



THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

January 2025

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

In the context of the Request of an Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2025, following the discussions that ended on November 26, 2024, with the officials of The Federal Democratic Republic of Ethiopia on economic developments and policies underpinning the IMF Arrangements under the Extended Credit Facility program. Based on information available at the time of these discussions, the Staff Report was completed on December 18, 2024.
- A **Debt Sustainability Analysis** prepared by staffs of the World Bank and the IMF.
- A **Supplementary Information** of the Staff Report prepared by IMF staff.
- A **Statement by the Executive Director** for The Federal Democratic Republic of Ethiopia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Washington, D.C.**



IMF Executive Board Completes the Second Review under the Extended Credit Facility (ECF) Arrangement for Ethiopia

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the second review of the arrangement under the Extended Credit Facility (ECF) for Ethiopia, allowing the authorities to draw the equivalent of about US\$248 million (SDR 191.7 million). The ECF was approved by the IMF Executive Board in July 2024 and forms part of a US\$10.7 billion support package from development partners and creditors for Ethiopia.
- The Ethiopian authorities have demonstrated strong commitment to achieving the objectives of the Fund-supported program. Implementation of ECF-supported reforms is advancing well.

Washington, DC – January 17, 2025: The Executive Board of the International Monetary Fund (IMF) completed today the second review of the 48-month [Extended Credit Facility](#) (ECF) for Ethiopia. The Board's decision allows for an immediate disbursement of about US\$248 million (SDR 191.7 million), which will help Ethiopia meet its balance of payments needs. The completion of the review brings total disbursements under the arrangement to about US\$1.611 billion.

Ethiopia's ECF arrangement for a total of SDR 2.556 billion (850 percent of quota) or about US\$3.4 billion at the time of program approval on July 29, 2024 (see [Press Release 24/291](#)) is aimed at supporting the authorities' Homegrown Economic Reform Agenda (HGER) to address macroeconomic imbalances and lay the foundations for private sector led growth.

All quantitative performance criteria were met. The government's contribution to the targeted social safety nets (indicative target) was lower-than-targeted mostly due to preparations needed to expand safety net programs and absorb the significantly increased budgetary envelope. The structural benchmark on finalizing the audited accounts of the National Bank of Ethiopia (NBE) has been reset from end-January 2025 to end-March 2025 to allow time for completion.

Foreign exchange market functioning has continued to improve with the authorities taking significant policy actions to strengthen market efficiency. NBE has maintained tight monetary and financial conditions, and modernization of the monetary policy framework is advancing.

Progress in raising domestic fiscal revenues, strengthening state-owned enterprises, and anchoring financial stability is promising, with continued commitment needed to sustain the achievements thus far. Expanding social safety nets is critical to mitigating the impact of reforms on vulnerable people.

The authorities continue their efforts to restore debt sustainability and are taking steps to secure a debt treatment. The progress made on debt restructuring negotiations under the Common Framework is welcome. The financing assurances received, and adjustment efforts made are consistent with IMF policy requirements and program parameters.

Following the Executive Board discussion, Mr. Nigel Clarke, Deputy Managing Director, and Chairman of the Board, made the following statement:

“The authorities continue to make strong progress in implementing their Fund-supported program and addressing macroeconomic imbalances. The transition to a flexible exchange rate has advanced further, supported by macroeconomic and foreign exchange market policy measures, and the parallel market premium has stabilized in single digits with rising FX supply.

“Continuing to restrict NBE’s FX interventions and additional policy measures to support FX market development will be critical to enhance market efficiency and deepening. Prudent macroeconomic policies, including continued tight monetary policy and avoiding monetary financing of government deficits are essential to reducing imbalances and ensuring macroeconomic stability.

“Reaching a positive real monetary policy rate is a key step to build the credibility of the new monetary policy framework and change market expectations for inflation and the exchange rate. The authorities should also carefully sequence removal of the credit growth cap along with policy rate changes and clearly communicate policy intentions. Close supervision and enforcement of net open position regulations for banks will help address financial sector vulnerabilities.

“The supplementary budget that was approved by parliament in late November 2024, maintains fiscal targets in line with program objectives. The authorities should expedite efforts to expand the targeted social safety net (PSNP) to protect vulnerable households and ensure efficient use of public resources. To bring fuel prices to full cost recovery is important for mobilizing revenues and rebuilding fiscal buffers. Sustained tax revenue mobilization efforts such as the implementation of the VAT and excise tax reforms continue for creating sufficient space for social and development spending needs.

“The new law governing the NBE represents a significant advance on the existing legal framework in most respects. However, closing the remaining gaps with respect to governance and autonomy is important.

“Continued implementation of financial sector reforms, including modernizing the bank regulation framework, strengthening bank supervision, and monitoring non-performing loans, will support financial sector stability.

“The substantial progress made towards reaching an agreement on a debt treatment with the Official Creditor Committee under the G20 Common Framework is an important step towards restoring debt sustainability. The authorities are working on having an agreed Memorandum of Understanding by the time of third review, while also making progress on a comparable treatment with Eurobond holders and other external commercial creditors.”

Table 1. The Federal Democratic Republic of Ethiopia: Selected Economic Indicators, 2021/22–2028/29

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Output								
Real GDP growth (%)	6.4	7.2	8.1	6.6	7.1	7.7	8.0	7.8
Prices								
Inflation - average (%)	33.9	32.5	26.6	20.7	16.9	10.6	9.5	8.8
General government finances								
Revenue (% GDP)	8.1	7.9	7.3	8.5	9.8	10.8	11.2	11.4
Expenditure (% GDP)	12.7	10.8	9.5	11.6	12.3	13.2	13.4	13.4
Fiscal balance, including grants (% GDP)	-4.2	-2.6	-2.0	-1.7	-2.0	-1.9	-1.7	-1.5
Public debt (% GDP) ¹	48.9	40.2	34.4	45.6	39.8	36.9	34.4	32.2
Money and Credit								
Broad money (% change)	27.2	26.6	14.1	26.1	29.3	29.4	21.3	20.4
Credit to private sector and state-owned enterprises (% change) ²	18.9	24.1	9.7	-24.0	42.2	42.6	25.6	23.2
Balance of payments								
Current account (% GDP)	-4.0	-2.9	-2.9	-4.4	-3.0	-2.5	-2.1	-2.0
FDI (%GDP)	2.6	2.1	1.9	3.4	3.2	2.9	3.0	3.0
Reserves (in months of imports)	0.8	0.5	0.7	1.4	2.1	2.6	3.5	3.5
External debt (% GDP)	24.0	18.1	15.1	29.3	26.2	24.0	21.9	19.1
Exchange rate								
Real effective exchange rate (% change, end of period, depreciation –)	10.3	27.9	12.6	...	...	...	...	...

1/ Public and publicly guaranteed external debt, which includes long-term foreign liabilities of NBE and external debt of Ethio-Telecom. Does not include expected debt relief.

2/ Projections from 24/25 include impact of CBE recapitalization



THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

December 18, 2024

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The Board approved Ethiopia's request for a four-year arrangement under the Extended Credit Facility (ECF arrangement) in July 2024 to support the authorities' Homegrown Economic Reform Agenda. The Fund-supported program addresses macroeconomic imbalances, aiming to restore external debt sustainability, and lay the foundations for high, private sector-led growth. Strong ownership has underpinned early success of reforms, strengthening support for the authorities' program. Foreign exchange (FX) market functioning is improving; and initial steps to modernize monetary policy, mobilize domestic revenue, enhance social safety nets, strengthen state-owned enterprises (SOEs), and anchor financial stability are promising, with continued commitment needed to sustain their success. Debt discussions with the Official Creditor Committee of the Common Framework are advancing. Staff assesses that there is sufficient progress towards an agreement on the key terms of a debt treatment consistent with reaching a moderate risk of debt distress by the end of the program.

Policy discussions. The second review of the ECF focused on: (i) developments in the FX market, and policy measures to strengthen FX supply and FX market efficiency; (ii) the monetary policy stance and progress towards reaching positive real interest rates by end-March 2025; and (iii) next steps for resource mobilization reforms and fuel subsidy rationalization.

Program performance. Program performance has been generally in line with program commitments and all quantitative performance criteria (QPCs) and most indicative targets (ITs) were met. The indicative target on the budgetary contribution to Productive Social Safety Net Program (PSNP) was missed. Staff support resetting the SB on finalizing the NBE audit from end-January 2025 to end-March 2025 to allow time for completion.

Outlooks and risks. While tightening policies and adjustment will constrain economic activity in the near term, policy reforms are expected to support higher growth and continued easing of inflation over the medium term. Key downside risks include persistent inflation or depreciation expectations, security risks or social unrest, policy slippages and commodity price volatility.

Approved By
Annalisa Fedelino
(AFR) and **Bjoern**
Rother (SPR)

Discussions took place in Addis Ababa, November 12–26, 2024. The mission held discussions with Minister of Finance Ahmed Shide, Governor of the National Bank of Ethiopia Mamo E. Mihretu, and other senior officials. The staff team comprised of Messrs. Piris Chávarri (Head), Lee, Tulin; Meses. Daly, Garimella (all AFR); Messrs. Dielmann (SPR), Hegab (FAD), Gurhy, (MCM), Rasmussen (IMF Resident Representative in Addis Ababa), and Messrs. Abiy Hailu and Woldeyes (local economists). Mr. Mengistu (OED) participated in key policy meetings. Ms. Asgedom assisted the mission in Addis Ababa. Mr. Morán Arce and Ms. Nsanzimana assisted with the preparation of this report.

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CONTEXT

1. Strong ownership has underpinned the early success of reform measures and further strengthened support for the authorities' program. Following the smooth adoption of a more flexible exchange rate at end-July 2024, the authorities have continued to implement reforms under their Homegrown Economic Reform Agenda (HGER). Socio-economic circumstances are challenging, with inflation, areas suffering food insecurity and conflict, and displacement affecting millions of people. In this context, the authorities' reforms aim to address macroeconomic imbalances, restore external debt sustainability, and lay the foundations for inclusive, private-sector-led growth. Foreign exchange (FX) market functioning is improving, while uncertainties about the path of the exchange rate and market operations continue to affect behavior. Steps to modernize monetary policy, mobilize domestic revenue, enhance social safety nets, strengthen state-owned enterprises (SOEs), and anchor financial stability continue. The program is monitored on a quarterly basis for the first and second review to maintain close engagement during heightened uncertainty.

PROGRAM PERFORMANCE

2. Performance to date has been in line with program commitments. All applicable quantitative performance criteria (PCs) and all-but-one indicative targets (IT) for end-September 2024, were met (Text Table 1). The IT on government contributions to the targeted social safety nets was missed due to preparatory steps and interagency coordination required to expand coverage and absorb the significantly increased budget.

3. Completion of structural benchmarks (SBs) is advancing. Four end-September 2024 SBs were met, while one (implementation of an emergency liquidity assistance framework) was implemented with delay in mid-October to allow for incorporation of comments from IMF staff. Selection of an external auditor for the audit of the 2022/23 financial statements has been finalized, with publication now expected by March-2025 (two months delayed, structural benchmark). A draft amendment to the NBE Proclamation (end-December 2024 SB) was sent to Parliament in June 2024 and is currently under parliamentary review. While the draft law introduces important improvements in critical areas including mandate and hierarchical objectives, limiting financing of the government, and collegial decision-making, among others, it departs from leading practices with respect to central bank autonomy and accountability.

Text Table 1. The Federal Democratic Republic of Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024-September 2024
(in millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2024 Prel. Initial level	Aug. 16, 2024 ¹ Performance Criteria			end-Sep 2024 Performance Criteria			
		Prog.	Actual	Status	Prog.	Adj.	Actual	Status
Quantitative performance criteria								
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) ^{2/3/}	150,000	N/A	N/A	N/A	42,000		-5,972	Met
Net international reserves (floor, cumulative change since previous June, US\$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	534	1,242	Met
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	384,000	N/A	N/A	N/A	86,000	N/A	153,542	Met
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10895	Met	0	N/A	-6,727	Met
<i>Continuous performance criteria</i>								
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US\$ millions) ^{4/}		0	0	Met	0	N/A	0	Met
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US\$ millions)		0	0	Met	0	N/A	0	Met
Indicative targets								
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) ^{3/}	747,485	N/A	N/A	N/A	37,000	N/A	-641,825	Met
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) ^{5/}	9,000	N/A	N/A	N/A	6,500	N/A	2,370	Not Met
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US\$ millions)		N/A	N/A	N/A	2,000	N/A	248	Met
Memorandum items:								
Official external grants disbursed to the government (US\$ millions, cumulative since previous June)	791				1211		1,225	
Official external loans disbursed to the government (US\$ millions, cumulative since previous June)	627				638		657	
Gross privatization proceeds (US\$ millions, cumulative since previous June)	0				0		0	

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/Not all quantitative performance criteria and indicative targets were assessed at the First Review given data availability.

2/ Excluding on-lending from the general government.

3/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

4/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

5/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

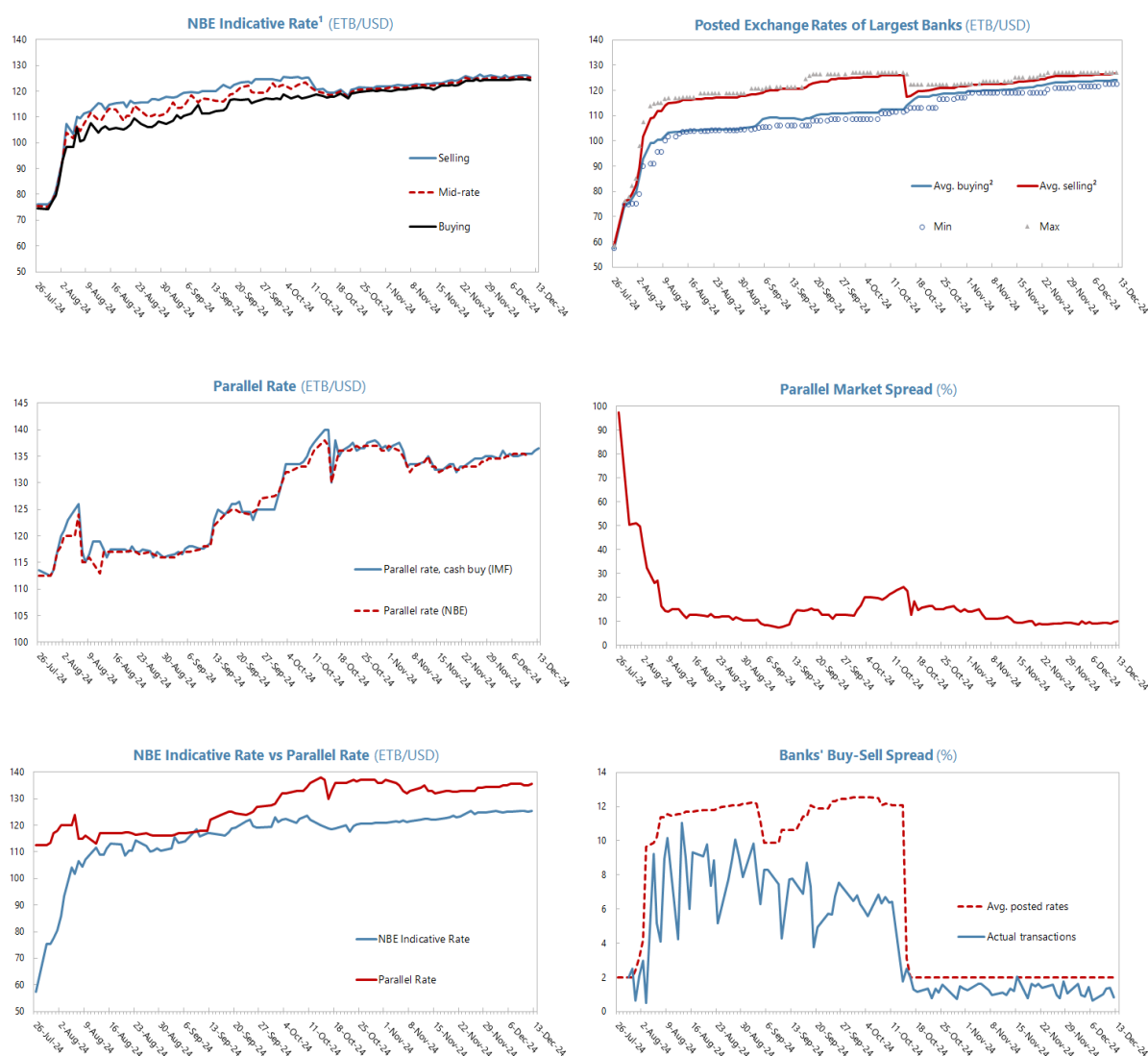
RECENT DEVELOPMENTS

5. The transition to a flexible exchange rate regime has advanced further. The parallel market premium over the NBE indicative rate has again stabilized in single digits after a more volatile period, with a peak of 16 percent on October 22. FX availability has improved, with no evidence of a macroeconomically significant backlog in FX demand. Many banks have reported underutilization of available FX, as import demand is constrained by tight Birr liquidity, particularly at private banks. Bid-offer spreads narrowed, and an interbank FX market has begun to operate, with growing activity and volumes. The banking sector has continued to close its net open position, mainly driven by private banks. NBE conducted no FX intervention since August 7, 2024. International reserves stood at US\$3.4 billion at end-October (1.6 months of import coverage).

6. Transitional arrangements to settle legacy letters of credit (LCs) for fuel imports are being implemented. The Commercial Bank of Ethiopia (CBE) and private banks remain primarily responsible for settlement of fuel LCs contracted before the exchange rate reform, while NBE is supporting the clearance of this legacy in 2024/25 up to a maximum amount of US\$1.27 billion, with

NBE's contribution sold directly to CBE at the prevailing NBE US dollar selling rate. CBE and private banks are exclusively responsible for settling LCs issued after the exchange rate reform, including those that mature in 2024/25 and 2025/26. All transactions between and Ethiopian Petroleum Supply Enterprise (EPSE, an SOE that is the monopoly supplier of fuel for the domestic market) and banks is conducted at each bank's respective US dollar selling rate.

Figure 1. The Federal Democratic Republic of Ethiopia: Exchange Rate Developments



Source: NBE and IMF Staff.

¹ Weighted average of actual transactions across all banks (posted the following morning).

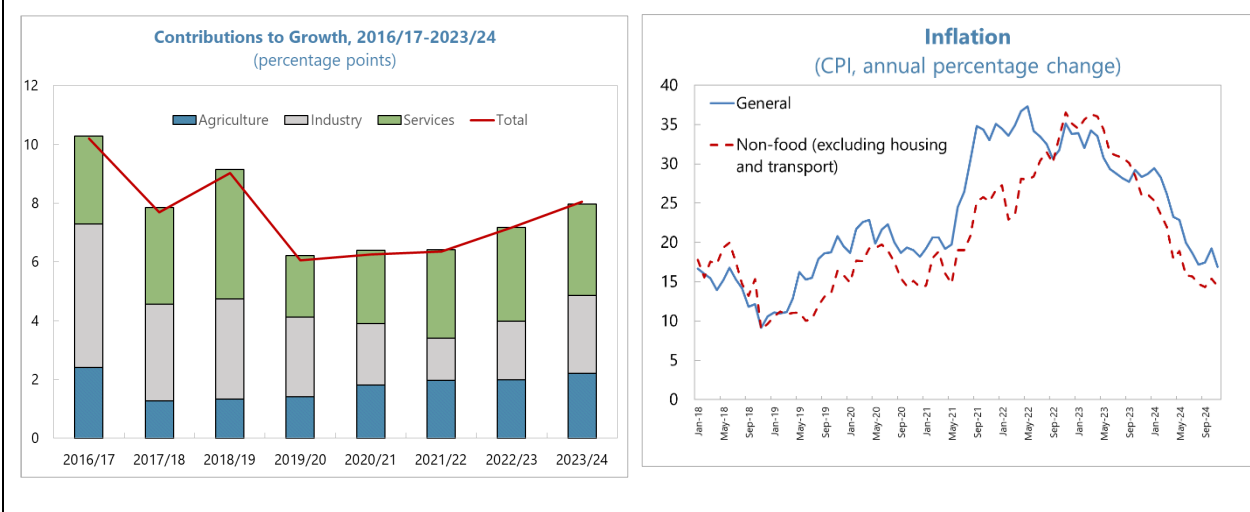
² Simple average.

7. Trade data for Q1 2024/25 suggests an initial substitution effect response to FX reform. Preliminary balance of payments (BOP) data for 2023/24 show a current account deficit of 2.9 percent of GDP, unchanged from the previous year, with the trade deficit improving to 7.0 percent of GDP from 8.3 percent as a decline in imports offset lower exports. In Q1 2024/25,

goods exports rose 81 percent year-on-year, supported by a six-fold increase in gold exports and a 47.8 percent increase in coffee exports. The increase in gold exports reflects previous production moving to official from informal export channels in response to improved price incentives. The increase in coffee exports is mainly due to inventory sales and a shift from the domestic to export markets following exchange rate reform. New investment will be required to sustain growth in these export sectors as inventory and substitution effects wane. Goods imports showed a slight decline compared to same period the previous year. Remittances increased by 26 percent year-on-year.

8. Inflation declined in November, following an uptick in September and October, reflecting the temporary impact of the exchange rate reform, while economic activity remains resilient. Headline inflation fell to 17 percent in November, from 18-19 percent in September and October, with both food and non-food inflation declining (Figure 2). Exchange rate passthrough has so far been lower than anticipated. Gradual adjustment of key administered prices (fuel, fertilizers, electricity), and price stabilization measures (food, medicines) have helped contain prices. Supply side conditions (e.g. favorable agricultural output) have also helped ease price pressures. Real GDP growth for 2023/24 was 8.1 percent, outperforming the expected 6.1 percent growth owing to an uptick in agriculture and industry (particularly electricity, manufacturing, and mining).

Figure 2. The Federal Democratic Republic of Ethiopia: Growth and Inflation

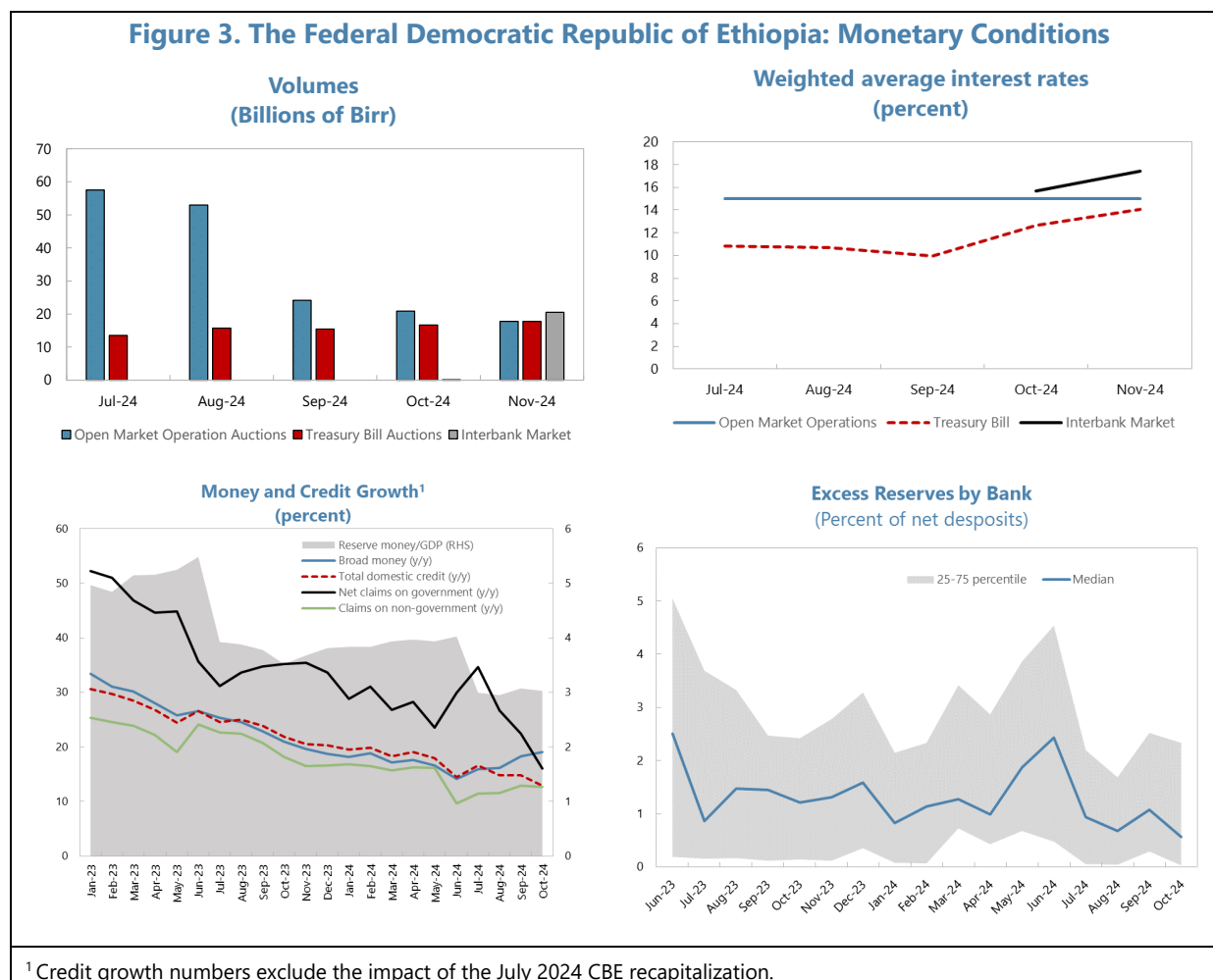


9. The monetary policy rate has been kept on hold at 15 percent since the introduction of the new monetary policy framework in July 2024. The first meeting of the Monetary Policy Committee is expected in late December. Guidance on maximum annual growth in credit to the private sector has also remained at 14 percent since August 2023. The authorities continue to conduct liquidity absorbing biweekly full allotment open market operations (OMOs) at the policy rate, although participation slowed in October and November as banking sector liquidity has tightened (Figure 3). Some private banks have been using the overnight lending facility.

10. The interbank money market was launched in late October. This constitutes another key step in building the new monetary policy framework. Twenty (of 31) banks have signed the money

market code of conduct and can participate. Since its launch, weekly traded volumes have averaged around 1.4 billion Birr with interest rates averaging around 17 percent.

11. Treasury bill yields are increasing, with improved auction participation. Weighted average Treasury bill yields rose to an average 14.0 percent in November (from 12.6 percent in October), still below the monetary policy rate and negative in real terms. Participation was low during August and September, with an average coverage ratio of 30 percent, but increased to an average of around 50 percent in October and November. NBE has also improved auction transparency and is now publishing a full breakdown of auction pricing.



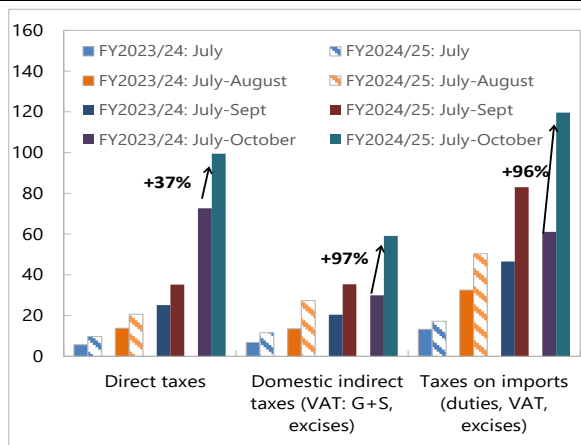
12. Monetary data indicate tight liquidity conditions. Reserve money has fallen from 6 percent of GDP at end-2022/23 to 3 percent at end-October 2024, with the termination of monetary financing and cessation of FX surrender to the NBE leading to a sharp decline in reserve money creation (this will be mitigated by implementation of the supplementary budget—see below). Along with the cap on credit growth, seasonal demand for credit and bank dividend payments also constrain liquidity. Although the share of liquid assets in the banking system (including holdings of government bonds) remains above the prudential limit of 15 percent, banking

sector liquidity is tight, with the overall ratio of excess reserves to deposits at 0.8 percent (with considerable dispersion across banks, Figure 3). While end-September broad money growth was in line with inflation at 19 percent y/y, credit growth (excluding the impact of the CBE recapitalization) was subdued at 12.9 percent as net claims on government remained contained (16 percent y/y), private credit growth was flat in real terms (18 percent y/y), and claims on SOEs rose modestly (3 percent y/y). There are also growing reports of firms and importers curtailing activity due to tight credit conditions and difficulties in transferring payments between banks.

13. Preliminary tax revenue data for the first four months of FY2024/25 are strong, in line with the ambitious tax mobilization objectives (Figure 4). Tax revenues were 70 percent higher than the previous year, reflecting VAT reform, base broadening, removal of exemptions, and revised excise rates. Following exchange rate reform, tax revenues from imports jumped by 92 percent in August relative to July, in line with expectations. The QPC on federal government tax collection for end-September was met with a comfortable margin. A small primary surplus was recorded in the first quarter of the fiscal year, as key program-supported spending measures were under preparation as part of the Supplementary Budget.

Figure 4. The Federal Democratic Republic of Ethiopia: Federal Tax Revenue

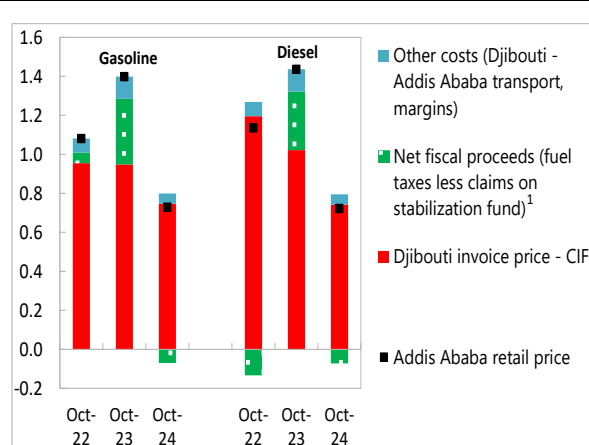
(In billion Birr; cumulative since start of the fiscal year)



Source: Ethiopian authorities.

Figure 5. The Federal Democratic Republic of Ethiopia: Fuel Price Structure

(In U.S. dollars, converted at official rate)



Sources: Ethiopian authorities, and IMF staff estimates.

¹ Net fiscal proceeds are calculated as the difference between fuel taxes included in the pump price and EPSE claims on the Fuel Price Stabilization Fund. Negative values indicate a fuel subsidy, while positive values indicate that pump prices are above cost recovery levels.

14. The authorities implemented a fuel price increase on October 8, 2024. Prices for consumers of diesel rose by 8 percent with other fuels rising by 10 percent. The authorities announced a schedule of quarterly price rises to reach cost recovery over the course of twelve months, in line with program commitments and their fiscal program. Currently favorable international fuel prices have eased fiscal pressures stemming from the impact of the exchange rate reform on costs. Jet fuel prices were fully adjusted to cost recovery (including excise).

15. Electricity tariffs have been increased following adoption of the four-year tariff plan.

The first quarterly electricity tariff increase was implemented in mid-September (SB, end-September), a front-loaded increase of about 20 percent, initiating regular quarterly adjustments for the next four years (Figure 6). The four-year plan puts electricity tariff reforms initiated in 2018 back on track, following the pause in tariff adjustment during 2022–23.

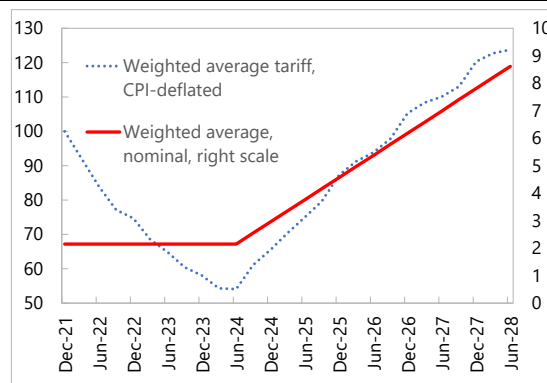
16. The end-September IT on government contributions to the targeted social safety nets was missed.

The program includes an increase in budget allocations to the PSNP from 0.1 to 0.5 percent of GDP. The lower-than-targeted pay out reflected time and preparation required to expand safety net coverage, beneficiary identification, and absorb significantly increased spending envelope. Benefits for the urban PSNP were increased by 20.7 percent in September. In addition, the authorities have activated the PSNP's shock response facility, delivering two months of cash benefits, and resources for livelihood enhancement will be significantly increased, expected to make up the shortfall in execution to date.

17. A Supplementary Budget for 2024/25 in line with program parameters was adopted on November 26. It includes a spending package consistent with the 1½ percent of GDP of measures agreed within the program to mitigate the inflationary and socio-economic impact of the FX reform, including increase in budgetary allocation to the targeted safety nets from 0.1 to 0.5 percent of GDP.

Figure 6. The Federal Democratic Republic of Ethiopia: Electricity Tariff¹

(Left scale: Index, Dec-2021=100, Right scale: Birr/kWh)



Sources: Ethiopian authorities and IMF staff estimates.

¹ Dec-2021 represents last tariff adjustment under the previous 4-year tariff adjustment plan (2018–21).

OUTLOOK AND RISKS

18. Growth is expected to slow before strengthening in the medium term (Text Table 2).

Tight financial conditions and uncertainty as economic agents adapt to the new economic environment will temporarily constrain economic activity with 2024/25 growth projected at 6.6 percent (slightly higher than previously forecast due to continued impact of a large electricity project coming online). However, the benefits of comprehensive reforms, external debt treatment, resumption of external financing, and greater domestic stability are expected to raise growth to 7.5–8 percent in the medium term. The temporary fiscal spending package will help cushion the socioeconomic impact of the reforms, reducing the impact on aggregate consumption, while revenue mobilization will create space for priority spending. The current account deficit is projected to rise as FX availability improves (allowing satisfaction of some previously repressed import demand) before stabilizing at close to two percent of GDP in 2027/28.

19. Inflation is expected to peak around 25 percent in mid to late-2025 and reach single digits by 2028. Near term projections still reflect passthrough of exchange rate depreciation through the first quarter of 2025 and seasonal trends, with inflation averaging 1–2 percent m/m in the first half of the year, before slowing to below 1 percent in the second half. The peak is lower than anticipated at the first review, reflecting better than expected outcomes through November 2024 as food prices have declined more strongly than usual for the quarter, reflecting a favorable harvest. While passthrough has been lower than expected, some effects have yet to feed through to headline inflation due to the gradual adjustment of fuel prices and lags in collection of regional data for some prices (notably electricity). Overall, data are consistent with the first-round impact of devaluation on inflation being relatively limited, given the low share in private consumption expenditure of imports occurring at the official exchange rate prior to reform. Inflation projections reflect planned fuel and energy price increases. Continued tight financial conditions and the end of monetary financing of fiscal deficits will help reduce inflation.

20. The outlook is subject to downside risks, stemming from potential social discontent, security challenges, and regional conflicts. The baseline scenario is predicated on successful program execution and swift progress in implementing the external debt treatment. Potential exchange rate pressures could generate volatility and impact volumes and market development. Persistent inflation and depreciation expectations could require a stronger policy reaction, while social pressures, policy slippages, or delays in reform implementation are downside risks. Inconsistent implementation or reversal of key fiscal or exchange rate reforms could result in larger financing gaps or withdrawal of development partner or creditor support. Intensifying spillovers from regional conflicts also pose risks to the outlook. On the upside, inflation could be lower than anticipated if passthrough of the devaluation continues be lower than expected, or if foreign direct investment picks up faster than expected.

Text Table 2. The Federal Democratic Republic of Ethiopia: Selected Economic Indicators

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
				1 st Rev.	Prel.	1 st Rev.	Proj.	Projections			
				In percent change, unless otherwise mentioned							
GDP at constant prices (at factor cost)	6.3	6.4	7.2	6.1	8.1	6.5	6.6	7.1	7.7	8.0	7.8
Consumer prices (period average) ¹	20.2	33.9	32.5	26.6	26.6	25.0	20.7	16.9	10.6	9.5	8.8
Consumer prices (end of period) ¹	24.5	34.2	29.3	19.9	19.9	29.4	24.9	12.4	10.1	9.1	8.7
External sector											
Exports of goods and services (U.S. dollars, f.o.b.)	10.9	22.8	3.3	5.7	8.1	8.1	7.7	12.6	16.5	16.3	9.7
Imports of goods and services (U.S. dollars, c.i.f.)	2.3	24.9	-1.4	1.8	7.8	8.5	3.7	5.2	10.7	12.2	7.2
				In percent of GDP, unless otherwise mentioned							
External current account balance, including official transfers	-2.8	-4.0	-2.9	-2.4	-2.9	-4.4	-4.4	-3.0	-2.5	-2.1	-2.1
Government finances											
Overall fiscal balance, including grants (cash basis)	-2.8	-4.2	-2.6	-2.0	-2.0	-1.7	-1.7	-2.0	-1.9	-1.8	-1.6
Total financing (including residuals and excluding net acquisition of assets)	2.8	4.2	2.6	2.0	2.0	1.7	1.7	2.0	1.9	1.8	1.6
External financing	0.7	0.1	0.3	0.2	0.2	1.3	1.3	-0.2	0.3	0.3	-0.4
Domestic financing	2.1	4.3	2.5	1.9	1.9	0.8	0.8	1.4	1.6	1.5	1.9
Primary fiscal balance, including grants	-2.2	-3.5	-2.0	-1.1	-1.4	-0.6	-0.5	-0.7	-0.8	-0.7	-0.6
Public debt ²											
Domestic debt	56.1	48.9	40.2	34.7	34.4	43.6	45.6	39.8	36.9	34.4	32.2
External debt (including to the IMF)	27.1	24.9	22.1	19.3	19.3	14.8	16.3	13.6	12.9	12.5	13.0
Gross official reserves (in millions of U.S. dollars)	29.0	24.0	18.1	15.4	15.1	28.9	29.3	26.2	24.0	21.9	19.2
(months of prospective imports of goods and nonfactor services)	2,866	1,495	1,026	1,429	1,438	3,126	3,126	5,291	7,295	10,419	11,707
	1.5	0.8	0.5	0.7	0.7	1.4	1.4	2.1	2.6	3.5	3.5

Sources: Ethiopian authorities and IMF staff estimates and projections.

¹ The base is December 2016.

² Public and publicly guaranteed external debt, which includes long-term foreign liabilities of NBE and external debt of Ethio-Telecom.

POLICY DISCUSSIONS

A. Monetary Policy

21. Monetary and financial conditions remain tight, while policy transmission through the new monetary policy framework remains weak. With inflation expected to increase into 2025, ensuring that exchange rate pass-through and the gradual rise in fuel prices do not generate persistent second-round effects is a key priority. Treasury bill rates are rising only slowly, and lending rates are underpinned by very low deposit rates that are also likely to change slowly. The authorities continue to rely on quantitative instruments—notably the cap on private sector credit growth—to limit inflation in the near term, which may lead to inefficient allocation of credit and distort monetary transmission. However, negative effects on real economic activity and the FX market (scarce Birr liquidity for importers) are reported, while the credit cap does not address depreciation expectations as long as low interest rates continue to make holding Birr assets unattractive.

22. Reaching a positive real monetary policy rate is a key step to build the credibility of the new monetary policy framework and change market expectations for inflation and the exchange rate. Consistent with the interest-rate based monetary policy framework, the NBE policy rate should become the key instrument to signal the policy stance. Given significant uncertainty over the inflation trajectory and the deflationary impact of the tight liquidity conditions, a data-driven approach is appropriate, and the authorities are working with staff on appropriate forward-looking measures that consider seasonal factors and likely lags in policy transmission. The authorities retain their commitment to reaching a positive real policy rate by March 2025 based on an agreed measure of projected inflation (staff recommend six-month ahead inflation); with at least two MPC meetings planned before end-March, policy rate increases are likely to be needed to meet the commitment. Phasing out the cap on growth in credit to the private sector is anticipated by end-September 2025 (MEFP ¶23). Careful consideration of the sequencing of the phase-out and clear communication of the authorities' policy intentions will be important to ensure effective signaling of the monetary policy stance. Continuing to avoid direct advances to the government remains an essential condition for low inflation and the success of the new monetary policy framework.

23. Modernization of the monetary policy framework is advancing. Following the first MPC meeting expected in late December, meetings will be held at least quarterly, with scope to convene more as needed, following a published calendar with an updated statement on the monetary policy stance following each meeting (MEFP ¶20). The launch of the interbank money market is important in improving banks' asset and liability management, and efforts to increase pre- and post-trade transparency should continue. As volumes increase, the establishment of a daily money market reference rate will be an important step in improving monetary transmission, by improving market transparency, acting as a benchmark for pricing loans and other financial products and laying the foundations for further financial sector deepening. Other key initiatives include the deployment of a central securities depository, the review of the reserve requirement framework, update of the

collateral framework, and improvements in analytical capacity to assess the appropriateness of the monetary policy stance.

24. Efforts to improve Treasury bill market functioning continue. Following the authorities' outreach effort to ensure auction rules are well understood, Treasury bill rates have moved closer to the policy rate. Nevertheless, and reflecting tight liquidity, auctions remain undersubscribed, and there is a need to significantly increase participation to mobilize domestic resources. The authorities remain committed to building financial sector capacity, further improving communication, and expanding the investor base (MEFP ¶24). The exception for CBE making their holdings of Treasury bills eligible toward meeting their reserve requirement was reduced by 50 percent in December 2024, and will be eliminated by end-2025. The Ministry of Finance is improving issuance planning with a view to publishing a regular issuance calendar by July 2025. These steps are crucial to prepare for issuing Treasury bonds at market interest rates in the first half of 2025/26. NBE will also support these efforts by repealing the directive requiring financial institutions to purchase Treasury bonds at a fixed rate of 9 percent (June 2025, SB).

B. Exchange Rate

25. The authorities have taken several measures to support FX market functioning. The requirement for exporters to surrender retained FX after one-month was eliminated—a key staff recommendation that substantially eases uncertainty for exporters and reduces incentives to avoid the official market. NBE granted licenses for twelve non-bank FX bureaus to operate in the cash FX market (creating a new market segment and enhancing competition), with five of these bureaus already operating. The guidance on FX fees and commissions has been revised, allowing banks to exclude some fees from their posted prices in line with practice internationally, noting an expectation that bid-offer spreads should generally not exceed 2 percent, and requiring transparent disclosure of all FX-related fees and commissions. This makes the NBE's indicative rate (the weighted average rate of banks' FX transactions), more comparable to the parallel market rate, which does not reflect fees and commissions. In line with the FX directive, the NBE issued a letter to banks on the settlement of dividends that were accumulated before the FX reform, clarifying that banks should distribute such payments equally over a period of 18 months. The allowance for the importation of certain commercial goods through the Franco Valuta import system has been ended, mainly to prevent abuse of the system by sourcing FX from the parallel market, especially considering that FX availability at banks has significantly improved.

26. The NBE's policy efforts to improve market efficiency and encourage a strong FX supply response continue:

- NBE is strengthening FX market monitoring and enforcement of the FX directive. A dedicated inspection team for the commercial banks was established and the first consolidated on-site inspection report has been finalized. An internal manual is being implemented to strengthen both off-and on-site inspections with special focus on ensuring that banks are complying with the Foreign Exchange Market Operation Code of Conduct.

NBE is offering guidance to improve understanding of the FX directive, including on its website.

- With technical support from staff, an FX market survey covering banks, importers, and exporters to identify impediments to FX market efficiency and deepening is being prepared.
- By March 2025, NBE will review the maximum amount allowed for advance payment of imports that does not require importers to submit a foreign bank guarantee.
- With IMF technical assistance, NBE will review the calculation methodology for the daily indicative exchange rate with a view to including all interbank FX transactions in the calculation and begin publishing regular data on interbank market transactions by end-March 2025. In addition, NBE will begin work with the commercial banks and stakeholders to adopt an FX trading platform and finalize the RTGS payment system to enable the settlement of interbank FX transactions domestically to support FX market liquidity and inter-bank FX market development.
- NBE will work together with banks to establish service standards for opening LCs, including processing time and margin requirement, by end-February 2025.
- NBE will assist in bringing overseas money transfer operators into the official market by facilitating contacts with banks, with due regard to know-your-customer and financial integrity considerations. In collaboration with banks, an information campaign to attract remittances will be extended to countries with sizeable Ethiopian diaspora populations.

27. Efforts to further liberalize current account transactions are ongoing. The AVIII mission identified the following, longstanding, measures which give rise to six exchange restrictions and one MCP inconsistent with Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) exchange restriction arising from the tax clearance certificate requirement for repatriation of dividend and other investment income; (ii) exchange restriction arising from the requirement to provide a clearance certificate from the NBE to obtain import permit; (iii) exchange restriction arising from the imposition of hard ceilings on access to and use of FX for travel purposes; (iv) exchange restriction arising from the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances; (v) exchange restriction arising from the restriction imposed on the access to and use of FX for the repatriation of backlog dividends (accumulated dividend outstanding as of July 29th, 2024); and (vi) exchange restriction and MCP arising from the commission of 2.5 percent levied on the NBE's exchange transactions with the government for external payments.

28. NBE will remove four exchange restrictions identified in the IMF Article VIII assessment within the program period. A specific timeline for removal of (i) the imposition of hard ceilings on access to and use of FX for travel purposes and (ii) the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances will be based on a study completed prior to the third ECF review. The exchange restriction on the settlement of backlog dividends will be phased out over 18 months, as outlined in an NBE letter to banks issued on September 30, 2024. The economic impacts of temporarily retaining the three measures are expected to be limited. The demand for FX from travelers exceeding the specified limits, along

with the demand for outward remittances for family living expenses, is not macroeconomically significant. The estimated backlog of dividends is small, as much had already been settled through unofficial channels or reinvested. The NBE's application of a 2.5 percent commission on the one-day lagged exchange rate for certain government transaction gave rise to multiple currency practices. The authorities are committed to taking steps to eliminate the commission within the program period. The adjustment and eventual elimination of the 2.5 percent commission on most FX transactions will be carefully aligned with an impact assessment determined as part of a comprehensive NBE capital adequacy study. For the two remaining exchange restrictions—the requirement to provide a tax clearance certificate for repatriation of dividends and other investment income, and the requirement to provide a clearance certificate from the NBE to obtain an import permit—NBE will collaborate with the other affected public authorities to explore solutions that do not give rise to exchange restrictions. Staff encourages the authorities to remove all longstanding Article VIII exchange restrictions.

29. The NBE will continue to restrict FX intervention to managing disorderly market conditions, at their discretion, and clearly communicate policy intentions if intervention is judged necessary. Any FX intervention will be conducted via public auction following NBE's FX auction guidelines. Auction results will be published on NBE's website immediately after the closing of the auction.

C. Fiscal Policy and SOE Reform

30. Preparation of the next phase of the revenue mobilization reforms is advancing. Revenue reforms are guided by the National Medium-Term Revenue Strategy (NMTRS) adopted in September. The excise stamp, part of the current year's revenue package, is progressing to full implementation with rollout of the digital track and tracing component expected by April 2025. The next phase of tax policy reforms centers on tax expenditures and income tax with implementation and policy yields to start in FY2025/26 (MEFP 1134). The authorities are finalizing a directive to streamline and eliminate tax exemptions for imported intermediate inputs for new local and foreign investments. Tax policy assessments are advancing as planned with development partner support, prioritizing closing gaps in the corporate income tax regime, and streamlining the presumptive tax system for small and unincorporated businesses (the latter will be revenue neutral, with gains via efficiency and fairness). Revenue raising motor vehicle ownership taxes will proceed in 2025/26 as well. Updating minimum exemptions for personal income tax is being considered, focusing on equity and efficiency while minimizing revenue losses. The potential impact on poverty is largely addressed through the recent public wage increases. The authorities are analyzing the 2024 TADAT findings to update tax administration, with the key objective of developing and implementing an integrated tax administration IT system within the program period. Revenue administration efforts include strengthening taxpayer registration, e-filing, e-payment, and e-invoicing platforms, compliance risk management, and tax audit efficiency. Realizing NMTRS targets will require strengthening policy coordination and implementation capabilities, modernizing IT infrastructure, and enhancing human resources.

31. Current spending plans are in line with program objectives of mitigating socio-economic impact of exchange rate reform and rebuilding fiscal space. Unwinding untargeted fuel subsidies (inclusive of statutory taxes on fuel) by January 2026 will hinge on sustaining quarterly pump price adjustments, as planned by the authorities, including timely price adjustment as the actual fuel cost structure evolves in line with import prices and costs. The subsidy budget for fertilizer was increased from 0.2 to 0.5 percent of GDP as planned, which is expected to provide a price subsidy of about 30 percent of the full cost (import and distribution). This requires partial pass-through of the cost increase to farmers, including to cover the fiscal impact of exchange rate reform to the 2023/24 subsidy (0.1 percent of GDP). The salary increases for public sector employees, heavily tilted to the lowest wage earners, remedies real wage erosion that had left some public sector workers below the poverty line. The Supplementary Budget includes an additional contingency for social spending (0.2 percent of GDP) that the authorities may activate if tax revenue overperforms relative to the baseline.

32. The authorities plan to raise safety nets spending and expect budget outlays to be in line with program targets. Benefits will be adjusted in January 2025 for the rural safety nets program, which is much larger than the urban program where benefits were raised in September 2024. The 2024/25 quarterly Productive Safety Net Program (PSNP) disbursements plans foresee budget allocations in line with program targets, although there is a risk of further delay as the authorities focus on ensuring efficient and targeted increases in coverage.

33. Fiscal transparency and accountability reforms are being strengthened. Program conditionality includes starting to publish mid-year reviews of the Federal Government budget and quarterly budget execution reports (SB, April 2025) as well as issuance of a circular mandating remittance of fuel taxes to the federal budget from December 2025 (SB, June 2025). To strengthen budget controls and public investment management practices, road maintenance funding will shift from off-budget earmarking of part of the VAT collected on fuel sales to on-budget allocations (SB, June 2025). The introduction of a public sector obligation (PSO) framework for SOEs, supported by the World Bank, will be an important step towards comprehensive disclosure of quasi-fiscal activities and managing fiscal risks.

34. SOE sector reforms are proceeding as expected. Building on the progress in implementing IFRS in its SOE portfolio, Ethiopia Investment Holdings (EIH) is preparing consolidated financial statements for FY2022/23; audited statements are expected to be completed by February 2025. The authorities are consolidating the SOE portfolio under EIH. Public Enterprises Holding and Administration Agency (PEHAA), within the Ministry of Finance, will focus on SOE policy development and the Ministry's oversight functions. In the electricity sector, the multi-year electricity tariff plan is expected to take power utilities to positive net income within the program period. Additional tariff increases (scope for which is provided for under the regulatory tariff framework) could be needed to further strengthen viability and investment in the sector.

D. Debt

35. Ethiopia's debt continues to be unsustainable and in distress under the updated pre-restructuring DSA. There are protracted breaches in exports-related debt vulnerability indicators, of duration and magnitude comparable to the program approval DSA. The debt relief envelope required to meet program financing needs and reach moderate risk of debt distress by the end of the program remains broadly unchanged. Updates include:

- BOP forecasts are moderately revised to reflect 2023/24 outturns and preliminary data for Q1 2024/25. Near-term exports forecasts are slightly stronger reflecting the pick-up in gold exports as producers switch from informal to official channels and coffee exporters draw on inventory. As continued growth will require new investment, and previous projections already include a substantial increase in exports, medium-term projections are unchanged. Although imports in 2023/24 exceeded projections, primarily due to public sector imports, the near-term import forecast remains largely unchanged to reflect the subdued import levels observed in Q1 2024/25. Medium-term import projections are lower, mainly due to lower international fuel prices.
- A revised debt service schedule for end-June 2024 outstanding debt is used.

36. The Official Creditor Committee (OCC) is on track to reach agreement with the authorities on the key terms for a debt treatment by the second review. The authorities shared an indicative proposal on a possible debt treatment with the OCC on October 16, 2024. The co-chairs offered the authorities reassurance on October 23 that "sufficient progress towards an agreement in principle by the time of the second review" is being made. An OCC meeting took place on December 4 to review the perimeter of the debt treatment and the cut-off date, and to consider the authorities' request for an extension of the debt service standstill until the Memorandum of Understanding (MOU) on debt treatment is signed. Further discussion on the potential terms for the debt treatment are expected later in December or early in January such that an agreement in principle would be likely to follow soon after. Building on agreement in principle on the main parameters of a treatment, an agreed MOU with official creditors would be expected by the third review.

37. The authorities have engaged actively with Eurobond holders on the need for debt restructuring. The authorities intend any treatment to be on comparable terms to that agreed with official creditors. Following a Global Investor Call on October 1, 2024, which provided an update on recent economic developments and included an illustrative debt treatment option, the authorities met the Eurobond creditor committee (representing more than 40 percent of principal) during the Annual Meetings in October. Three coupon payments and the principal that came due on December 11, 2024, have been missed, totaling US\$1,099 million.

38. The authorities continue their efforts to limit the accumulation of new debt vulnerabilities. No new non-concessional loans have been contracted. Discussions with prospective creditors regarding the Koysha project loan are currently underway; any new non-concessional lending for this project is exempt from the zero-limit on new non-concessional borrowing. The pace

of contracting new public and publicly guaranteed (PPG) concessional debt aligns with the established ceiling on the present value of new external borrowing.

E. Financial Sector

39. Continued strengthening of prudential oversight is essential as the financial sector adapts to the changing economic and competitive environment. The authorities continue to work toward upgrading the capital framework to Basel II, focusing on Pillar 1 requirements and developing a risk-based supervisory framework with the support of IMF and World Bank technical assistance (MEFP ¶53). With the recent revision of the asset classification and provisioning directive to align with international practices, close monitoring of NPLs, along with ongoing efforts to develop a corrective action framework and bank resolution regime will be important (MEFP ¶54). The directive prescribes a more forward-looking approach to provisioning, sets stricter criteria for loan restructuring, and removes constraints on classifying exposures toward SOEs, ultimately providing a clearer picture of the health of the banking sector. NPLs rose to 5.5 percent of total loans at end-September from 3.9 percent prior to the implementation of the new directive in June (Table 5).

40. Reforms to ensure that CBE can operate as a commercially oriented bank are ongoing, with the support of the World Bank Financial Sector Strengthening Project (FSSP). Building on the recapitalization in July 2024, CBE are developing operational and governance reforms (MEFP ¶51). A new ownership policy and commercial mandate are being finalized and reviewed by EIH, and the development of an updated corporate governance framework is underway. An asset quality review is planned. Under the FSSP, the authorities have committed to implementing a strategic plan for Development Bank of Ethiopia (DBE) by end-2025, including a revised business model focused on wholesale lending and a market-based funding strategy. Mandatory commercial bank purchases of DBE bonds will be phased out by December 2025 (MEFP ¶46).

41. Rapid progress in reaching full compliance with NOP regulations is reducing a key financial stability risk. Following the FX reform, most private banks have already reached compliance with the NOP regulation, well ahead of the June 2025 benchmark established by the NBE and the overall banking sector position has narrowed markedly. It is expected that CBE's short NOP, arising from legacy fuel LC openings on behalf of EPSE, will be substantially reduced as the LCs are paid down, and following disbursements under the FSSP. The authorities plan to strengthen the measurement of NOPs and enhance monitoring and enforcement in coming months. A revision of the NOP prudential regulation is planned, with the support of IMF technical assistance (MEFP ¶17).

42. Development of capital markets will help improve access to finance and the allocation of credit. Building on the 2021 Capital Market Proclamation, the Ethiopian Securities Exchange is expected to become operational in January 2025. An initial public offering for up to 10 percent of Ethio Telecom is ongoing, expected to close at end-January 2025.

F. Safeguards and Governance

43. An update safeguards assessment is substantially complete. Progress in implementing recommendations from the 2020 assessment has been slow, but positive developments include adoption of an external auditor selection and rotation policy, the appointment in November 2024 of a new external auditor for five years, and resumption of publication of the audited financial statements. The NBE however continues to face capacity constraints and recommendations include the need to strengthen proficiencies in financial reporting, internal audit, and risk management, and to establish stronger controls to ensure accuracy of program monetary data. The 2022/23 audited financial statements are expected to be finalized by the new auditor and published by end-March 2025 (modified SB).

44. Draft amendments to the NBE Proclamation submitted to parliament modernize NBE's mandate, functions, and powers but depart from leading practices with respect to governance and autonomy. The draft NBE Proclamation was submitted to Parliament in July 2024, and legislative approval is expected in December 2024. The draft includes:

- Strong improvements in critical areas: (i) introducing clear and hierarchical objectives; (ii) limiting monetary financing to the government; (iii) clarifying Board oversight responsibilities and the respective roles of executive management and the Board; (iv) enhancing collegial decision making at the executive level; (v) establishing resolution and lender of last resort functions; (vi) setting out prohibited activities; and (vii) enhancing provisions related to internal and external audits. In addition, disallowing emergency liquidity assistance without collateral is expected to be introduced at the parliamentary hearing stage.
- Important gaps that currently remain include: (i) the lack of prohibition of active government officials (including ministers) from serving on the NBE Board; (ii) Board composition with a majority of government officials that hold non-executive member positions, and (iii) the lack of a double-veto procedure for the appointment of the Governor, Vice-Governors, and Board members.

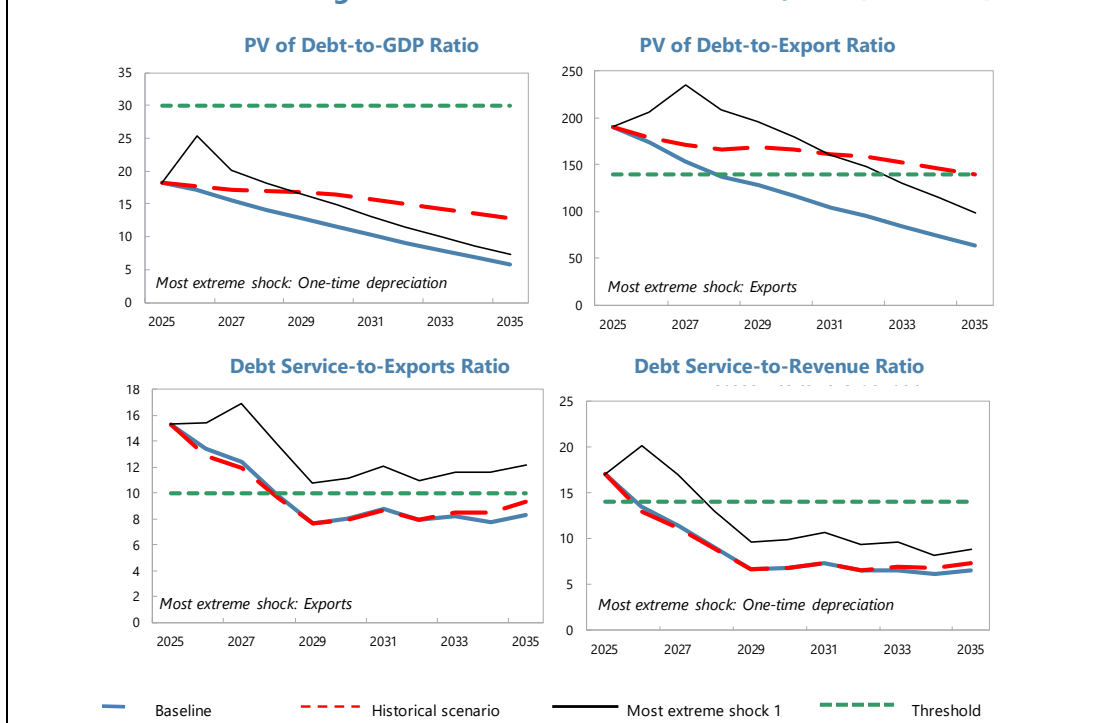
45. NBE reports constructive engagement with the parliament, while the mission reiterated the importance of addressing the remaining gaps especially on central bank autonomy. There is support for significant modernization of NBE's legal framework. The authorities note that the degree of independence in the draft law, though more limited than established in leading practice, will secure significant progress in the Ethiopian context and compared to the current law. They also highlighted that the degree of independence recommended by the IMF was not enjoyed by any public institution in Ethiopia and is alien to their legal traditions. Staff reiterated the importance of addressing the remaining gaps, and that the structural benchmark was unlikely to be met if concerns on central bank independence could not be addressed. Staff will discuss additional measures to strengthen NBE autonomy as needed, including potential conditionality, at the third review.

46. The authorities are preparing for the upcoming Eastern and Southern African Anti-Money Laundering Group mutual evaluation. They have initiated a technical assistance program on their anti-money laundering and combating the financing of terrorism (AML/CFT) framework. Potential follow-up TA under discussion could support development of an action plan to improve generation and use of financial intelligence for the financial intelligence unit and AML/CFT supervision of financial institutions and designated non-financial businesses and professions. The strengthening of the AML/CT supervisory framework is critical in light of the authorities' efforts to develop and deepen the financial markets in Ethiopia. Staff will monitor the progress of the AML/CFT National Risk Assessment and Action Plan.

PROGRAM MODALITIES

47. Adequate financing assurances are in place. The World Bank disbursed US\$1.5 billion of budget support in August 2024 and provided firm commitments of another US\$1 billion of budget support in July 2025. With this commitment, there are firm commitments for the next twelve months and good prospects for financing the remainder of the program. Progress towards debt restructuring through the Credible Official Creditor Process under the Common Framework is consistent with Ethiopia reaching a moderate rate of debt distress by the end of the program. The illustrative post-restructuring DSA scenario based on the indicative proposal shared by the authorities with the OCC would be consistent with this goal (Figure 7). Staff assess that all Poverty Reduction and Growth Trust exceptional access criteria and criteria under the Policy Safeguards on High Combined Credit have been met (Box 2).

Figure 7. The Federal Democratic Republic of Ethiopia: The Authorities' Illustrative Debt Restructuring Scenario-Indicators of PPG Debt, 2025/26–2034/35



48. Program monitoring will move from quarterly to semi-annual reviews at the third review, as planned. The third review will be based on end-December 2024 QPCs and ITs (Table 9) and SBs (Table 10). An update to the TMU for future reviews has been implemented: the impact of the CBE recapitalization will be excluded from the indicative target for gross claims on public enterprises. For NIR, the TMU has been clarified to reflect that government deposits are not considered contractually binding short-term FX liabilities of NBE. Staff support resetting the SB on finalizing the NBE audit from end-January 2025 to end-March 2025 to allow time for completion. Staff propose a new structural benchmark to discontinue earmarking a portion of fuel VAT for the road fund and allocate federal government funding through the budget for end-June 2025.

49. Ethiopia's capacity to repay the Fund is considered adequate, predicated on successful program implementation, securing financing assurances and debt restructuring, although there are substantial downside risks. The outstanding stock of Fund credit would peak at 18.6 percent of exports in 2026/27, 68.4 percent of FX reserves in 2024/25, and 1.9 percent of GDP in 2026/27 and 2027/28. Debt service to the Fund is projected to peak at 2.1 percent of exports in 2024/25, 7.4 percent of FX reserves in 2024/25, and 0.2 percent of GDP in 2024/25 (as well as between 2031/32 and 2033/34). Risks to capacity to repay rise towards the end of the ten-year horizon when repayments to the Fund peak and rescheduled debt service payments recommence. Such risks are mitigated by reforms to address external imbalances and the reserve accumulation envisaged under the program.

50. Enterprise risks to the Fund remain significant, mitigated by program design and the implementation record. Strong ownership, political commitment, and reform outcomes so far have mitigated key risks. However, uncertainty will persist due to the complexity of the reform agenda, data limitations, and the fragile socio-economic environment, representing an important continuous source of risks. The quarterly review structure for the first two reviews has proved useful to monitor developments closely, help keep the program on course, without large changes in policy measures or rephrasing of access. Policy recalibration so far reflects close engagement and the authorities' proactive approach to consultation. Staff views the forthcoming shift to a semi-annual review structure in line with the originally planned timeline as appropriate from the enterprise risk perspective (see [IMF Country Report No. 2024/253](#) for more detail on program design considerations).

51. The authorities have indicated that they will request to use Fund disbursements for budget support in 2025/26 to accommodate funding pressures. They do not anticipate higher deficits but are concerned about ensuring adequate financing given uncertain prospects in the domestic debt market and weak demand for Treasury bills so far, this fiscal year. Staff will review the request at the third review, considering budget preparations, developments in the Treasury bill market, and the authorities' resource mobilization efforts. A fiscal safeguards review would be needed if further budget support is provided (required under exceptional access with at least 25 percent of IMF financing expected to be directed to financing of the budget).

52. In line with Fund policy on Poverty Reduction Strategies, the authorities have provided their [Poverty Reduction and Growth Strategy \(PRGS\)](#), based on their 10-year Development Plan (DP) and HGER 2.0. The 10-year DP aims to achieve sustained, high growth

and reduce poverty from a post-COVID rate of over 30 percent in 2020/21 to 7 percent in 2029/30. The plan became effective in July 2020 and covers 2020/21–2029/30. Specific policy directions for the 10-year DP are outlined in the HGER 2.0. Staff assess that these documents would fulfill the PRGS requirements: they were developed in consultation with multiple stakeholders and identify priorities that are consistent with program objectives, including promoting private sector led growth and enhance social safety nets (Box 1). The World Bank has provided a letter of assessment for the PRGS.

Box 1. Poverty Reduction and Growth Strategy

Ethiopia's [10-year Development Plan](#) 2021–2030 (10YDP) serves as its Poverty Reduction and Growth Strategy (PRGS) and is well-aligned with the objectives of the ECF.

The 10YDP was adopted by Ethiopia's Parliament in 2021. The plan covers 2020/21–2029/30 and focuses on achieving a growth rate of 10 percent annually to reduce the national poverty rate from 19 percent in 2020/21 (as estimated at the time) to 7 percent in 2029/30. To achieve this growth, the plan stressed: (i) transition to a more market-based economic system with greater participation by the private sector; (ii) maintaining macroeconomic stability; (iii) ensuring structural transformation by promoting productivity and competitiveness; (iv) provision of high quality and accessible basic social services and infrastructure; (v) ensuring a well-qualified and independent civil service; and (vi) building strong and inclusive institutions to ensure peace, access to justice, rule of law, and human rights.

Specific policy directions for the 10YDP are outlined in the HGER, which also underpins ECF reform program, ensuring that the PRGS and program objectives are well aligned. The HGER aims to address macroeconomic imbalances, restore external debt sustainability, and lay the foundation for high, private sector-led growth. Thus, key policies supported by the ECF arrangement contribute to the DP objectives of sustained growth and poverty reduction. FX reform (supported by increased social spending to protect vulnerable households) helps address a key relative price distortion holding back development. Development of the monetary policy framework, ending monetary financing, and gradually removing financial repression will help reduce inflation, improve credit allocation, and encourage domestic savings. Rebuilding revenues and anchoring debt sustainability will help mobilize resources to meet long-term development needs. SOE and CBE reforms are helping address key fiscal and financial vulnerabilities to strengthen long-term growth prospects. Finally, improving transparency and governance will also help promote a sustainable economy.

53. As the OCC is an adequately representative forum and includes Paris Club creditors, arrears to other official bilateral creditors are deemed away under the Lending into Official Arrears policy. In addition, Ethiopia has pre-HIPC era arrears to Libya, Russia, and the former Republic of Yugoslavia, totaling about US\$525 million as of June 2024, which are deemed away due to a representative Paris Club agreement under HIPC. There are about US\$32 million in external arrears to commercial creditors from the former Czechoslovakia, India, Italy, Bulgaria and the former Yugoslavia, all pre-dating the 1990s.

54. The financing assurances review indicates policy requirements are met. The Lending into Arrears and Lending into Official Arrears policies are met with respect to external arrears, adequate safeguards remain in place for the further use of the Fund's resources considering progress made in debt restructuring, and adjustment efforts are not undermined by developments

in creditor-debtor relations. The authorities continue to make good faith efforts to resolve arrears to official bilateral creditors and external commercial creditors.

Box 2. Assessment of Exceptional Access Criteria and Policy Safeguards on High Combined Credit

The ECF arrangement for Ethiopia includes exceptional access under the Poverty Reduction and Growth Trust (PRGT) and triggers the Policy Safeguards on High Combined Credit (PS-HCC) due to Ethiopia's outstanding obligations to the General Resources Account (GRA) and resulting in high levels of combined PRGT and GRA credit. Staff judge related criteria under these two circumstances to be met.

Staff assesses all PRGT exceptional access criteria to be met based on financing assurances from development partners, and from official bilateral creditors for a debt treatment under the Common Framework, an assessment of moderate risk of debt distress by the end of the program, and the authorities' commitment to the program.

- *Criterion 1 (exceptional BOP pressures):* Ethiopia is experiencing exceptional BOP pressures, with low reserves and some reports of FX shortages, and is in external debt distress.
- *Criterion 2 (debt sustainability with high probability):* A combination of strong policies and financing from sources other than the Fund, including via the treatment of official bilateral debt under the Common Framework and application of comparability of treatment to non-official debt, would secure sustainability with high probability by improving the debt distress rating to moderate by the end of the program. There are good prospects for a successful debt restructuring.
- *Criterion 3 (income criterion for presumed blending):* At about 74 percent of the IDA Operational Cut-off at the time of the program request, Ethiopia does not meet the income criterion for presumed blending and is thus eligible for PRGT exceptional access.
- *Criterion 4 (reasonably strong prospect of program success):* Frontloaded policy adjustment and the authorities' commitment to program implementation provide a sufficient basis for a favorable assessment of a strong prospect of success. The implementation of policies early in the program demonstrates strong program ownership.

Staff assesses that the criteria under the Policy Safeguards on High Combined Credit (PS-HCC) are also met. In line with staff's judgment on PRGT exceptional access criteria 1, 2 and 4, staff assesses that the three criteria under the PS-HCC are also met.

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55. The authorities are making strong progress under the program. Measures taken are successfully addressing macroeconomic imbalances, and the economy has proven resilient so far. Exchange rate reform has had a relatively limited impact on inflation due to low exchange rate pass-through, tight monetary and financial conditions, and policy support to smooth administered price adjustment. All quantitative performance criteria and all but one indicative targets for end-September 2024 were met. The authorities have taken steps to further strengthen FX supply and market efficiency, maintain tight monetary and financial conditions, mobilize domestic resources, raise social spending, and restore debt sustainability.

56. Conditions for economic growth in the period ahead are promising. The positive medium-term outlook hinges on continued implementation of program-supported macroeconomic reforms, the advancement of structural reforms that promote private sector development, and implementation of the external debt restructuring.

57. Maintaining overall tight monetary and financial conditions are key to managing inflation and exchange rate expectations. Liquidity conditions are affecting economic activity, and while they are expected to ease in the months ahead as the supplementary budget is executed, finding the appropriate policy stance to balance continued downward pressure on inflation with real sector developments should be data dependent and subject to frequent review, including by the Monetary Policy Committee. Raising the monetary policy rate to positive real levels by end-March 2025 is important to signaling the monetary policy stance and building the credibility in the new monetary policy framework, as well as correcting a key relative price distortion impeding efficient investment and asset allocation decisions. With inflation expected to increase in 2025, ensuring exchange rate and fuel price reforms do not generate second round effects is a priority. The phase-out of the cap on credit growth should be carefully sequenced with policy rate changes and communicated transparently. Continuing to avoid direct advances to the government is essential to achieve low and stable inflation and the success of the new monetary policy framework. Further efforts to improve Treasury bill market functioning and boost participation will help mobilize domestic resources.

58. Steady improvements in FX market functioning and rising FX supply are encouraging. The removal of surrender requirements for exporters on retained FX is a welcome step to reduce uncertainty and incentives to avoid the official market. Continued efforts to strengthen monitoring and enforcement of the new FX directive, identify further market impediments through an FX survey, and improve and publish data on the indicative exchange rate and interbank market transactions will further enhance market functioning. FX intervention to manage disorderly market conditions has not been needed, a welcome development, as is the authorities' continued commitment to clear communication of their policy intentions should intervention become necessary. Staff welcomes steady implementation of transitional arrangements to settle legacy fuel LCs (pre-exchange reform) and new LCs opened in 2024/25, as well as the authorities' commitment to fully market-based financing starting from LCs opened in 2025/26. Continued efforts to liberalize current account transactions, including by removing longstanding Article VIII exchange restrictions will also be important.

59. The supplementary budget maintains fiscal targets in line with program objectives. Staff urge the authorities to prioritize efforts to expand targeted safety net programs to ensure that vulnerable households are protected while using public resources efficiently. Unwinding fuel subsidies in line with program commitments will require sustained efforts to bring fuel prices at the pump to full cost recovery, which is also needed to realize program's domestic resource mobilization targets and rebuild fiscal buffers. Continued prudent spending controls, consistent with revenue performance, are warranted.

60. The authorities' revenue mobilization strategy provides a sound policy framework to durably raise revenues, broaden the tax base, and streamline the tax system. The implementation of the VAT and excise tax reforms continues as planned and authorities are working on the next phase of tax policy reforms focused on tax expenditures, closing gaps in corporate income tax regime, and increasing revenue from property ownership.

61. SOE sector reforms are progressing well. EIH is preparing consolidated financial statements for its SOE portfolio, which will provide a welcome and transparent overview of the sector. The consolidation of management of the states' interests in SOEs under EIH as a commercially oriented shareholder, should help improve cost efficiency, corporate governance, and transparency for the SOE sector. In the electricity sector, the first steps have been taken in the multi-year electricity tariff plan that is expected to take power utilities to positive net income within the program period.

62. The NBE has competitively selected and appointed a suitably qualified external auditor for a five-year term. The 2022/23 audited financial statements are expected to be finalized by the new auditor and published by end-March 2025. Staff called for further progress on other safeguards recommendations.

63. Staff welcomed authorities' commitment to a significant modernization of NBE's legal framework. The draft NBE law represents a significant advance on the existing legal framework in most respects and is a substantial achievement as it stands. Staff nonetheless reiterated the importance of addressing the remaining gaps with respect to governance and autonomy. A final assessment of compliance with the structural benchmark will be made when NBE's input to the parliamentary process is complete.

64. Steps to securing a debt treatment and restoring debt sustainability continue. Staff welcome that sufficient progress is being made by the Official Creditor Committee (as a Credible Official Creditor Process) toward an agreement in principle on a debt treatment consistent with program objectives. Good faith efforts continue with Eurobond holders and other external commercial creditors. The authorities continue to avoid non-concessional borrowing, with the exception of the financing needed for the Koysha dam project, and carefully evaluate new concessional debt. Plans to strengthen debt management are ongoing, with World Bank and IMF technical support.

65. Financial sector reforms will strengthen financial sector stability. Modernization of the regulatory framework for banks and continued strengthening of supervision should be complemented by close monitoring of non-performing loans and introduction of a corrective action framework and bank resolution regime. Governance and operational reforms for CBE supported by the World Bank's FSSP will help ensure it can operate as a commercially oriented institution, with clearly defined public service obligations. Significant progress has been made to ensure banks are in full compliance with net open position regulations, addressing a key financial stability risk, and will be further enhanced by plans to strengthen monitoring and enforcement.

66. Staff support the completion of the second review under the ECF arrangement. All quantitative performance criteria for end-September have been met. The authorities present a strong set of policies and structural reform measures in the attached LOI and MEFP, demonstrating their commitment to achieving the objectives of the Fund-supported program. Given the restructuring remains on track, staff supports the completion of the financing assurances review. Staff also support resetting the SB on finalizing the NBE audit from end-January 2025 to end-March 2025 to allow time for completion.

67. Staff supports the approval of the three exchange restrictions currently in place for BOP reasons: the imposition of hard ceilings on access to and use of FX for travel purposes, the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances, and the exchange restriction on backlog dividends, while the authorities are endeavoring to address the BOP problems. The authorities have requested approval for these restrictions on the grounds that they are temporary, expected to be lifted throughout the program period, and do not create an unfair competitive advantage for any member or discriminate among members. Additionally, staff supports the authorities' plan to explore solutions to the remaining two exchange restrictions.

Table 1. The Federal Democratic Republic of Ethiopia: Selected Economic Indicators, 2020/21–2028/29

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual			Prel.	Proj.	Projection			
In percent change, unless otherwise mentioned									
National income and prices									
GDP at constant prices (at factor cost)	6.3	6.4	7.2	8.1	6.6	7.1	7.7	8.0	7.8
GDP deflator	21.8	34.7	32.9	25.5	21.7	18.5	12.3	11.5	10.2
Consumer prices (period average) ¹	20.2	33.9	32.5	26.6	20.7	16.9	10.6	9.5	8.8
Consumer prices (end period) ¹	24.5	34.2	29.3	19.9	24.9	12.4	10.1	9.1	8.7
External sector									
Exports of goods and services (f.o.b.)	10.9	22.8	3.3	8.1	7.7	12.6	16.5	16.3	9.7
Imports of goods and services (c.i.f.)	2.3	24.9	-1.4	7.8	3.7	5.2	10.7	12.2	7.2
Export volume (goods)	12.6	2.5	-17.3	-1.2	12.1	6.0	6.0	4.0	2.9
Export volume (goods and services)	3.2	11.0	-3.2	1.7	0.0	5.2	3.2	1.2	0.1
Import price index (percent change)	3.7	16.5	4.3	-3.7	-0.8	-2.3	-1.5	-1.3	-1.3
Terms of trade (goods and services, deterioration –)	3.7	-5.0	2.2	10.3	8.6	9.6	14.7	16.5	11.1
Nominal effective exchange rate (end of period, depreciation –)	-24.1	-8.6	6.9	-1.4	...	...	...	...	...
Real effective exchange rate (end of period, depreciation –)	-10.0	10.3	27.9	12.6	...	...	...	...	...
Money and credit									
Claims on nongovernment ²	21.9	18.9	24.1	9.7	-24.0	42.2	42.6	25.6	23.2
Broad money	29.9	27.2	26.6	14.1	26.1	29.3	29.4	21.3	20.4
Base money	7.2	37.2	32.0	-1.1	26.3	24.0	24.7	20.1	19.4
Velocity (GDP/broad money)	3.22	3.59	4.02	4.74	4.96	4.89	4.60	4.58	4.53
In percent of GDP, unless otherwise mentioned									
Financial balances³									
Gross domestic savings	18.9	15.2	14.8	14.1	9.8	14.5	16.9	17.7	17.4
Public savings	1.6	-0.4	1.1	1.7	1.5	2.6	3.2	3.4	3.6
Private savings	17.4	15.6	13.7	12.4	8.3	11.9	13.7	14.3	13.8
Gross domestic investment	28.0	25.3	22.2	20.3	19.7	23.4	25.0	25.4	24.5
Public investment	7.5	6.4	5.6	4.3	2.4	5.8	6.4	6.6	6.2
Private investment	20.5	19.0	16.6	16.0	17.3	17.6	18.7	18.8	18.3
Resource gap	-9.1	-10.1	-7.4	-6.2	-9.9	-8.9	-8.1	-7.6	-7.0
External current account balance, including official transfers	-2.8	-4.0	-2.9	-2.9	-4.4	-3.0	-2.5	-2.1	-2.1
Government finances									
Revenue	10.2	8.1	7.9	7.3	8.5	9.8	10.8	11.2	11.4
Tax revenue	9.0	7.1	6.8	6.2	7.4	8.6	9.6	10.1	10.3
Nontax revenue	1.3	1.0	1.0	1.1	1.2	1.2	1.2	1.2	1.2
External grants	0.8	0.4	0.4	0.3	1.4	0.6	0.5	0.4	0.4
Expenditure and net lending	13.8	12.7	10.8	9.5	11.6	12.3	13.2	13.4	13.4
Fiscal balance, including grants (cash basis)	-2.8	-4.2	-2.6	-2.0	-1.7	-2.0	-1.9	-1.7	-1.5
Total financing (including residuals and excluding privatization)	2.8	4.2	2.6	2.0	1.7	2.0	1.9	1.7	1.5
External financing	0.7	0.1	0.3	0.2	1.3	-0.2	0.3	0.3	-0.4
Domestic financing	2.1	4.3	2.5	1.9	0.8	1.4	1.6	1.5	1.9
Public debt ⁴									
Domestic debt	27.1	24.9	22.1	19.3	16.3	13.6	12.9	12.5	13.0
External debt (including to the IMF)	29.0	24.0	18.1	15.1	29.3	26.2	24.0	21.9	19.2
Overall balance of payments (in millions of U.S. dollars)	-41	-2,639	-809	336	-909	309	351	817	1,326
Gross official reserves (in millions of U.S. dollars)	2,866	1,495	1,026	1,438	3,126	5,291	7,295	10,419	11,707
(months of prospective imports of goods and nonfactor services)	1.5	0.8	0.5	0.7	1.4	2.1	2.6	3.5	3.5
GDP at current market prices (billions of birr)	4,341	6,157	8,723	11,752	15,501	19,765	24,071	29,085	34,591.7

Sources: Ethiopian authorities and IMF staff estimates and projections.

¹ The base is December 2016.² Projections from 24/25 include impact of CBE recapitalization.³ Based on data from Central Statistical Agency (CSA), except for the current account balance, which is based on balance of payments (BOP) data from National Bank of Ethiopia (NBE).⁴ Public and publicly guaranteed external debt, which includes long-term foreign liabilities of NBE and external debt of Ethio-Telecom. Does not include expected debt relief.

Table 2a. The Federal Democratic Republic of Ethiopia: General Government Financial Operations, 2020/21–2028/29¹
(Millions of Birr)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual			Prel.	Proj.	Projections			
Total revenue and grants	478,888	525,736	717,149	887,178	1,541,530	2,042,284	2,718,118	3,394,014	4,101,996
Revenue	444,583	499,043	685,021	854,146	1,324,563	1,931,747	2,600,099	3,268,839	3,953,972
Tax revenue	388,763	436,753	595,135	723,768	1,144,908	1,702,679	2,321,128	2,931,761	3,553,069
Direct taxes	173,965	206,825	265,385	340,763	434,180	711,777	970,069	1,202,430	1,453,085
Indirect taxes	214,798	229,927	329,749	383,006	710,729	990,902	1,351,058	1,729,331	2,099,984
Domestic indirect taxes	108,160	98,617	161,197	204,502	359,297	525,970	726,304	966,939	1,204,957
Import duties and taxes	106,638	131,310	168,553	178,504	351,432	464,933	624,755	762,392	895,027
Nontax revenue	55,819	62,290	89,887	130,378	179,654	229,067	278,971	337,078	400,903
Grants	34,305	26,693	32,128	33,032	216,967	110,537	118,019	125,175	148,024
Program grants	10,747	0	2,426	0	131,932	13,047	15,140	16,430	17,662
Project grants	23,558	26,693	29,701	33,032	85,035	97,490	102,879	108,745	130,362
Total expenditure and net lending (cash basis)	599,007	781,789	943,881	1,120,903	1,805,053	2,427,700	3,175,465	3,902,993	4,638,167
Recurrent expenditure ²	363,597	518,302	588,122	653,136	1,194,902	1,533,969	1,896,887	2,331,863	2,766,356
Defense spending	37,092	102,617	82,825	71,122	80,430	109,257	133,060	160,775	191,218
Poverty-reducing expenditure ³	176,979	208,540	234,055	262,969	460,252	729,745	933,162	1,183,904	1,408,077
Education	107,513	127,506	145,117	162,037	284,262	434,937	556,176	705,621	839,230
Health	40,665	47,267	53,596	61,108	107,202	184,528	235,965	299,369	356,055
Agriculture	21,850	23,282	26,288	29,632	51,984	83,516	106,796	135,492	161,147
Natural resources	5,051	7,779	6,928	7,453	12,288	19,742	25,245	32,029	38,093
Roads	1,899	2,706	2,126	2,738	4,515	7,023	8,981	11,394	13,552
Interest payments	24,001	38,513	54,544	68,888	179,926	247,453	258,407	295,732	344,683
Domestic interest and charges	16,563	26,602	41,557	56,774	140,125	192,014	195,229	216,467	253,090
External interest payments ⁴	7,438	11,911	12,987	12,114	39,801	55,439	63,178	79,266	91,593
Other recurrent expenditure	125,525	168,632	216,699	250,157	474,295	447,513	572,257	691,451	822,378
Capital expenditure	235,410	263,488	355,759	467,767	610,151	893,731	1,278,578	1,571,130	1,871,811
Central treasury	186,923	216,570	284,022	382,496	460,184	718,691	1,081,870	1,362,924	1,630,074
External project grants	23,558	26,693	29,701	33,032	85,035	97,490	102,879	108,745	130,362
External project loans	24,929	20,224	42,036	52,239	64,932	77,550	93,829	99,461	111,375
Overall balance									
Including grants	-120,119	-256,054	-226,733	-233,725	-263,523	-385,416	-457,346	-508,979	-536,171
Excluding grants	-154,424	-282,747	-258,860	-266,757	-480,490	-495,953	-575,366	-634,154	-684,195
Financing	142,064	265,726	243,219	240,422	263,523	385,416	457,346	508,979	536,171
Net external financing	29,818	3,295	28,976	24,579	202,656	-40,965	75,217	76,143	-124,843
Gross borrowing ⁵	26,804	20,224	51,843	52,239	308,126	77,550	196,611	184,938	111,375
IMF budget support					66,194	0	0	0	0
Project loans	24,929	20,224	42,036	52,239	64,932	77,550	93,829	99,461	111,375
Budget support	1,875	0	9,807	0	177,000	0	102,782	85,477	0
Amortization, due	-4,995	-16,929	-22,867	-27,659	-215,083	-123,973	-142,514	-204,859	-236,219
Net domestic financing ⁶	89,426	262,431	214,243	226,077	126,354	271,335	382,129	432,836	661,014
Banking system	34,862	206,614	141,729	137,785	29,260	144,384	191,065	216,418	330,507
Nonbank sources	54,564	55,817	72,514	88,292	97,094	126,951	191,065	216,418	330,507
o/w gross advances from NBE	51,625	61,201	189,543	121,363	0	0	0	0	0
o/w T-bills and T-bonds	88,378	201,230	24,700	104,714	126,354	271,335	382,129	432,836	661,014
o/w Other (incl. net deposit withdrawal)	-50,577	0	0	0	0	0	0	0	0
Privatization proceeds	22,820	0	0	0	0	89,559	0	0	0
Other below-the-line operations ⁷	-21,945	-9,673	-16,486	-6,697	-65,487	65,487	0	0	0
Residual gap					109,614	5,458	21,120	96,064	0
CBE recapitalization									
Total debt outstanding				900,000	900,000	900,000	900,000	771,429	642,858
Debt service				0	76,050	84,500	88,725	213,071	201,071
Amortization				0	0	0	0	128,571	128,571
Interest (included in the budgetary central government)				0	76,050	84,500	88,725	84,500	72,500
Total net financing (budgetary plus CBE recap. amortization)				240,422	263,523	385,416	457,346	637,550	664,742

Sources: Ethiopian authorities and IMF staff estimates and projections.

¹ Government financial statistics are reported by the authorities based on GFSM 1986.

² Excluding special programs (demobilization and reconstruction).

³ Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

⁴ External interest and amortization are presented after HIPC debt relief from the World Bank and the African Development Bank.

⁵ Includes prospective donor financing to close the financing gap.

⁶ Net domestic financing is derived as a residual financing source in projection years.

⁷ Negative amounts signify overfinancing. Net FY2024/25 overfinancing reflects expected timeline of DPO2 disbursement.

Table 2b. The Federal Democratic Republic of Ethiopia: General Government Financial Operations, 2020/21-2028/29¹
(Percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual			Prel.	Proj.		Projections		
Total revenue and grants	11.0	8.5	8.2	7.5	9.9	10.3	11.3	11.7	11.9
Revenue	10.2	8.1	7.9	7.3	8.5	9.8	10.8	11.2	11.4
Tax revenue	9.0	7.1	6.8	6.2	7.4	8.6	9.6	10.1	10.3
Direct taxes	4.0	3.4	3.0	2.9	2.8	3.6	4.0	4.1	4.2
Indirect taxes	4.9	3.7	3.8	3.3	4.6	5.0	5.6	5.9	6.1
Domestic indirect taxes	2.5	1.6	1.8	1.7	2.3	2.7	3.0	3.3	3.5
Import duties and taxes	2.5	2.1	1.9	1.5	2.3	2.4	2.6	2.6	2.6
Nontax revenue	1.3	1.0	1.0	1.1	1.2	1.2	1.2	1.2	1.2
Grants	0.8	0.4	0.4	0.3	1.4	0.6	0.5	0.4	0.4
Program grants	0.2	0.0	0.0	0.0	0.9	0.1	0.1	0.1	0.1
Project grants	0.5	0.4	0.3	0.3	0.5	0.5	0.4	0.4	0.4
Total expenditure and net lending (cash basis)	13.8	12.7	10.8	9.5	11.6	12.3	13.2	13.4	13.4
Recurrent expenditure ²	8.4	8.4	6.7	5.6	7.7	7.8	7.9	8.0	8.0
Defense spending	0.9	1.7	0.9	0.6	0.5	0.6	0.6	0.6	0.6
Poverty-reducing expenditure ³	4.1	3.4	2.7	2.2	3.0	3.7	3.9	4.1	4.1
Education	2.5	2.1	1.7	1.4	1.8	2.2	2.3	2.4	2.4
Health	0.9	0.8	0.6	0.5	0.7	0.9	1.0	1.0	1.0
Agriculture	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Natural resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Roads	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	0.6	0.6	0.6	0.6	1.2	1.3	1.1	1.0	1.0
Domestic interest and charges	0.4	0.4	0.5	0.5	0.9	1.0	0.8	0.7	0.7
External interest payments ⁴	0.2	0.2	0.1	0.1	0.3	0.3	0.3	0.3	0.3
Other recurrent expenditure	2.9	2.7	2.5	2.1	3.1	2.3	2.4	2.4	2.4
Capital expenditure	5.4	4.3	4.1	4.0	3.9	4.5	5.3	5.4	5.4
Central treasury	4.3	3.5	3.3	3.3	3.0	3.6	4.5	4.7	4.7
External project grants	0.5	0.4	0.3	0.3	0.5	0.5	0.4	0.4	0.4
External project loans	0.6	0.3	0.5	0.4	0.4	0.4	0.4	0.3	0.3
Overall balance									
Including grants	-2.8	-4.2	-2.6	-2.0	-1.7	-2.0	-1.9	-1.8	-1.6
Excluding grants	-3.6	-4.6	-3.0	-2.3	-3.1	-2.5	-2.4	-2.2	-2.0
Financing	3.3	4.3	2.8	2.0	1.7	2.0	1.9	1.8	1.6
Net external financing	0.7	0.1	0.3	0.2	1.3	-0.2	0.3	0.3	-0.4
Gross borrowing ⁵	0.6	0.3	0.6	0.4	2.0	0.4	0.8	0.6	0.3
IMF budget support					0.4	0.0	0.0	0.0	0.0
Project loans	0.6	0.3	0.5	0.4	0.4	0.4	0.4	0.3	0.3
Budget Support	0.0	0.0	0.1	0.0	1.1	0.0	0.4	0.3	0.0
Amortization, due	-0.1	-0.3	-0.3	-0.2	-1.4	-0.6	-0.6	-0.7	-0.7
Net domestic financing ⁶	2.1	4.3	2.5	1.9	0.8	1.4	1.6	1.5	1.9
Banking system	0.8	3.4	1.6	1.2	0.2	0.7	0.8	0.7	1.0
Nonbank sources	1.3	0.9	0.8	0.8	0.6	0.6	0.8	0.7	1.0
o/w gross advances from NBE	1.2	1.0	2.2	1.0	0.0	0.0	0.0	0.0	0.0
o/w T-bills and T-bonds	2.0	3.3	0.3	0.9	0.8	1.4	1.6	1.5	1.9
o/w Other (incl. net deposit withdrawal)	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.5	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Other below-the-line operations ⁷	-0.5	-0.2	-0.2	-0.1	-0.4	0.3	0.0	0.0	0.0
Residual gap					0.7	0.0	0.1	0.3	
CBE recapitalization									
Total debt outstanding				7.7	5.8	4.6	3.7	2.7	1.9
Debt service				0.0	0.5	0.4	0.4	0.7	0.6
Amortization				0.0	0.0	0.0	0.0	0.4	0.4
Interest (included in the budgetary central government)				0.0	0.5	0.4	0.4	0.3	0.2
Total net financing (budgetary plus CBE recap. amortization)				2.0	1.7	2.0	1.9	2.2	1.9
Memorandum items:									
Primary fiscal balance, including grants	-2.2	-3.5	-2.0	-1.4	-0.5	-0.7	-0.8	-0.7	-0.6

Sources: Ethiopian authorities and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.

¹ Government financial statistics are reported by the authorities based on GFSM 1986.

² Excluding special programs (demobilization and reconstruction).

³ Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

⁴ External interest and amortization are presented after HIPC debt relief from the World Bank and the African Development Bank.

⁵ Includes prospective donor financing to close the financing gap.

⁶ Net domestic financing is derived as a residual financing source in projection years.

⁷ Negative amounts signify overfinancing. Net FY2024/25 overfinancing reflects expected timeline of DPO2 disbursement.

Table 3a. The Federal Democratic Republic of Ethiopia: Monetary Survey and Central Bank Accounts, 2020/21–2028/29
(Millions of Birr)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual			Prel.	Proj.	Projections			
I. Depository Corporation Survey									
Monetary survey									
Net foreign assets	-812	-111,428	-160,098	-245,300	-258,654	4,961	227,291	644,765	854,937
Central bank	-43,907	-134,219	-191,423	-288,909	-575,987	-369,537	-169,603	225,885	414,171
Commercial banks	43,095	22,791	31,325	43,609	317,334	374,497	396,894	418,880	440,766
Net domestic assets	1,349,078	1,826,738	2,330,946	2,723,192	3,383,933	4,036,949	5,002,454	5,699,242	6,785,452
Domestic credit ¹	1,481,844	1,930,622	2,444,436	2,797,752	3,179,390	3,981,364	5,116,400	6,141,723	7,393,860
Claims on government (net) ²	214,269	422,864	573,676	745,541	1,620,117	1,764,501	1,955,566	2,171,984	2,502,491
Claims on nongovernment	1,267,575	1,507,758	1,870,760	2,052,211	1,559,273	2,216,863	3,160,834	3,969,739	4,891,369
Public enterprises	603,517	692,126	779,194	781,894	85,653	256,948	416,953	622,205	807,378
Private sector	664,059	815,631	1,091,566	1,270,317	1,473,620	1,959,915	2,743,881	3,347,534	4,083,992
Broad money	1,348,266	1,715,310	2,170,848	2,477,892	3,125,280	4,041,910	5,229,745	6,344,007	7,640,389
Money	437,392	588,016	706,142	822,499	1,005,485	1,283,162	1,633,254	1,971,846	2,362,972
Currency outside banks	133,621	173,383	211,637	205,441	220,353	261,375	301,183	352,483	408,319
Demand deposits	303,771	414,633	494,505	617,057	785,131	1,021,787	1,332,071	1,619,364	1,954,654
Quasi money	910,874	1,127,294	1,464,706	1,655,393	2,119,795	2,758,747	3,596,491	4,372,161	5,277,417
Savings deposits	816,380	1,016,049	1,315,260	1,461,904	1,872,758	2,437,248	3,177,362	3,862,637	4,662,396
Time deposits	94,494	111,245	149,446	193,489	247,037	321,500	419,129	509,524	615,021
Central bank									
Net foreign assets	-43,907	-134,219	-191,423	-288,909	-575,987	-369,537	-169,603	225,885	414,171
Foreign assets	125,860	79,820	56,154	82,159	417,140	726,171	1,029,206	1,527,956	1,744,414
Foreign liabilities	169,767	214,038	247,577	371,069	993,127	1,095,708	1,198,810	1,302,071	1,330,243
Net domestic assets	308,209	496,717	669,895	762,133	1,173,566	1,110,288	1,093,101	883,056	910,358
Domestic credit	301,662	371,039	566,123	673,576	595,527	456,982	421,386	234,774	430,076
Government (net)	245,019	326,216	521,300	632,253	632,253	632,253	632,253	632,253	632,253
Other items (net)	6,547	125,678	103,772	88,557	578,039	653,306	671,715	648,281	480,282
Reserve money	264,302	362,499	478,472	473,223	597,579	740,751	923,497	1,108,941	1,324,529
Currency outside banks	133,621	173,383	211,637	205,441	220,353	261,375	301,183	352,483	408,319
Commercial bank reserves	130,681	189,116	266,835	267,782	377,226	479,376	622,314	756,458	916,211
Cash in vault	30,088	34,828	42,679	51,855	72,950	92,704	120,346	146,288	177,182
Reserve deposit	100,593	111,346	127,177	143,739	162,397	182,696	205,534	231,011	289,978
(Annual percentage change, unless otherwise indicated)									
Monetary survey									
Net foreign assets	-90.2	13617.2	43.7	53.2	5.4	-101.9	4482.0	183.7	32.6
Net domestic assets	29.0	35.4	27.6	16.8	24.3	19.3	23.9	13.9	19.1
Domestic credit ¹	25.9	30.3	26.6	14.5	13.6	25.2	28.5	20.0	20.4
Claims on government (net) ²	56.3	97.4	35.7	30.0	117.3	8.9	10.8	11.1	15.2
Claims on nongovernment	21.9	18.9	24.1	9.7	-24.0	42.2	42.6	25.6	23.2
Public enterprises	11.0	14.7	12.6	0.3	-89.0	200.0	62.3	49.2	29.8
Private sector	33.8	22.8	33.8	16.4	16.0	33.0	40.0	22.0	22.0
Broad money	29.9	27.2	26.6	14.1	26.1	29.3	29.4	21.3	20.4
Money	21.3	34.4	20.1	16.5	22.2	27.6	27.3	20.7	19.8
Quasi money	34.5	23.8	29.9	13.0	28.1	30.1	30.4	21.6	20.7
Memorandum items:									
Base money growth	7.2	37.2	32.0	-1.1	26.3	24.0	24.7	20.1	19.4
Nominal GDP growth	28.6	41.8	41.7	34.7	31.9	27.5	21.8	20.8	18.9
Excess reserve deposit (billions of birr)	31,976	22,206	66,804	33,241	100,931	122,034	156,969	190,764	232,784
Percent of deposits	2.6	2.1	3.4	1.5	3.5	3.2	3.2	3.2	3.2
Money multiplier (broad money/reserve money)	5.10	4.73	4.54	5.24	5.23	5.46	5.66	5.72	5.77
Velocity (GDP/broad money)	3.05	3.59	4.02	4.74	4.96	4.89	4.60	4.58	4.53
Currency-deposit ratio	0.110	0.112	0.108	0.090	0.076	0.069	0.061	0.059	0.056
Birr per U.S. dollar (end of period)	43.7	52.0	54.6	57.3	...	...	...	...	...
Nominal GDP (millions of birr)	4,108,684	6,157,015	8,723,117	11,752,138	15,501,351	19,764,918	24,070,865	29,084,512	34,591,679

Sources: NBE and IMF staff estimates and projections.

¹Domestic credit projections for 24/25 include impact of the CBE recapitalization.²Claims on the general government by the banking system less deposits of the general government with the banking system.

Table 3b. The Federal Democratic Republic of Ethiopia: Monetary Survey and Central Bank Accounts, 2020/21–2028/29
(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual			Prel.	Proj.	Projections			
	Percent of GDP								
Monetary survey									
Net foreign assets	0.0	-1.8	-1.8	-2.1	-1.7	0.0	0.9	2.2	2.5
Central bank	-1.1	-2.2	-2.2	-2.5	-3.7	-1.9	-0.7	0.8	1.2
Commercial banks	1.0	0.4	0.4	0.4	2.0	1.9	1.6	1.4	1.3
Net domestic assets	32.8	29.7	26.7	23.2	21.8	20.4	20.8	19.6	19.6
Domestic credit ¹	36.1	31.4	28.0	23.8	20.5	20.1	21.3	21.1	21.4
Claims on government (net) ²	5.2	6.9	6.6	6.3	10.5	8.9	8.1	7.5	7.2
Claims on nongovernment	30.9	24.5	21.4	17.5	10.1	11.2	13.1	13.6	14.1
Public enterprises	14.7	11.2	8.9	6.7	0.6	1.3	1.7	2.1	2.3
Private sector	16.2	13.2	12.5	10.8	9.5	9.9	11.4	11.5	11.8
Broad money	32.8	27.9	24.9	21.1	20.2	20.4	21.7	21.8	22.1
Money	10.6	9.6	8.1	7.0	6.5	6.5	6.8	6.8	6.8
Currency outside banks	3.3	2.8	2.4	1.7	1.4	1.3	1.3	1.2	1.2
Demand deposits	7.4	6.7	5.7	5.3	5.1	5.2	5.5	5.6	5.7
Quasi money	22.2	18.3	16.8	14.1	13.7	14.0	14.9	15.0	15.3
Savings deposits	19.9	16.5	15.1	12.4	12.1	12.3	13.2	13.3	13.5
Time deposits	2.3	1.8	1.7	1.6	1.6	1.6	1.7	1.8	1.8
Central bank									
Net foreign assets	-1.1	-2.2	-2.2	-2.5	-3.7	-1.9	-0.7	0.8	1.2
Foreign assets	3.1	1.3	0.6	0.7	2.7	3.7	4.3	5.3	5.0
Foreign liabilities	4.1	3.5	2.8	3.2	6.4	5.5	5.0	4.5	3.8
Net domestic assets	7.5	8.1	7.7	6.5	7.6	5.6	4.5	3.0	2.6
Domestic credit	7.3	6.0	6.5	5.7	3.8	2.3	1.8	0.8	1.2
Government (net)	6.0	5.3	6.0	5.4	4.1	3.2	2.6	2.2	1.8
Other items (net)	0.2	2.0	1.2	0.8	3.7	3.3	2.8	2.2	1.4
Reserve money	6.4	5.9	5.5	4.0	3.9	3.7	3.8	3.8	3.8
Currency outside banks	3.3	2.8	2.4	1.7	1.4	1.3	1.3	1.2	1.2
Commercial bank reserves	3.2	3.1	3.1	2.3	2.4	2.4	2.6	2.6	2.6
Cash in vault	0.7	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Reserve deposit	2.4	1.8	1.5	1.2	1.0	0.9	0.9	0.8	0.8
Nominal GDP (millions of birr)	4,108,684	6,157,015	8,723,117	11,752,138	15,501,351	19,764,918	24,070,865	29,084,512	34,591,679

Sources: NBE and IMF staff estimates and projections.

¹Domestic credit projections for 24/25 include impact of the CBE recapitalization.

²Claims on the general government by the banking system less deposits of the general government with the banking system.

Table 4a. The Federal Democratic Republic of Ethiopia: Summary Balance of Payments, 2020/21–2028/29

(In millions of U.S. dollars, unless otherwise indicated)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual			Prel.	Proj.	Projections			
(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance ¹	-3,169	-5,134	-4,671	-6,014	-5,775	-4,332	-4,154	-4,012	-4,165
Excl. official transfers ¹	-4,538	-6,270	-5,764	-7,153	-7,175	-5,898	-5,808	-5,714	-5,918
Trade balance	-10,671	-13,991	-13,512	-14,642	-14,448	-14,506	-15,292	-16,467	-17,366
Exports of goods	3,617	4,101	3,618	3,799	4,587	5,206	6,229	7,445	8,394
Imports of goods	-14,288	-18,092	-17,130	-18,441	-19,035	-19,712	-21,521	-23,913	-25,760
Services (net)	587	1,213	1,399	1,610	1,402	1,708	1,935	2,165	2,501
Exports	4,895	6,350	7,174	7,866	7,970	8,933	10,244	11,721	12,630
Imports	-4,308	-5,137	-5,775	-6,256	-6,568	-7,225	-8,309	-9,555	-10,129
Income (net) ¹	-572	-574	-449	-332	-850	-878	-948	-1,021	-966
Private transfers (net)	6,118	7,082	6,798	6,211	6,721	7,777	8,497	9,609	9,912
Official transfers (net) ¹	1,369	1,136	1,093	1,139	1,400	1,566	1,654	1,702	1,754
Capital account balance ¹	3,467	1,975	2,977	5,819	4,866	4,641	4,506	4,829	5,490
Foreign direct investment (net, incl. privatization)	3,970	3,308	3,428	3,906	4,494	4,648	4,734	5,574	6,291
Other investment (net) ¹	-504	-1,333	-451	1,913	372	-7	-228	-745	-801
Federal government	706	274	1,943	595	432	730	561	117	208
Disbursements ¹	973	616	2,372	1,090	2,055	1,630	1,532	1,435	1,901
Amortization ¹	-267	-343	-429	-494	-1,623	-900	-971	-1,318	-1,692
Other public sector ^{1,2}	-1,070	-1,668	-860	1,782	-60	-736	-790	-862	-1,009
Disbursements	420	291	541	2,536	914	300	319	545	212
Amortization ¹	-1,490	-1,959	-1,401	-754	-974	-1,037	-1,109	-1,407	-1,222
Private sector borrowing (net)	153	0	0	73	0	0	0	0	0
Other (net)	-293	62	-1,534	-536	0	0	0	0	0
Errors and omissions	-339	520	885	531	0	0	0	0	0
Overall balance	-41	-2,639	-809	336	-909	309	351	817	1,326
Financing	41	2,639	809	-336	909	-309	-351	-817	-1,326
Central bank (net; increase –)	238	1,371	469	-624	-27	-1,705	-1,542	-2,681	-1,326
Reserves (increase –)	244	1,371	469	-412	-1,688	-2,165	-2,003	-3,124	-1,289
Liabilities (increase +)	-6	0	0	-212	1,661	460	461	444	-37
IMF credit (net)	-6	0	0	-212	1,661	460	461	444	-37
of which: IMF Rapid Financing Instrument (RFI)	...	...	...	...	...	...	...	...	...
SDR allocation	0	397	0	0	0	0	0	0	0
Prospective donor financing	0	0	0	0	1,500	1,000	700	550	0
of which: grants	0	0	0	0	1,000	0	0	0	0
Exceptional Financing	488	720	475	288	1,050	646	491	1,313	0
Debt service restructuring ³	250	663	475	288	1,050	646	491	1,313	0
Reprofiling of external sovereign deposits at NBE, 2020			475	288	0	0	0	0	0
Other restructuring (incl. pros. G20 CF)	0	0	0	0	1,050	646	491	1,313	0
G20 Debt Service Suspension Initiative ³	231	57	0	0	0	0	0	0	0
IMF CCR Trust debt relief ⁴	7	1	0	0	0	0	0	0	0
(Annual percentage change, unless otherwise indicated)									
Memorandum items:									
Exports of goods	21.1	13.4	-11.8	5.0	20.8	13.5	19.6	19.5	12.7
Imports of goods	2.9	26.6	-5.3	7.7	3.2	3.6	9.2	11.1	7.7
Services exports	4.4	29.7	13.0	9.6	1.3	12.1	14.7	14.4	7.8
Services imports	0.4	19.2	12.4	8.3	5.0	10.0	15.0	15.0	6.0
Private transfers	18.0	15.7	-4.0	-8.6	8.2	15.7			
Exports of goods and services (percent of GDP)	7.6	8.2	6.6	5.6	9.6	9.9	10.0	10.2	10.0
Imports of goods and services (percent of GDP)	-16.7	-18.3	-14.0	-11.8	-19.5	-18.8	-18.2	-17.9	-17.0
Trade balance (percent of GDP)	-9.6	-11.0	-8.3	-7.0	-11.0	-10.1	-9.3	-8.8	-8.2
Private transfers (net, percent of GDP)	5.5	5.6	4.2	3.0	5.1	5.4	5.2	5.1	4.7
Gross official reserves (millions U.S. dollars)	2,866	1,495	1,026	1,438	3,126	5,291	7,295	10,419	11,707
(Months of following year's imports of goods and services)	1.5	0.8	0.5	0.7	1.4	2.1	2.6	3.5	3.5

Sources: Ethiopian authorities and IMF staff estimates and projections.

¹ Excludes prospective donor financing and/or exceptional financing.

² Includes net borrowing by state-owned enterprises and the central bank's long-term non-IMF liabilities.

³ Staff estimates.

⁴ Currently available on debt service to the Fund falling due until January 10, 2022. Subsequent relief is contingent on availability of financing for the Trust.

**Table 4b. The Federal Democratic Republic of Ethiopia: Summary Balance of Payments,
2020/21–2028/29**
(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
		Actual		Prel.	Proj.	Projections			
(Percent of GDP, unless otherwise indicated)									
Current account balance ¹	-2.8	-4.0	-2.9	-2.9	-4.4	-3.0	-2.5	-2.1	-2.0
Excl. official transfers ¹	-4.1	-4.9	-3.5	-3.4	-5.5	-4.1	-3.5	-3.1	-2.8
Trade balance	-9.6	-11.0	-8.3	-7.0	-11.0	-10.1	-9.3	-8.8	-8.2
Exports of goods	3.3	3.2	2.2	1.8	3.5	3.6	3.8	4.0	4.0
Imports of goods	-12.8	-14.3	-10.5	-8.8	-14.5	-13.7	-13.1	-12.8	-12.2
Services (net)	0.5	1.0	0.9	0.8	1.1	1.2	1.2	1.2	1.2
Exports	4.4	5.0	4.4	3.7	6.1	6.2	6.2	6.3	6.0
Imports	-3.9	-4.1	-3.5	-3.0	-5.0	-5.0	-5.1	-5.1	-4.8
Income (net) ¹	-0.5	-0.5	-0.3	-0.2	-0.6	-0.6	-0.6	-0.5	-0.5
Private transfers (net)	5.5	5.6	4.2	3.0	5.1	5.4	5.2	5.1	4.7
Official transfers (net) ¹	1.2	0.9	0.7	0.5	1.1	1.1	1.0	0.9	0.8
Capital account balance ¹	3.1	1.6	1.8	2.8	3.7	3.2	2.7	2.6	2.6
Foreign direct investment (net, incl. privatization)	3.6	2.6	2.1	1.9	3.4	3.2	2.9	3.0	3.0
Other investment (net) ^{1,2}	-0.5	-1.1	-0.3	0.9	0.3	0.0	-0.1	-0.4	-0.4
Federal government	0.6	0.2	1.2	0.3	0.3	0.5	0.3	0.1	0.1
Disbursements ¹	0.9	0.5	1.4	0.5	1.6	1.1	0.9	0.8	0.9
Amortization ¹	-0.2	-0.3	-0.3	-0.2	-1.2	-0.6	-0.6	-0.7	-0.8
Other public sector ¹	-1.0	-1.3	-0.5	0.8	0.0	-0.5	-0.5	-0.5	-0.5
Disbursements	0.3	0.2	0.3	1.9	0.6	0.2	0.2	0.3	0.1
Amortization ¹	-1.2	-1.2	-0.7	-0.6	-0.7	-0.7	-0.7	-0.8	-0.6
Private sector borrowing (net)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (net)	-0.3	0.0	-0.9	-0.3	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.3	0.4	0.5	0.3	0.0	0.0	0.0	0.0	0.0
Overall balance	0.0	-2.1	-0.5	0.2	-0.7	0.2	0.2	0.4	0.6
Financing	0.0	2.1	0.5	-0.2	0.7	-0.2	-0.2	-0.4	-0.6
Central bank (net; increase –)	0.2	1.1	0.3	-0.3	0.0	-1.2	-0.9	-1.4	-0.6
Reserves (increase –)	0.2	1.1	0.3	-0.2	-1.3	-1.5	-1.2	-1.7	-0.6
Liabilities (increase +)	0.0	0.0	0.0	-0.1	1.3	0.3	0.3	0.2	0.0
IMF credit (net)	0.0	0.0	0.0	-0.1	1.3	0.3	0.3	0.2	0.0
of which: IMF Rapid Financing Instrument (RFI)	...	...	...	...	...	...	...	...	...
SDR allocation	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prospective donor financing	0.0	0.0	0.0	0.0	1.1	0.7	0.4	0.3	0.0
of which: grants	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
Exceptional Financing	0.4	0.6	0.3	0.1	0.8	0.5	0.3	0.7	0.0
Debt service restructuring ³	0.2	0.5	0.3	0.1	0.8	0.5	0.3	0.7	0.0
Reprofiling of external sovereign deposits at NBE, 2020			0.3	0.1	0.0	0.0	0.0	0.0	0.0
Other restructuring (incl. pros. G20 CF)	0.0	0.0	0.0	0.0	0.8	0.5	0.3	0.7	0.0
G20 Debt Service Suspension Initiative (DSSI) ³	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF CCR Trust debt relief ⁴	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N.A.	N.A.
Gross official reserves	2.6	1.2	0.6	0.7	2.4	3.7	4.4	5.6	5.5

Sources: Ethiopian authorities and IMF staff estimates and projections.

¹ Excludes prospective donor financing and/or exceptional financing.

² Includes net borrowing by state-owned enterprises and the central bank's long-term non-IMF liabilities.

³ Staff estimates.

⁴ Currently available on debt service to the Fund falling due until January 10, 2022. Subsequent relief is contingent on availability of financing for the Trust.

Table 5. The Federal Democratic Republic of Ethiopia: Financial Soundness Indicators of the Banking Sector¹
(Percent, unless otherwise indicated)

	Jun-22	Jun-23	Dec-23	Mar-24	Jun-24	Sep-24
Capital adequacy						
Capital to Risk-Weighted Assets	16.3	14.7	15.7	15.7	15.4	17.9
Capital to Assets	7.5	7.8	8.4	8.4	8.2	9.3
Asset quality						
NPLs to Total Loans	3.9	3.6	4.3	4.7	3.9	5.5
NPLs Net of Provisions to Capital	-4.7	-8.6	-2.6	-8.6	-0.9	6.1
Earning and profitability						
Return on Assets	2.4	2.0	1.4	1.7	2.0	-1.3
Return on Equity ²	32.6	25.7	17.4	21.5	24.6	-14.9
Gross Interest Income to Total Income	71.6	76.1	77.4	77.0	76.5	39.7
Interest Margin to Gross Income	42.3	45.3	46.2	46.8	47.4	25.2
Non-interest Expenses to Gross Income ³	34.5	43.1	46.4	45.7	46.7	87.3
Liquidity						
Liquid Assets to Total Assets	21.0	19.3	16.5	16.4	17.8	18.7
Liquid Assets to Total Deposits	27.1	24.3	20.7	20.7	22.4	23.8

Sources: National Bank of Ethiopia

¹Data after June 2024 reflects the impact of the CBE recapitalization and the July 2024 Asset Classification and Provisioning Directive (with updates to NPL definitions and provision requirements). Reported NPLs exclude non-performing government-guaranteed SOE debts, and are not adjusted for the results of the 2021 CBE AQR.

²The average capital used to calculate the ROE excludes retained earning and profit & loss.

³Gross income comprises net interest income and total non-interest income.

Table 6. The Federal Democratic Republic of Ethiopia: External Financing Requirements and Sources, 2023/24–2027/28
(In millions of U.S. dollars, unless otherwise indicated)

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	Prel.			Projections		(FY2024/25–27/28)
External financing requirement	9,026	13,291	10,304	9,946	11,636	45,177
Current account deficit, excl. official transfers	7,153	7,175	5,898	5,808	5,714	24,596
Federal government amortization	494	1,623	900	971	1,318	4,811
Other public sector amortization ¹	754	974	1,037	1,109	1,407	4,527
Repayments to Fund	212	217	55	55	72	400
Change in gross reserves (increase +)	412	1,688	2,165	2,003	3,124	8,981
External financing sources	7,599	7,463	5,928	6,585	7,554	27,530
Foreign direct investment, excl. privatization	3,906	4,494	3,998	4,734	5,574	18,800
External loans to Federal government	1,090	2,055	1,630	1,532	1,435	6,651
Other public sector external borrowing	2,536	914	300	319	545	2,079
Other (net, incl. errors and omission)	68	0	0	0	0	0
Financing gap (need for financing +)	1,427	5,828	4,377	3,361	4,082	17,648
Expected financing	1,427	1,400	2,216	1,654	1,702	6,972
Official transfers	1,139	1,400	1,566	1,654	1,702	6,322
Privatization proceeds	0	0	650	0	0	650
Reprofiling of external sovereign deposits at NBE, 2020 ²	288	0	0	0	0	0
Residual gap	0	4,428	2,161	1,707	2,379	10,675
IMF	0	1,879	515	516	516	3,425
Disbursements	0	1,879	515	516	516	3,425
Prospective debt restructuring	0	1,050	646	491	1,313	3,500
Prospective budget support	0	1,500	1,000	700	550	3,750
Memorandum items:						
Gross official reserves (millions U.S. dollars)	1,438	3,126	5,291	7,295	10,419	
(Months of following year's imports of goods and services)	0.7	1.4	2.1	2.6	3.5	

Sources: IMF staff projections and estimates.

¹ Includes guaranteed and non-guaranteed SOE loans and long-term debt of National Bank of Ethiopia (NBE).

² Represents reprofiling that was finalized under the previous ECF/EFF program and through recent negotiation.

Table 7. The Federal Democratic Republic of Ethiopia: Access and Phasing Under the Extended Credit Facility

Date of availability	Condition for disbursement	Amount		Percent of quota ¹	
		SDR million	Percent share of total	Specific review	Cumulative
July 29, 2024	Executive Board approval of the ECF arrangement	766.75	30.0	255.0	255.0
September 10, 2024	Observance of continuous performance criteria (PCs) and PCs for August 16, 2024 and completion of the first review	255.60	10.0	85.0	340.0
December 10, 2024	Observance of continuous PCs and PCs for end-September 2024 and completion of the second review	191.70	7.5	63.8	403.7
April 15, 2025	Observance of continuous PCs and PCs for end-December 2024 and completion of the third review	191.70	7.5	63.8	467.5
October 15, 2025	Observance of continuous PCs and PCs for end-June 2025 and completion of the fourth review	191.70	7.5	63.8	531.2
April 15, 2026	Observance of continuous PCs and PCs for end-December 2025 and completion of the fifth review	191.70	7.5	63.8	595.0
October 15, 2026	Observance of continuous PCs and PCs for end-June 2026 and completion of the sixth review	191.70	7.5	63.8	658.7
April 15, 2027	Observance of continuous PCs and PCs for end-December 2026 and completion of the seventh review	191.70	7.5	63.8	722.5
October 15, 2027	Observance of continuous PCs and PCs for end-June 2027 and completion of the eighth review	191.70	7.5	63.8	786.2
April 15, 2028	Observance of continuous PCs and PCs for end-December 2027 and completion of the ninth review	191.70	7.5	63.8	850.0
Total		2555.95	100.0	850.0	

Source: IMF staff calculations.
¹ Ethiopia's quota is SDR 300.7 million.

**Table 8. The Federal Democratic Republic of Ethiopia: Indicators of Fund Credit,
2023/24–2039/40¹**
(In millions of SDR unless stated otherwise)

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40
Fund obligations based on existing credit																
Principal	165.4	41.8	41.8	55.1	28.4	136.5	204.5	204.5	204.5	204.5	102.2	0.0	0.0	0.0	0.0	0.0
Charges and interest (excl. obligations to SDR department)	8.3	3.0	2.3	1.6	0.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit ²																
(In millions of SDR)	173.7	44.7	44.1	56.7	29.3	155.9	300.3	377.0	453.7	511.2	389.8	210.9	134.2	57.5	0.0	0.0
Principal	165.4	41.8	41.8	55.1	28.4	155.7	300.3	377.0	453.7	511.2	389.8	210.9	134.2	57.5	0.0	0.0
PRGT	0.0	26.7	26.7	40.1	13.4	148.1	300.3	377.0	453.7	511.2	389.8	210.9	134.2	57.5	0.0	0.0
EFF	15.0	15.0	15.0	15.0	15.0	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RFI	150.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest (excl. obligations to SDR department)	8.3	3.0	2.3	1.6	0.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit ²																
In millions of SDRs	173.7	44.7	44.1	56.7	29.3	155.9	300.3	377.0	453.7	511.2	389.8	210.9	134.2	57.5	0.0	0.0
In millions of U.S. dollars	231.1	59.6	58.9	76.0	39.3	208.9	402.4	505.1	607.9	684.9	522.2	282.5	179.8	77.1	0.0	0.0
In percent of general government revenue	2.1	0.4	0.3	0.4	0.2	0.8	1.3	1.4	1.5	1.5	1.0	0.5	0.3	0.1	0.0	0.0
In percent of exports of goods and services	1.8	0.4	0.4	0.4	0.2	0.9	1.5	1.8	1.9	1.9	1.3	0.6	0.4	0.1	0.0	0.0
In percent of total external debt service	6.3	2.1	1.9	2.0	1.0	5.8	14.5	17.3	20.2	23.9	18.0	10.6	7.4	3.2	0.0	0.0
In percent of gross international reserves	7.4	1.1	0.8	0.7	0.3	1.9	3.4	3.8	4.2	4.3	3.0	1.5	0.9	0.3	0.0	0.0
In percent of GDP	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	57.8	14.9	14.6	18.9	9.8	51.9	99.9	125.4	150.9	170.0	129.6	70.1	44.6	19.1	0.0	0.0
Outstanding Fund credit (end of period)																
In millions of SDRs	1,607.0	1,948.7	2,290.3	2,618.6	2,590.2	2,434.5	2,134.2	1,757.2	1,303.5	792.4	402.6	191.7	57.5	0.0	0.0	0.0
In millions of U.S. dollars	2,137.6	2,598.2	3,061.1	3,508.5	3,470.4	3,261.9	2,859.5	2,354.4	1,746.5	1,061.6	539.4	256.8	77.1	0.0	0.0	0.0
In percent of general government revenue	21.6	19.2	17.8	17.1	14.7	12.2	9.4	6.8	4.4	2.4	1.1	0.4	0.1	0.0	0.0	0.0
In percent of exports of goods and services	17.0	18.4	18.6	18.3	16.5	14.0	10.9	8.2	5.4	2.9	1.3	0.6	0.2	0.0	0.0	0.0
In percent of total external debt	5.8	6.7	7.6	8.4	8.5	8.1	7.1	5.8	4.3	2.6	1.3	0.6	0.2	0.0	0.0	0.0
In percent of gross international reserves	68.4	49.1	42.0	33.7	29.6	30.1	24.1	17.9	12.1	6.7	3.1	1.3	0.4	0.0	0.0	0.0
In percent of GDP	1.6	1.8	1.9	1.9	1.6	1.4	1.1	0.8	0.5	0.3	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	534.4	648.0	761.7	870.8	861.4	809.6	709.8	584.4	433.5	263.5	133.9	63.8	19.1	0.0	0.0	0.0
PRGT	511.9	630.5	749.2	863.3	858.9	809.6	709.8	584.4	433.5	263.5	133.9	63.8	19.1	0.0	0.0	0.0
EFF	22.5	17.5	12.5	7.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RFI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund credit (millions of SDR)	1,240.4	341.6	341.6	328.3	-28.4	-155.7	-300.3	-377.0	-453.7	-511.2	-389.8	-210.9	-134.2	-57.5	0.0	0.0
Disbursements	1,405.8	383.4	383.4	383.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	165.4	41.8	41.8	55.1	28.4	155.7	300.3	377.0	453.7	511.2	389.8	210.9	134.2	57.5	0.0	0.0
Debt relief under the CCRT ³	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:																
General government revenue (billions of birr)	1,324.6	1,931.7	2,600.1	3,268.8	3,954.0	4,656.0	5,511.9	6,495.9	7,714.8	9,087.2	10,709.5	12,606.6	14,879.4	16,938.2	19,192.1	21,675.7
Exports of goods and services (billions of U.S. dollars)	12.6	14.1	16.5	19.2	21.0	23.4	26.2	28.8	32.4	36.2	40.5	45.3	50.7	55.7	61.0	66.6
Total debt service (millions of U.S. dollars)																
Gross international reserves (billions of U.S. dollars)	3.1	5.3	7.3	10.4	11.7	10.8	11.9	13.1	14.5	15.9	17.5	19.2	21.0	22.7	24.6	26.7
In months of prospective imports	1.4	2.1	2.6	3.5	3.5	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	0.0
Nominal GDP (billions of U.S. dollars)	131.4	143.4	163.9	187.1	211.2	236.9	268.9	303.7	344.4	389.9	441.6	499.2	564.7	617.3	672.7	731.6
SDR per U.S. dollar (period average)	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDR)	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7

Source: IMF staff estimates and projections.

¹ Year ending in June.² Including the proposed disbursements under the ECF.³ Currently available on debt service to the Fund falling due until October 15, 2021. Subsequent relief is contingent on availability of financing for the Trust.

Table 9. The Federal Democratic Republic of Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024–September 2025

(All figures in millions of Ethiopian Birr, unless otherwise specified)

	end-Jun 2024 Prel. Initial level	Aug. 16, 2024 ¹ Performance Criteria			end-Sep 2024 Performance Criteria				end-Dec 2024 Performance Criteria	end-Mar 2025 Indicative Target	end-Jun 2025 Performance Criteria	end-Sep 2025 Indicative target	end-Dec 2025 Performance Criteria
		Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prog.	Prog.	Prog.	Proposed
Quantitative performance criteria													
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) ^{2/3/}	150,000	N/A	N/A	N/A	42,000		-5,972	Met	69,000	95,000	106,000	76,000	105,000
Net international reserves (floor, cumulative change since previous June, US\$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	534	1,242	Met	500	400	400	400	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	384,000	N/A	N/A	N/A	86,000	N/A	153,542	Met	192,000	347,000	578,000	120,000	276,000
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10895	Met	0	N/A	-6,727	Met	0	0	0	0	0
Continuous performance criteria													
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US\$ millions) ^{4/}		0	0	Met	0	N/A	0	Met	0	0	0	0	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US\$ millions)		0	0	Met	0	N/A	0	Met	0	0	0	0	0
Indicative targets													
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) ^{3/5/}	747,485	N/A	N/A	N/A	37,000	N/A	-641,825	Met	74,000	110,000	147,000	50,000	95,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) ^{6/}	9,000	N/A	N/A	N/A	6,500	N/A	2,370	Not Met	22,100	33,200	51,400	12,000	22,500
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US\$ millions)		N/A	N/A	N/A	2,000	N/A	248	Met	2,500	2,750	3,000	N/A	1200
Memorandum items:													
Official external grants disbursed to the government (US\$ millions, cumulative since previous June)	791				1211		1,225		1419	1629	1839	201	401
Official external loans disbursed to the government (US\$ millions, cumulative since previous June)	627				638		657		775	913	1,050	1,141	1281
Gross privatization proceeds (US\$ millions, cumulative since previous June)	0				0		0		0	0	0	163	325

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/Not all quantitative performance criteria and indicative targets were assessed at the First Review given data availability.

2/ Excluding on-lending from the general government.

3/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

4/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysba dam project, which is capped at USD 950 million over the duration of the program.

5/ For the IT on gross claims on public enterprises by commercial banks, the Dec. 2024-December2025 test dates exclude changes in claims related to CBE recapitalization.

6/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

Table 10. The Federal Democratic Republic of Ethiopia: Structural Benchmarks

Measure	Rationale	Board Approved Target Date	Status
1. NBE to implement an emergency liquidity assistance framework for financial stability purposes provided at the discretion of NBE to viable (solvent) banks with adequate collateral and a funding plan to recover the liquidity situation of the bank.	Strengthen financial crisis and stability framework and support monetary policy implementation	End-September 2024	Not met; implemented with delay
2. NBE to submit to Parliament comprehensive draft legal amendments to the NBE Proclamation, to be prepared in consultation with IMF staff, with respect to the NBE's mandate, decision-making structure (internal check and balances and collegial implementation of decisions), accountability, transparency, and autonomy.	Update and modernize governance of the NBE	End-December 2024	
3. The NBE to finalize and publish audited financial statements for 2021/22–2022/23.	Update and modernize governance of the NBE	End-March 2025	Target date modified from January 2025
4. Ministry of Finance to start publication of a mid-year review on the implementation of the budget as of the middle of the fiscal year and a quarterly budget execution report for prior quarter, both for Federal Government.	Strengthen fiscal transparency	End-April 2025	
5. National Bank of Ethiopia to repeal directive (MFAD/TRBO/001/2022) obliging financial institutions to buy Treasury Bonds effective immediately.	Reduce financial repression and promote bond market development	End-June 2025	
6. Ministry of Finance to issue instruction to Ethiopian Petroleum Supply Enterprise to start remitting all federal fuel taxes to the Ministry of Revenue by December 2025.	Strengthen fiscal transparency and secure budget revenue	End-June 2025	
7. Council of Ministers to submit draft FY2025/26 budget for the Federal Government in line with IMF program's macro-framework.	Ensure fiscal targets consistent with program objectives	End-June 2025	
8. To strengthen transparency, internal controls, and public investment management, Ministry of Finance will allocate funding for the Road Fund through the Federal Government budget.	Strengthen PFM internal controls and public investment management	End-June 2025	New

Table 11. The Federal Democratic Republic of Ethiopia: Public and Publicly Guaranteed Debt Profile

	Debt stock 1/ (as of end-June 2024)			Debt Service 2/					
	In US\$ million	In percent of total	In percent of GDP	2024/25 2025/26 2026/27			2024/25 2025/26 2026/27		
				In US\$ million			In percent of GDP		
Total	70,486	100.0	34.4	5,497	5,855	6,117	4.2	4.1	3.7
o/w Federal government	55,019	78.1	26.8	4,396	4,266	4,323	3.3	3.0	2.6
External	30,842	43.8	15.0	2,969	2,248	2,399	2.3	1.6	1.5
International financial institutions	15,554	22.1	7.6	708	567	607	0.5	0.4	0.4
IMF	482	0.7	0.2	229	59	58	0.2	0.0	0.0
World Bank	12,090	17.2	5.9	379	401	437	0.3	0.3	0.3
AfDB/AfDF	2,208	3.1	1.1	56	60	65	0.0	0.0	0.0
Others	774	1.1	0.4	45	46	47	0.0	0.0	0.0
o/w IFAD	430	0.6	0.2	13	15	16	0.0	0.0	0.0
Bilateral official creditors 3/ 4/	12,236	17.4	6.0	761	1,335	1,310	0.6	0.9	0.8
Paris Club	1,925	2.7	0.9	177	191	190	0.1	0.1	0.1
o/w Italy	531	0.8	0.3	73	75	69	0.1	0.1	0.0
o/w Korea	366	0.5	0.2	0	0	1	0.0	0.0	0.0
Non-Paris Club	10,311	14.6	5.0	584	682	1,065	0.4	0.5	0.6
o/w China	5,175	7.3	2.5	335	632	603	0.3	0.4	0.4
o/w UAE	3,009	4.3	1.5	48	95	93	0.0	0.1	0.1
Bonds	1,066	1.5	0.5	1,099	0	0	0.8	0.0	0.0
Commercial creditors 4/ 5/	1,986	2.8	1.0	401	346	482	0.3	0.2	0.3
Domestic	39,644	56.2	19.3	2,527	3,606	3,719	1.9	2.5	2.3
Held by residents, total	39,644	56.2	19.3	2,527	3,606	3,719	1.9	2.5	2.3
T-bills 6/	7,811	11.1	3.8	...	...	...	...	...	...
Commercial banks	2,883	4.1	1.4	...	...	...	...	...	...
Non-bank financial institutions	4,929	7.0	2.4	...	...	...	...	...	...
Bonds 7/	12,866	18.3	6.3	...	...	...	...	...	...
Central bank	7,563	10.7	3.7	...	...	...	...	...	...
Loans	8,815	12.5	4.3	...	...	...	...	...	...
Central bank direct advance	4,221	6.0	2.1	...	...	...	...	...	...
Commercial banks	4,594	6.5	2.2	...	...	...	...	...	...
Transferred to LAMC	10,152	14.4	5.0	...	...	...	...	...	...
Held by nonresidents, total	0	0.0	0.0	...	...	...	...	...	...
Memo Items:									
Collateralized debt 8/	0	...	...	...	...	...	...	...	...
Contingent liabilities 9/	0	...	...	...	...	...	...	...	...
Nominal GDP (US dollar, end of period)	205,004	...	...	...	...	...	...	...	...

Sources: Ethiopian authorities; and IMF staff estimates and projections.

1/ Consistent with the DSA coverage and may differ from official debt statistics on external debt.

2/ Includes roll-over of T-bills.

3/ Includes loans backed by export credit agencies.

4/ Includes pre-HIPC arrears waiting to receive HIPC comparable treatment.

5/ Loans from commercial banks and credit suppliers non-backed by ECAs and loans backed by China export credit agency.

6/ Marketable T-bills issued under auctions since December 2019.

7/ Includes previously issued short-term debt (direct advance and T-bills) that were converted into bonds.

8/ No collateralized debt is reported.

9/ No significant contingent liabilities have been identified, with the debt perimeter comprehensive encompassing non-guaranteed SOEs debt.

Annex I. Risk Assessment Matrix¹

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Further intensification of conflict in Amhara and Oromia regions or escalation of tension between Amhara and Tigray.	M	M. Economic disruption, increased humanitarian needs, and increase in prices of staples as Amhara and Oromia encompass the country's main crop producing areas.	Ensure clear communication, facilitate humanitarian aid, and accelerate peace talks. Ethiopian National Dialogue Commission already established.
Adverse weather events, including worsening of drought or flooding in different parts of the country.	M/L	M. Further increase in food insecurity.	Scaling up humanitarian assistance to affected areas in coordination with international relief agencies.
Fallout from dispute with Somalia over status of Somaliland and Ethiopia's quest for sea access.	L	M. Regional instability, resurgence of Al-Shabab terrorism.	Resolving differences through peaceful negotiation.
Domestic resistance delays implementation of planned economic reforms.	L	M. Economic distortions continue, difficulties accessing imported goods intensify, growth and investment weaken.	Forceful communication of reform benefits complemented by protection of vulnerable groups.
External Risks			
Intensifying spillovers from regional conflicts. Escalation or spread of regional conflict(s) or terrorism disrupt trade, remittances, tourism, FDI and financial flows, payment systems, and increase refugee flows.	H	M. Lower demand for Ethiopia's main exports, trade flow disruptions, and weaker debt sustainability. Financing from a major bilateral partner adversely affected.	Accelerate reforms enhancing export competitiveness. Adopt a market-clearing exchange rate policy. Accelerate the WTO accession process and implementation of trade agreements such as AfCFTA.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
External Risks¹			
Commodity price volatility. Supply and demand fluctuations cause recurrent commodity price volatility, external and fiscal pressures and food insecurity, cross-border spillovers, and social and economic instability.	H	M/H. Higher import prices for import commodity, including food, fuel, and fertilizers. Wider trade and fiscal deficits. Negative impact on agriculture due to lower fertilizer imports.	Tighten monetary policy if second-round inflation effects are significant. Increase social spending.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary systems, and lower growth.	H	L/M. Lower demand for exports, weaker trade deficit and debt sustainability. Reduction in remittances from diaspora, FDI, creditor cooperation, and financial support from international community.	Accelerate reforms enhancing export competitiveness. Adopt and maintain a more flexible exchange rate policy.
¹ Based on the July 26, 2024, update of the Global Risk Assessment Matrix.			

Appendix I. Letter of Intent

Addis Ababa, December 18, 2024

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madame Managing Director:

Our economic reform program supported by the four-year Extended Credit Facility (ECF) approved by the IMF Board on July 29, 2024, has continued to advance well. The interest-rate based monetary policy framework and market-determined exchange rate introduced at the start of the program are developing rapidly. Since completion of the first review on October 18, 2024, we have launched an interbank market in both domestic and foreign currency, with an encouraging build-up in transactions and volumes, and we have taken further liberalizing measures in the foreign exchange market. Foreign exchange shortages have eased substantially, and spreads between the official and parallel markets have again fallen to low levels. Businesses and consumers are finding it ever easier to source the goods they need, helping the economy expand.

Following the success of the recent reforms, we are pushing ahead with our IMF-supported program to address macroeconomic imbalances and promote private sector-led growth. The objectives of our economic program are to (i) address foreign exchange shortages and long-term balance of payments vulnerabilities; (ii) reduce inflation through prudent monetary policies and sound public finances; (iii) address debt vulnerabilities and strengthen domestic revenue to enable government investment and other priority spending; (iv) strengthen the financial sector, address vulnerabilities in SOEs, and lift financial repression progressively; and (v) promote a robust, inclusive, and sustainable economy.

This economic program supports our recently released HGER2.0 (Homegrown Economic Reform Agenda 2.0), which updates the original HGER and aims to deliver a vibrant private sector that can accelerate growth and create decent jobs. HGER 2.0 rests on four key pillars: (i) ensuring macro-economic stability; (ii) creating a conducive investment and trade climate; (iii) increasing productivity across key sectors; and (iv) building a capable and efficient civil service.

The next steps in our economic program include: (i) executing our fiscal plans for FY2024/25, including pro-poor spending, in line with the program, per the supplementary budget that was approved by parliament in late November; (ii) implementing the National Medium Term Revenue Strategy that was published late-September; (iii) supporting the development of the FX market, including through enforcement of the new foreign exchange market directive, prudential regulation on banks' net open position, and the gradual phase-out of surrender requirements; (iv) moving ahead with the transition from quantitative controls on credit to interest rate-based monetary policy,

including making the monetary policy rate positive in real terms (based a measure of projected inflation that is developed in consultation with the IMF staff) in the first quarter of 2025; and (v) supporting development of the T-bill market to ensure efficient provision of credit to government.

We request the Fund's continued financial support for our economic program through a disbursement of SDR 191.70 million for completion of the second review of the ECF arrangement. As part of this second program review, we also request (i) modification of the completion date for the structural benchmark on publication of NBE audits; (ii) completion of the financing assurances review; and (iii) temporary approval of exchange restrictions on the grounds that these measures have been imposed for balance of payments reasons, are temporary, non-discriminatory, and do not give Ethiopia unfair competitive advantage. These measures include: the imposition of hard ceilings on access to and use of FX for travel purposes, the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances, and the exchange restriction on backlog dividends.

The policies and actions underpinning the ECF arrangement are set out in the attached Memorandum of Economic and Financial Policies (MEFP). The implementation of our program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks described in the MEFP and further specified in the attached Technical Memorandum of Understanding (TMU). We will provide the IMF with all the data and information required to monitor implementation of the agreed measures and the execution of the program, as detailed in the TMU.

We are confident that the policies and measures outlined in the MEFP will enable us to achieve our program objectives. We will promptly take any additional measures that may become appropriate for that purpose, in consultation with the IMF, and in accordance with applicable IMF policies. We will refrain from any policy that would not be consistent with the program's objectives and commitments herein. We are committed to working closely with IMF staff to ensure that the program is successful, and we will provide the IMF with the information necessary for monitoring our progress.

In line with our commitment to transparency, we consent to the publication of this letter and its attachments, and the related staff report.

Very truly yours,

/s/

H. E. Mr. Ahmed Shide
Minister of Finance
The Federal Democratic Republic of Ethiopia

/s/

H. E. Mr. Mamo E. Mihretu
Governor, National Bank of Ethiopia
The Federal Democratic Republic of Ethiopia

Attachments:

- I. Memorandum of Economic and Financial Policies
- II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Addis Ababa, December 18, 2024

A. Context and Recent Developments

1. After two decades of rapid economic and social development, Ethiopia's economy, while facing challenges, remains resilient. Per capita income rose 650 percent during 2000–20, supporting gains in human development, health, and education indicators. Although a key driver of growth was public investment in large infrastructure projects, this contributed to macroeconomic imbalances that threatened to undermine progress. In 2019, the government embarked on the Homegrown Economic Reform Agenda (HGER) to address imbalances and encourage private sector-led development. A series of economic shocks, including the COVID 19 pandemic, drought, domestic conflict, and international commodity price rises, delayed reforms and led to a moderation in growth, worsening economic imbalances, significant internal displacement, and food insecurity. Financing reconstruction and recovery from conflict and managing the long-term effects of climate change add to the challenges that must be addressed.

2. Core elements of the economic reform plans were successfully implemented prior to the ECF program despite very challenging circumstances. The fiscal deficit was significantly reduced over FY2021/22–23/24, difficult subsidy reforms were implemented helping minimize fiscal risks, and borrowing by state-owned enterprises (SOEs) was tightly controlled (including by avoidance of non-concessional debt). A new holding company, Ethiopian Investment Holdings, was established to achieve improved performance in public enterprises through use of modern management practices, corporate governance standards, and partnerships with foreign investors. The telecom and logistics sectors (both previously dominated by a government monopoly) were opened to competition. The decision to open the banking sector to foreign participation was another decisive reform measure taken to help address long-standing weaknesses in the scope, depth, and accessibility of modern financial services.

3. To sustain progress, we are reinvigorating our reform agenda. The recently released HGER2.0 (2023/24–25/26) renews the government's commitment to maximizing the potential and building the resilience of our economy. HGER2.0 is built on four pillars: (i) macroeconomic reforms, to establish a modern and sound macroeconomic policy framework that supports stability, resilience, and sustainability; (ii) investment and trade sector reforms, to boost competitiveness through a favorable environment that promotes and enhances innovation and entrepreneurship; (iii) productive sector reforms, to expand capacity and raise productivity growth by increasing investment; and (iv) public sector reforms, to enhance the government's capacity to ensure the efficient delivery of high-quality services.

4. Our reform drive is now making substantial advances. In July 2024, we introduced a modern interest rate-based monetary policy framework, floated the exchange rate, embarked on a four-year ECF arrangement with the IMF, advanced discussions with creditors on restructuring of our

external debt, and secured budget support from the World Bank in support of our development objectives. More sectors, including residential housing, retail and wholesale trade, and banking are now being opened to foreign investment. We have also made progress in strengthening the institutional and regulatory framework, with new central bank, banking, investment, trade, procurement, and public enterprise laws already enacted or close to finalization. A securities exchange will be launched shortly.

5. Real GDP growth has remained resilient. Growth rose from 7.2 percent in 2022/23 to 8.1 percent in 2023/24, above sub-Saharan African averages, but down from average growth of 9 percent prior to 2019. The Cessation of Hostilities Agreement in November 2022, strong agricultural production due to favorable rains and initiatives to increase irrigated crop production, growth in mining and lately in manufacturing and electricity (with a large project coming online) have driven the recovery.

6. Inflation has been muted, with lower than anticipated passthrough effects from the exchange rate depreciation so far. Inflation fell to 16.9 percent in November from 18.6 percent in July, with decreases in both food and non-food components. Inflation has partly been influenced by the temporary effects of the exchange rate reform but has remained under control due to the National Bank of Ethiopia's (NBE) decisive actions since 2023. These actions include curbing monetary financing of fiscal deficits and controlling the growth of credit to the private sector. Additionally, gradual adjustments to key regulated prices, such as fuel, public transport, and electricity, alongside price stabilization efforts for imported edible oil and medicines, have helped mitigate and smooth the reform's impact on consumers, aligning with program objectives.

7. Balance of payments (BOP) developments are encouraging. The current account deficit for 2023/24 remained unchanged from the previous year at 2.9 percent of GDP, with the goods trade deficit narrowing to 7.0 percent of GDP from 8.3 percent, as a decline in imports offset lower exports and income from private transfers declined. However, preliminary data for the first quarter of 2024/25 indicate a positive initial response to foreign exchange (FX) reform, with goods exports rising by 81 percent year-on-year as gold and coffee exporters switched sales into official exports. The increase in gold exports reflects previously smuggled production moving to official channels in response to improved price incentives. The increase in coffee exports is due to record high global prices, inventory sales and a shift from the domestic to export markets following exchange rate reform. In the same quarter, goods imports showed a slight decline compared to same period last year while remittances increased by 26 percent year-on-year. Reflecting these developments, a current account surplus was recorded in the first quarter. International reserves stood at \$3.4 billion as of end-October, or equivalent to 1.6 months of import coverage at end-October 2024.

8. The federal government budget recorded a primary surplus in the first quarter of FY2024/25, reflecting strong revenue performance and lags in spending execution. Tax revenues grew 67 percent compared to the same period of the previous fiscal year, reflecting our strong efforts to achieve the ambitious revenue mobilization targets for this year. Domestic indirect taxes (VAT and excise) rose by 73 percent on implementation of VAT and excise reforms. Exchange rate unification resulted in a “windfall” in import tax receipts, with custom revenues doubling during

August–September compared to the previous year. A small primary surplus was recorded as key program-supported spending measures awaited adoption of the Supplementary Budget, which now is endorsed by the parliament. The lower-than-targeted allocation on the safety net programs (Indicative Target) at end-September reflects the time required for interagency coordination and preparation required to expand coverage and absorb the significantly increased budget envelope, as well as for Supplementary Budget preparation and approval. We anticipate allocations will be in line with program targets from now on.

9. Reforms of SOEs are underway. Infrastructure investment and quasi-fiscal activities of some large SOEs have been curtailed, and longer-term reform programs to restore operational viability are underway. A key macro-financial vulnerability stems from past lending to these SOEs by the systemic state-owned Commercial Bank of Ethiopia (CBE). Operating losses and failure to service debt resulted in CBE evergreening these loans, as sovereign guarantees were not made effective. The equivalent of about 6.2 percent of GDP in such legacy loans, including overdue interest, had been taken over by the federally owned Liability and Asset Management Corporation (LAMC) by 2022/23. After LAMC made repayments on these debts with resources from the sale of telecom and mobile money licenses, SOE reform and privatization plans were affected by the domestic conflict, and no additional repayments were made, incurring substantial new arrears to CBE. In early 2024/25, CBE's claims on LAMC and EEP were replaced with a government bond. In addition, a further amount was provided to ensure CBE is fully capitalized beyond the 8 percent regulatory requirement (see Section H). The total amount of bonds provided was Birr 900 billion (7.7 percent of GDP) of which Birr 55 billion was for the capital increase.

10. The NBE has maintained a tight monetary policy. To reduce inflation, monetary financing was reduced to 0.8 percent of GDP in 2023/24 and eliminated entirely from the start of 2024/25, with the introduction of the new short-term Cash Flow Facility. The NBE has maintained limits on the annual growth in commercial bank credit to the private sector since August 2023. The introduction of a new monetary policy framework and the operationalization of OMOs in July 2024 has further supported our tight monetary policy stance. Since July, the NBE has conducted regular open market operations (OMOs) at the policy rate of 15 percent, and banks have utilized the new overnight standing facility and interbank money market to meet liquidity needs. Although the share of liquid assets to total assets in banking system remains above the prudential limit of 15 percent, liquidity conditions have tightened considerably with broad money falling from 25 percent of GDP in FY22/23 to 17.0 percent of GDP at end-October 2024. While market-determined term deposit rates have shown a modest increase over the past year, interest rates generally remain well below inflation. We expect to hold a first meeting of the Monetary Policy Committee (MPC) in late December.

11. Debt levels have continued to fall. The government has not contracted new external non-concessional loans since 2018, while SOEs have not started new externally financed investments, continuing only a few ongoing projects. The stock of external debt declined from 29.0 percent of GDP in 2020/21 to around 15 percent of GDP in 2023/24. With domestic debt falling too, total

public and publicly guaranteed debt declined from 56.1 percent of GDP in 2020/21 to around 34 percent in 2023/24.

B. Objectives of the Program

12. Our economic reform agenda provides a foundation for strong, inclusive, and private sector-led growth. We envision a return to high and stable growth and single digit inflation within the program period. Correcting exchange rate distortions, unlocking external financing, controlling inflation, boosting tax revenues, optimizing public investment, ensuring debt sustainability, strengthening banking sector resilience, and improving the business environment will anchor macroeconomic stability and stimulate economic growth.

13. Our economic program supported by the IMF and outlined in this memorandum is built on the HGER. Key objectives under the program are to (i) address FX shortages and long-term BOP vulnerabilities stemming from exchange rate distortions among other factors; (ii) reduce inflation through modernizing the monetary policy framework and sound public finances; (iii) address debt vulnerabilities and strengthen domestic revenue to enable government investment and other priority spending; (iv) strengthen the financial sector, address vulnerabilities in SOEs, and lift financial repression progressively; and (v) promote a robust, inclusive, and sustainable economy, through improving governance, financial inclusion, public service delivery and bolstering climate resilience and food security. Strengthening institutions and macroeconomic policy frameworks is critical to achieve these goals, which together will create the right conditions for private investors to unlock the economic potential of our country.

C. Foreign Exchange Policy

14. The transition to a flexible exchange rate regime is progressing well. FX availability has greatly improved, with no evidence of a macroeconomically significant backlog in FX demand. Many banks have reported underutilization of available FX, as import demand is constrained by tight Birr liquidity, particularly at private banks. This contributed to a relatively stable exchange rate despite the recent strengthening of the US dollar globally. The parallel market premium relative to the NBE indicative rate (calculated as the weighted average exchange rate of banks' FX transactions) narrowed and stabilized in single digits after having widened in October 2024. Banks' FX buying volume has steadily increased, bid-offer spreads narrowed, and the interbank FX market is showing growing activity and volumes. The banking sector has continued to close its net open position, mainly driven by private banks. NBE conducted no FX intervention since August 7th, 2024.

15. Transitional arrangements to address the legacy letters of credit (LCs) for fuel related to pre-exchange rate reform imports are being implemented, while fuel LCs opened since the reform will be settled via the banking system with no NBE FX support.

- **In line with the market determination of the exchange rate, CBE and private banks remain primarily responsible for settling all LCs.** NBE is supporting the clearance of legacy fuel LCs in 2024/25 up to a maximum amount of US\$1.27 billion (US\$670 million

allocated at program initiation, including US\$600 million agreed at the first review of the ECF). NBE's contribution is sold directly to CBE at the NBE selling rate, while NBE is considering introducing an auction mechanism.

- **CBE and other commercial banks are exclusively responsible for settling new LCs issued after the exchange rate reform, including those that mature in FY2024/25 and FY2025/26.** We expect CBE and commercial banks will split the financing obligation broadly in line with their FX market shares. NBE will not provide further FX support. All transactions between and EPSE and banks will be conducted at each bank's respective published selling rate. If EPSE can get a better price from a bank that has already filled its contribution, it is allowed to do so. After FY2025/26, there will be no special arrangement.

16. Several steps to improve FX market functioning have been taken:

- We eliminated the requirement for exporters to surrender retained FX after one-month in November 2024. This will help exporters to better manage their FX cashflow and risks, payment for import of necessary inputs, and the determination of the market-clearing exchange rate.
- NBE granted licenses for twelve non-bank FX bureaus since the start of the reform, operating in the cash FX market. Five of these bureaus are already operational, introducing new competition and an improvement in services available to customers.
- NBE has revised the guidance on FX fees and commissions, allowing banks to exclude some fees from their posted prices (in line with international practice), noting an expectation that bid-offer spreads should generally not exceed 2 percent, and requiring transparent disclosure of all FX related fees and commissions.
- The NBE issued a letter to banks for the settlement of dividends that were accumulated before the FX reform, clarifying that banks shall entertain such dividend repatriation requests by distributing them equally over a period of 18 months.
- We have ended the allowance for the importation of certain commercial goods through the Franco Valuta import system. The allowance was intended to alleviate inflationary pressures during the first stages of reform, and is no longer needed, while this adjustment will prevent abuse of the system by sourcing FX from the parallel market, especially considering that FX availability at banks has significantly improved.

17. We will continue to take measures to ensure a sustained switch to a flexible exchange regime. These measures will support the supply response to the FX reform and improve intermediation and market functioning in the FX market:

- Monitoring of the FX market and enforcement of the new FX directive are being stepped up. An inspection team at the NBE was established and the first consolidated on-site inspection report for the commercial banks has been finalized. NBE will implement an internal monitoring manual, strengthen both off-and on-site inspections with special focus on ensuring that banks are complying with the Foreign Exchange Market Operation Code of

Conduct. We will continue our efforts to improve understanding of the FX directive, including by posting FAQs on NBE's website by end-December 2024.

- With technical support from the IMF, a FX market survey covering both banks and the real sector will be completed by end-2024 to identify impediments to efficient FX market functioning and deepening. The survey (as well as inspection reports) are expected to highlight areas for additional policy measures.
- By March 2025, we will review the maximum amount allowed for advance payment of imports that does not require importers to submit a foreign bank guarantee.
- With IMF technical assistance, NBE will (i) review the methodology for the calculation of the daily reference rate with a view to also including inter-bank FX transactions in the calculation and (ii) begin publishing regular data on interbank market transactions by end of March 2025. In addition, NBE will begin work with the commercial banks and stakeholders to adopt an FX trading platform and finalize the RTGS payment system to enable the settlement of interbank FX transactions domestically to support FX market liquidity and inter-bank FX market development.
- NBE is following up on banks' implementation of their plans to comply with net open position (NOP) regulatory thresholds by end-June 2025. Most banks are already in compliance. With IMF technical assistance, we will strengthen the measurement of NOPs to better capture banks' FX risk profiles, revise the NOP prudential regulation, and ensure adequate enforcement.
- NBE is collecting information on banks' current practices of opening LCs. We will work together with banks to establish service standards for opening LCs, including processing time and margin requirement, by end-February 2025.
- Outreach to bring in more FX through official channels continues. We will assist in bringing overseas money transfer operators into the official market by facilitating contacts with banks, with due regard to know-your-customer and financial integrity considerations. In collaboration with banks, an information campaign to attract remittances will be extended, to countries with sizeable Ethiopian diaspora populations.
- We will completely phase out surrender requirements by the end of the program, at a pace determined by the development of FX market liquidity.

18. Current account transactions will be further liberalized. Three exchange restrictions out of six long-standing restrictions identified in the recent IMF Article VIII assessment will be removed during the program period. A specific timeline for removal of (i) the imposition of hard ceilings on access to and use of FX for travel purposes and (ii) the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances will be established based on a study completed prior to the third ECF review. The phasing out of the NBE exchange commission, which constitutes a significant portion of NBE's income, will be carefully aligned to NBE's operating balances and its timing determined as part of the NBE capital adequacy study. The two additional exchange restrictions—namely, the tax clearance certificate requirement for repatriation of dividend

and other investment income, and the requirement to provide a clearance certificate from the NBE to obtain import permit—will be studied jointly with the other affected public authorities to identify alternative solutions that do not give rise to exchange restrictions.

19. Intervention in the foreign exchange market will be limited to stemming disorderly market conditions. The NBE has approved an FX intervention strategy (including governance process) that allows, but does not oblige, the NBE to buy or sell foreign currency in volatile market conditions. Any FX intervention will be conducted via public auction following NBE's FX auction guidelines. Auction results will be published on NBE website immediately after the closing of the auction.

D. Monetary Policy

20. We are modernizing the monetary policy framework. The NBE's strategic plan for 2023–26 prioritizes maintaining low and stable inflation and transitioning to an interest rate-based monetary policy regime. NBE has prepared a governance framework for monetary policy that will be implemented alongside enactment of the NBE Establishment Proclamation. A monetary policy committee (MPC) has been established and will recommend the policy stance to the Board of the NBE and approve all instruments and guidelines relating to the implementation of monetary policy. The first MPC meeting is expected to take place in late December. Regular meetings will take place every quarter following a published calendar, with the scope to convene more frequently if needed depending on monetary and financial conditions. An update on the monetary policy stance will be published following each MPC meeting. The MPC will play an advisory role until it assumes its formal role as set out in the amended NBE Establishment Proclamation. To continue to support the transition to the interest rate-based monetary policy framework, NBE is also: (i) upgrading the market infrastructure of the real-time gross settlement system; (ii) finalizing the dematerialization of government securities; (iii) enhancing liquidity forecasting capabilities; and (iv) developing a comprehensive and transparent monetary policy communication strategy.

21. NBE began open market operations in July 2024. On July 9, 2024, we announced a target policy rate of 15 percent, the mid-point between the standing lending and deposit facility rates, set at ± 3 percent around the policy rate, with the interbank lending rate as an operational target. To achieve this policy stance, the NBE has continued to conduct regular full allotment Open Market Operations (OMOs) at the policy rate to align banking sector liquidity with the monetary policy stance. In October 2024, we also implemented an emergency liquidity assistance framework to provide temporary liquidity to solvent banks facing strains, and we will continue efforts to establish a comprehensive collateral framework. Our monetary policy measures will also be supported by the deployment of a central securities depository (CSD) by end-December 2024.

22. To support the monetary policy framework, we continue to take steps to enhance the management of liquidity in the financial system. In late October 2024, we launched the Interbank Money Market, including a trading platform, which banks have been using to manage their liquidity more efficiently. Initial transaction growth has been strong, with weighted average rates falling

between the OMO and overnight borrowing rate of the NBE, as expected. We merged banks' payment and settlement accounts with their reserve accounts in August 2024 and we are reviewing the reserve framework to ensure more efficient liquidity management in the banking sector. We will review directive FIS/03/2020 on maximum Cash Withdrawal Limits with a view to assessing its impact on liquidity by March 2025.

23. We will maintain tight monetary and financial conditions to anchor exchange rate and inflation expectations with the objective of ensuring price stability. We will discuss the monetary policy stance and liquidity conditions regularly in the newly constituted MPC; we anticipate an inaugural meeting to take place in the next weeks, with at least one additional meeting before end-March 2025, depending on developments in inflation and broader economic conditions. NBE's policy rate will be the key instrument to signal the policy stance and it will be calibrated as needed to be consistent with the objective of achieving low and stable inflation. We will also review the settings of direct instruments—such as the credit growth cap—and reserve requirements at each MPC meeting, with a view to ensuring monetary and financial conditions remain tight, which is appropriate given current market developments. We will seek to end quantitative restrictions on bank lending, and we plan to phase out the credit cap on private sector lending by end-September 2025. We reaffirm our commitment to adjust the policy rate to achieve a positive real policy rate in the first quarter of 2025, based on projected inflation using a measure that is developed in consultation with the IMF staff. We will maintain a close dialogue with the IMF on monetary policy setting, consulting as needed if inflation deviates from the baseline projection and standing ready to take additional monetary policy measures to manage inflation expectations as needed.

24. We will continue to improve T-bill market functioning and price discovery, so as to increase domestic resource mobilization and strengthen monetary policy transmission. In November, we stepped up communication efforts with market participants to ensure the rules of the T-bill market are well understood, including the absence of restrictions on bids. Although T-bill auctions have remained undersubscribed, interest rates have moved closer to the monetary policy rate. Acknowledging the need for significantly increased participation in the T-bill market, we will continue efforts to build financial sector capacity and improve communication with market participants, which will complement efforts to expand the investor base, with a particular focus on the banking and domestic corporate sector. With the support of both IMF and World Bank technical assistance (TA), we will build further capacity in cash and domestic debt management at the Ministry of Finance (MoF). We aim to start publishing a regular issuance calendar in July 2025 and to support efforts to develop the local currency bond market (LCBM). To improve competition in the T-bill market, we are partially removing the eligibility of T-bills toward meeting the reserve requirement for CBE by 50 percent by end-December 2024, and we will fully remove this requirement by end-September 2025. We stand ready to take further actions to improve the T-bill market over coming months.

25. We have eliminated monetary financing of fiscal deficits, ending a key driver of inflation. All direct advances are now terminated (quantitative performance criterion, QPC). To ensure the federal government can manage its cash position as liquidity forecasting improves and

the Treasury bill and bond market develops, a government short-term credit facility has been created. As per the NBE Proclamation, this Cash Flow Facility may provide temporary credit to the government for a duration of no longer than 12 months at the NBE monetary policy rate, for amounts not exceeding 15 percent of the previous fiscal years' General Government domestic revenue. Tighter fiscal policy and limits on SOE borrowing (indicative target, IT) also continue to support tighter monetary conditions, with a significant impact on overall credit demand given the large share of government and public enterprises in total credit.

26. We are strengthening NBE governance and transparency. With technical assistance from the IMF, we developed comprehensive draft legal amendments to the NBE Proclamation, which have been submitted to parliament (structural benchmark, end-December 2024). These amendments present important improvements (NBE's mandate, autonomy, decision-making structure, external audit, and transparency). Public hearing of the new law has commenced, with parliamentary approval expected by March-2025. The tender for the external audit of NBE financial statements was refloated in early August to allow more time for suitably well-qualified bidders to comply with the tender's technical and international practice requirements. Following completion of the selection process, the new external auditor of the NBE was appointed on November 9, 2024, and NBE is expected to publish financial statements for 2021/22 and 2022/23 (modified structural benchmark, end-March 2025). Amendments to the NBE Proclamation will ensure there is a legal basis for NBE to be audited by a qualified audit firm with the requisite expertise to conduct IFRS-based audits and experience in auditing central banks.

27. An assessment of NBE's capital will be undertaken before end-June 2025. To ensure that NBE has adequate capital to attain its policy objectives and operate independently, we have requested IMF technical assistance to assess the level of capital needed for NBE to effectively fulfill its mandate. This assessment could inform the amount and instrument used for recapitalization if needed with the NBE Proclamation providing a legal basis.

E. Fiscal Policy

28. Our fiscal policy will create space for critical public investment in human capital—health, education, and social protection—and basic infrastructure to support inclusive growth. A revenue-led strategy will restore long-term stability to the public finances, while ensuring a significant contribution to restoring debt sustainability. To spearhead collaborative reform implementation, the Ministry of Finance has established several inter-ministerial working groups (revenue mobilization, subsidy reform, debt management) that lead policy coordination, monitoring, and evaluation processes and report bi-monthly to the Macro-Economic Committee.

29. Fiscal consolidation will be maintained over the medium term to underpin sustainable public finances for long-term development. We will reduce the primary federal government deficit, on a cash basis, from 1.5 percent of GDP in 2023/24 to 0.7 percent of GDP in 2027/28 (quantitative performance criterion, QPC). The general government deficit will decline in line with

that of the budgetary federal government, underpinned by continued restraint in borrowing by regional governments.

30. A Supplementary Budget for FY2024/25, in line with program commitments, has been adopted. The supplementary budget includes a spending package consistent with the 1½ percent of GDP of measures agreed within the program to mitigate the inflationary and socio-economic impact of the FX reform. The overall deficit, excluding budget grants, will temporarily widen by 0.6 percent of GDP in 2024/25, in line with program targets. To sustain fiscal policy aligned with program targets, the Council of Ministers will submit draft FY2025/26 budget for Federal Government to Parliament (Structural Benchmark, end-June 2025).

31. Durably raising domestic revenues is essential to increase space for social and capital spending (QPC). Over the medium-term, a 4-percentage point rise in the tax-to-GDP ratio to 10.2 percent of GDP by 2027/28, including 0.8 percent of GDP from the foreign exchange impact, will provide a sustainable resource base for raising pro-poor and capital expenditure by 2 and 1.2 percent of GDP, respectively, and help meet recovery and reconstruction needs. We have adopted a revised Medium-Term Fiscal Framework for 2024/25-27/28 in line with fiscal strategy for reaching this goal. We are committed to undertaking additional revenue and expenditure measures that may become necessary to ensure the attainment of our revenue and primary deficit targets.

32. We have embarked on comprehensive tax reforms. We have formed a National Tax Reform Taskforce consisting of Ministers and State Ministers from Ministry of Finance, Ministry of Revenue, Ministry of Planning and Development and Commissioner of Customs Commission headed by a senior macroeconomic advisor to the Prime Minister and a National Tax Reform Technical Committee with representatives from the Ministry of Finance, the Ministry of Revenue, and the Customs Commission to provide leadership and secure comprehensive and synchronized implementation and monitoring of tax policy and tax administration reform. The National Medium-Term Revenue Strategy (NMTRS), developed in consultation with the IMF, has been adopted by Council of Ministers and published (SB, end-September 2024). The NMTRS will guide tax reforms, considering economic growth and the distributional impact of the tax system over the course of the program. Revenue yields will come primarily from tax policy reforms at first, with gains from tax administration reforms setting in over time.

33. We have taken strong tax policy measures that will generate revenues of 0.8 percent of GDP in 2024/25, including:

- Rollout of the excise stamp regime is on track. In July, we issued directives on excise stamp management and increased specific rates by accumulated inflation since 2020 on alcohol and tobacco. The excise stamp tender evaluation has been completed and the provider selected, with the contract to be finalized before end-December 2024. The stamp regime is expected to be fully implemented (including a digital tracing system) by April-2025.
- The new VAT Proclamation was adopted by Parliament and has become fully effective. The new VAT regime maintains a uniform 15 percent tax rate, expands the scope of the VAT net (expected revenue yield of 0.5 percent of GDP), limits zero-rating for VAT purposes to only

exported and re-exported items, improves VAT registration efficiency, and clarifies revenue collection mandates of the Federal and regional governments. Exemptions less targeted to the poor, which were removed under the July Directive, were carried over under the new VAT law. With the introduction of VAT on public utilities, MoF has issued a new Directive establishing the VAT-exempt thresholds for domestic electricity and water consumption by low-income and vulnerable groups, in line with program commitments.

- A customs directive was issued requiring all customs branches to adjust declaration rates to the current exchange rate, including for goods registered before the exchange rate liberalization.
- Revenue gains from property tax reforms are on track to yield 0.1 percent of GDP in FY2024/25, which has been realized under the existing legal framework through revision of tax base assessments and stepped-up enforcement. The new Real Estate Property Tax Proclamation is expected to be discussed in parliament by end-December, with plans for advance rollout by the largest cities in FY2024/25 and nationwide implementation (at least 0.3 percent of GDP) by FY2026/27, as legally mandated.

34. We are advancing the next phase of revenue mobilization reforms, in line with the National Medium-Term Revenue Strategy, including:

- The Ministry of Finance (MoF) has drafted a directive to streamline and eliminate tax exemptions, including VAT, excise, customs duties, and surtax, granted for imported intermediate inputs for new local and foreign investment projects. A new performance-based duty drawback mechanism will be restricted to iron bars used in the construction industry. These reforms are projected to have a net full-year revenue impact of 0.1 percent of GDP, with implementation beginning in June 2025.
- MoF has initiated a corporate income tax (CIT) regime assessment, with technical assistance from the UK Foreign, Commonwealth, and Development Office and the World Bank. The assessment will identify compliance and tax policy gaps in the CIT regime, with costing of policy reform options expected to be completed by March-2025. Legal amendments, targeting a tax policy revenue impact of 0.3 percent of GDP, will be introduced with implementation of the 2025/26 Budget. With nearly two thirds of businesses reporting no taxable profit, a minimum alternative tax remains one of the policy options to raise revenues, reduce avoidance, and combat evasion.
- We have finalized assessment of the existing motor vehicle fees and charges, based on which we will prepare a proposal to the two chambers of parliament to decide on the tax revenue assignment of the tax between federal and regional governments. As an interim and alternative mechanism to realize the MTRS target (0.1 percent of GDP from 2025/26), we are considering a review of the annual motor vehicle ownership fees.
- We have undertaken a study to assess personal income tax (PIT) reform options, with a primary focus on the minimum exemption threshold and possible streamlining of the bracket structure. We expect new PIT structure to be implemented from FY2025/26, with the

policy impact guided by fiscal space and equity considerations. Revenue losses will not exceed 0.2 percent of GDP.

- We have developed policy options to consolidate presumptive tax rates. The structure of the tax will be amended by a MoF directive, with implementation from next year. The current proposal relies on regional government revenue collection, remaining a turnover based tax, with fewer brackets and no differentiation among business activities. This policy reform will be revenue neutral, with revenue gains expected from administration and compliance.

35. We are committed to strengthening tax and customs administration and improving compliance. Our efforts will focus on strengthening taxpayer registration, e-filing and digitalized self-assessment, compliance risk management (particularly in construction, manufacturing, and retail), and tax audit efficiency, guided by specific actions and timelines as specified in the NMTRS. The Customs Commission will digitalize the valuation and the tariff classification process to strengthen tax base control and transparency. To advance swiftly with digitalization of tax revenue administration, the 2024/25 Federal Budget allocated the full funding requirement to procure the Integrated Tax Administration System. The 2024 TADAT assessment was concluded in August, earlier than expected, and will inform tax administration reform priorities. We will publish the finalized report by end-December 2024. We will continue to work closely with capacity development partners to specify new policies by June-2025, to: (i) raise revenue through agricultural sector taxation while ensuring efficiency and fairness by keeping farmers with low incomes below the taxable threshold, (ii) revise the Income Tax Proclamation covering personal income tax, corporate income tax, and double taxation agreements, in line with objectives of NMTRS, and (iii) streamline and reduce tax revenue losses from the proliferation of tax incentives and tax holidays across a range of economic sectors. We will consult with the Fund before implementing any voluntary asset repatriation program. Any such program will aim to ensure full transparency and consistency with international Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) standards and avoid erosion in the legitimacy and fairness of the tax system.

36. The FY2024/25 Budget contains a spending package of 1½ percent of GDP that will help mitigate the adverse social impact of FX reform. An extra contingency of up to 30 billion Birr has been allocated in the supplementary budget for social spending to manage rising international commodity prices. This contingency will only be utilized if tax revenues align with the annual budget plans. Our fiscal response stands on four pillars:

- **We have prioritized expanding the existing targeted social safety net (PSNP) as the most cost-effective, direct, and efficient way of providing support to vulnerable people.** We have raised urban PSNP benefits by 20.7 percent in September and could consider an additional increase depending on price developments. We have activated a PSNP shock response facility that will deliver two months of cash benefits to beneficiaries. We are stepping up efforts to expand PSNP coverage to new beneficiaries. The upcoming January adjustments to rural PSNP will include raising benefits based on recent price trends. In addition, we are significantly increase resources for the livelihood enhancement component of the program. The budgetary allocation for PSNP, effected in the

supplementary budget, increases from about 0.1 to 0.5 percent of GDP per year (indicative target, IT). The PSNP disbursement plans foresee budget allocations in line with the program's indicative targets. The social safety project financing by the World Bank (0.2 percent of GDP) will co-finance PSNP and help cover the funding gap of the existing PSNP5 over the next 18 months.

- **We have implemented temporary direct subsidies on select food items and medicines to accommodate adequate and timely expansion of PSNP.** This has cushioned the immediate consumer price impact of FX reform, despite the inefficiencies of untargeted schemes. The Ethiopian Trading Business imported cooking oil and sugar to manage price spikes ahead of the Ethiopian New Year for domestic distribution at subsidized prices. The subsidy budget is capped at 0.05 percent of GDP and fully recognized in the supplementary budget. The federal government has limited increments to the cost of pharmaceutical products and medicines at public health centers and dispensaries to 25 percent with a budgetary allocation for pharmaceutical subsidies at 0.1 percent of GDP. These subsidies will be phased out entirely by June-2025. We will refrain from direct price controls.
- **We are providing temporary, time bound, and gradually declining fuel subsidies to partially address the large impact of FX reform on households.** Following the July-2024 5 percent price hike across all products, pump prices were further raised in early October by 8 percent for diesel and by 10 percent for other fuels. Jet fuel prices were fully adjusted to cost recovery in November, and excise taxes are transferred to the federal budget. Favorable international fuel prices have offset the fiscal impact from the initial two months of forgone pump price adjustment. To smooth the impact of price increases on the public, we have adopted a plan to raise fuel prices quarterly and gradually eliminate the Fuel Price Stabilization Fund (FPSF) component in the fuel cost build-up formula by January 2026. The legacy debt of ESPE resulting from exchange rate losses will be resolved after January 2026; the MoF will prepare an action plan for this. The FPSF price component will be recalculated and updated monthly, as the EPSE selling price net of EPSE monthly average actual import costs, taxes assessed at full statutory tax rates, and other regulatory fees. During this transition EPSE will continue to retain fuel taxes, which will reduce the direct call on the budget. The supplementary budget net cash transfer to EPSE, allocated to rebuild the fuel price stabilization buffers, will be capped at 70 billion Birr (0.5 percent of GDP) in FY2024/25. Our plan is to continue increasing fuel prices to the consumer above cost parity to clear the legacy subsidy debt (46 billion Birr as of end-June 2024), rebuild a surplus at the Fuel Price Stabilization Fund, and eliminate the fuel price subsidy net of taxes by end-2025. We will continue to provide targeted fuel subsidies for public transportation that will cushion the impact for vulnerable households across the country. To cap public transport subsidy costs at 0.1 percent of GDP and mitigate leakages, we will continue to rely on the current targeting mechanisms and digital solutions (rebates through mobile payment and digital wallets) and limit eligibility to city and regional public bus transportation.
- **We will increase fertilizer subsidies to 70 billion Birr (0.5 percent of GDP) in FY2024/25.** Even though under-fertilization remains among the most important factors behind relatively low production yields in wheat and other cereals, addressing suppressed

fertilizer demand at the current price subsidy level would be prohibitively expensive (in terms of fiscal and additional external financing needs). The EABC has floated international competitive bids for fertilizer supply in line with program parameters. Increasing the budgeted fertilizer subsidy from the current level of 0.2 percent of GDP to 0.5 percent of GDP will suffice to retain the pre-reform farmgate price subsidy rate of about 30 percent of the full cost. We will reduce fertilizer subsidy costs to 0.3 percent of GDP by FY2025/26.

37. We have announced an increase in salaries for public sector employees, prioritizing low wage earners that fell significantly below poverty line. The wage increase will benefit 2.3 million federal and regional civil service workers, regional and federal police, and defense forces, at a gross cost of 91 billion birr (0.6 percent of GDP), of which about 1/3 will be offset by higher income tax receipts, in line with the spending envelope under the program. This increase in salaries will partly restore wage erosion and protect low-wage workers in the public sector from the rise in the cost of living. The lowest-paid employees, who were earning salaries well below the poverty line, will receive a 300 percent increase, while increases for the highest earners will be capped at below 5 percent.

38. We will settle legacy fuel subsidy debt resulting from exchange rate losses and prevent the reemergence of similar liabilities. Fuel subsidy reform between December-2021 and the start of FX reform eliminated about 1 percent of GDP in extrabudgetary fiscal costs, helping reduce the large stock of subsidy related public debt. In the first quarter of 2026 the Council of Ministers will increase the authorized capital of EPSE to offset losses stemming from FX reform (given trade credit liabilities) and EPSE will eventually transition to lower cost letters of credit (LCs) for future fuel purchases. FX revaluation losses were estimated at 138 billion Birr as of end-September 2024. Starting with the FY2024/25 Supplementary Budget, fuel subsidies have been explicitly recognized as federal government spending. To ensure EPSE has sufficient Birr liquidity, it will bill MoF on a month ahead basis and MoF will fully settle in cash within a month the amount of the projected fuel subsidy and EPSE's additional cash shortfall related to maturing FX liabilities. We plan to seek technical assistance from the Fund to devise a strategy for rebuilding and managing fuel price stabilization buffers and implementing transparent and automatic fuel price adjustment.

39. In the medium-term, we plan to increase pro-poor spending and capital expenditure, as a share of GDP, to above pre-2019 levels. Higher revenues will underpin sustainable expansion of public spending, which will also help meet reconstruction needs. Specifically:

- **Safety nets:** we will continue to enhance the adequacy, coverage, and sustainability of our expenditure on the Productive Safety Nets Program. The increased budgetary envelope for the PSNP will help to expand coverage of the food insecure and poorest households, building robust infrastructure for shock response and humanitarian disaster support. We will work with development partners to strengthen targeting mechanisms, update and improve poverty assessment metrics, and pursue regular program evaluations with a view to strengthening effectiveness and credibility of our poverty reduction programs. As the cost-of-living shock abates, we will concentrate PSNP on durable livelihood improvement to reduce poverty.

- **Public investment:** Promoting sustainably financed growth-enhancing investment in public infrastructure is one of our main priorities. We adopted the Public Investment Proclamation (2020), and notwithstanding the freeze on the start of new investment projects, took steps to strengthen the public investment framework, focusing on project-level pre-screening tools. To tackle the large unfinished public investment portfolio and facilitate medium-term capital expenditure planning, we plan to formulate an explicit framework for centralized prioritization, selection, and budgeting of the investment project pipeline, which will be backed by an IT system, currently under development, to systematize public investment data. We have undertaken a comprehensive review of the public investment management institutional landscape (March 2024 IMF Public Investment Management Assessment (PIMA) mission) and will publish the report once it is finalized. We will use the findings of this assessment, which also included a climate module, to improve planning, allocation, and implementation stages, as well as transparency of the public investment management cycle.
- **Reconstruction:** Our Resilient Recovery and Reconstruction (3RF) planning framework lays out how we aim to address reconstruction needs following the war in Tigray. Given the large cost, estimated at close to US\$20 billion, and limited budgetary resources, we will leverage contributions from development partner and the private sector, including via public-private partnerships, to mobilize resources. So far, donor projects and a multi-donor trust fund have received contributions of more than US\$335 million. Given the large remaining financing needs, interventions will have to be carefully prioritized and to a large extent rely on private funding.

40. We will enhance transparency and accountability in the management of public finances. In FY2024/25, Ministry of Finance will start the publication of a mid-year review on the implementation of the Federal Government budget and a quarterly budget execution report (Structural Benchmark, April-2025). The ongoing rollout of the integrated financial management information system (IFMIS) will also facilitate preparation of the mid-year review report (a 2019 Public Expenditure and Financial Accountability report recommendation) analyzing economic development, consolidated budget performance against commitments, cash flow, near-term fiscal risks, and proposed policy responses. The publication of all these documents will include making them available on the ministry's website.

41. We will improve transparency and monitoring of fiscal risks from extrabudgetary units. We will expand of the coverage of extrabudgetary units in government finance statistics, to comply with GFSM2001/2014, specifically moving the large extrabudgetary government units into the general government perimeter. Guided by Fund TA we will strengthen Government Finance Statistics compilation, reconciliation, and reporting practices. In addition, fuel taxes (VAT and excise) will be recognized as government tax revenues starting in FY2025/26. Ministry of Finance will issue instruction to Ethiopian Petroleum Supply Enterprise to start remitting all federal fuel taxes to the Ministry of Revenue by December 2025 (Structural Benchmark, June-2025). To strengthen transparency, internal controls, and public investment management, we will discontinue the current practice of earmarking a portion of fuel VAT for the Road Fund and allocate federal government funding through the budget (Structural Benchmark, June-2025). New roads will continue to be

financed through the federal budget. The introduction of public sector obligations (PSO) framework, supported by the World Bank, will be an important step toward a comprehensive disclosure of quasi-fiscal activities and managing fiscal risks.

F. Public Debt

42. Supported by the financing provided by the IMF-supported program, we will work toward reaching an agreement in principle (AIP) with official creditors by the time of the second review and with bondholders in parallel. We made a formal debt treatment proposal to the Official Creditor Committee (OCC) on October 16, 2024. On October 23, the co-chairs of OCC offered us reassurance that “sufficient progress towards an agreement in principle by the time of the second review” is being made. Subsequently, after AIP, a Memoranda of Understanding (MoU) will specify: (i) the reduction in debt service during the period determined by the parties to the MoU; (ii) the extension of the duration of payments and, if necessary; (iii) the reduction in the present value of payments. These parameters would guide the implementation of relief by other official bilateral and private creditors through bilateral agreements following comparable treatment. An active engagement with Eurobond holders continues seeking a restructuring on comparable terms to the official creditors. We held a global investor call on October 1, 2024, to update Eurobond holders on the latest macroeconomic developments and the debt restructuring discussion with the OCC. During the IMF Annual Meetings in October 2024, we held a follow-up meeting with the Eurobond creditor committee (representing more than 40 percent of the principal).

43. We continue our efforts to resolve arrears. The government is making best efforts to resolve external arrears. The arrears are “deemed away” under the IMF’s policy on arrears to official bilateral creditors, as the underlying CF agreement is adequately representative the creditors have consented to proceed with the program in accordance with the IMF’s policy on arrears to official bilateral creditors. No new external arrears will be accumulated in line with our commitment to a zero limit on accumulation of external arrears (continuous performance criterion).

44. We will refrain from new non-concessional borrowing. The Government will continue to ensure that all public and publicly guaranteed (PPG) external financing agreements are on concessional terms (at least 35 percent of grant element) and are taken up at a pace consistent with the external borrowing plan (see Technical Memorandum of Understanding—TMU). This will be underpinned by a zero limit on contracting and guaranteeing PPG non-concessional borrowing (continuous performance criterion) and an indicative target on the PV of contracting and guaranteeing new PPG external borrowing (see TMU). An exception to the zero limit on non-concessional borrowing was granted by the IMF for a new loan to complete the Koysha hydroelectric dam project at program approval. Details of all new contracted loans will be communicated to the IMF. Finally, we remain committed to pursuing a disciplined fiscal policy and robust economic and export growth to reduce vulnerabilities to debt problems in future, particularly considering that there will be less restructurable debt after the debt treatment is concluded.

45. We are in talks with prospective lenders concerning the loan terms for the Koysha dam project. Efforts continue to mobilize concessional borrowing. The project is critical for our medium-term growth and poverty-reduction strategy and is already some 66 percent completed. Securing external financing and resuming construction are crucial to avoid incurring contractual penalties due to delays, potential termination, and overall construction cost increases. The project is expected to generate 1,800 MW of power upon completion, equivalent to 40 percent of Ethiopia's current generation capacity. Per capita electricity consumption is only 5 percent of the global average, and nearly 57 million people, primarily in rural areas, are without this essential service. Koysha is expected to underpin improved access to electricity, rural electrification, generate export revenues, and strengthen climate resilience.

46. We are taking measures to manage the legacy of domestic public debt, balancing fiscal sustainability with the gradual elimination of financial repression. This will support bond market development, credit allocation to the private sector and ensure that the cost of funding for the government is market determined, reflecting the opportunity cost of using investable funds. We are taking the following actions to phase out non-market-based financing of the public sector:

- Eliminating monetary financing of public deficits, and addressing the capital position of NBE comprehensively, including the stock of government debt. Direct advances from the NBE totaling 242 billion Birr at end-June 2024 were converted into a long-term bond with a maturity of 25 years and an interest rate of 3 percent in July 2024, pending review of NBE's capital needs.
- We intend to phase out the mandatory purchase of 5-year treasury bonds by financial institutions by repealing the Treasury Bond Purchase Directive No. MFAD/TRBO/001/2022 by end-June 2025 (structural benchmark). In 2024/25, we will require banks to purchase 55 billion Birr of 5-year T-bonds at 9 percent interest (minimum savings rate plus 2 percent). Thereafter, we intend to develop the market for longer-dated government securities exclusively through market-based mechanisms.
- We will propose a sustainable funding strategy for the Development Bank of Ethiopia (DBE) by the third review, and the requirement that financial institutions purchase DBE bonds will be removed before the fifth review of the program. In the interim, the yield on newly issued DBE bonds will be aligned to the yield of the most recent Treasury bond at time of issuance.
- We implemented a voluntary exchange of the stock of T-bills held by Public Servants Social Security Agency and the Private Organizations Employees' Social Security Administration at the end of June 2024 (266.4 billion birr) for a 13-year Special Bond paying 9 percent interest with a three year grace period, that (i) better matches duration of the pensions funds' assets and liabilities; (ii) protects pensioners through returns expected to keep pace with medium-term inflation; and (iii) provides substantial debt service relief to the Treasury.
- For all other purposes, we will rely on market-based domestic financing, notably through developing the T-bill market. We will inform Fund staff before taking any action to roll over or restructure public sector liabilities at rates below contemporaneous T-bill rates, including the T-bill exchange noted above.

47. We are strengthening debt management and transparency. We will develop a medium-term debt management strategy by the end of FY2024/25, with capacity development support as needed. We are enhancing the comprehensiveness and transparency of our debt disclosures by publishing in the public debt bulletin government guaranteed DBE bonds.

G. State-Owned Enterprise Policy

48. We have strengthened oversight and governance of the SOE sector. The creation of two entities holding the state's interests in SOEs (the Public Enterprise Holding and Administration Agency (PEHAA) in 2018, and Ethiopian Investment Holdings (EIH) in 2022) have substantially modernized and centralized SOE oversight and fiscal risk management:

- **PEHAA and EIH have made progress in addressing long delays in submitting audited accounts by SOEs and improved IFRS compliance.** The 2022/23 IFRS-based and audited financial statements for three critical SOEs, and the 2021/22 accounts for another four¹, were published (SB, end-September 2024). Consolidated financial statements for EIH for FY2022/23 are expected to be completed by February-2025. We are considering improving SOE management and development by consolidating management under EIH.
- **We are developing a comprehensive digital reporting system.** This system will enable MoF supervision of SOEs' key performance indicators and monitoring of financial relations between SOEs and the state, including financial flows (subsidies, lending, and tax obligations), implicit transfers (public service obligations—PSO, preferential tax regimes), and loan guarantees and contingent liabilities. The IT budget allocation has been approved and the project will be operational by June 2025.
- **The MoF fiscal oversight function will be strengthened to ensure centralized periodic, timely, and standardized SOE financial and performance indicator reporting.** An inaugural SOE sector risk report was published in May 2023, covering financial and operational performance of 21 SOEs in PEHAA's portfolio for the period 2018/19–2020/21. To build on this progress, we will establish a dedicated SOE Directorate tasked with central SOE oversight function and a clear mandate vis-à-vis EIH and PEHAA. The unit will provide high level data analytics and strategic insight into SOE sector regarding actual, potential, and contingent fiscal exposure, aggregated performance particularly related to policy delivery and safeguarding of public assets and financial return (dividend). The new SOE analytical report covering FY2023/24 will be published by September-2025.

49. We are developing a comprehensive legal framework governing SOEs. The new Public Enterprise law was approved in January 2024. To assess and recognize uncompensated SOE activities undertaken in the public interest rather than on a commercial basis, we will implement PSO

¹ The 2022/23 audited accounts will be published for Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), and Ethiopia Petroleum Supply Enterprise (EPSE), while Ethiopian Sugar Corporation (ESC), Ethiopian Railway Corporation (ERC), Ethiopian Engineering Group (EEG), and Ethiopian Construction Works (ECW) will publish 2021/22 audited accounts.

costing and disclosure regulations, beginning with pilots in the electricity sector by December 2025, and assess SOE performance in meeting their public service mandates. These measures will lead to transparent budgetary disclosure of and compensation for non-commercial services. Following the recent absorption of PEHAA, EIH will continue its role as a commercially oriented shareholder on behalf of the state for all but five SOEs, pressing for cost efficiency, good governance, and transparency for the sector. EIH has finalized a dividend policy with respect to its subsidiaries, prescribing transparent and sustainable profit retention and distribution that also considers the SOEs' investment plans and treasury financing and debt servicing needs. To ringfence public finances from SOE operations in line with Public Debt and Guarantee Issuance Directive (No 46/2017), we will refrain from further expansion of state guarantees.

50. We are taking measures to restore the viability of the three largest loss-making SOEs (EEP, ERC, ESC). The transfer to LAMC of the debts of the most indebted nonfinancial SOEs contributed to restoring their financial health. Further actions are required to improve their operational viability.

- **In the electricity sector:** The government has adopted, and the power utility company has implemented a 4-year electricity tariff adjustment plan, with quarterly price adjustment that commenced in mid-September (structural benchmark, end-September 2024). New tariffs provide for strong upfront improvement to the financial viability of power utilities, by delivering an over 50 percent increase in domestic sale revenue this fiscal year. Average tariffs will increase by 80 percent over the first 12 months, helping offset lack of the required adjustment over the previous three years. Poor and vulnerable households will continue to be protected through maintaining low tariffs for very low consumption brackets and the VAT exemption introduced with the new VAT regime. The adequacy of the tariff plan will be reviewed on an annual basis given prospective changes to the sector's cost structure arising from exchange rate, inflation, and other economic developments. A revised schedule of electricity tariff changes will be adopted by end-June 2025 to ensure full recovery of the sector's operational and debt service costs by 2028.
- **In the railway sector:** Building on efforts to strengthen standards and timeliness of SOE financial reporting, we are developing a strategy to address financial vulnerabilities and fiscal risk emanating from the Ethiopian Railway Corporation. Proposed reform areas include streamlining the fragmented infrastructure management and operations, including allowing the private sector to participate both in management and operations of the railway sector. To benefit from improved external competitiveness and strengthen its revenue potential, the Ethio-Djibouti Railways has recently launched new cargo container transport service. We aim to secure financial sustainability and continuity in the provision of public funding through targeting diversified funding sources, ensuring long-term commitments from the government, and developing sustainable cost recovery strategies. Further, by creating a robust institutional framework, we aim to attract private investors, leverage their expertise, and accelerate the development of a modern, efficient, and integrated railway network. Complementary measures include finalization of the legal framework for the liberalization of key logistics sub-sectors (dry port, freight, and logistics services) by end-December 2026.

- **In the sugar sector:** We have relaunched the privatization process for nine sugar estates to attract private sector investment to exploit Ethiopia's sugar industry potential and help recoup the large public investments in the sector. Direct negotiations on eight sugar companies are underway, with view to transfer of assets to successful private investors by end-December 2025. Finalizing the bid process, transferring ownership to successful investors by end-December 2025 will be a major milestone in propelling the Ethiopian sugar industry to become a leading regional exporter and a significant contributor to economic growth.

H. Financial Sector Policy

51. **Building on the restructuring and recapitalization of CBE in July 2024, we are implementing reforms to ensure that CBE can function as a commercially oriented and viable financial institution with clearly specified public obligations in a competitive financial sector.**

The World Bank's Financial Sector Strengthening Project (FSSP) is supporting the restructuring and recapitalization of CBE. With its support, we will:

- Reorient the operating model of CBE by setting a commercial mandate for CBE issued by EIH that sets long-term commercial expectations for the operation of CBE, and update CBE's strategic plan based on this mandate.
- Reform the governance framework of CBE by: (i) ensuring arm's length dealings with the public sector on commercial terms; (ii) appointing directors independent of the government for at least one third of positions on the board of directors; (iii) ensuring a robust risk governance framework; and (iv) enforcing through the NBE as independent supervisor, strict adherence to prudential regulations and directives.
- Review CBE's public policy obligations in the context of SOE policy. Maintaining tight financial controls and a cautious lending model will be important as the risk management framework is being strengthened.
- MoF and CBE will revise the memorandum of understanding on guaranteed lending to ensure that restructuring of guaranteed debts follows the regulations on debt restructuring by the second review.

52. **We will implement a strategic plan to maximize DBE's development impact, with support from the FSSP, by the end of 2025.** The strategic plan will include a revised business model focused on wholesale lending and a market-based funding strategy. Implementing a reformed risk management and governance framework aligned with global best practices for development finance institutions and the NBE's Corporate Governance Directive is a key component.

53. **NBE is strengthening the supervisory and regulatory framework for banks.** We aim to implement the Basel II framework, focusing on Pillar 1 requirements, by December 2025 with the support of IMF TA. With the support of World Bank TA, a risk-based supervisory framework will be developed by end-June 2025, encompassing directives on internal controls, risk management and a Risk Assessment Model (RAM). Supervisory guidelines aligned with Basel Committee standards will

address governance, risk management, and climate-related financial disclosures by end-2026. In addition, we will develop a robust financial stability framework, built on a Financial Stability Department, a Financial Stability Committee, and enhanced reporting through macro-prudential tools like stress testing and early warning systems.

54. The NBE has revised the asset classification and provisioning directive in June 2024 in accordance with international practices to ensure the prompt identification and provisioning of non-performing loans (NPLs), including with public entities, and appropriate recognition of non-performing guarantees. As the banking system transitions to align with the new directive, we will closely monitor NPLs and take appropriate regulatory action as needed. With the support of the World Bank, we will conduct technical and operational assessments to support the development of a Prompt Corrective Action Framework and a bank resolution regime.

55. The entry of new banks and the development of capital markets will help improve access to finance and the allocation of credit. Thirteen new banks have entered the market since September 2021, increasing competition. We will enhance banking regulation and supervision to strengthen: (i) measurement of FX exposures, interest rate, and funding risks and (ii) stress testing. We will review and update the regulatory framework to encourage foreign investment in the banking sector, and for mobile money institutions.

56. We are developing the capital markets. Formalizing existing over-the-counter markets in equities and debt securities will provide alternative sources of funding for firms, enhance risk sharing and support innovation—but this is likely a longer-term endeavor. The market will facilitate, and in turn be supported by the development of our pension and insurance industries. The Capital Market Proclamation (No 1248/2021), issued in 2021, provides the legal framework for regulating capital markets, including by establishing the Ethiopian Capital Market Authority (ECMA), and creating the Ethiopian Securities Exchange (ESX). ECMA is the regulatory body responsible for granting exchange licenses, setting the minimum admission criteria, and providing conditions for listing on the exchange. The sale of up to 10 percent of Ethio Telecom in an initial public offering will close at end-January 2025, with 100 million shares offered to domestic investors via Ethio Telecom’s mobile money platform, Telebirr.

- We are committed to developing the asset management industry, including by ongoing regulatory work on an industry directive supported by the Capital Market Proclamation that, among others, will establish a solid framework for the development of collective investment schemes (CIS). The CIS products will further expand financial inclusion and resource mobilization with funds invested in government and corporate fixed income instruments.
- Capital market development will be supported by clear and predictable taxation. The ECMA has engaged with the MoF in promoting favorable taxation policies as well as clarity and predictability of taxation treatment for capital market products. This includes the adoption, in principle, of the concept of taxation “neutrality” in relation to capital market products relative to alternative funding mechanisms, including bank lending and to direct investment.

I. Promoting Sustainable, Inclusive Growth

57. Tangible progress in reforming the business environment has been made under HGER, but gaps remain. The Commercial Code, enacted in 1960, was revised in 2021, including with respect to insolvency procedures and protection of the rights of minority shareholders. Sixty previously closed sectors and sub-sectors (e.g., logistics and telecom) have been opened to both domestic and foreign investment. Legal frameworks for contract farming have been put in place to provide alternative sources of finance and market access for farmers. Liberalization of the telecom sector has enhanced competition and paved the way for digital transformation. On mining, the “National Artisanal and Small-Scale Mining Strategy” was implemented to encourage formalization of the sector. Finally, a national ID is being rolled out which will provide the basis for increasing financial inclusion and public service delivery.

58. Structural reforms under HGER2.0 focus on creating a conducive trade and investment climate and increasing productivity across key sectors, which will contribute to poverty reduction and improving living standards. Retail and wholesale market structure will be modernized, including through sequenced liberalization. We are pursuing accession to global and regional trade agreements—including the World Trade Organization—to improve access to markets and support exports. Efforts will be stepped up to simplify and fully digitalize trade registration, licensing, certification, and customs polices. Rural land administration and use rights will be reformed to unlock economic value through investment. Financing strategies for agriculture will be implemented to allow for lease financing, movable collateral, and contract farming. Privatization of SOEs will continue, including partial privatization of Ethio-telecom, issuance of a second telecom license and the sale of eight sugar factories. The roll-out of the National Digital ID system will be completed. Strategic e-government initiatives will be launched to bring efficiency and effectiveness to public service delivery.

59. We are adopting policies to bolster climate resilience and food security. Ethiopia faces significant challenges from climate change. The Climate Resilient Green Economy Strategy defines adaptation and mitigation policies, building a green economy and meeting commitments made in our nationally determined contributions for greenhouse gas emissions under the Paris Agreement. Our essential infrastructure projects also consider adaptation to climate change, including on sustainable green energy generation and distribution, irrigation systems, and water reservoirs to ensure water security—a key consideration for food security. To further improve climate-aware planning and coordination between entities, we conducted a Climate Public Investment Management Assessment (C-PIMA) in March 2024, and completed a Country Climate and Development Report with the World Bank in February 2024. The recommendations of these reports will inform our policy agenda, including for potential borrowing operations with international financial institutions.

J. Economic Statistics

60. Improving the quality of economic statistics is a key priority under HGER2.0. In December 2023, the government adopted the Ethiopian Statistical Development Program (ESDP) to strengthening capacity to collect and process data and improve the economic data available to the public. We recently launched a new household expenditure survey, which will be carried out in four quarterly stages over FY2024/25 and serve as a key input to updating our National Accounts and Consumer Price Index statistics, including expanding information from more rural markets. We are revising the legal framework for statistics with a view to submitting it to the Council of Ministers by end-June 2025. We are preparing a rebasing of the national accounts to base year 2025/26 by December 2026. We will also conduct a diagnostic of national account statistics using the IMF Data Quality Assessment Framework by June 2026, with the support of Fund technical assistance. We will produce and publish annual and quarterly GDP by production and by expenditure after the rebasing. Based on the household expenditure survey, we will update the consumption basket and expand the coverage of the CPI by end-2025. Other priority areas include aligning data presentation with BPM6 for external sector statistics and government finance statistics.

K. Risks and Contingencies

61. The authorities stand ready to adjust policies if risks materialize. Downside risks to the program in the near-term include disruption from domestic conflict if this was to intensify; rising import costs due to new international commodity price increases; and potentially social unrest associated with higher inflation. An abrupt slowdown of global growth also presents a risk via its adverse effects on exports and potentially remittances. Over the medium-term, risks from climate change are salient. Climate shocks could exert pressure on food security and food prices. If these risks materialize, we stand ready to adjust our policies, in close consultation with IMF staff, to ensure the achievement of the program's objectives.

L. Program Design, Financing, and Monitoring

62. The ultimate responsibility for program monitoring and coordination will rest with the Ministry of Finance and National Bank of Ethiopia. To ensure coordinated implementation of the program, the MoF and NBE will consult with the other public institutions involved in meeting program objectives to track progress on various targets and reforms under the program. Similarly, the MoF will provide oversight responsibility for ensuring that public spending is compliant with budget limits.

63. The program will be monitored by the IMF's Executive Board. After two reviews, evaluation of progress in implementation of the policies under this program will henceforth occur through semi-annual reviews of the quantitative performance criteria (end-December 2024 and end-June 2025), indicative targets, and structural benchmarks, as presented in Table 1 and Table 2, respectively. Detailed definitions and reporting requirements for all performance criteria and indicative targets are presented in the Technical Memorandum of Understanding (TMU) attached to

this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes and presents the projected assumptions that form the basis for some of the performance assessments. The next review will take place on or after April 15, 2025. To this end, the government plans to:

- Not introduce or intensify restrictions on payments and transfers for current international transactions, introduce multiple currency practices, enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or introduce or intensify import restrictions for balance of payments purposes;
- Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

64. We will strengthen internal coordination and monitoring mechanisms to ensure strong program implementation. The MoF and the NBE will establish a Technical Committee to monitor and report program performance to the Minister of Finance.

65. The estimated residual financing gap over the 2024/25–2027/28 program period remains unchanged at US\$10.7 billion and is expected to be covered. In addition to US\$3.4 billion from the IMF, we expect US\$3.75 billion in budget support from the World Bank. The remaining gap of US\$3.5 billion will be filled by financing associated with debt treatment under the Common Framework.

66. The government believes the policies specified in this MEFP provide a foundation for sustaining growth, reducing inflation, and alleviating poverty, and we stand ready to take additional measures if required. The government will provide IMF staff with the information needed to assess progress in implementing our program as specified in the TMU and will consult with Fund staff on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make this letter and the TMU available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Executive Board approval.

67. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP and disbursement of the third loan installment, totaling SDR 191.7 million, out of a total four-year arrangement of SDR 2,556 million.

Table 1. The Federal Democratic Republic of Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024 – December 2025
(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2024 Prel. Initial level	Aug. 16, 2024 ¹ Performance Criteria			end-Sep 2024 Performance Criteria				end-Dec 2024 Performance Criteria	end-Mar 2025 Indicative Target	end-Jun 2025 Performance Criteria	end-Sep 2025 Indicative target	end-Dec 2025 Performance Criteria
		Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prog.	Prog.	Prog.	Proposed
Quantitative performance criteria													
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) ^{2/,3/}	150,000	N/A	N/A	N/A	42,000		-5,972	Met	69,000	95,000	106,000	76,000	105,000
Net international reserves (floor, cumulative change since previous June, US\$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	534	1,242	Met	500	400	400	400	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	384,000	N/A	N/A	N/A	86,000	N/A	153,542	Met	192,000	347,000	578,000	120,000	276,000
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10895	Met	0	N/A	-6,727	Met	0	0	0	0	0
<i>Continuous performance criteria</i>													
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US\$ millions) ^{4/}		0	0	Met	0	N/A	0	Met	0	0	0	0	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US\$ millions)		0	0	Met	0	N/A	0	Met	0	0	0	0	0
Indicative targets													
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) ^{3/,5/}	747,485	N/A	N/A	N/A	37,000	N/A	-641,825	Met	74,000	110,000	147,000	50,000	95,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) ^{6/}	9,000	N/A	N/A	N/A	6,500	N/A	2,370	Not Met	22,100	33,200	51,400	12,000	22,500
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US\$ millions)		N/A	N/A	N/A	2,000	N/A	248	Met	2,500	2,750	3,000	N/A	1200
Memorandum items:													
Official external grants disbursed to the government (US\$ millions, cumulative since previous June)	791				1211		1,225		1419	1629	1839	201	401
Official external loans disbursed to the government (US\$ millions, cumulative since previous June)	627				638		657		775	913	1,050	1,141	1281
Gross privatization proceeds (US\$ millions, cumulative since previous June)	0				0		0		0	0	0	163	325

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/Not all quantitative performance criteria and indicative targets were assessed at the First Review given data availability.

2/ Excluding on-lending from the general government.

3/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

4/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

5/ For the IT on gross claims on public enterprises by commercial banks, the Dec. 2024-December2025 test dates exclude changes in claims related to CBE recapitalization.

6/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

Table 2. The Federal Democratic Republic of Ethiopia: Structural Benchmarks

Measure	Rationale	Board Approved Target Date	Status
1. NBE to implement an emergency liquidity assistance framework for financial stability purposes provided at the discretion of NBE to viable (solvent) banks with adequate collateral and a funding plan to recover the liquidity situation of the bank.	Strengthen financial crisis and stability framework and support monetary policy implementation	End-September 2024	Not met; implemented with delay
2. NBE to submit to Parliament comprehensive draft legal amendments to the NBE Proclamation, to be prepared in consultation with IMF staff, with respect to the NBE's mandate, decision-making structure (internal check and balances and collegial implementation of decisions), accountability, transparency, and autonomy.	Update and modernize governance of the NBE	End-December 2024	
3. The NBE to finalize and publish audited financial statements for 2021/22–2022/23.	Update and modernize governance of the NBE	End-March 2025	Target date modified from January 2025
4. Ministry of Finance to start publication of a mid-year review on the implementation of the budget as of the middle of the fiscal year and a quarterly budget execution report for prior quarter, both for Federal Government.	Strengthen fiscal transparency	End-April 2025	
5. National Bank of Ethiopia to repeal directive (MFAD/TRBO/001/2022) obliging financial institutions to buy Treasury Bonds effective immediately.	Reduce financial repression and promote bond market development	End-June 2025	
6. Ministry of Finance to issue instruction to Ethiopian Petroleum Supply Enterprise to start remitting all federal fuel taxes to the Ministry of Revenue by December 2025.	Strengthen fiscal transparency and secure budget revenue	End-June 2025	
7. Council of Ministers to submit draft FY2025/26 budget for the Federal Government in line with IMF program's macro-framework.	Ensure fiscal targets consistent with program objectives	End-June 2025	
8. To strengthen transparency, internal controls, and public investment management, Ministry of Finance will allocate funding for the Road Fund through the Federal Government budget.	Strengthen PFM internal controls and public investment management	End-June 2025	New

Attachment II. Technical Memorandum of Understanding

Addis Ababa, December 18, 2024

1. This Technical Memorandum of Understanding (TMU) describes the performance criteria (PCs), indicative targets (ITs), and structural assessment criteria established by the Ethiopian authorities and the staff of the International Monetary Fund (IMF) to monitor the program supported by the Fund's Extended Credit Facility (ECF) arrangement, as described in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables. It also specifies the content, the periodicity, and deadlines for the transmission of data to Fund staff for program monitoring purposes.

A. Institutional Definitions

2. Unless otherwise specified, the government is defined in this TMU as the general government of Ethiopia, the National Bank of Ethiopia (NBE), the Liability and Asset Management Corporation (LAMC), and the state-owned or public enterprises.

3. The general government is defined for program monitoring purposes as the budgetary central government plus state governments and woredas, excluding state-owned enterprises and existing extra-budgetary funds (listed in the next paragraph). The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities, at federal, state, or local level, that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2014. The authorities will inform IMF staff on the creation of any such entities without delay.

4. Unless otherwise specified, state-owned or public enterprises refer to those entities that are principally engaged in the production of market goods or nonfinancial services and are owned or controlled, partially or fully, by the general government or units of the general government. For program monitoring purposes this definition will exclude the following entities: Addis Ababa and Regional Housing or other credit facilitators, and Ethiopian Airlines. The Liability and Asset Management Corporation (LAMC) will be treated as an extra-budgetary entity and not a state-owned enterprise. Existing extra budgetary funds excluded from the general government include the Fuel Price Stabilization Fund, Public Servants Social Security and Pension Fund, and the Road Maintenance Fund.

B. Program Exchange Rates

5. **Program exchange rates.** Reserve assets and liabilities will be converted into U.S. dollar terms at exchange rates and the gold price in effect on May 31, 2024, as follows:

Original Currency (1 unit, unless otherwise specified)	Value in US\$ (unless otherwise specified)
Special Drawing Right (SDR)/ African Development Bank Unit of Account	1.3257
Euro	1.0823
Japanese yen (per USD)	151.38
Pound sterling	1.2638
Chinese yuan (per USD)	7.2065
Canadian dollar (per USD)	1.3581
Norwegian krone (per USD)	10.7336
Swedish krona (per USD)	10.53543
UAE diram (per USD)	3.6725
South African rand (per USD)	18.9907
Gold (1 troy ounce)	2,164.400

Assets and liabilities denominated in other currencies will be evaluated based on their respective exchange rates with the U.S. dollar on May 31, 2024, as published in the IMF's *International Financial Statistics (IFS)*.

C. Quantitative Performance Criteria (QPC) and Indicative Targets (IT)

6. **Test Dates** for evaluating performance against performance criteria (PC) for the first, second and third reviews under the arrangements are August 16, 2024, September 30, 2024, and December 31, 2024, except for the continuous PCs, which remain effective continuously throughout the term of the Fund-supported program. Program reviews usually take place in between two test dates. The continuous PCs remain effective even during delays in reviews.

7. **The quantitative performance criteria listed below are those specified in Table 1 of the MEFP.** Definitions and adjusters (to account for factors or changes beyond the control of the government) for each criterion are specified in the subsequent sections. The quantitative performance criteria targets monitored and evaluated under the program are defined as ceilings or floors set on cumulative changes between June 30 immediately prior to the test date in question and the specified test date itself, unless otherwise indicated. The quantitative performance criteria are set as follows in paragraphs 8–12.

8. **Periodic PCs** that are evaluated as of each test date:

- Net financing of the general government primary balance (ceiling, cumulative change), (Section D).
- Net international reserves of the NBE (floor, cumulative change), (Section E).
- Net claims on the general government by the NBE (ceiling, cumulative change), (Section F).
- Tax revenue collected by the federal government (floor, cumulative change), (Section G).

To facilitate program monitoring, indicative targets for the periodic PCs described above will be set for March 31, 2025.

9. **Continuous PCs** that are evaluated on a continuous basis starting from program approval:
 - Contracting of external non-concessional borrowing by the government (as defined in paragraph 2) and provision of government guarantees on external non-concessional borrowing (zero ceiling), (Section H).
 - Accumulation of external payment arrears by the government (zero ceiling), (Section I).
10. **The following continuous conditionality will also apply:**
 - Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions;
 - Non-introduction or modification of multiple currency practice;
 - Prohibition of entering into bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement; and
 - Non-imposition or intensification of import restrictions for balance of payments reasons.
11. **Periodic indicative targets** evaluated as of July 31, 2024, September 30, 2024, December 31, 2024, March 31, 2025, and June 30, 2025 (with certain exceptions described below) are:
 - Claims on public enterprises by commercial banks (ceiling, cumulative change), (Section J).
 - Government Contributions to Productive Safety Net Programs (floor, cumulative change, evaluated at the end of Ethiopian calendar month immediately after the test/evaluation dates listed above), (Section K).
 - The present value of new external concessional borrowing contracted or guaranteed by the government, as defined in paragraph 2 (ceiling for the fiscal year ending June), (Section L).
12. **Continuous indicative targets** evaluated on a continuous basis during a fiscal year, starting from program approval are:
 - The amount of net foreign exchange sales by the NBE (Section M).

D. QPC on Net financing of the General Government Primary Balance

Definitions

13. **The net financing of the general government cash deficit**, including grants and the operations of sub-national (state and woreda) governments financed from local funds, will be monitored quarterly. Net financing will be measured below the line and will include:
 - **Net external financing of the general government**, excluding valuation gains and losses and changes to on-lending to public enterprises, evaluated at actual exchange rates. This will be based on data prepared for the debt bulletin by the debt management directorate at the Ministry of Finance (MOF), including relief received from debt operations.

- **Change in net domestic credit of the banking system to the general government** is defined as the change in outstanding claims of the banking system on the general government. The calculation of net domestic credit of the banking system will be based on monetary survey data compiled by the NBE and will include: (i) net claims on the general government by the NBE (see below for definition), (ii) loans and advances from commercial banks to the general government, and (iii) holdings of government securities (including bonds, notes, and Treasury bills), less (i) local currency deposits of the central and state and local governments at the NBE and commercial banks, (ii) foreign currency deposits of the central government at the NBE. The definition will exclude valuation gains and losses from government deposits denominated in foreign currency. As with net external financing, on-lending from domestic banks through the general government to public enterprises (if any) should also be excluded. For program monitoring purposes, any bonds issued by states or regional housing agencies for housing projects where the debt obligations will be transferred to the private owners of the housing units shall be excluded. The definition will exclude holdings of government securities issued to increase capital of Commercial Bank of Ethiopia and replace claims on LAMC and EEP.
- **Change in the net domestic nonbank financing to the general government.** These include (i) privatization receipts transferred from the privatization accounts to the budget, (ii) the change in the stock of outstanding government securities held by nonbank financial institutions (including pension funds, insurance companies), net of valuation changes, (iii) change in net credit from the domestic nonfinancial sector (including extra-budgetary funds classified outside the general government) to the general government minus (i) change in government financial assets with nonbank financial institutions, (ii) change in financial assets (either in the form of additional equity or loans) owned by the government with public enterprises as the counterparty (as a result of capital injections), and (iii) net flow from the general government to LAMC.

14. **Net financing of the general government primary balance (including grants)** is defined as the net financing of the general government cash deficit minus the consolidated interest bill of the federal and regional government budgets (general government is defined in paragraph 3 and the general government cash deficit in paragraph 13 of this memorandum).

15. **Total external grants to the federal and regional governments** are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants.

Adjustment Factor

16. **The ceiling on the net financing of the general government primary balance (including grants) will be adjusted relative to the baseline projections:**

- Upward by the amount of cumulative shortfall in external grants relative to the baseline projection up to US\$200 million at actual exchange rates.

- Upward by the cumulative excess in external project financing relative to the program projections evaluated in Birr terms at actual exchange rates. External project financing is defined as disbursements from bilateral and multilateral creditors to the general government for specific project expenditure.
- Upward by cumulative excess in the programmed privatization receipts transferred from the privatization accounts to the budget from privatization to non-resident investors.
- Downward by the full amount of any increase in the stock of budgetary arrears on social payments such as wages, pensions, social benefits accumulated since the beginning of the fiscal year.

E. QPC on Net International Reserves of the NBE

Definitions

17. **Net international reserves (NIR) of the NBE**, are defined as reserve assets of the NBE (i.e., the external assets that are readily available to, and controlled by, the NBE, as per the 6th edition of the IMF *Balance of Payments Manual*), minus the NBE's short term foreign exchange liabilities to residents and nonresidents, and Fund credit outstanding, including any use of it as budget support. Short-term liabilities refer to those that can be called immediately (e.g., FX demand deposits of banks, LAMC, public enterprises or the private sector) or have residual maturity of less than 1 year, including deposits, commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and other arrangements. All foreign currency deposits of the general government with the NBE will be excluded when calculating NIR. The performance criterion will be evaluated as the cumulative change in NIR between June 30 immediately prior to the test date in question and the specified test date itself (see Section O).

Adjustment Factor

18. **The floor on cumulative change in NIR** will be adjusted:
- Upward or downward for any deviation in the expected cumulative inflows of official grants and loans disbursed to the government from official development partners in foreign currency from the beginning of the fiscal year. The projected inflows of official grants and loans to the government are set out in the macroeconomic framework underpinning the program.
 - Upward or downward for any deviation in the programmed inflows from privatization to non-resident investors (see definition in Section N).
19. The total downward adjustment to the floor on cumulative change in NIR target for FY2024/25 is capped at US\$300 million. The total upward adjustment to the floor on cumulative change in NIR target for FY2024/25 is capped at US\$150 million.

F. QPC on Net Claims on the General Government by the NBE

20. **Net claims on the general government by the NBE** is defined as the stock of claims of the NBE on the general government, net of general government deposits with the NBE.

G. QPC on Tax Revenues Collected by the Federal Government

Definition

21. **Tax Revenues Collected by the Federal Government.** Total tax revenues collected are defined as the sum of revenues collected by the Ministry of Revenues from any of the following:

- (i) duties, taxes, and other charges on international trade;
- (ii) personal income tax of federal government employees (including on employment income, royalty income, dividends, interest, capital gains);
- (iii) profit (including repatriated profits) tax and sales (including value-added tax, and excises) taxes from enterprises assigned to the federal government (including sole proprietors subject to the turnover tax);
- (iv) taxes on gains from lotteries and gambling;
- (v) taxes from air, rail, and marine transport;
- (vi) taxes from rent of property assigned to the federal government;
- (vii) taxes and fees on licenses and federal services;
- (viii) stamp duties;
- (ix) personal income tax of staff of enterprises jointly assigned to the federal and regional governments;
- (x) profit tax, royalties, and rent from large scale mining, petroleum, and gas incorporated enterprises;
- (xi) any other excises not covered by the list thus far;
- (xii) all revenue assignments under the concurrent taxation powers of the federal and regional governments – namely, corporate income tax and dividend withholding tax on companies, profit and sales tax on enterprises jointly assigned to the federal and regional governments;
- (xiii) unclassified tax revenues minus corresponding refunds.

22. **To the extent that revenue assignments change** after the date of this Memorandum, and the federal government is entitled to levy and collect any other instruments not covered by the list above, revenue from such instruments should also be included from that moment. That may include taxes on private movable and immovable property and land use, as well as agricultural income tax and personal income tax of private employees. Total tax revenue collection will be defined, for each test date, as the cumulative sum of tax revenues collected since the beginning of the fiscal year. Note that any end of the month targets for this series refer to end of the respective Ethiopian calendar month, which typically ends on the 7th or 8th of the following Gregorian calendar month.

H. PC on Contracting of External Non-Concessional Debt by the Government and Provision of Government Guarantees on External Non-Concessional Debt

Definition

23. **For program purposes, the definition of debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to IMF Executive Board Decision No. 16919(20/103) adopted on October 28, 2020.¹

“For the purposes of these guidelines, the term “debt” is understood to mean a current (i.e., noncontingent) liability created by a contractual arrangement whereby a value is provided in the form of assets (including currency) or services, and under which the obligor undertakes to make one or more payments in the form of assets (including currency) or services at a future time, in accordance with a given schedule; these payments will discharge the obligor from its contracted principal and interest liabilities. Debt may take several forms, the primary ones being as follows:

- (i) Loans, that is, advances of money to the borrower by the lender on the basis of an undertaking that the borrower will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits), as well as temporary swaps of assets that are equivalent to fully collateralized loans, under which the borrower is required to repay the funds, and often pays interest, by repurchasing the collateral from the buyer in the future (repurchase agreements and official swap arrangements);*
- (ii) Suppliers’ credits, that is, contracts under which the supplier allows the borrower to defer payments until sometime after the date when the pertinent goods are delivered, or the services are provided; and*
- (iii) Leases, that is, agreements governing the provision of property that the lessee has the right to use for one or more specified period(s), generally shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purposes of the guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, apart from payments related to the operation, repair, or maintenance of the property.”*

According to the above-mentioned definition, debt includes arrears, penalties, and damages awarded by the courts in the event of a default on a contractual payment obligation that represents a debt. Failure to make payment on an obligation that is not considered a debt according to this definition (e.g., payment on delivery) does not give rise to a debt.

24. **External debt**, in the assessment of the relevant criteria, is defined as any borrowing from nonresidents. The relevant performance criteria are applicable to external debt contracted or guaranteed by the government, or to any private debt for which the government has provided a

¹ [IMF Policy Paper, Reform of the Policy on Public Debt Limits in IMF-Supported Programs—Proposed Decision and Proposed New Guidelines, November 2020.](#)

guarantee. Guaranteed debt refers to any explicit legal obligation for the government to repay a debt in the event of default by the debtor (whether payments are to be made in cash or in kind). Public sector external debt includes foreign-currency denominated obligations of NBE contracted on behalf of the national government (excluding newly contracted financing from the IMF and the General SDR allocation). Deposits made at NBE by foreign partners that have been used to support the BOP and are categorized as debt, in line with the treatment of similar deposits in the past. For program purposes, this definition of external debt does not include routine commercial debt related to import operations and maturing in less than a year.

25. **Medium- and long-term external debt** refers to external debt originally maturing in one year or more. **Short-term external debt** refers to external debt originally maturing in less than one year.

26. **For program purposes, a debt is deemed concessional** if it contains a grant element representing at least 35 percent. The grant element is the difference between the present value (PV) of the loan and its face value, expressed as a percentage of the loan's face value. The PV of a loan at the time of its signing date is calculated by discounting future principal and interest payments, based on the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Concessionality will be assessed based on all aspects of the loan agreement, including maturity, grace period, repayment schedule, front-end fees, and management fees. The calculation is performed by the authorities, using the IMF model,² and verified by IMF staff based on data provided by the authorities. For loans with a grant component of zero or less, the PV is set at an amount equal to the face value. In cases where a combination of financing instruments is involved, staff will need to assess, with support of necessary documentation provided by the authorities, if such a combination can be treated as a financing package for the purpose of determining if it is concessional under the Fund-supported program. To the extent a financing package is found to be concessional, the combined nominal amounts of the underlying instruments will be counted toward any debt limits on concessional debt.

27. **In the case of debt with a variable interest rate** represented by a reference interest rate plus a fixed margin, the grant element of the debt will be calculated on the basis of a program reference rate plus a fixed margin (in basis points) specified in the loan agreement. The program reference rate for variable interest rates will be based on the 10-year average projections made in the Fall or Spring edition, whichever is the latest, of the Fund's *World Economic Outlook* (WEO) until modified. Based on the April 2024 WEO projections, the program reference rate for these currencies, until modified, are shown below on a calendar year basis, using their averages over 2023–32. To convert to Ethiopian fiscal year, a simple average of two successive calendar years will be used (e.g., for 2022/23, simple average of 2022 and 2023 will be used). Where the variable rate is linked to a benchmark interest rate other than the six-month USD Secured Overnight Financing Rate (SOFR), a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

² <http://www.imf.org/external/np/spr/2015/conc/index.htm>

The Federal Democratic Republic of Ethiopia: Assumptions for Variable Interest Rate Set Limits		
	10-year average six-month Secured Overnight Financing Rate (SOFR), in percent	Spread (rate in currency noted minus US\$, in percent)
U.S. dollars	3.688	0.0
Euro	2.803	-1.0
Pound sterling	4.056	0.5
Other	3.316	-0.5

28. **External debt is deemed to have been contracted or guaranteed** on the date of signing a loan contract by authorized signatories of the government (as defined in paragraph 2). Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt. For program purposes, external debt denominated in currencies other than the U.S. dollar will be converted to U.S. dollars on the basis of the exchange rate as of the assessment date. Such conversions to U.S. dollars will be undertaken by the government and communicated to IMF staff.

29. **The performance criterion (ceiling) applies to the nominal value of new non-concessional external debt** and the nominal value of new concessional external debt, contracted or guaranteed by the government. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at US\$950 million over the duration of the program. Operations that resolve pre-HIPC arrears and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of end-June 2024, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt.

I. Continuous PC on Accumulation of External Payment Arrears by the Government

30. **External payment arrears** are defined as payments (principal and interest) on external debt contracted or guaranteed by the government that are overdue (considering any contractually

agreed grace periods). For the purposes of the program, the government undertake not to accumulate any new external payments arrears on their debt. The definition excludes arrears relating to debt subject to renegotiation (dispute or ongoing renegotiation). The performance criterion on the public and publicly-guaranteed external debt arrears is defined as a cumulative flow in gross terms from the date of program approval and applies on a continuous basis.

J. IT on Claims on Public Enterprises by Commercial Banks

31. **Claims on public enterprises by commercial banks** are defined as the stock of claims on public enterprises (as defined in paragraph 4 of this memorandum) by commercial banks. Claims on public enterprises by commercial banks shall consist of all domestic commercial bank claims on public enterprises, including loans, bonds, and other liabilities issued by public enterprises. The cumulative change in gross claims in public enterprises by commercial banks for FY2024/25 excludes the reduction in claims related to recapitalization of Commercial Bank of Ethiopia.

K. IT on Government Contributions to Productive Safety Net Programs

32. **Government Contributions to Productive Safety Net Programs (PSNP)** are defined as general government cash contributions to the rural and urban Productive Safety Net Programs. The IT will be measured using total government contributions to disbursements for both programs from Channel 1 and Channel 2 directorates in the MOF. End-of-month targets for this IT refer to end of the respective Ethiopian calendar month, which typically ends on the 7th or 8th of the following Gregorian calendar month.

L. IT on Present Value of New External Debt Contracted or Guaranteed by the Government

33. **An indicative target (ceiling) applies to the PV of new external debt contracted or guaranteed by the government, as defined in section H.** The ceiling applies also to debt contracted or guaranteed for which value has not yet been received. The ceiling is set in alignment with the external borrowing plan (prepared as per the template below). Operations that resolve arrears to pre-HIPC countries and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of end-June 2024, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt.

The Federal Democratic Republic of Ethiopia: External Borrowing Plan for 2024/25 (Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2024/25		PV of new debt in 2024/25 (program purposes)	
	USD million 1/	Percent	USD million 1/	Percent
By sources of debt financing	4,900	100	2,856	100
Concessional debt, of which 2/	3,950	81	1,906	67
Multilateral debt	3,600	73	1,683	59
Bilateral debt	350	7	224	8
Non-concessional debt, of which 2/	950	19	950	33
Semi-concessional 3/	-	-	-	-
Commercial terms 4/	950	19	950	33

1/ Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate

2/ Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.

3/ Debt with a positive grant element which does not meet the minimum grant element.

4/ Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

M. Foreign Exchange Intervention (FXI) Framework (ITs)

34. **The FXI rule allows but does not oblige, the NBE to intervene.** FXI will be conducted via auction that satisfies the following criteria: (i) access to bid at the auction is granted to all authorized dealers in good standing, in the wholesale FX market, to sell or make purchases of FX for themselves and on behalf of their clients; (ii) there should be no constraints imposed on the range or level of the exchange rates that bidders can submit; (iii) allotment at the auction should be determined solely on the basis of the bid prices submitted by participants to buy or sell FX.

N. Other Definitions

35. **Privatization** shall be understood to mean both the disposal to private owners by a government unit of equity, controlling or otherwise, in a public corporation or quasi-corporation (transaction in equity), and the disposal of intangible non-produced assets in the form of contracts, leases, and licenses, where a government unit grants a license for the economic ownership of an asset by allowing the licensee to use a natural resource (such as telecommunications spectrum) for an extended period, with little or no intervention.

36. **For the purposes of monitoring structural benchmarks, the following definitions will be used:**

- **Tax expenditure** is understood as any benefit under the tax code that deviates from the benchmark treatment of the code and whose benefit to the relevant taxpayers could be alternatively affected through government spending (such as through the provision of subsidies or other transfers to the relevant taxpayers).
- **Revocation of tax incentives** currently granted on a contractual, rather than legislative basis, entails grandfathering of existing incentives until the term of the original benefit (the case of corporate income tax holidays, for example). The revocation will therefore inhibit at a

first stage, the granting of new tax exemptions based on the definition of tax incentives provided above.

- **Subsidies are understood to include both explicit and implicit subsidies.** The former are defined as current unrequited transfers that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. In turn, implicit subsidies can include, but need not be limited to an official system of multiple exchange rates, payable tax credits, and losses of government trading organizations whose function is to buy products and then sell them at lower prices to residents or nonresidents as a matter of deliberate government economic or social policy, the central bank accepting interest rates lower than the prevailing market rates. The complete definition is included in the Government Finance Statistics Manual 2014 (6.89 and 6.90).

O. Reporting Procedures to the IMF

37. Data on all the variables subject to quantitative performance criteria and indicative targets and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown below. Revisions to data will be forwarded to the IMF within 5 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives.

38. To effectively monitor the program performance and development of economic situation, the Ethiopian authorities will provide the IMF with the information listed in next pages.

Table 1. The Federal Democratic Republic of Ethiopia: Reporting Procedures to the IMF

Information	Provider	Periodicity and Due Date
Gross international reserves and foreign liabilities of the National Bank of Ethiopia (NBE), reported by the amounts in the original currency of the assets and liabilities; and the weight (in oz.) of holdings of monetary gold. Breakdown between liquid and unencumbered reserves and reserves that are pledged, swapped, or otherwise encumbered	NBE	Weekly, within five business days of end of each week
Net domestic assets of the NBE	NBE	Monthly within six weeks of the end of each month
Reserve Money	NBE	Monthly within six weeks of the end of each month
Net claims on the general government	MOF/NBE	Monthly within six weeks of the end of each month
Regional government's fiscal data	MOF	Quarterly within twelve weeks of the end of each month
Domestic Arrears incurred by the government	MOF	Monthly within six weeks of the end of each month
External Arrears incurred by the government	MOF/NBE	Continuously with no lag
Claims on public enterprises by commercial banks.	NBE/MOF	Monthly within six weeks of the end of each month
Claims on entities excluded as SOEs in paragraph 4 by commercial banks, including, but not limited to, Addis Ababa and Regional Housing and Liability and Asset Management Company.	NBE/MOF	Monthly within six weeks of the end of each month
Federal Government Tax Revenue	MOF	Monthly within 45 days of the end of each month
Rural and Urban Productive Safety Net Program government's cash contributions	MOF	Monthly within six weeks of the end of each month
Stock of claims of the Ethiopian Petroleum Supply Enterprise on the Fuel Price Stabilization Fund	MOF	Monthly within six weeks of the end of each month
Consumer Price Index	NBE	Monthly within six weeks of end of each month
National Accounts, annual	NDPC	Within three weeks of any revision or data release
Composite Indicator of Economic Activity (quarterly) and underlying indicators	NBE	Within six weeks of the end of each quarter
Consolidated Budget Report of Federal and Regional Government	MOF	Quarterly within twelve weeks of end of each quarter
Monetary Survey	NBE	Monthly within six weeks of end of each month

Table 1. The Federal Democratic Republic of Ethiopia: Reporting Procedures to the IMF
(Continued)

Information	Provider	Periodicity and Due Date
NBE's outstanding credit to private commercial banks, CBE and DBE.	NBE	Monthly within two weeks of end of each month
Financial Soundness Indicators (aggregate and bank-by-bank), including capital to risk-weighted assets, capital to assets, NPLs to total loans, NPLs net of provisions to capital, return on assets, return on equity, gross interest income to total income, interest margin to gross income, non-interest expenses to gross income, liquid assets to total assets, and liquid assets to short term liabilities.	NBE	Quarterly, within eight weeks of the end of each quarter.
Lending and savings interest rates, interbank interest rates, term deposit rates.	NBE	Monthly, within 30 calendar days
Credit data on distribution by sector (private/public); credit to enterprises (by economic sector); and credit to individuals (by purpose).	NBE	Monthly, within 30 calendar days
Bank-by-bank financial data of commercial banks and the DBE, including balance sheets, income statements, net open foreign currency positions, NPLs and liquidity positions broken down by currency by template provided by the IMF	NBE	Quarterly, within eight weeks of the end of each quarter.
T-Bill and T-bond auction details	NBE	Bi-weekly, within five business days of each auction/placement
T-bill and T-bond purchases and outstanding stocks by institution.	NBE	Quarterly, within eight weeks of the end of each quarter.
Monetary policy operations and liquidity factors: weekly and monthly balances. Detailed table including: (1) intervention on the money market of the central bank (Birr); (2) deposit facilities; (3) ordinary tenders; (4) loan facility; (5) overnight lending; (6) all structural operations; (7) FX swap exchange; (8) open market operations; (9) minimum reserves; and (10) excess reserves (including by institution); (11) central bank policy rate; and (12) participation in open market operations by institution.	NBE	Monthly within 15 calendar days
Daily official exchange rate	NBE	Weekly, within five business days of end of each week
Daily foreign exchange intervention by the NBE: (i) US\$ amount in purchases and sales of foreign exchange in spot and derivative transactions by counterparty, respectively; (ii) US\$ amount in net sales of foreign exchange by the NBE in any 30-day rolling period; (iii) Daily cumulative net sales of foreign exchange by the NBE in a given quarter; (iv) Share of foreign exchange intervention by the NBE over total interbank market transactions; (v) Exchange rate at which the NBE buys or sells foreign exchange	NBE	Weekly, within five business days of end of each week

Table 1. The Federal Democratic Republic of Ethiopia: Reporting Procedures to the IMF
(Concluded)

Information	Provider	Periodicity and Due Date
Weekly US\$ amount of trade volume, in interbank market and foreign exchange bureaus, respectively	NBE	Weekly, within five business days of end of each week
Daily data underlying the FX benchmark calculation	NBE	Weekly, within five business days of end of each week
Interbank market transactions in the spot market for US dollars: total value transacted in US\$, total number of transactions, number of banks involved in transactions, average value transacted in US\$	NBE	Weekly, within five business days of end of each week
Gross international reserves	NBE	Weekly, within five business days of end of each week
Foreign exchange cash flows	NBE	Monthly, within ten business days of end of each month
BoP data: exports, imports, services, transfers, and capital and financial account transactions	NBE	Monthly, within six weeks of end of each month
Detailed international trade data on goods exports and imports by commodities	NBE	Monthly, within four weeks of end of each month
Imports by type of institutions (e.g., state-owned enterprises or government, and private sector)	NBE	Monthly, within four weeks of end of each month
New external debt obligations contracted and/or guaranteed (concessional and non-concessional) by the government of Ethiopia, including details on the amounts, terms, and conditions of each new obligation	MOF/NBE	Monthly, within four weeks of end of each month with details of the loans contracted (creditor, terms, projects, estimated grants element, and users—Federal government's direct use or other purposes etc.)
Outstanding stock of external debt, disbursements/issuance to the government (for Federal government, breakdown to include the amounts for on-lending to public enterprises), and debt service, by debtors, creditors, and type of debt	MOF/NBE	Monthly, within six weeks of end of each month
Disbursements of loans and grants to Federal government by each creditor/donor with breakdown into cash and non-cash components	MOF	Monthly, within six weeks of end of each month
Outstanding stock of domestic debt, disbursements/issuance, and debt service, by debtors, creditors, and type of debt	MOF/NBE	Monthly, within six weeks of end of each month
Monthly US\$ amount of foreign exchange sales by the National Bank of Ethiopia towards payments to suppliers of Ethiopian Petroleum Supply Enterprise—provided in the NBE cashflow table	NBE	Monthly within 15 calendar days
Public Enterprise Financial Statements (those under PEHAA and EIH)	MOF	Annually, end September.



December 18, 2024

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Hassan Zaman and Manuela Francisco (IDA) and Annalisa Fedelino (IMF)

The Debt Sustainability Analysis (DSA) was prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA), in consultation with the authorities.

The Federal Democratic Republic of Ethiopia: Joint Bank—Fund Debt Sustainability Analysis ¹	
Risk of external debt distress	<i>In debt distress</i>
Risk of overall debt distress	<i>In debt distress</i>
Granularity in the risk rating	<i>Unsustainable</i>
Application of judgement	<i>No</i>

Ethiopia faces political, economic, and humanitarian challenges. Support from the international community weakened notably during the two-year conflict in Tigray but is now resuming. Bunching of debt service in the near to medium term and adverse developments have led to the realization of debt repayment risks.

Ethiopia's debt is assessed to be unsustainable, mainly due to protracted breaches of exports-related external debt indicators and is based on a weak Debt Carrying Capacity (DCC).² Following a missed Eurobond interest payment in December 2023, the country is in debt distress. Timely implementation of the authorities' reform agenda and debt relief from external creditors are required to alleviate liquidity pressures and restore debt sustainability. The authorities have committed to achieving a moderate risk of debt distress rating by the end of the approved ECF arrangement. An Official Creditor Committee under the G20 Common Framework (OCC) was formed in September 2021, and agreed to suspend debt service due in 2023 and 2024 on November 9, 2023.

¹ This preliminary analysis is based on the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017.

² The downgrade to "weak" followed two successive weak signals in April and October 2022. The composite indicator based on the October 2024 World Economic Outlook (WEO) and 2023 World Bank Country Policy and Institutional Assessment (CPIA) data that was published in July 2024, is currently estimated at 2.47. Ethiopia's CPIA has trended down since 2020 and has been important contributor to the decline in the CI score.

Creditors provided financing assurances for a debt treatment consistent with the IMF-supported program and agreement with the authorities on a term sheet for debt treatment is on track by the second review. This assessment is based on the assurances provided by the co-chairs by letter to the Ethiopian authorities as well as the OCC meetings held on December 4, which reviewed debt treatment perimeter and the authorities' request for extension of the debt service suspension. Further OCC meetings on specific debt treatment proposals are expected in December 2024.

A. Public Debt Coverage

1. Debt coverage under this Debt Sustainability Analysis (DSA) is consistent with the LIC–DSF guidance and previous DSAs.³ In particular, the DSA includes Federal government debt, the central bank's debt to the IMF and two bilateral creditors, guaranteed nonfinancial public enterprises' debt, and non-guaranteed debt of Ethio-Telecom, a major telecommunication company.⁴ External debt is defined according to the residency principle. Notwithstanding the comprehensive coverage, staff assumes a larger contingent liability shock of 4.5 percent of GDP than the default level of 2 percent of GDP, to account for additional risks associated with large state-owned enterprises (SOEs). Financial market shock is assumed at 5 percent of GDP, the default level.

Text Table 1. The Federal Democratic Republic of Ethiopia: Coverage of Public and Publicly Guaranteed Debt and Parameters of Contingent Liability Shocks for the Tailored Stress Test

Public debt coverage	Sub-sectors covered
1 Central government	X
2 State and local government	X
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	X

1 The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0	None
3 SOEs debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	4.5	Potential liabilities, including from a policy bank and claims by Kayshe contractor
4 PPP	0 percent of PPP stock	0.0	None
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	None
Total (2+3+4+5) (in percent of GDP)		9.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1.) and risks associated with SOEs debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. The coverage of debt statistics is comprehensive. The authorities publish domestic and external debt statistics of the Federal government and SOEs on a quarterly basis.⁵ Debt reporting continues to improve under the World Bank's Growth and Competitiveness Programmatic Development Policy

³ The coverage differs from the official public debt data in two aspects: the DSA does not include Ethiopian Airlines but includes the deposits of two bilateral creditors at the central bank, as these deposits have the economic characteristics of debt (interest rate and a regular debt-service schedule until maturity, and that a public entity is responsible for servicing these debts) and meeting balance of payment needs.

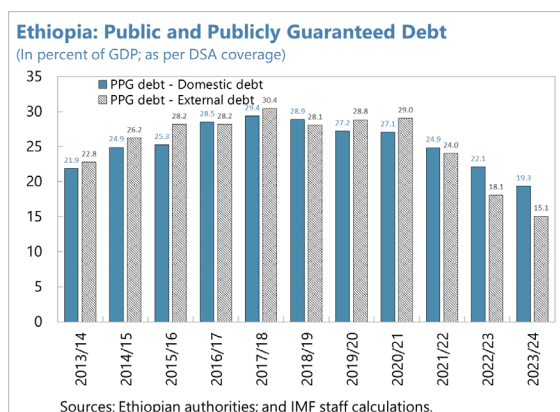
⁴ Ethiopian Airlines and Ethio Telecom are the only state-owned enterprises with non-guaranteed debt. Ethio Telecom's debt service payments are added to revenue as a proxy for the company's net income in the calculation of external debt service to revenue ratio as total operating profit is larger than the debt payments. The inclusion of Ethio Telecom debt service is a conservative estimate of its larger operating profit.

⁵ Debt bulletins are available on the Ministry of Finance website (<https://www.mofed.gov.et/resources/bulletin/>).

Operation series, with expanded coverage of SOE domestic debt in the quarterly debt reports and the publication of an annual debt report.⁶

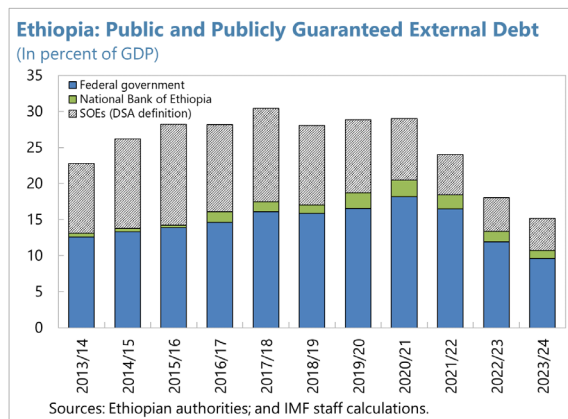
B. Background

3. Ethiopia's total public and publicly guaranteed debt as a share of GDP declined by about 14 percentage points between 2021/22 and 2023/24. Total public and publicly guaranteed (PPG) debt stood at 34.4 percent of GDP at end-June 2024, down from 40.2 percent of GDP a year before and 48.9 percent of GDP at the end of 2021/22. This decline mainly reflected low external disbursements combined with high nominal GDP growth, with the external debt-to-GDP ratio declining by about 9 percentage points. The domestic debt-to-GDP ratio also declined, rising less than nominal GDP. Debt owed by the Federal government and the central bank accounted for 78 and 6 percent of the total PPG debt stock, respectively, with the remainder owed by SOEs (16 percent).



External Debt

4. External debt accounted for 44 percent of total PPG debt as of end-June 2024. In 2023/24, PPG external debt amounted to 15.1 percent of GDP, down from 18.1 percent of GDP a year before. The decline mainly reflected lower disbursements to the Federal government, as official bilateral and market external creditors have mostly halted disbursements in response to Ethiopia's ongoing debt treatment under the G20 Common Framework (CF) and debt service standstill. The Federal government accounts for about 66 percent of total external debt, predominantly to the World Bank and other official creditors. For the SOEs included in the DSA, the PPG external debt ratio fell for the sixth successive year. This decline is due largely to active measures taken by the authorities to contain SOEs' external borrowing, including no new contracting of non-concessional external debt, consistent both with the International Development Association's Sustainable Development Financing Policy and a continuous performance criterion under the 2019 ECF-EFF program.



⁶ Further information about the transparency of Ethiopia's debt reporting practices, including changes over time, can be found on the World Bank's Debt Reporting Heatmap (<https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report>).

Text Table 2. The Federal Democratic Republic of Ethiopia: Public and Publicly Guaranteed Debt Profile

	Debt stock 1/ (as of end-June 2024)			Debt Service 2/ 2024/25 2025/26 2026/27					
	In US\$ million	In percent of total	In percent of GDP	In US\$ million			In percent of GDP		
				2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Total	70,486	100.0	34.4	5,497	5,855	6,117	4.2	4.1	3.7
o/w Federal government	55,019	78.1	26.8	4,396	4,266	4,323	3.3	3.0	2.6
External	30,842	43.8	15.0	2,969	2,248	2,399	2.3	1.6	1.5
International financial institutions	15,554	22.1	7.6	708	567	607	0.5	0.4	0.4
IMF	482	0.7	0.2	229	59	58	0.2	0.0	0.0
World Bank	12,090	17.2	5.9	379	401	437	0.3	0.3	0.3
AfDB/AfDF	2,208	3.1	1.1	56	60	65	0.0	0.0	0.0
Others	774	1.1	0.4	45	46	47	0.0	0.0	0.0
o/w IFAD	430	0.6	0.2	13	15	16	0.0	0.0	0.0
Bilateral official creditors 3/ 4/	12,236	17.4	6.0	761	1,335	1,310	0.6	0.9	0.8
Paris Club	1,925	2.7	0.9	177	191	190	0.1	0.1	0.1
o/w Italy	531	0.8	0.3	73	75	69	0.1	0.1	0.0
o/w Korea	366	0.5	0.2	0	0	1	0.0	0.0	0.0
Non-Paris Club	10,311	14.6	5.0	584	682	1,065	0.4	0.5	0.6
o/w China	5,175	7.3	2.5	335	632	603	0.3	0.4	0.4
o/w UAE	3,009	4.3	1.5	48	95	93	0.0	0.1	0.1
Bonds	1,066	1.5	0.5	1,099	0	0	0.8	0.0	0.0
Commercial creditors 4/ 5/	1,986	2.8	1.0	401	346	482	0.3	0.2	0.3
Domestic	39,644	56.2	19.3	2,527	3,606	3,719	1.9	2.5	2.3
Held by residents, total	39,644	56.2	19.3	2,527	3,606	3,719	1.9	2.5	2.3
T-bills 6/	7,811	11.1	3.8	...	...	...	...	...	...
Commercial banks	2,883	4.1	1.4	...	...	...	...	...	...
Non-bank financial institutions	4,929	7.0	2.4	...	...	...	...	...	...
Bonds 7/	12,866	18.3	6.3	...	...	...	...	...	...
Central bank	7,563	10.7	3.7	...	...	...	...	...	...
Loans	8,815	12.5	4.3	...	...	...	...	...	...
Central bank direct advance	4,221	6.0	2.1	...	...	...	...	...	...
Commercial banks	4,594	6.5	2.2	...	...	...	...	...	...
Transferred to LAMC	10,152	14.4	5.0	...	...	...	...	...	...
Held by nonresidents, total	0	0.0	0.0	...	...	...	...	...	...
Memo Items:									
Collateralized debt 8/	0	...	...	...	...	...	...	...	...
Contingent liabilities 9/	0	...	...	...	...	...	...	...	...
Nominal GDP (US dollar, end of period)	205,004	...	...	...	...	...	...	...	...

Sources: Ethiopian authorities; and IMF staff estimates and projections.

1/ Consistent with the DSA coverage and may differ from official debt statistics on external debt.

2/ Includes roll-over of T-bills.

3/ Includes loans backed by export credit agencies.

4/ Includes pre-HIPC arrears waiting to receive HIPC comparable treatment.

5/ Loans from commercial banks and credit suppliers non-backed by ECAs and loans backed by China export credit agency.

6/ Marketable T-bills issued under auctions since December 2019.

7/ Includes previously issued short-term debt (direct advance and T-bills) that were converted into bonds.

8/ No collateralized debt is reported.

9/ No significant contingent liabilities have been identified, with the debt perimeter comprehensive encompassing non-guaranteed SOEs debt.

- The bulk of external debt is debt to official creditors.⁷ IDA and official non-Paris club creditors accounted for about 39 and 33 percent of PPG external debt, respectively.

⁷ Ethiopia has pre-HIPC arrears to Libya, Russia, and the former Yugoslavia, totaling about US\$525 million as of end-June 2024, which are deemed away. Furthermore, there are about US\$32 million worth of external arrears to commercial creditors from the former Czechoslovakia, India, Italy, Bulgaria and the former Yugoslavia, all pre-dating the 1990s, which the authorities are also making good faith efforts to resolve.

Non-official creditors accounted for 10 percent of PPG external debt, including a US\$1 billion Eurobond maturing in December 2024 and SOE debt backed by China's export credit agency, which was classified as debt to official creditors under the previous DSA.

- IDA financing provided positive net transfers of US\$1.5 billion in 2023/24, from US\$1.7 billion and US\$1.1 billion in 2022/23 and 2021/22, respectively. Approved arrangements amounted to US\$3.2 billion in 2023/24 (see [WB website](#)).
- The IMF Executive Board approved a blended ECF–EFF arrangement of SDR 2.1049 billion (700 percent of quota)⁸ in December 2019, of which Ethiopia drew down SDR 223.85 million. In addition, following the COVID-19 shock, emergency financing was provided through a Rapid Financing Instrument for SDR 300.7 million (100 percent of quota or 0.4 percent of GDP) in April 2020. Debt service relief of obligations under the Catastrophe Containment and Relief Trust was provided until April 13, 2022 (about SDR 14 million).
- Ethiopia also received debt service relief via the G20 Debt Service Suspension Initiative (DSSI), for about US\$220 million over May 2020–June 2021. Ethiopia did not seek debt relief under the July–December 2021 phase of the DSSI.
- Principal repayments of bilateral deposits at the National Bank of Ethiopia (NBE) were reprofiled in 2020/21, for total relief during 2022/23–2025/26 estimated at US\$1.3 billion. The authorities have confirmed that there is no collateralized debt outstanding.

5. The authorities requested debt treatment under the CF in February 2021 and the Official Creditor Committee (OCC) was formed in September 2021. The request was to strengthen debt sustainability and improve the risk of debt distress rating to moderate by the end of the 2019 ECF–EFF arrangements, consistent with the Fund's exceptional access criteria. This requirement will remain under the current Fund-supported program. Eleven OCC meetings have already taken place, with the last one held in December 2024.

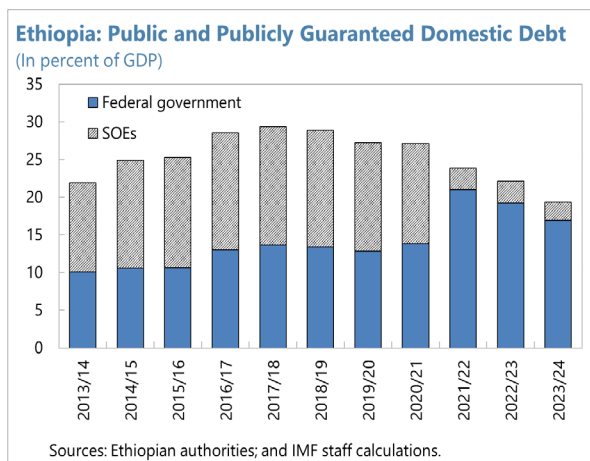
6. A standstill agreement was reached with official creditors in November 2023, suspending debt service due in 2023 and 2024. The debt service suspension is retroactive to January 1, 2023, and therefore resolves official arrears that had accumulated earlier. Ethiopia defaulted on its Eurobond obligations by missing coupon payments totaling US\$66 million in December 2023 and June 2024. The authorities have begun restructuring negotiations with bondholders.

Domestic Debt

7. The domestic debt to GDP ratio declined to 19.3 percent of GDP at end-June 2024. With SOE debt transferred to the Liability and Asset Management Corporation (LAMC) classified as government debt (5 percent of GDP at end-June 2024), the Federal government accounted for 87 percent of total domestic debt. Meanwhile SOE domestic debt fell from 13 in 2020/21 to 2.4 percent of GDP to end-June 2024.

⁸ Total access under the 2019 ECF–EFF arrangements were modified to 650 percent of quota via a reduction in the EFF access at the time of the Rapid Financing Instrument approval in April 2020 to comply with applicable policies on annual access limits. At the time of program approval in December 2019, PRGT access was subject to a hard cap of 300 percent of quota (which was removed in July 2021), hence the need for blending with GRA resources.

- Around one third of the Federal government's domestic debt is legacy debt issued at well below market rates,** including a long-term bond resulting from the conversion of past direct advances from the NBE, and debt issued for purposes of bank recapitalization. With scarce external financing, the government continued to rely mainly on domestic borrowing in 2023/24 through direct advances from the NBE and issuance of Treasury bills (T-bills).
- Treasury bill auctions began in December 2019 at the time of the approval of the ECF-EFF arrangements.** As of end-June 2024, the stock of T-bills stood at 3.8 percent of GDP down from 3.9 percent of GDP at end-June 2023. The weighted average yield, though still negative in real terms, has gone up (9–11 percent in 2023/24 from 1–2 percent offered on non-market instruments in the past). The stock of advances from the NBE increased to 2.1 percent of GDP at end-June 2024 from 1.5 percent of GDP at end-June 2023. The authorities reintroduced some financial repression measures, including mandatory commercial bank purchases of bonds issued by the Development Bank of Ethiopia (August 2021) and of non-marketable 5-year government bonds (November 2022).
- Domestic SOE debt is highly concentrated.** At end-June 2024, the Commercial Bank of Ethiopia (CBE), a large public sector bank, held virtually all SOE domestic debt including debt that was transferred to LAMC. More than 90 percent of this debt was owed by three troubled SOEs that were not regularly servicing their loans, which were publicly guaranteed. These loans were being systematically renewed and guarantees were not made effective.
- The authorities established LAMC to manage the SOEs' debt burden.** In August 2021, SOE domestic debt of nearly ETB 400 billion (9.4 percent of GDP) was transferred to LAMC, classified by staff as an extra-budgetary government agency, which in turn made repayments to the CBE using the local currency proceeds from the first telecom license auction held in late fiscal year 2020/21 (US\$850 million). Debt transferred to LAMC is treated as government debt. Outstanding debt carried by the agency increased to ETB 582 billion as of end-June 2024, from ETB 540 billion as of end-June 2023, as arrears on interest payments were capitalized.
- Domestic debt service costs are expected to rise over the medium term.** As the authorities continue to develop domestic debt markets and reduce financial repression, domestic financing costs are expected to rise, while providing a more reliable source of financing. The steep rise in the domestic debt service to revenue ratio (Figure 6) is partially explained by the authorities' commitment to reach positive real monetary policy rates by March 2025 and to rely on market-based financing (primarily short-term instruments in the near future). Interest rates are expected to moderate over time as declining inflation results in lower nominal yields, while bond market development will allow for a higher proportion of borrowing at medium- and long-term maturities.



In the near term, higher-than-forecast increases in funding costs and difficulties in rollover are risks. An increase in revenue mobilization, supported by tax policy measures, will reduce these risks, and help stabilize the debt service to revenue ratio.

- **Domestic debt markets will continue to deepen.** The IMF-World Bank assessed the stage of development of the local currency bond market in October 2023 and have proposed a reform plan to the authorities. The key stakeholders are due to agree next steps to begin the implementation of this reform plan in coming weeks with the support of IMF-WB TA. It is expected that the money market and primary market will be the focus of the initial reform agenda. Possible concrete steps, accompanied by a move towards market determined interest rates, include improving the issuance planning process and establishing the medium-term debt strategy.

C. Outlook and Key Assumptions

The DSA builds on the macroeconomic trajectory envisaged under the Fund-supported program that was approved in July 2024. This involves a full transition to market-determined exchange rate with positive effects on the current account and FDI, as well as a revenue-driven fiscal consolidation with safeguards on pro-poor spending. The transition to a flexible exchange rate regime has advanced well. The official exchange rate more than doubled since the reform, and there has been a significant narrowing of the parallel market premium, which has stabilized in single digits. FX availability has improved, with no evidence of a macroeconomically significant backlog in FX demand. Bid-offer spreads have narrowed, and an interbank FX market has begun to operate, with growing volumes.

8. The near-term outlook is challenging (Text Table 3).

- **Growth has moderated but has held up overall.** Average growth has fallen to 6.8 percent during 2019/20–2023/24 from over 9 percent per year in the decade to 2018/19 and was 8.1 percent for 2023/24. Favorable rainfall and expansion of irrigated crop-production have supported agricultural output, while uptick in electricity and mining bolstered industry sector growth.
 - Growth in 2024/25 is projected at 6.6 percent, with potential uncertainties linked to the transition to market-determined exchange rate offset by improving agricultural conditions and the easing of import shortages. Over the medium term, the competitiveness and allocative efficiency gains from exchange rate unification (reduction in policy uncertainty, correction of overvaluation, and better FX availability) and stronger policy framework (higher spending financed with domestic revenues and concessional external financing and a stable monetary policy framework with positive real interest rates) will support trend growth of 7.5–8 percent.
 - Between 2025/26–2033/34, average real GDP growth is projected at 7.3 percent, slower than historical rates of around 10 percent per annum over the two decades prior to 2019. The long-term projection reflects demographic factors (the median age is below 20 years) and expected productivity gains, including from reforms and economic transformation.

- ***Inflation has been relatively stable at high levels, with disinflation expected to gather pace in the medium term.*** The authorities are adopting an interest-rate based monetary policy framework, with low and stable inflation as the policy objective. Inflation declined moderately in 2023/24, with non-food inflation declining in response to fiscal and monetary tightening. Inflation has been below expectations in the first four months of 2024/25. Headline inflation fell to 17 percent in November from 18-19 percent in September and October, with food and non-food inflation declining. The impact of the exchange rate reform on inflation has so far remained contained. Gradual adjustment of key administered prices (fuel, fertilizers, electricity), price stabilization measures (food, medicines) have helped contain price increases.
 - Inflation is expected to peak around 25 percent in mid to late-2025 reflecting the full impact of the FX passthrough, and to reach single digits by 2028. The total impact of the passthrough on inflation has been and is expected to remain limited due to the low share of imports that were occurring at the official exchange rate in private consumption expenditure and evidence that price formation using the parallel market exchange rate is consistent with international prices. Tightening monetary policy by eliminating monetary financing and moving to positive real interest rates will help contain the second-round impact on inflation. Measures to mitigate the impact of price adjustments of essential imports (fuel, fertilizer, and medicines) will smooth the impact of exchange rate changes.
- ***The current account deficit is expected to increase in the near term, before narrowing in the medium term.*** The move to market-clearing exchange rate in 2024/25 and international financial support are expected to alleviate FX shortages and help rebuild international reserves from low levels. The current account deficit is expected to rise at first before settling at around 2.1 percent of GDP in 2027/28.
 - Imports of goods are forecast to increase from 8.8 percent of GDP in 2023/24 to 14.5 percent of GDP in 2024/25 due to FX shortages becoming less acute. As pent-up import demand is gradually cleared, imports of goods are expected to ease to 12.8 percent of GDP in 2027/28. As price and substitution effects weigh more, imports are expected to decline as a proportion of GDP. Imports have reacted relatively slowly to the exchange rate unification as a significant part of transactions were already completed at the parallel rate, while transactions that were completed at the official rate were for essential goods with relatively inelastic demand. Materialization of the pent-up demand and higher project financing from external creditors would both contribute to the rise in the goods imports-to-GDP ratio.
 - Goods exports are forecast to increase from 1.8 to 3.5 percent of GDP between 2023/24 and 2024/25. Actual export performance in 2023/24 was somewhat stronger than projected in the previous DSA. Trade data for Q1 2024/25 suggests an initial substitution effect response to FX reform including in gold and coffee exports. Exports of goods in Q1 2024/25 registered an 81 percent year-on-year increase, supported by a six-fold increase in gold exports and a 47.8 percent increase in coffee exports. The increase in gold exports reflects production moving to official from

informal export channels in response to improved price incentives. The increase in coffee exports is mainly due to inventory sales and a shift from the domestic to export markets following exchange rate reform. Goods and services exports are assumed to remain around 10 percent of GDP over the medium term after near doubling from 5.6 percent of GDP in 2023/24 to 9.6 percent in 2024/25, given Ethiopian Airlines strong prospects and expected positive effects from the exchange rate unification such as the diversification of export products and destinations. Considering the high GDP deflator, this is mirrored in nearly a doubling of exports in US\$ over the medium term. As continued growth will require new investment, and previous projections already include a substantial increase in exports, medium-term projections are unchanged.

- Private transfers (remittances and NGO transfers) are expected to recover to historical levels of about 5 percent of GDP, reacting positively to the exchange rate reform, paired with the removal of current account restrictions, which would reduce uncertainty and costs, incentives for informal transfers, and fears associated with the imposition of restrictions. Remittances in Q1 2024/25 increased by 26 percent year-on-year.
- **Foreign direct investment (FDI) is projected to recover as FX reforms take hold.** The proceeds from the partial privatization of Ethio Telecom, the auction of the second telecom license as well as potential privatization of 8 sugar factories are assumed to lead to inflows of US\$650 million in 2025/26. Moreover, the DSA does not include future telecom investments from private foreign companies, which the authorities estimate could add around US\$8 billion in additional foreign investment over the next 10 years. Over the medium term, FDI is expected to settle at around 3.0 percent of GDP, consistent with pre-COVID trends.
- **Revenue mobilization will anchor debt sustainability while safeguarding humanitarian and pro-poor spending.** The general government primary deficit is expected to narrow from 1.4 percent of GDP in 2023/24 to 0.7 percent of GDP in 2027/28, having already declined from a peak of 3.5 in 2021/22. Consolidation will be driven by tax revenue measures, while pro-poor spending will increase, and capital expenditure will partially recover to meet reconstruction needs.

9. The main risks to the outlook stem from domestic policy slippages, potential social discontent, and security challenges. Reform fatigue due to political and social pressures, could lead to delay in or reversal of policy measures. Macroeconomic conditions could threaten social stability through continued shortages or further increases in prices for essential goods, or by an expectations-led inflation-depreciation spiral arising from exchange rate reforms. Recurrent volatility in global commodity prices also poses a risk to the outlook, as do potential delays in the debt restructuring process. Deterioration in the domestic security situation could renew economic disruption and derail international support. Intensifying spillovers from regional conflicts also pose downside risks to the outlook. There is also upside potential if security conditions continue to improve, strengthening the economic recovery and unlocking investment.

Text Table 3. The Federal Democratic Republic of Ethiopia: Key Macroeconomic Assumptions

Fiscal year ending June	2024/25	2025/26	2026/27	2027/28	2028/29	Average (2029/30- 2043/44)
Real GDP Growth (annual percent change)						
Current DSA	6.6	7.1	7.7	8.0	7.8	6.2
2024 July ECF approval DSA	6.5	7.1	7.7	8.0	7.8	6.2
Current Account Balance (percent of GDP)						
Current DSA	-4.4	-3.0	-2.5	-2.1	-2.1	-2.3
2024 July ECF approval DSA	-4.3	-3.2	-2.5	-2.0	-1.9	-2.3
Exports of goods and services (percent of GDP)						
Current DSA	9.6	9.9	10.0	10.2	10.0	9.3
2024 July ECF approval DSA	8.9	9.6	10.0	10.4	9.9	9.3
Exports of goods and services (annual percent change)						
Current DSA	7.7	12.6	16.5	16.3	9.7	10.6
2024 July ECF approval DSA	7.9	15.0	17.3	17.0	7.1	9.4
Fiscal balance, including grants (percent of GDP)						
Current DSA	-1.7	-2.0	-1.9	-1.8	-1.6	-1.6
2024 July ECF approval DSA	-1.7	-2.1	-2.0	-2.0	-2.0	-2.0
International reserves (billions of U.S. dollars)						
Current DSA	3.1	5.3	7.3	10.4	11.7	21.8
2024 July ECF approval DSA	2.8	5.1	7.0	10.2	11.5	20.9
General government revenue (percent of GDP)						
Current DSA	8.5	9.8	10.8	11.2	11.4	11.8
2024 July ECF approval DSA	8.3	9.8	10.8	11.2	11.4	12.0
Grant element of new external borrowing						
Current DSA	35.1	43.5	41.3	31.5	48.3	51.4
2024 July ECF approval DSA	34.4	44.0	41.2	31.5	48.3	51.4
Nonconcessional debt disbursements (billions of U.S. dollars)						
Current DSA	0.05	0.20	0.27	0.30	0.09	0.00
2024 July ECF approval DSA	0.05	0.20	0.27	0.30	0.09	0.00

Source: IMF staff projections.

10. The fiscal adjustment is driven by tax policy measures, the recovery of the tax base from recent shocks and by continued restraint of SOE borrowing. The DSA realism tools do not indicate that the projected fiscal adjustment is unrealistic, with the primary balance adjustment below the top quartile of the historical distribution of comparator countries. Furthermore, the risk that the adjustment proves infeasible is mitigated by the specific measures under the program to raise revenues, including (i) the broadening of the excise tax base and switching to a specific excise tax system with higher rates on alcohol, tobacco, and fuels; (ii) removal of VAT exemptions; (iii) introduction of a motor vehicle circulation tax; and (iv) recovery of the tax base from the historical lows reached during the pandemic and conflict. The program envisages a limit on domestic bank borrowing by SOEs to supplement the zero limit on non-concessional external borrowing and reforms to the electricity tariff framework with a view to further reducing the total SOE debt to GDP ratio. Lower investment and a diminished growth contribution from public investment than expected in the previous DSA are mitigated by a pick-up in productivity through more efficient resource allocation as FX rationing and market distortions stemming from the exchange rate ease, and by the increase in spending on education, health, and social safety net (Figures 3 and 4).

11. Program-supported reforms reducing financial repression and exchange rate distortions underpin a consolidation of quasi fiscal activity and increase fiscal transparency. Moving to positive real interest rates and phasing out of mandatory purchase by banks of Treasury and Development Bank of Ethiopia bonds at sub-market interest rates will eliminate subsidized lending to SOEs and government from captive domestic savers. Recapitalizing CBE with government securities enables writing off CBE's claims on LAMC and provisioning of non-performing exposures to SOEs recognizes historic costs of subsidized lending to SOEs on-budget. Eliminating real exchange rate overvaluation lifts the implicit tax on exporters previously obliged to surrender FX at a below market exchange rate as well as the implicit subsidy to fuel and fertilizers which were imported at the favorable official rate. Subsidies are brought on-budget, and the impacts of the reforms managed through targeted cash transfers to vulnerable groups.

12. World Bank supported reforms complement and reinforce program support. The focus of World Bank policy engagements through its Development Policy Operations, projects, and through the Sustainable Development Financing Policy (SDFP) reinforce areas of the IMF-supported program. Relevant areas of reform engagement and this DSA include the strengthening of the financial sector (with a focus on the Commercial Bank of Ethiopia); improving fiscal and SOE financial transparency and reporting; revenue mobilization; and broader structural reforms to improve the growth and export environment.

13. This DSA makes the following assumptions on external and domestic financing and debt servicing:

- New debt projections add to debt outstanding as of end-June 2024. All bilateral sovereign deposits at NBE including the recent deposits from a non-OCC country are categorized as debt, as these deposits have been used to meet BOP needs, and in line with the treatment in the past. No contracting or guaranteeing of new non-concessional external loans is assumed during the duration of the arrangement, with one exception: the authorities have requested an exemption from the zero-limit on non-concessional borrowing for the macro-critical Koysha Hydroelectric Dam project (US\$950 million).⁹ The ECF includes a present value-based indicative target on overall external borrowing that is consistent with the authorities' borrowing plan and debt sustainability (text table 4).
- The overall IDA project financing envelope is expected to reach about US\$1.8 billion by 2027/28. Most of IDA envelope is assumed to be in loans, consistent with the LIC-DSF guidance that regular credit terms on IDA lending should be assumed in all years for which grant finance has not already been committed.
- A revised debt service schedule is used, based on outstanding debt as of end-June 2024 (the new schedule is also reconciled between the authorities' financial advisors and the OCC secretariat for end-June 2023 stock, and includes the debt service schedule for loan disbursements in 2023/24). This differs from the debt service schedule used in the previous DSA, which included staff's estimate of the standstill impact.

⁹ The authorities could not mobilize concessional financing to finalize the Koysha dam project despite sustained efforts. The project is critical for generating export revenues, rural electrification, and meeting climate change policy goals and is already two-thirds complete.

- A residual financing gap of US\$10.7 billion during the program period is assumed. Reserve adequacy would be brought to about 3.5 months of import coverage by the end of the program. The Fund would contribute about a third of resources to fill the gap. Besides IMF financing, the remaining gap is assumed to be financed by US\$3.75 billion of budget support from the World Bank and debt relief from the OCC, proxied by the issuance of a net present value neutral bond. The World Bank disbursed US\$1.5 billion of budget support in August 2024. No assumption on the parameters and modality of the needed debt treatment is made.

Text Table 4. The Federal Democratic Republic of Ethiopia: External Borrowing Plan for FY2024/25¹

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2024/25		PV of new debt in 2024/25 (program purposes)	
	USD million ¹	Percent	USD million ¹	Percent
By sources of debt financing	4,900	100	2,856	100
Concessional debt, of which²	3,950	81	1,906	67
Multilateral debt	3,600	73	1,683	59
Bilateral debt	350	7	224	8
Non-concessional debt, of which²	950	19	950	33
Semi-concessional ³	-	-	-	-
Commercial terms ⁴	950	19	950	33

1 Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate

2 Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.

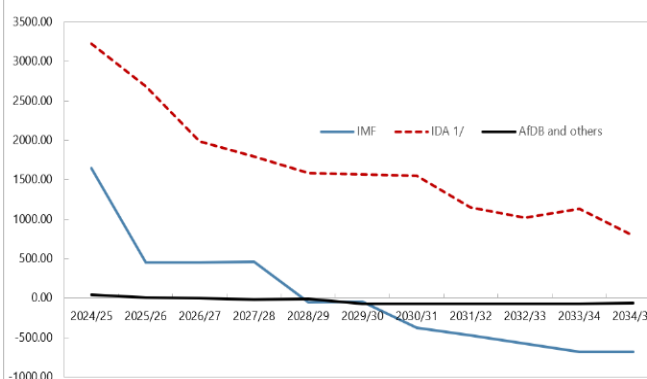
3 Debt with a positive grant element which does not meet the minimum grant element.

4 Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

- For domestic debt, the program balances phasing out of non-market-based financing of the public sector and maintaining fiscal sustainability:
 - In July 2024, the authorities issued 899 billion Birr of 13-year government securities to write off all CBE claims on LAMC (580 billion birr) and fully provision nonperforming SOE exposures (263 billion birr) and bring CBE's capital adequacy ratio to the regulatory minimum (54 billion). This has no material impact on domestic debt level since CBE's claims on LAMC and SOEs were already part of domestic PPG debt in the DSA.
 - Monetary financing of fiscal deficits has been eliminated starting in FY2024/25.
 - The mandatory purchase of 5-year treasury bonds at sub-market interest rates by commercial banks will be phased out by end-June 2025, with an intention to develop the market for longer-dated government securities.
 - The requirement that financial institutions purchase DBE bonds will be removed before the fifth review of the Fund program.

- A voluntary exchange of the current stock of T-bills held by Public Servants Social Security Agency and the Private Organizations Employees' Social Security Administration for 13-year securities was conducted in July 2024. The exchange provides debt service relief to the Treasury and an instrument that better matches the pension funds' asset and liability durations.
- Direct advances from the NBE totaling 242 billion Birr at end-June 2024 have been converted into a long-term bond with a maturity of 25 years and an interest rate of 3 percent.
- In future, domestic financing needs will be covered by market-oriented instruments. The government's net domestic financing is projected to shift predominantly to T-bills with market-determined interest rates, while SOEs are assumed to issue medium to long-term bonds. Interest rates will rise to positive levels in real terms over the medium term, consistent with the phasing out of financial repression under an interest rate-based monetary policy framework. Before the transition to fully market-based instruments is complete, the lower costs associated with legacy domestic debt instruments paying sub-market interest rates and the pension funds' voluntary conversion of short-term debts into longer-term bonds provides significant real debt service relief to the government.

Ethiopia: Net External Financing from IFIs
(In US\$ million)



Sources: IMF staff projections.
1/ Includes project grants.

D. Country Classification

14. Ethiopia's debt carrying capacity is weak, due fundamentally to the decline in FX reserves.

The Composite Indicator (CI)—based on the IMF World Economic Outlook projections in October 2024 and the World Bank's 2023 Country Policy and Institutional Assessment (CPIA) score that was published in July 2024—stands at 2.47, which corresponds to a weak signal. Ethiopia's debt carrying capacity was downgraded to "weak" in October 2022 after two consecutive weak signals driven by low FX reserves and a slight decline in CPIA.

E. External Debt Sustainability Analysis

Baseline

15. Public and publicly guaranteed (PPG) external debt is expected to decline over the projection period, but three indicators consistently breach their indicative thresholds. The debt service-to-revenue ratio and the two exports-linked external debt ratios present protracted breaches,

reflecting two main factors: (i) high and bunched debt service from SOE investment projects and repayment of the US\$1 billion Eurobond in December 2024; and (ii) the low level of exports. Finally, the PV of debt-to GDP ratio remains well below its indicative threshold for the entire projection period (Figure 1).

Standardized Stress Tests

16. The standard stress tests highlight vulnerabilities to export shocks. Adverse shocks to exports would exacerbate external debt servicing pressures and difficulties in financing external and domestic needs (Figure 1). In the case of the two exports related indicators that consistently breach the thresholds, the breaches become larger. Implementation of FX reforms, building FX reserves, and materialization of upside risks to exports from a better-than-expected response to reforms or the impact of faster global growth, would help strengthen external debt sustainability. The debt service-to-revenue ratio experiences larger and persistent breaches under a one-time exchange rate depreciation shock, which points to risks of devoting significant amount of revenue to external debt service at the expense of cutting priority spending under a sharp depreciation scenario.

17. Indicators of market financing risks remain elevated. The EMBI spread is at distressed levels, well beyond the LIC-DSF benchmark of 570 basis points. The relatively contained external financing needs lead to a moderate rating for market financing risks under the LIC DSF. A return to market access is unrealistic at current spreads and is neither foreseen by the authorities nor necessary to meet external financing needs. Market financing risks are currently assessed as moderate per the mechanical risk rating under the LIC DSF (below the LIC DSF benchmark of 14 percent of GDP for signaling market-financing pressures) (Figure 5). Gradual consolidation of the public sector including SOEs, along with deepening of financial markets through the opening of banking sector to foreign investors and the growth of pension funds, can mitigate domestic financing pressures.

F. Public Debt Sustainability Analysis

Baseline

18. The present value of overall public debt/GDP ratio is projected to steadily decline, with breaches only in 2024/25. As public sector consolidation takes hold and the external debt situation improves with continued restraint on borrowing, the PV of public debt/GDP ratio will stay below the applicable threshold throughout the projection period (with a one-off breach discounted). Gross financing needs are projected to average around 6 percent of GDP during the program period through 2027/28 (below the LIC-DSF benchmark of 14 percent of GDP) and stabilize at around 9 percent of GDP by 2033/34. This need is expected to revert to normal levels, alongside an anticipated increase in the real cost of new domestic borrowing over the medium to long term. Should downside risks of public sector balances lead to larger fiscal needs in the near term, the authorities' commitment to consolidation during the Fund-supported program would help contain the risks to public debt. The PV of public debt-to-revenue also remains on a downward trend.

Text Table 5. The Federal Democratic Republic of Ethiopia: Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.260	1.26	51%
Real growth rate (in percent)	2.719	7.032	0.19	8%
Import coverage of reserves (in percent)	4.052	15.766	0.64	26%
Import coverage of reserves ² (in percent)	-3.990	2.486	-0.10	-4%
Remittances (in percent)	2.022	4.250	0.09	3%
World economic growth (in percent)	13.520	2.967	0.40	16%
CI Score			2.473	100%
CI rating			Weak	

New framework

	Cut-off values	
Weak	CI <	2.69
Medium	2.69 ≤ CI ≤	3.05
Strong	CI >	3.05

APPLICABLE**EXTERNAL debt burden thresholds****PV of debt in % of**

Exports	140
GDP	30

Debt service in % of

Exports	10
Revenue	14

APPLICABLE**TOTAL public debt benchmark**

PV of total public debt in percent of GDP	35
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Standardized Stress Tests

19. Overall public debt is susceptible to the materialization of contingent liabilities. The PV debt/GDP ratio rises to 42 percent in 2025/26 under combined contingent liabilities shock but remains below the threshold from 2027/28 onwards.

20. Risks from Ethiopian Airlines appear negligible in the near term The airline, which is excluded from the DSA, adjusted well to the COVID shock with support from a strong balance sheet at the beginning of the crisis and active measures, including changes in business focus to cargo. This operational shift allowed the company to achieve record profitability. The authorities have conveyed that Ethiopian Airlines does not intend to seek government support.

G. Risk Rating and Vulnerabilities

21. Ethiopia's debt is assessed to be unsustainable, mainly due to protracted breaches of exports-related external debt indicators. Following a missed Eurobond interest payment in December 2023, the country is in debt distress.

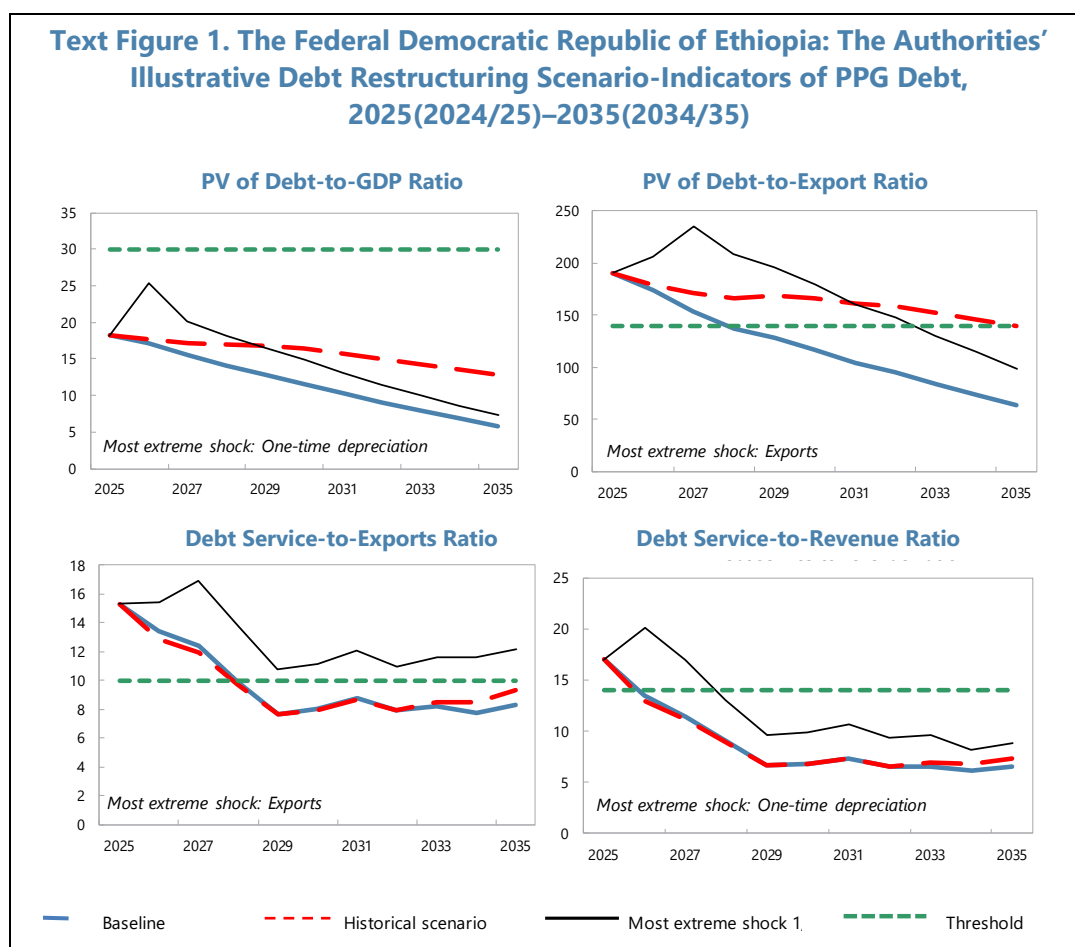
22. Successful completion of debt treatment and implementation of the reform agenda would restore debt sustainability and allow exit from debt distress. Ethiopia's DCC is classified as weak, because of low reserves and recent modest declines in the CPIA. In relation to the debt thresholds for weak DCC, there are protracted breaches of the two exports-related indicators and of the debt service to revenue ratio, indicating both liquidity and solvency pressures. The PV of external debt to GDP ratio remains below the threshold for the entire projection period in both the baseline and the most extreme shock scenario. All remaining external debt burden indicators exceed their thresholds for a protracted period under both the baseline and the most extreme shock scenario, with stress tests indicating vulnerabilities to export and depreciation shocks. The combination of prudent macroeconomic policies, including a move to market clearing exchange rate and export diversification, fiscal and debt conditionality, improved SOE governance, and the debt treatment would all contribute towards reducing debt vulnerabilities. A drawn-out debt restructuring process would however slow the reduction in debt vulnerabilities.

23. An external debt treatment is needed for Ethiopia to close financing gaps over the program period and to help achieve a moderate risk of debt distress by the end of the requested Fund-supported program. To close the BOP financing gap, required debt relief during the program period (2024/25–2027/28) amounts to about US\$3.5 billion. To bring Ethiopia's risk of debt distress to "moderate" over the medium term, debt relief would need to bring the three binding external debt burden indicators below the thresholds (140 for PV of debt-to-exports ratio, 10 for debt service-to-exports ratio and 14 for debt service to revenue) by the end of the program period and remain so over the DSA projection horizon.

24. The OCC provided financing assurances for a debt treatment consistent with the IMF-supported program and is on track to reach agreement with the authorities on a term sheet for debt treatment by the second review. The authorities made a formal debt treatment proposal to the OCC on October 16, 2024. The co-chairs offered the authorities reassurance on October 23 that "sufficient progress towards an agreement in principle by the time of the second review" is being made. An OCC meeting took place on December 4 to review the debt treatment perimeter, the cut-off date and the authorities' request for an extension of debt service standstill until the Memorandum of Understanding (MOU) on debt treatment is signed. Further meetings on proposed terms are expected later in December 2024. The authorities have also taken important steps towards discussing debt restructuring on comparable terms with private creditors. Following a Global Investor Call on October 1, 2024, which provided an update on recent economic developments and included an illustrative debt treatment option, the authorities met the Eurobond creditor committee (representing more than 40 percent of principal) during the IMF/WB Annual Meetings.

25. The post-restructuring DSA incorporating the authorities' illustrative debt treatment proposed to the OCC indicates that the debt vulnerability rating is expected to improve to

moderate risk of debt distress by the end of program (July 2028). In the illustrative scenario, all indicators fall under the thresholds starting in 2027/28 (2028 in the figure below). The PV of debt-to-exports and the debt service to export ratios reach the thresholds in the last year of the program, with no “buffer”, reflecting balanced risks to the macroeconomic outlook, while indicators in the baseline remain comfortably below thresholds in the post-program period. The OCC secretariat is preparing debt restructuring options, including the authorities’ proposal. Following the supplement to the 2018 guidance note on the LIC-DSF, the official sector debt treatment will be only incorporated in the baseline after a memorandum of understanding is agreed by the OCC and the authorities.



H. Authorities’ Views

26. The authorities broadly agreed with the overall assessment of the country’s debt sustainability. Debt sustainability is expected to be restored through a debt restructuring, development partner support, and the reforms contemplated under the Fund-supported program. The authorities are committed to further improve debt management.

Table 1. The Federal Democratic Republic of Ethiopia: External Debt Sustainability Framework, 2022–2044
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
External debt (nominal) 1/	25.8	19.5	16.1	31.3	27.9	25.2	22.9	19.8	17.2	9.3	4.5	27.9	18.6
of which: public and publicly guaranteed (PPG)	24.0	18.1	15.1	29.3	26.2	24.0	21.9	19.1	16.7	9.3	4.5	25.6	17.9
Change in external debt	-5.6	-6.3	-3.4	15.2	-3.4	-2.7	-2.3	-3.0	-2.6	-1.2	-0.4		
Identified net debt-creating flows	-2.4	-5.1	-3.3	-1.5	-2.3	-2.2	-2.6	-2.6	-2.0	-0.7	-0.7	-1.0	-1.7
Non-interest current account deficit	3.6	2.5	2.7	3.0	2.4	2.0	1.6	1.5	2.0	2.2	1.8	5.1	2.2
Deficit in balance of goods and services	10.1	7.4	6.2	9.9	8.9	8.1	7.6	7.0	7.2	5.7	4.3	12.6	7.3
Exports	8.2	6.6	5.6	9.6	9.9	10.0	10.2	10.0	9.9	9.2	9.2		
Imports	18.3	14.0	11.8	19.5	18.8	18.2	17.9	17.0	17.0	14.9	13.5		
Net current transfers (negative = inflow)	-6.5	-4.8	-3.5	-6.9	-6.5	-6.2	-6.0	-5.5	-5.2	-3.6	-2.5	-7.4	-5.2
of which: official	-0.9	-0.7	-0.5	-1.8	-1.1	-1.0	-0.9	-0.8	-0.8	-0.7	-0.7		
Other current account flows (negative = net inflow)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Net FDI (negative = inflow)	-2.6	-2.1	-1.9	-3.4	-3.2	-2.9	-3.0	-3.0	-3.1	-2.5	-2.3	-3.3	-2.9
Endogenous debt dynamics 2/	-3.4	-5.5	-4.1	-1.1	-1.4	-1.3	-1.2	-1.1	-1.0	-0.5	-0.2		
Contribution from nominal interest rate	0.5	0.3	0.2	0.6	0.6	0.6	0.5	0.5	0.4	0.1	0.0		
Contribution from real GDP growth	-1.8	-1.4	-1.2	-1.7	-2.0	-1.9	-1.8	-1.6	-1.3	-0.6	-0.2		
Contribution from price and exchange rate changes	-2.1	-4.4	-3.1	...	...	...	...	...	...	...	...
Residual 3/	-3.2	-1.3	-0.1	16.7	-1.2	-0.5	0.3	-0.5	-0.6	-0.5	0.4	0.0	1.1
of which: exceptional financing	0.2	0.2	0.0	3.2	1.5	1.0	1.2	0.0	0.0	-0.2	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	11.5	19.9	19.0	17.1	15.5	13.3	11.5	5.9	2.8		
PV of PPG external debt-to-exports ratio	...	...	207.4	208.5	192.5	170.6	151.7	133.6	116.9	64.6	30.0		
PPG debt service-to-exports ratio	14.7	11.6	7.9	25.2	16.5	15.4	17.1	16.4	13.5	6.7	2.6		
PPG debt service-to-revenue ratio	15.0	9.8	6.0	28.0	16.6	14.3	15.5	14.3	11.6	5.3	2.0		
Gross external financing need (Million of U.S. dollars)	3170.6	2275.1	3080.9	3095.6	1675.8	1554.8	1235.2	824.6	1090.8	1721.5	-2539.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	7.2	8.1	6.6	7.1	7.7	8.0	7.8	7.5	6.5	5.5	7.9	7.2
GDP deflator in US dollar terms (change in percent)	7.1	20.5	18.7	-41.3	2.0	6.1	5.7	4.7	4.4	6.3	3.3	6.1	1.0
Effective interest rate (percent) 4/	1.7	1.6	1.1	2.5	2.1	2.4	2.5	2.3	2.1	1.5	0.9	1.9	2.0
Growth of exports of G&S (US dollar terms, in percent)	22.8	3.3	8.1	7.7	12.6	16.5	16.3	9.7	11.2	11.9	9.3	6.4	12.0
Growth of imports of G&S (US dollar terms, in percent)	24.9	-1.4	7.8	3.7	5.2	10.7	12.2	7.2	12.4	10.2	7.8	5.2	9.4
Grant element of new public sector borrowing (in percent)	...	...	...	35.1	43.5	41.3	31.5	48.3	49.1	50.5	50.7	...	47.0
Government revenues (excluding grants, in percent of GDP)	8.1	7.9	7.3	8.5	9.8	10.8	11.2	11.4	11.5	11.7	12.3	11.1	11.0
Aid flows (in Million of US dollars) 5/	549.6	602.9	590.2	3893.4	3396.8	3060.8	2800.4	2804.0	2900.2	3584.6	6014.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.9	1.8	1.4	1.1	0.9	0.8	0.6	0.5	...	1.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	51.3	53.0	52.2	42.7	64.5	67.1	71.2	79.3	...	61.9
Memorandum items:													
PV of external debt 7/	...	...	12.6	22.0	20.6	18.4	16.5	14.0	12.1	6.0	2.8		
in percent of exports	...	...	226.3	229.9	209.3	182.8	161.2	141.1	122.4	65.6	30.2		
Total external debt service-to-exports ratio	18.7	14.4	11.4	29.2	20.3	18.7	19.9	18.6	15.4	7.1	2.8		
PV of PPG external debt (in Million of US dollars)	...	...	24195.0	26184.7	27214.4	28105.6	29066.0	28094.0	27315.5	26205.1	28492.7		
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	0.9	0.8	0.6	0.6	-0.5	-0.4	-0.1	0.0		
Non-interest current account deficit that stabilizes debt ratio	9.2	8.9	6.1	-12.2	5.8	4.7	3.9	4.6	4.6	3.5	2.2		

Sources: Country authorities and staff estimates and projections.

1/ Includes both public and private sector external debt. Presented on fiscal year basis (e.g., 2020 refers to fiscal year ending in June 2020).

2/ Derived as $[r - g - p(1+g) + \alpha(1+r)] / (1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; p = growth rate of GDP deflator in U.S. dollar terms; α = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

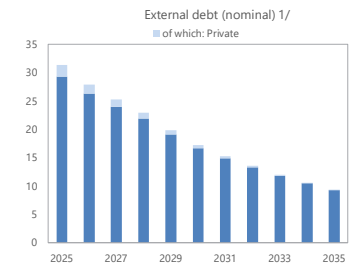
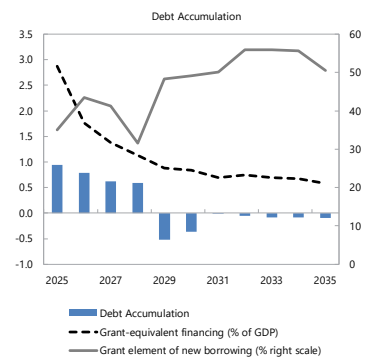


Table 2. The Federal Democratic Republic of Ethiopia: Public Sector Debt Sustainability Framework, 2022–2044
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
Public sector debt 1/ of which: external debt	48.9 24.0	40.2 18.1	34.4 15.0	45.5 29.2	39.8 26.2	36.8 23.9	34.3 21.9	32.2 19.1	30.3 16.7	23.0 9.3	21.0 4.5	51.4 25.6	31.6 17.9
Change in public sector debt	-7.3	-8.7	-5.8	11.2	-5.8	-2.9	-2.5	-2.2	-1.8	-1.2	-0.1		
Identified debt-creating flows	-8.1	-10.6	-7.2	-3.8	-3.8	-2.1	-1.8	-1.5	-1.2	-0.6	0.0	-5.0	-1.7
Primary deficit	3.7	2.2	1.6	0.7	0.9	1.0	0.9	0.8	0.6	0.3	0.2	2.4	0.7
Revenue and grants of which: grants	8.5 0.4	8.2 0.4	7.5 0.3	9.9 1.4	10.3 0.6	11.3 0.5	11.7 0.4	11.9 0.4	12.0 0.4	12.0 0.3	12.6 0.3	11.9	11.5
Primary (noninterest) expenditure	12.3	10.4	9.2	10.7	11.2	12.3	12.6	12.6	12.6	12.3	12.8	14.3	12.2
Automatic debt dynamics	-11.9	-12.8	-8.8	-4.9	-4.3	-3.2	-2.8	-2.3	-1.9	-0.9	-0.2		
Contribution from interest rate/growth differential	-10.7	-8.9	-6.6	-4.9	-4.3	-3.2	-2.8	-2.3	-1.9	-0.9	-0.2		
of which: contribution from average real interest rate	-7.4	-5.6	-3.6	-2.7	-1.3	-0.3	-0.1	0.2	0.4	0.6	0.9		
of which: contribution from real GDP growth	-3.4	-3.3	-3.0	-2.1	-3.0	-2.9	-2.7	-2.5	-2.2	-1.5	-1.1		
Contribution from real exchange rate depreciation	-1.1	-3.9	-2.3	—	—	—	—	—	—	—	—		
Other identified debt-creating flows	0.0	0.0	0.0	0.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (liquid financial asset)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.9	1.9	1.4	14.9	-1.9	-0.8	-0.6	-0.6	-0.6	-0.6	-0.1	4.0	0.6
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	31.1	38.8	33.2	30.5	28.4	26.7	25.4	19.8	19.3		
PV of public debt-to-revenue and grants ratio	...	...	412.3	390.6	321.4	270.4	243.6	225.3	212.2	165.0	153.1		
Debt service-to-revenue and grants ratio 3/	47.9	59.7	54.0	43.4	42.1	35.1	45.0	52.2	60.4	73.3	59.2		
Gross financing need 4/	7.8	7.1	5.7	5.4	4.8	5.0	6.2	6.9	7.9	9.1	7.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.4	7.2	8.1	6.6	7.1	7.7	8.0	7.8	7.5	6.5	5.5	7.9	7.2
Average nominal interest rate on external debt (in percent)	1.8	1.5	0.9	2.4	2.2	2.3	2.3	2.3	2.1	1.5	0.9	1.9	2.0
Average real interest rate on domestic debt (in percent)	-23.6	-22.2	-16.3	-15.5	-8.9	-3.4	-1.4	0.7	2.7	4.6	6.1	-11.5	-0.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.4	-17.7	-13.8	—	—	—	—	—	—	—	—	-2.7	—
Inflation rate (GDP deflator, in percent)	33.3	32.2	24.7	23.7	19.0	13.1	11.9	10.4	8.8	10.5	6.3	18.2	12.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.4	-9.2	-4.9	24.4	12.6	18.1	10.5	7.8	7.3	6.1	5.7	1.6	10.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	11.0	10.9	7.4	-10.4	6.7	4.0	3.4	3.0	2.5	1.5	0.3	9.8	1.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Residency-based. Presented on fiscal year basis (e.g., 2020 refers to fiscal year ending in June 2020).

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

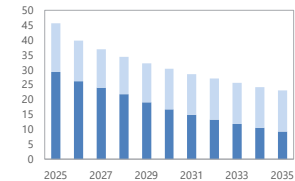
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (1-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents

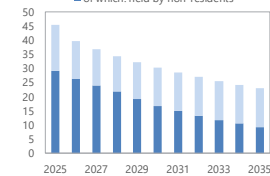
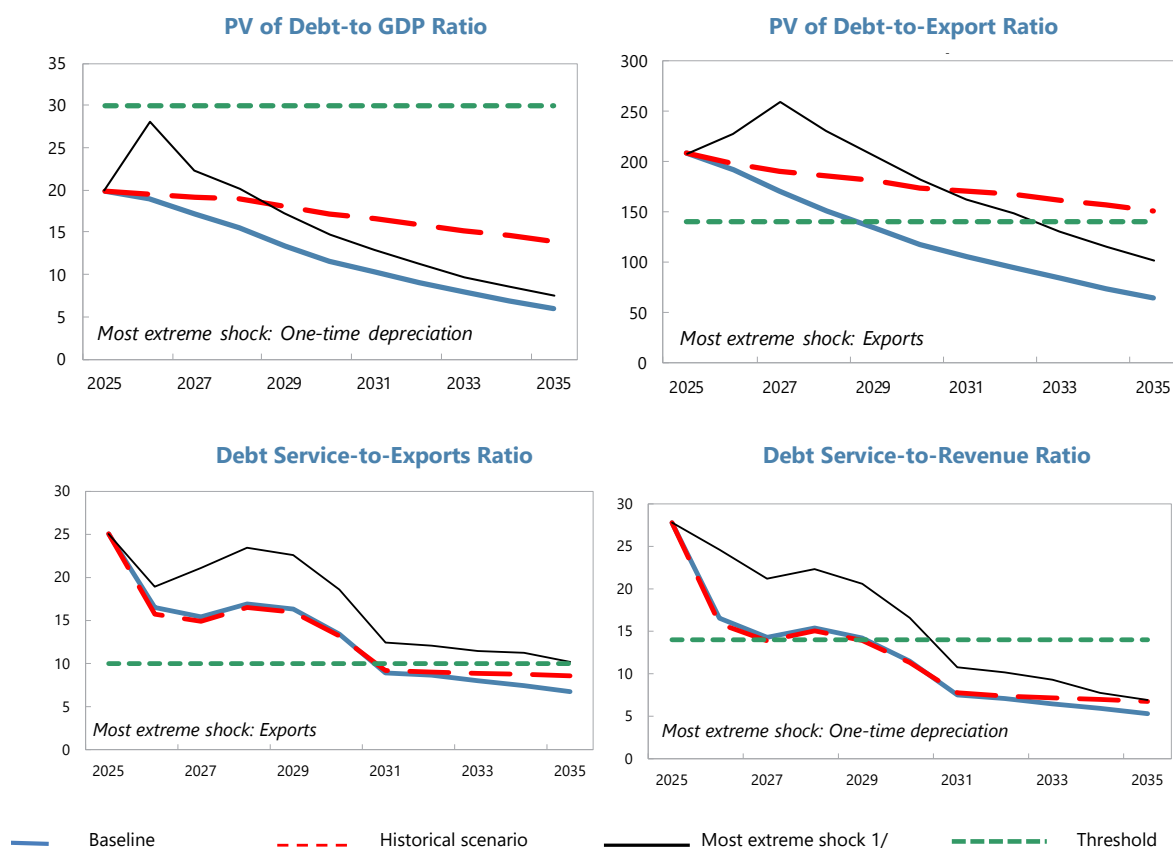


Figure 1. The Federal Democratic Republic of Ethiopia: Indicators of Public and Publicly Guaranteed External Debt**Customization of Default Settings****Tailored Stress**

	Size	Interactions
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests***Shares of marginal debt**

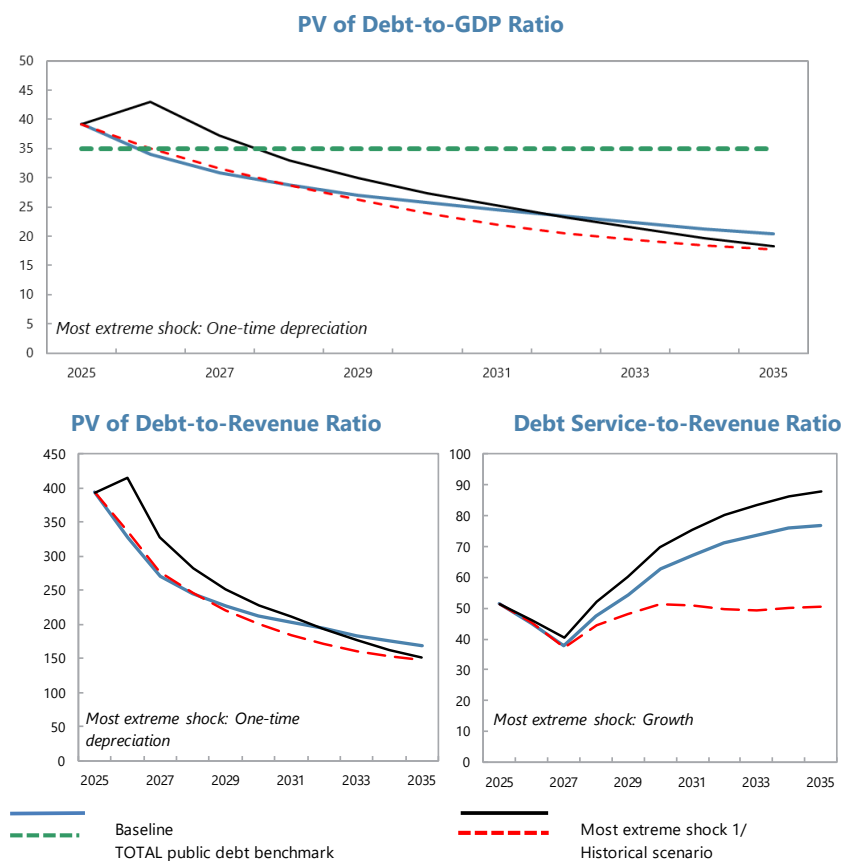
External PPG MLT debt	100%
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Terms of marginal debt

Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Figure 2. The Federal Democratic Republic of Ethiopia: Indicators of Public Debt
(In percent)



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	25%	30%
Domestic medium and long-term	25%	25%
Domestic short-term	50%	45%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.2%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.7%	0.7%
Avg. maturity (incl. grace period)	7	7
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	1.4%	1.4%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. The Federal Democratic Republic of Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–2035
(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of debt-to-GDP ratio											
Baseline	20	19	17	16	13	12	10	9	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	20	19	19	19	18	17	17	16	15	15	14
B. Bound Tests											
B1. Real GDP growth	20	19	18	16	14	12	11	9	8	7	6
B2. Primary balance	20	19	19	17	15	13	12	10	9	8	7
B3. Exports	20	20	19	17	15	13	12	10	9	8	7
B4. Other flows 3/	20	21	21	19	16	14	13	11	10	9	7
B5. Depreciation	20	28	22	20	17	15	13	11	10	8	7
B6. Combination of B1-B5	20	21	20	19	16	14	12	11	10	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	20	21	19	18	16	14	13	11	10	9	8
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	20	21	19	17	15	13	11	10	9	8	7
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	209	192	171	152	134	117	104	94	83	73	65
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	209	198	190	186	182	174	171	169	163	158	154
B. Bound Tests											
B1. Real GDP growth	209	192	171	152	134	117	104	94	83	73	65
B2. Primary balance	209	196	186	168	150	133	120	111	98	88	79
B3. Exports	209	228	259	231	205	181	162	148	130	115	101
B4. Other flows 3/	209	211	204	182	162	144	129	118	104	92	81
B5. Depreciation	209	192	150	133	116	100	89	80	69	61	54
B6. Combination of B1-B5	209	229	193	215	191	169	151	138	122	108	95
C. Tailored Tests											
C1. Combined contingent liabilities	209	208	192	175	159	143	130	121	109	99	90
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	209	193	171	152	134	117	104	94	82	73	64
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	25.2	16.5	15.4	17.1	16.4	13.5	8.9	8.6	8.0	7.4	6.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	25	16	15	17	16	13	9	9	9	9	9
B. Bound Tests											
B1. Real GDP growth	25	17	15	17	16	13	9	9	8	7	7
B2. Primary balance	25	17	16	18	17	14	9	9	9	8	7
B3. Exports	25	19	21	24	23	19	12	12	11	11	10
B4. Other flows 3/	25	17	16	18	17	14	9	9	9	9	8
B5. Depreciation	25	17	15	17	16	13	9	8	8	7	6
B6. Combination of B1-B5	25	18	20	22	21	17	12	11	11	11	9
C. Tailored Tests											
C1. Combined contingent liabilities	25	17	16	17	17	14	9	9	8	8	7
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	25	17	15	17	17	14	10	10	8	7	6
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	28	17	14	15	14	12	8	7	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	28	16	14	15	14	11	8	7	7	7	7
B. Bound Tests											
B1. Real GDP growth	28	17	15	16	15	12	8	7	7	6	6
B2. Primary balance	28	17	15	16	15	12	8	8	7	7	6
B3. Exports	28	17	14	16	15	12	8	7	7	7	6
B4. Other flows 3/	28	17	15	16	15	12	8	7	7	7	6
B5. Depreciation	28	25	21	22	21	17	11	10	9	8	7
B6. Combination of B1-B5	28	17	15	17	15	12	8	8	7	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	28	17	15	16	15	12	8	7	7	6	6
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	28	17	14	16	14	12	8	8	7	6	5
Threshold	14	14	14	14	14	14	14	14	14	14	14
<i>Memorandum item:</i>											
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4	46.4

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

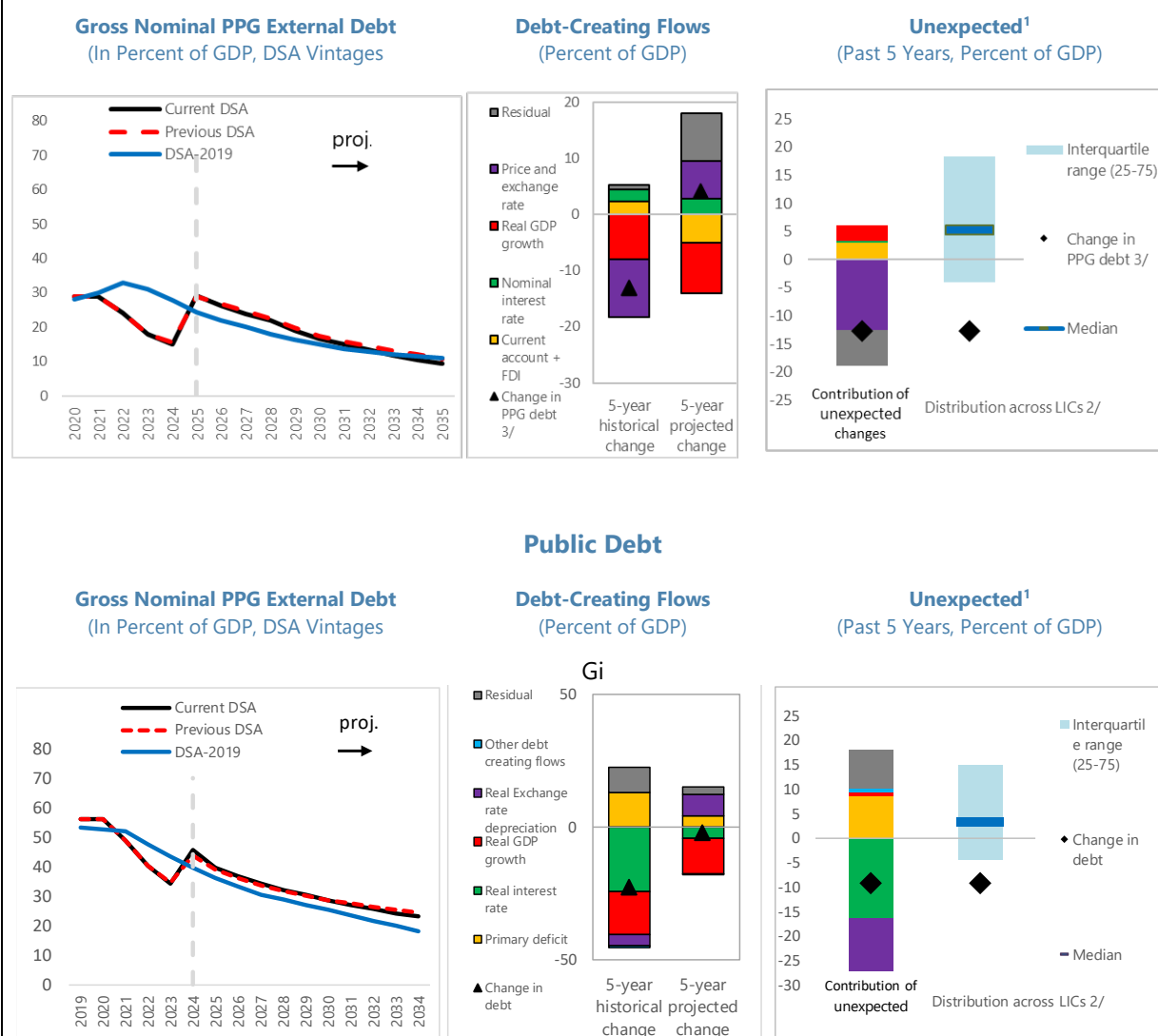
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. The Federal Democratic Republic of Ethiopia: Sensitivity Analysis for Key Indicators of Public Debt, 2025/2035
(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	39	33	31	28	27	25	24	23	22	21	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	39	34	31	28	25	23	21	20	18	18	17
B. Bound Tests											
B1. Real GDP growth	39	34	33	31	29	28	27	26	25	24	24
B2. Primary balance	39	35	35	32	30	28	27	25	24	23	22
B3. Exports	39	34	33	30	28	27	26	24	23	22	21
B4. Other flows 3/	39	35	34	32	30	28	27	25	24	23	21
B5. Depreciation	39	42	37	33	30	27	25	23	21	19	18
B6. Combination of B1-B5	39	33	31	29	27	25	24	22	21	20	19
C. Tailored Tests											
C1. Combined contingent liabilities	39	41	38	35	32	31	29	27	26	24	23
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	39	33	31	28	27	25	24	23	22	21	20
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	391	322	271	244	226	212	203	192	182	173	165
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	391	329	271	238	214	193	178	166	156	149	144
B. Bound Tests											
B1. Real GDP growth	391	330	288	263	247	236	228	220	211	203	197
B2. Primary balance	391	340	308	276	254	238	226	214	201	190	181
B3. Exports	391	328	289	260	240	226	215	204	192	182	173
B4. Other flows 3/	391	339	302	271	250	235	224	212	199	188	178
B5. Depreciation	391	410	329	282	250	226	209	192	175	160	148
B6. Combination of B1-B5	391	316	278	247	227	212	200	188	176	165	156
C. Tailored Tests											
C1. Combined contingent liabilities	391	400	333	298	274	256	243	229	215	203	193
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	391	322	271	244	226	213	202	192	181	172	165
Debt Service-to-Revenue Ratio											
Baseline	44	42	35	45	52	61	65	68	70	73	74
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	44	42	34	41	45	48	47	46	46	46	47
B. Bound Tests											
B1. Real GDP growth	44	43	38	50	59	68	73	78	80	83	85
B2. Primary balance	44	42	45	60	62	68	72	75	76	77	78
B3. Exports	44	42	35	45	53	61	65	69	71	73	74
B4. Other flows 3/	44	42	35	46	53	61	65	69	71	74	74
B5. Depreciation	44	44	41	50	56	62	63	66	67	69	69
B6. Combination of B1-B5	44	40	35	47	52	59	63	67	68	70	71
C. Tailored Tests											
C1. Combined contingent liabilities	44	42	76	69	69	74	77	79	79	80	79
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	44	42	35	45	53	61	66	69	71	72	73

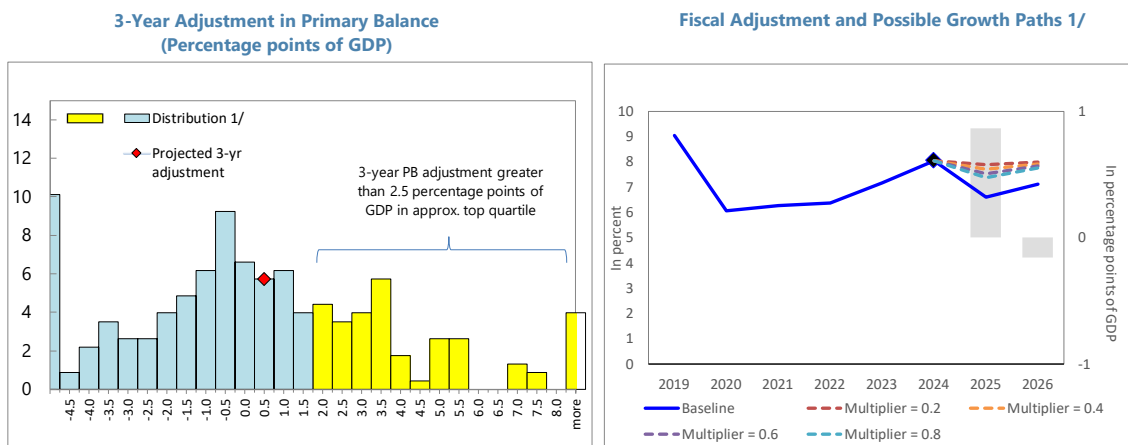
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. The Federal Democratic Republic of Ethiopia: Drivers of Debt Dynamics—Baseline Scenario, External Debt

¹ Difference between anticipated and actual contributions on debt ratios.

² Distribution across LICs for which LIC DSAs were produced.

³ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. The Federal Democratic Republic of Ethiopia: Realism Tools

1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

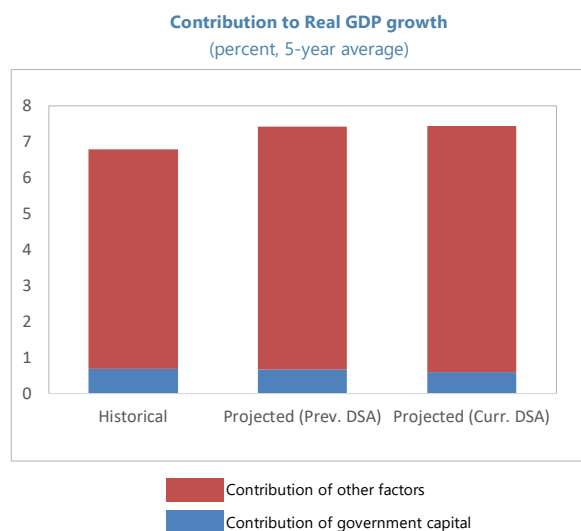
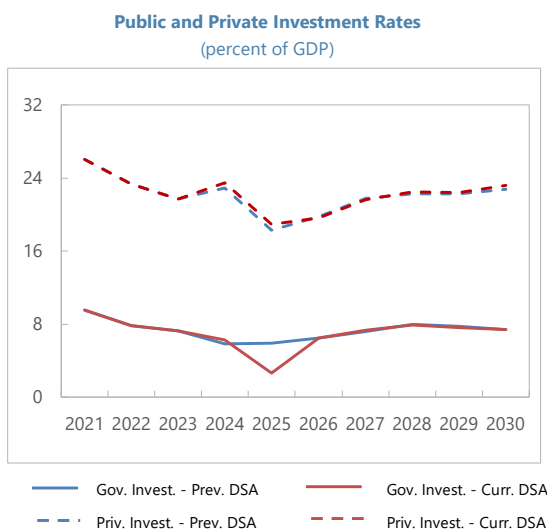
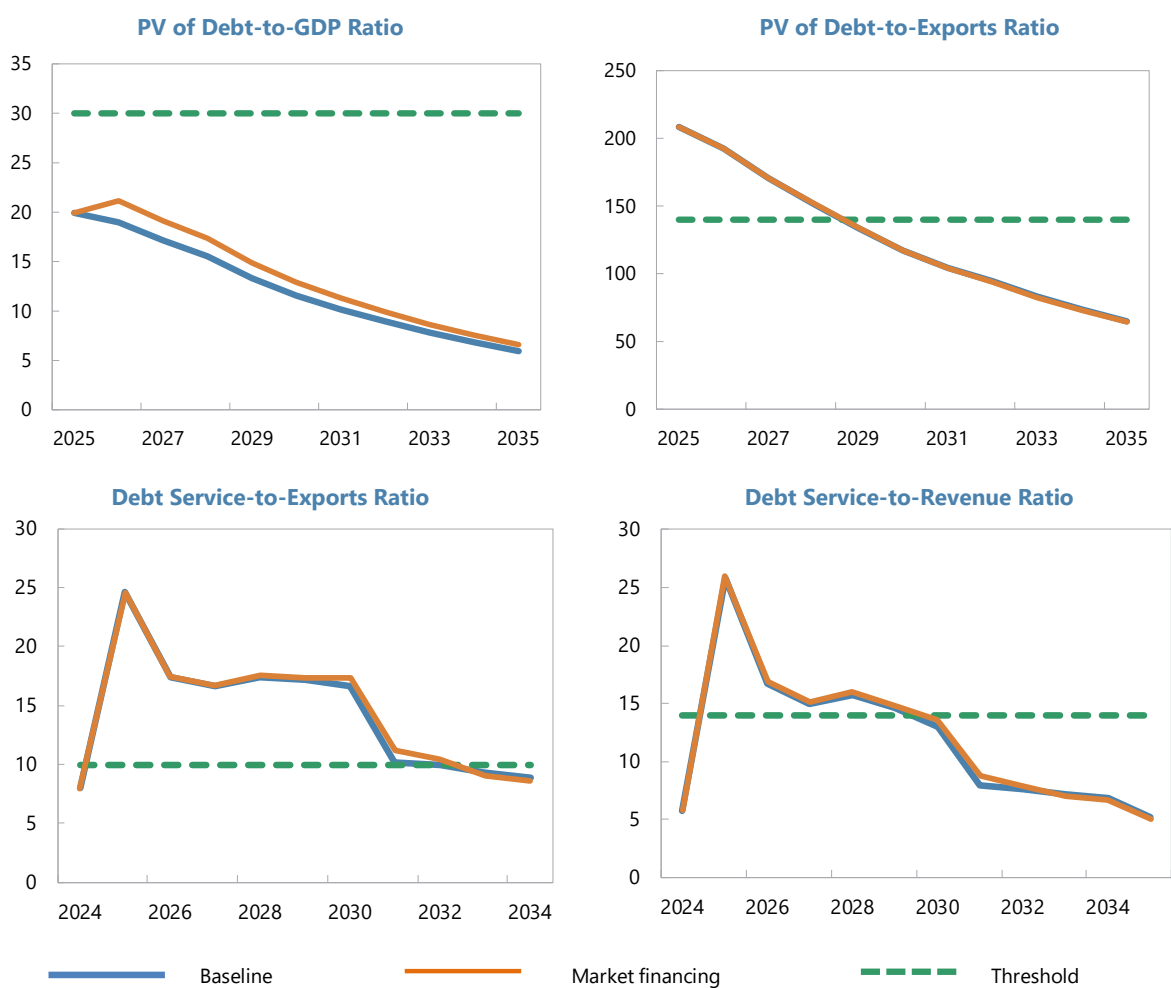


Figure 5. The Federal Democratic Republic of Ethiopia: Market Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	7	4612
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

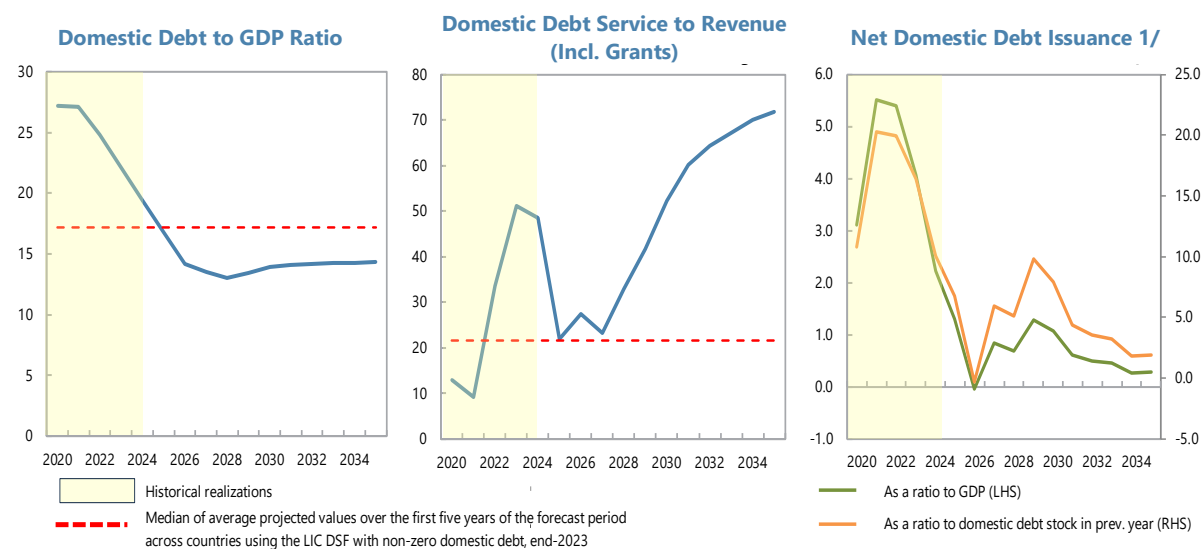
1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond as of January 18, 2024.



Sources: Country authorities; and staff estimates and projections.

Figure 6. The Federal Democratic Republic of Ethiopia: Indicators of Domestic Public Debt, 2020–2035
(in Percent)



Borrowing Assumptions (Average Over 10-Year Projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	31%
Short-term	69%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	3.9%
Avg. maturity (ind. grace period)	6
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	3.7%

Sources: Country authorities and staff estimates and projections

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments, and domestic amortization. It excludes short-term debt that was issued and matured within the calendar year.



THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

January 16, 2025

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND FINANCING ASSURANCES REVIEW— SUPPLEMENTARY INFORMATION

Approved By
**Ms. Annalisa Fedelino (AFR) and
Mr. Bjoern Rother (SPR)**

Prepared by the African Department.

This supplement provides an update on recent program and economic developments since the issuance of the staff report on December 20, 2024. This update does not alter the thrust of the staff appraisal.

1. Financing assurances. Staff assess that sufficient progress has been made toward an agreement in principle (AIP) between the Official Creditor Committee (OCC) and the Ethiopian authorities on a debt treatment consistent with program objectives, under the provisions for Credible Official Creditor Processes of the [Fund's Financing Assurances Policy](#). The OCC met on January 13, 2025, and the co-chairs (China and France) outlined some potential debt treatment options. The OCC members provided positive preliminary feedback on the options during the meeting. Based on the OCC members' feedback, the co-chairs will finalize in the coming days the main parameters of a debt treatment, consistent with program parameters, that would serve as the basis for a subsequent agreement with the Ethiopian authorities.

2. Recent economic developments:

- **Inflation** stood at 17.0 percent year-over-year at end-December 2024, rising by 0.1 percentage points from the previous month, lower than anticipated with muted passthrough from the exchange rate depreciation.
- The **inaugural meeting of Monetary Policy Committee**, whose role and responsibilities are set out in the new NBE law, was held on December 31, 2024 (MEFP ¶120). In a press statement, the committee noted that recent inflation outturns have been encouraging and the tight monetary and financial conditions. The statement emphasizes maintaining a prudent monetary stance. NBE left the policy rate unchanged at 15 percent and increased the cap on annual credit growth from 14 to 18 percent.
- **Fuel** prices were raised by about 10 percent, as part of a plan to phase out fuel subsidies with quarterly price increases (MEFP ¶136).

- **The stock exchange** opened on January 10, 2025, after a five-decade gap (MEFP ¶156). The debut listings are Wegagen Bank and Ethio Telecom (of which Ethiopia Investment Holdings aims to sell 10 percent of shares raising up to US\$234 million). Government also plans to list other state-owned enterprises.

**Statement by the Executive Director, Mr. Regis O. N’Sonde, and by the Advisor of
the Executive Director, Mr. Mawek Tesfaye Mengistu, on
The Federal Democratic Republic of Ethiopia
January 17, 2025**

I. Introduction

1. Our Ethiopian authorities express their sincere appreciation to the IMF Executive Board, Management, and staff for their unwavering support of the country’s economic reform agenda. The authorities also extend their gratitude to the country’s creditors for providing the necessary financing assurances, as well as to other development partners for their financial and technical support in helping advance their reform agenda.

2. The authorities' comprehensive reform program under their second Homegrown Economic Reform Agenda (HGER 2.0, 2023/24–2027/28) is progressing smoothly, supported by the Fund under the Extended Credit Facility (ECF). Early in the program, the authorities have implemented bold reform measures aimed at restoring internal and external balances while laying the groundwork for strong, sustainable, and inclusive private sector-led growth. Key reforms include the transition to a market-clearing exchange rate, the adoption of an interest rate-based monetary policy framework, the enhancing of domestic resource mobilization, the implementation of their fuel and electricity subsidies reduction strategy, the acceleration of state-owned enterprises (SOEs)’ reforms, and the strengthening of institutional and regulatory frameworks to bolster trade and investment. Additionally, the authorities have launched an interbank market for foreign exchange and local currency, marking another milestone.

3. The authorities' unwavering ownership of the reform program, along with strong political commitment, thorough preparatory work, well-sequenced measures, a robust social protection package embedded in the reform program, and effective communication, have contributed to the early success of Ethiopia’s ambitious reform agenda. The parallel foreign exchange market premium has declined significantly, foreign exchange supply to the official market is increasing, and the external current account and primary fiscal balances have shown improvement. Looking forward, the authorities’ policy efforts will focus on consolidating early reform gains, further developing and improving the efficiency of the foreign exchange market, durably restoring price stability and fostering financial sector stability. In this perspective, the authorities are committed to deepening their resource mobilization efforts, further advancing SOE reforms, restoring public debt sustainability—including by finalizing debt treatment negotiations with creditors—and accelerating comprehensive structural reforms. These steps will strengthen economic resilience and stimulate robust private sector-led growth.

II. Program Performance

4. Program performance has been satisfactory, with all quantitative performance criteria (QPCs) and all but one Indicative Targets (ITs) for the second review being met. The four QPCs—on the general government net primary balance, net international reserves, federal

government tax revenue, and zero limit on the National Bank of Ethiopia (NBE)’s net credit to the government—have been met with comfortable margins. Likewise, the ITs related to claims on public enterprises by commercial banks, and the present value of external debt contracted or guaranteed by the government, the NBE, and public enterprises have been met with large margins. However, the IT on government contributions to the Productive Safety Net Programme (PSNP) cash transfers was missed due to the limited time and preparation required to expand the program’s coverage, identify beneficiaries, and absorb the significantly increased spending envelope (about 0.5 percent of GDP). Nonetheless, the authorities are steadfast in their commitment to intensify efforts in the coming months to ensure they meet the target for government contributions to the PSNP set for the whole year, continuing strong dedication to bolstering social safety nets and supporting vulnerable groups.

5. The implementation of structural benchmarks (SBs) is progressing well, with all five benchmarks for end-September 2024 being observed, despite one experiencing a slight delay as the authorities endeavor to incorporate related comments from the IMF staff. Additionally, Parliament approved a new NBE proclamation (end-December 2024 SB) on December 17, 2024, and the selection of an external auditor for the NBE’s 2022/23 financial statements has been completed, with the publication of the statements expected by March 2025. This reflects a two-month delay mainly due to the longer time required to finalize the procurement process. That said, in addition to the four SBs already agreed upon for April–June 2025, the authorities have committed to a new benchmark for June 2025 aimed at strengthening fiscal transparency and public finance management by bringing the Road Fund into the budget process.

III. Recent Economic Development and Outlook

6. The economy continued to register remarkable strength, with real GDP growth at 8.1 percent in 2023/24, exceeding the 6.1 percent projected at the program’s approval and surpassing the 7.2 percent growth in 2022/23. Growth has been broad-based, with agriculture expanding by 7.0 percent, industry by 9.2 percent, and services by 7.7 percent. Agriculture benefited from favorable weather and strong government support, including through irrigations and farming inputs, while industry was driven by robust growth in electricity generation and small-to-medium scale manufacturing. Activity in the service sector was fueled by telecom, banking, air transport, and hospitality, boosted by the waning effects of the COVID-19 pandemic and increased digitalization. Looking forward, strong growth is expected to continue, despite near-term moderation due to the fiscal and macroeconomic adjustments in train. In the medium term, growth is projected to return to around 8.0 percent as the benefits of ongoing reforms are realized. The authorities’ commitment to reform and contingency planning is expected to mitigate the impact of risks including those stemming from climate shocks, security challenges, and intensified regional and geopolitical tensions.

7. Inflation continued its steady decline, reaching 16.9 percent in November 2024, down from 19.9 percent in June 2024, due to tight monetary and fiscal policies, favorable supply-side conditions, and well-sequenced adjustments to administered prices, while the pass-through from

the exchange rate reform was lower than expected. Inflation is expected to spike in the near term due to the lagged effects of exchange rate depreciation and administered price adjustments, although lower than initially expected, before returning to single digits in the medium term as the impact of tight policies and improved supply-side factors takes effect.

8. On the external sector front, the current account balance improved from a deficit of 2.9 percent of GDP in the last two years to a small surplus in the first quarter of 2024/25, mainly driven by the substitution effect of the authorities' foreign exchange policy reforms notably through increased coffee and gold exports. The current account deficit is expected to widen in the near term as pent-up import demand materializes following the easing of foreign exchange supply, before stabilizing around 2 percent of GDP in the medium term as structural shifts and a boost in exports take effect. Gross international reserves stood at US\$ 3.4 billion (equivalent to 1.6 months of import coverage) at the end of October 2024, up from US\$ 1.4 billion (0.7 months of coverage) at end-June 2024.

9. The authorities' revenue-led fiscal consolidation efforts are off to a promising start, with a primary fiscal surplus reported by the Federal Government in the first quarter of 2024/25. The positive outcome is primarily driven by a roughly 70 percent increase in tax revenues, resulting from the implementation of a new VAT proclamation, revised excise tax rates, higher customs revenues following exchange rate unifications, and strengthened administrative measures. In contrast, key program-supported spending measures have not yet been fully implemented. The primary balance is expected to show a deficit of 0.5 percent of GDP in 2024/25, with the deficit projected to remain below 1 percent of GDP in subsequent years.

IV. Medium-Term Policy Priorities

4.1. Fiscal Policy and Debt Management

10. The authorities are committed to sustaining their revenue-led fiscal consolidation efforts to create much-needed fiscal space for critical social and development spending while ensuring long-term fiscal sustainability. They have already implemented bold tax policy measures in line with their National Medium-Term Revenue Strategy (NMTRS 2024/25–2027/28), adopted in September 2024. These measures include a new VAT proclamation, higher excise tax rates on alcohol and tobacco, changes to the customs declaration exchange rate, and property tax reforms. As a result, tax revenue is projected to increase by 1.2 percent of GDP in 2024/25, 0.2 percent higher than initially anticipated. Preparations are underway for the next phase of revenue reforms, including streamlining tax exemptions on imported intermediate inputs, revising the Corporate Income Tax (CIT) to enhance compliance, rolling out digital tracking and tracing of excise stamps, and introducing minimum alternative tax regimes to reduce avoidance and combat evasion. Additionally, legal revisions for motor vehicle circulation taxes are being discussed, while personal income tax (PIT) reforms are planned, focusing on revising the minimum exemption threshold to ensure equity and fairness. The authorities are also committed to strengthening tax administration and improving compliance, drawing from the recent 2024 Tax

Administration Diagnostic Assessment (TADAT), with an emphasis on digitalization, enhanced taxpayer registration, e-filing, and improved audit efficiency.

11. On the spending side, the authorities' policy will focus on protecting the most vulnerable from the unintended impacts of macroeconomic reform measures in the near-term. On November 26, 2024, they adopted a Supplementary Budget for 2024/25, in line with program parameters, which includes a 1.5 percent of GDP fiscal package aimed at mitigating the social impact of foreign exchange reform under implementation. This package expands and increases payouts under the PSNP, provides temporary direct subsidies for selected food items and medicines, gradually reduces fuel subsidies, increases fertilizer subsidies, and raises public sector salaries, prioritizing the lowest earners. That said, to exit the current fuel subsidization regime within a year, the authorities have been implementing a gradual fuel subsidy removal strategy since October 2024, with the second fuel pump price increase implemented in January 2025. Concurrently, the authorities will continue to strengthen their social safety net framework and ensuring its sustainability. They will also prioritize completing ongoing public projects, centrally selecting and prioritizing those in the pipeline, while strengthening the public investment framework. Furthermore, the authorities are committed to further improving public finance management and monitoring fiscal risks. To this end, they will conduct a mid-year review of the Federal Government's budget implementation and quarterly budget execution, utilizing the Integrated Financial Management Information System (IFMIS). Additionally, the authorities will bring the Road Fund, fuel taxes, and fuel subsidies into the budget process to further strengthen public finance management, while introducing a Public Sector Obligations (PSO) framework of SOEs.

12. The authorities have reiterated their commitment to restoring debt sustainability with the objective of achieving a moderate risk of debt distress rating by the end of the program period. They are actively engaging both official bilateral and private creditors to secure a timely debt treatment agreement consistent with program parameters. To this end, the authorities submitted formal debt treatment proposals to their official creditors while requesting an extension of the debt service standstill until the Memorandum of Understanding (MoU) is signed. Following the request, they have received assurance from their Official Credit Committee (OCC) co-chairs—China and France—on the progress toward an agreement. The authorities see good prospects for finalizing an agreement on key terms of debt treatment with official creditors in the near-term and are poised to swiftly initiate the process of signing the related MoU. At the same time, they are engaging with their Eurobond holders to secure debt treatment comparable with that of official creditors. The authorities are providing necessary macroeconomic updates and are actively discussing debt treatment options to facilitate parallel agreement. Simultaneously, they remain committed to maintaining prudent debt management policies to prevent the accumulation of new debt vulnerabilities and are considering developing a medium-term debt management strategy with the IMF's technical assistance.

4.2. Monetary, Exchange Rate and Financial Sector Policies

13. The authorities reiterated their unwavering commitment to maintaining a tight monetary policy stance to sustainably restore price stability. In this regard, they are notably advancing the modernization of the monetary policy framework. On December 31, 2024, the newly established Monetary Policy Committee (MPC) held its inaugural meeting following the new NBE proclamation. The MPC kept the policy rate unchanged at 15 percent and raised the cap on annual credit ceiling growth from 14 percent to 18 percent, citing declining inflation, tight monetary conditions, and improved supply-side factors. The authorities have also made significant progress in modernizing the framework, including conducting bi-weekly open market operations (OMO), operationalizing standing facilities, launching an interbank money market, developing a treasury bills market, and enhancing communication strategies. These measures, along with regular MPC meetings and policy statements, aim to guide expectations and support the transition to an interest rate-based monetary policy framework. Ongoing efforts to further modernize the framework include the launch of a Central Securities Depository, adjustments to the reserve requirement policy, strengthening the collateral framework, and enhancing analytical capacity. While the authorities aim to achieve a positive real interest rate by Q1 2025 and fully transition to the new framework, they also emphasize the critical role of direct policy instruments in controlling inflation and managing expectations, especially given the current limitations in the transmission of interest rate policy.

14. The transition to a flexible exchange rate regime is progressing well, with improved foreign exchange supply to the market and significant narrowing of parallel market premium from over 100 percent before the reform. The authorities have taken several key steps to removing current account restrictions and supporting the new market-clearing exchange rate regime. They have fully eliminated the requirement for exporters to surrender retained foreign exchange within one month, providing exporters with greater flexibility to manage their earnings and supporting the determination of the market-clearing exchange rate. In November 2024, the Franco Valuta import system, initially introduced to mitigate potential inflationary pressures, has been removed to enhance foreign exchange supply through official banking channels. Additionally, the NBE has granted licenses to twelve non-bank foreign exchange bureaus, five of which are now operational, fostering increased competition. Transitional arrangements are also in place to settle legacy Letters of Credit (LCs) related to fuel imports prior to the exchange rate reforms, with commercial banks now solely responsible for settling LCs opened since the reform.

15. The authorities have reiterated their commitment to further measures aimed at improving the efficiency of the foreign exchange market and fostering market development, including undertaking a foreign exchange market survey in collaboration with IMF staff to identify impediments and inform future reforms, work with banks to establish service standards, bringing overseas money transfer operators into the official market, and review calculation methodology of indicative exchange rate to align with best practice. They are also strengthening market monitoring and enforcement to ensure compliance, including following up with banks to meet the Net Open Position (NOP) requirements by June 2025 deadline. Moreover, the authorities are

working to remove three out of five long-standing exchange restrictions identified in the recent IMF Article VIII assessment during the program period, while engaging other public agencies to find alternative solutions for the remaining two measures. Further, the authorities have reiterated commitment to limiting foreign exchange interventions to addressing disorderly market conditions, demonstrated by only one intervention since the adoption of the new regime five months ago.

16. The financial sector remains sound and stable, despite a recent increase in banks' non-performing loan (NPL) ratios following the implementation of tightened asset classification and provisioning directives. The authorities have already implemented bold reforms at the Commercial Bank of Ethiopia (CBE), the largest publicly owned bank, with support from the World Bank under the Financial Sector Strengthening Program (FSSP). These reforms have bolstered the bank's financial position and improved its operational and governance structures. Similarly, reforms are underway to implement a strategic plan for the Development Bank of Ethiopia (DBE), including a revised business model that incorporates a market-based funding strategy and plans to phase out the mandatory purchase of DBE bonds by financial institutions by December 2025. Commercial banks are also diligently working to reduce their short NOP, with CBE's position improving as legacy fuel-related LCs are paid down and disbursements from the World Bank are released. The authorities remain committed to further strengthening monitoring and oversight of the sector, including by upgrading regulatory requirements, adopting capital framework that is consistent with Basel II standards. Additionally, in December 2024, Parliament passed a new Banking Business Proclamation, which allows foreign investment in the domestic banking sector and introduces a resolution framework, among other provisions, further enhancing the resilience and development of the sector.

4.3. Structural Reforms and Climate Agenda

17. The authorities are implementing several structural reforms underpinned by their HGER 2.0 strategy to support stronger, inclusive, and private sector-led growth, complemented by ongoing macroeconomic policy reforms. They have opened various sectors, including banking, telecom, and logistics, to both domestic and foreign investment, while upgrading legal and regulatory frameworks and streamlining bureaucratic procedures to meet international standards. Additionally, sector-specific reforms are underway to enhance production and productivity, including in agriculture, mining, tourism, Information and Communication Technology (ICT), and manufacturing. In April 2024, Parliament approved a proclamation to regulate Special Economic Zones (SEZs), fostering investment, trade facilitation, and infrastructure development. Furthermore, the authorities have liberalized several economic sectors to attract investment and are actively working towards WTO accession. Importantly, the authorities have launched Ethiopian Stock Exchange on January 10, January 2025, and Ethio telecom's initial public offering of about 10 percent share is already floating in the market, a significant landmark development. Further, Parliament passed two critical proclamations in December 2024 on banking business and the new NBE proclamation, respectively. The Banking Business proclamation opened the sector to foreign investors while introducing a resolution framework to

enhance the stability of the banking sector. The new NBE proclamation strengthens the bank's governance, autonomy, and transparency, while reaffirming the primacy of price stability among the institution's key mandates.

18. The authorities are advancing reforms in SOEs to enhance transparency, strengthen governance, and improve the entities' financial position. Their decision to consolidate the SOE portfolio under the Ethiopian Investment Holding (EIH), the government's strategic investment arm, while delegating SOE policy oversight to the Public Enterprises Holding and Administration Agency (PEHAA) under the Ministry of Finance, is driven by this objective. Building on the IFRS reporting requirements for SOEs, EIH is preparing consolidated financial statements for 2022/23, enhancing transparency. Future efforts will concentrate on improving governance, cost efficiency, and transparency, with a comprehensive legal framework for SOEs currently under development. It should be noted in this context that Ethiopia's multi-year electricity tariff plan is being implemented with the goal of achieving cost recovery within the program period, supported by reforms aimed at boosting sector efficiency. In parallel, efforts to privatize nine sugar factories are progressing, and railway sector reforms will focus on improving infrastructure management and operations, including through greater private sector participation.

19. Enhancing resilience to climate shocks is on the top of the authorities' reform agenda. They are working diligently to enhance climate adaptation and mitigation to meet their ambitious Nationally Determined Targets. They continue their reforestation campaign and a deliberate tree planting exercise under their flagship Ethiopia's Green Legacy Initiatives. The authorities are also reviewing the IMF's C-PIMA and World Bank's CCDD recommendations to inform their policy priorities. Nevertheless, limited climate financing remains a prohibitive constraint, prompting the authorities to call on their external partners for support in achieving their ambitious climate goals.

V. Conclusion

20. The Ethiopian authorities have reiterated firm commitment to consolidating their early successes achieved through rigorous implementation of ambitious reforms under their Fund-supported program and maintaining reform momentum in the period ahead. They reaffirm their dedication to the objectives of the ECF arrangement, including firmly entrenching price stability, further strengthening the flexible exchange rate system, and restoring debt and external sustainability. Additionally, the authorities plan to intensify efforts to mobilize domestic resources, creating space for critical social and development spending, while steadfastly implementing structural reforms to foster strong, sustainable, and inclusive private sector-led growth. While executing their policy and reform agenda, the authorities count on the country's creditors to swiftly finalize the debt restructuring process in train.

21. In light of their strong program performance and renewed commitment to the program objectives, the authorities seek the Executive Directors' support to completing the second review under the ECF and associated requests. We would appreciate Executive Directors' favorable consideration of the authorities' requests.