

Political instability and illiquidity challenge return to high growth

General Information



GDP	USD61.5bn (World ranking 73, World Bank 2015)
Population	99.39mn (World ranking 13, World Bank 2015)
Form of state	Federal Republic
Head of government	HAILEMARIAM Desalegn
Next elections	2019, presidential



Strengths

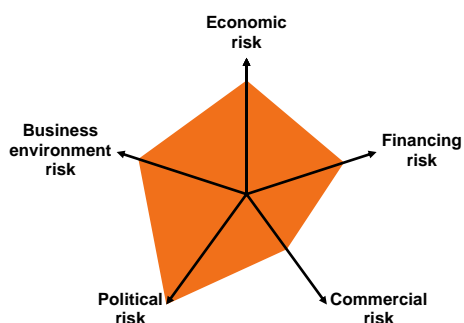
- State committed to meeting development objectives such as the MDGs and SDGs
- The international community is generally supportive, particularly in times of drought-induced famine.
- High GDP growth rates in recent years, with an annual average +10.2% in 2006-16.
- Large domestic market (population over 95mn).
- Fastest growing manufacturing sector in Africa.
- Strong track record of attracting FDI from both advanced and emerging economies.

Weaknesses

- International agencies periodically question the commitment on protection of human rights.
- The region (Horn of Africa) is high risk. Ethiopia has borders with Sudan, South Sudan, Eritrea and Somalia - all offering challenges.
- The country is landlocked, which increases transport costs and vulnerability to external shocks.
- 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.
- Fiscal and current account deficits and weak foreign exchange reserves that provide an import cover below the three-month international comfort benchmark.

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Somalia	18% 1 31%	China
China	12% 2 9%	Kuwait
Saudi Arabia	8% 3 8%	Saudi Arabia
Germany	6% 4 6%	India
Kuwait	5% 5 4%	United States

By product (% of total)

Exports	Rank	Imports
Vegetables and fruits	21% 1 20%	Petroleum, petroleum products and related materials
Coffee, tea, cocoa, spices, and manufactures thereof	20% 2 9%	Road vehicles
Oil seeds and oleaginous fruits	17% 3 7%	Specialised machinery
Crude animal and vegetable materials, n.e.s.	10% 4 6%	Manufactures of metal, n.e.s.

Source: UNCTAD (2014)

Economic Overview

Growth to slow from previous heights

Ethiopia has achieved one of the highest long-term growth rates in Africa in the last decade. Average GDP growth reached a dizzying 10.2%. Sustaining high-speed expansion will be a challenge due to disappointing agricultural productivity, political turmoil, and liquidity challenges. In 2016 agriculture, which accounts for 38.8% of GDP, has been hit by a historic drought, which also took a toll on export growth. EH expects growth in 2016 at 7.0%, 5.5% in 2017, and 6.0% in 2018. Though growth remains strong, it is clearly diverging from its high long-term trend (see chart 1). This could challenge Ethiopia's ambition to become a lower middle-income country within the next 10 years.

External Debt and Illiquidity

Suppressed export revenues and increasing expenditures on infrastructure and energy projects, caused a sharp rise in external vulnerabilities. China has been the main sponsor of this external debt-driven growth, accounting for 11% of new loans. It is now the third biggest lender after the IMF and the World Bank.

Despite the gains from public investments in industrial parks, energy, and roads, public debt-driven growth crowds out private investment, which is among the lowest in the region. Meanwhile, Ethiopia's fiscal deficit is deteriorating from -2.5% of GDP in 2015 to -4% in 2018. The current account deficit remains substantial at -9% in 2018 (-12% in 2015). This means that the government will have to stay vigilant about liquidity issues. These have implications for the productivity of several sectors, which require foreign imports. For instance, due to depressed imports, Ethiopian farmers use less fertilizer per acre than other farmers in the region. Ethiopia's floating exchange rate regime has helped ease some pressure on foreign reserves which remain at an inadequate level. To ensure the long-run sustainability of Ethiopia's growth model, it is crucial that returns on public investment deliver growth in exports, as well as FDI inflows (see chart 3). The attraction of Chinese manufacturers exemplifies a promising dynamic.

Everything hinges on a political solution

The ruling Ethiopia People's Revolutionary Democratic Front is dominated by the minority Tigrayan ethnic group (6% of the population). The Amhara (30% of pop.), and even more so the historically oppressed Oromo (32% of pop.), feel excluded from the political process. Recent protests highlighted the government's inability to control dissent: demonstrators were killed, foreign investments were targeted. Critics dismissed recent cabinet reshuffle, which brought in technocrats and members of the Oromo. Calls for broader inclusiveness will continue to affect the political stability and economic growth prospects.

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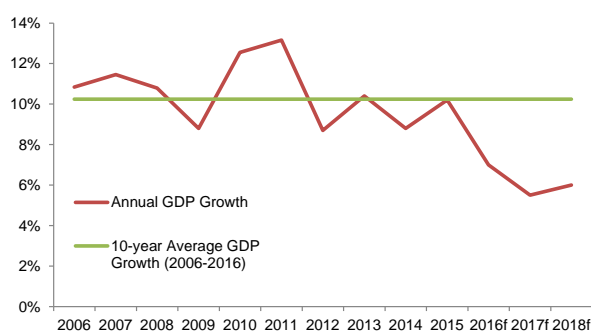
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Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	10.2	7.0	5.5	6.0
Inflation (% end-year)	10.0	8.0	8.5	8.5
Fiscal balance (% of GDP)	-2.5	-3.0	-3.5	-4.0
Public debt (% of GDP)	56.0	57.4	60.0	62.0
Current account (% of GDP)	-12.0	-10.5	-9.5	-9.0
External debt (% of GDP)	25.6	32.5	34.0	35.0

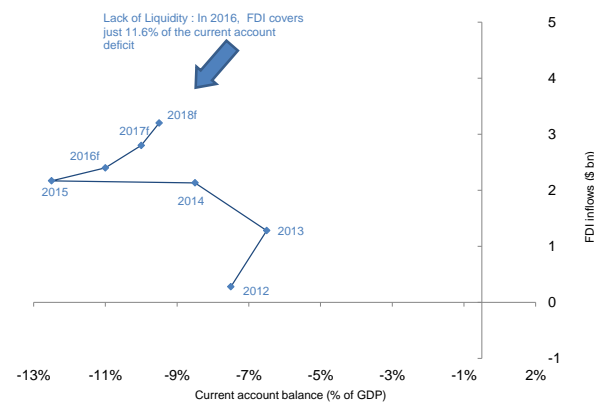
Sources: National statistics, IHS, Euler Hermes

GDP Profile (Growth)



Sources: National statistics, IHS, Euler Hermes

FDI inflows and Current Account



Sources: National statistics, IHS, Euler Hermes