

## Strong GDP growth and good potential

### General Information



GDP	USD43.133bn (World ranking 82, World Bank 2012)
Population	91.73 million (World ranking 13, World Bank 2012)
Form of state	Federal Republic
Head of government	PM Hailemariam Desalegn
Next elections	May 2015 (legislative), October 2019 (presidential)



### Strengths

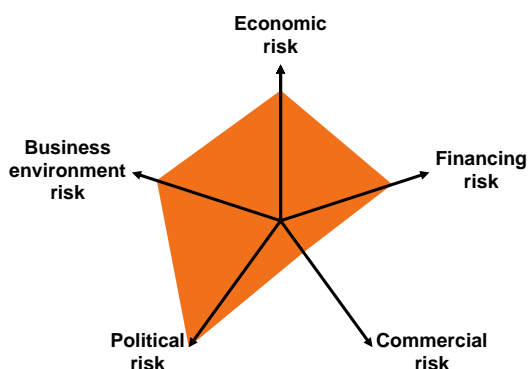
- Political stability (relative) is likely in the short term, with associated continuity in policy implementation.
- The political transition following the death in office of long-serving Prime Minister Meles Zenawi in August 2012 was smooth and without development of a power vacuum.
- The international community is generally supportive, particularly in times of famine.
- High GDP growth rates in recent years, with an annual average +10.9% in 2004-13 and double digit in 7 out of 10 years in that period.
- Large domestic market (population over 90 million).

### Weaknesses

- International agencies periodically question the commitment on protection of human rights.
- The region (Horn of Africa) is high risk, with borders with Sudan, South Sudan, Eritrea and Somalia all offering challenges.
- High dependence on rain-fed agricultural output but recurrent drought, locust infestations etc. Water rights are a source of potential conflict in the Nile area.
- Continuing aid dependence, despite significant external debt forgiveness and re-profiling.
- Weak foreign exchange reserves provide an import cover of below the three month international comfort benchmark.
- Weak structural business environment.

### Country Rating

**D3**



Source: Euler Hermes

### Trade structure

By destination/origin (% of total)

Exports	Rank	Imports
China	11% 1	22% China
Germany	11% 2	14% Saudi Arabia
Somalia	9% 3	8% India
Saudi Arabia	7% 4	6% Kuwait
Switzerland	6% 5	5% Italy

By product (% of total)

Exports	Rank	Imports
Coffee, tea, cocoa, spices, and manufactures thereof	32% 1	20% Petroleum and related materials
Vegetables and fruits	17% 2	9% Road vehicles
Oil seeds and oleaginous fruits	17% 3	9% Specialised machinery
Crude animal and vegetable materials, n.e.s.	7% 4	7% Iron and steel
Live animals	6% 5	5% Fertilizers

Source: UNCTAD (2012)

## Economic Overview

### Recent economic performance reflects strong inward investment

In a 2014 assessment, UNCTAD listed Ethiopia as one of the world's top destinations for FDI. Total inflows in 2013 were USD953 million, with a large proportion coming from Asia to boost the country's industrial base and improve and extend infrastructure. Moreover, a recent sovereign bond issue of USD1 billion was heavily subscribed, suggesting that investor confidence in the country's potential remains strong.

### GDP growth has fallen but remains relatively high, even for Sub-Saharan Africa

Annual real GDP growth averaged only +2.9% in 1991-2000 but +9% since that year. Relatively rapid growth in the latter period reflects a buoyant world economy in most years, inflows of donor aid and investment (particularly from the Gulf States and Asia, including China) and Ethiopia's focus on agricultural-led industrialisation (including expansion of horticultural output), infrastructure projects and development in the service sector.

Assuming rainfalls are adequate, international commodity prices do not collapse (although they may weaken) and that stability and security are maintained at current levels, EH expects GDP growth of +8.5% in 2014 and +8% in 2015, compared with a ten-year annual average up to end-2013 of +10.9%.

A longer-term outlook for growth is generally positive, although much depends on maintenance of domestic and regional stability and on uncertain availability of water supplies. Expenditure on infrastructure will be a key growth driver, with a major dam project on the Nile and planned road construction and repair programmes but all these are subject to potential implementation delays and/or lack of finance.

### Inflation is a structural weakness...

Inflationary pressures are a structural weakness of the economy and annual consumer price growth averaged almost 20% between 2007 and 2010, reflecting sharp increases in food and fuel prices but also government borrowing from the central bank because of limited alternative sources of domestic deficit financing. EH expects average inflation of around 7% (average and end-year in 2014), perhaps deteriorating to around 10% by end-2015, subject to uncertain commodity price movements. EH also expects the birr (ETB) will continue to depreciate against the USD, partly as a way of enhancing export competitiveness.

### ...and so is the current account deficit..

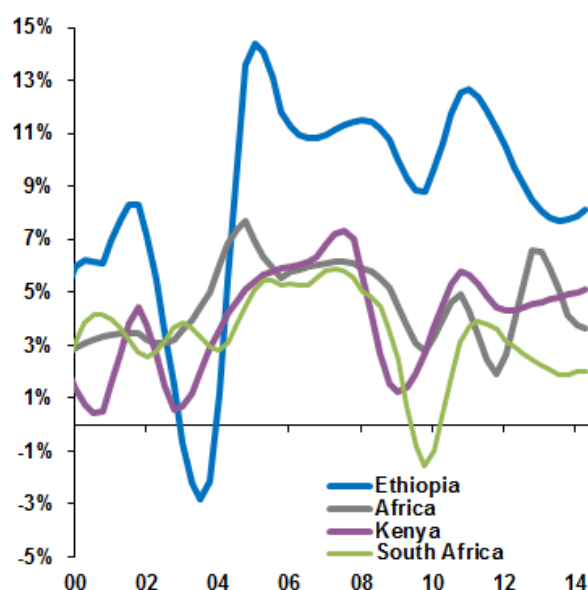
Another structural weakness is the annual current account deficit, which averaged almost -7.5% of GDP between 2007 and 2010, financing of which requires international assistance. EH expects the current account deficit will be over -7% of GDP in 2014 and just over -6% in 2015. Partly as a result of the weak external sector, including competitiveness pressures on the ETB, FX reserves are low. At USD2.71 billion at end-2013 reserves provided only just over two months of import cover, compared with the internationally-acknowledged "safe" minimum of three months. FX reserves may increase to almost USD4 billion by end-2015, subject to some recovery in export revenues from coffee and gold. Even so, import cover will remain below the comfort threshold.

### Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	8.5	9.4	8.5	8.0
Inflation (% end-year)	14.9	7.8	7.1	10.1
Fiscal balance (% of GDP)	-4.1	-3.7	-3.5	-3.1
Public debt (% of GDP)	30.2	30.1	30.3	30.7
Current account (% of GDP)	-7.2	-7.6	-7.1	-6.1
External debt (% of GDP)	25.2	25.0	25.9	28.4

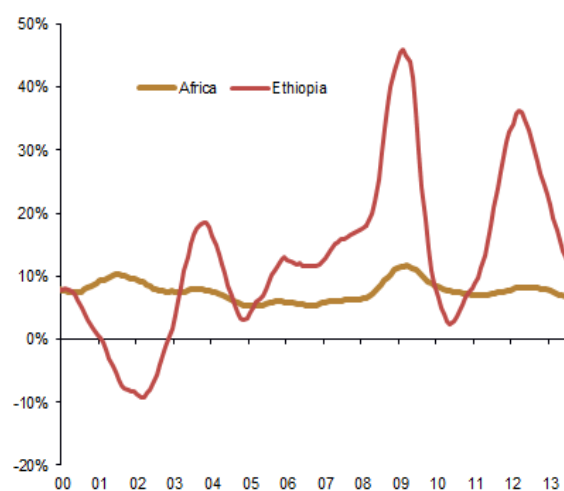
Sources: IHS Global Insight, national sources, Euler Hermes

### GDP profile (y/y, 4 quarters cumulated)



Sources: IHS Global Insight, Euler Hermes

### Inflation (%)



Sources: IHS Global Insight, Euler Hermes

## ...but external debt ratios, while challenging, are largely manageable

External debt ratios remain challenging (debt to GDP 25% in 2013 and debt to export revenues 101%) but servicing obligations on that debt is unlikely to cause any short-term problems, following implementation of international debt relief schemes. The debt service ratio (repayments/total export revenues) is now around 6%.

### Public finances

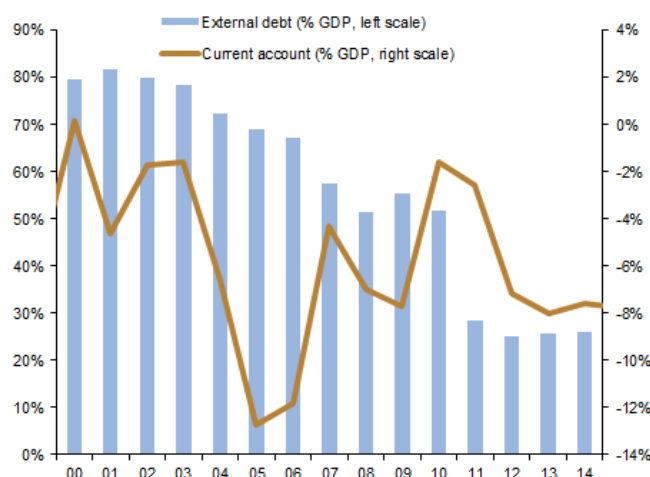
In mid-2014, parliament passed the federal budget for FY2014/15 (July-June) that projects additional spending of +15.6% from the FY2013/14 budget and totals ETB179 billion (USD9.2 billion). Expenditure increases focus on education and health but, as is usual, defence spending was also prioritised. Overall, the budget deficit is projected at -1.8% of GDP but EH forecasts a shortfall in total fiscal accounts nearer to -3% of GDP.

### Planning for the future

Ethiopia does not have an IMF financial facility currently in place (a fully-drawn ESF expired in November 2010) but tries to follow a Fund-style policy programme in order to maintain support from the wider donor community. Ethiopia completed its programme under the HIPC initiative in April 2004 thereby signifying an effective exit from the debt relief process and allowing the country to access an approximate USD300 million in additional annual concessional financing. The IMF and World Bank granted full debt relief of USD1.3 billion, as well as USD707 million in 'topping up' in order to meet its (then) target of foreign debt/exports of 174%. Having exited the HIPC process the challenge for the government is to maintain its relatively lower level of indebtedness. Given the economy's fragility there is a risk of failure in this regard going forward, particularly if external developments (including international coffee prices and exchange rate movements) work against the country. In any event, Ethiopia will remain highly aid-dependent.

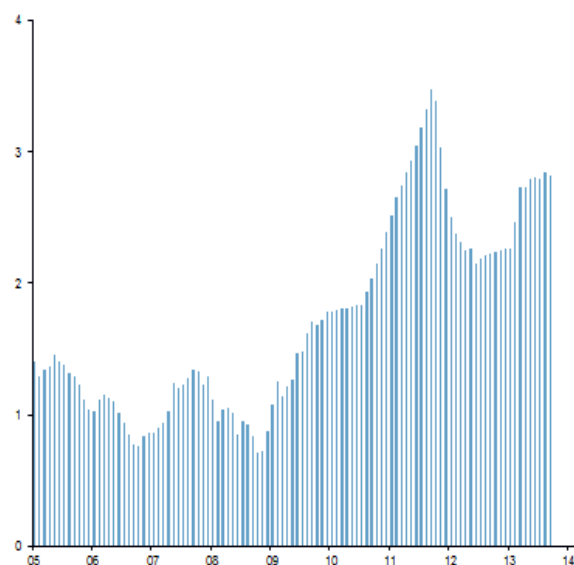
The World Bank estimates that Ethiopia has hydropower generation potential second only to DR Congo in Africa. The government has ambitious plans for the country to become the "water tower of Africa". A 25-year programme to increase hydro-electric capacity to 37,000 MW by 2037 includes a 6,000 MW Grand Ethiopian Renaissance Dam on the Blue Nile (scheduled for completion in 2018). However, there are environmental concerns relating to dam building on major rivers and Egypt, in particular of neighbouring countries, is concerned about the control of Nile waters that will be exerted if these projects are completed.

External debt and current account balance (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Foreign exchange reserves (USD bn)



Sources: IHS Global Insight, Euler Hermes

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