ETHIOPIA

Table 1	2021
Population, million	117.9
GDP, current US$ billion	114.6
GDP per capita, current US$	972.5
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]	119.4
Life expectancy at birth, years[b]	67.0
Total GHG emissions (mtCO2e)	191.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ Most recent WDI value (2020).

Though considerably lower than pre-conflict levels, and despite ongoing conflict, GDP growth in FY22 was revised modestly upwards to 3.5 percent from a more resilient agricultural harvest and higher export growth. Nevertheless, the economy is confronting multiple shocks while eroded buffers are threatening macroeconomic stability. Poverty and inequality remain elevated, and Ethiopia remains highly vulnerable to disruptions in global food supplies. The abatement of conflict and a resumption in market reforms are critical to reviving growth and accelerating poverty reduction.

Key conditions and challenges

Between 2004-20, Ethiopia's economy was one of the world's fastest-growing, with GDP growth averaging 10 percent. State-led public investments in infrastructure supported high growth and poverty reduction (the poverty rate fell by about 10 percentage points between 2004-16). However, unevenly shared growth that favored urban and wealthier areas resulted in increasing inequality in recent years. The poverty rate remains high at about 24 percent.

More recently, the limitations of the state-led growth model—a stalled structural transformation, a financing overhang from large capital investments, a narrow export base, and a private sector constrained by burdensome regulations and heavy foreign exchange market distortions—have slowed growth and left Ethiopia at high risk of debt distress.

Overlapping shocks from drought, conflict, and the COVID-19 pandemic have severely impacted lives and livelihoods. Some 20 million people require humanitarian assistance due to prolonged drought in lowland areas and conflict in the Northern parts of the country. An already acute food insecurity has worsened further because of global food and energy price shocks and disruptions to grain supply due to the Russia-Ukraine war.

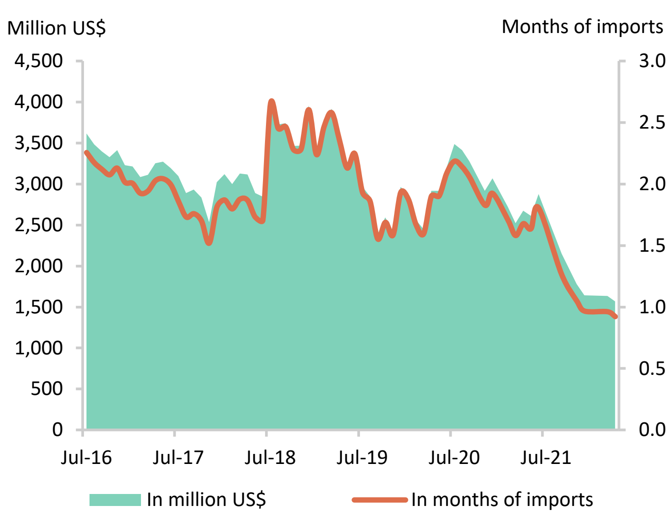
In response to a weakening economy, the government launched a Homegrown Economic Reform Program in 2019 to boost growth in key sectors (energy, logistics, and telecoms), increase competition, improve the export climate, and reduce macroeconomic imbalances. A critical policy priority was a move to a competitive foreign exchange market—a much-needed reform to boost competitiveness and reduce distortions and input shortages in the economy. Despite greater uncertainty, these reforms are necessary to reignite growth and accelerate poverty reduction. Downside risks include renewed conflict, delays in debt relief amid tightening global financial conditions, and the continuance of drought in the Horn of Africa that impacts agricultural production—especially livestock. Depleted FX reserves and fiscal space limit the country's capacity to absorb additional shocks.

Recent developments

GDP growth for FY22 was revised slightly upwards to 3.5 percent, despite a fifth year of drought, ongoing conflict and displacement, and external shocks. Agricultural output was relatively resilient to the Tigray conflict, falling by a lower-than-expected 1.5 percent during the main meher season. Export growth also remained strong at 14 percent in FY22, as higher coffee prices helped offset Ethiopia's removal from the African Growth and Opportunity Act in January 2022 and the introduction of more restrictive regulatory measures on exporters.

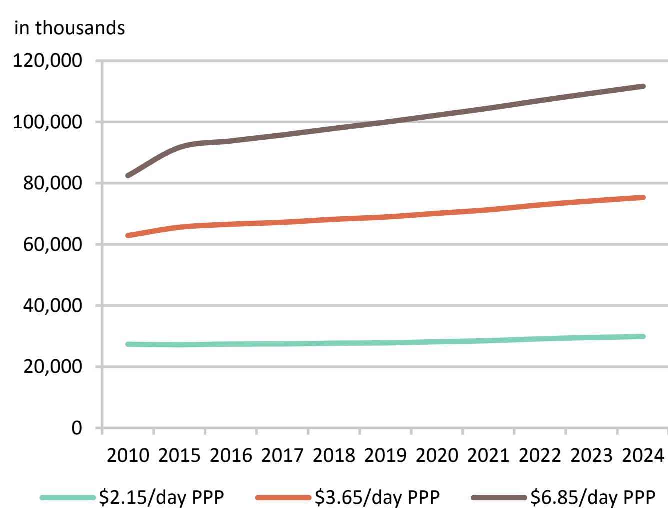
In July, inflation remained elevated at 33.5 percent due to higher food prices

FIGURE 1 Ethiopia / Gross foreign exchange reserves



Source: National Bank of Ethiopia.

FIGURE 2 Ethiopia / Number of poor



Sources: Global Poverty Working Group (GPWG) and Macro Poverty Outlook.

and petroleum subsidy reforms. High inflation and a slower depreciation of the official exchange rate since late February are contributing to currency overvaluation and a widening premium (of about 50 percent) in parallel currency markets.

External vulnerabilities have increased. Higher fuel, fertilizer, and food import bills offset strong export growth and lower capital imports, contributing to a wider trade deficit. Coupled with lower official aid inflows (that offset continued growth in remittances and FDI inflows), FX reserves have eroded (estimated at less than 1 month of import cover at end-FY22). As a result, external debt servicing risks have heightened and Ethiopia has requested debt relief under the G-20 Common Framework.

The fiscal deficit increased to 3.7 percent of GDP in FY22 (vs. 2.8 percent in FY21). Increased recurrent spending—largely defense, security, rehabilitation, and relief—offset reductions in capital spending. Amidst sharply lower external financing, the fiscal deficit was mainly financed by domestic borrowing. The government began implementing a phased removal of fuel subsidies in December 2021, which should yield savings of about 1 percent of GDP by 2023.

While some net producers benefited from rising food prices, the poor, who are net consumers with limited options for substitution between food items, are negatively affected. For example, the increase in maize and sorghum prices is expected to reduce welfare by as much as 10 percent among rural households. The ongoing armed conflict, drought, and inflation have severely impacted food security.

Outlook

Growth is expected to be more robust in FY23 (5.3 percent), supported by reconstruction efforts and the resumption of agricultural activity in some of the conflict affected areas. Inflation is expected to remain high in the short-term due to looser monetary policy, but then subside as global energy/food prices ease. Continued export growth (mainly services) and slower import growth from lower conflict-related spending are expected to narrow the current account deficit. Given depleted foreign exchange reserve levels and lower official inflows, CAD in FY23 is expected to be financed largely through relatively robust FDI inflows and borrowing by Ethiopian Airlines. New tax policy measures to boost value-added, excise, and property taxes should support revenues and help narrow the fiscal deficit in FY23. Even with an improving domestic and global outlook, a reversion to former high growth levels will require greater private sector investment and job creation. This will depend critically on bold policies to remove all foreign exchange market distortions, accelerate fiscal consolidation through revenue and SOE reforms, and create a level playing field for competition and private sector-led growth.

The poverty trajectory shows stalling in poverty reduction. The poverty headcount rate is expected to decline slightly (just a 0.08 percentage points decrease) between 2020 and 2021, and the number of poor people is expected to have increased in 2022 by more than half a million. The lack of significant gains in poverty reduction than expected is due to armed conflict, persistent droughts in lowland regions, the Ukraine war, and higher inflation. The multiple shocks the country is facing could push millions of people into poverty, increase spatial inequalities and threaten the progress in poverty reduction.

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

	2018/19	2019/20	2020/21	2021/22e	2022/23f	2023/24f
Real GDP growth, at constant market prices	9.0	6.1	6.3	3.5	5.3	6.1
Private Consumption	5.1	5.0	3.0	2.1	3.5	3.6
Government Consumption	7.2	0.6	12.2	15.8	3.4	7.6
Gross Fixed Capital Investment	15.1	5.6	7.6	2.1	7.1	8.1
Exports, Goods and Services	3.0	3.4	5.5	6.4	7.4	7.5
Imports, Goods and Services	5.4	-1.9	2.0	5.1	3.6	4.8
Real GDP growth, at constant factor prices	9.0	6.1	6.3	3.5	5.3	6.1
Agriculture	3.8	4.3	5.5	1.8	3.5	4.0
Industry	11.5	9.6	7.3	5.5	6.5	8.0
Services	12.0	5.2	6.3	3.4	5.9	6.3
Inflation (Consumer Price Index)	12.5	19.9	20.2	33.7	25.6	16.9
Current Account Balance (% of GDP)	-5.1	-4.1	-2.7	-4.1	-3.5	-2.6
Fiscal Balance (% of GDP)	-2.5	-2.8	-2.8	-3.7	-3.1	-2.8
Debt (% of GDP)	57.3	56.5	56.6	55.6	55.4	53.0
Primary Balance (% of GDP)	-2.0	-2.4	-2.2	-3.1	-2.4	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	24.9	24.6	24.2	24.2	23.9	23.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	61.5	61.0	60.5	60.3	60.0	59.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	89.2	88.9	88.6	88.6	88.4	88.1
GHG emissions growth (mtCO2e)	1.3	1.6	2.7	2.3	2.3	2.5
Energy related GHG emissions (% of total)	15.3	14.8	14.7	14.0	13.5	13.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Calculations based on 2010-HICES and 2015-HICES. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.87 based on GDP per capita in constant LCU.
Note: Growth projections reflect limited available information, and are subject to revision as better data becomes available.