ETHIOPIA

Table 1	2023
Population, million	126.5
GDP, current US$ billion	171.3
GDP per capita, current US$	1353.5
International poverty rate ($2.15)[a]	27.0
Lower middle-income poverty rate ($3.65)[a]	65.0
Upper middle-income poverty rate ($6.85)[a]	90.9
Gini index[a]	35.0
School enrollment, primary (% gross)[b]	85.5
Life expectancy at birth, years[b]	65.0
Total GHG emissions (mtCO2e)	216.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Growth surged from 6.4 percent in FY22 to 7.2 percent in FY23, supported by good harvests and steady service sector growth. However, growth remains lower than before COVID-19, and compounded shocks since 2019 made it more difficult to translate economic growth into poverty reduction. Reflecting slow reform implementation, growth is expected to drop to 7 percent in FY24 and over the medium term. Urgent reforms implementation is critical to restore macroeconomic stability and create enabling environment for structural transformation.

Key conditions and challenges

Ethiopia's state-led and public-investment-intensive development model supported growth rates of nearly 10 percent between 2004 and 2018, among the world's highest, and drove significant gains in poverty reduction. Despite these achievements, the country's development model yielded negligible improvements in structural transformation and productivity growth while contributing to macroeconomic imbalances: debt vulnerabilities, fiscal constraints, depleted liquidity buffers, and foreign-exchange shortages. The 2019 Home-Grown Economic Reform Agenda sought to prioritize reforms that would address macroeconomic distortions, unlock greater private sector participation and market orientation. However, implementation was slowed amid multiple shocks—including the COVID-19 pandemic, major conflict in the north, and soaring global food and energy prices—that exacerbated macroeconomic vulnerabilities. This has slowed growth to about 6 percent since FY20.

In recent months, the government has announced a revival of the 2019 HGER to target macro-financial measures to stabilize the macroeconomy and reduce macroeconomic vulnerabilities; introduce structural reforms to alleviate business constraints to create an enabling environment for private sector investment; and implement sectoral policies to address sector-specific institutional and market failures and enhance productivity.

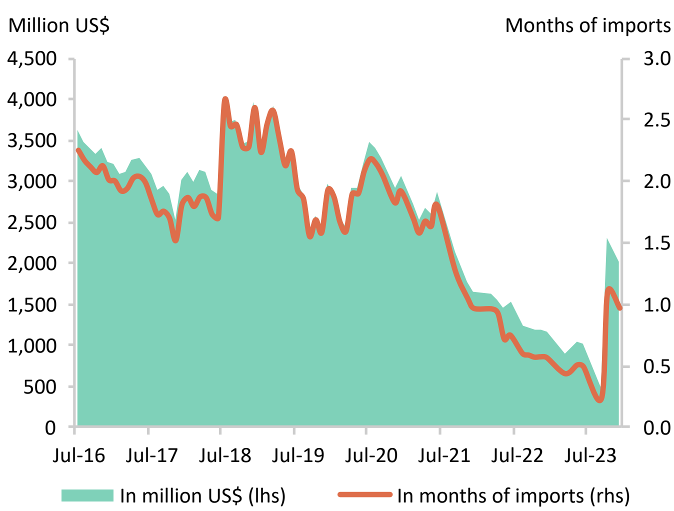
The combination of climatic shocks, disease outbreaks, armed conflict, and economic shocks have made difficult to continue reducing poverty at the pace observed before 2019. Poverty rates are estimated to have stagnated at around the level observed in 2016. Food insecurity has also worsened, due to global food and energy price shocks and the disruptions to grain supply due to the war in Ukraine.

Recent developments

Growth picked up to 7.2 percent in FY23 (ending June 2023) from 6.4 percent in FY22 as good harvests supported agricultural sector growth despite protracted drought in pastoral areas. Service sector dynamism also contributed to growth, while the manufacturing and construction sectors were negatively affected by worsening foreign exchange shortages, restrictions on non-essential imports, and the suspension of preferential US market access.

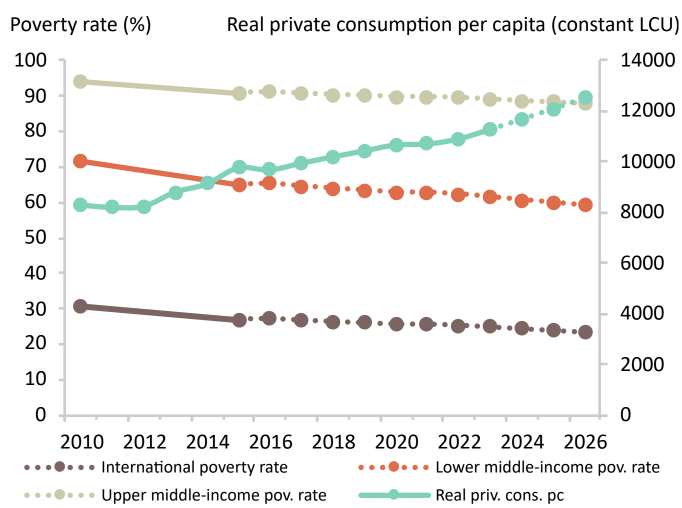
The current account deficit narrowed to 2.8 percent of GDP in FY23 from 4 percent of GDP in FY22, due to strong service exports and lower imports related to foreign exchange shortages. It was largely financed through foreign direct investment and the drawdown of foreign exchange reserves. A two-year debt suspension agreement with the G20 Official Creditors' Committee in November 2023 helped ease external financing pressures, but its continuity is

FIGURE 1 Ethiopia / Gross foreign exchange reserves



Source: National Bank of Ethiopia.

FIGURE 2 Ethiopia / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

contingent on reaching agreement with the International Monetary Fund on an economic reform program.

Fiscal space narrowed further amid declining revenues and donor flows. Ethiopia's tax revenues (with a tax-to-GDP ratio of 6.8 percent in FY23) are insufficient to fund essential spending and growth-enhancing investments and anchor fiscal sustainability. To contain fiscal deficits, public spending has been steadily cut, falling to 10.8 percent of GDP in FY23 (less than half the levels in the early 2000s). With limited financing options, the deficit narrowed from 4.2 percent of GDP in FY22 to 2.5 percent of GDP in FY23, and was financed mainly through domestic borrowing, including from the central bank. The public debt-to-GDP ratio continued to decrease in FY23 as external disbursements remained constrained.

Inflation remains high, reaching 28.7 percent in December 2023, with large contributions from non-food inflation due to the phasing out of fuel subsidies, monetary financing of the deficit, and widening premiums in parallel currency markets (that reached over 100 percent in recent months). Overlapping crises –persistent droughts and a surge in global food, fuel, and fertilizer prices– have also contributed to inflation.

Against this backdrop, poverty is expected to have remained stagnant, which combined with high population growth has led to a ceaseless increase in the already large number of poor people in the country—by 2023, 31.5 million people lived below the $2.15/day poverty line.

Outlook

Growth is projected to drop to about 7 percent over the medium term amid slow progress in reform implementation. Although still a high level of growth, the continuance of policy distortions, including a significantly overvalued exchange rate, constrains Ethiopia from translating this growth into tangible improvements in productivity and job opportunities for people. Although fiscal and current account deficits narrow over the medium term, Ethiopia will remain severely constrained by a shortage of domestic and external financing. Inflation is projected to decline gradually, as monetary financing declines in line with narrowing fiscal deficits. The implementation of critical macroeconomic and structural reforms under discussion would help address macroeconomic distortions and improve the quality of growth.

A shift in Ethiopia's economic model towards a private sector led and more market oriented one is urgently needed to address mounting macroeconomic vulnerabilities, restart a stalled structural transformation and create jobs. Addressing the significant distortions in the foreign exchange market is critical to restore productivity-led growth, improve resource allocation, and alleviate external payment risks. Debt treatment and the resumption of official external flows will also be crucial to ease external financing pressures. However, any intensification in conflicts would complicate reform implementation and affect foreign exchange inflows.

Substantial poverty reduction in the medium term would require strong performance in the agricultural sector, which employs over 70 percent of the labor force, as well as dynamism in other sectors. Additional shocks could push millions more into poverty and increase further spatial inequalities and mitigating this risk requires, among other things, an acceleration of reforms to rebuild fiscal and social buffers.

TABLE 2 Ethiopia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020/21	2021/22	2022/23e	2023/24f	2024/25f	2025/26f
Real GDP growth, at constant market prices	6.3	6.4	7.2	7.0	7.0	7.0
Private consumption	3.0	4.5	6.1	6.1	6.1	6.1
Government consumption	12.2	1.5	-16.0	0.6	4.8	5.0
Gross fixed capital investment	7.6	11.0	11.2	10.7	6.3	6.4
Exports, goods and services	5.5	11.7	-0.8	6.5	6.1	6.1
Imports, goods and services	2.0	10.8	-4.1	11.2	1.2	1.2
Real GDP growth, at constant factor prices	6.3	6.4	7.2	7.0	7.0	7.0
Agriculture	5.5	6.0	6.3	6.0	6.0	5.9
Industry	7.3	4.8	6.9	7.0	7.0	7.1
Services	6.3	7.9	8.0	7.9	7.7	7.7
Inflation (consumer price index)	20.2	33.7	32.6	28.5	23.2	17.6
Current account balance (% of GDP)	-2.7	-4.0	-2.8	-2.4	-1.7	-1.3
Fiscal balance (% of GDP)	-2.8	-4.2	-2.5	-2.0	-1.8	-1.8
Revenues (% of GDP)	11.2	8.3	8.2	7.5	7.0	6.8
Debt (% of GDP)	56.6	54.4	42.7	36.1	31.8	29.8
Primary balance (% of GDP)	-2.2	-3.6	-1.9	-1.5	-1.4	-1.5
International poverty rate ($2.15 in 2017 PPP)[a,b]	25.6	25.4	24.9	24.4	24.0	23.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	62.7	62.2	61.4	60.6	59.8	59.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.7	89.5	89.1	88.6	88.2	87.8
GHG emissions growth (mtCO2e)	3.5	2.3	2.5	2.6	2.5	2.7
Energy related GHG emissions (% of total)	14.5	14.0	13.5	13.0	12.4	11.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Growth projections reflect limited available information, and are subject to revision as better data becomes available.
a/ Calculations based on 2010-HICES and 2015-HICES. Actual data: 2015. Nowcast: 2016-2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.