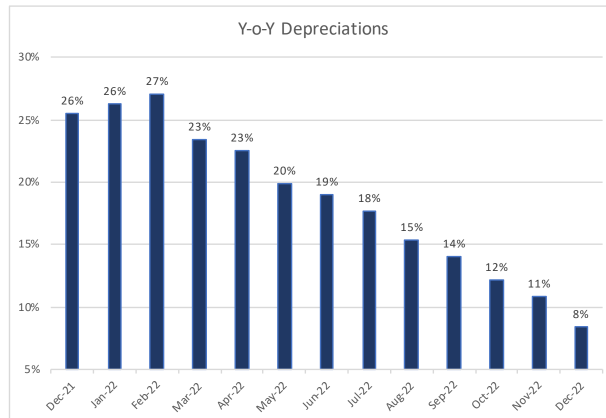
- **This slower pace of Birr adjustment is translating into an annual depreciation rate of just 8 percent vs a 27 percent annual rate seen a year ago. The annualized rate of monthly changes has fallen to an even lower 3 or 4 percent in some recent months.**

Figure 7.6: Trends in Exchange Rate: Last 12 Months



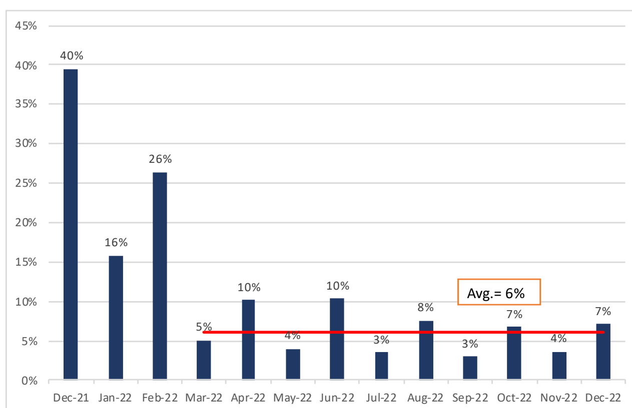
Source: CBE &NBE website

Figure 7.7: Birr Depreciation Rate from year-ago levels (%)



Source: CBE, Cepheus Research

Figure 7.8: Annualized rate for monthly depreciation exchange rate (%)



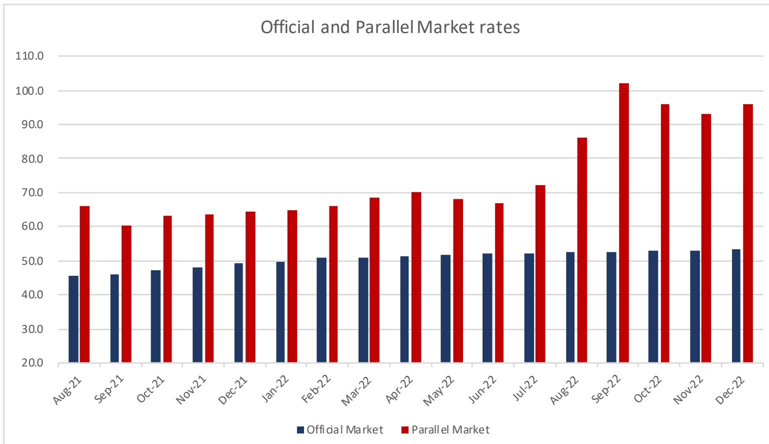
Source: CBE, Cepheus Research

Balance of Payments and Foreign Exchange Positions, part 6

- **Despite the relative stability of the exchange rate in the official market, the parallel market rate has declined sharply over the last year, depreciating by 50% in that market vs just 8% in the official market.**

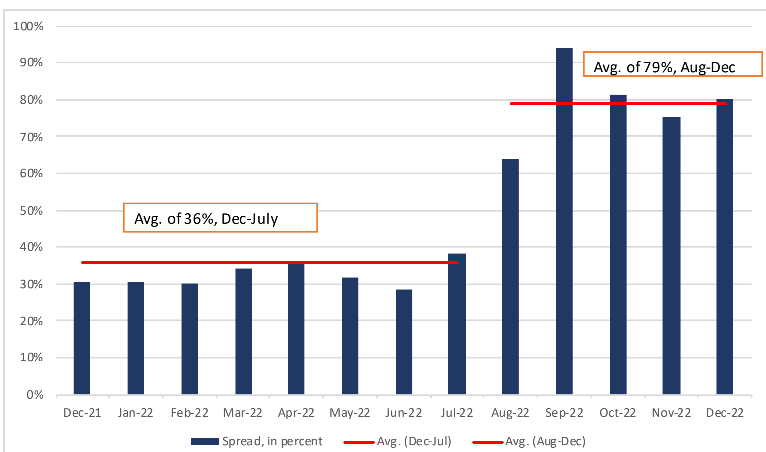
- **The spread between the official and parallel market rates is now at its highest in years and is a major indication of an unrealistic exchange rate.**

Figure 7.9: Official and Parallel Market Rates for USD



Source: CBE website, Cepheus Research

Figure 7.10: Gap between parallel and official market (%)



Source: Cepheus Research

Disclaimer: This report represents solely the views, analysis, and judgement of the Cepheus research team and does not necessarily reflect the views or opinions of the Fund's Managing Partners, Advisors, or Investors.

Balance of Payments and Foreign Exchange Positions, part 7

- **Seen from a cross-country perspective, the 8% Birr depreciation in the official market is in line with rates of exchange rate depreciation seen in Kenya (9%), South Africa (9%), Nigeria (7%), the EU (7%) and India (11%). However, the Birr's depreciation of 50 percent in the parallel market is closer to rate changes seen in Argentina, Turkey, Egypt, and South Sudan (all of which also faced highly inflationary macroeconomic environments).**

- **At the official exchange rate, the Birr's value has actually appreciated (strengthened) in real terms relative to other currencies. However, at the parallel rate, the Birr has shown a net depreciation of around 15 percent.**

Figure 7.11: Exchange Rate Changes, Dec 2022 vs Dec 2021

	Countries	Rate at Dec 2021	Rate at Dec 2022	Change in nominal rate
1	Ghana	6.1	11.0	81.8%
2	Argentina	102.6	171.7	67.3%
3	Egypt	15.7	24.6	57.0%
4	South Sudan	424.5	663.3	56.3%
5	**Ethiopia--parallel rate**	**64.2**	**96.0**	**49.5%**
6	Turkey	12.7	18.6	47.3%
7	Sudan	447.5	578.0	29.2%
8	Colombia	4,009.0	4,795.0	19.6%
9	Japan	114.8	134.9	17.5%
10	Morocco	9.2	10.5	13.4%
11	Sweden	9.0	10.2	12.6%
12	Norway	8.8	9.8	11.0%
13	India	74.7	82.8	10.8%
14	Indonesia	14,254.0	15,655.0	9.8%
15	South Korea	1,186.5	1,302.7	9.8%
16	Philippines	51.0	55.9	9.6%
17	South Africa	15.9	17.4	9.1%
18	Israel	3.1	3.4	9.0%
19	China	6.4	6.9	9.0%
20	Kenya	113.0	122.7	8.7%
21	Poland	4.1	4.4	8.6%
22	United Kingdom	0.7	0.8	8.4%
23	**Ethiopia--official rate**	**49.2**	**53.2**	**8.1%**
24	Nigeria	413.9	444.6	7.4%
25	Denmark	6.6	7.0	6.5%
26	Europe	0.9	0.9	6.5%
27	Malaysia	4.2	4.4	5.9%
28	Canada	1.3	1.4	5.6%
29	Australia	1.4	1.5	5.1%
30	New Zealand	1.5	1.5	4.7%
31	Vietnam	22,813.0	23,624.0	3.6%
32	Thailand	33.5	34.6	3.2%
33	Switzerland	0.9	0.9	1.0%
34	Singapore	1.4	1.3	-0.7%
35	Algeria	138.3	137.0	-0.9%
36	Mexico	20.6	19.7	-4.4%
37	Brazil	5.7	5.3	-7.2%
38	Angola	585.0	504.7	-13.7%
39	Russia	74.0	63.1	-14.7%

Source: CBE for Ethiopia, and US Treasury for other countries.

Figure 7.12: Exchange Rate Real Appreciation (2022 vs 2021)

	Countries	Real appreciation
1	Sudan	125.7%
2	Angola	35.4%
3	Russia	28.5%
4	**Ethiopia--official rate**	**27.0%**
5	Turkey	25.8%
6	Brazil	16.6%
7	Mexico	12.4%
8	Nigeria	11.5%
9	Algeria	10.6%
10	Singapore	6.2%
11	Poland	5.2%
12	Argentina	5.1%
13	Europe	3.3%
14	Thailand	3.1%
15	Switzerland	2.1%
16	New Zealand	1.6%
17	Australia	1.4%
18	Canada	1.3%
19	United Kingdom	0.7%
20	Denmark	0.7%
21	Vietnam	0.2%
22	Kenya	-1.3%
23	South Africa	-2.4%
24	Malaysia	-2.7%
25	India	-3.9%
26	South Korea	-4.3%
27	Philippines	-4.3%
28	Israel	-4.5%
29	Indonesia	-5.2%
30	Sweden	-5.4%
31	Norway	-6.3%
32	China	-6.8%
33	Morocco	-7.2%
34	Colombia	-9.9%
35	**Ethiopia--parallel rate**	**-15.0%**
36	Japan	-15.5%
37	South Sudan	-38.7%
38	Egypt	-48.5%
39	Ghana	-54.6%

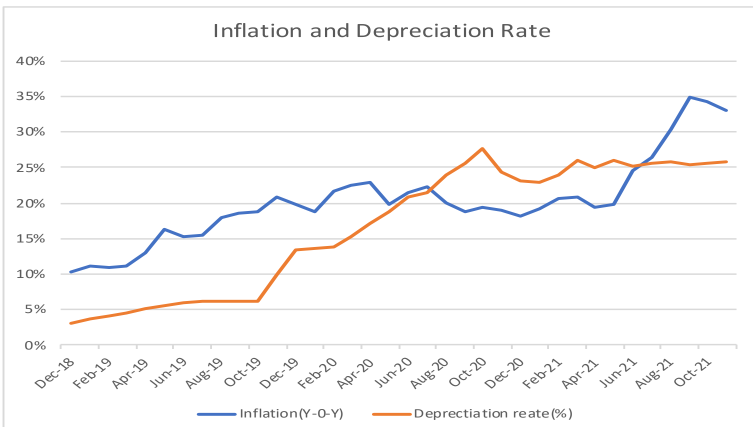
Source: CBE for Ethiopia, and US Treasury for other countries.

Balance of Payments and Foreign Exchange Positions, part 8

- **While depreciation rates exceeded inflation rates from mid-2020 to about mid-2021, the period since then has seen inflation rates exceeding depreciation rates and thus resulting in a real appreciation of the currency relative to trading partners.**

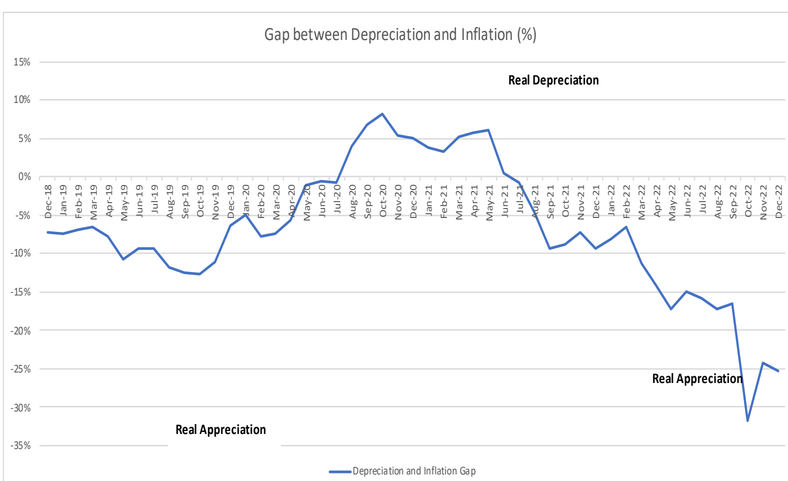
- **A comparison of inflation and depreciation suggests a real appreciation of around 25-30 percent has taken place since mid-2021, representing a loss in competitiveness vis-à-vis trading partners if not compensated for by higher domestic productivity for key products and services.**

Figure7.13: Inflation and Depreciation rate



Source: CSA, NBE

Figure7.14: Inflation and Depreciation Rate(%)

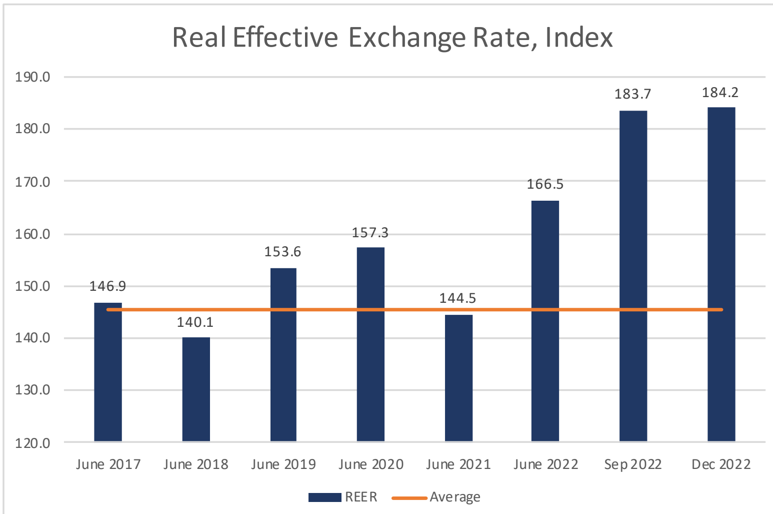


Source: CSA, NBE

Balance of Payments and Foreign Exchange Positions, part 9

- **More formal measures of the Birr's value, measured by the Real Effective Exchange Rate (REER), suggest that it is now about 21% more appreciated than its past five-year average and 28% above its past ten-year average.**

Figure 7.15A: Real Effective Exchange Rate Index, Bruegel global database



Source: Bruegel database

Figure 7.15B: Real Effective Exchange Rate Index, Bruegel Global Database

Birr REER Historical Averages	
Birr REER Average, Past Five Years	152.4
Birr REER Average, Past Ten Years	144.2
Birr Latest REER Level and Deviations from Past 10Yrs	
Birr REER Latest Level, Dec 2022	184.2
Deviation from Past Five-Year Average	21%
Deviation from Past Ten-Year Average	28%

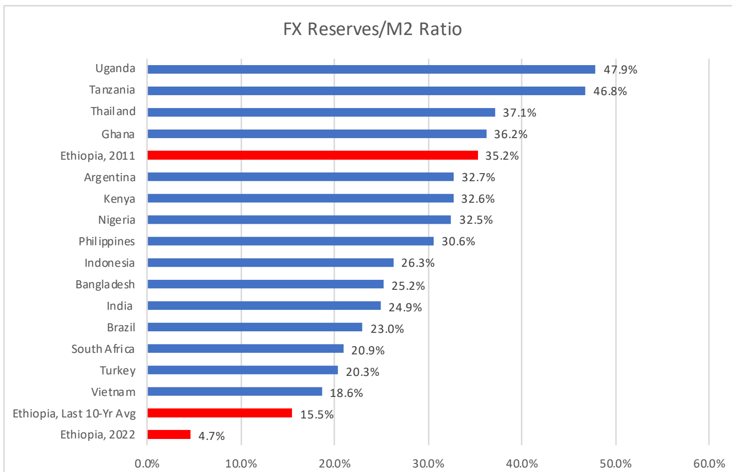
Source: Bruegel and Cepheus Research Compilation

Balance of Payments and Foreign Exchange Positions, part 10

- **The share of M2 (local currency money supply) that can be covered by fx reserves has fallen sharply in the last few years, and further points to weakness in the BOP as well as signalling an unrealistic exchange rate. This ratio, namely fx reserves to M2, has fallen to just 5 percent in 2022 versus a ten-year average of 15 percent and a peak of 35 percent about ten years ago.**

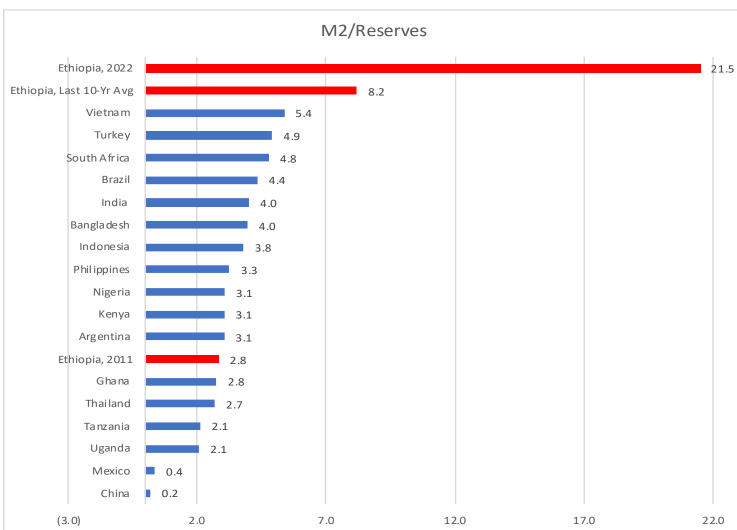
- **Seen relative to some comparable countries, Ethiopia's fx reserves/M2 ratio also stands out as unusually low and is notable for its significant deterioration in the last two years on account of both a drop in fx reserves and rapid monetary growth.**

Figure 7.16: FX Reserves/M2 Ratio (percent)



Source:NBE and Cepheus Research Compilations

Figure 7.17: M2/Reserves, multiple



Source:NBE and Cepheus Research Compilations

Balance of Payments and Foreign Exchange Positions, part 11

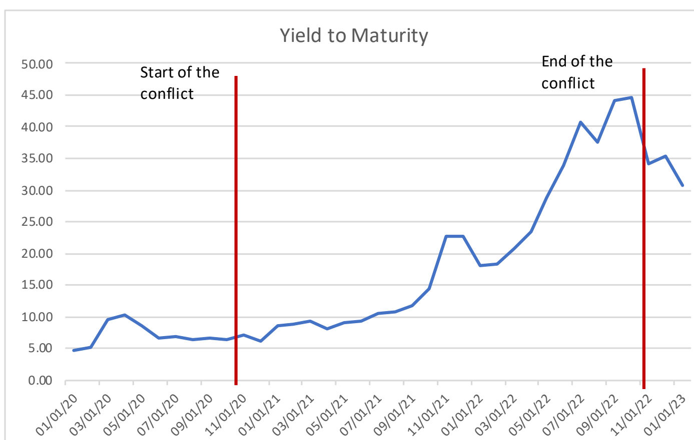
- **Ethiopia's sole Eurobond has recently shown a turnaround in its traded price from 50 cents on the dollar to near 70 cents on the dollar (a 40% price gain) since the peace agreement in November 2022.**

- **Reflecting the recent price changes, the yield (to maturity) has moved in the opposite direction, declining from a peak of 45% to 30% as of early January 2023, a still-high level compared to pre-conflict averages of near 10%.**

Figure 7.18A: Sovereign Bond Price

Source: FactSet

Figure 7.18B: Sovereign Bond Yield



Source: FactSet

SECTION 8: A Thematic Overview and Implications for the Outlook

- **An overview of macro policies since the start of the conflict shows a period marked by multiple policy reversals albeit with some pockets of continued reform. With respect to macro outcomes, while two key indicators stand out for their sharp deterioration, the overall 'scorecard' is best described as showing a very mixed picture, with elements of 'the Good, the Bad, and the Unknown.'**

- **Looking ahead, the primary macroeconomic objectives given current conditions should and will most likely involve: (1) large reconstruction-related spending; (2) reviving investment to kick-start growth; (3) reducing inflation; and (3) addressing foreign exchange constraints in the economy.**

- **The policy paths taken for realizing the above objectives could involve a largely 'status quo approach' or instead follow a series of 'breakthrough policies' for the year ahead. In our judgement, the former approach risks providing only a partial and temporary relief to macroeconomic pressures, while the latter approach promises to more comprehensively address the daunting challenges ahead.**

Figure 8.1: A 'Scorecard' on Macro Policy Measures Over the Past Two Years

Area	Sub-area	Remarks and Impacts
MACRO POLICY-- Areas of Continued Reform	**Macro-supportive sector policies**	■ To support growth, wide-ranging productive sector reforms have been initiated in multiple areas and appear most advanced and implemented in agriculture, tourism, and ICT, while less so in manufacturing and mining. ■ Telecom reform has continued with the entry of an international operator that has added competition to the sector ■ Privatization reforms in areas such as sugar are also continuing despite extended delays
	Treasury Bills Market Development	■ An active Treasury-Bill market has been created with participation by private banks and pension funds. ■ Longer T-Bill maturities and more competitive interest rates have been successfully introduced in the past two years
	Fiscal Policy	■ Deficits have been controlled despite shocks that reduced revenue and significantly higher conflict-related spending ■ Non-concessional borrowing has been ended and strict limits placed on new SOE debt accumulation. ■ Subsidies for fuel were cut significantly, representing a major fiscal measure that is working to limit future liabilities ■ Loans of Birr 570bn (~13% of GDP) removed from the balance sheets of the largest SOEs (to help them focus on improving their future operations) and placed in a newly created special vehicle (LAMC) to find a long-term resolution to past SOE debts.
	State Enterprise Reform	■ Most large state enterprises have been over-hauled via new management, changes in governance, and stricter financial controls. A new holding company, Ethiopian Investment Holdings (EIH) has also been established to ensure even better performance among 27 of the largest SOES and to serve as a vehicle for co-investments with large foreign investors.
	Financial Sector and Capital Markets	■ Despite COVID and conflict related shocks, financial sector stability has been maintained with central bank forbearance allowing banks to weather NPL-related and other shocks. ■ To introduce capital markets within the next two years, a Capital Markets Proclamations has been passed, over a dozen implementing regulations prepared, and a Capital Markets Authority established and made operational.
MACRO POLICY-- Areas of Policy Reversals	**Govt capital spending**	■ Budgetary spending priorities were shifted substantially--given the needs of the conflict--with reductions in the shares devoted to growth-promoting capital spending alongside large increases in the shares devoted for defense
	Use of central bank advances by Govt	■ After almost being discontinued two years ago as a sign of greater monetary independence, central bank advances rose substantially from Birr 31bn to Birr 220bn, and now make up close to a quarter of Govt domestic debt
	Mandatory Govt bond purchases on banks	■ Despite the removal of a previous 27% bond purchase requirement to improve credit to the private sector, a similar requirement was introduced in 2022 mandating banks to buy the equivalent of 20% of their new monthly disbursements.
	Mandatory DBE bond purchases on banks	■ A similar mandatory lending obligation was imposed on banks to annually allocate 1 percent of their outstanding loan balance (up to a cap of 10%), in order to provide loanable resources to the Development Bank of Ethiopia.
	Room for growth in credit to private sector	■ Despite a strong commitment to boosting private sector credit at the start of the HGER, the imposition of mandatory borrowing requirements on banks crowded out private sector borrowing and reduced its share of incremental new lending.
	FX surrender require-ments on exporters	■ A very high 80% of the fx proceeds of an exporter became subject to mandatory surrender requirement given the large fx needs of Government, affecting most acutely those involved in manufacturing given their intermediate import needs
	New 3% levy on imports	■ A new 3% levy on all imports (with few exceptions) enacted as a social welfare tax to help for post-conflict reconstruction
	Import bans on consumer goods	■ Outright bans were introduced on 38 consumer goods though this practice has long been discontinued as a tool in international trade and is not in line with a country's commitments to institutions such as the IMF (Article 8) or WTO.

Source: Cepheus Research summary

A thematic overview and implications for the outlook, part 2

- **With respect to macro performance and outcomes, an overview of the full range of indicators shows a very mixed record with elements of 'the Good, the Bad, and the Unknown.'**

- **Looking ahead, and given the set of prevailing conditions below, the primary macro objectives should and will most likely involve: (1) large reconstruction-related spending; (2) reviving investment to kick-start growth; (3) reducing inflation; and (4) addressing foreign exchange constraints in the economy.**

Figure 8.2: A 'Scorecard' on Macro Outcomes and Indicators over the past two years

Area	Sub-area	Remarks
The "Good"	Growth	■ Officially reported growth has still been maintained at mid-single digit levels, though there remain long-standing weaknesses and uncertainties about the reliability of Ethiopia's national account statistics ■ Non-GDP indicators for many service sectors (telecom, transport, banking, tourism, shippling) are broadly consistent with the strong growth reported in GDP statistics, though agriculture output figures may be more uncertain and many industry-related indicators suggest underlying weakness.
	Goods and services exports	■ Goods exports grew by 14% and 21% in the past two fiscal years, supported in many cases by volume increases ■ Service exports grew by an impressive 29% in dollar terms last fiscal year, and by a still positive 6% in the prior (COVID-impacted) year, reflecting airline performance and a recovery in hotels and tourism activity
	FDI flows	■ Despite COVID and conflict related shocks, FDI flows have fallen only slightly from near $4bn in 2020-21 to $3.3bn last fiscal year.
	Deficits, Debt, and Debt service	■ Deficits have risen but only from levels of 2.5% of GDP to 4.0 and 4.5% of GDP ■ Public debt ratios have continued to decline ■ Debt service obligations continued to be met on foreign debt, avoiding default despite challenging fx conditions
The "Bad"	Inflation	■ Inflation has stayed high, broad-based, and persistent--rising from a mid teens rate in 2019 and 2020, to an average of 27% in 2021 and an average of 34% in 2022
	Investment	■ Investment has declined sharply to 25% of GDP, from 35% of GDP a few years ago and a mid-30s rate in the last decade.
	Industry performance	■ Industry growth has steadily trended downward, with construction growth decelrating from 25% six years ago to just 4.9% last year, and manufacturing growth slowing from 22.9% to 5.8% over the same period.
	Foreign financing	■ Gross foreign loans are down sharply from annual levels of near $3bn five years ago to an expected $0.7bn this fiscal year. Net flows over the same period have fallen from a postiive $1.5bn average to a negative $1.5bn, or a swing of near $3 bn (see Figure 8.4A).
	Rising central bank advances to Govt	■ As noted earlier, after almost being discontinued two years ago as a sign of greater monetary independence, central bank advances rose substantially from Birr 31bn to Birr 220bn, and now make up close to a quarter of Govt domestic debt
	BOP deficit and loss in fx reserves	■ Reflecting the impact of multiple items, including higher imports, lower loans/grants, and slightly lower FDI, the balance of payments recorded a $2.1bn deficit last year and resulted in a $1.5bn decline in central bank fx reserves. Including its foreign liabilities, the central bank currently shows a large negative net foreign asset position.
The "Unknown"	Overall agricultural expansion	■ Data on crop production has been increasingly uncertain given lack of clarity on the full scale of recent low-land wheat initiatives (press reports indicate figures as high as 15-20m additional quintals) and also on the status of crop production in conflict-affected northern regions. Official estimates are thus likely to involve a more-than-usual level of uncertainty.
	Economic losses from the conflict	■ The full scale of economic, social and infrastructural losses arising from the conflict has been variously estimated by different offices and regional governments but a comprehensive and consistent compilation is not yet available. Some early reports suggest losses/damage of as much as $26bn, pointing to the immense opportunity costs of the two years of conflict.
	Standards of living (poverty, unemploy-ment)	■ While macro data are reported with some frequency, including from NBE and MOF statistical releases, high frequency data on underlying social welfare trends remain limited, at least for nationwide and representative samples. This makes it difficult to make judgements about the links between macro performance and such social welfare measures for the most recent two-year period.

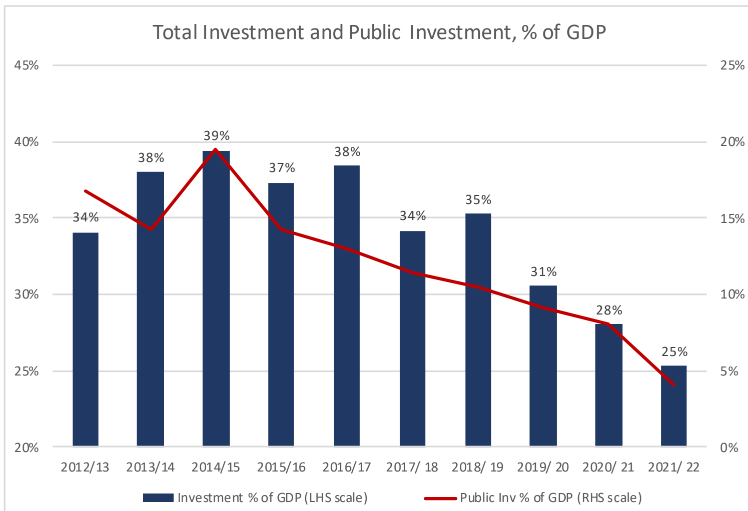
Source: Cepheus Research compilation

A thematic overview and implications for the outlook, part 3

- **Two macro indicators stand out for their particularly weak recent performance, namely the decline in the overall investment rate (down 10 ppts of GDP in just a few years) and the drop in the volume of net foreign financing flows (now negative for the first time in a decade).**

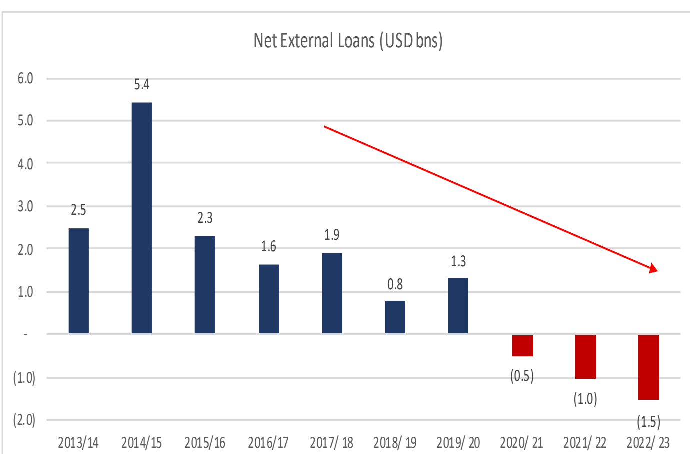
- **The trend in both indicators captures the magnitude of recent shocks while also suggesting a way forward, namely the need for concentrated efforts/reforms towards reversing these very declines in the period ahead.**

Figure 8.3 : Total Investment and Public Investment, % of GDP



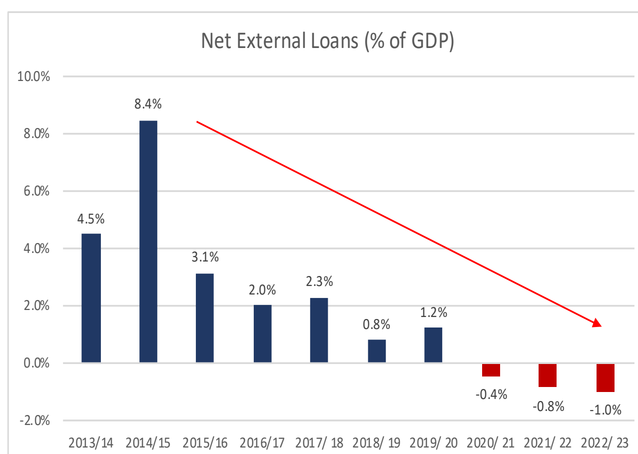
Source: MoPD, MoF,NBE

Figure 8.4A: Net External Loans (USD bns)



Source: MoF. Note FY 2022-23 figure is annualized estimated based on Q1 data.

Figure 8.4B: Net External Loans (% of GDP)



Source: MoF. Note FY 2022-23 figure is annualized estimated based on Q1 data.

A thematic overview and implications for the outlook, part 4

- **Policy efforts to reverse the deterioration in the above two key indicators will require addressing each of their main sub-components. For investment, all four ‘pools’ of new investment flows merit attention, including: (1) government capital spending; (2) state enterprise capital expenditure; (3) private foreign investors; and (4) private domestic investors. Each contributes meaningfully to a balanced investment structure (as both the public and private ‘engines’ of the economy need to be fully functioning), and each requires a somewhat distinctive set of efforts and initiatives to be fully realized.**

- **Similarly, reviving foreign loan inflows is best undertaken by a re-engagement with external partners that is broad-based and covers: (1) multilateral lenders (IMF, WB, AfDB, etc); (2) bilateral lenders; (3) debt relief providers; and (4) private lenders for qualifying state enterprises, projects, and private firms.**

Figure 8.5: Addressing Two Key Macro Indicators Needed to Support Long-term Growth

Investment Rate: Reversing the Sharp Recent Decline

Government Investment	**State Enterprise Investment**	**Private Foreign Investment**	**Private Domestic Investment**
Needed reforms/efforts…	*Needed reforms/efforts…*	*Needed reforms/efforts…*	*Needed reforms/efforts…*
■ Re-allocating funds from non-productive spending (e.g defense) to raise Budget capital expenditure	■ Making much greater use of Public-Private Partnerships to enable SOEs/Government to invest in new infrastructure and public goods without incurring new debt.	■ Significant improvement in Ease-of-Doing Business indicators, i.e., on land, taxes, customs, regulations, fx, credit, etc	■ As is the case for foreign investors, significant improvement in Ease-of-Doing Business indicators, i.e., on land, taxes, customs, regulations, fx, credit, etc
■ Raising revenue via continued efforts to broaden the tax base	■ Use of partial privatizations to raise equity without new debt, and internal financial & management reforms to maximize internal resources available for investment	■ Exchange rate and exchange regime reform to ensure Ethiopia's continued attractiveness to FDI investors for whom fx access and fx convertibility are key long-standing concerns	

Foreign Loan Financing: Reversing the Sharp Recent Decline

Multilateral institutions/lenders	**Bilateral lenders**	**Debt relief providers**	**Private Lenders**
Needed reforms/efforts…	*Needed reforms/efforts…*	*Needed reforms/efforts…*	*Needed reforms/efforts…*
■ Re-engagement with key international institutions incl IMF, WB, AfDB, and others	■ Reviving concessional loan financing from historically significant bilateral funders (UK, France, Germany, Italy, etc)	■ Ensuring a completion of on-going efforts under the 'Common Framework' initiative to secure debt service relief on bilateral and privately held debt, thus minimizing such outflows during a time of high reconstruction needs	■ While borrowing from external private lenders is likely to be limited for the foreseeable future given its higher cost, this sub-category of foreign lenders may remain a potential funding source for well-performing SOEs, for selected public sector projects, and for qualifying private firms.
■ IMF program (reviving expired EFF and ECF) and World Bank 'Development Policy Operation' will have largest impact	■ Expanding the scope for concessional loan financing from newer bilateral partners/lenders, most notably China, Turkey, India and the Gulf states		

Source: Cepheus Research compilation

SECTION 9: The Macro Outlook under 'Status Quo' Policies

- **A 'status quo scenario' is intended to describe a situation where the mix of macro policies is largely unchanged—thus implying limited reversals of emergency macro measures, limited structural/sectoral reforms, and limited re-engagement with external donors. This could arise due to a lack of progress on the domestic political, security, or governance front or due to geo-political factors.**

- **Under this state of affairs, the probabilities are high for investment remaining at its current subdued levels. It would also be reasonable to expect continued stresses in the industrial sector, waning foreign investor confidence, and lower foreign resources to help fund reconstruction and investment.**

- **Accordingly, this scenario is likely to show low single-digit growth, still-high inflation, and persistent fiscal and BOP deficits, a combination prone to a 'vicious cycle' of deteriorating macro conditions.**

Figure 9.1: The Macro Outlook with 'Status Quo Policies': Features and Implications

General Area	Sub-area	Features and Implications
LIMITED REVERSALS of emergency macro policies enacted during the conflict period	**Higher budget deficit**	Continued budget deficits of near 4% of GDP or more would imply (in the absence of foreign budget support) a large reliance on central bank advances (aggravating inflation) or on mandatory lending imposed on local banks (which works to crowd out private credit)
	Lower government capital spending	Government capex of 2% of GDP, as was the case last fiscal year, would imply sharply reduced allocations for many public projects including roads, health/education facilities, and power, water, and urban infrastructure.
	Resort to use of central bank advances	As a very inflationary form of financing, failing to reverse this fast-rising source of government financing would continue to undermine the fight against inflation
	Mandatory Govt bond purchases	While understandable under emergency conditions, the use of forced bond purchase requirements undermines the positive direction started with the development of the Treasury Bill market; this policy also directly undermines efforts to boost credit to the private sector
	FX surrender requirements	While this policy was also undertaken in the context of emergency conflict conditions, and may not be so adverse for most commodity exporters, its continued implementation would mark a major blow to the fledgling manufacturing sector, especially firms in industrial parks dependent on imported inputs
LIMITED REFORM in key macro, structural, and sector-specific policies	**Monetary policy reform**	The current monetary framework is notable for its lack of a clear anchor to guide monetary policy, its heavy accommodation of government spending needs (via central bank advances), and its conflicting objectives that undermine its role if maintaining price stability.
	FX regime reform	Although plans were in place to overhaul the foreign exchange regime with the Homegrown Economic Reform Plan, this has been put on pause over the past two years, thus keeping in place a major distortion affecting many corners of the economy
	Structural reform	Fundamental structural reforms have been delayed or discontinued in key areas such as land access, tax administration, logistics, power, and access to finance.
LIMITED RE-ENGAGEMENT with external partners	**Donors**	The failure to re-engage with donors will imply foregone fx resources from grants of around $1bn, judging by the declines in official grants seen between 2018-19 (official grants of $2.1bn) vs that seen last year ($1.1bn).
	Lenders and debt relief providers	The failure to re-engage with lenders will be associated with foregone fx loan inflows of around $2bn per year, judging by drops in such flows seen in just the last two years ($3.3bn in 2019-20 vs $1.1bn in 2021-22). In addition, the opportunity to secure debt relief on part of the substantial annual sum of $2bn being paid out in external loan repayments would be missed, implying a significant drain on fx reserves and near-term burdens on government.
	Foreign investors	While foreign investment has not dropped significantly (only from $4bn in 2020-21 to $3.3bn in 2021-22), a failure to maximize such investor flows reduces much-needed fx resources that can be secured in equity rather than debt forms. Given a peak FDI/GDP ratio of 4.5% percent seen in 2017 and 2018 versus the 2.5% of GDP registered last year, the foregone FDI amounts involved are on the order of 2 percent of GDP ($2bn to $3bn) were such inflows to return to their past levels relative to GDP.
	Trading partners	Given the loss of AGOA privileges to export duty-free to the US, a failure to reverse this benefit would affect $150mn of current exports but also undermines what had been a major basis for attracting foreign investment into Ethiopia's industrial parks, i.e., the promise of duty-free access to the large US market for basic products such as textiles, garments, footwear, and potentially other manufactured consumer goods.

Source: Cepheus Research compilation

A 'status quo policies' approach, part 2

- **An illustrative macro outlook under a 'status quo approach' policy is highlighted below, starting with the presumption that the investment rate remains low, foreign financing flows fail to rebound from the currently depressed levels, and (as a result) fiscal and BOP positions continue to deteriorate.**

- **The main risks of this 'muddle-through' scenario are that inflation and unemployment conditions worsen as the productive sectors continue to weaken and government's capacity to provide social and economic support dwindles in the midst of tightening resource constraints.**

Figure 9.2: Macro Indicators--Illustrative 'Status Quo' Scenario

	2021-22	2022-23	2023-24*
GDP growth	6.4%	6.5%	4.5%
Investment/GDP	25.3%	24.5%	24.5%
Nominal GDP, Birr bns	$ 6,158	$ 8,554	$ 10,632
Nominal GDP, USD bns	$ 126	$ 160	$ 181
Bank deposits, Birr bn	1,699	2,160	2,808
Bank credit, Birr bn	1,702	2,125	2,708
Deposit growth, %	24.8%	27.1%	30.0%
Credit growth, %	27.9%	24.9%	27.4%
Fiscal balance, %GDP	-4.6%	-3.6%	-4.7%
Public debt, %GDP	45.5%	39.8%	39.7%
Exports, USD bns	$ 4.1	$ 4.1	$ 3.9
Imports, USD bns	$ (18.1)	$ (19.2)	$ (19.6)
Service exports, $ bns	$ 6.3	$ 6.8	$ 7.2
Remittances, USD bns	$ 5.6	$ 6.0	$ 6.3
Grants, USD bns	$ 1.1	$ 1.1	$ 0.9
Current account, %GDP	-3.8%	-3.3%	-2.9%
FDI, USD bns	$ 3.3	$ 3.3	$ 3.3
Gross Loans, USD bns	$ 1.1	$ 1.6	$ 1.5
FX reserves, USD bns	$ 1.5	$ 1.3	$ 0.8

Sources: MoPD, MoF, NBE, IMF, and Cepheus projections

**Note: FY 2023-24 projections represent a 'status quo scenario'*

SECTION 10: A Macro Outlook with 'break-through policies'

- **A distinct break from Ethiopia's recent policy path is a realistic possibility for 2023, in our view, as policymakers are signalling an intention to re-focus priorities towards the economy following two years of conflict. Upcoming revisions in the Home-Grown Economic Reform Program (HGER), the likely resumption of an IMF program with macro policy support, and new leadership at the central bank all suggest a move towards such 'break-through policies'—though the depth, speed, and ultimate execution of such policies of course remains uncertain.**

- **Given the current state of economic conditions, a meaningful package of such 'break-through' policies would—in our view—have to include: (1) reversing recently implemented emergency macro measures; (2) restarting reforms in both macro areas (monetary policy system and foreign exchange regime) and in structural/sectorial policies; and (3) re-engaging with external partners (across the full spectrum covering donors, lenders, foreign investors, and trading partners).**

- **Conditional on a comprehensive package of policies of the type presented above, we offer below our macro forecasts for the real, fiscal, monetary, and external sectors under this presumed scenario.**

Current economic conditions provide strong grounds for embarking on a set of policies that can ensure reconstruction funding, increase overall investment/growth, reduce inflation, and boost fx resources. A policy mix that could achieve these objectives would include (Figure 10.1):

- **Reversing recent emergency macro measures**: Reforms in this area will mainly help to re-balance resource allocations between the public and private sectors, and the key changes in this respect would be in fx surrender rules, bond purchase requirements, and use of central bank direct advances.

- **Restarting macro, structural, and sector-specific reforms**: This package of reforms—all of which were core elements of the first HGER Plan—is critical to boost domestic activity and employment. On the macro side, two critical reforms would involve the monetary framework and exchange rate policy.

- **Re-engaging with the full spectrum of external partners**: This will be needed not just for large-scale and immediate reconstruction needs but also for inflows of long-term investment resources.

The prospects for realizing the above mix of policies appears broadly positive, though of course issues of timing, speed of implementation and ultimate execution remain uncertain. Many of the macro measures introduced in the past two years were meant as temporary fixes to withstand severe budgetary and balance of payments pressures in the context of a war-time economy and would thus naturally be expected to be undone once conflict conditions have subsided. This should apply, for example, to the high jump in defence spending (from Birr 21bn to Birr 80bn), the expansion of the budget deficit (from 2.5% to 4% of GDP), the increase in fx surrender requirements imposed on exporters (from 50% to 80%) and the mandatory bond-purchasing requirements (from 0% to 20% of new lending) imposed on commercial banks. In addition, as policy attention shifts towards recovery and reconstruction, the space for revisiting previously launched reform initiatives—in monetary policy, in the foreign exchange regime, in ease-of-doing-business measures—should be more favourable, while the obstacles that stood in the way of engagement with external partners should gradually recede as conflict conditions come to an end.

Figure 10.1: Macro Policy Priorities: The Case for a package of 'breakthrough policies' involving comprehensive reform

1 Reversing recent adverse and emergency macro measures

1	**Budgetary stance**	While significant improvement in the budget deficit is unlikely given high reconstruction needs, a greater use of foreign financing would reduce the amount of domestic borrowing required--helping cut the use of direct advances (positive for reducing inflation) and also boosting private sector credit
2	**Government capital spending**	A reversal to pre-conflict budget shares of social and capital spending would restore the pro-growth and poverty-reducing aspects of the budget. A reduction of the defense budget to its pre-conflict share of expenditure would also potentially release as much as 1 percent of GDP in extra funding for developmental priorities
3	**Use of central bank advances for Government**	Reversing the rise in central bank advances (which were nearly brought down to zero three years ago) would help substantially in the fight against the policy-sources of persistent inflation
4	**Mandatory Govt bond purchases on banks**	The mandatory requirement for banks to purchase government bonds (at 20% of their monthly loan disbursements and for a fixed interest rate) undermines what had been a successful introduction of a more market-based Treasury-Bill market. The removal of this emergency measure would strengthen the Treasury Market, help further deepen confidence in the long-term development of Capital Markets, and also impose budgetary discipline on government deficit financing.
5	**Room for growth in credit to private sector**	While a major success of reforms initiated with the HGER was the expansion of credit to the private sector (including a majority of new banking system loans going to private borrowers), this policy stance has been undermined with the large domestic financing of the budget deficit and with mandatory bond purchase requirements on banks. Re-orienting policy in this area would thus mark a return to the previous reform direction and boost private sector credit, paving the way for greater private investment and sector-specific growth.
6	**FX surrender requirements on exporters**	Current fx surrender requirements are a major operating constraint for most manufacturing business (less so for commodity exporters), and have led to even lower-than-normal capacity utilization rates in this sector as well as widespread work stoppages. Reverting the fx surrender requirement to levels that accommodate manufacturers (especially exporters in the industrial parks) would address what has become an existential issues for many firms in this sector.
7	**Import bans on consumer goods**	Outright bans on imports have long been discontinued as a practice in international trade and are not in line with global commitments most countries now have to institutions such as the IMF (Article 8) or WTO. These can be replaced instead by more market-friendly approaches including high tariffs or high excises--both in line with international norms.

2 Re-starting reforms, especially those already articulated under the Government's HGER

1	**Macro policy reforms**	Two key policy reforms initiated as part of the HGER but largely put on pause since the start of the conflict are: (1) reform of the monetary policy setting framework/system; and (2) reform of the exchange rate regime, including putting in place market-based exchange rates. Action on both fronts would--together with ongoing fiscal reform--fundamentally improve the macro policy mix to ensure price stability, a workable exchange rate system, and a realistic exchange rate.
2	**Structural policy reforms**	Priority structural policy reforms under the HGER aimed to address seven specific areas, including regulations (covering customs, tax, land, and other such government policies/agencies), SOE management, the power sector, telecom sector, trade, the logistics system, and uncompetitive domestic product markets. While some early progress was recorded in a few of these areas, a large backlog of reform still awaits for business-friendly, job-creating, and growth-enhancing conditions to be created in each of the above areas.
3	**Sector policy reforms**	Targeted reforms in five focus sectors--agriculture, manufacturing, mining, tourism, and ICT--were the third main pillar of the HGER reforms and while perhaps further progress has been made in this domain compared to the others (in agriculture, tourism and ICT for example), there remains a long agenda to bring dynamism and growth to these productive sectors of the economy.

3 Re-engaging with external partners

1	**Donors**	While donor assistance has continued for humanitarian and social sector support over the past two years, the flow of official grants has declined in connection with the conflict. Restoring such grant flows--which were as high as $2bn per year prior to the conflict but $1bn last year--would represent a significant improvement in external support that would help direct beneficiaries while easing budget and BOP constraints.
2	**Lenders**	Multilateral institutions are the largest providers of loans to the Ethiopian government, including the World Bank, African Development Bank, and others. At the time, the IMF provides fx funding to boost central bank reserves directly. The pause in lending by these large institutions has implied foregone funding on the order of $2bn to $3bn per year, and restoring such funding is critical to ensure low-cost, long-maturity loans that can have significantly positive developmental, budgetary, and BOP impacts.
3	**Debt relief providers**	Ethiopia's potential debt relief providers are primarily expected to be bilateral partners, i.e. other governments, as multilateral institutions are not envisaged to provide any debt relief under current schemes. Private bondholders may also not be a focus of attention given their very small shares involved ($1bn of $27 in external debt). Re-engagement with the core group of past bilateral lenders (mainly China, UK, France, Germany, and others) will make possible a rescheduling--and thus immediate fx savings--on debt service dues to bilateral and private creditors (which amounted to $968mn in repayments last year for government & government-guaranteed obligations to these two groups).
4	**Foreign investors**	While foreign investor flows have not fallen materially over the past two years, it is arguably the case that they would have been substantially higher in the absence of the conflict. Active engagement with prospective foreign investors --through internal ease of doing business reforms, making regulatory frameworks attractive in particular sectors, or via active FDI promotion activities--promises to potentially bring in several billion dollars of additional annual (non debt creating) FDI with corresponding benefits for investment, job-creation, growth, and exports.
5	**Trading partners (US-AGOA and EU)**	Efforts to re-instate Ethiopia's AGOA benefits to ensure duty-free access to the large US market have significant implications for the long-term viability of Ethiopia's industrial parks, making the task of re-engaging with trading partners indispensable. Work on WTO accession and the AfCFTA would also be a further dimension of started-but-not-finished initiatives in this area.

Source: Cepheus Research compilation

Looking ahead, as the anticipated near-term reforms outlined above will likely take place only gradually in the first half of 2023, our macro outlook for the remainder of 2022-23 assumes minimal immediate payoffs for the remainder of this fiscal year. Accordingly we project growth will not fundamentally change from its recent trend and continue at around 6 percent for the current year, supported by agriculture expansion of 5 percent, on-going services improvement and weak industry growth. We expect inflation to remain elevated and end the fiscal year at 25 percent (despite current annualized rates of 14%), given the impulse from still expansionary monetary and fiscal policies and the on-going pass-through of fuel subsidy removals. Investment is likely to fall slightly from even last year's subdued level to near 24 percent, in our view, as this year's budget spending priorities have been in non-capital expenditure allocations. The fiscal deficit should come in line with the budget (near Birr 300bn or 4% of GDP), almost exclusively financed by domestic lenders. On the BOP, although the January-June 2023 period may see some tentative improvements in external inflows, we think that this will still be limited for the rest of the fiscal year and anticipate fx reserves ending at around $1.3bn by June 2023. (Figure 10.2).

For the upcoming fiscal year, namely 2023-24, we anticipate a more conducive set of conditions to be in place to boost investment, raise growth, and reduce fiscal/BOP deficits. Conditional on a comprehensive reform approach being adopted, as is our baseline assumption, we expect key policy initiatives for the year ahead will involve: (1) stronger monetary measures to limit inflation (particularly by limiting central bank advances); (2) a sizeable Birr adjustment to move the rate towards a more realistic level as well as subsequent movements to ensure it reflects a market rate; and (3) a significant resumption of multilateral financing (including an IMF program and World Bank budget support), donor grants, and some measure of debt relief that starts to be realized in early 2024. More specific assumptions in these areas as well as broader macro projections are summarized below:

Figure 10.2: Macro Projections 2022-23 and 2023-24

	2021-22	2022-23	2023-24*
GDP growth	6.4%	6.5%	8.5%
Investment/GDP	25.3%	24.5%	29.0%
Inflation, end-period	34.0%	25.0%	18.5%
Nominal GDP, Birr bns	$ 6,158	$ 8,601	$ 11,580
Nominal GDP, USD bns	$ 126	$ 161	$ 152
Bank deposits, Birr bn	1,699	2,160	2,657
Bank credit, Birr bn	1,702	2,125	2,542
Deposit growth, %	24.8%	27.1%	23.0%
Credit growth, %	27.9%	24.9%	19.6%
Fiscal balance, %GDP	-4.6%	-3.6%	-4.1%
Public debt, %GDP	45.5%	39.6%	46.4%
Exports, USD bns	$ 4.1	$ 4.1	$ 4.5
Imports, USD bns	$ (18.1)	$ (19.2)	$ (21.4)
Service exports, $ bns	$ 6.3	$ 6.8	$ 7.4
Remittances, USD bns	$ 5.6	$ 5.8	$ 6.3
Grants, USD bns	$ 1.1	$ 1.1	$ 1.9
Current account, %GDP	-3.8%	-3.5%	-4.0%
FDI, USD bns	$ 3.3	$ 3.3	$ 4.5
Gross Loans, USD bns	$ 1.1	$ 1.6	$ 4.4
FX reserves, USD bns	$ 1.5	$ 1.2	$ 2.9

Sources: MoPD, MoF, NBE, IMF, and Cepheus projections

**Note: FY 2023-24 projections represent comprehensive reform scenario.*

- **Growth:** Growth should rebound strongly under an active reform scenario, as higher public and private investments (supported by higher external inflows—see below) raise government capital outlays and boost construction and rebuilding related activities. Accordingly, we expect industry growth will improve to 9 percent, which is essentially a reversal back to its recent averages. For agriculture, the trend growth of the past three years (6%) is taken as a reasonable benchmark and seems likely to be supported by the re-cultivation of previously disrupted farmlands (in northern regions) as well as by on-going initiatives to ensure fertilizer supplies, expand wheat farming, and intensify fruits/vegetables production. The services sector, already growing strongly with the post-COVID recovery in airlines/tourism/hotel activity, should see even stronger expansion in line improvements in other economic sub-sectors. All things considered, growth of 8% or 9% is a plausible forecast for 2023-24 under a set of policies that reverses recent adverse policies, re-starts critical reforms, and resumes a deeper engagement with external partners.

- **Investment:** Investment rates of 28-30 percent should be anticipated under a strong reform scenario as external financing is restored and private investment further encouraged. Extra public investment of 2-3 percentage points of GDP would be consistent with extra financing flows of $2.5-$3.5bn over the next 18 months (reflecting a reform scenario), while an extra 1-2 percentage points of extra private investment ($1.5bn to $2bn) is also realistic considering incremental foreign and domestic investment that would also be forthcoming in this case.

- **Inflation:** A set of offsetting factors will work to keep inflation largely elevated even under a presumed reform scenario. Factors helping reduce inflation include the already high base, a decline now being observed in most global commodity prices, and the brief but notable decline in the most recent month-on-month trajectory (which is currently implying a 14% annualized inflation rate based on Q4 monthly price increase). The assumption of reduced central bank advances also helps limit the monetary contributions to inflation. At the same time, working in the opposite direction will be the assumed depreciation under the reform scenario, which we estimate will immediately add 5 to 7 percentage points to inflation (in line with past experiences and considering the share of imports in the price index and forecast exchange rate adjustment—see below). The net effect of the above factors will, in our view, take inflation to the high 30s in the second half of 2023, after which however there should be a firm downward trend as central bank financing to government is sharply reduced and as reform policies begin to address supply-side reforms. On this basis, we expect inflation would fall to just below 20 percent by June 2024.

- **Fiscal Stance:** While the budget deficit should be expected to widen, due to increased reconstruction spending, a much lower share of it will be financed domestically, thus leaving room for reductions in (highly inflationary) central bank advances and for stronger growth in credit to the private sector. Reflecting the fact that some portion of reconstruction spending will be on budget, we expect spending growth to outstrip nominal GDP growth (40% vs 33%) and see government budget spending crossing Birr 1 trillion in 2023-24 and the deficit staying above 4% of GDP. Only 1.5% of GDP equivalent of the budget deficit (Birr 190bn of 470bn) would be financed domestically, however, on expectations that close to $2.5bn of government external financing can be secured next fiscal year reflecting active re-engagement with international financial institutions and stepped-up reconstruction support.

- **Monetary Policy:** Given a presumed policy re-orientation in this area (towards a greater focus on price stability and away from the use of monetary tools to actively boost growth), we expect reduced growth rates for money supply in the coming fiscal year. M2 growth is accordingly expected to decline from its current high growth rates (near 30% y-o-y) and trend towards growth that is at the lower end of the 20-25 percent range.

- **Banking and private sector credit:** Lower domestic financing needs of Government should facilitate a pick-up in credit to the private sector as a smaller share of the banking system's pool of loanable funds is absorbed by government and is instead made available to the private sector. Thus, despite lower *overall* credit growth due to tighter monetary policy, we still expect that there could be room for higher *private sector* credit, with growth of 30 percent or more possible reflecting reduced domestic deficit financing.

- **Exchange rate:** A central expectation—or indeed assumption—of the comprehensive reform scenario outlined here is that there is a level adjustment in the exchange rate to address the current unrealistic rate and the multiple distortions that it creates. In considering the scale of such a presumed rate adjustment, we review alternative criteria that might guide the size of the needed exchange rate depreciation, including for example whether the rate might move to either: (1) the parallel rate; (2) a rate somewhat stronger than the parallel rate (as that rate includes embedded fees/risks associated with the current scarce fx regime as well as an 'illegality premium'); (3) a rate that would take the real effective exchange rate (REER) to various past benchmarks (such as the past ten-year average or to the REER that prevailed during a time of high fx reserve cover); and (4) a rate that would restore the FX Reserves-to-M2 ratio (which has fallen sharply this past year as the numerator fell and the denominator expanded) closer towards its past norms. Several of these measures suggest a rate adjustment of 30-40 percent would be needed in the official exchange rate and we consider this extent of depreciation as the baseline for the purposes of our projections. We also assume (simply to set a needed timeline for our projections) that the rate adjustment is enacted at the start of the upcoming fiscal year and that monthly depreciations are subsequently in place to bring the rate to its targeted 30-40% adjustment by the middle of the upcoming fiscal year (Figure 10.3).

Figure 10.3: Birr Exchange Rate: What can be considered an appropriate level?

Considerations for the 'appropriate' exchange rate based on Market--based, REER, and Other Metrics:

	Reference Period	Target	Implied Birr rate
1 Real Effective Exchange Rate (REER) for...			
A. Past 10-year average	FY13 TO FY22	144.2	65.1
B. Past 5-year average	FY18 TO FY22	152.4	62.7
C. Recent year when premium was <20%	FY2021	144.5	65.0
D. Years of peak fx reserve level	FY15 TO FY17	145.6	64.7
E. Years of peak fx reserve cover	FY11 TO FY13	115.3	73.5
F. Years of lowest Current Account Deficit	FY09 TO FY11	100.5	77.8
G. Years of best 3-year export growth	FY10 TO FY12	112.1	74.4
2 Current Parallel Market Rate, Quoted level	*Jan-23*	*Market info*	96.0
3 Current Parallel Market Rate, Discount of 20% to quoted level	*Jan-23*	*Market info*	76.8
4 Exchange rate to revert M2/FX-Reserves ratio to 2020/2021 levels	*Jan-23*	9.3%	103.4
AVERAGE OF ALL ABOVE APPROACHES:			**75.9**
AVERAGE OF Preferred 3 Approaches:*			**84.6**

Source: Historical REER data from Bruegel REER database, and Cepheus Research compilation. Note: The REER Index stood at 184.2 as of end-December 2022.

**Three prefered approaches refers to average of parallel rate with 20% discount, REER during years of high reserve cover, and rate to reverse M2/FX ratio to prior year levels.*

- **External Sector:** With respect to the balance of payments, three key developments—the presumed exchange rate adjustment, the re-engagement with donors, and the easing of global commodity prices—lead us to project a modest overall BOP surplus for next year, the result of which would be an equally modest build-up of fx reserves towards a level that represents nearly two months of import cover. We expect export growth to pick up to 10% next year (as industrial and mining exports return to past levels), while imports would be expected to grow by at least 10% as reconstruction spending and re-building activities are launched. Services income should continue its recent trend growth of 8% per year, thus reaching $7bn for next year. On remittances, exchange rate adjustment should boost inflows to above $6bn next year, while other private transfers and official transfers (bilateral/multilateral grants) should both rise with re-engagement. A pick-up in FDI is also to be expected for the first full year of reforms (due in part to privatizations already in the pipeline), while government borrowing rises substantially with assumed international financial institution funding. Alongside an assumed IMF program that directly boosts central bank reserves, we expect the net impact of all of the above would be to take reserves to near $3.0bn by mid-2024.

In sum, even for what would only be the first full year of policy change, the implementation of comprehensive reforms can, in our view, prevent a further deterioration in key macro indicators, improve sentiment among domestic and external investors, and trigger substantial external support which—all taken together—would put Ethiopia back on a much stronger growth and developmental path for the period ahead.

Ethiopia: Key Macroeconomic Indicators: FY 2012-13 to FY 2023-24

	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	FY 2022/23	*Comprehensive reform case* FY 2023/24
	Actual	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Projection*	*Projection*
Real Sector: GDP, Prices, and Investment												
Real GDP growth	9.9%	10.3%	10.4%	8.0%	10.2%	7.7%	9.0%	6.1%	6.3%	6.4%	6.5%	8.5%
Agriculture growth	*7.1%*	*5.4%*	*6.4%*	*2.3%*	*6.7%*	*3.5%*	*3.8%*	*4.3%*	*5.5%*	*6.1%*	*6.0%*	*6.0%*
Industry growth	*24.0%*	*17.1%*	*19.9%*	*20.5%*	*20.3%*	*12.2%*	*12.6%*	*9.6%*	*7.3%*	*4.9%*	*4.0%*	*9.0%*
Services growth	*9.0%*	*13.0%*	*11.1%*	*8.6%*	*7.2%*	*8.8%*	*11.0%*	*5.3%*	*6.3%*	*7.6%*	*8.7%*	*10.2%*
Inflation: CPI (period average)	13.5%	8.1%	7.7%	9.7%	7.2%	13.1%	12.6%	19.9%	20.2%	33.8%	31.2%	24.1%
Inflation: CPI (end-of-period)	7.4%	8.5%	10.4%	7.5%	8.8%	14.7%	15.3%	21.6%	24.6%	34.0%	25.0%	18.5%
Nominal GDP growth	16.0%	22.4%	22.4%	20.8%	16.9%	20.0%	22.3%	25.4%	28.6%	41.8%	39.7%	34.6%
Nominal GDP level (Birr billions)	866.9	1,060.8	1,298.0	1,568.1	1,832.8	2,200.1	2,690.8	3,374.7	4,341.0	6,157.5	8,600.5	11,579.9
Nominal GDP level (USD billions)	$ 47.6	$ 55.5	$ 64.5	$ 74.1	$ 81.6	$ 83.9	$ 95.7	$ 106.8	$ 110.3	$ 125.9	$ 160.8	$ 152.4
GDP per capita (in USD)	$ 554.0	$ 631.1	$ 715.8	$ 812.8	$ 873.4	$ 878.4	$ 980.4	$ 1,071.5	$ 1,082.3	$ 1,209.8	$ 1,512.6	$ 1,404.9
Exchange rate (Birr/USD, year-average)	18.23	19.11	20.13	21.16	22.47	26.23	28.12	31.59	39.36	48.89	53.49	75.97
Exchange rate (Birr/USD, end-period)	18.64	19.58	20.57	21.80	23.11	27.26	28.91	34.93	43.69	51.99	55.01	86.80
Exchange rate annual depreciation (year-average)	5.5%	4.8%	5.3%	5.1%	6.2%	16.7%	7.2%	12.3%	24.6%	24.2%	9.4%	42.0%
Investment-to-GDP ratio	32.6%	38.0%	39.3%	37.3%	38.4%	34.2%	35.3%	30.6%	28.0%	25.3%	24.5%	29.0%
By investor category:												
Public sector investment-to-GDP ratio	24.3%	17.0%	17.6%	16.8%	14.4%	12.6%	11.0%	9.5%	8.1%	4.2%	4.5%	8.0%
Private sector investment-to-GDP ratio	8.3%	21.0%	21.7%	20.5%	24.0%	21.6%	24.3%	21.1%	19.9%	21.1%	20.0%	21.0%
By source of financing:												
Domestic Savings-to-GDP ratio	15.9%	20.5%	21.8%	22.4%	22.4%	24.1%	22.1%	20.8%	18.9%	15.3%	18.0%	20.5%
External Savings-to-GDP ratio	16.7%	17.5%	17.5%	14.9%	16.0%	10.1%	13.2%	9.8%	9.1%	10.0%	6.5%	8.5%
Banking Sector	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	FY 2022/23	FY 2023/24
Deposits at all commercial banks (Br bn)	237.8	292.9	366.5	436.7	567.7	729.1	899.1	1,042.8	1,361.3	1,699.0	2,160.0	2,656.8
Loans by all commercial banks (Br bn)	116.5	145.6	189.3	232.1	289.8	355.4	456.1	589.8	775.0	1,011.0	1,360.0	1,700.0
Treasury Bills held by all comm banks (Br bn)	...	...	...	...	...	...	...	9.5	54.5	196.0	196.0	215.6
Bonds held by all commercial banks (Br bn)	82.8	111.8	152.7	188.7	237.8	291.4	338.6	405.2	444.9	495.0	569.3	626.2
Total bank financing: Loans/Bills/Bonds (Br bn)	218.4	282.5	379.4	470.7	582.2	716.9	883.6	1,085.5	1,330.4	1,702.0	2,125.3	2,541.8
Deposit-to-GDP ratio (%)	27.4%	27.6%	28.2%	27.8%	31.0%	33.1%	33.4%	30.9%	31.4%	27.6%	25.1%	22.9%
Total bank financing-to-Deposit ratio (%)	91.8%	96.5%	103.5%	107.8%	102.5%	98.3%	98.3%	104.1%	97.7%	100.2%	98.4%	95.7%
Total commercial bank financing-to-GDP ratio (%)	25.2%	26.6%	29.2%	30.0%	31.8%	32.6%	32.8%	31.9%	29.4%	24.5%	22.4%	20.1%
Annual growth in bank deposits (%)	25.6%	23.2%	25.1%	19.2%	30.0%	28.4%	23.3%	16.0%	30.5%	24.8%	27.1%	23.0%
Annual growth in total bank financing (%)	35.7%	29.4%	34.3%	24.1%	23.7%	23.1%	23.3%	22.8%	22.6%	27.9%	24.9%	19.6%

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

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

												Comprehensive reform case
Fiscal Sector	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	FY 2022/23	FY 2023/24
Revenue and grants (Birr bns)	137.2	158.1	199.6	243.7	269.1	287.6	344.9	395.0	478.9	351.6	477.7	677.4
Revenue (Birr bns)	124.1	146.2	186.6	230.7	256.6	269.6	311.3	354.3	444.6	351.6	438.8	590.8
Grants to budget (Birr bns)	13.1	11.9	13.0	13.0	12.5	17.9	33.6	40.7	34.3	0.0	38.9	86.6
Expenditure (Birr bns)	153.9	185.5	230.5	272.9	329.3	354.2	413.0	480.2	599.0	631.9	786.6	1151.7
Fiscal balance after grants (Birr bns)	-16.7	-27.4	-30.9	-29.3	-60.2	-66.6	-68.1	-85.2	-120.1	-280.3	-308.9	-474.3
External budget financing (Birr bns)	16.8	20.5	18.7	26.0	29.0	28.1	35.4	59.5	21.8	3.3	5.3	189.9
Domestic budget financing (Birr bns)	1.8	13.5	18.5	24.7	34.6	14.9	36.3	42.1	138.9	359.3	303.6	284.4
Other/exceptional financing (Birr bns)	-1.9	-6.6	-6.3	-21.5	-3.4	23.6	-3.6	-16.4	-40.6	-82.3	0.0	0.0
Revenue and grants (% GDP)	15.8%	14.9%	15.4%	15.5%	14.7%	13.1%	12.8%	11.7%	11.0%	5.7%	5.6%	5.8%
Expenditure (% GDP)	17.8%	17.5%	17.8%	17.4%	18.0%	16.1%	15.3%	14.2%	13.8%	10.3%	9.1%	9.9%
Fiscal balance after grants (% GDP)	-1.9%	-2.6%	-2.4%	-1.9%	-3.3%	-3.0%	-2.5%	-2.5%	-2.8%	-4.6%	-3.6%	-4.1%
External budget financing (% GDP)	1.9%	1.9%	1.4%	1.7%	1.6%	1.3%	1.3%	1.8%	0.5%	0.1%	0.1%	1.6%
Domestic budget financing (% GDP)	0.2%	1.3%	1.4%	1.6%	1.9%	1.3%	1.3%	1.2%	3.2%	5.8%	3.5%	2.5%
Other/exceptional financing (% GDP)	-0.2%	-0.6%	-0.5%	-1.4%	-0.2%	-0.1%	-0.1%	-0.5%	-0.9%	-1.3%	0.0%	0.0%
Public Sector Debt (% GDP)	41.9%	45.7%	52.9%	52.4%	55.2%	58.9%	56.2%	51.6%	51.2%	45.5%	39.6%	46.4%
External Debt (% GDP)	23.6%	25.2%	29.6%	29.0%	28.7%	30.8%	28.2%	27.0%	26.7%	22.2%	17.3%	20.1%
Domestic Debt (% GDP)	18.3%	20.5%	23.3%	23.4%	26.5%	28.1%	28.0%	24.6%	24.4%	23.4%	22.2%	26.3%
External Sector: Balance of Payments	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	FY 2022/23	FY 2023/24
Exports of goods (USD mn)	3,116	3,300	3,019	2,868	2,908	2,840	2,667	2,988	3,617	4,104	4,063	4,469
Exports of services (USD mns)	2,853	3,174	3,028	3,196	3,331	4,220	4,949	4,664	4,895	6,332	6,839	7,386
Imports of goods (USD mn)	(11,461)	(13,712)	(16,458)	(16,725)	(15,803)	(15,253)	(15,112)	(13,881)	(14,288)	(18,092)	(19,178)	(21,383)
Imports of services (USD mns)	(2,281)	(2,461)	(3,107)	(3,442)	(3,393)	(3,983)	(4,910)	(4,245)	(4,308)	(5,130)	(5,540)	(6,150)
Remittances (USD mn)	2,489	2,968	3,797	4,420	4,428	5,121	5,693	4,722	4,931	5,624	5,849	6,317
Private transfers (USD mn)	1,086	1,071	1,085	2,008	1,058	953	683	904	1,187	1,854	1,965	2,083
Foreign official grants (USD mn)	1,530	1,461	1,508	1,391	1,428	1,226	2,087	1,488	1,369	1,093	1,050	1,900
Current account balance (USD mn)	(2,781)	(4,352)	(7,401)	(6,657)	(6,528)	(5,253)	(4,534)	(3,969)	(3,154)	(4,773)	(5,560)	(6,036)
Current account balance (% GDP)	-5.8%	-7.8%	-11.5%	-9.0%	-8.0%	-6.3%	-4.7%	-3.7%	-2.9%	-3.8%	-3.5%	-4.0%
Foreign direct investment (USD mn)	1,232	1,467	2,202	3,269	4,171	3,723	3,015	2,419	3,955	3,308	3,300	4,500
Foreign borrowing, net: GOVT (USD mn)	1,270	2,309	3,352	1,628	1,402	1,632	1,158	1,947	894	429	743	2,153
Foreign borrowing, net: SOEs (USD mn)	882	332	2,347	1,052	626	937	1,326	(234)	(849)	(978)	(803)	597
Overall External Balance (USD mn)	(7)	(97)	(521)	(831)	659	(201)	58	(730)	340	(2,124)	(285)	1,664
Stock of Foreign Reserves, (USD mn)	2,368	2,496	3,249	3,402	3,197	2,843	3,415	3,209	2,881	1,535	1,250	2,914
Stock of Foreign Reserves, months imports	2.5	2.2	2.4	2.4	2.4	2.2	2.7	2.8	2.4	1.0	0.8	1.6
External Debt Stock (Public Sector, USD bn)	11.2	14.0	19.1	21.5	23.4	25.8	27.0	28.9	29.5	27.9	27.9	30.6
External Debt Stock (Public Sector, % GDP)	23.6%	25.2%	29.6%	29.0%	28.7%	30.8%	28.2%	27.0%	26.7%	22.2%	17.3%	20.1%
Growth of Goods Exports	-1.2%	5.9%	-8.5%	-5.0%	1.4%	-2.3%	-6.1%	12.0%	21.1%	13.5%	-1.0%	10.0%
Growth of Goods Imports	4.0%	19.6%	20.0%	1.6%	-5.5%	-3.5%	-0.9%	-8.1%	2.9%	26.6%	6.0%	11.5%

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