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THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

January 2026

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, 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 16, 2026, following the discussions that ended on November 13, 2025, 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 22, 2025.
- A **Debt Sustainability Analysis** prepared by staffs of the World Bank and the IMF.
- 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes the Fourth Review under the Extended Credit Facility Arrangement for Ethiopia

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the fourth review of the arrangement under the Extended Credit Facility (ECF) for Ethiopia, allowing the authorities to draw the equivalent of about US$261 million (SDR 191.7 million).
- The Ethiopian authorities continue to make progress in achieving the objectives of the Fund-supported program, with better-than-anticipated macroeconomic outcomes. Strong growth, exports, revenue mobilization, and reserves accumulation, and declining inflation, show good results from the reforms.
- Maintaining reform momentum is essential to consolidate gains and support growth and poverty reduction in the medium term.

Washington, DC – **January 16, 2026:** The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of the 48-month Extended Credit Facility (ECF) for Ethiopia. The Board's decision allows for an immediate disbursement of about US$261 million (SDR 191.7 million), helping Ethiopia meet its balance of payments and fiscal financing needs. The completion of the review brings total disbursements under the arrangement to about US$2.183 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.

Overall program performance was broadly in line with program commitments. All quantitative performance criteria (QPCs) and most indicative targets (ITs) were met. A new QPC setting a zero limit on foreign exchange (FX) intervention except through auctions has been introduced. The government's contribution to the targeted social safety nets (indicative target) was lower-than-targeted to prioritize absorption of development partner contributions. Most of the structural benchmarks have been met. While the thrust of fiscal reforms has been consistent with program commitments, the Federal Budget for FY25/26 deviated from program parameters agreed at the third review (missed structural benchmark). The authorities have committed to a set of measures to ensure the fiscal deficit is financeable, and expenditures remain consistent with program objectives. The structural benchmark on the publication of Ethiopian Investment Holdings' (EIH) financial statements was not met due to implementation delays.

Maintaining a tight monetary stance continues to be appropriate to anchor inflation expectations and support further declines in inflation. The authorities continue to take steps to enhance the functioning of the foreign exchange market.

Revenue mobilization has been strong, and recent tax policy reforms bode well for broadening the tax base and raising revenue potential. Tax and customs administration reforms will be important in broadening the tax base fairly and sustainably, fostering a more stable taxation environment that can support private investment. Continued prudence in raising spending despite occasional strong pressures, consistent with revenue performance, and efforts to develop domestic sources of financing are essential to maintain sustainable fiscal policy.

The authorities continue their efforts to restore debt sustainability and secure a debt treatment. The progress made on debt restructuring negotiations under the Common Framework, including the recent completion of the signing of the Official Creditor Committee Memorandum of Understanding, is welcome. Discussions with private external creditors are ongoing. 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 progress in advancing their ECF-supported economic reform agenda. Measures to enhance the foreign exchange (FX) market, modernize monetary policy, mobilize fiscal revenues, and advance the financial regulatory agenda continue to show encouraging results, with better-than-anticipated macroeconomic outcomes. Maintaining the reform momentum remains key to the promising macroeconomic outlook.

"Ongoing efforts by the National Bank of Ethiopia (NBE) to strengthen FX market functioning are welcome, including publishing FX auction guidelines consistent with international best practice, limiting FX intervention to auctions, and developing a plan to bring the Commercial Bank of Ethiopia's Net Open FX Position within prudential limits. Developing the interbank FX market will be important to strengthen banks' FX risk management and enhance transparency.

"Maintaining tight monetary conditions remains important to sustain disinflation. Recently-approved increases in reserve requirements maintain tight liquidity conditions, while a phased exit from the cap on private credit growth would help make further progress toward an interest-rate based monetary policy framework while avoiding an overly rapid expansion of credit. Interbank market and repo market development will support monetary policy transmission.

"Prudent expenditure control and sustained efforts to mobilize domestic resources are essential to ensure fiscal sustainability. Tax and customs administration reforms will be key to broadening the tax base to maximize tax policy reform gains and foster a more stable taxation environment. Phasing out fuel subsidies is important for rebuilding fiscal buffers and improving the efficiency of spending, while social protection expenditure should be safeguarded.

"Securing a debt treatment will help restore debt sustainability and meet financing needs. Continued avoidance of non-concessional borrowing, except financing for the Koysha dam project, and careful evaluation of proposed new concessional debt, will help contain debt vulnerabilities.

"Continued efforts to strengthen financial sector oversight and build the financial sector safety net will help to keep financial stability risks in check.

"Finalization of NBE's governance reform plan, including appointing new members to the Board in line with the requirements of the amended central bank law, will be important for ensuring NBE's autonomy and capacity to execute its policy mandate, as will strengthening NBE's financial position in due course."

Table 1. Ethiopia: Selected Economic Indicators, 2022/23 – 2029/30

	2022/23	2023/24	2024/25 Prel.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.	2028/29 Proj.	2029/30 Proj.
Output								
Real GDP growth (%)	7.2	8.1	9.2	9.3	8.6	8.6	8.5	8.0
Prices								
Inflation - average (%)	32.5	26.6	16.0	11.9	9.3	8.3	7.2	6.2
General government finances								
Revenue (% GDP)	7.9	7.3	9.2	10.5	11.2	11.7	12.1	12.3
Expenditure (% GDP)	10.8	9.5	12.0	13.1	12.8	13.9	14.1	14.3
Fiscal balance, including grants (% GDP)	-2.6	-2.0	-1.2	-1.8	-1.1	-1.7	-1.6	-1.6
Public debt (% GDP)[1]	40.2	35.4	50.3	45.1	40.7	37.6	34.5	31.8
Money and Credit								
Broad money (% change)	26.6	14.1	35.2	25.9	21.8	22.6	22.0	21.4
Credit to private sector and state-owned enterprises (% change)[2]	28.6	9.3	-9.7	35.2	31.3	23.2	21.4	18.9
Balance of payments								
Current account (% GDP)	-2.9	-2.9	-1.1	-2.3	-2.3	-2.0	-1.8	-2.0
FDI (%GDP)	2.1	1.9	3.2	3.2	2.9	3.0	3.0	3.1
Reserves (in months of imports)	0.5	0.7	1.9	2.2	2.7	3.5	3.7	3.9
External debt (% GDP)	18.1	15.7	31.6	29.8	27.0	24.4	21.2	18.4
Exchange rate								
Real effective exchange rate (% change, end of period, depreciation –)	24.1	12.4	-44.2	…	…	…	…	…

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 25/26 include impact of CBE recapitalization.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

December 22, 2025

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. In July 2024, the Board approved a four-year arrangement under the Extended Credit Facility to support the Ethiopian authorities' Homegrown Economic Reform agenda (HGER), which aims to correct macroeconomic imbalances, restore external debt sustainability, and lay the foundations for high, private sector-led growth. Progress under the HGER agenda continues, with better-than-anticipated macroeconomic outcomes. The authorities continue to take steps to enhance the foreign exchange (FX) market, modernize the monetary policy framework, mobilize fiscal revenue, and advance the financial regulatory agenda. Maintaining reform momentum is essential to consolidate gains and support growth and poverty reduction in the medium term.

Policy discussions focused on: (i) ensuring fiscal policy is in line with program objectives; (ii) the appropriate monetary policy stance, in the context of revised plans to phase out caps on private credit growth and unevenly distributed liquidity; (iii) the net open foreign exchange position of the banks, especially Commercial Bank of Ethiopia (CBE); (iv) continuation of reforms to strengthen the foreign exchange market; and (v) institutional and governance reforms at the National Bank of Ethiopia (NBE).

Program performance. Overall program performance was broadly in line with program commitments. All end-June quantitative performance criteria (QPC) were met and most indicative targets (ITs) were met. Staff support introducing a new continuous QPC setting a zero limit on FX intervention except through auctions as a remedial action. Most structural benchmarks (SBs) were implemented, but the SB on the FY2025/26 Budget was missed as the budget deviated from the agreed fiscal framework, and the SB on publication of Ethiopia Investment Holding's (EIH) financial statements was not met due to implementation delays. Staff support the authorities' request for modification of the performance criterion on financing of the general government primary deficit in the remainder of FY25/26. The authorities have committed to a set of measures to ensure the deficit is financeable and consistent with program objectives.

Outlook and risks. Policy reforms are expected to support robust growth and continued easing of inflation in the medium term. Key downside risks include policy slippages or delays in reform implementation in response to social or political pressures, or a worsening security environment.

Approved By
Mr. Christou (AFR) and Ms. Mitra (SPR)

Discussion took place in Addis Ababa from October 30 to November 13, 2025. The mission held discussions with Minister of Finance Ahmed Shide, Governor of the National Bank of Ethiopia Eyob Tekalign, and other senior officials. The team comprised of Messrs. Piris Chavarri (Head), Lee, Tulin; Mses. Daly, Garimella (all AFR); Messrs. Arias Vázquez (FAD), Dielmann (SPR), Gurhy (MCM), and Rasmussen (Resident Representative in Addis Ababa office). Messrs. Abiy Hailu and Woldeyes (local economists) assisted the mission from Addis Ababa. Mr. Mengistu (OEDAC) participated in key policy meetings. Mr. Morán Arce and Ms. Nsanzimana assisted with the preparation of this report.

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CONTEXT

1. **Progress under the Homegrown Economic Reform (HGER) agenda continues, with favorable macroeconomic outcomes.** The authorities continue to take steps to enhance the functioning of the foreign exchange (FX) market, modernize the monetary policy framework, strengthen revenue mobilization, and advance the financial regulatory agenda. Macroeconomic indicators have performed better than expected, with substantially better outcomes for growth, inflation, goods exports, and international reserves. The real exchange rate has remained relatively stable, and FX availability further increased. Treasury bill rates and the policy interest rate remain positive in real terms.

2. **Maintaining reform momentum is key to consolidating macroeconomic stability and supporting growth and poverty reduction in the medium term.** The favorable outlook continues to depend on the implementation of program-supported macroeconomic reforms and remains subject to downside risks including social discontent, security challenges, and potential policy pressures ahead of the general elections scheduled for June-2026.

3. **A Memorandum of Understanding (MOU) on key terms for debt treatment between the Official Creditor Committee (OCC) and Ethiopian authorities was agreed upon in July 2025.** All members of the OCC have signed the MOU. The next step is to reach bilateral agreements, aiming to finalize some agreements by end 2025. Additionally, an agreement in principle has been reached with one large commercial creditor on terms that the authorities consider comparable to the MOU and aligned with program parameters. Contact has been initiated with all other private creditors.

PROGRAM PERFORMANCE

4. **All quantitative performance criteria (QPCs) were met.** There was no new provision of NBE advances to the government, accumulation of external arrears, or contracting of non-concessional external debt. There was strong performance on the tax revenue QPC. The QPC on financing of the primary fiscal balance was met, with higher-than-expected domestic financing (0.3 percent of GDP) raised to finance higher federal government spending offset by a fiscal surplus and strong revenue performance at the regional level. There was overperformance in the accumulation of net international reserves (NIR). Indicative targets on claims on public enterprises by commercial banks and the present value of external new debt contracted or guaranteed were met. Between July–October 2025, the NBE sold approximately US$1 billion of FX reserves bilaterally to CBE to settle fertilizer imports. Pricing matched the daily market transaction-weighted average sell rate, but there was no contestation or price discovery, working against the key program objective of market determination of the exchange rate. The end-September 2025 indicative target on government contributions to the PSNP was missed to allow full absorption of developmental partner contributions (0.2 percent of GDP), with the government’s contribution expected to return to levels agreed under the program by end-December 2025.

5. Completion of structural benchmarks (SBs) is advancing. The SBs to: (i) repeal the directive requiring banks to purchase T-bonds; (ii) start remitting federal fuel taxes to the Treasury; and (iii) allocate funding for Road Fund through the federal budget were all met by end-June. The SB on the FY2025/26 Budget was missed considering significant deviations from the fiscal framework agreed at the Third Review. Income tax amendments (end-September SB) were enacted in Parliament in early July. NBE's methodology for calculating the daily indicative exchange rate was revised to include all interbank FX transactions and the NBE's sales and purchase of FX with banks (end-September SB). Updating the net open foreign exchange position (NOP) directive (end-October SB), including in relation to the treatment of FX-linked assets, was completed. The National AML Committee has adopted a roadmap for the establishment of a beneficial ownership registry (end-September SB). The end-December SB on the preparation of EIH's consolidated financial statements for FY22/23 will be missed due to a minor delay to comply with procurement requirements for the services of an international accounting firm and is expected to be completed by end-March 2026.

Text Table 1. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2025–September 2025

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Mar 2025 Indicative Target			end-Jun 2025 Performance Criteria			end-Sep 2025 Indicative Target		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
Quantitative performance criteria									
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) 1/, 2/	95,000	-85,203	Met	106,000	105,160	Met	76,000	-12,267	Met
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,408	Met	400	1,911	Met	200	746	Met
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	347,000	509,297	Met	578,000	701,753	Met	120,000	223,862	Met
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-32,399	Met	0	-1,830	Met	0	-42,216	Met
Continuous performance criteria									
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) 3/	0	0	Met	0	0	Met	0	0	Met
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	Met	0	0	Met	0	0	Met
Indicative targets									
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) 2/, 4/	110,000	93,110	Met	147,000	91,971	Met	50,000	8,846	Met
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) 5/	33,200	35,722	Met	51,400	58,232	Met	8,500	4,000	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)	2,750	629	Met	3,000	629	Met	2,000	0	Met
Memorandum items:									
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	2,333			2,407	2,778		696		
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,515			1,645			379		
Gross privatization proceeds (US$ millions, cumulative since previous June)	0			0	0		0	0	

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

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

3/ 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.

4/ For the IT on gross claims on public enterprises by commercial banks, March-June 2025 test date excludes changes in claims related to CBE recapitalization.

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).

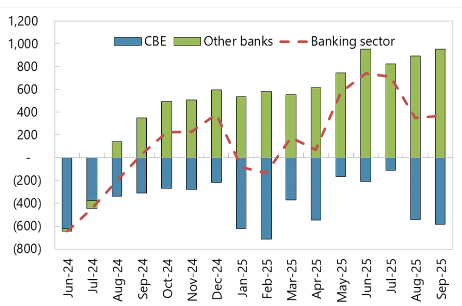
ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

6. **FX market deepening continues.** FX availability has improved, with fewer complaints about access and shorter wait times. The real effective exchange rate (REER) has remained stable after the sharp post-reform correction. Strong net FX inflows—driven mainly by the improved trade balance in 2024/25—together with NBE FX auctions, have strengthened banks' FX liquidity. Private banks have also begun opening letters of credit (LCs) for fuel imports. Recent steps to improve FX market functioning include incorporating interbank FX transactions and NBE's FX sales and purchases with banks in the daily indicative rate, introducing a survey of unmet FX demand, and adopting a revised NOP directive in October 2025. The revised directive is aligned with international best practices and introduces a clear penalty regime for non-compliance, with implementation scheduled to begin on January 1, 2026.

Text Figure 1. Ethiopia: NOP and FX Sales Auctions

Banks' Monthly On-Balance Sheet NOP

(Million U.S. dollars)



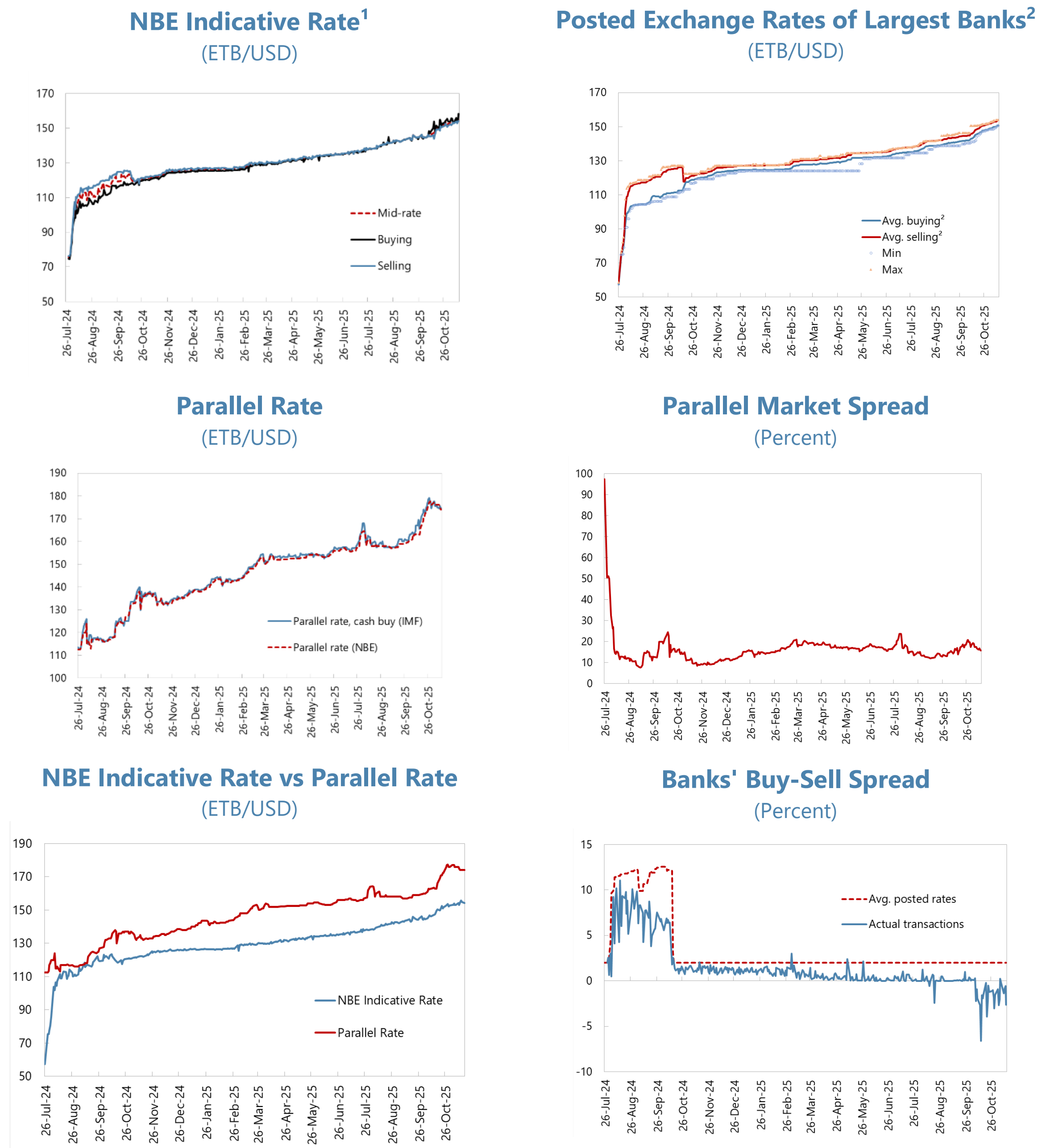
NBE FX Sales Auctions

Date	Volume (in million US$)	Weighted average rate of successful bids (ETB per US$)
7-Aug-24	30	107.9
25-Feb-25	60	135.6
1-Apr-25	50	131.7
17-Apr-25	70	131.5
7-May-25	60	133.0
22-May-25	50	133.2
5-Jun-25	50	135.0
19-Jun-25	50	136.6
5-Aug-25	150	138.3
14-Oct-25	150	148.1
2-Dec-25	50	154.4

7. **However, recent actions by the authorities, together with structural market deficiencies, have slowed progress toward full market determination of the exchange rate.** The NBE's off-market sale of a large volume of FX to CBE prevented the exchange rate from fully reflecting underlying demand conditions. In addition, the de facto cap on the maximum allocation each bank can receive at each NBE auction has further constrained price-discovery. CBE's short FX position remains large, due to the bank's role in financing fuel and fertilizer imports given limited private bank interest in helping to shoulder the burden. Interbank FX trading continues to be limited and ad hoc, insufficient to allow for efficient clearing of excess positions among banks. The parallel market premium has recently increased to around 13 percent, compared with levels below 10 percent observed from September through mid-October.

8. **The current account deficit narrowed further in 2024/25, supported by strong export performance.** Coffee and gold exports benefited from record-high international prices, alongside exceptional increases in volumes. Coffee exports rose to 470 metric tons in 2024/25, compared to 299 metric tons in 2023/24. Gold exports recorded an even sharper increase, from just over 4 metric tons in 2023/24 to nearly 39 metric tons in 2024/25. Imports of goods were largely flat over the previous year, at US$18.8 billion, and the trade balance strengthened by US$4.2 billion. Services

Text Figure 2. Ethiopia: Exchange Rate Developments

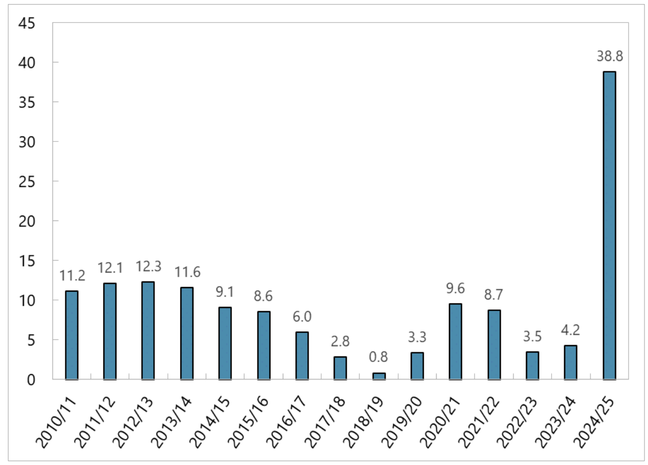


Sources: NBE and IMF Staff.
1/ Weighted average of actual transactions across all banks (posted the following morning).
2/ Simple average.

imports and exports increased with the balance declining slightly over the year (the balance nonetheless rose by 0.4 percent of GDP, reflecting the impact of the depreciation on GDP measured in US dollars). Other areas of the BOP, however, were weaker than expected such as official development assistance (ODA) and privatization proceeds. Private transfers and foreign direct investment (FDI) remained in line with forecasts at the time of the Third Review. As a result, the current account deficit narrowed to 1.1 percent of GDP in 2024/25, compared to 2.9 percent of GDP in 2023/24. There was a large swing in errors and omission to a significant outflow that is at least partially explained by the migration of previously smuggled gold from unrecorded production and exports into official statistics, or the sale of previously accumulated inventory. The time lag between NBE's purchase of raw gold from artisanal miners and its export following refinement also contributes to errors and omissions. Overall, gross international reserves increased by US$3 billion to US$4.4 billion. Work to strengthen external sector statistics with IMF technical assistance has focused on adoption of BPM6, reducing errors and omissions, and improving estimation of personal transfers and recording of gold transactions.

Text Figure 3. Ethiopia: Gold Exports Volume

(In metric tons)



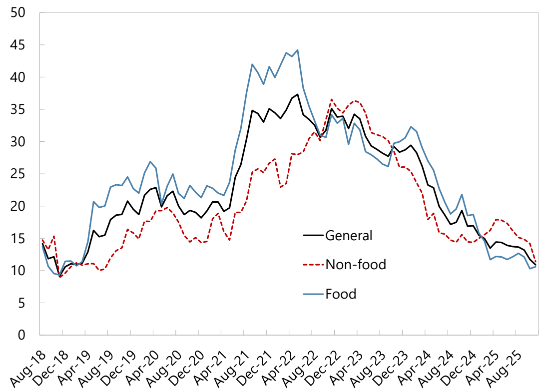
9. Exports are projected to support stronger than anticipated balance of payments (BOP) outcomes. Preliminary discussions with the authorities suggest gold exports could settle around 30 metric tons in 2025/26 (down from 39 metric tons in 2024/25, reflecting depletion of inventory accumulated during the Tigray war, but higher than Third Review projection of 15 metric tons). Coffee exports are also expected to benefit from favorable international prices, with export values projected to exceed US$3 billion for the first time in 2025/26. While reliance on forest-based, natural shading coffee production reduces vulnerability to compliance costs from the new EU Deforestation Regulation (which is expected to be fully rolled out by June 2026), the sector will still face challenges meeting the regulation’s traceability and verification requirements. Imports forecasts are broadly unchanged from the Third Review. Time lags between NBE gold purchases and sales of refined gold are likely to contribute to additional discrepancies in external statistics. FX reserves are projected to reach US$10.5 billion by the end of the program, covering 3.5 months of following year’s imports.

10. Inflation continues to decline, albeit downward momentum is slowing. Headline inflation in 2024/25 was lower than anticipated at 13.9 percent y/y (compared with 16 percent projected at the Third Review) and declined further to 10.9 percent y/y in November driven by continuing declines in staple food items (breads and cereals, vegetables) and lower price growth in solid fuels used by households. Nevertheless, there are signs of slowing downward momentum in other non-food prices, and some food prices have experienced increases, slowing the pace of disinflation. Seasonal food price pressures and anticipated increases in administered prices (electricity, fuel) are expected to further slow disinflation in the months ahead, with the end 2025/26 projection moderately higher at 12.0 percent y/y, compared with 10.2 percent at the Third Review.

Text Figure 4. Ethiopia: Inflation

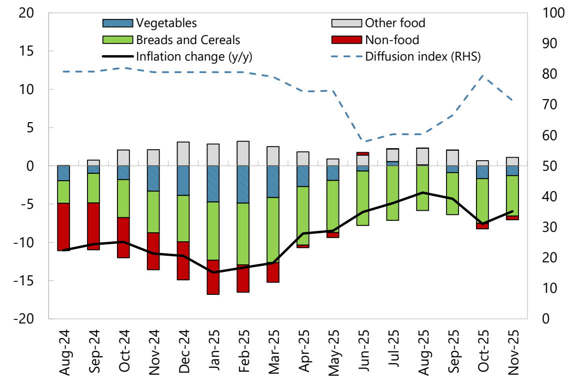
Consumer Price Index

(y/y percent change)



Decomposition of Inflation Decline

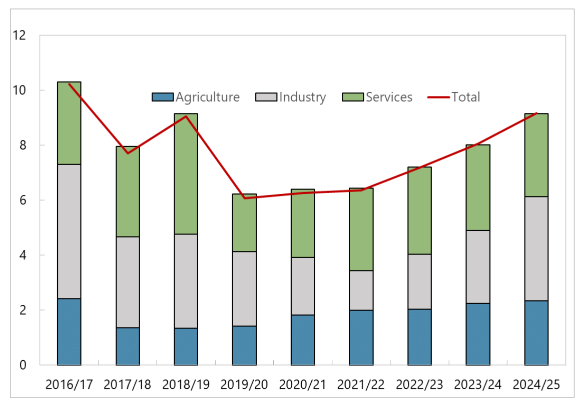
(ppt contribution to y/y percent change)



11. Growth was strong in 2024/25. Real GDP grew by 9.2 percent, supported by mining, construction, and manufacturing activity as well as favorable agricultural production. The forecast for 2025/26 has been revised up to 9.3 percent as higher public spending and private investment, bolstered by the benefits of reforms, are expected to continue to support economic activity. Growth is expected to settle around 8–8.5 percent over the medium term.

Text Figure 5. Ethiopia: Contributions to GDP Growth

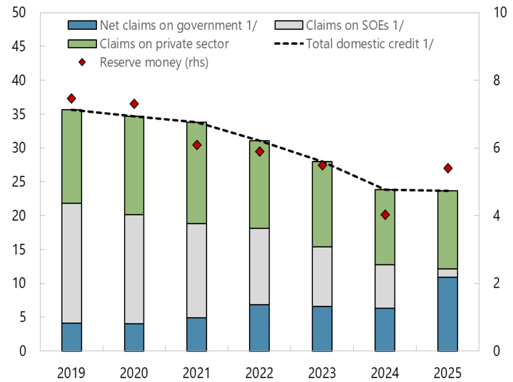
(Percentage points)



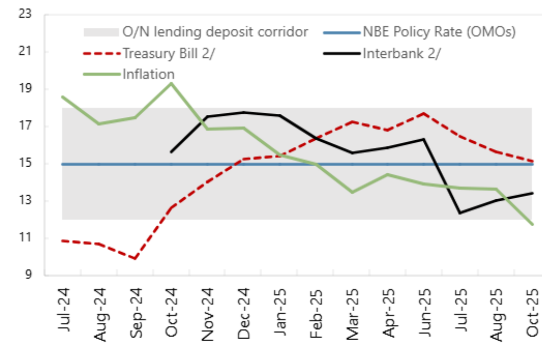
12. Overall liquidity conditions have eased relative to the start of 2024/25, with differentiation across the banking sector. Broad money grew by 34 percent y/y at end-September 2025, driven mainly by strong deposit growth at CBE. Reserve money grew by 71 percent, reflecting liquidity injected through NBE's gold-purchase operations, which flow through CBE. Treasury bill (T-bill) and open market operations (OMO) balances, and excess reserves have increased across the system—excess reserves rose from a low of 0.9 percent of net deposits in April to 5.9 percent at end-September, driven mostly by CBE. Banks have been using the nascent interbank market to manage short term liquidity—transaction volumes surpassed 1 trillion Birr in September, and rates have traded below the policy rate since July. Overall credit growth remained contained at 14 percent. Claims on state-owned enterprises (SOEs) rose 87 percent y/y (up from a low base following CBE recapitalization in FY 24/25 but still in line with program parameters) while net credit to government declined by 6.8 percent. Private sector credit was higher than expected at 34 percent y/y driven by CBE's fertilizer-related lending. Overall credit is expected to remain stable as a share of GDP in the medium term, with a steady increase in private credit in line with the authorities' objective of promoting private sector-led growth.

Text Figure 6. Ethiopia: Monetary Conditions

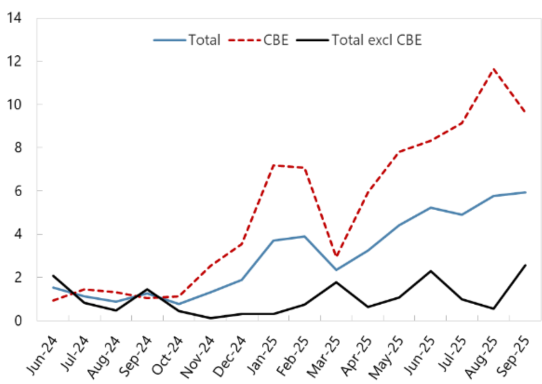
Money and Credit, 2019–25
(Percent of GDP, as of end-June)



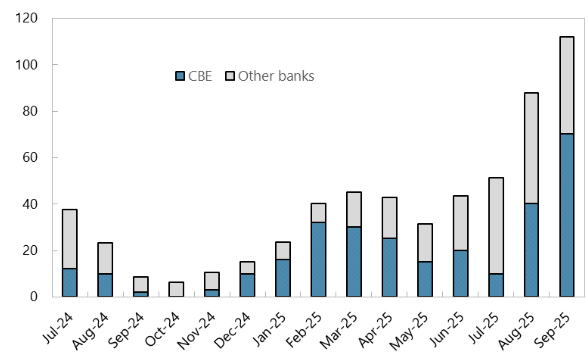
Interest Rates, Jul-2024 – Oct-2025
(In percent, monthly average)



Excess Reserves, Jun-2024 – Sept-2025
(Percent of net deposits)



Open Market Operations (OMO) Holdings by Bank, Jul-2024 – Sept-2025
(Billions of Birr)



Sources: Ethiopian authorities and IMF staff.
1/ Credit growth numbers include July 2024 CBE recapitalization and write-off of CBE's SOE-linked non-performing loans.
2/ Treasury bill and interbank rates weighed averages across maturities.

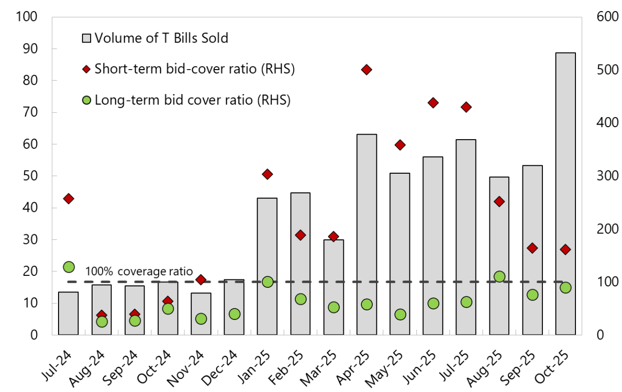
13. **The NBE's monetary policy framework is guided by the objective of reducing inflation to single digits.** Since introducing an interest rate-based policy framework in July 2024, the NBE has held the policy rate at 15 percent, including at the most recent June and September Monetary Policy Committee meetings, signaling their intention to maintain tight conditions. At the September meeting, the NBE also retained the cap on private credit growth, rather than fully eliminating it as previously planned, on the basis of safeguarding financial stability and preserving recent progress in reducing inflation. The policy rate remains above inflation, while the credit growth cap—now set at 24 percent—will be calculated from a narrower base and will prove more constraining for some banks (notably CBE) than the previous 18 percent cap. NBE continues to conduct 14-day full allotment liquidity absorbing OMOs at the policy rate, with an increase in participation over July-September. Excess liquidity, albeit not evenly distributed, slowing disinflation, the prospective removal of the cap on growth of private credit, slow but steady exchange rate depreciation, and

strong deposit growth, may call for changes in policy rates and reserve requirements going forward. The next MPC is planned for December.

14. Participation in the T-bill market is increasing. The average bid-cover ratio has exceeded 80 percent since April, and volumes rose to 89 billion Birr in October 2025. While issuance remains weighted towards shorter dated T-bills, new market participants including Ethiopian Investment Holdings (EIH), as well as the regular publication of an issuance calendar have supported more stable auction demand. T-bill yields rose to a weighted average of 18 percent in June, fell in July as liquidity conditions eased and have remained broadly stable at around 15.5 to 16 percent since then—above inflation and the policy rate (Text Figure 6). Higher than anticipated credit growth in 2024/25 led to higher mandatory purchases of Treasury bonds by banks (amounts were linked to loan disbursements) by close to 30 billion Birr (0.2 percent of GDP). While the end of mandatory purchases in July 2025 supports demand for T-bills, banks are expanding their portfolios cautiously. Liquidity is unevenly distributed, confidence and familiarity with the T-bill market are still developing, and the shorter maturity of OMOs is attractive for some banks.

Text Figure 7. Ethiopia: T-Bill Auction Results

(Billions of Birr; in percent)

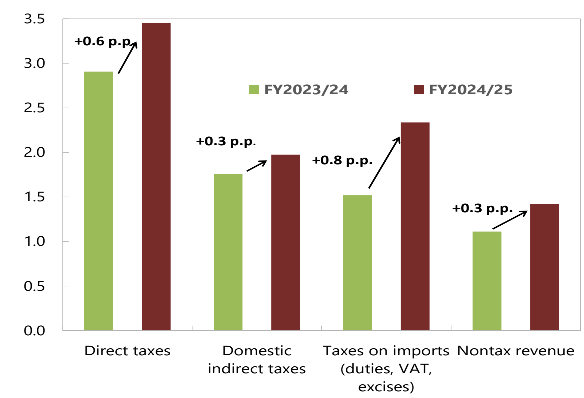


15. Banking sector indicators are stable (Table 5). Reported non-performing loans stood at 3.9 percent in September 2025, compared with 5.5 percent in September 2024. Banking sector liquid assets stood at 25.0 percent at end-September (above the 15 percent regulatory benchmark), partly reflecting a seasonal easing of liquidity. Bank profitability continues to improve following the closing of NOP positions and recognition of losses linked to the recapitalization of CBE in 2024. Banks' exposure to the government (T-bonds and bills; banks do not lend to the government) stood at 29 percent of total assets at end-September 2025 (8 percent excluding government bonds related to CBE's recapitalization). Lending to public enterprises remains around 4 percent of total assets.

16. Revenue performance and overall fiscal effort including off-budget and quasi fiscal operations have been strong. General government revenues grew from 7.3 percent of GDP in FY23/24 to 9.2 percent of GDP in FY24/25, the first revenue-to-GDP ratio increase in over a decade, exceeding the ECF approval baseline by 0.8 percent of GDP. Tax revenues from imports jumped by 145 percent (reflecting the exchange rate change and policy reform). Federal government spending picked up at the end of the fiscal year: (i) capital expenditure exceeded the budget by 0.2 percent of GDP, with payments settled in early FY25/26 during the grace period; (ii) current primary spending was about 0.3 percent of GDP higher; (iii) while interest on domestic debt was lower by about 0.3 percent of GDP due to a CBE recapitalization bond coupon payment occurring in early FY25/26, as opposed to late FY24/25 as had been programmed. The overall deficit declined from 2.0 percent of GDP in FY23/24 to 1.2 percent of GDP. Removing exchange rate distortions, reducing financial repression, and bringing on-budget implicit subsidies, has led to additional consolidation of off-budget and net quasi-fiscal operations estimated at about 1½ percentage points of GDP in FY24/25.

Text Figure 8. Ethiopia: General Government Revenue

(In percent of GDP)



17. While the thrust of fiscal reforms has been consistent with program commitments, the Federal Budget for FY25/26 deviated from program parameters agreed at the Third Review. Compared to the agreed fiscal framework, the Budget included additional contingency spending of about 1.5 percent of GDP. Of this, 1 percent of GDP is earmarked for public wage increases, reflecting pressures to correct the erosion of real public sector compensation (prior to last year, the public wage scale had not been adjusted since 2019, and many public servants earn below the poverty line), while 0.5 percent of GDP was added as contingency for operating expenses. Modification of the performance criterion on financing of the general government primary deficit are proposed to reflect agreed changes to the fiscal framework. Implementation of Productive Safety Net Program (PSNP) measures to support the vulnerable population has been in line with commitments overall, with the government carrying through the increases implemented in FY24/25 in their commitments for this fiscal year.

18. The authorities raised fuel and electricity prices in line with their commitments. In early December, fuel prices to consumers were raised by 11 percent for diesel and 5 percent for gasoline, resulting in cumulative increases of about 43 and 42 percent, respectively, since the beginning of 2025, in line with the authorities' intention to substantively eliminate fuel subsidies by end-February 2026. Electricity tariffs were raised in October 2025, consistent with the quarterly tariff adjustment plan (SB under the First Review).

19. Parliament approved amendments to the Income Tax Proclamation. The amendments (i) introduce a minimum alternative tax, (ii) increase withholding tax rates, (iii) simplify the presumptive tax regime, and (iv) adjust the personal income tax (PIT) schedule, with implementation from FY25/26 in line with the program. The authorities made further enhancements to the tax policy regime (e.g., extending value added tax (VAT) to professional services and expanding the scope of VAT registration, among others).

20. Reflecting program disbursements and exchange rate depreciation, public and publicly guaranteed debt (PPG) rose from 35.4 percent of GDP to 50.3 percent in the year to end-June 2025. Total disbursements from international financial institutions (IFIs) were US$3.25 billion (IMF, US$1.6 billion; International Development Association, US$1.6 billion; African Development Bank US$35 million; others US$12 million). Official bilateral creditors disbursed US$86 million, of which

Paris Club members accounted for US$70 million, broadly in line with expectations. No disbursements were recorded from commercial creditors. Official bilateral and external commercial (including Eurobond) debt was not serviced as restructuring discussions proceed. Unpaid debt service will be paid according to the terms of the MOU once bilateral agreements are signed. Domestic debt to GDP remained stable, but average maturity lengthened from around 11 years to 13 years. Key developments included: a decline in outstanding T-bills from 447.8 billion Birr to 272.2 billion Birr (1.9 percent of GDP), largely due to the conversion of most pension fund holdings into longer term bonds; conversion of NBE direct advances into long-term government bonds; and an increase in the stock of 5-year Treasury bonds (from 115.1 to 190.5 billion Birr, or 1.3 percent of GDP) due to mandatory bank purchases. No new long-term loan disbursements were made to SOEs either externally or domestically.

21. Mobilizing private investment is proving challenging. Efforts to improve the business climate are needed to mobilize foreign and domestic investment, support private sector growth, and achieve HGER's broader goals. While the business community in Ethiopia has widely supported the reforms, concerns are also expressed on the need to enhance transparency and predictability in tax rules and revenue administration, clarify rules for sourcing FX outside of the local banking system, and increase private sector consultation and involvement in policy design and implementation. To address challenges, the authorities continue to advance the Public-Private Dialogue, with International Finance Corporation support, focused on taxation, investment protection, and regulatory predictability.

22. Potential social discontent and security challenges continue to represent the key downside risks (Annex I). The baseline is predicated on successful program execution and progress in implementing the external debt treatment. Policy slippages or delays in reform implementation in response to social pressures are downside risks. Inconsistent implementation or a reversal of key fiscal or exchange rate reforms could result in larger financing gaps or withdrawal of development partner or creditor support, and business environment concerns could deter FDI or weaken tax collections and potential revenue mobilization. Fragility risks related to conflict (intensifying unrest within the country or regionally) and institutional weaknesses may further complicate policy implementation risks.[1] The baseline already reflects significant reductions in ODA, while larger-than-expected cuts could have humanitarian implications and put pressure on the government to fill part of the gap.[2] Risks from potential trade policy shocks and global uncertainty would have a limited impact in the near term given Ethiopia's low export base and relatively closed economy. However, adverse terms of trade shocks—falls in gold and coffee prices, rises in oil prices—could widen trade and fiscal deficits and make achievement of reserve accumulation targets more difficult. Upside risks include improvements to security conditions, which could strengthen economic recovery and unlock investment, and sustained increases in export volumes, which could strengthen growth and BOP outcomes.

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[1] For more see Annex I (Country Engagement Strategy) in Ethiopia 2025 Article IV Consultation and Third Review Staff Report.

[2] For more see Box 1 (Official Development Assistance to Ethiopia) in Ethiopia 2025 Article IV Consultation and Third Review Staff Report.

Text Table 2. Ethiopia: Selected Economic Indicators

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Proj.	3rd Rev.	Proj.	Projections			
	In percent change, unless otherwise mentioned									
GDP at constant prices (at factor cost)	7.2	8.1	7.2	9.2	7.1	9.3	8.6	8.6	8.5	8.0
Consumer prices (period average) [1]	32.5	26.6	16.6	16.0	12.0	11.9	9.3	8.3	7.2	6.2
Consumer prices (end of period) [1]	29.3	19.9	16.5	13.9	10.2	12.0	9.3	7.1	7.0	6.0
External sector										
Exports of goods and services (U.S. dollars, f.o.b.)	3.3	8.1	25.5	42.0	2.3	5.7	11.2	11.4	11.1	13.2
Imports of goods and services (U.S. dollars, c.i.f.)	-1.4	7.8	7.3	3.2	1.2	10.0	7.9	8.5	10.0	13.7
	In percent of GDP, unless otherwise mentioned									
External current account balance, including official transfers	-2.9	-2.9	-3.2	-1.1	-3.1	-2.3	-2.3	-2.0	-1.8	-2.0
Government finances										
Overall fiscal balance, including grants (cash basis)	-2.6	-2.0	-1.5	-1.2	-1.7	-1.8	-1.1	-1.7	-1.6	-1.6
Total financing (including residuals and excluding net acqusition of assets)	2.6	2.0	1.5	1.2	1.7	1.8	1.1	1.7	1.6	1.6
External financing	0.3	0.2	1.0	1.0	0.3	0.3	-0.3	0.4	-0.1	-0.1
Domestic financing [2]	2.3	1.8	1.0	0.5	1.1	1.5	1.3	1.4	1.6	1.7
Primary fiscal balance, including grants	-2.0	-1.4	-0.5	-0.4	-0.5	-0.6	0.1	-0.6	-0.4	-0.4
Public debt [3]	40.2	35.4	49.8	50.3	42.6	45.1	40.7	37.6	34.5	31.8
Domestic debt	22.1	19.7	19.3	18.7	15.9	15.3	13.8	13.2	13.4	13.4
External debt (including to the IMF)	18.1	15.7	30.4	31.6	26.6	29.8	27.0	24.4	21.2	18.4
Gross official reserves (in millions of U.S. dollars)	1,026	1,429	3,751	4,418	5,025	5,576	7,453	10,497	12,620	15,014
(months of prospective imports of goods and nonfactor services)	0.5	0.7	1.7	1.9	2.1	2.2	2.7	3.5	3.7	3.9

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] The base is December 2016.

[2] Includes other below-the-line operations.

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

POLICY DISCUSSIONS

A. Exchange Rate

23. The NBE is implementing measures to strengthen FX market functioning (MEFP ¶16):

- **FX auction guidelines.** In December 2025, the NBE published guidelines specifying that FX auctions are open to all banks, with allocations determined exclusively by the highest bid prices, without restrictions on bid amounts or prices (prior action). In November 2025, the NBE also began publishing a quarterly FX auction calendar, which will specify the intended amount to be auctioned at least one month in advance, and more detailed auction results disclosing the range of submitted bids, weighted average cutoff rates of accepted bids, total amounts offered and allocated, and the number of participating banks.
- **FX intervention.** NBE intervention will be limited to addressing disorderly market conditions and auctioning proceeds from gold purchases in excess of reserve accumulation objectives, in line with the published FX auction guidelines. Interventions will be conducted exclusively with banks through FX auctions, consistent with the new continuous performance criterion that sets a zero limit on FX intervention except through auctions. Transactions with the general government and the settlement (at current market exchange rates) of the last remaining deferred LC payments contracted before July 2024 and maturing in FY2025/26, are excepted from the auction requirement. All daily FX transactions with banks will be reported to the IMF on a weekly basis.

- **NOP reduction plan.** The NBE and CBE have agreed on a revised plan to reduce CBE's on-balance sheet NOP by at least half of the excess recorded at end-September 2025 by end-December 2025, with full compliance by end-March 2026. The initial timeline for compliance with the prudential limit, originally set for end-2025, has been extended to end-March 2026. This adjustment reflects a larger-than-anticipated net open position during Q1 of 2025/26, driven by lower-than-expected FX receipts (mainly from remittances) and higher FX demand, including from the private sector, compared to the initial plan. Weekly consultations between NBE and CBE have been established to monitor progress against the revised plan, which includes a contingency buffer. CBE has also launched new campaigns to mobilize FX resources from diaspora communities, including remittances and tailored loan products. A more competitive pricing strategy and auction participation may be needed to close CBE's NOP.
- **Interbank FX market development.** The NBE will develop a roadmap to deepen the interbank FX market, including establishing an interdealer trading platform by end-September 2026 (**new structural benchmark**), supported by IMF technical assistance focused on the policy, regulatory and market-design aspects of this roadmap. A well-functioning interbank market will strengthen banks' FX risk management and enhance transparency. Work is underway to upgrade the settlement system for interbank FX transactions so that these trades can be settled domestically. Since December 1, 2025, the NBE has published weekly data on interbank FX volumes and weighted average prices on its website.
- **Surrender requirements.** By end-March 2026, the NBE will develop indicators and benchmarks to assess FX market development, guiding the timing of reductions and eventual removal of surrender requirements by the end of the program, at a pace consistent with FX market development. Potential indicators include the level and persistence of the parallel market premium, interbank market activity, unmet FX demand, and banks' NOP positions. The NBE will also relax the rules governing exporters' sales of FX in their retention accounts when fulfilling surrender obligations (domiciliation rules), to give exporters greater flexibility to secure favorable exchange rates. Implementation is expected by end-June 2026, when the new bank data reporting system will be fully online, enabling direct NBE monitoring of compliance with surrender requirements.
- **Transparency and survey of unmet FX demand.** To enhance transparency and competition, all banks began publishing daily FX transaction rates on their websites in November 2025, showing the weighted average buying and selling rates from the previous day's actual trades. These are the executed rates reported to the NBE for calculating the official reference rate and are distinct from indicative customer quotes. In December 2025, the NBE began undertaking quarterly assessments of unmet FX demand for the nine largest banks.

24. The authorities reaffirm their commitment to remove long-standing exchange restrictions and surrender requirements. The NBE has already issued guidance to banks on settling dividends accumulated prior to the FX reform over an 18-month period starting end-September 2024, most of which have been cleared. The NBE will complete, by the Fifth Review, an evaluation of the potential removal of restrictions on FX access for moderate family remittances, including a review of international experiences, to mitigate risks of circumvention of capital controls.

Phasing out the NBE exchange commission, which constitutes a significant share of NBE income, will be aligned with the review of NBE's capital position, supported by IMF technical assistance. Two exchange restrictions—the tax clearance certificate requirement for repatriation of dividends and other investment income, and the requirement for an NBE clearance certificate to obtain import permits—will be studied jointly with relevant authorities to identify alternatives that avoid exchange restrictions and minimize business disruptions. The NBE is committed to phasing out surrender requirements by the end of the program, at a pace consistent with FX market development.

25. The NBE is strengthening its gold transaction procedures to mitigate risks to its balance sheet and reduce distortions in the banking sector. The premium above international prices paid to miners will be phased out, and private banks will be allowed to participate in gold purchases. A detailed implementation plan to address these issues will be developed based on a study to be completed by end-March 2026. In the interim, quality control will be enhanced by extending and improving gold testing procedures across all purchasing sites. The NBE will also prepare a long-term exit plan from the gold market by end-December 2026, taking into account implications for international reserve accumulation objectives.

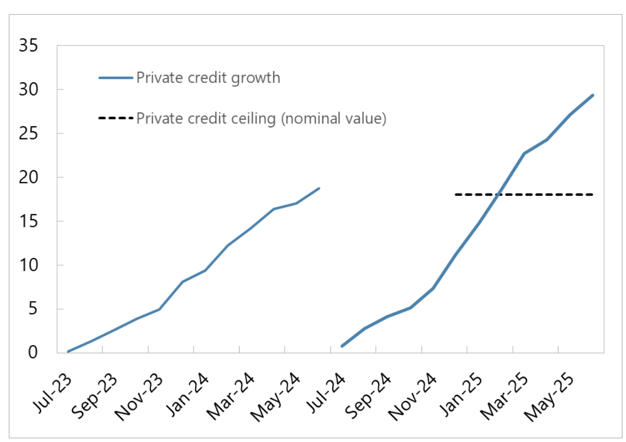
B. Monetary Policy

26. A tight monetary stance continues to be appropriate to anchor inflation expectations and support price stability. Monetary conditions have eased, growth in credit to the private sector has picked up, GDP and high frequency indicators suggest activity remains robust, and the fiscal stance is moderately expansionary. While inflation has been declining, it remains in double digits, downward momentum has slowed, and seasonal pressures pick up from December. Maintaining rates in positive territory in real terms is essential to build policy credibility and attain the NBE's objective of single digit inflation. Policy rate increases at the upcoming March monetary policy committee meeting may be needed if data suggest disinflation is stalling.

27. A phased exit from the private sector credit growth cap is warranted. The cap was calibrated based on total loans (including SOEs), which allowed some banks (notably CBE) substantial room to increase lending to the private sector. Overall private credit growth was substantially above the nominal 18 percent ceiling in 2024/25 (Text Figure 9), although this has not had noticeable inflationary effects. Although maintaining an adjusted cap represents a departure from the commitment to remove it by September 2025, growing system liquidity implies a sudden removal could lead to rapid credit expansion that works

Text Figure 9. Ethiopia: Private Credit Growth, July 2023–June 2025

(Percent change from June of previous FY)



against reducing inflation or leads to weakening credit quality. The change of the base of calculation for the cap to consider only loans to the private sector and not total loans and advances will make the cap more binding for some banks and ensure uniform application across banks. The NBE will gradually raise the cap before end-June 2026 with a view to full elimination by December 2026, based on indicators such as the evolution of inflation and private credit, banking sector liquidity, and developments in asset quality. Eliminating the growth cap remains an important step toward consolidating the interest-rate based monetary policy framework where the policy rate signals the policy stance. Strengthening bank lending standards, financial oversight, and NBE's macroprudential tools should proceed in parallel.[3]

28. Efforts to enhance liquidity management across the financial system are important for monetary policy transmission. Continued development of the interbank money market along with the issuance of a new reserve requirement directive expected in December 2025, will help banks manage liquidity more efficiently. Adjustments to the reserve requirement framework may also be warranted as part of maintaining a tight policy stance, as these would provide an additional tightening impulse if needed. CBE and the authorities are developing a plan to address structural liquidity concentration at CBE, including through investment in T-bills and bonds, expanding participation in the interbank market, and purchasing FX in the interbank market (MEFP ¶22). Developing a functioning repo market and building capacity among banks to use secured instruments would also improve liquidity distribution and strengthen the policy transmission mechanism.

29. Modernization of the monetary framework continues. The NBE is developing analytical capacity, including with IMF technical assistance on the Forecasting and Policy Analysis, and liquidity forecasting with the Ministry of Finance (MoF). Efforts to establish a comprehensive collateral framework for monetary policy and emergency liquidity assistance operations, with the support of IMF technical assistance, are ongoing. The authorities are also developing a monetary policy communications strategy.

30. Improving NBE's financial position will support operational autonomy, and improve banking sector liquidity management, monetary policy effectiveness and market confidence. Following the April 2025 capital assessment conducted with IMF technical assistance, the NBE is preparing a recapitalization plan—expected to be agreed with the MoF by end-June 2026—centered on establishing a sustainable equity path, phasing out the 2.5 percent FX commission fee by end-June 2028, reducing exposure to public-sector banks, and removing gold-purchase premiums and subsidies.

C. Fiscal Policy

31. The FY25/26 general government fiscal stance is moderately expansionary. The primary deficit is projected to weaken slightly from FY24/25 (excluding quasi fiscal activity—see para 33),

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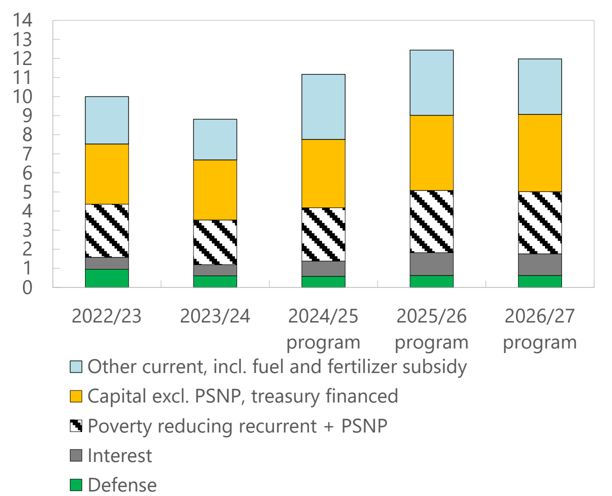
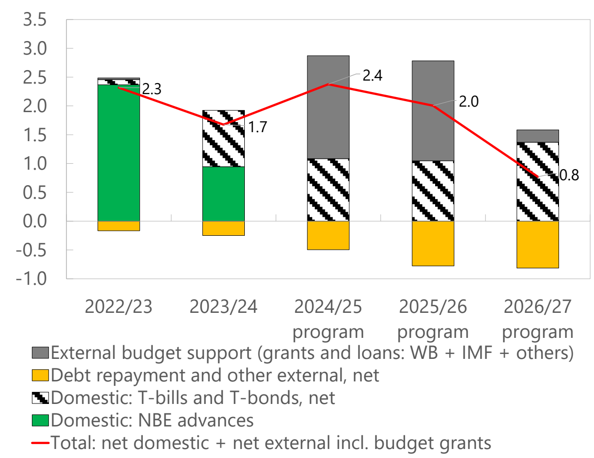
[3] See Annex VI in Ethiopia: 2025 Article IV Consultation and Third Review Staff Report.

with the fiscal impact close to the supportive fiscal stance of FY24/25 resulting from measures designed to mitigate the socio-economic impact of reforms in the first year of the program. While the spending measures being unwound were temporary, the spending increases in the FY25/26 Budget are comparable in size and permanent in nature, reflecting above all the pressure to correct public sector real wage erosion. Better-than-expected revenue outcomes, reduction of fuel subsidies, and the rapid development of the T-bill market making more domestic financing available, allow for addressing urgent current expenditure pressures while mitigating near-term fiscal financing risks. Looking ahead, realizing revenue mobilization targets and tight control and pacing of expenditure increases will be critical for ensuring macroeconomic stability, managing financing constraints, and supporting disinflation and external balance objectives.

Text Figure 10. Ethiopia: General Government Expenditure
(In percent of GDP)



Text Figure 11. Ethiopia: Budget Financing Sources
(In percent of GDP)



32. Constrained fiscal financing limits scope for expenditure growth. External budget support is expected to decline from 1.5 percent of GDP in FY24/25 to an average of 0.5 percent of GDP over the next two years. Once bilateral agreements are made with official creditors, post-restructuring external debt service will also increase financing needs. The authorities' fiscal strategy includes: (i) reducing fuel subsidies (a saving of 0.5 percent of GDP per year from FY26/27); (ii) raising domestic financing from 1 to about 1.5 percent of GDP from FY26/27; (iii) revenue mobilization, with growing contributions from tax and customs administration reforms, of around 0.3 percent of GDP in FY26/27. The strategy addresses financing risks this fiscal year and next, but the authorities' longer-term assumption of sustained, significant external budget support poses budgetary planning and fiscal financing risks.

33. Regional government fiscal restraint and quasi-fiscal adjustment have been maintained. Key results include: (i) removal of implicit fiscal subsidies provided previously via the overvalued exchange rate (fuel and fertilizer, 1.3 percent of GDP, of which 0.9 percent is fuel subsidies that will be phased out, and 0.4 percent is now on-budget fertilizer subsidies); (ii) the interest cost of government debt (0.5 percent of GDP) issued to recapitalize CBE and write off its SOE-linked nonperforming loans corrects previous financial repression from evergreening loans to SOEs at below market interest rates; and (iii) financial strengthening of SOE's (notably electricity tariff increases, equal to some 0.4 percent of GDP). Continued restraint in borrowing by regional governments and SOEs helps reinforce a consistent macro-fiscal policy stance across the broader public sector.

34. Revenue mobilization has been strong, guided by the National Medium-Term Revenue Strategy (NMTRS). Implementation of the income tax reforms adopted in July 2025 is advancing, including transitional arrangements to smooth payments in the initial phase of the new quarterly advanced corporate income tax (CIT) payment regime. While somewhat slower than envisaged, full implementation of the excise stamp is expected by March 2026, while groundwork for motor vehicle taxation and roll-out of property tax to regional and city governments are advancing.

35. Strengthened tax-administration efforts will be essential to complement revenue gains from recent policy measures. A new Investment Incentive Regulation was adopted in October 2025 replacing the previous open-ended regime with a transparent, rule-based, and performance-driven framework. The new regulation replaces exemptions with reduced income tax rates of limited scope and duration, tied to measurable investment-linked criteria, for all new incentives, and introduces a legal basis and requirements for monitoring, analysis, and reporting of the tax revenue foregone. The authorities are institutionalizing tax expenditure reporting (**new structural benchmark, end-June 2026**) with comprehensive coverage of VAT, taxes levied on imports (customs duty, excise duty, VAT and surtax), and CIT incentives. Building on the 2024 TADAT, the authorities are implementing an action plan to close compliance gaps and strengthen compliance risk management, e-filing, and e-payment. The Ministry of Revenues will develop comprehensive Compliance Improvement Plans for medium and large taxpayers (**new structural benchmark, December 2026**). Staff also underscored the importance of advancing revenue administration digitalization, including strengthening the integration of information management systems between MoF and the Ministry of Revenues and accelerating the development and phased rollout of the new Integrated Tax Administration System.

36. The mission reviewed progress in expanding the social safety net and discussed the fiscal response to curtailment of international development aid. The direct budgetary impact of falling ODA remains limited, as most flows were executed through third parties. In response, the authorities have increased allocations to health and are advancing preparation for a national disaster risk-management fund (to strengthen the response to droughts and floods), with a draft proclamation under discussion and work underway on a transparent financing strategy. With World Bank support, the authorities are developing a comprehensive social registry, which will strengthen targeting of social safety-net programs. Public wage increases combined with the revision of personal income tax brackets have supported real incomes for lower-paid public employees, complementing social-protection efforts.

37. The authorities are enhancing fiscal policy formulation, the budget framework, and fiscal transparency. Near term priorities, guided by IMF technical assistance, focus on enhancing macro-fiscal capacity, budget execution, and fiscal-risk reporting, and government finance statistics. Staff underscored the importance of regular publication of budget execution reports as a cornerstone of fiscal transparency and accountability, continued expansion of statistics coverage, improved compilation, reconciliation, and reporting of fiscal accounts, and strengthened monitoring of extrabudgetary units. Staff also highlighted the need to advance Treasury Single Account reforms and strengthen cash-management and cash-forecasting frameworks to support debt management and facilitate budget execution.

38. SOE sector reforms are overall on track. EIH-led reform efforts have prioritized improved financial reporting and operating efficiency across its SOE portfolio, with notable early signs of improvement in the sugar and logistics sector. The financial position of the power utilities improved markedly as a result of the sustained tariff reform implementation, but further effort is needed to strengthen investment and financial planning, which is key to national grid expansion and achieving universal access objectives. Several large investment projects have been announced, including a new airport, led by Ethiopian Airlines, and a new private sector-led fertilizer plant in which EIH will take a significant stake. The projects do not involve new public sector debt or guarantees and generally have long gestation periods before any debt is incurred as well as mitigating features for fiscal risk. The preparation of EIH’s consolidated financial statements for FY22/23 has faced a minor delay in procurement of services from an international accounting firm to review consolidation undertaken by EIH, resulting in the end-December SB being missed. Publication is expected to be completed by end-March 2026. Clearance of the backlog in preparing IFRS accounts across SOEs is advancing as planned. Key next step is to operationalize MoF’s SOE oversight and monitoring mandate, develop fiscal-risk reporting, which will be supported by Fund TA envisaged for 2026.

D. Debt

39. Pending full resolution of the debt restructuring, Ethiopia’s debt continues to be assessed as unsustainable and in distress. The updated, preliminary pre-restructuring DSA shows that while improved macroeconomic projections have reduced the magnitude and duration, breaches remain in key debt vulnerability indicators, especially in external debt service to exports. Higher export projections reduce the magnitude and duration of breaches in export-related vulnerability indicators (the PV of debt to exports ratio now crosses the threshold one year before the end of the program). The debt service schedule, based on the end-June 2025 debt stock, has been updated. It is assumed that non-concessional loans to complete the Koysha dam will be contracted in 2025/26, with updated assumptions regarding loan amount, terms, and the disbursement schedule based on the authorities’ latest discussions with prospective creditors.

40. The authorities are making good faith efforts to reach an agreement with their external commercial creditors on terms comparable to the OCC MOU and consistent with program parameters. The authorities have continued their engagement with Eurobond holders, most recently through an exchange of offers with the Eurobond holder committee (representing more than 45 percent of total principal) in late September and early October 2025. Progress in reaching an agreement in principle (AIP) with another private creditor is proceeding well.

41. The authorities continue to limit the accumulation of new debt vulnerabilities. No new non-concessional loans have been contracted. The pace of contracting new public and publicly guaranteed (PPG) concessional debt has been below the established ceiling on the present value of new external borrowing.

42. The local currency bill and bond market is deepening. Continued real positive T-bill rates and solid auction participation show that recent efforts to mobilize resources (high-level engagement with stakeholders, the new monthly domestic debt bulletin, and the issuance calendar) are bearing fruit. Further growth in banks' demand is supported by improving banking sector liquidity and strong organic deposit growth, albeit liquidity is concentrated at CBE. Demand growth will be needed to meet the public sector's domestic financing needs as external financing declines in future. To underpin CBE's demand, and further reduce financial repression, the authorities have committed to ceasing the rollover of CBE's legacy T-Bill portfolio at negative real interest rates by end-FY26/27 (**new structural benchmark, July 2026**).

43. Progress on strengthening T-bill and bond market infrastructure and government cash management continues. The launch of the Central Securities Depository and dematerialization of government securities marks important progress. In 2026, the authorities plan to establish a trading facility for over-the-counter trading of T-bills and launch a secured repo market supported by an Ethiopian Master Repurchase Agreement. Together, these steps will increase the collateral value and tradability of government securities, facilitating secondary market development, greater market participation, and better liquidity management. Starting with a survey of government bank accounts, the MoF is strengthening cash management, supported by IMF technical assistance, to improve issuance planning and help ease the structural concentration of liquidity at CBE.

E. Financial Sector

44. Building oversight capacity will help ensure financial stability risks remain controlled through macroeconomic reform, rapid financial development, and growing private credit. Recent and planned capacity development projects include IMF technical assistance on Basel II/III implementation, development of a risk-based supervisory framework, and risks assessment model with the support of the World Bank. In September 2025, the NBE completed a compliance assessment of the revised asset classification and provisioning directive (approved June 2024) for the five largest private banks, which found good overall compliance and a positive impact on asset quality (full compliance by all banks is required by June 2026). The authorities are also undertaking a thematic review of banks' lending policies and practices by December 2025, with plans to develop an action plan to address gaps and strengthen supervisory follow-up. These findings should also help inform financial stability considerations as the credit growth cap is withdrawn.

45. Strengthening the financial sector safety net is a priority. Relatively weaker banks face a challenging environment, and the potential entry of foreign banks could intensify competition. A formal bank resolution framework was established in April 2025, providing clear procedures for addressing failing banks and supporting broader crisis preparedness. The authorities issued a recovery plan directive and, with the support of the World Bank, plan to establish a Prompt Corrective Action framework by end-March 2026 and establish a dedicated resolution unit. A merger and acquisition framework is also being finalized. Next steps should include initiating resolution planning.

46. Reform of CBE and Development Bank of Ethiopia (DBE) continues to progress, with World Bank assistance. Following the establishment of a commercial mandate and reform of its governance framework, CBE is working with EIH to define CBE's public sector obligations (including processes for periodic review, approval, financing, and disclosure). An Asset Quality Review (AQR) of CBE's lending portfolio is also planned for end-June 2026. An AQR for DBE was recently completed and a recapitalization proposal is expected to be finalized by June 2026—a key consideration, given the planned phase out of mandatory purchases of DBE bonds by end-2025. DBE will operationalize a new business model focused on wholesale financing, market-based funding, risk-sharing instruments, and greater mobilization of resources from development partners.

47. NBE has made some progress in implementing recommendations of the 2024 update safeguards assessment but more work is needed. While one new NBE Board member was appointed in September 2025, four additional members with suitable professional backgrounds and expertise, as prescribed by the amended legal framework, are still pending appointment (MEFP ¶26). In line with the amended law, the 2024/25 NBE audited financial statements are expected to be published by end-2025. However, key safeguards recommendations are yet to be implemented, including strengthening capacity in financial reporting, internal audit, and risk management, and establishing stronger controls to ensure accuracy of program monetary data.

48. The authorities are preparing for the Financial Action Task Force (FATF) mutual evaluation of Anti Money Laundering/ Combatting the Financing of Terrorism (AML/CFT) framework. Recent reforms include: (i) adjustments to the National Action Plan to reflect the findings of the National Risk Assessment; (ii) amendments of the AML law to address outstanding deficiencies with respect to FATF recommendations on cash couriers, virtual assets service providers, and international cooperation; (iii) establishment of joint investigations teams including the financial intelligence unit and law enforcement agencies to investigate predicate offences and associated money laundering; (iv) risk-based supervisory inspections; (v) passage of laws to regulate the real estate sector; and (vi) outreach and guidance to designated non-financial businesses. The National AML Committee has adopted a roadmap for 2025–26 for the establishment of a beneficial ownership registry (end-September SB). The roadmap includes "foundational" reforms to establish a comprehensive legal, institutional, and operational framework for the registry, as well as implementation steps in registry development, data collection and verification, and aligning the beneficial ownership framework with international standards (United Nations Convention Against Corruption and FATF). The mutual evaluation is expected to begin in early 2026.

PROGRAM MODALITIES

49. The program is fully financed, with firm commitments for the next twelve months and good prospects for financing the remainder of the program. The World Bank has provided financing assurances for the second Development Policy Operation of US$1 billion in budget support, programmed for FY25/26, of which US$500 million was disbursed in early July and further US$500 million has been approved for disbursement upon completion of tranche conditions. The World Bank has also provided assurances with respect to the third Development Policy Operation, expected to be agreed in the first half of 2026. For fiscal financing, approximately a further US$190 million in budget support is expected to be disbursed from other development partners this fiscal year, with prospects for a further approximately US$100 million considered likely this year or next, and additional amounts possible from other partners. Progress towards debt restructuring under the Common Framework is consistent with Ethiopia reaching a moderate risk of debt distress by the end of the program. The illustrative post-restructuring DSA scenario—based on the debt treatment outlined in the MOU agreed with the OCC for bilateral claims, the AIP with one large commercial creditor, and the authorities' latest debt treatment scenario for other commercial creditors' claims—is consistent with Ethiopia achieving a moderate risk of debt distress by the end of the program and ensuring that the financing gap over the program period is closed. 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 1).

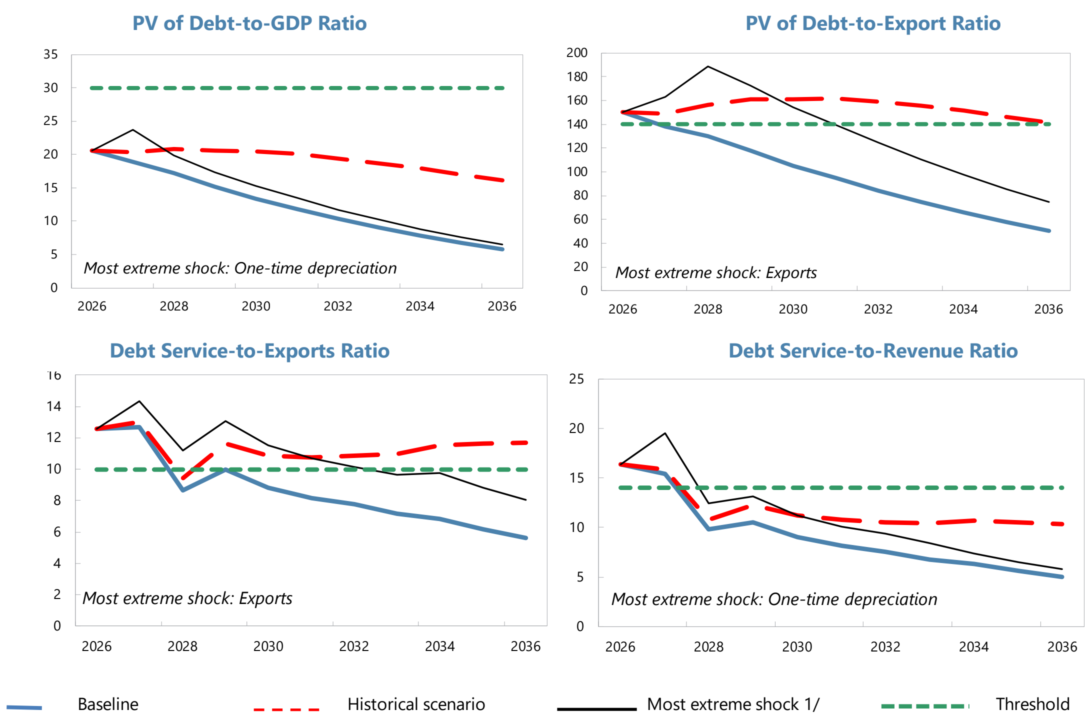
50. As the OCC is an adequately representative forum and includes Paris Club creditors, arrears to other official bilateral creditors are deemed away under the Lending into Official Arrears policy. In addition, Ethiopia has pre-HIPC era arrears to Libya, Russia, and the former Republic of Yugoslavia, 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.

51. 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 with official bilateral creditors and external commercial creditors.

52. A new continuous quantitative performance criterion is proposed. The continuous QPC establishes a zero limit on foreign exchange transactions by NBE except through auctions undertaken in line with the published guidelines, excluding direct FX purchases or sales with the general government and the settlement of legacy deferred LC payments contracted prior to the July 2024 FX reform and maturing in FY2025/26.

53. The program will continue to be monitored based on semi-annual reviews. The Fifth Review will be based on end-December 2025 quantitative performance criteria and indicative targets (Tables 9-10) and structural benchmarks (Table 11). SBs have been added through December 2026, in the areas of further reducing financial repression (phase out of CBE T-bills rollover requirements, ¶42), domestic revenue mobilization (¶35), and FX market development (¶23). Staff support the authorities' request for modification of the performance criterion on financing of the general government primary deficit in the remainder of FY25/26.

Text Figure 12. Ethiopia: The Illustrative Debt Restructuring Scenario—Indicators of PPG Debt, 2026 (2025/26)–2036 (2035/36)[1]



[1/] The illustrative post-restructuring scenario incorporates the debt treatment reflected in the MOU agreed with the OCC for bilateral claims and the AIP with the large commercial creditor and the authorities' latest debt treatment scenario for other commercial creditors' claims.

54. Use of Fund resources for budget support for FY25/26 will remain limited to 50 percent (SDR 191.7 million) of the access programmed under the Fourth and Fifth Reviews. Domestic financing resources are expected to be adequate to accommodate financing requirements of around 1.5 percent of GDP over the next years. Budget support of about 0.2 percent of GDP in FY25/26 (one half of access for the Fourth and Fifth Reviews) will provide some space for gradual growth of the local currency bill and bond market in the context of the commitment to zero monetary financing of fiscal deficits. IMF budget support remains small in comparison to net domestic financing and is consistent with the fiscal policy stance and tax revenue mobilization plan. The Fiscal Safeguards Review, given that more than 25 percent of Fund resources are expected to be directed toward budget support, is expected before the Fifth Review.

Box 1. 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). It 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 need 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 (2.2 months of imports for FY2025/26[1]), anticipated reductions in foreign aid, 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.

1/ See Annex IV: External Sector Assessment in the 2025 Article IV Consultation and Third Review Staff Report. The relatively high level of NBE liabilities, need to enhance market confidence in the Birr and NBE, and vulnerabilities to natural disaster and conflict underpin the need to build reserves.

55. Ethiopia's capacity to repay the Fund is considered adequate and has improved due to successful program implementation, securing financing assurances, and continued progress on debt restructuring, although substantial downside risks remain. The outstanding stock of Fund credit would peak at 16.2 percent of exports in 2027/28, 46.6 percent of FX reserves in 2025/26, and 2.1 percent of GDP in 2026/27 and 2027/28. Debt service to the Fund is projected to peak at 1.6 percent of exports in 2032/33, 3.3 percent of FX reserves in 2033/34, and 0.2 percent of GDP between 2031/32 and 2033/34. Risks to capacity to repay increase starting in 2029/30 when repayments to the Fund pick up. Risks are mitigated by reforms to address external imbalances, significant reserve accumulation envisaged under the program, and Ethiopia's strong track record in repaying the Fund.

56. Enterprise risks to the Fund remain significant but have improved somewhat since the Third Review. Macroeconomic outcomes in 2024/25 have been more favorable than anticipated, with stronger-than-expected growth, disinflation, export earnings, and reserve accumulation. These developments, together with a lower current account deficit and a strong start to revenue mobilization, represent firm progress towards achieving program objectives. Strong program ownership, political commitment, and reform momentum have mitigated risks and reinforced the credibility of the adjustment effort, resulting in a further reduction of enterprise risks to the Fund on a forward-looking basis in the dimensions of program design and financial risks (adequacy of financing, credit risk, financing assurances, and Fund safeguards). Nonetheless, important challenges remain. Cuts in ODA, the absence of expected privatization receipts, and relatively weak FDI inflows continue to weigh on external financing prospects. Elections scheduled for June 2026 and renewed pressures for public spending and investment could lead to weakening fiscal outcomes, albeit financing constraints limit the risks. Uncertainty is heightened by the complexity of the reform agenda, weaknesses in external and fiscal statistics, the fragile socio-economic environment, and the risk of conflict escalation. The socio-economic impact of reforms to date has remained contained. IMF Country Report No. 2024/253 provides further detail on program design.

STAFF APPRAISAL

57. The authorities continue to advance their economic reform agenda, with better-than-anticipated macroeconomic outcomes. Strong growth, exports, revenue mobilization, and reserves accumulation, and declining inflation, show good early results from the reforms. Maintaining reform momentum is key to the promising macroeconomic outlook. Downside risks persist, including the potential for social discontent and declining appetite for reform.

58. The NBE continues to address structural impediments to a well-functioning FX market. The publication of FX auction guidelines consistent with international best practice and the introduction of a quarterly auction calendar are expected to enhance price discovery, predictability, and transparency. Limiting NBE intervention to FX auctions will preclude off-market transactions and help ensure that the exchange rate fully reflects underlying FX demand. CBE's NOP compliance plan, together with implementation of the new NOP directive, should foster greater trading activity and liquidity. The development of the interbank FX market will help deepen the market to provide a more efficient and reliable tool of FX liquidity management and lay the groundwork for the eventual introduction of hedging instruments. A relaxation of domiciliation rules and enhanced transparency through the publication daily of exchange rates actually transacted, not just posted rates, should spur competition among banks. Improvements in NBE's procedures for gold market transactions are expected to mitigate risks to its balance sheet.

59. A tight monetary stance continues to be appropriate to anchor inflation expectations and support price stability. Maintaining rates in positive territory in real terms will continue to be important to build policy credibility and attain the NBE's objective of single digit inflation, and the authorities should stand ready to increase the policy rate if data suggest that disinflation is stalling. A phased exit from the cap on private credit growth is warranted to maintain progress toward an interest-rate based monetary policy framework while avoiding an overly rapid expansion of credit. Improved liquidity management will support development of monetary policy transmission and a reliable domestic financing environment. Strengthening NBE's financial position in due course will bolster operational autonomy, monetary policy effectiveness, and market confidence.

60. Prudent expenditure control and sustained resource mobilization are critical for fiscal sustainability. Revenue mobilization has been strong and recent tax policy reforms bode well for further raising revenue potential. Tax and customs administration reforms will be key to broadening the tax base to maximize tax policy reform gains fairly and sustainably, fostering a more stable taxation environment that can support private investment. Phasing out fuel subsidies will contribute to reaching revenue targets in FY25/26 and rebuilding fiscal buffers. Continued prudence in raising spending despite occasional strong pressures, consistent with revenue performance, and efforts to develop domestic financing are essential to maintain sustainable fiscal policy. Fiscal transparency and accountability reforms are advancing, while efforts to regularize SOE performance monitoring, fiscal risk analysis, and disclosures should be strengthened.

61. Efforts to secure a debt treatment and restore debt sustainability are advancing. The signing of the OCC MOU was completed, with some bilateral agreements anticipated in the near term. The authorities are making good-faith efforts to reach comparable terms with external commercial creditors, having already reached an AIP with one large creditor. They continue to refrain from non-concessional borrowing—except for financing related to the Koysha dam project—and are carefully evaluating new concessional debt. Further progress on strengthening the local currency bond market will be important for building sustainable domestic financing for the state, and as a key building block for the nascent capital market.

62. Building financial oversight capacity and strengthening the financial sector safety net are essential to keeping stability risks in check. Continued progress on regulatory and supervisory reforms, including Basel II/III implementation, along with efforts to develop a bank resolution regime and Prompt Corrective Action framework are important steps. Advancing reforms for CBE, including the planned AQR, will help ensure this critical bank can operate as a competitive, commercially oriented institution. Developing a recapitalization plan for DBE will be important for the phase out of mandatory purchases of DBE bonds by end-2025.

63. Mobilizing private investment will require continued efforts to improve the business environment. Engagement with the private sector—e.g. through the Public-Private Dialogue—including on taxation rules and compliance, and investment protection should continue.

64. Continued progress on safeguards recommendations for the NBE is important. Priorities include finalizing and implementing the governance reform plan, appointing new members to the expanded NBE Board with suitable technical expertise and professional backgrounds. Increased efforts to address other outstanding recommendations are needed. The authorities should formulate a recapitalization strategy for NBE conducive to realizing its policy mandate, and consistent with the program's fiscal framework and debt sustainability.

65. Staff support the completion of the fourth review under the ECF arrangement. All quantitative performance criteria for end-June 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. Staff also supports the modification of the of the performance criterion on financing of the general government primary deficit for the remainder of FY25/26.

Table 1. Ethiopia: Selected Economic Indicators, 2022/23–2029/30

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Proj.	3rd Rev.	Proj.	Projections			
	In percent change, unless otherwise mentioned									
National income and prices										
GDP at constant prices (at factor cost)	7.2	8.1	7.2	9.2	7.1	9.3	8.6	8.6	8.5	8.0
GDP deflator	32.9	25.2	16.0	17.0	13.8	15.9	10.5	9.2	8.6	7.9
Consumer prices (period average) [1]	32.5	26.6	16.6	16.0	12.0	11.9	9.3	8.3	7.2	6.2
Consumer prices (end period) [1]	29.3	19.9	16.5	13.9	10.2	12.0	9.3	7.1	7.0	6.0
External sector										
Exports of goods and services (f.o.b.)	3.3	8.1	25.5	42.0	2.3	5.7	11.2	11.4	11.1	13.2
Imports of goods and services (c.i.f.)	-1.4	7.8	7.3	3.2	1.2	10.0	7.9	8.5	10.0	13.7
Export volume (goods)	-17.3	-1.2	63.6	114.0	-9.9	-12.8	6.3	5.6	3.1	4.9
Export volume (goods and services)	-3.2	1.7	23.7	38.3	-6.0	-9.3	5.6	6.7	3.5	3.2
Import price index (percent change)	4.3	-4.0	-0.8	-1.6	-2.3	-3.6	-2.4	-1.9	-1.9	-1.9
Terms of trade (goods and services, deterioration –)	2.2	10.7	3.4	4.4	11.3	20.9	7.9	6.5	9.4	11.8
Nominal effective exchange rate (end of period, depreciation –)	3.8	-1.5	…	-49.5	…	…	…	…	…	…
Real effective exchange rate (end of period, depreciation –)	24.1	12.4	…	-44.2	…	…	…	…	…	…
Money and credit										
Claims on nongovernment [2]	28.6	9.3	-11.9	-9.7	33.8	35.2	31.3	23.2	21.4	18.9
Broad money	26.6	14.1	24.0	35.2	24.4	25.9	21.8	22.6	22.0	21.4
Base money	32.0	-1.1	21.7	66.4	23.5	16.5	19.0	20.3	17.9	24.5
Velocity (GDP/broad money)	4.02	4.74	4.83	4.51	4.80	4.60	4.55	4.41	4.27	4.11
	In percent of GDP, unless otherwise mentioned									
Financial balances [3]										
Gross domestic savings	14.8	14.4	13.3	13.1	16.5	18.1	18.5	19.5	19.6	19.3
Public savings	1.1	1.7	1.2	2.1	2.9	2.9	4.0	3.9	4.2	4.3
Private savings	13.7	12.8	12.1	10.9	13.6	15.2	14.5	15.5	15.3	14.9
Gross domestic investment	22.2	20.6	22.6	20.1	25.9	26.4	26.2	26.4	26.1	25.8
Public investment	5.5	4.0	4.3	4.5	6.8	7.3	6.5	6.5	6.7	6.4
Private investment	16.7	16.6	18.3	15.6	19.1	19.0	19.7	19.9	19.3	19.3
Resource gap	-7.4	-6.2	-9.3	-7.1	-9.4	-8.3	-7.6	-6.9	-6.5	-6.5
External current account balance, including official transfers	-2.9	-2.9	-3.2	-1.1	-3.1	-2.3	-2.3	-2.0	-1.8	-2.0
Government finances										
Revenue	7.9	7.3	8.5	9.2	10.2	10.5	11.2	11.7	12.1	12.3
Tax revenue	6.8	6.2	7.3	7.8	9.0	9.1	9.8	10.2	10.7	10.9
Nontax revenue	1.0	1.1	1.2	1.4	1.1	1.4	1.4	1.4	1.4	1.4
External grants	0.4	0.3	1.9	1.7	0.7	0.8	0.6	0.5	0.5	0.5
Expenditure and net lending	10.8	9.5	12.0	12.0	12.6	13.1	12.8	13.9	14.1	14.3
Fiscal balance, including grants (cash basis)	-2.6	-2.0	-1.5	-1.2	-1.7	-1.8	-1.1	-1.7	-1.6	-1.6
Total financing (including residuals and excluding privatization)	2.6	2.0	1.5	1.2	1.7	1.8	1.1	1.7	1.6	1.6
External financing	0.3	0.2	1.0	1.0	0.3	0.3	-0.3	0.4	-0.1	-0.1
Domestic financing [4]	2.3	1.8	1.0	0.5	1.1	1.5	1.3	1.4	1.6	1.7
Public debt [5]	40.2	35.4	49.8	50.3	42.6	45.1	40.7	37.6	34.5	31.8
Domestic debt	22.1	19.7	19.3	18.7	15.9	15.3	13.8	13.2	13.4	13.4
External debt (including to the IMF)	18.1	15.7	30.4	31.6	26.6	29.8	27.0	24.4	21.2	18.4
Overall balance of payments (in millions of U.S. dollars)	-809	276	-2,817	-1,148	-2,759	-2,760	705	1,289	2,160	2,439
Gross official reserves (in millions of U.S. dollars)	1,026	1,429	3,751	4,418	5,025	5,576	7,453	10,497	12,620	15,014
(months of prospective imports of goods and nonfactor services	0.5	0.7	1.7	1.9	2.1	2.2	2.7	3.5	3.7	3.9
GDP at current market prices (billions of birr)	8,723	11,752	14,856	15,094	18,331	19,415	23,392	27,776	32,810.8	38,307.6

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] Includes other below-the-line operations.

[5] 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. Ethiopia: General Government Financial Operations, 2022/23–2029/30[1]

(In billions of Birr)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Proj.	3rd Rev.	Proj.	Projections			
Total revenue and grants	717.1	887.2	1,547.4	1,639.1	1,992.4	2,193.8	2,743.9	3,373.5	4,120.0	4,901.4
Revenue	685.0	854.1	1,263.3	1,386.4	1,863.9	2,036.8	2,614.9	3,238.0	3,963.5	4,714.5
Tax revenue	595.1	723.8	1,085.9	1,171.7	1,655.9	1,760.7	2,282.2	2,843.0	3,496.8	4,169.6
Direct taxes	265.4	340.8	406.1	520.9	611.4	756.0	988.6	1,266.4	1,530.5	1,812.5
Indirect taxes	329.7	383.0	679.7	650.8	1,044.5	1,004.7	1,293.6	1,576.5	1,966.4	2,357.1
Domestic indirect taxes	161.2	204.5	312.5	298.2	466.1	426.2	583.4	774.7	999.4	1,183.6
Import duties and taxes [2]	168.6	178.5	367.2	352.7	578.4	578.5	710.2	801.9	967.0	1,173.6
Nontax revenue	89.9	130.4	177.5	214.7	208.0	276.2	332.7	395.1	466.7	544.9
Grants	32.1	33.0	284.0	252.6	128.5	156.9	128.9	135.5	156.5	186.9
Program grants	2.4	0.0	198.5	189.8	33.2	52.5	15.1	16.4	17.7	24.8
Project grants	29.7	33.0	85.6	62.9	95.3	104.5	113.8	119.1	138.8	162.1
Total expenditure and net lending (cash basis)	943.9	1,120.9	1,777.1	1,818.3	2,307.2	2,534.5	2,989.5	3,856.8	4,628.6	5,495.1
Recurrent expenditure [3]	588.1	653.1	1,136.0	1,069.3	1,408.7	1,569.3	1,761.7	2,198.7	2,640.3	3,145.7
Defense spending	82.8	71.1	80.4	87.2	93.5	120.2	144.8	171.9	203.1	237.1
Poverty-reducing expenditure [4]	234.1	263.0	441.1	345.9	676.8	556.1	670.0	914.9	1,113.1	1,338.6
Education	145.1	162.0	272.4	208.3	403.4	334.9	403.5	551.0	670.4	806.2
Health	53.6	61.1	102.7	86.3	171.1	138.7	167.1	228.2	277.6	333.8
Agriculture	26.3	29.6	49.8	36.6	77.5	58.9	70.9	96.8	117.8	141.7
Natural resources	6.9	7.5	11.8	10.0	18.3	16.0	19.3	26.4	32.1	38.6
Roads	2.1	2.7	4.3	4.7	6.5	7.6	9.2	12.5	15.2	18.3
Interest payments	54.5	68.9	159.9	120.8	223.3	230.0	268.6	306.5	372.6	459.1
Domestic interest and charges	41.6	56.8	140.1	94.9	190.9	190.2	229.0	267.2	329.7	413.5
External interest payments [5]	13.0	12.1	19.8	25.9	32.4	39.8	39.6	39.3	42.9	45.6
Other recurrent expenditure	216.7	250.2	454.5	515.5	415.1	663.1	678.4	805.5	951.5	1,110.9
Capital expenditure	355.8	467.8	641.1	749.0	898.4	965.2	1,227.7	1,658.1	1,988.2	2,349.4
Central treasury	284.0	382.5	485.0	616.5	701.6	841.1	1,029.4	1,410.7	1,713.5	2,057.1
External project grants	29.7	33.0	85.6	62.9	95.3	104.5	113.8	119.1	138.8	162.1
External project loans	42.0	52.2	70.6	69.6	101.6	19.6	84.5	128.3	135.9	130.3
Overall balance										
Including grants	-226.7	-233.7	-229.7	-179.3	-314.7	-340.7	-245.6	-483.3	-508.6	-593.8
Excluding grants	-258.9	-266.8	-513.8	-431.9	-443.2	-497.7	-374.6	-618.8	-665.1	-780.6
Financing	243.2	251.0	229.7	231.6	314.7	340.7	245.6	483.3	508.6	593.8
Net external financing	29.0	25.0	147.2	152.8	50.4	52.8	-69.4	98.0	-24.8	-39.5
Gross borrowing [6]	51.8	52.6	213.0	219.1	183.9	195.9	117.4	221.9	135.9	130.3
IMF budget support			83.0	87.0	35.8	39.4	0.0	0.0	0.0	0.0
Project loans	42.0	52.6	70.6	69.6	101.6	19.6	84.5	128.3	135.9	130.3
Budget support	9.8	0.0	59.4	62.4	46.6	136.9	32.8	93.6	0.0	0.0
Exceptional financing	0.0	0.0	179.7	180.9	170.1	207.4	-61.5	31.1	0.0	0.0
G20 Debt Service Suspension Initiative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service Moratorium			179.7	180.9	0.0	0.0	0.0	0.0	0.0	0.0
Principal			169.8	170.9	0.0	0.0	0.0	0.0	0.0	0.0
Interest			9.9	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Expected debt service relief	0.0	0.0	0.0	0.0	170.1	207.4	-61.5	31.1	0.0	0.0
Amortization, due	-22.9	-27.7	-245.5	-247.1	-303.6	-350.5	-125.2	-155.0	-160.7	-169.8
Net domestic financing [7]	214.2	226.1	146.8	163.7	200.2	203.0	315.0	385.3	533.4	633.3
o/w gross advances from NBE	189.5	111.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w T-bills and T-bonds	24.7	114.9	146.8	163.7	200.2	203.0	315.0	385.3	533.4	633.3
o/w Other (incl. net deposit withdrawal)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other below-the-line operations [8]	-16.5	-17.3	-64.2	-84.9	64.2	84.9	0.0	0.0	0.0	0.0
Unidentified			0.0	-52.3	0.0	0.0	0.0	0.0	0.0	0.0
CBE recapitalization										
Total debt outstanding		900.0	900.0	900.0	900.0	900.0	900.0	771.4	642.9	518.6
Debt service		0.0	76.1	76.1	84.5	84.5	88.7	213.1	201.1	186.4
Amortization		0.0	0.0	0.0	0.0	0.0	0.0	128.6	128.6	124.3
Interest (included in the budgetary central government)		0.0	76.1	76.1	84.5	84.5	88.7	84.5	72.5	62.1
Total net financing (budgetary plus CBE recap. amortization)		251.0	229.7	231.6	314.7	340.7	245.6	611.9	637.1	718.1

Sources: Ethiopian authorities and IMF staff estimates and projections.

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

[2] Includes full on-budget recognition of fuel taxes (VAT, excise, social welfare duty) starting in FY2025/26.

[3] Excluding special programs (demobilization and reconstruction).

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

[5] External interest due in 2025/26-2027/28 is on pre-restructuring basis and does not include expected repayment of suspended interest. External interest in 2024/25 is on paid basis.

[6] Includes prospective donor financing to close the financing gap.

[7] Net domestic financing is derived as a residual financing source in projection years.

[8] Negative amounts signify overfinancing, with FY2025/26 reflecting timeline of DPO2 disbursement.

Table 2b. Ethiopia: General Government Financial Operations, 2022/23–2029/30[1]

(In percent of GDP)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Proj.	3rd Rev.	Proj.	Projections			
Total revenue and grants	8.2	7.5	10.4	10.9	10.9	11.3	11.7	12.1	12.6	12.8
Revenue	7.9	7.3	8.5	9.2	10.2	10.5	11.2	11.7	12.1	12.3
Tax revenue	6.8	6.2	7.3	7.8	9.0	9.1	9.8	10.2	10.7	10.9
Direct taxes	3.0	2.9	2.7	3.5	3.3	3.9	4.2	4.6	4.7	4.7
Indirect taxes	3.8	3.3	4.6	4.3	5.7	5.2	5.5	5.7	6.0	6.2
Domestic indirect taxes	1.8	1.7	2.1	2.0	2.5	2.2	2.5	2.8	3.0	3.1
Import duties and taxes [2]	1.9	1.5	2.5	2.3	3.2	3.0	3.0	2.9	2.9	3.1
Nontax revenue	1.0	1.1	1.2	1.4	1.1	1.4	1.4	1.4	1.4	1.4
Grants	0.4	0.3	1.9	1.7	0.7	0.8	0.6	0.5	0.5	0.5
Program grants	0.0	0.0	1.3	1.3	0.2	0.3	0.1	0.1	0.1	0.1
Project grants	0.3	0.3	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.4
Total expenditure and net lending (cash basis)	10.8	9.5	12.0	12.0	12.6	13.1	12.8	13.9	14.1	14.3
Recurrent expenditure [3]	6.7	5.6	7.6	7.1	7.7	8.1	7.5	7.9	8.0	8.2
Defense spending	0.9	0.6	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6
Poverty-reducing expenditure [4]	2.7	2.2	3.0	2.3	3.7	2.9	2.9	3.3	3.4	3.5
Education	1.7	1.4	1.8	1.4	2.2	1.7	1.7	2.0	2.0	2.1
Health	0.6	0.5	0.7	0.6	0.9	0.7	0.7	0.8	0.8	0.9
Agriculture	0.3	0.3	0.3	0.2	0.4	0.3	0.3	0.3	0.4	0.4
Natural resources	0.1	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	0.0
Interest payments	0.6	0.6	1.1	0.8	1.2	1.2	1.1	1.1	1.1	1.2
Domestic interest and charges	0.5	0.5	0.9	0.6	1.0	1.0	1.0	1.0	1.0	1.1
External interest payments [5]	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Other recurrent expenditure	2.5	2.1	3.1	3.4	2.3	3.4	2.9	2.9	2.9	2.9
Capital expenditure	4.1	4.0	4.3	5.0	4.9	5.0	5.2	6.0	6.1	6.1
Central treasury	3.3	3.3	3.3	4.1	3.8	4.3	4.4	5.1	5.2	5.4
External project grants	0.3	0.3	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.4
External project loans	0.5	0.4	0.5	0.5	0.6	0.1	0.4	0.5	0.4	0.3
Overall balance										
Including grants	-2.6	-2.0	-1.5	-1.2	-1.7	-1.8	-1.1	-1.7	-1.6	-1.6
Excluding grants	-3.0	-2.3	-3.5	-2.9	-2.4	-2.6	-1.6	-2.2	-2.0	-2.0
Financing	2.8	2.1	1.5	1.5	1.7	1.8	1.1	1.7	1.6	1.6
Net external financing	0.3	0.2	1.0	1.0	0.3	0.3	-0.3	0.4	-0.1	-0.1
Gross borrowing [6]	0.6	0.4	1.4	1.5	1.0	1.0	0.5	0.8	0.4	0.3
IMF budget support			0.6	0.6	0.2	0.2	0.0	0.0	0.0	0.0
Project loans	0.5	0.4	0.5	0.5	0.6	0.1	0.4	0.5	0.4	0.3
Budget Support	0.1	0.0	0.4	0.4	0.3	0.7	0.1	0.3	0.0	0.0
Exceptional financing		0.0	1.2	1.2	0.9	1.1	-0.3	0.1	0.0	0.0
G20 Debt Service Suspension Initiative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service Moratorium			1.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Principal			1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest			0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expected debt service relief	0.0	0.0	0.0	0.0	0.9	1.1	-0.3	0.1	0.0	0.0
Amortization, due	-0.3	-0.2	-1.7	-1.6	-1.7	-1.8	-0.5	-0.6	-0.5	-0.4
Net domestic financing [7]	2.5	1.9	1.0	1.1	1.1	1.0	1.3	1.4	1.6	1.7
o/w gross advances from NBE	2.2	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w T-bills and T-bonds	0.3	1.0	1.0	1.1	1.1	1.0	1.3	1.4	1.6	1.7
o/w Other (incl. net deposit withdrawal)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other below-the-line operations [8]	-0.2	-0.1	-0.4	-0.6	0.4	0.4	0.0	0.0	0.0	0.0
Unidentified				-0.3						
CBE recapitalization										
Total debt outstanding		7.7	6.1	6.0	4.9	4.6	3.8	2.8	2.0	1.4
Debt service		0.0	0.5	0.5	0.5	0.4	0.4	0.8	0.6	0.5
Amortization		0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.4	0.3
Interest (included in the budgetary central government)		0.0	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2
Total net financing (budgetary plus CBE recap. amortization)		2.1	1.5	1.5	1.7	1.8	1.1	2.2	1.9	1.9
Memorandum items:										
Primary fiscal balance, including grants	-2.0	-1.4	-0.5	-0.4	-0.5	-0.6	0.1	-0.6	-0.4	-0.4

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] Includes full on-budget recognition of fuel taxes (VAT, excise, social welfare duty) starting in FY2025/26.

[3] Excluding special programs (demobilization and reconstruction).

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

[5] External interest due in 2025/26-2027/28 is on pre-restructuring basis and does not include expected repayment of suspended interest. External interest in 2024/25 is on paid basis.

[6] Includes prospective donor financing to close the financing gap.

[7] Net domestic financing is derived as a residual financing source in projection years.

[8] Negative amounts signify overfinancing, with FY2025/26 reflecting timeline of DPO2 disbursement.

Table 3a. Ethiopia: Monetary Survey and Central Bank Accounts, 2022/23–2029/30

(In billions of Birr)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Prel.	3rd Rev.	Proj.	Projections			
					I. Depository Corporation Survey					
Monetary survey										
Net foreign assets	-160.1	-245.3	-214.5	-211.5	-110.7	-119.9	120.0	591.2	988.0	1,476.4
Central bank	-191.4	-288.9	-434.0	-469.4	-375.6	-498.1	-275.5	185.6	572.4	1,054.6
Commercial banks	31.3	43.6	219.5	258.0	264.9	378.2	395.5	405.6	415.6	421.9
Net domestic assets	2,330.9	2,723.2	3,287.1	3,561.5	3,932.3	4,337.0	5,016.4	5,707.2	6,696.8	7,850.2
Domestic credit [1]	2,489.3	2,839.1	3,468.0	3,478.2	4,204.2	4,234.6	5,191.5	6,164.0	7,316.8	8,581.5
Claims on government (net) [2]	573.7	745.5	1,624.6	1,586.7	1,737.2	1,676.7	1,834.2	2,026.9	2,293.5	2,610.2
Claims on nongovernment	1,915.6	2,093.5	1,843.4	1,891.5	2,466.9	2,557.8	3,357.3	4,137.1	5,023.3	5,971.3
Public enterprises	772.1	747.5	272.4	173.3	440.3	358.6	507.3	582.2	763.3	865.4
Private sector	1,107.4	1,306.3	1,571.0	1,681.5	2,026.7	2,169.1	2,819.9	3,524.8	4,229.8	5,075.8
Broad money	2,170.8	2,477.9	3,072.6	3,350.0	3,821.6	4,217.0	5,136.4	6,298.4	7,684.9	9,326.6
Money	706.1	822.5	986.0	1,129.0	1,209.8	1,383.4	1,666.6	2,025.5	2,447.4	2,941.6
Currency outside banks	211.6	205.4	213.2	289.3	242.4	320.8	365.4	423.2	483.3	547.2
Demand deposits	494.5	617.1	772.8	839.7	967.4	1,062.6	1,301.2	1,602.3	1,964.0	2,394.4
Quasi money	1,464.7	1,655.4	2,086.6	2,221.0	2,611.8	2,833.6	3,469.8	4,272.9	5,237.5	6,385.0
Savings deposits	1,315.3	1,461.9	1,843.4	1,976.7	2,307.4	2,516.3	3,081.2	3,794.4	4,650.9	5,669.9
Time deposits	149.4	193.5	243.2	244.3	304.4	317.4	388.6	478.6	586.6	715.1
Central bank										
Net foreign assets	-191.4	-288.9	-434.0	-469.4	-375.6	-498.1	-275.5	185.6	572.4	1,054.6
Foreign assets	56.2	82.2	528.1	635.2	668.3	821.2	1,136.5	1,661.1	2,035.9	2,465.0
Foreign liabilities	247.6	371.1	962.2	1,104.6	1,044.0	1,319.4	1,412.1	1,475.6	1,463.5	1,410.4
Net domestic assets	669.9	762.1	1,010.1	1,256.8	1,087.2	1,415.6	1,367.6	1,128.1	976.8	873.9
Domestic credit	566.1	673.6	437.0	616.5	559.6	448.5	292.9	-0.9	-16.7	-146.0
Government (net)	521.3	632.3	602.3	630.4	602.3	630.4	630.4	630.4	630.4	630.4
Other items (net)	103.8	88.6	573.1	640.2	527.6	967.1	1,074.7	1,129.0	993.5	1,019.9
Reserve money	478.5	473.2	576.0	787.3	711.6	917.5	1,092.1	1,313.7	1,549.2	1,928.4
Currency outside banks	211.6	205.4	213.2	289.3	242.4	320.8	365.4	423.2	483.3	547.2
Commercial bank reserves	266.8	267.8	362.8	498.1	469.1	596.6	726.7	890.5	1,065.9	1,381.2
Cash in vault	44.8	52.9	70.2	62.0	90.7	119.3	145.3	178.1	213.2	276.2
Reserve deposit	127.2	143.7	162.4	162.4	182.7	182.7	205.5	231.0	290.0	343.7
					(Annual percentage change, unless otherwise indicated)					
Monetary survey										
Net foreign assets	43.7	53.2	-12.5	-13.8	-48.4	-43.3	-200.0	392.8	67.1	49.4
Net domestic assets	27.6	16.8	20.7	30.8	19.6	21.8	15.7	13.8	17.3	17.2
Domestic credit [1]	30.3	14.1	22.2	22.5	21.2	21.7	22.6	18.7	18.7	17.3
Claims on government (net) [2]	36.2	30.0	117.9	112.8	6.9	5.7	9.4	10.5	13.2	13.8
Claims on nongovernment	28.6	9.3	-11.9	-9.7	33.8	35.2	31.3	23.2	21.4	18.9
Public enterprises	11.6	-3.2	-65.5	-76.8	61.7	107.0	41.5	14.8	31.1	13.4
Private sector	47.2	18.0	20.4	28.7	29.0	29.0	30.0	25.0	20.0	20.0
Broad money	26.6	14.1	24.0	35.2	24.4	25.9	21.8	22.6	22.0	21.4
Money	20.1	16.5	19.9	37.3	22.7	22.5	20.5	21.5	20.8	20.2
Quasi money	29.9	13.0	26.0	34.2	25.2	27.6	22.5	23.1	22.6	21.9
Memorandum items:										
Base money growth	32.0	-1.1	21.7	66.4	23.5	16.5	19.0	20.3	17.9	24.5
Nominal GDP growth	41.7	34.7	26.4	28.4	23.4	28.6	20.5	18.7	18.1	16.8
Excess reserve deposit (billions of birr)	67	33	93	197	128	205	247	301	349	490
Percent of deposits	3.4	1.5	3.2	6.4	3.6	5.3	5.2	5.1	4.8	5.6
Money multiplier (broad money/reserve money)	4.54	5.24	5.33	4.25	5.37	4.60	4.70	4.79	4.96	4.84
Velocity (GDP/broad money)	4.02	4.74	4.83	4.51	4.80	4.60	4.55	4.41	4.27	4.11
Currency-deposit ratio	0.108	0.090	0.075	0.094	0.068	0.082	0.077	0.072	0.067	0.062
Birr per U.S. dollar (end of period)	54.6	57.3	…	…	…	…	…	…	…	…
Nominal GDP (billions of birr)	8,723	11,752	14,856	15,094	18,331	19,415	23,392	27,776	32,811	38,308

Sources: NBE and IMF staff estimates and projections.

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

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

Table 3b. Ethiopia: Monetary Survey and Central Bank Accounts, 2022/23–2029/30

(In percent of GDP)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Proj.	3rd Rev.	Proj.	Projections			
			Percent of GDP							
Monetary survey										
Net foreign assets	-1.8	-2.1	-1.4	-1.4	-0.6	-0.6	0.5	2.1	3.0	3.9
Central bank	-2.2	-2.5	-2.9	-3.1	-2.0	-2.6	-1.2	0.7	1.7	2.8
Commercial banks	0.4	0.4	1.5	1.7	1.4	1.9	1.7	1.5	1.3	1.1
Net domestic assets	26.7	23.2	22.1	23.6	21.5	22.3	21.4	20.5	20.4	20.5
Domestic credit [1]	28.5	24.2	23.3	23.0	22.9	21.8	22.2	22.2	22.3	22.4
Claims on government (net) [2]	6.6	6.3	10.9	10.5	9.5	8.6	7.8	7.3	7.0	6.8
Claims on nongovernment	22.0	17.8	12.4	12.5	13.5	13.2	14.4	14.9	15.3	15.6
Public enterprises	8.9	6.4	1.8	1.1	2.4	1.8	2.2	2.1	2.3	2.3
Private sector	12.7	11.1	10.6	11.1	11.1	11.2	12.1	12.7	12.9	13.3
Broad money	24.9	21.1	20.7	22.2	20.8	21.7	22.0	22.7	23.4	24.3
Money	8.1	7.0	6.6	7.5	6.6	7.1	7.1	7.3	7.5	7.7
Currency outside banks	2.4	1.7	1.4	1.9	1.3	1.7	1.6	1.5	1.5	1.4
Demand deposits	5.7	5.3	5.2	5.6	5.3	5.5	5.6	5.8	6.0	6.3
Quasi money	16.8	14.1	14.0	14.7	14.2	14.6	14.8	15.4	16.0	16.7
Savings deposits	15.1	12.4	12.4	13.1	12.6	13.0	13.2	13.7	14.2	14.8
Time deposits	1.7	1.6	1.6	1.6	1.7	1.6	1.7	1.7	1.8	1.9
Central bank										
Net foreign assets	-2.2	-2.5	-2.9	-3.1	-2.0	-2.6	-1.2	0.7	1.7	2.8
Foreign assets	0.6	0.7	3.6	4.2	3.6	4.2	4.9	6.0	6.2	6.4
Foreign liabilities	2.8	3.2	6.5	7.3	5.7	6.8	6.0	5.3	4.5	3.7
Net domestic assets	7.7	6.5	6.8	8.3	5.9	7.3	5.8	4.1	3.0	2.3
Domestic credit	6.5	5.7	2.9	4.1	3.1	2.3	1.3	0.0	-0.1	-0.4
Government (net)	6.0	5.4	4.1	4.2	3.3	3.2	2.7	2.3	1.9	1.6
Other items (net)	1.2	0.8	3.9	4.2	2.9	5.0	4.6	4.1	3.0	2.7
Reserve money	5.5	4.0	3.9	5.2	3.9	4.7	4.7	4.7	4.7	5.0
Currency outside banks	2.4	1.7	1.4	1.9	1.3	1.7	1.6	1.5	1.5	1.4
Commercial bank reserves	3.1	2.3	2.4	3.3	2.6	3.1	3.1	3.2	3.2	3.6
Cash in vault	0.5	0.5	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.7
Reserve deposit	1.5	1.2	1.1	1.1	1.0	0.9	0.9	0.8	0.9	0.9
Nominal GDP (billions of birr)	8,723	11,752	14,856	15,094	18,331	19,415	23,392	27,776	32,811	38,308

Sources: NBE and IMF staff estimates and projections.

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

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

Table 4a. Ethiopia: Summary Balance of Payments, 2022/23–2029/30

(In millions of U.S. Dollars)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Prel.	3rd Rev.	Proj.	Projections			
(Millions of U.S. dollars, unless otherwise indicated)										
Current account balance [1]	-4,671	-6,014	-4,037	-1,449	-4,282	-2,998	-3,339	-3,346	-3,469	-4,293
Excl. official transfers [1]	-5,764	-7,153	-5,444	-2,647	-5,830	-4,282	-4,552	-4,692	-5,217	-6,316
Trade balance	-13,512	-14,642	-13,731	-10,446	-14,164	-12,711	-13,482	-14,565	-15,902	-18,070
Exports of goods	3,618	3,799	6,370	8,347	6,106	8,485	9,498	10,477	11,594	13,333
Imports of goods	-17,130	-18,441	-20,101	-18,794	-20,270	-21,196	-22,980	-25,041	-27,496	-31,402
Services (net)	1,399	1,610	1,878	1,515	2,318	2,165	2,667	3,391	3,859	4,260
Exports	7,174	7,866	8,268	8,212	8,867	9,017	9,964	11,199	12,487	13,923
Imports	-5,775	-6,256	-6,390	-6,698	-6,549	-6,852	-7,297	-7,808	-8,627	-9,663
Income (net) [1]	-449	-332	-768	-752	-927	-835	-985	-927	-863	-863
Private transfers (net)	6,798	6,211	7,178	7,037	6,943	7,099	7,248	7,408	7,689	8,356
Official transfers (net) [1]	1,093	1,139	1,407	1,198	1,548	1,284	1,213	1,346	1,747	2,023
Capital account balance [1]	2,977	5,819	1,918	2,500	1,523	238	4,044	4,635	5,629	6,732
Foreign direct investment (net, incl. privatization)	3,428	3,906	3,956	4,012	4,075	4,075	4,113	4,862	5,604	6,579
Other investment (net) [1]	-451	1,913	-2,037	-1,512	-2,552	-3,837	-69	-227	26	154
Federal government	1,943	595	-643	-631	-641	-733	1,258	1,258	1,498	1,425
Disbursements [1]	2,372	1,090	1,145	1,354	1,517	1,472	1,988	2,129	2,380	2,338
Amortization [1]	-429	-494	-1,788	-1,985	-2,158	-2,206	-730	-872	-882	-914
Other public sector [1,2]	-860	1,782	-611	-632	-1,586	-1,744	-739	-1,490	-1,821	-1,794
Disbursements	541	2,536	950	950	1,137	1,393	634	320	184	124
Amortization [1]	-1,401	-754	-1,561	-1,582	-2,722	-3,136	-1,373	-1,810	-2,005	-1,918
Private sector borrowing (net)	0	73	215	196	234	234	257	283	311	343
Other (net)	-1,534	-536	-998	-445	-560	-1,594	-845	-277	37	181
Errors and omissions	885	471	-699	-2,198	0	0	0	0	0	0
Overall balance	-809	276	-2,817	-1,148	-2,759	-2,760	705	1,289	2,160	2,439
Financing	809	-276	2,817	1,148	2,759	2,760	-705	-1,289	-2,160	-2,439
Central bank (net; increase –)	469	-564	-915	-1,376	-557	-440	-1,405	-2,589	-2,160	-2,439
Reserves (increase –)	469	-352	-2,319	-2,780	-1,274	-1,158	-1,877	-3,044	-2,123	-2,394
Liabilities (increase +)	0	-212	1,404	1,404	718	718	472	455	-37	-45
IMF credit (net)	0	-212	1,404	1,404	718	718	472	455	-37	-45
of which: IMF Rapid Financing Instrument (RFI)	…	…	…	…	…	…	…	…	…	…
SDR allocation	0	0	0	0	0	0	0	0	0	0
Prospective donor financing	0	0	1,500	1,500	1,000	1,000	700	550	0	0
of which: grants	*0*	0	*1,000*	1,000	*650*	*650*	*0*	*0*	*0*	*0*
Exceptional Financing	475	288	*3,063*	3,063	2,766	2,650	0	750	0	0
Debt service restructuring [3]	475	288	3,063	3,063	2,766	2,650	0	750	0	0
Reprofiling of external sovereign deposits at NBE, 2020	*475*	*288*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Debt Service Moratorium	*0*	*0*	*3,063*	*3,063*	*0*	*0*	*0*	*0*	*0*	
Other restructuring (incl. pros. G20 CF)	*0*	*0*	*0*	*0*	*2,766*	*2,650*	*0*	*750*	*0*	*0*
G20 Debt Service Suspension Initiative [3]	0	0	0	0	0	0	0	0	0	0
IMF CCR Trust debt relief	0	0	0	0	0	0	0	0	0	0
(Annual percentage change, unless otherwise indicated)										
Memorandum items :										
Exports of goods	-11.8	5.0	67.7	119.7	-4.1	1.7	11.9	10.3	10.7	15.0
Imports of goods	-5.3	7.7	9.0	1.9	0.8	12.8	8.4	9.0	9.8	14.2
Services exports	13.0	9.6	5.1	4.4	7.2	9.8	10.5	12.4	11.5	11.5
Services imports	12.4	8.3	2.1	7.1	2.5	2.3	6.5	7.0	10.5	12.0
Private transfers	-4.0	-8.6	15.6	13.3	-3.3	0.9	2.1	2.2	3.8	8.7
Exports of goods and services (percent of GDP)	6.6	5.6	11.7	13.1	11.0	13.7	13.7	13.3	12.8	12.7
Imports of goods and services (percent of GDP)	-14.0	-11.8	-21.2	-20.2	-19.7	-22.0	-21.3	-20.1	-19.2	-19.1
Trade balance (percent of GDP)	-8.3	-7.0	-11.0	-8.3	-10.4	-10.0	-9.5	-8.9	-8.5	-8.4
Private transfers (net, percent of GDP)	4.2	3.0	5.7	5.6	5.1	5.6	5.1	4.5	4.1	3.9
Gross official reserves (millions U.S. dollars)	1,026	1,429	3,751	4,418	5,025	5,576	7,453	10,497	12,620	15,014
(Months of following year's imports of goods and services)	0.5	0.7	1.7	1.9	2.1	2.2	2.7	3.5	3.7	3.9

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Excludes prospective donor financing such as budget support grants and/or exceptional financing such as a debt service moratorium, following the analytical presentation.

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

[3] Staff estimates.

Table 4b. Ethiopia: Summary Balance of Payments, 2022/23–2029/30

(In percent of GDP)

	2022/23	2023/24	2024/25		2025/26		2026/27	2027/28	2028/29	2029/30
	Actual		3rd Rev.	Proj.	3rd Rev.	Proj.	Projections			
	(Percent of GDP, unless otherwise indicated)									
Current account balance [1]	-2.9	-2.9	-3.2	-1.1	-3.1	-2.3	-2.3	-2.0	-1.8	-2.0
Excl. official transfers [1]	-3.5	-3.4	-4.4	-2.1	-4.3	-3.4	-3.2	-2.9	-2.8	-2.9
Trade balance	-8.3	-7.0	-11.0	-8.3	-10.4	-10.0	-9.5	-8.9	-8.5	-8.4
Exports of goods	2.2	1.8	5.1	6.6	4.5	6.6	6.7	6.4	6.2	6.2
Imports of goods	-10.5	-8.8	-16.1	-14.9	-14.9	-16.6	-16.1	-15.3	-14.6	-14.6
Services (net)	0.9	0.8	1.5	1.2	1.7	1.7	1.9	2.1	2.1	2.0
Exports	4.4	3.7	6.6	6.5	6.5	7.1	7.0	6.9	6.6	6.5
Imports	-3.5	-3.0	-5.1	-5.3	-4.8	-5.4	-5.1	-4.8	-4.6	-4.5
Income (net) [1]	-0.3	-0.2	-0.6	-0.6	-0.7	-0.7	-0.7	-0.6	-0.5	-0.4
Private transfers (net)	4.2	3.0	5.7	5.6	5.1	5.6	5.1	4.5	4.1	3.9
Official transfers (net) [1]	0.7	0.5	1.1	0.9	1.1	1.0	0.9	0.8	0.9	0.9
Capital account balance [1]	1.8	2.8	1.5	2.0	1.1	0.2	2.8	2.8	3.0	3.1
Foreign direct investment (net, incl. privatization)	2.1	1.9	3.2	3.2	3.0	3.2	2.9	3.0	3.0	3.1
Other investment (net) [1,2]	-0.3	0.9	-1.6	-1.2	-1.9	-3.0	0.0	-0.1	0.0	0.1
Federal government	1.2	0.3	-0.5	-0.5	-0.5	-0.6	0.9	0.8	0.8	0.7
Disbursements [1]	1.4	0.5	0.9	1.1	1.1	1.2	1.4	1.3	1.3	1.1
Amortization [1]	-0.3	-0.2	-1.4	-1.6	-1.6	-1.7	-0.5	-0.5	-0.5	-0.4
Other public sector [1]	-0.5	0.8	-0.5	-0.5	-1.2	-1.4	-0.5	-0.9	-1.0	-0.8
Disbursements	0.3	2.0	0.7	0.7	0.8	1.1	0.4	0.2	0.1	0.1
Amortization [1]	-0.7	-0.6	-1.1	-1.2	-2.0	-2.5	-1.0	-1.1	-1.1	-0.9
Private sector borrowing (net)	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other (net)	-0.9	-0.3	-0.8	-0.4	-0.4	-1.2	-0.6	-0.2	0.0	0.1
Errors and omissions	0.5	0.2	-0.6	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.5	0.1	-2.3	-0.9	-2.0	-2.2	0.5	0.8	1.1	1.1
Financing	0.5	-0.1	2.3	0.9	2.0	2.2	-0.5	-0.8	-1.1	-1.1
Central bank (net; increase –)	0.3	-0.3	-0.7	-1.1	-0.4	-0.3	-1.0	-1.6	-1.1	-1.1
Reserves (increase –)	0.3	-0.2	-1.9	-2.2	-0.9	-0.9	-1.3	-1.9	-1.1	-1.1
Liabilities (increase +)	0.0	-0.1	1.1	1.1	0.5	0.6	0.3	0.3	0.0	0.0
IMF credit (net)	0.0	-0.1	1.1	1.1	0.5	0.6	0.3	0.3	0.0	0.0
of which: IMF Rapid Financing Instrument (RFI)	...	...	...	...	...	...				
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prospective donor financing	0.0	0.0	1.2	1.2	0.7	0.8	0.5	0.3	0.0	0.0
of which: grants	*0.0*	*0.0*	*0.8*	0.8	*0.5*	*0.5*	0.0	0.0	0.0	0.0
Exceptional Financing	0.3	0.1	2.4	2.4	2.0	2.1	0.0	0.5	0.0	0.0
Debt service restructuring [3]	0.3	0.1	2.4	2.4	2.0	2.1	0.0	0.5	0.0	0.0
Reprofiling of external sovereign deposits at NBE, 2020	*0.3*	*0.1*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
Debt Service Moratorium	*0.0*	*0.0*	*2.4*	*2.4*	*0.0*	*0.0*	0.0	0.0		
Other restructuring (incl. pros. G20 CF)	*0.0*	*0.0*	*0.0*	*0.0*	*2.0*	*2.1*	0.0	0.5	0.0	0.0
G20 Debt Service Suspension Initiative (DSSI) [3]	*0.0*	*0.0*	0.0	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0
IMF CCR Trust debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N.A.	N.A.	N.A.
Gross official reserves	0.6	0.7	3.0	3.5	3.7	4.4	5.2	6.4	6.7	7.0

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Excludes prospective donor financing such as budget support grants and/or exceptional financing such as a debt service moratorium, following the analytical presentation.

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

[3] Staff estimates.

Table 5. Ethiopia: Financial Soundness Indicators of the Banking Sector[1]

(In percent, unless otherwise indicated)

	Jun-22	Jun-23	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Capital adequacy								
Capital to Risk-Weighted Assets	16.3	14.7	15.4	17.9	18.2	17.3	19.1	18.2
Capital to Assets	7.5	7.8	8.2	9.3	9.3	8.8	9.5	9.2
Asset quality								
NPLs to Total Loans	3.9	3.6	3.9	5.5	4.3	3.9	3.1	3.9
NPLs Net of Provisions to Capital	-4.7	-8.6	-0.9	0.6	0.1	0.3	0.3	0.6
Earning and profitability								
Return on Assets	2.4	2.0	2.0	-1.3	1.3	2.1	2.5	4.2
Return on Equity	32.6	25.7	24.6	-14.9	14.7	24.6	27.4	45.0
Gross Interest Income to Total Income	71.6	76.1	76.5	39.7	46.5	52.2	54.6	64.2
Interest Margin to Gross Income	42.3	45.3	47.4	25.2	30.0	33.6	35.5	43.2
Non-interest Expenses to Gross Income [2]	34.5	43.1	46.7	87.3	75.1	67.6	62.2	48.7
Liquidity								
Liquid Assets to Total Assets	21.0	19.3	17.8	18.7	19.7	19.9	24.0	25.0
Liquid Assets to Total Deposits	27.1	24.3	22.4	23.8	24.9	24.9	30.4	31.8

Sources: National Bank of Ethiopia

[1] Data 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 prior to July 2024 exclude non-performing government-guaranteed SOE debts, and are not adjusted for the results of the 2021.

[2] Gross income comprises net interest income and total non-interest income.

Table 6. 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	**8,966**	**11,250**	**11,286**	**8,587**	**10,490**	**41,613**
Current account deficit, excl. official transfers	7,153	2,647	4,282	4,552	4,692	16,173
Federal government amortization	494	1,985	2,206	730	872	5,792
Other public sector amortization[1]	754	1,582	3,136	1,373	1,810	7,901
Repayments to Fund	212	217	55	55	72	400
Change in gross reserves (increase +)	352	2,780	1,158	1,877	3,044	8,859
External financing sources	**7,539**	**3,868**	**5,580**	**6,147**	**7,317**	**22,911**
Foreign direct investment, excl. privatization	3,906	4,012	4,075	4,113	4,862	17,062
External loans to Federal government	1,090	1,354	1,472	1,988	2,129	6,943
Other public sector external borrowing	2,536	950	1,393	634	320	3,296
Other (net) [3]	-463	-249	-1,360	-588	6	-2,192
Errors and Omissions	471	-2,198	0	0	0	-2,198
Financing gap (need for financing +)	**1,427**	**7,382**	**5,706**	**2,440**	**3,173**	**18,702**
Expected financing	**1,427**	**4,261**	**1,284**	**1,213**	**1,346**	**8,104**
Official transfers	1,139	1,198	1,284	1,213	1,346	5,041
Privatization proceeds	0	0	0	0	0	0
Reprofiling of external sovereign deposits at NBE, 2020 [2]	288	0	0	0	0	0
Debt service moratorium [4]	0	3,063	0	0	0	3,063
Residual gap	**0**	**3,121**	**4,422**	**1,227**	**1,827**	**10,598**
IMF	0	1,621	773	527	527	3,448
Disbursements	*0*	*1,621*	*773*	*527*	*527*	3,448
Prospective debt restructuring	0	0	2,650	0	750	3,400
Prospective budget support	0	1,500	1,000	700	550	3,750
Memorandum items:						
Gross official reserves (millions U.S. dollars)	1,429	4,418	5,576	7,453	10,497	
(Months of following year's imports of goods and services)	0.7	1.9	2.2	2.7	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.

[3] Includes SOE deposit accumulation abroad, private sector borrowing and unidentified capital flows.

[4] Represents debt service moratorium until debt treatment discussion is finalized.

Table 7. 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. Ethiopia: Indicators of Fund Credit, 2024/25–2039/40[1]

(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																
(In millions of SDR)																
Principal	165.4	41.8	41.8	55.1	28.4	136.5	262.0	281.2	281.2	281.2	178.9	19.2	0.0	0.0	0.0	0.0
Charges and interest (excl. obligations to SDR department)	7.9	2.3	1.7	1.2	0.7	0.2	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)	173.3	44.1	43.5	56.4	29.1	136.7	262.0	377.0	453.7	511.2	409.0	249.2	134.2	57.5	0.0	0.0
Principal	165.4	41.8	41.8	55.1	28.4	136.5	262.0	377.0	453.7	511.2	409.0	249.2	134.2	57.5	0.0	0.0
PRGT	0.0	26.7	26.7	40.1	13.4	129.0	262.0	377.0	453.7	511.2	409.0	249.2	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)	7.9	2.3	1.7	1.2	0.7	0.2	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	173.3	44.1	43.5	56.4	29.1	136.7	262.0	377.0	453.7	511.2	409.0	249.2	134.2	57.5	0.0	0.0
In millions of U.S. dollars	230.5	58.7	58.2	75.5	39.0	183.1	351.0	505.1	607.9	684.9	547.9	333.9	179.8	77.1	0.0	0.0
In percent of general government revenue	2.0	0.4	0.4	0.4	0.2	0.7	1.1	1.4	1.5	1.4	1.0	0.5	0.2	0.1	0.0	0.0
In percent of exports of goods and services	1.4	0.3	0.3	0.3	0.2	0.7	1.1	1.5	1.6	1.6	1.1	0.6	0.3	0.1	0.0	0.0
In percent of total external debt service	18.8	1.0	1.9	2.1	1.0	5.0	12.6	17.3	20.3	21.9	18.0	11.7	6.5	2.9	0.0	0.0
In percent of gross international reserves	5.2	1.1	0.8	0.7	0.3	1.2	2.0	2.7	3.0	3.2	2.5	1.4	0.7	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	57.6	14.7	14.5	18.7	9.7	45.5	87.1	125.4	150.9	170.0	136.0	82.9	44.6	19.1	0.0	0.0
Outstanding Fund credit (end of period)																
In millions of SDRs	1,415.3	1,948.7	2,290.3	2,618.6	2,590.2	2,453.7	2,191.7	1,814.7	1,361.1	849.9	440.9	191.7	57.5	0.0	0.0	0.0
In millions of U.S. dollars	1,882.6	2,598.2	3,061.1	3,508.5	3,470.4	3,287.6	2,936.5	2,431.4	1,823.6	1,138.7	590.7	256.8	77.1	0.0	0.0	0.0
In percent of general government revenue	18.4	20.5	19.7	18.7	15.5	12.5	9.6	6.9	4.4	2.4	1.1	0.4	0.1	0.0	0.0	0.0
In percent of exports of goods and services	11.4	14.8	15.7	16.2	14.4	12.1	9.6	7.0	4.7	2.6	1.2	0.5	0.1	0.0	0.0	0.0
In percent of total external debt	4.9	6.6	7.4	8.2	8.2	7.8	6.9	5.6	4.2	2.6	1.3	0.6	0.2	0.0	0.0	0.0
In percent of gross international reserves	42.6	46.6	41.1	33.4	27.5	21.9	16.7	12.8	9.0	5.4	2.7	1.1	0.3	0.0	0.0	0.0
In percent of GDP	1.5	2.0	2.1	2.1	1.8	1.5	1.2	0.9	0.6	0.3	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	470.7	648.0	761.7	870.8	861.4	816.0	728.9	603.5	452.6	282.6	146.6	63.8	19.1	0.0	0.0	0.0
PRGT	448.2	630.5	749.2	863.3	858.9	816.0	728.9	603.5	452.6	282.6	146.6	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)	1,048.7	533.3	341.6	328.3	-28.4	-136.5	-262.0	-377.0	-453.7	-511.2	-409.0	-249.2	-134.2	-57.5	0.0	0.0
Disbursements	1,214.1	575.1	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	136.5	262.0	377.0	453.7	511.2	409.0	249.2	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)	1,386.4	2,036.8	2,614.9	3,238.0	3,963.5	4,714.5	5,546.3	6,509.6	7,632.3	8,904.6	10,385.0	12,080.4	14,023.3	15,818.0	17,751.7	19,876.2
Exports of goods and services (billions of U.S. dollars)	16.6	17.5	19.5	21.7	24.1	27.3	30.7	34.6	39.1	44.1	49.8	56.2	63.4	70.8	79.3	88.4
Total debt service (millions of U.S. dollars)																
Gross international reserves (billions of U.S. dollars)	4.4	5.6	7.5	10.5	12.6	15.0	17.6	19.0	20.2	21.2	21.8	23.5	26.4	29.1	32.6	36.7
In months of prospective imports	1.9	2.2	2.7	3.5	3.7	3.9	4.0	3.8	3.6	3.4	3.1	3.1	3.1	3.1	3.2	3.3
Nominal GDP (billions of U.S. dollars)	126.4	127.7	142.4	163.2	188.1	215.3	247.3	283.4	325.3	373.6	429.3	493.3	567.1	630.7	698.7	772.8
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 June 30th.

[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. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2025–December 2025

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Mar 2025 Indicative Target			end-Jun 2025 Performance Criteria			end-Sep 2025 Indicative Target			end-Dec 2025 Performance Criteria
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.
Quantitative performance criteria										
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) 1/, 2/	95,000	-85,203	Met	106,000	105,160	Met	76,000	-12,267	Met	105,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,408	Met	400	1,911	Met	200	746	Met	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	347,000	509,297	Met	578,000	701,753	Met	120,000	223,862	Met	276,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-32,399	Met	0	-1,830	Met	0	-42,216	Met	0
Continuous performance criteria										
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) 3/	0	0	Met	0	0	Met	0	0	Met	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	Met	0	0	Met	0	0	Met	0
Indicative targets										
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) 2/, 4/	110,000	93,110	Met	147,000	91,971	Met	50,000	8,846	Met	95,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) 5/	33,200	35,722	Met	51,400	58,232	Met	8,500	4,000	Not Met	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)	2,750	629	Met	3,000	629	Met	2,000	0	Met	2,500
Memorandum items:										
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	2,333			2,407	2,778		696			1,042
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,515			1,645			379			1,109
Gross privatization proceeds (US$ millions, cumulative since previous June)	0			0	0		0	0		0

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

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

3/ 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.

4/ For the IT on gross claims on public enterprises by commercial banks, March-June 2025 test date excludes changes in claims related to CBE recapitalization.

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).

Table 10. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2026–December 2026

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Mar 2026 Indicative Target	end-Jun 2026 Performance Criteria	end-Sep 2026 Indicative Target	end-Dec 2026 Performance Criteria
	Prog.	Prog.	Proposed	Proposed
Quantitative performance criteria				
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [1/, 2/]	116,000	128,000	58,000	93,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	400	300	500
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	525,000	850,000	201,000	448,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	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) [3/]	0	0	0	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	0	0
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]	0	0	0	0
Indicative targets				
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/]	139,000	185,000	254,000	307,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [5/]	33,500	57,400	7,600	21,600
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)	2,750	3,000	1,050	1,550
Memorandum items:				
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	1,238	1,434	250	500
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,488	1,867	672	1,344
Gross privatization proceeds (US$ millions, cumulative since previous June)	0	0	0	0

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

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

3/ 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.

4/ Transactions with general government entities holding accounts at the NBE are exempted, as are sales of foreign exchange for the settlement (at current market exchange rates) of the last remaining deferred LC payments contracted before July 2024 and maturing in FY2025/26, are excepted from the auction requirement.

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).

Table 11. Ethiopia: Structural Conditionality

Measure	Rationale	Board Approved Target Date	Status
Prior Action			
NBE to publish FX auction guidelines specifying that auctions will be open to all banks and that FX will be allocated based exclusively on highest bid prices, with no restrictions on bid prices or amounts.	Support FX market development		New
Structural Benchmark			
1. 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	Met
2. 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	Met
3. Council of Ministers to submit to Parliament 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	Not Met
4. 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	Met
5. Council of Ministers to submit to Parliament amendments to the Income Tax Proclamation to: (i) introduce a minimum alternative tax (MAT), (ii) increase withholding tax rates, (iii) simplify the presumptive tax regime, and (iv) adjust the personal income tax schedule.	Support revenue mobilization	End-September 2025	Met
6. National Bank of Ethiopia to revise the methodology to calculate the NBE indicative rate to include all interbank FX transactions and the NBE's sales and purchase of FX with banks.	Support FX market development	End-September 2025	Met
7. The National AML Committee will develop and adopt a roadmap for the acceleration of the establishment of a beneficial ownership registry.	Strengthen AML/CFT regime	End-September 2025	Met
8. The NBE to update the NOP directive, including in relation to the treatment of FX-linked assets with clear definitions of FX risk exposures, and appropriate treatment and alignment with risk-based supervision.	Support FX market development, modernize financial oversight	End-October 2025	Met

Table 11. Ethiopia: Structural Conditionality (concluded)

Measure	Rationale	Board Approved Target Date	Status
Structural Benchmark			
9. Ethiopia Investment Holdings (EIH) to publish consolidated financial statements for FY2022/23 for the EIH SOE portfolio on the EIH website.	Strengthen SOE transparency	End-December 2025	Not met (now expected end-March 2026)
10. Ministry of Finance to issue a letter to CBE specifying (1) that from the start of FY2026/27 maturing low-interest-rate T-bills will be rolled over into T-bills paying market-determined interest rates (matching rates determined for similar maturities at the latest T-bill primary auction); and (2) completely ending mandatory rollover by end-FY2026/27.	Reduce financial repression	July 7, 2026	New
11. Ministry of Finance to adopt a methodology and establish binding institutional protocols for data processing, estimating, consolidating, reporting and monitoring tax expenditures across VAT, CIT, PIT, and excises.	Strengthen compliance, reporting, and administration of tax incentives	End-June 2026	New
12. NBE to develop a roadmap to deepen the interbank FX market, including to establish an interdealer trading platform.	Support FX market development	End-September 2026	New
13. Ministry of Revenue to issue directives and operational instructions to ensure full implementation of a comprehensive compliance improvement plan.	Improve tax compliance	End-December 2026	New

Annex I. Risk Assessment Matrix[1]

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 in Tigray or 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, e.g. via the Ethiopian National Dialogue Commission.
Political instability as the mid-2026 election approaches, potentially leading to civil unrest.	**M**	**M.** Intensified ethnic tension and economic disruption.	Political dialogue and strengthening electoral system to ensure free and fair elections.
Adverse weather events, including drought or flooding in different parts of the country.	**M/L**	**M.** High food prices, increased food insecurity.	Scaling up humanitarian assistance to affected areas in coordination with international relief agencies.
Increased tension between Ethiopia and Eritrea.	**M**	**M/H.** Regional instability, humanitarian crisis.	Diplomatic engagement, regional cooperation.
Domestic resistance delays implementation of planned economic reforms.	**M**	**M.** Economic distortions continue, difficulties accessing imported goods intensify, growth and investment weaken.	Forceful communication of reform benefits complemented by protection of vulnerable groups.

[1] 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 Risks[1]			
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	**H**	**M.** Lower revenue from Ethiopia's main exports—gold and coffee—if prices fall, trade flow disruptions, increased humanitarian pressures, lower private investment, and weaker debt sustainability. Financing from a major bilateral partner adversely affected.	Accelerate reforms enhancing export competitiveness. Ensure a market-clearing exchange rate. Accelerate World Trade Organization accession process and implementation of trade agreements such as the African Continental Free Trade Agreement.
Escalating Trade Measures and Prolonged Uncertainty.	**H**	**M/H.** Increased unmet humanitarian needs, especially in food security and health. Fiscal, price, and balance of payments pressures. Lower demand for exports adds to trade deficit and weakens debt sustainability. Reduction in remittances from diaspora, FDI, and creditor cooperation. ODA is further reduced.	Further emphasize domestic revenue mobilization and re-prioritize government spending. Accelerate reforms enhancing export competitiveness. Maintain a more flexible exchange rate policy.
Commodity price volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability	**H**	**M/H.** Higher prices for imported commodities, 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.

[1] Based on August 2025, update of the Global Risk Assessment Matrix.

Appendix I. Letter of Intent

Addis Ababa, December 22, 2025

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 becoming more entrenched, with steadily increasing participation by market actors. Inflation has continued to decline, supported by tight monetary and fiscal policy, bringing relief to consumers. Economic growth accelerated to 9.2 percent in 2024/25, with exports performing particularly well. The regulatory environment is steadily being strengthened, with the new central bank and banking laws passed in December 2024 providing a strong platform for financial stability.

Building on the good results to date, we continue to push ahead with our IMF-supported program to address macroeconomic imbalances and promote private sector-led growth. The objectives of our economic program remain 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 builds on our updated Homegrown Economic Reform Agenda 2.0 (HGER2.0) from early 2024, which updates the original HGER from 2019 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.

Next steps in our economic program include: (i) advancing domestic revenue mobilization in line with our National Medium-Term Revenue Strategy; (ii) promoting continued development of an efficient FX market, including through enforcement of prudential regulation on banks' net open position and the gradual phase-out of surrender requirements; and (iii) completing the transition from quantitative controls on credit to interest rate-based monetary policy.

We request the Fund's continued financial support for our economic program through a disbursement of SDR 191.70 million for completion of the fourth review of the ECF arrangement. As part of this fourth program review, we also request completion of the financing assurances review.

We also request modification of the end-March and end-June 2026 quantitative performance criteria (QPC) on net financing of the general government primary balance, to reflect changes to fiscal projections that we have agreed with staff. The modifications remain consistent with attaining program objectives.

In support of program objectives, a new continuous QPC is proposed. The continuous QPC establishes a zero limit on foreign exchange transactions by NBE with market participants except through auctions undertaken in line with the published guidelines, excluding direct FX purchases or sales with the general government and the settlement of legacy deferred LC payments contracted prior to the July 2024 FX reform and maturing in FY2025/26.

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.

Finally, we wish to take this opportunity to express our interest under the IMF's Resilience and Sustainability Facility to support Ethiopia's efforts to reduce its significant climate related vulnerabilities, complementing the longer-term development objectives of the present ECF.

Very truly yours,

/s/	/s/
H. E. Mr. Ahmed Shide Minister of Finance The Federal Democratic Republic of Ethiopia	H. E. Dr. Eyob Tekalign Tolina 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 22, 2025

A. Context and Recent Developments

1. **Ethiopia's economic reforms aim to accelerate economic and social development, increase resilience, and foster private sector-led growth.** Per capita income rose 650 percent during 2000–20, supporting gains in human development, health, and education indicators. While a key driver of growth, public investment in large infrastructure projects 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, internal displacement, and food insecurity challenges. Financing reconstruction and recovery from conflict and managing the long-term effects of climate change add to the challenges that must be addressed.

2. **The launch of the Homegrown Economic Reform Agenda II (HGER II) in early 2024 marked a watershed in Ethiopia's economic management.** It signified a decisive shift from a predominantly administrative policy regime, characterized by direct controls in monetary, fiscal, and foreign exchange management, toward a market-oriented, rules-based, and competitive macroeconomic framework. Within its first year of implementation, the reform program has delivered tangible macroeconomic gains. Export of goods has more than doubled in both volume and value, while remittance inflows through formal channels have strengthened, contributing to improved foreign-exchange liquidity and a rebuilding of international reserves. The financial sector has been revitalized, with renewed investor confidence. The premium between the parallel market and official exchange rate has significantly narrowed since July 2024.

3. **These positive developments underscore the credibility of the reform program and its early success in restoring macroeconomic stability.** On the fiscal front, domestic revenue mobilization has increased substantially, underpinned by tax-policy and administration reforms that have enhanced fiscal space and sustainability. The government has also taken measured steps to rationalize subsidies, easing the fiscal burden while safeguarding critical social protection for the most vulnerable. These actions demonstrate the authorities' commitment to principled, responsible, and inclusive fiscal management consistent with the objectives of the HGER II program.

4. **Core elements of the economic reform plans were successfully implemented prior to the IMF-supported program despite very challenging circumstances.** The fiscal deficit was significantly reduced, 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.

5. **To sustain progress, we reinvigorated our reform agenda.** Our updated reform agenda from early 2024 (HGER2.0) renewed 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.

6. **Our reform drive continues to advance under the IMF-supported program.** 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 have been opened to foreign investment. As part of strengthening the institutional and regulatory framework, new central bank and banking laws were passed in late 2024, complementing new investment, trade, procurement, and public enterprise laws that had already been enacted. A securities exchange was launched in early 2025.

7. **Real GDP growth has accelerated.** Growth rose to 9.2 percent in 2024/25 from 8.1 percent in 2023/24. Strong agricultural production due to favorable rains and initiatives to increase irrigated crop production, and increased mining and electricity output (with the Grand Ethiopian Renaissance Dam coming online) have supported the acceleration in growth. High-frequency data point to continued strong growth in 2025/26.

8. **Inflation continues to decline.** Inflation fell to 11.7 percent y/y in October from 13.9 percent in 2024/25, with declines in both food and non-food inflation. However, recent exchange rate depreciation has slowed the pace of non-food disinflation, and monthly inflation exceeded historical averages in October.

9. **The balance of payments has been supported by an exceptionally strong export performance.** Coffee and gold exports benefited from record-high international prices alongside large increases in volumes spurred by the foreign exchange (FX) reform. With goods imports largely flat in nominal terms, the current account deficit narrowed to 1.1 percent of GDP in 2024/25 from 2.9 percent of GDP in 2023/24. Over the year, gross international reserves increased by US$3 billion to US$4.4 billion (roughly 2 months of import cover), exceeding the program target.

10. Government revenue has grown rapidly, enabling increased spending in priority areas. The ratio of general government tax revenue to GDP rose by 1.6 percentage points, from 6.2 percent of GDP in FY2023/24 to 7.8 percent of GDP in FY2024/25—the first increase in a decade—with revenue boosted by policy changes in value added tax and excises taxes as well as the impact of the FX reform, and a determined revenue administration effort to strengthen compliance. The increased revenue and easing of domestic financing constraints enabled increased spending in priority areas, including salary increases for civil servants (the first since FY2018/19 whose pay had been significantly eroded by inflation, and higher investment. The overall fiscal deficit fell to 1.2 percent of GDP from 2.0 percent in 2023/24, and all fiscal performance criteria and indicative targets were met. The end-September 2025 indicative target on government contributions to the Productive Safety Net Program (PSNP) was missed due to rescheduled transfers of developmental partner contributions amounting to 0.2 percent of GDP. These amounts will be absorbed first, and the government's contribution will return to levels agreed under the program by end-December 2025.

11. NBE continues to maintain a tight monetary policy. The policy rate has been maintained at 15 percent and there has been no monetary financing of fiscal deficits since the start of the ECF. While overall liquidity conditions have eased relative to last year, the situation remains heterogenous across the banking sector. Broad money grew by 34 percent y/y at end-September 2025, driven by deposit growth at CBE, and base money increases resulting from the increase in central bank reserves linked to NBE gold purchases. Overall credit growth remained contained at 14 percent y/y, with credit to the private sector up 34 percent, claims on SOEs up 87 percent (due to base effects from a low stock in FY24/25 following CBE's recapitalization but still in line with program parameters), and net credit to government down 6.8 percent. The interbank money market and Treasury bill (T-bill) market have deepened, with transaction volume and primary issuance picking up over the year and interest rates settling within the +/- 3 percentage point standing facility corridor around the monetary policy rate.

12. There has been good progress on ensuring debt sustainability. Total public debt rose from 35.4 percent of GDP to 50.3 percent in the year to end-June 2025 mainly due to exchange rate depreciation. There was no non-concessional external borrowing or accumulation of external arrears, and the ratio of domestic debt to GDP remained broadly stable. Debt restructuring discussions with official creditors are advancing in line with expectations, and constructive discussions with bondholders continue.

B. Objectives of the Program

13. Our economic reform agenda provides a foundation for strong, inclusive, and private sector-led growth. We envision high and stable growth and gradual reduction in inflation to single digits 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.

14. 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 achieving these goals, which together will create the right conditions for private investors to unlock the economic potential of our country.

C. Foreign Exchange Policy

15. We are committed to a market-determined exchange rate to strengthen resilience against external shocks. Recent measures to continue supporting this objective include inclusion of interbank FX transactions and NBE's FX sales and purchases with banks in the daily indicative rate, and a revised FX net open position (NOP) directive, adopted in November 2025. The revised directive aligns with international best practices and introduces a clear penalty regime for non-compliance. Implementation will start on January 1, 2026.

16. FX availability has improved, with a marked decline in complaints about access and waiting times. The real effective exchange rate (REER) has remained competitive since the sharp post-reform correction. Strong net FX inflows during 2024/25—driven by the improved trade balance—and NBE FX auctions have boosted banks' FX liquidity. Private banks have begun opening letters of credit (LCs) for fuel imports. However, CBE's short FX position remains large due to fuel and fertilizer financing. Interbank FX trading is still limited and ad hoc, constraining efficient clearing of excess FX positions among banks. We continue to take measures to enhance FX market functioning:

- NBE and CBE have agreed on a revised plan to reduce CBE's on-balance sheet NOP by at least half of the excess position recorded at end-September 2025 by end-December 2025. Full compliance with the revised NOP directive is expected by end-March 2026. Weekly consultations between NBE and CBE have been established to monitor progress against the revised plan that includes a contingency buffer. CBE has also launched new campaigns to attract FX resources from diaspora communities, including to mobilize remittances and offer loan products tailored to their needs.
- NBE will develop a roadmap to deepen the interbank FX market, including to establish an interdealer trading platform by end-September 2026 (structural benchmark), supported by IMF technical assistance. A well-functioning interbank FX market will improve banks' FX risk management and enhance transparency. Work is underway to upgrade the settlement system for interbank FX transactions. Starting December 1, 2025, NBE began publishing daily data on interbank FX volumes on a weekly basis and weighted average prices on its website.

- Published in end-December 2025 (prior action), the guidelines for special FX sale auctions follow international best practices. Auctions are open to all banks and FX is allocated based exclusively on highest bid prices, with no restrictions on bid prices or amounts. NBE published In November 2025 a FX auction schedule for December 2025 and Q3 of 2025/26 based on its FX liquidity position. Published auction results will include the range of submitted bids, the weighted average cutoff rates of accepted bids, total amounts offered and allocated and the number of participating banks.
- To enhance transparency, competition and reduce market distortions, all banks began publishing their daily foreign exchange transaction rates on their websites in November 2025. These show the weighted average buying and selling rates from the previous day's actual trades and represent the subset of transactions reported to the NBE for calculation of the official reference rate, distinct from indicative rates quoted to customers.
- By end-March 2026, NBE will develop indicators and benchmarks to assess FX market development. These will guide the timing of reduction and removal of surrender requirements within the program period. Potential indicators include the level and persistence of the parallel market premium, interbank market activity, unmet FX demand, and banks' NOP positions.
- Starting December 2025, NBE began a regular assessment of unmet FX demand on a quarterly basis for the nine largest banks. Results are incorporated into regular program reporting.
- NBE will relax current rules regarding exporters' sale of funds in their retention accounts when fulfilling surrender obligations (domiciliation rules), in order to give exporters greater flexibility in securing favorable exchange rates. This will be contingent on the full operationalization of the FEMOS reporting system by end-June 2026, which will enable real-time monitoring of compliance with surrender requirements.

17. Efforts to phase out long-standing exchange restrictions, as well as surrender requirements, continue. We reaffirm our commitment to removing three of six long-standing exchange restrictions identified in the IMF Article VIII assessment during the program period. NBE has already issued a letter to banks on settling dividends accumulated prior to the FX reform, over an 18-month period starting from end-September 2024, most of which have been already cleared. The potential removal of restrictions on accessing and using FX for moderate family remittances will be evaluated to mitigate risks of circumventing capital controls. The assessment, including a review of other country cases, will be completed by the fifth review. Phasing out the NBE exchange commission, which constitutes a significant share of NBE's income, will align with review of NBE's capital position, for which we have received IMF TA in April 2025. Two additional exchange restrictions—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 an import permit—will be studied jointly with the other affected public authorities to identify alternative solutions that avoid exchange restrictions and minimize business disruptions. NBE remains committed to phasing out surrender requirements by the end of the program, at a pace determined by FX market development.

18. Intervention in the foreign exchange market will be limited to stemming disorderly market conditions and auctioning proceeds from gold purchases in excess of reserve accumulation objectives. FX intervention will follow the adopted FX intervention strategy (including the governance process) which allows, but does not oblige, the NBE to buy or sell foreign currency in volatile market conditions. Any FX intervention will occur via public auction following the recently published FX auction guidelines. NBE will conduct FX transactions exclusively with banks through FX auctions, in line with the continuous performance criterion that sets a zero limit on non-auction-based FX transactions, excluding direct FX purchases or sales with the general government and the settlement of legacy deferred LC payments contracted before the July 2024 FX reform that mature in FY2025/26, which will be carried out at market exchange rates. NBE will report all daily FX transactions with banks to the IMF on a weekly basis.

19. NBE is improving its gold transaction procedures to mitigate the risks to NBE's balance sheet and reduce distortions in the banking sector. The premium above international prices paid to miners will be phased out and private banks will be allowed to participate in settling gold purchases. A detailed plan for these measures will be developed based on a study to be completed by end-March 2026. In the interim, quality control will be strengthened by extending and improving gold quality testing procedures to all purchasing sites. NBE will develop a long term exit plan from the gold market by end-December 2026, taking into account implications on its international reserve build up objective.

D. Monetary Policy

20. Our monetary policy framework is guided by NBE's strategic plan for 2023–26, which prioritizes low and stable inflation and transitioning to an interest rate-based regime. The revised NBE Establishment Proclamation institutionalizes a transparent and credible monetary policy regime with a Monetary Policy Committee (MPC) that recommends the policy stance to the Board of the NBE. The MPC has met quarterly since its inaugural meeting at end-2024. To continue to support the transition to the interest rate-based monetary policy framework, NBE has: (i) upgraded the real-time gross settlement system (RTGS); (ii) dematerialized government securities; and (iii) launched the central securities depository for monetary operations. Next steps include strengthening liquidity forecasting capabilities and continued development of a transparent monetary policy communication strategy.

21. The NBE has maintained the monetary policy rate at 15 percent since its introduction in July 2024. Standing lending and deposit facility rates are set at ± 3 percent around the policy rate, with the 7-day interbank lending rate as an operational target. To align banking sector liquidity with the monetary policy stance, the NBE has continued to conduct regular full allotment Open Market Operations at the policy rate. In October 2024, NBE implemented an emergency liquidity assistance framework to provide temporary and exceptional liquidity to solvent banks facing liquidity stress, and efforts continue to establish a comprehensive collateral framework for monetary policy and emergency liquidity assistance operations with technical assistance from the IMF.

22. To support the monetary policy framework, we continue to take steps to enhance the management of liquidity in the financial system. The Interbank Money Market that was launched in late October 2024 has continued to grow, with cumulative transaction volume surpassing one trillion Birr in September 2025 and interest rates falling in the policy rate corridor, allowing banks to manage their liquidity more efficiently. To support efficient liquidity management in the banking sector, we issued a new reserve requirement directive in December 2025 introducing reserve averaging over a maintenance period. We will also develop a time-bound plan outlining how to address structural liquidity concentration at CBE by end-March 2026, considering its role as the primary bank for public sector accounts. The plan will outline a range of options for CBE to deploy its liquidity. These may include, but are not limited to (i) increasing investment in T-bills and bonds; (ii) expanding participation in the interbank money market; and (iii) purchasing FX in the interbank market. Furthermore, we stand ready to take additional liquidity management measures, including reviewing the reserve requirement framework.

23. We will continue to maintain tight monetary and financial conditions to anchor exchange rate and inflation expectations with the objective of ensuring price stability. NBE's policy rate is the key instrument to signal the policy stance and will be calibrated to be consistent with achieving low and stable inflation. We reaffirm our commitment to adjust the policy rate based on projected inflation as assessed by the MPC. 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, including using the reserve requirement.

24. In line with the transition to an interest rate-based policy framework, we are phasing out the cap on private sector lending growth. While removal of the ceiling was anticipated for September 2025, the cap was instead raised from 18 percent to 24 percent for 2025/26, considering the communication challenges of removing the cap in the context of double-digit inflation, to forestall potential acceleration of credit growth leading to declining lending standards, and to preserve progress in reducing inflation. To make the cap more effective and ensure uniform application across banks, the calculation basis has been modified to include only credit to the private sector, not total loans and advances as before. We expect the cap to be adjusted before end-June 2026 and fully removed before end-December 2026, with the calibration depending on evolution of private credit, banking sector liquidity, asset quality trends, findings of the ongoing study of bank lending standards, and continuation of the trend toward single digit inflation.

25. Monetary financing of fiscal deficits has been eliminated, ending a key driver of inflation and reinforcing our commitment to disciplined monetary policy. All direct advances have been terminated (quantitative performance criterion, QPC). To ensure the federal government can manage its cash position as liquidity forecasting improves and the T-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 average General Government domestic revenue of the previous three fiscal years. Fiscal policy and limits on SOE borrowing (indicative target, IT) continue to support tight monetary conditions.

26. We are strengthening NBE governance and transparency. The revised NBE Proclamation is being fully implemented. This will include the appointment of new Board members in line with the enhanced governance principles outlined in the law. One new Board member was appointed in September 2025, and four additional members are expected to be appointed by the Prime Minsters' Office while NBE will play its advisory role whenever requested. As part of its commitment to maintaining a timely audit cycle, the FY2024/25 NBE audited accounts are expected to be published by end-2025.

27. We are taking steps to put NBE finances on a sustainable footing. Stronger capitalization will ensure NBE can implement a monetary policy stance consistent with achieving single digit inflation and gradual phase out the 2.5 percent commission fee on FX transactions. Following the April 2025 assessment of NBE's capital undertaken with support from IMF technical assistance, NBE is preparing a recapitalization plan, which we expect to be agreed with the MoF by end-June 2026, built on the following principles: (i) policy-solvency anchored by a sustainable equity path and positive realized earnings; (ii) full removal of the NBE FX commission income by end-June 2028; (iii) gradual reduction in NBE exposure to public sector banks; and (iv) phasing out of premiums and subsidies for the purchase of gold.

E. Fiscal Policy

28. Our fiscal policy is creating space for critical public investment in human capital—health, education, and social protection—and basic infrastructure to support inclusive growth. A revenue-led strategy is restoring long-term stability to public finances, while ensuring a significant contribution to restoring debt sustainability. To spearhead collaborative reform implementation, the Ministry of Finance (MoF) 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 0.6 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. We are taking action to ensure the budget is in line with the agreed program framework. We will contain expenditure to levels consistent with the agreed financing totals and will not seek to exceed agreed spending levels or pass budget amendments without consultation. MoF has issued a domestic borrowing plan for the second half of FY25/26, consistent with the budgeted liquidity requirement and the external budget support timeline. The domestic borrowing plan will be set to achieve net financing of 203 billion Birr (1.0 percent of GDP) in FY2025/26. The

FY25/26 fuel subsidy budget will be capped at the budgeted level of 100 billion Birr (0.6 percent of GDP).

31. Durably raising domestic revenues is essential to increase space for social and capital spending. The National Tax Reform Taskforce has spearheaded comprehensive implementation and monitoring of tax policy and tax administration reform, guided by the NMTRS. Revenue yields will come primarily from tax policy reforms at first, with gains from tax administration reforms setting in over time. Over the medium-term, a 4-percentage point rise in the tax-to-GDP ratio to 10.2 percent of GDP by 2027/28 will provide a sustainable resource base for raising pro-poor and capital expenditure by 2 and 1.2 percent of GDP, respectively. The Medium-Term Fiscal Framework for 2024/25-27/28 guides these policy goals. 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 are advancing the next phase of revenue mobilization reforms, in line with the NMTRS. Tax policy measures taken to date are expected to generate a 1.5 percentage point increase in the general government tax to GDP ratio in FY2025/26. To this end:

- All federal fuel taxes (0.8 percent of GDP) are collected in full at statutory rates by Customs and remitted to the Budget from July 2025.
- Parliament adopted amendments to the Income Tax Proclamation in July 2025, with implementation from the beginning of FY2025/26 and an expected yield of 0.3 percent of GDP. The amendments (i) introduced a minimum alternative tax, (ii) increased withholding rates, (iii) simplified the presumptive tax regime, and (iv) adjusted the personal income tax schedule to correct bracket creep due to lack of adjustment for accumulated inflation. Implementation is progressing as planned. To ease the temporary bunching of full year FY2024/25 CIT tax payment under the previous regime and the first advance quarterly CIT payment under the new regime, the Ministry of Revenue has deferred the first advance payments to February 2026 for corporate taxpayers submitting annual returns in October.
- We are pushing ahead with rationalizing tax incentives, which are an ineffective and costly incentive for growth. We have adopted the new Investment Incentive Regulation, which replaces the previous open-ended regime with a transparent, rule-based, and performance-driven framework. As prescribed by the new framework, (i) granting of new tax holidays under the old tax holiday regime for new investments has ceased, (ii) existing incentives remain in force until their legal expiry, (iii) the tax holiday regime is replaced with reduced income tax rates with limited scope and duration, tied to measurable investment-linked criteria for all new incentives, and (iv) broad customs duty exemptions have been eliminated and replaced with reduced customs tariff rates. Although the immediate tax savings from the new income tax incentive regime are expected to be small, benefits will grow over time. The replacement of custom duty exemptions by reduced rates is projected to yield revenue gains of about 0.2 percent of GDP per year, with implementation to start in FY2025/26.
- The new Investment Incentive Regulation also establishes a statutory obligation for the Ministry of Finance to consolidate and publish annual estimates of tax forgone for investment-related

incentives. We will progressively expand this work to cover all taxes, enhancing fiscal transparency and enabling regular assessments of the cost and effectiveness of tax incentives compared with alternative public spending priorities. To operationalize this framework, the MOF will, with IMF technical assistance, adopt a methodology and establish binding institutional protocols for data processing, estimating, consolidating, reporting and monitoring tax expenditures across VAT, CIT, PIT and excises (new structural benchmark, end-June 2026).

- On excise taxes, after some delay, the contract with the selected provider for the excise stamp system has been finalized. Full implementation of the stamp system, facilitating the digital track-and-trace that will strengthen control and improve revenue collection, is expected by March 2026. Rollout of the new excise stamp system will be accompanied by an increase in specific excise rates on alcohol and tobacco in line with accumulated inflation.
- We have completed the study on the motor vehicle ownership tax reform, based on which we will prepare a proposal for the House of Federation to decide on the tax revenue assignment of the tax between federal and regional governments. The technical assessment is in line with the yield of 0.2 percent of GDP envisaged in the NMTRS. In view of the legislative procedure requirements for new taxes, we expect implementation starting from FY2027/28.
- With technical support from the World Bank, we will review our international tax treaties framework by December 2025. We will then assess Ethiopia's existing tax treaties with respect to their fiscal impact, revenue risks, and consistency with international standards. We will identify priority existing agreements for renegotiation and initiate negotiations to ensure that all these agreements benefit the country.
- We intend to introduce an inheritance and donation tax at a flat rate for bequests or donations greater than 1 million Birr per legatee.
- Revenue gains from property tax reforms are on track, supporting strong regional revenue performance in FY2024/25. These gains have been realized under the existing legal framework through revision of tax base assessments and stepped-up enforcement. The new Real Estate Property Tax Proclamation was enacted by Parliament in January-2025, with plans for advance rollout by the largest cities in FY2025/26 and nationwide implementation (with a yield of at least 0.3 percent of GDP) by FY2026/27, as legally mandated.

33. We are strengthening tax and customs administration to improve compliance, guided by the NMTRS and our Reform Strategy. The Ministry of Revenue will roll out e-invoicing, with VAT being an initial priority, to all large taxpayers by end-December 2026 to improve monitoring of VAT filing and payment compliance. A comprehensive Compliance Improvement Plan (CIP) will be developed to address declining numbers of taxpayers in payment positions and the rising incidence of loss, nil, and credit filers among medium and large taxpayers. The CIP will cover filing and payment compliance, VAT refund controls, risk assessments, and enforcement measures, and will be submitted for endorsement by the Ministry of Revenue by end-June 2026. Following endorsement, the Ministry will issue directives and operational instructions to ensure full implementation of the CIP by end-December 2026 (new structural benchmark). The Ministry of Revenue is preparing migration to a new IT system to replace SIGTAS. The system, developed locally in collaboration with the Information Network Security Agency (INSA), will integrate e-registration, e-filing, and e-payment, improving taxpayer services, data integrity, and risk-based case management. System design and core modules are on track to be completed by December 2027, followed by pilot implementation in the Large Taxpayer Office and one regional office. Follow-up on the recently published TADAT assessment will continue to guide implementation priorities. The Customs Commission will digitalize the valuation and the tariff classification process to strengthen tax base control and transparency in line with WTO customs-valuation standards. 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.

34. Pump prices on petrol and diesel will be increased to reach cost recovery and substantively eliminate fuel subsidies by end-February 2026. To this end, we implemented a significant increase in fuel prices for consumers in December 2025. We will continue to provide targeted fuel subsidies for public transportation to support vulnerable households, relying on the current targeting mechanisms and digital solutions (rebates through mobile payment and digital wallets), and limiting eligibility to city and regional public bus transportation.

35. We will settle legacy fuel subsidy debt resulting from exchange rate losses and prevent the re-emergence of similar liabilities. Fuel subsidies have been explicitly recognized as federal government spending. The fuel subsidy of 0.6 percent of GDP in the FY2025/26 budget provides temporary support to EPSE to offset short-term cash flow pressures from the ongoing transition to full cost recovery fuel pricing and reinstatement of statutory fuel taxes. To ensure EPSE has sufficient Birr liquidity, MoF makes monthly transfers to EPSE to cover their cash shortfall related to maturing FX liabilities, in accordance with the federal budget. The favorable world oil price has allowed EPSE to reduce its stock of fuel import related credit liabilities, shorten the average maturity of outstanding LCs, and build liquidity buffers. 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). EPSE will gradually transition to lower cost LCs for future fuel purchases. FX revaluation losses were estimated at 208 billion Birr as of end-June 2025. We plan to seek technical assistance from the IMF to devise a strategy for rebuilding and managing fuel price stabilization buffers and implementing transparent and automatic fuel price adjustment.

36. 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 PSNP expenditure. The increased budgetary envelope for the PSNP will help to expand coverage of food insecure and poor households. We are working with development partners to strengthen targeting mechanisms, commence a diagnostic assessment which will inform technical and legal framework gaps to implement a National Social Registry Ecosystem (expected to be finalized End-March 2026), update and improve poverty assessment metrics, and undertake regular program evaluations. As the cost-of-living shock abates, we are focusing on durable livelihood improvement to reduce poverty.

- **Disaster risk management:** We have created a national fund under the auspices of the Ethiopian Disaster Risk Management Commission (EDRMC) to ensure effective response to natural and man-made disasters, with a particular emphasis on droughts and floods, a key source of humanitarian, macroeconomic and fiscal risk. To partially compensate for declining overseas development assistance, we are considering domestic financing resources for the fund, including budgetary allocations and EDRMC developing its own revenue sources (consistent with our NMTRS and tax policy reforms). The fund's operations will be consolidated within the general government, in line with our policies and commitments on transparency of extrabudgetary entities.
- **Public investment:** Promoting sustainably financed growth-enhancing investment in public infrastructure is one of our main priorities. 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. The framework is being guided by the August 2025 IMF Public Investment Management Assessment (PIMA), which also included a climate module, to improve planning, allocation, and implementation stages, as well as transparency of the public investment management cycle. The PIMA report has been published on the MoF website.

37. We will enhance transparency and accountability in the management of public finances. In FY2024/25, MoF started publication of a mid-year review on the implementation of the Federal Government budget and a quarterly budget execution report, analyzing economic developments and showing consolidated budget performance against commitments. The FY2025/26 mid-year budget review will be published by April-2026. To enhance macro-fiscal policy making, we have established a working group with MoF, Ministry of Planning and Development, and NBE, tasked to improve the forecasting and data management processes. With IMF technical assistance, we will establish an annual forecasting review procedure, increasing the transparency of macro-fiscal and budget documentation. We have committed to undertaking an IMF Fiscal Safeguards Review and will provide all necessary information for the Fund to complete the assessment before the fifth review.

38. We will improve transparency and monitoring of fiscal risks from extra budgetary units. We will expand 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. The introduction of public sector obligations (PSO) framework, supported by the World Bank, is an important step towards comprehensive disclosure of quasi-fiscal activities and managing fiscal risks.

F. Public Debt

39. All members of the Official Creditor Committee (OCC) have signed the Memorandum of Understanding (MOU), which was agreed in July 2025. The MoU specifies: (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 (iii) the reduction in the present value of payments. These parameters will guide the implementation of relief by other official bilateral and private creditors through bilateral agreements following comparable treatment. The next step is to reach bilateral agreements, and we aim to finalize some agreements by end 2025. In addition, an Agreement in Principle (AIP) has been reached with one major commercial creditor on comparable terms to the MoU and aligned with the program's objectives. An AIP with another private creditor is expected soon. We continue to engage with Eurobond holders, seeking a restructuring on comparable terms to the official creditors, most recently through an exchange of offers with the Eurobond holder committee in late September and early October 2025.

40. 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 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).

41. 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, and we are in the process of securing the required financing to complete Koysha hydroelectric dam on the best terms available. 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.

42. We are gradually eliminating financial repression by phasing out captive financing, administered rates, and other distortions. These reforms will deepen the government bond market, improve credit allocation to the private sector, and ensure that public borrowing reflects the opportunity cost of using investable funds.

- **New domestic financing of government is now entirely market-financed by T-bills issued at competitive rates.** We will phase out mandatory rollover of CBE's portfolio of low-interest-rate T-bills. By end-June 2026, we will issue a letter to CBE specifying (1) that from the start of FY2026/27 maturing low-interest-rate T-bills will be rolled over into T-bills paying market-determined interest rates (matching rates determined for similar maturities at the latest T-bill primary auction); and (2) that we will completely end mandatory rollover by end-FY2026/27 (new structural benchmark for July 7, 2026). We will inform Fund staff before taking any action to roll over or restructure public sector liabilities at rates below contemporaneous market T-bill rates.

- **With the support of technical assistance from the IMF and the World Bank Group, we have deepened the T-bill market.** T-bill rates have been positive in real terms since early 2025 and auction participation has been increasing. Demand has been supported by high-level engagement with commercial banks and other financial market participants, the end of mandatory purchases of 5-year Treasury bonds by commercial banks, and the development of an issuance calendar and monthly debt bulletin. Next steps include, by end-June 2026 establishing a trading facility for over-the-counter trading of T-bills and finalizing an Ethiopian Master Repurchase Agreement by end of September 2026. A secured repo market will be launched by end-December 2026 to strengthen liquidity management, and the central securities depository will be expanded to provide retail investors by the end of December 2026 with direct access to government securities, helping to diversify market participation.
- **We are strengthening debt management and transparency.** The development of the medium-term debt management strategy (MTDS) will be completed by end-December 2026, with capacity development support as needed. The Debt Management Division within the Ministry of Finance will be strengthened through improved staffing and targeted capacity development to enhance its effectiveness in managing public debt operations. The Treasury bill and bond issuance directive will be updated by end-January 2026 to establish a unified framework. With IMF and World Bank technical assistance, we will finalize a Fiscal Agency Agreement between MoF and NBE by end-March 2026 to clarify institutional roles and improve coordination between debt, fiscal, and monetary operations.
- **We are strengthening cash management to support more predictable issuance and market development.** As a critical first milestone in improving cash management and control, the Treasury Single Account (TSA) Steering Committee will complete a survey of government bank accounts by June 2026 which will provide a full inventory of accounts to guide their rationalization and consolidation under the TSA.
- **We plan to publish a sustainable funding strategy for the Development Bank of Ethiopia (DBE) by December 2025.** The requirement for financial institutions to purchase DBE bonds will end by end-2025. DBE will align any issuance with government bond market development and the establishment of a benchmark yield curve. DBE bonds will be issued at market interest rates.

G. State-Owned Enterprise Policy

43. We have strengthened oversight and governance of the SOE sector. EIH centralizes SOE oversight and facilitates fiscal risk management:

- **We have made progress in addressing long delays in submitting audited accounts by SOEs and improved IFRS compliance.** All of the SOEs overseen by EIH have adopted IFRS, with FY2024/25 accounts for 24 out of 36 SOEs undergoing audits. Following a minor delay in finalizing procurement of external accounting consultants, consolidated financial statements of EIH for 2022/23 have been completed but faced a minor delay due to finalizing procurement of external accounting consultants, resulting in the end-December structural benchmark being missed. The audited financial accounts will be published on the EIH website by end March-2026.
- **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. EIH is in the process of procuring a digital reporting system for SOEs that will provide monthly financial performance monitoring indicators for each SOE, produce aggregate metrics for the EIH portfolio as a whole, and eventually provide a regular input for SOE fiscal risk monitoring by the MoF.
- **The MoF fiscal oversight function will be strengthened to ensure centralized periodic, timely, and standardized SOE financial and performance indicator reporting.** We have established a dedicated SOE Directorate in MoF to oversee SOEs, with a clear mandate vis-à-vis EIH. As is develops, the unit will provide high level data analytics and strategic insight into the 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). To set out way forward, we have requested IMF technical assistance to: (i) review institutional arrangements for SOE oversight and fiscal risk management, including vis-à-vis EIH and other relevant MoF functions (in particular budgeting, debt management, and public investment management), (ii) SOE fiscal risk management, including its integration into the budget process and the broader fiscal risk management framework. Following the inaugural SOE sector risk report published in May 2023, a new SOE analytical report covering FY2023/24 will be published by September-2025.

44. We are developing a comprehensive legal framework governing SOEs. To assess and recognize uncompensated SOE activities undertaken in the public interest rather than on a commercial basis, we will implement PSO costing and disclosure regulations. We will assess SOE performance in meeting their public service mandates (the pilot in the electricity sector was completed in December 2025 and the PSO policy framework for CBE will be adopted by December, 2025. These measures will lead to transparent budgetary disclosure of and compensation for non-commercial services. EIH acts as a commercially oriented shareholder on behalf of the state for SOEs, pressing for cost efficiency, good governance, and transparency for the sector. EIH has made progress in developing a state ownership policy that articulates the rationale for state ownership of commercial enterprises and clarifies the roles of the entities involved in implementing policy. 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.

45. We are taking measures to restore the viability of the three largest loss-making SOEs (EEP, ERC, ESC).

- **In the electricity sector:** The quarterly electricity price increases that commenced in September 2024 have been implemented according to the 4-year electricity tariff adjustment plan. 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 next step is to align the power utilities' investment planning frameworks with internal financing and debt carrying capacity.
- **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. We aim to secure financial sustainability through developing revenue streams or cost savings using existing assets, such as land and engineering facilities, long-term commitments from the government, and sustainable cost recovery strategies. 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:** Our recent efforts have focused on financial restructuring and operational rehabilitation of individual sugar estates, resulting in positive EBITDA of the Ethiopian Sugar Group. Once this process is advanced, we will undertake new valuations of the assets, as required by law, and restart the privatization process.

H. Financial Sector Policy

46. As our financial sector develops, we continue to align regulatory and supervisory standards with international practices. With IMF TA, we have completed a Quantitative Impact Study for selected banks, in a representative manner and the Basel II risk-based capital framework will be implemented by all banks, focusing on Pillar 1 requirements. In parallel, with World Bank support, we have developed a risk-based supervisory framework to strengthen oversight and align practices with Basel principles on governance, risk management, and climate-related financial disclosures by end-2026. Building on the Banking Business Proclamation approved in early 2025 we are strengthening the assessment of FX exposures, interest rate, and funding risks, advancing stress testing capabilities and updating the related regulatory framework for mobile money institutions. We have also created a Financial Stability Committee and department at NBE focused on systemic risk analysis, macro-prudential tools such as stress testing, and early warning systems. We continue to publish a regular financial stability report.

47. The NBE is strengthening systems to ensure prompt identification and provisioning of non-performing loans (NPLs) in accordance with international practices. In April 2025, we conducted a compliance assessment of the June 2024 asset classification directive's implementation and its effect on NPLs in the five largest private banks which confirmed broad compliance and a positive impact on asset quality. We have issued a recovery plan directive and will establish a Prompt Corrective Action Framework to strengthen early supervisory intervention by end-March 2026. Building on this, we are operationalizing our internal resolution framework and will establish a dedicated resolution unit under the new financial stability structure. A merger and acquisition directive is being finalized.

48. In December 2025 NBE completed a thematic review of banks' lending policies and practices, assessing credit approval processes, borrower due diligence, collateral use, and internal governance. NBE has issued new Credit Risk Management and Internal Control Directive to strengthen banks' credit governance and ensure consistent application of prudential standards. Building on the review's findings, NBE will prepare an action plan to address gaps and strengthen supervisory follow-up. The update of Directive NBE/INT/12/2017, focusing on loan pricing and interest rate policies, will be completed by end-June 2026.

49. Building on the restructuring and recapitalization of CBE in July 2024, reforms focus on strengthening the bank's commercial orientation, with clearly specified public obligations. With support from the World Bank's Financial Sector Strengthening Project (FSSP), we have established a commercial mandate for CBE, updated its strategic plan, strengthened governance to ensure independence and robust risk management, and defined its public service obligations (PSOs) with clear procedures for approval, financing, and disclosure. In addition, NBE and CBE have agreed a plan to ensure CBE's full compliance with the new NOP Directive by March 2026 and plan to conduct an Asset Quality Review of CBE's lending portfolio by end-June 2026.

50. We will implement a strategic plan to maximize DBE's development impact, with support from the FSSP, by the end of June 2026. The bank will adopt a modernized risk management and governance framework by end-March 2026, aligned with global best practices for development finance institutions. An AQR has been completed and approved by DBE's board and a recapitalization proposal will be finalized by June 2026. Building on these reforms, DBE will operationalize a new business model focused on wholesale financing, risk-sharing instruments, and greater mobilization of resources from development partners.

51. We are developing capital markets. Capital market development will facilitate, and in turn be supported by, the development of our pension and insurance industries.

- The Ethiopian Securities Exchange (ESX), regulated by the Ethiopian Capital Market Authority (ECMA) in accordance with the 2021 Capital Market Proclamation (No 1248/2021) began operations in 2024. ESX has supported the interbank money market since October 2024, and securities trading commenced in July 2025 with listing of government T-bills. Three companies (Ethio-Telecom and two private banks) have so far made share offerings, with further private company and bank initial public offerings of shares planned in the coming months.

- We are committed to developing the asset management industry, including through an industry directive in preparation supported by the Capital Market Proclamation. We are establishing a framework for the development of Collective Investment Schemes (CIS). It is expected that the launch of CIS products will further expand financial inclusion and resource mobilization, with funds invested in government debt and corporate debt and equity 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

52. To support the business environment, the Government of Ethiopia continues to advance Public-Private Dialogue (PPD) to address challenges faced by the private sector. The focus so far has been on taxation and customs and on investment protection and predictability. The tax and customs discussions have involved the MoF, the Ministry of Revenue, and the Ethiopian Customs Commission, while the investment protection and predictability discussions have included the Ministry of Justice and regional governments. The PPD has identified a series of specific private sector concerns that the relevant authorities are working to resolve.

53. 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. Accession to global and regional trade agreements—including the World Trade Organization—is being advanced to improve access to markets and support exports. Efforts are being stepped up to simplify and fully digitalize trade registration, licensing, certification, and customs polices. Rural land administration and use rights are being reformed to unlock economic value through investment. Financing strategies for agriculture are being implemented to allow for lease financing, movable collateral, and contract farming. 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.

54. 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. Our policy agenda, including for potential borrowing operations with international financial institutions, is informed by the Climate Public Investment Management Assessment (C-PIMA) conducted by the IMF in March 2024, and the World Bank's Country Climate and Development Report from February 2024.

55. We are preparing for the upcoming Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) mutual evaluation. The National AML Committee have adopted an action plan that considers the major risks identified in the updated National Risk Assessment and maps out a priority action plan on how each objective will be met. The National AML Committee has developed and adopted a roadmap for the acceleration of the establishment of a beneficial ownership registry, which was issued in September 2025 (Structural Benchmark, September 2025), and regulation guiding the establishment of the registry will be adopted by the Council of Ministers by end-January 2026. The recently adopted Asset Recovery Proclamation is an important element of our anti-corruption strategy, targeting recovery of illicitly acquired assets and corruption prevention.

J. Economic Statistics

56. 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 strengthen capacity to collect and process data and improve the economic data available to the public. Fieldwork for a new agricultural census and a new household expenditure survey were completed in August 2025. We plan to finalize and publish the new census and household survey by March 2026 and June 2026, respectively, which will serve as key inputs for updating our National Accounts and Consumer Price Index statistics, including expanding information from rural areas. We are revising the legal framework for statistics with a view to submitting it to the Council of Ministers by June-2026. With the support of IMF technical assistance, we are preparing a rebasing of the national accounts to base year 2025/26 by December 2026. Shortly after this rebasing, we will conduct a diagnostic assessment of national account statistics using the IMF Data Quality Assessment Framework, again with Fund technical support. 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 June 2026. Other priority areas include aligning data presentation with BPM6 for external sector statistics and government finance statistics.

K. Risks and Contingencies

57. We stand ready to adjust policies if risks materialize. Downside risks to the program in the near-term include disruption from potential intensification of domestic or regional conflict; an abrupt slowdown of global growth through adverse effects on exports and potentially remittances; or rising import costs. 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

58. 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.

59. The program will be monitored by the IMF's Executive Board. Progress in implementation of the policies under this program will occur through semi-annual reviews of the quantitative performance criteria (end-June and end-December), 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 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, 2026. 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.

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

61. The total exceptional financing over the 2024/25–2027/28 program period is estimated at US$10.6 billion. In addition to US$3.4 billion from the IMF, we expect a total of US$3.75 billion in budget support from the World Bank. The remaining US$3.4 billion is expected to be provided by financing associated with debt treatment under the Common Framework.

62. 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.

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

Table 1a. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2025–December 2025

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Mar 2025 Indicative Target			end-Jun 2025 Performance Criteria			end-Sep 2025 Indicative Target			end-Dec 2025 Performance Criteria
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.
Quantitative performance criteria										
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [1/, 2/]	95,000	-85,203	Met	106,000	105,160	Met	76,000	-12,267	Met	105,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,408	Met	400	1,911	Met	200	746	Met	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	347,000	509,297	Met	578,000	701,753	Met	120,000	223,862	Met	276,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-32,399	Met	0	-1,830	Met	0	-42,216	Met	0
Continuous performance criteria										
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [3/]	0	0	Met	0	0	Met	0	0	Met	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	Met	0	0	Met	0	0	Met	0
Indicative targets										
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/, 4/]	110,000	93,110	Met	147,000	91,971	Met	50,000	8,846	Met	95,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [5/]	33,200	35,722	Met	51,400	58,232	Met	8,500	4,000	Not Met	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)	2,750	629	Met	3,000	629	Met	2,000	0	Met	2,500
Memorandum items:										
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	2,333			2,407	2,778		696			1,042
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,515			1,645			379			1,109
Gross privatization proceeds (US$ millions, cumulative since previous June)	0			0	0		0	0		0

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

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

3/ 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.

4/ For the IT on gross claims on public enterprises by commercial banks, March-June 2025 test date excludes changes in claims related to CBE recapitalization.

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).

Table 1b. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2026–December 2026

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Mar 2026 Indicative Target	end-Jun 2026 Performance Criteria	end-Sep 2026 Indicative Target	end-Dec 2026 Performance Criteria
	Prog.	Prog.	Proposed	Proposed
Quantitative performance criteria				
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [1/, 2/]	116,000	128,000	58,000	93,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	400	300	500
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	525,000	850,000	201,000	448,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	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) [3/]	0	0	0	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	0	0
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]	0	0	0	0
Indicative targets				
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/]	139,000	185,000	254,000	307,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [5/]	33,500	57,400	7,600	21,600
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)	2,750	3,000	1,050	1,550
Memorandum items:				
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	1,238	1,434	250	500
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,488	1,867	672	1,344
Gross privatization proceeds (US$ millions, cumulative since previous June)	0	0	0	0

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

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

3/ 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.

4/ Transactions with general government entities holding accounts at the NBE are exempted, as are sales of foreign exchange for the settlement (at current market exchange rates) of the last remaining deferred LC payments contracted before July 2024 and maturing in FY2025/26, are excepted from the auction requirement.

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).

Table 2. Ethiopia: Structural Benchmarks

Measure	Rationale	Board Approved Target Date	Status
Prior Action			
NBE to publish FX auction guidelines specifying that auctions will be open to all banks and that FX will be allocated based exclusively on highest bid prices, with no restrictions on bid prices or amounts.	Support FX market development		New
Structural Benchmark			
1. 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	Met
2. 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	Met
3. Council of Ministers to submit to Parliament 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	Not Met
4. 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	Met
5. Council of Ministers to submit to Parliament amendments to the Income Tax Proclamation to: (i) introduce a minimum alternative tax (MAT), (ii) increase withholding tax rates, (iii) simplify the presumptive tax regime, and (iv) adjust the personal income tax schedule.	Support revenue mobilization	End-September 2025	Met
6 National Bank of Ethiopia to revise the methodology to calculate the NBE indicative rate to include all interbank FX transactions and the NBE's sales and purchase of FX with banks.	Support FX market development	End-September 2025	Met
7. The National AML Committee will develop and adopt a roadmap for the acceleration of the establishment of a beneficial ownership registry.	Strengthen AML/CFT regime	End-September 2025	Met
8. The NBE to update the NOP directive, including in relation to the treatment of FX-linked assets with clear definitions of FX risk exposures, and appropriate treatment and alignment with risk-based supervision.	Support FX market development, modernize financial oversight	End-October 2025	Met

Table 2. Ethiopia: Structural Benchmarks (concluded)

9. Ethiopia Investment Holdings (EIH) to publish consolidated financial statements for FY2022/23 for the EIH SOE portfolio on the EIH website.	Strengthen SOE transparency	End-December 2025	Not met
10. Ministry of Finance to issue a letter to CBE specifying (1) that from the start of FY2026/27 maturing low-interest-rate T-bills will be rolled over into T-bills paying market-determined interest rates (matching rates determined for similar maturities at the latest T-bill primary auction); and (2) completely ending mandatory rollover by end-FY2026/27.	Reduce financial repression	July 7, 2026	New
11. Ministry of Finance to adopt a methodology and establish binding institutional protocols for data processing, estimating, consolidating, reporting and monitoring tax expenditures across VAT, CIT, PIT and excises.	Strengthen compliance, reporting, and administration of tax incentives	End-June 2026	New
12. NBE to develop a roadmap to deepen the interbank FX market, including to establish an interdealer trading platform.	Support FX market development	End-September 2026	New
13. Ministry of Revenue to issue directives and operational instructions to ensure full implementation of a comprehensive compliance improvement plan.	Improve tax compliance	End-December 2026	New

Attachment II. Technical Memorandum of Understanding

Addis Ababa, December 22, 2025

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:

- 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)*.

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

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

6. Test Dates for evaluating performance against performance criteria (PC) for the fifth and sixth reviews under the arrangements are December 31, 2025 and June 30, 2026, 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 8–11.

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 September 30, 2025.

9. Continuous PCs that are evaluated on a continuous basis:

- 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).
- Foreign exchange intervention by the NBE except through auctions (zero ceiling), (Section J).

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 December 31, 2025, March 31, 2026, June 30, 2026, September 30, 2026, and December 31, 2026 (with certain exceptions described below) are:

- Claims on public enterprises by commercial banks (ceiling, cumulative change), (Section K).
- 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 L).
- 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 M).

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

Definitions

12. 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.

13. 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).

14. 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

15. 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

16. 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

17. The floor on cumulative change in NIR will be adjusted:

i. 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.
ii. Upward or downward for any deviation in the programmed inflows from privatization to non-resident investors (see definition in Section N).

18. The total downward adjustment to the floor on cumulative change in NIR target for FY2025/26 is capped at US$300 million. The total upward adjustment to the floor on cumulative change in NIR target for FY2025/26 is capped at US$150 million.

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

19. 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

20. 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.

21. 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

22. 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.

23. 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 guarantee. Guaranteed debt refers to any explicit legal obligation for the government to repay 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.

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.

24. 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.

25. 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). Concessionally, it 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.

26. 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.

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[2] http://www.imf.org/external/np/spr/2015/conc/index.htm.

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

27. 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.

28. 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

29. 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. Continuous PC on Foreign Exchange Intervention by the NBE except through Auctions

30. Foreign exchange intervention is defined as the sale or purchase of foreign exchange by the NBE with commercial banks, state-owned enterprises, private enterprises, individuals, or any other entity acting in the foreign exchange market.

31. The NBE's foreign exchange intervention is subject to a zero limit except through auctions conducted with authorized dealers. Transactions with general government entities holding accounts at the NBE are exempted, as are sales of foreign exchange for the settlement (at current market exchange rates) of the last remaining deferred LC payments contracted before July 2024 and maturing in FY2025/26, are excepted from the auction requirement. This continuous PC will take effect upon approval of the fourth review under the ECF by the IMF Board.

32. Foreign exchange intervention will be conducted in accordance with the published auction guidelines satisfying 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. Foreign exchange intervention is at the sole discretion of the NBE, which is permitted but not obliged to intervene as needed.

K. IT on Claims on Public Enterprises by Commercial Banks

33. 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.

L. IT on Government Contributions to Productive Safety Net Programs

34. 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.

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

35. 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.

Ethiopia: External Borrowing Plan for 2025/26

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2025/26		PV of new debt in 2025/26 (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.

N. Other Definitions

36. 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.

37. 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

38. 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.

39. 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. 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 5 business days of end of each week
Net domestic assets of the NBE	NBE	Monthly within 6 weeks of the end of each month
Reserve Money	NBE	Monthly within 6 weeks of the end of each month
Net claims on the general government	MOF/NBE	Monthly within 6 weeks of the end of each month
Regional government's fiscal data	MOF	Quarterly within 12 weeks of the end of each month
Domestic Arrears incurred by the government	MOF	Monthly within 6 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 6 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 6 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 6 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 6 weeks of the end of each month
Consumer Price Index	NBE	Monthly within 6 weeks of end of each month
National Accounts, annual	NDPC	Within 3 weeks of any revision or data release
Composite Indicator of Economic Activity (quarterly) and underlying indicators	NBE	Within 6 weeks of the end of each quarter
Consolidated Budget Report of Federal and Regional Government	MOF	Quarterly within 12 weeks of end of each quarter
Monetary Survey	NBE	Monthly within 6 weeks of end of each month

Table 1. 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 2 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 8 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 8 weeks of the end of each quarter.
T-Bill and T-bond auction details	NBE	Bi-weekly, within 5 business days of each auction / placement
Interbank money market transaction volume and interest rate by tenure	NBE	Bi-weekly, within 5 business days of the end of each week
T-bill and T-bond purchases and outstanding stocks by institution.	NBE	Quarterly, within 8 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 5 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 5 business days of end of each week

Table 1. 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 5 business days of end of each week
Daily data underlying the FX benchmark calculation	NBE	Weekly, within 5 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 5 business days of end of each week
Gross international reserves	NBE	Weekly, within 5 business days of end of each week
Foreign exchange cash flows	NBE	Monthly, within 10 business days of end of each month
BoP data: exports, imports, services, transfers, and capital and financial account transactions	NBE	Monthly, within 6 weeks of end of each month
Detailed international trade data on goods exports and imports by commodities	NBE	Monthly, within 4 weeks of end of each month
Imports by type of institutions (e.g., state-owned enterprises or government, and private sector)	NBE	Monthly, within 4 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 4 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 6 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 6 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 6 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.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

December 22, 2025

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
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The Debt Sustainability Analysis (DSA) was prepared by 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	*In debt distress*
Risk of overall debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgement	*No*

Ethiopia faces political, economic, and humanitarian challenges. Support from the international community weakened notably during the two-year conflict in Tigray. 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 based on the pre-restructuring debt service schedule, 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 composite indicator based on the October 2025 World Economic Outlook (WEO) and 2024 WB Country Policy and Institutional Assessment (CPIA) data that was published in July 2025, is currently estimated at 2.53.

A Memorandum of Understanding (MOU) on key terms for debt treatment between the OCC and Ethiopian authorities was agreed in July 2025. All members of the OCC have signed the MOU. The next step is to reach bilateral agreements, aiming to finalize some agreements by end 2025. The authorities are making good faith efforts to reach an agreement with their external commercial creditors on terms comparable to the OCC MOU and consistent with program parameters. An agreement in principle has been reached with one large commercial creditor on terms that are comparable to the OCC MOU and aligned with program parameters. Contact has been initiated with all other private creditors. The illustrative debt treatment reflecting the MOU between the authorities and the OCC for bilateral claims and the agreement in principle (AIP) with the large commercial creditor and the authorities' latest debt treatment scenario for other commercial creditors, would close the program's external financing gap and restore a moderate risk of external debt distress by bringing all debt indicators below their respective Debt Sustainability Analysis (DSA) thresholds in 2027/28, when the IMF program ends.

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). The financial market shock is assumed at 5 percent of GDP, the default level.

Text Table 1. 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	SoE's 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 Koysha 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 SoE's 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 (as it borrows externally without a public guarantee, its operations pose limited fiscal risk, and has demonstrated managerial independence) 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.

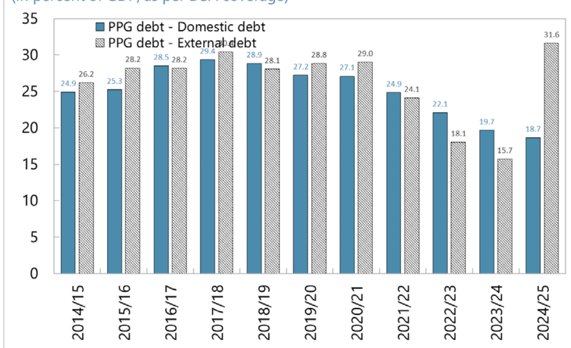
[5] Debt bulletins are available on the Ministry of Finance website (https://www.mofed.gov.et/resources/bulletin/).

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 increased by 16 percentage points between 2023/24 and 2024/25. Total public and publicly guaranteed (PPG) debt stood at 50.3 percent of GDP at end-June 2024, up from 35.4 percent of GDP a year before This increase mainly reflected high external disbursements from international institutions (IFIs) combined with currency depreciation, with the external debt-to-GDP ratio rising by about 15.9 percentage points. The domestic debt-to-GDP ratio slightly declined. 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).

Ethiopia: Public and Publicly Guaranteed Debt
(In percent of GDP; as per DSA coverage)

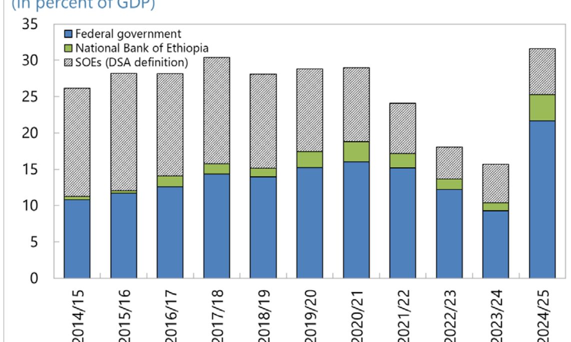


Sources: Ethiopian authorities; and IMF staff calculations.

External Debt

4. External debt accounted for 62.9 percent of total PPG debt as of end-June 2025. In 2024/25, PPG external debt amounted to 31.7 percent of GDP, up from 15.7 percent of GDP a year before. The increase was primarily driven by disbursements from IFIs and significant currency depreciation following reform of the foreign exchange (FX) regime in July 2024. Total disbursements from IFIs amounted to US$3.25 billion, comprising: IMF US$1.6 billion; International Development Association (IDA) US$1.6 billion; African Development Bank US$35 million; other IFIs US$12 million. Official bilateral creditors disbursed US$86 million, of which Paris Club members accounted for US$70 million. Meanwhile, most contractual debt service falling due in 2024/25 to official bilateral and commercial creditors—including Eurobond holders—was not made, as restructuring discussions are ongoing. The official exchange rate depreciated from 57 Birr per US dollar at end-June 2024 to 136 at end-June 2025. The Federal government accounts for about 68 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 continued to fall. This decline is due largely to active measures taken by the authorities to contain SOEs' external borrowing, including no new contracting of non-concessional

Ethiopia: Public and Publicly Guaranteed External Debt
(In percent of GDP)



Sources: Ethiopian authorities; and IMF staff calculations.

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[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).

external debt, consistent both with the IDA Sustainable Development Financing Policy and a continuous performance criterion under the 2019 ECF-EFF program.

Text Table 2. Ethiopia: Public and Publicly Guaranteed Debt Profile

	Debt stock 1/ (as of end-June 2025)			Debt Service 2/					
				2025/26	2026/27	2027/28	2025/26	2026/27	2027/28
	In US$ million	In percent of total	In percent of GDP	In US$ million			In percent of GDP		
Total	**56,130**	**100.0**	**50.4**	**9,009**	**5,518**	**7,315**	**7.1**	**3.9**	**4.5**
o/w Federal government	42,561	75.8	38.2	5,546	5,431	8,320	4.3	3.8	5.1
External	**35,333**	**62.9**	**31.7**	**5,605**	**2,366**	**2,756**	**4.4**	**1.7**	**1.7**
International financial institutions	19,176	34.2	17.2	602	642	693	0.5	0.5	0.4
IMF	2,103	3.7	1.9	59	58	75	0.0	0.0	0.0
World Bank	14,042	25.0	12.6	432	466	498	0.3	0.3	0.3
AfDB/AfDF	2,242	4.0	2.0	61	65	70	0.0	0.0	0.0
Others	789	1.4	0.7	50	52	51	0.0	0.0	0.0
o/w IFAD	453	0.8	0.4	18	20	19	0.0	0.0	0.0
Bilateral official creditors 3/ 4/	12,606	22.5	11.3	2,517	1,246	1,611	2.0	0.9	1.0
Paris Club	1,984	3.5	1.8	314	183	217	0.2	0.1	0.1
o/w Italy	618	1.1	0.6	126	68	71	0.1	0.0	0.0
o/w Korea	366	0.7	0.3	0	1	2	0.0	0.0	0.0
Non-Paris Club	10,622	18.9	9.5	2,204	1,062	1,395	1.7	0.7	0.9
o/w China	5,378	9.6	4.8	1,246	565	793	1.0	0.4	0.5
o/w UAE	3,003	5.3	2.7	215	91	205	0.2	0.1	0.1
Bonds	1,099	2.0	1.0	1,099	0	0	0.9	0.0	0.0
Commercial creditors 4/ 5/	2,451	4.4	2.2	1,386	479	451	1.1	0.3	0.3
Domestic	**20,797**	**37.1**	**18.7**	**3,404**	**3,152**	**4,560**	**2.7**	**2.2**	**2.8**
Held by residents, total	20,797	37.1	18.7	3,404	3,152	4,560	2.7	2.2	2.8
T-bills 6/	2,009	3.6	1.8	…			…	…	
Commercial banks	1,178	2.1	1.1	…			…	…	
Non-bank financial institutions	831	1.5	0.7	…			…	…	
Bonds 7/	16,721	29.8	15.0	…			…	…	
Central bank	4,983	8.9	4.5	…			…	…	
CBE recap bond	6,780	12.1	6.1	…			…	…	
Treasury bonds	1,406	2.5	1.3	…			…	…	
Pension fund	2,820	5.0	2.5	…			…	…	
Others	731	1.3	0.7						
Short-term guarantee to CBE	2,067	3.7	1.9						
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)	111,415	…	…	…			…	…	

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 31 percent of PPG external debt, respectively. Non-official creditors accounted for 10 percent of PPG external debt, including a US$1 billion Eurobond that matured in December 2024 (and is now in default) and SOE debt backed by China's export credit agency.

[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.

- IDA provided positive net disbursements of US$3.0 billion in 2024/25, from US$2.2 billion and US$2.1 billion in 2023/24 and 2022/23, respectively (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.
- The authorities have confirmed that there is no collateralized debt outstanding.

5. The authorities requested debt treatment under the Common Framework 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. Thirteen OCC meetings have already taken place, with the last one held in August 2025. Financing assurances from the OCC, necessary for the approval of the current ECF program in July 2024 and for the subsequent reviews in September 2024, January 2025 and July 2025, were based on the judgement that key milestones in the Credible Official Creditor Process under the Common Framework had been achieved.

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 three coupon payments and the principal that came due on December 11, 2024, totaling US$1,099 million. The authorities have continued restructuring negotiations with bondholders.

Domestic Debt

7. The domestic debt-to-GDP ratio declined slightly to 18.7 percent at end-June 2025. The Federal government accounted for most of total domestic debt. In July 2024, the authorities issued 899 billion Birr of 13-year government securities to write off Commercial Bank of Ethiopia's (CBE) claims on the state-owned Liability Asset Management Corporation (LAMC, 580 billion Birr), fully provision nonperforming SOE exposures (263 billion Birr) and bring CBE's capital adequacy ratio to the regulatory minimum. No new long-term domestic loan disbursements were made to major SOEs. Monetary financing of fiscal deficits has been eliminated.

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[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.

- ***Average maturity lengthened from 11 years to 13 years in 2024/25.*** Key developments include: A sharp decline in outstanding Treasury bills (T-bills) from 447.8 billion Birr to 272.2 billion Birr, largely due to the conversion of approximately two-thirds of pension fund holdings into long-term bonds; conversion of NBE direct advances into long-term bonds; an increase in the stock of 5-year Treasury bonds—from 115.1 billion Birr to 190.5 billion Birr—driven by mandatory bank purchases (mandatory purchases were ended at end-June 2025).
- ***Treasury bill auctions began in December 2019 at the time of the approval of the ECF-EFF arrangements and participation in the T-bill market is increasing.*** The average bid-cover ratio has exceeded 80 percent since April 2025, and volumes rose to 89 billion Birr in October 2025. While issuance remains weighted towards shorter dated T-bills, new market participants like Ethiopian Investment Holdings (EIH), as well as the regular publication of an issuance calendar have supported more stable auction demand. As of end-June 2025, the stock of T-bills stood at 1.9 percent of GDP down from 3.8 percent of GDP at end-June 2024. The weighted average yield has gone up to around 18 percent in June 2025 and remained above inflation and the policy rate at 16 percent since then, from 9–11 percent in 2023/24 and 1–2 percent offered on non-market instruments in the past. The authorities reintroduced some financial repression measures, including mandatory commercial bank purchases of bonds issued by the Development Bank of Ethiopia (August 2021, to be phased out during the Fund-supported program) and of non-marketable 5-year government bonds (November 2022, now phased out).
- ***Domestic debt is highly concentrated.*** At end-June 2025, CBE, a large public sector bank, held around 45 percent of total domestic debt. CBE's share of T-bill outstanding amounted to 44 percent.

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 transition to a market-determined exchange rate with positive effects on the current account and Foreign Direct Investment (FDI), adoption of an interest rate based monetary policy framework, as well as a revenue-driven fiscal consolidation with safeguards on pro-poor spending.

8. The baseline outlook is predicated on successful program execution and progress in implementing the external debt treatment (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 in 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 was strong in 2024/25. Real GDP grew by 9.2 percent, supported by mining, construction, and manufacturing as well as favorable agricultural production. The forecast for 2025/26 has been revised up to 9.3 percent as higher public spending and private investment, bolstered by the benefits of reforms, are expected to continue to support economic activity. Growth is expected to settle around 8–8.5 percent over the medium term.

- Between 2025/26–2033/34, average real GDP growth is projected at around 8 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 due to reforms and economic transformation.
- The national accounts statistics are being improved. Deficiencies in the source data and compilation practices impact the accuracy and reliability of GDP statistics. Limitations are particularly noticeable in the estimation of expenditure components, including private consumption, savings, investment, and fixed capital formation, as well as in agricultural output. With the support of technical assistance, the authorities are preparing to rebase the national accounts to the base year 2025/26 by December 2026. Additionally, a diagnostic assessment of national account statistics using the IMF Data Quality Assessment Framework is planned shortly after the rebasing, also with technical assistance.

Text Table 3. Ethiopia: Key Macroeconomic Assumptions

Fiscal year ending June	2025/26	2026/27	2027/28	2028/29	2029/30	Average (2030/31-2044/45)*
Real GDP Growth (annual percent change)						
Current DSA	9.3	8.6	8.6	8.5	8.0	6.1
2025 July ECF 3rd review DSA	7.1	7.7	8.0	7.8	7.5	6.1
Current Account Balance (percent of GDP)						
Current DSA	-2.3	-2.3	-2.0	-1.8	-2.0	-2.2
2025 July ECF 3rd review DSA	-3.1	-2.7	-2.1	-2.2	-2.3	-2.3
Exports of goods and services (percent of GDP)						
Current DSA	13.7	13.7	13.3	12.8	12.7	11.6
2025 July ECF 3rd review DSA	11.0	10.7	11.0	11.0	11.1	10.8
Exports of goods and services (annual percent change)						
Current DSA	5.7	11.2	11.4	11.1	13.2	11.8
2025 July ECF 3rd review DSA	2.3	10.3	17.2	13.9	13.5	11.0
Fiscal balance, including grants (percent of GDP)						
Current DSA	-1.8	-1.1	-1.7	-1.6	-1.6	-1.6
2025 July ECF 3rd review DSA	-1.7	-1.8	-1.8	-1.6	-1.6	-1.6
International reserves (billions of U.S. dollars)						
Current DSA	5.6	7.5	10.5	12.6	15.0	33.4
2025 July ECF 3rd review DSA	5.0	7.1	10.2	11.2	12.6	27.1
General government revenue (percent of GDP)						
Current DSA	10.5	11.2	11.7	12.1	12.3	13.1
2025 July ECF 3rd review DSA	10.2	10.7	11.1	11.4	11.5	12.1
Grant element of new external borrowing						
Current DSA	19.5	44.0	35.7	46.5	47.3	47.4
2025 July ECF 3rd review DSA	22.6	47.9	36.0	49.2	49.2	51.6
Nonconcessional debt disbursements (billions of U.S. dollars)						
Current DSA	0.53	0.09	0.07	0.06	0.00	0.00
2025 July ECF 3rd review DSA	0.27	0.27	0.28	0.05	0.04	0.00

Source: IMF staff projections.
* The average used in the July 2025 ECF Third Review DSA covers the period from FY2030/31 to FY2043/44.

- ***Inflation continues to decline, albeit downward momentum is slowing.*** 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. Headline inflation in 2024/25 was lower than anticipated at 13.9 percent y/y (compared with 16 percent projected at the third review) and declined further to 11.7 percent y/y in October2025 driven by continuing declines in staple food items (breads and cereals, vegetables). Nevertheless, there are signs of slowing downward momentum in non-food prices and staple foods, and some food prices have experienced increases, slowing the pace of disinflation. Seasonal food price pressures and anticipated increases in administered prices (electricity, fuel) are expected to further slow disinflation in the months ahead, with the end 2025/26 projection moderately higher at 12.0 percent y/y, compared with 10.2 percent at the Third Review. Overall, the impact of the exchange rate reform on inflation has been contained and supply side conditions (favorable agricultural output) have helped ease price pressures. Prudent monetary and fiscal policies (including avoiding direct advances) will continue to support a steady decline in inflation in the medium term.

- ***FX market deepening continues.*** FX availability has improved, with fewer complaints about access and shorter wait times. The real effective exchange rate (REER) has remained stable after the sharp post-reform correction. Strong net FX inflows—driven mainly by the improved trade balance in 2024/25—together with NBE FX auctions, have strengthened banks' FX liquidity. Private banks have also begun opening letters of credit (LCs) for fuel imports. Recent steps to improve FX market functioning include incorporating interbank FX transactions and NBE's FX sales and purchases with banks in the daily indicative rate, introducing a survey of unmet FX demand, and adopting a revised NOP directive in October 2025. The revised directive is aligned with international best practices and introduces a clear penalty regime for non-compliance, with implementation scheduled to begin on January 1, 2026. However, the move toward full market determination of the exchange rate remains incomplete. Off-market sales of a large volume of FX to CBE by NBE did not allow for market price discovery or fully reflect underlying demand conditions. *De facto* caps on the maximum allocation each bank can receive NBE FX auctions has further constrained price-discovery. CBE has a short FX position reflecting the bank's role in financing fuel and fertilizer imports (given still limited private bank interest). Interbank FX trading continues to be limited and ad hoc, insufficient to allow for efficient clearing of excess positions among banks. The parallel market premium has recently increased to around 13 percent, compared with levels below 10 percent observed from September through mid-October. The NBE is implementing further measures to strengthen FX market functioning:
    - In December 2025 (prior action), the NBE published guidelines specifying that FX auctions are open to all banks, with allocations determined exclusively by the highest bid prices, without restrictions on bid amounts or prices. In November 2025, the NBE also began publishing a quarterly FX auction calendar, and more detailed auction results disclosing the range of submitted bids, weighted average cutoff rates of accepted bids, total amounts offered and allocated, and the number of participating banks.
    - Interventions will be conducted exclusively with authorized dealers (banks) through FX auctions, consistent with the new continuous performance criterion that sets a zero limit on FX intervention except through auctions. Transactions with the general government and the settlement (at current market exchange rates) of the last remaining deferred LC payments contracted before July 2024 and maturing in FY2025/26, are excepted from the auction requirement.

  - The NBE and CBE have agreed on a revised plan to reduce CBE's on-balance sheet NOP by at least half of the excess recorded at end-September 2025 by end-December 2025, with full compliance by end-March 2026. Weekly consultations between NBE and CBE have been established to monitor progress against the revised plan, which includes a contingency buffer.
  - The NBE will develop a roadmap to deepen the interbank FX market, including establishing an interdealer trading platform by end-September 2026.
  - By end-March 2026, the NBE will develop indicators and benchmarks to assess FX market development, guiding the timing of reductions and eventual removal of surrender requirements.
  - To enhance transparency and competition, all banks began publishing daily FX transaction rates on their websites in November 2025, showing the weighted average buying and selling rates from the previous day's actual trades. In December 2025, the NBE began undertaking quarterly assessments of unmet FX demand for the nine largest banks.

- ***The current account deficit narrowed further in 2024/25, supported by strong export performance.*** Coffee and gold exports benefited from record-high international prices, alongside exceptional increases in volumes. Coffee exports rose to 470 metric tons in 2024/25, compared to 299 metric tons in 2023/24. Gold exports recorded an even sharper increase, from just over 4 metric tons in 2023/24 to nearly 39 metric tons in 2024/25. Imports of goods were largely flat over the previous year, increasing by US$352 million, contributing to the strengthening of the trade balance by US$4.2 billion. Services imports and exports increased with the balance declining slightly over the year (the balance nonetheless rose by 0.4 in percent of GDP, reflecting the impact of the depreciation on dollar GDP). Other areas of the balance of payments (BOP), however, were weaker than expected: foreign direct investment (FDI), official development assistance (ODA), and privatization proceeds were significantly lower than forecast. Private transfers remained in line with forecasts. As a result, the current account deficit narrowed to 0.8 percent of GDP in 2024/25, compared to 2.9 percent of GDP in 2023/24. Gross international reserves increased by US$3 billion to US$4.4 billion, reflecting also a large swing in errors and omissions to a significant outflow.

- ***Exports are projected to support stronger than anticipated BOP outcomes.*** Although gold export volumes are expected to decline to around 30 metric tons in 2025/26 (from 39 metric tons in 2024/25, reflecting the depletion of inventories accumulated during the Tigray conflict), the total value of gold exports is projected to exceed last year's outturn. This reflects higher international gold prices in the latest WEO commodity forecasts, which are expected to remain elevated over the medium term. Coffee exports are likewise expected to strengthen, with both volumes and values rising in 2025/26. The sector is expected to continue benefiting from high international prices and reliance on forest based, natural shading production reduces vulnerability to compliance costs from the new EU Deforestation Regulation (which is expected to be fully rolled out by June 2026). Total coffee exports earnings are now expected to exceed US$3 billion for the first time. While service imports forecasts are broadly unchanged, imports of goods are expected to increase by nearly US$2 billion. FX reserves are projected to reach US$10.5 billion by the end of the program, covering 3.5 months of following year's imports.

- ***FDI has weakened relative to expectations at the time of ECF approval.*** Over the medium-term, cumulative FDI has been revised down by nearly US$2 billion. The current projections continue to assume no proceeds from privatization, in contrast to the projected US$650 million in 2025/26 in the early stages of the program, given the lack of credible investor interest so far. Private FDI has also been subdued. This reflects investor concerns about the business climate and security (and the changing landscape for telecoms for privatization). The authorities retain privatization as a strategic option for commercially oriented SOEs, to foster private sector-led growth, and to mobilize resources. Over the medium term, FDI is expected to settle at around 3.0 percent of GDP, consistent with pre-COVID trends, assuming a stable or improving investment climate.
- ***ODA projections have been revised downward compared to the second review.*** Reflecting cuts in ODA, earlier forecasts of rising assistance have been more than reversed. Private transfers to non-governmental organizations (the main channel through which ODA is provided) are projected to fall to about US$1 billion from 2025/26, around US$1 billion lower annually than previously forecast, and eliminating the increase anticipated at the Second Review (US$0.6 billion in 2024/25 rising to US$2 billion from 2025/26 onward).
- ***Revenue mobilization will anchor debt sustainability while safeguarding humanitarian and pro-poor spending.*** General government revenues grew from 7.3 percent of GDP in 2023/24 to 9.2 percent of GDP in 2024/25, the first tax-to-GDP ratio increase in over a decade, supported by a jump in tax revenues from imports by 145 percent (reflecting the exchange rate change and policy reform). Federal government spending picked up at the end of the fiscal year, including higher capital expenditure that exceeded the budget by 0.2 percent of GDP. The general government primary deficit declined from 1.4 percent of GDP in 2023/24 to 0.5 percent of GDP in 2024/25. The 2025/26 general government fiscal stance is moderately expansionary. The primary deficit is projected to weaken slightly from 2024/25, with fiscal impact close to the supportive fiscal stance of 2024/25. Spending increases in the 2025/26 Budget reflect above all the pressure to correct public sector real wage erosion. The general government primary deficit is expected to remain at about 0.5 percent of GDP in 2027/28, cementing the decline from the peak of 3.5 in 2021/22. Consolidation is driven by tax revenue measures, while pro-poor spending will increase, and capital expenditure will partially recover.
- ***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 monetary policy rate becoming positive in real terms in 2024/25 and the authorities' effort to rely on market-based financing (primarily short-term instruments at first) that sharply increase annual rollover. While interest rates on new debt issuance are now positive in real terms, legacy debts at sub-market terms (including debts held by pension funds rolled into longer-term instruments in 2024) result in negative effective real rates in the near-term. 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. 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 and 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, with follow up IMF and World Bank joint TA underway. The money market and primary market are the focus of the initial reform agenda. Concrete steps, accompanied by a move towards market determined interest rates, include developing capacity at the MoF, more systematic market outreach, improving the issuance planning process and establishing the medium-term debt strategy.

9. The main risks to the outlook stem from domestic policy slippages, potential social discontent, security challenges, and reductions in ODA. Key risks are:

- 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. Sustained effort will be needed to ensure a full transition to a market-determined exchange rate. In other reform areas progress has been relatively strong—for example, inflation is declining, tax revenues rising, and expansion of social support mechanisms proceeding as planned—with social and political pressures remaining contained.
- Recurrent volatility in global commodity prices also poses a risk to the outlook, as do potential delays in the debt restructuring process. Terms of trade have moving in Ethiopia's favor, reflecting strong gold and coffee prices.
- 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.
- Larger than expected cutbacks in ODA could have significant humanitarian implications and put pressure on government to fill part of the gap.
- There is also upside potential if security conditions continue to improve, strengthening the economic recovery and unlocking investment and sustained increases in gold export volume could lead to higher growth.

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. Potential negative impacts from the envisaged fiscal adjustment 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. SOE sector reforms are on track overall. The program envisages a limit on domestic bank borrowing by SOEs to supplement the zero limit on non-concessional external borrowing. EIH, the state holding company for SOEs, has prioritized improved financial reporting and operating efficiency across its SOE portfolio. The financial position of the power utilities improved markedly as a result of sustained tariff reform implementation, but further effort is needed to strengthen investment and financial planning. Several large investment projects have been announced, including a new airport, led by Ethiopian Airlines, and a new private sector-led fertilizer plant in which EIH will take a significant stake. The projects do not involve new public sector debt or guarantees, and generally have long gestation periods before any debt is incurred as well as mitigating features for fiscal risk.

12. Program-supported reforms reducing financial repression and exchange rate distortions underpin a consolidation of quasi fiscal activity and increase fiscal transparency. The general government overall deficit has contracted by about 1 percent of GDP since 2022/23, while the consolidated public sector deficit including estimates for quasi-fiscal operations has adjusted further. Moving to positive real interest rates (policy and Treasury bill rates are now positive in real terms) and phasing out of mandatory purchase by banks of Treasury bonds (end-June 2025) will eliminate subsidized lending to SOEs and government from captive domestic savers. Recapitalizing CBE with government securities in July 2024 enabled writing off CBE's claims on LAMC and provisioning of non-performing exposures to SOEs, recognizing historic costs of subsidized lending to SOEs on-budget. Eliminating real exchange rate overvaluation through the FX reforms in July 2024 lifted 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 imported at the favorable official rate. Fuel subsidies have now been explicitly brought on-budget. The impacts of the reforms on vulnerable households have been managed through expanded, targeted cash transfers. All federal fuel taxes (0.8 percent of GDP), which formerly accrued to Ethiopian Petroleum Supply Enterprise (EPSE) and the Road Fund, are remitted to the Budget from 2025/26. A temporary fuel subsidy (0.5 percent of GDP) and permanent allocation to the Road Fund (0.1 percent of GDP) have been included in the FY2025/26 budget. Fertilizer subsidies have been capped at 84 billion Birr (0.4 percent of GDP) in 2025/26 budget.

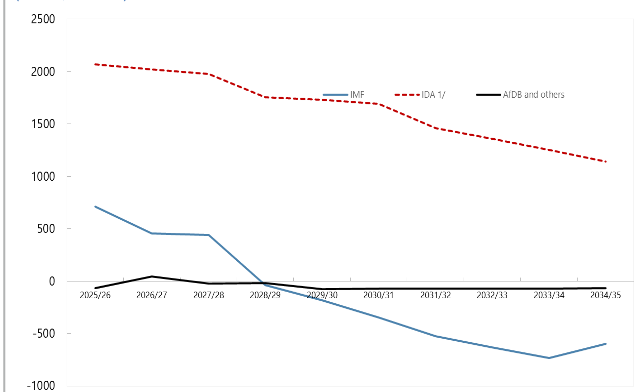
13. World Bank supported reforms complement and reinforce program support. The focus of World Bank policy engagements through its Development Policy Operations (DPO), projects, and through the Sustainable Development Financing Policy (SDFP) reinforce areas of the IMF-supported program. Relevant areas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

14. 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 2025. All bilateral sovereign deposits at NBE including the 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.[9] It is assumed that non-concessional loans to complete Koysha will be contracted in 2025/26, with updated assumptions regarding loan amount, terms, and the disbursement schedule base on the authorities' latest discussions with prospective creditors. 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).

Ethiopia: Net External Financing from IFIs

(In US$ million)



Sources: IMF staff projections.

1/ Includes grants

- The overall annual IDA financing envelope during the remainder of program period (2026/27 and 2027/28), including DPOs, is expected to be around US$2.5 billion. For 2028/29 and 2029/30, the total annual envelope is projected at about US$2.3 billion. Thereafter, the total IDA envelope is expected to stabilize at US$2.1 billion. Most of the 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.[10]

Text Table 4. Ethiopia: External Borrowing Plan for FY2025/26[1]

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2025/26		PV of new debt in 2025/26 (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.

- The pre-restructuring debt service schedule is updated, based on outstanding debt as of end-June 2025.

- A residual financing gap of US$10.6 billion during the program period is assumed. Reserve adequacy would be brought to 3.5 months of import coverage by the end of the program. The

[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.

[10] World Bank financing projections are based on assumptions, and actuals will depend on IDA replenishment, country performance, and other operational factors that determine country IDA allocations. IDA allocations and terms could significantly change because of adjustments to the IDA Grant Allocation Framework in new IDA cycles.

Fund would contribute about US$3.4 billion to fill the gap. Besides IMF financing, the remaining gap is assumed to be financed by US$3.8 billion of budget support from the World Bank, and US$3.4 billion of debt relief from bilateral creditors including the OCC and private external creditors, proxied by the issuance of a net present value neutral bond. In 2024/25, the World Bank disbursed the first DPO, amounting to US$1.5 billion in budget support, including grants (US$1 billion) and loans (US$500 million). The World Bank has provided financing assurances to the IMF for the second DPO of US$1 billion in budget support, programmed for 2025/26, of which US$500 million was disbursed in early July 2025 and a further US$500 million has been approved for disbursement upon completion of tranche conditions. The World Bank has also provided financing assurances to the IMF with respect to the third DPO (US$700 million), expected to be disbursed early in FY26/27. No assumption on the parameters and modality of the needed debt treatment is made as current DSA continues to be based on pre-restructuring debt service schedule.

- Non-market-based domestic financing of the public sector will be phased out. NBE has ended the mandatory purchase of 5-year treasury bonds at sub-market interest rates by commercial banks, 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.
- In the 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. Real interest rates have risen to positive levels, consistent with the phasing out of financial repression under an interest rate-based monetary policy framework. With the support of TA from the IMF and the World Bank Group, authorities' efforts to strengthen debt management and broadening the uses of T-bills and bonds continue: a new issuance framework is being developed; an issuance calendar was adopted; regular engagement with market participants has been initiated; A review of the regulatory treatment of T-bills and bonds for banks' capital and liquidity purposes is planned. 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.

D. Country Classification

15. Ethiopia's debt carrying capacity is weak, due fundamentally to the decline in FX reserves. The Composite Indicator (CI)—based on the IMF October 2025 World Economic Outlook projections and the World Bank's 2024 Country Policy and Institutional Assessment (CPIA) score that was published in July 2025—stands at 2.53, 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

16. 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 (ii) the low level of exports. Recent upward revisions to export projections reduce the magnitude and duration of breaches in export-related vulnerability indicators (the PV of debt to exports ratio now crosses the threshold one year before the end of the program). Finally, the PV of debt-to GDP ratio remains well below its indicative threshold for the entire projection period (Figure 1).

Standardized Stress Tests

17. 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, the breaches become larger and longer. 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.

18. 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

19. The present value of overall public debt/GDP ratio is projected to steadily decline, with breaches only in 2025/26. 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 one temporary small breach discounted). Gross financing needs are projected to average around 7.9 percent of GDP during 2025/26-2035/36 (below the LIC-DSF benchmark of 14 percent of GDP). 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. 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	3.253	1.25	50%
Real growth rate (in percent)	2.719	7.174	0.20	8%
Import coverage of reserves (in percent)	4.052	17.214	0.70	28%
Import coverage of reserves^2 (in percent)	-3.990	2.963	-0.12	-5%
Remittances (in percent)	2.022	4.408	0.09	4%
World economic growth (in percent)	13.520	3.035	0.41	16%
CI Score			2.53	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

Standardized Stress Tests

20. Overall public debt is susceptible to the materialization of contingent liabilities. The PV debt/GDP ratio rises to 44 percent in 2026/27 under combined contingent liabilities shock but remains below the threshold from 2029/30 onwards.

21. Risks from Ethiopian Airlines appear negligible in the near term but may rise considering investment intentions. 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 and continue growing and increasing revenue. The authorities have conveyed that EAL does not intend to seek government support for ongoing operations. Looking ahead, EAL announced a new US$12 billion international airport project. The project does not involve new public sector debt or guarantees and has a long gestation period before any debt is incurred as well as features mitigating residual fiscal risks.

G. Risk Rating and Vulnerabilities

22. **Ethiopia's debt is assessed to be unsustainable based on the pre-restructuring debt service schedule, 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. There are protracted breaches in the external debt service to exports ratio and the debt service to revenue ratio, while the PV of external debt to exports ratio breaches the threshold for one year in 2025/26. Mainly due to upward revision of the exports forecast, the magnitude and duration of breaches in the export-related vulnerability indicators are smaller and shorter compared to the last DSA.

23. **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 debt service to exports ratio and of the debt service to revenue ratio, with two near term years of breaches in the PV of external debt to exports ratio. 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. Stress tests indicate vulnerabilities to export and depreciation shocks. The combination of prudent macroeconomic policies, including a sustained 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.

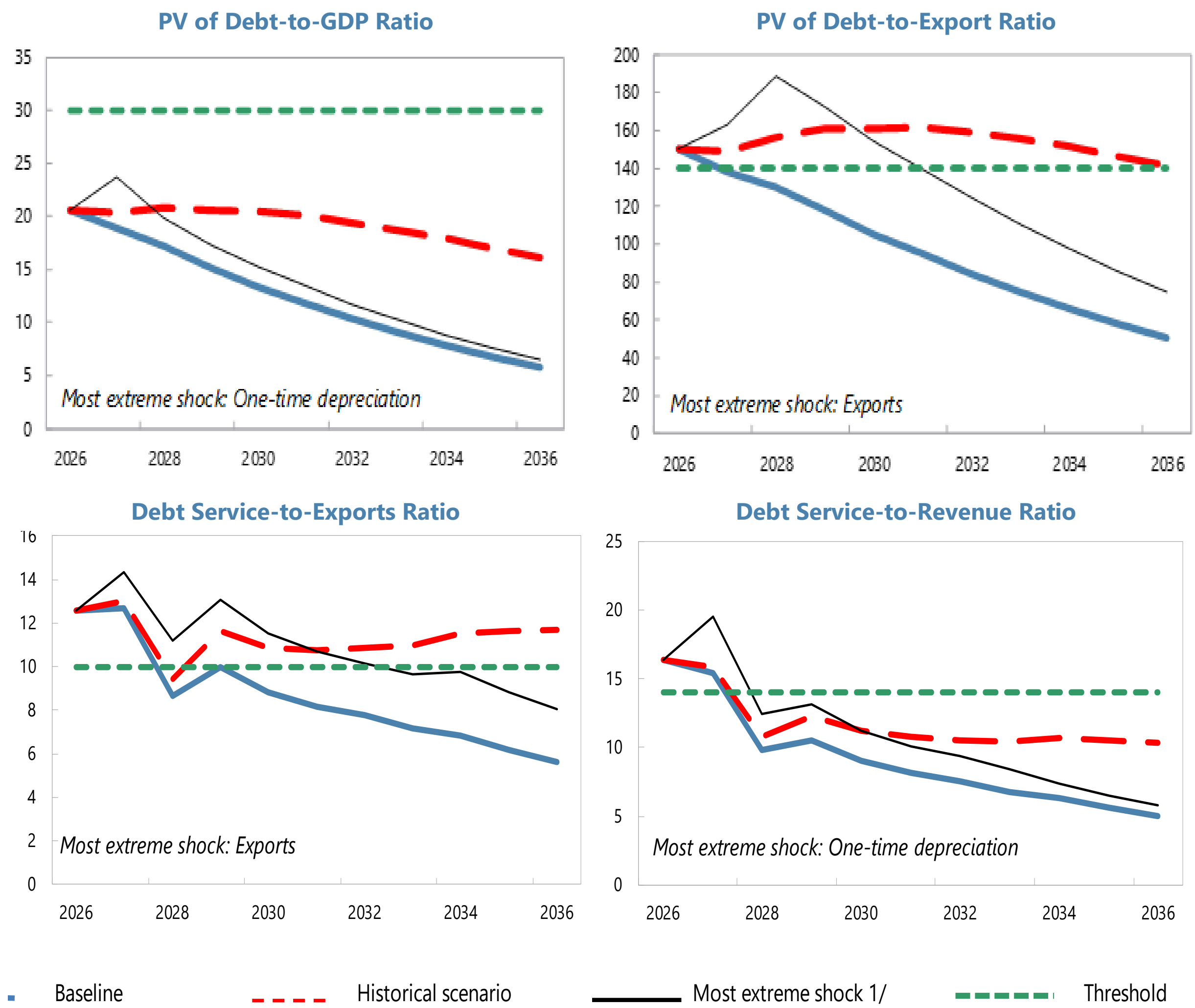
24. **Potential social discontent and security challenges continue to represent the key downside risks for achieving the authorities' reform and debt sustainability objectives.** Policy slippages or delays in reform implementation in response to social pressures are downside risks. Inconsistent implementation or a reversal of key fiscal or exchange rate reforms could result in larger financing gaps or withdrawal of development partner or creditor support, and business environment concerns could deter FDI or weaken tax collections and potential revenue mobilization. Fragility risks related to conflict may complicate policy implementation, and while the baseline already reflects significant reductions in ODA, larger-than-expected cuts could have humanitarian implications and put pressure on the government to fill part of the gap. Risks from potential trade policy shocks and global uncertainty would have a limited impact in the near term given Ethiopia's low export base and relatively closed economy. However, adverse terms of trade shocks—falls in gold and coffee prices, rises in oil prices—could widen trade and fiscal deficits and make achievement of macroeconomic and debt objectives more difficult. Confidence bands are wide considering historically high gold and coffee prices, and low oil prices. Upside risks include improvements to security conditions, which could strengthen economic recovery and unlock investment, and sustained increases in export volumes, which could strengthen growth and BOP outcomes.

25. 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$3.4 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.

26. An MOU on key terms for debt treatment between the OCC and Ethiopian authorities was agreed in July 2025. All members of the OCC have signed the MOU. The next step is to reach bilateral agreements, with the objective of finalizing the first agreements by end 2025. The authorities are making good faith efforts to reach an agreement with their external commercial creditors on terms comparable to the OCC terms, and consistent with program parameters. The authorities have continued their engagement with Eurobond holders, most recently through an exchange of offers with the Eurobond holder committee (representing more than 45 percent of total principal) in late September and early October 2025. The meetings included discussion of a possible value recovery instrument. An agreement in principle has been reached with one large commercial creditor on terms that are comparable to the OCC MOU and aligned with program parameters. Progress in reaching an AIP with another private creditor is proceeding well. Contact has been initiated with all other private creditors.

27. The post-restructuring DSA incorporating the illustrative debt treatment indicates that the debt vulnerability rating is expected to improve to moderate risk of debt distress by the end of program (July 2028). The illustrative scenario is based on the debt treatment outlined in the MOU agreed with the OCC for official bilateral claims and the AIP with the large commercial creditor and the authorities' latest debt treatment scenario for other commercial creditors' claims. All indicators fall under the thresholds starting in 2027/28 (2028 in the Text Figure 1, next page), with larger buffers compared to the previous DSA, mainly reflecting stronger export projections.

Text Figure 1. Ethiopia: The Illustrative Debt Restructuring Scenario—Indicators of PPG Debt, 2025/26 (2026)–2035/36 (2036)[1]



[1/] The illustrative post-restructuring scenario incorporates the debt treatment reflected in the MOU agreed with the OCC for bilateral claims and the AIP with the large commercial creditor and the authorities' latest debt treatment scenario for other commercial creditors' claims.

H. Authorities' Views

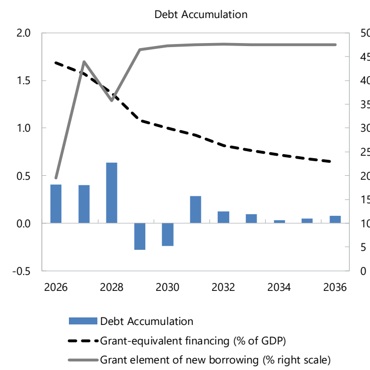
28. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt sustainability is expected to be restored through a debt restructuring, development partner support, and the reforms contemplated under the Fund-supported program. The authorities are committed to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

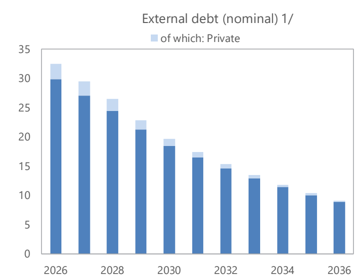
Table 1. Ethiopia: External Debt Sustainability Framework, 2023–2045

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2036	2045	Historical	Projections
External debt (nominal) 1/	19.5	16.8	33.9	32.4	29.5	26.4	22.8	19.6	17.4	9.1	3.8	28.4	18.9
of which: public and publicly guaranteed (PPG)	18.1	15.7	31.6	29.8	27.0	24.4	21.2	18.4	16.5	8.9	3.8	26.2	17.7
Change in external debt	-6.5	-2.7	17.1	-1.5	-3.0	-3.0	-3.7	-3.1	-2.2	-1.2	-0.4		
Identified net debt-creating flows	-5.1	-3.3	7.9	-4.5	-3.1	-3.1	-3.1	-2.7	-2.0	-0.7	-0.3	-0.6	-2.1
Non-interest current account deficit	2.6	2.7	-0.2	1.2	1.7	1.5	1.4	1.6	2.0	2.2	2.2	4.0	1.9
Deficit in balance of goods and services	7.4	6.2	7.1	8.3	7.6	6.8	6.4	6.4	6.3	5.5	4.3	11.2	6.5
Exports	6.6	5.6	13.1	13.7	13.7	13.3	12.8	12.7	12.4	11.4	11.4		
Imports	14.0	11.8	20.2	22.0	21.3	20.1	19.2	19.1	18.7	16.9	15.8		
Net current transfers (negative = inflow)	-4.8	-3.5	-7.3	-7.1	-5.9	-5.4	-5.0	-4.8	-4.3	-3.3	-2.2	-7.1	-4.7
of which: official	-0.7	-0.5	-1.7	-1.5	-0.9	-0.8	-0.9	-0.9	-0.8	-0.8	-0.8		
Other current account flows (negative = net inflow)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Net FDI (negative = inflow)	-2.1	-1.9	-3.2	-3.2	-2.9	-3.0	-3.0	-3.1	-3.1	-2.5	-2.3	-3.3	-2.8
Endogenous debt dynamics 2/	-5.6	-4.1	11.3	-2.5	-1.8	-1.6	-1.5	-1.2	-1.0	-0.4	-0.2		
Contribution from nominal interest rate	0.3	0.2	0.2	0.6	0.7	0.6	0.5	0.4	0.3	0.1	0.0		
Contribution from real GDP growth	-1.4	-1.2	-2.6	-3.1	-2.5	-2.2	-1.9	-1.6	-1.3	-0.6	-0.2		
Contribution from price and exchange rate changes	-4.4	-3.1	13.7	...	...	...	...	...	...	...	...		
Residual 3/	-1.4	0.6	9.2	3.0	0.1	0.1	-0.6	-0.5	-0.2	-0.5	-0.1	1.1	-0.1
of which: exceptional financing	0.2	0.0	2.3	3.4	0.8	1.1	0.0	0.0	-0.2	-0.1	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	21.1	21.3	19.4	17.5	14.9	12.8	11.4	6.0	2.6		
PV of PPG external debt-to-exports ratio	...	...	160.8	155.1	142.1	131.8	116.7	101.5	92.0	52.4	22.5		
PPG debt service-to-exports ratio	10.7	7.5	4.8	32.8	13.2	14.1	13.2	11.3	7.4	4.4	2.0		
PPG debt service-to-revenue ratio	8.9	5.8	6.9	40.6	16.0	16.0	14.0	11.6	7.4	3.9	1.6		
Gross external financing need (Million of U.S. dollars)	2201.8	3058.1	-3059.3	3614.4	1328.9	1165.0	752.5	546.2	291.8	1335.0	903.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.2	8.1	9.2	9.3	8.6	8.6	8.5	8.0	7.7	6.3	5.5	7.8	7.7
GDP deflator in US dollar terms (change in percent)	20.5	18.7	-44.9	-7.6	2.7	5.6	6.2	6.0	6.7	8.1	4.7	1.1	5.2
Effective interest rate (percent) 4/	1.5	1.1	0.9	1.9	2.4	2.2	2.0	1.9	1.7	1.4	0.9	1.8	1.8
Growth of exports of G&S (US dollar terms, in percent)	3.3	8.1	42.0	5.7	11.2	11.4	11.1	13.2	12.7	13.0	9.4	11.2	11.8
Growth of imports of G&S (US dollar terms, in percent)	-1.4	7.8	3.2	10.0	7.9	8.5	10.0	13.7	12.7	11.2	9.2	3.0	11.4
Grant element of new public sector borrowing (in percent)	...	...	...	19.5	44.0	35.7	46.5	47.3	47.6	47.5	47.6	...	43.5
Government revenues (excluding grants, in percent of GDP)	7.9	7.3	9.2	10.5	11.2	11.7	12.1	12.3	12.4	12.8	13.8	10.6	12.2
Aid flows (in Million of US dollars) 5/	602.9	590.2	2114.7	2839.3	3473.2	3477.2	3277.2	3388.5	3740.2	4531.5	7680.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.7	1.6	1.4	1.1	1.0	0.9	0.6	0.5	...	1.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.8	54.8	46.4	60.9	63.6	61.0	69.7	81.2	...	59.1
Memorandum items:													
PV of external debt 7/	...	...	23.3	23.9	21.9	19.5	16.5	14.1	12.4	6.2	2.6		
In percent of exports	...	...	178.0	174.3	160.1	147.1	129.2	111.3	99.7	54.4	22.5		
Total external debt service-to-exports ratio	13.4	11.1	7.4	35.2	15.8	16.6	15.6	13.4	9.1	5.1	2.1		
PV of PPG external debt (in Million of US dollars)			26625.1	27136.7	27651.5	28562.4	28108.5	27662.7	28276.7	29469.8	32740.4		
(PVt-PVt-1)/GDPt-1 (in percent)				0.4	0.4	0.6	-0.3	-0.2	0.3	0.1	0.0		
Non-interest current account deficit that stabilizes debt ratio	9.0	5.4	-17.3	2.7	4.6	4.5	5.1	4.8	4.3	3.4	2.6		

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





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 referes to fiscal year ending in June 2020).

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and 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.

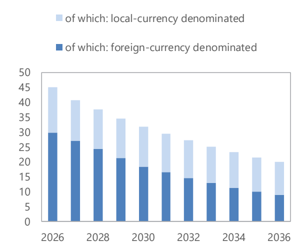
Table 2. Ethiopia: Public Sector Debt Sustainability Framework, 2023–2045

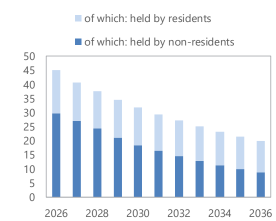
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2036	2045	Historical	Projections
Public sector debt 1/	40.2	35.4	50.3	45.0	40.7	37.6	34.5	31.8	29.4	20.0	16.6	51.4	30.6
of which: external debt	18.1	15.7	31.6	29.8	27.0	24.4	21.2	18.4	16.5	8.9	3.8	26.2	17.7
Change in public sector debt	-8.8	-4.8	14.9	-5.2	-4.3	-3.1	-3.1	-2.7	-2.4	-1.5	-0.2		
Identified debt-creating flows	-10.6	-7.2	11.2	-5.2	-3.5	-2.2	-2.1	-1.8	-1.5	-0.9	-0.1	-3.5	-2.0
Primary deficit	2.2	1.6	1.4	0.8	0.1	0.8	0.6	0.5	0.4	0.0	0.1	2.3	0.3
Revenue and grants	8.2	7.5	10.9	11.3	11.7	12.1	12.6	12.8	12.8	13.2	14.2	11.4	12.6
of which: grants	0.4	0.3	1.7	0.8	0.6	0.5	0.5	0.5	0.4	0.4	0.4		
Primary (noninterest) expenditure	10.4	9.2	12.3	12.1	11.8	13.0	13.2	13.2	13.2	13.2	14.3	13.7	13.0
Automatic debt dynamics	-12.8	-8.8	9.8	-6.0	-3.6	-3.0	-2.7	-2.2	-1.9	-0.8	-0.2		
Contribution from interest rate/growth differential	-8.9	-6.6	-5.2	-6.0	-3.6	-3.0	-2.7	-2.2	-1.9	-0.8	-0.2		
of which: contribution from average real interest rate	-5.6	-3.6	-2.2	-1.7	0.0	0.2	0.2	0.3	0.4	0.5	0.7		
of which: contribution from real GDP growth	-3.3	-3.0	-3.0	-4.3	-3.6	-3.2	-2.9	-2.6	-2.3	-1.3	-0.9		
Contribution from real exchange rate depreciation	-3.9	-2.3	15.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	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	0.0	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	0.0	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	1.8	2.4	3.7	0.0	-0.8	-0.9	-1.0	-0.9	-0.9	-0.6	-0.1	3.5	-0.8
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	42.6	37.7	33.6	30.9	28.5	26.3	24.4	17.2	15.3		
PV of public debt-to-revenue and grants ratio	...	...	392.0	333.8	286.5	254.7	226.8	205.9	190.7	129.7	107.9		
Debt service-to-revenue and grants ratio 3/	59.7	54.0	40.6	60.3	46.3	48.6	52.6	58.6	58.6	54.6	40.5		
Gross financing need 4/	7.1	5.7	5.8	7.6	5.5	6.7	7.2	7.9	7.9	7.2	5.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.2	8.1	9.2	9.3	8.6	8.6	8.5	8.0	7.7	6.3	5.5	7.8	7.7
Average nominal interest rate on external debt (in percent)	1.5	0.9	0.7	2.1	2.4	2.1	1.9	1.8	1.6	1.3	0.9	1.8	1.7
Average real interest rate on domestic debt (in percent)	-22.2	-16.3	-11.0	-10.4	-1.7	0.3	1.4	2.7	3.5	4.8	6.2	-12.1	1.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.6	-13.7	105.7	...	...	...	...	...	...	...	...	8.3	...
Inflation rate (GDP deflator, in percent)	32.2	24.7	17.7	17.6	10.9	9.4	8.9	8.1	8.2	9.1	5.2	18.9	9.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-9.2	-4.9	46.4	7.5	6.5	19.1	10.1	8.5	7.5	6.4	5.9	5.4	8.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	11.0	6.4	-13.5	6.0	4.4	3.9	3.7	3.2	2.8	1.4	0.3	1.3	3.1
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		

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

Public sector debt 1/





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 referes 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.

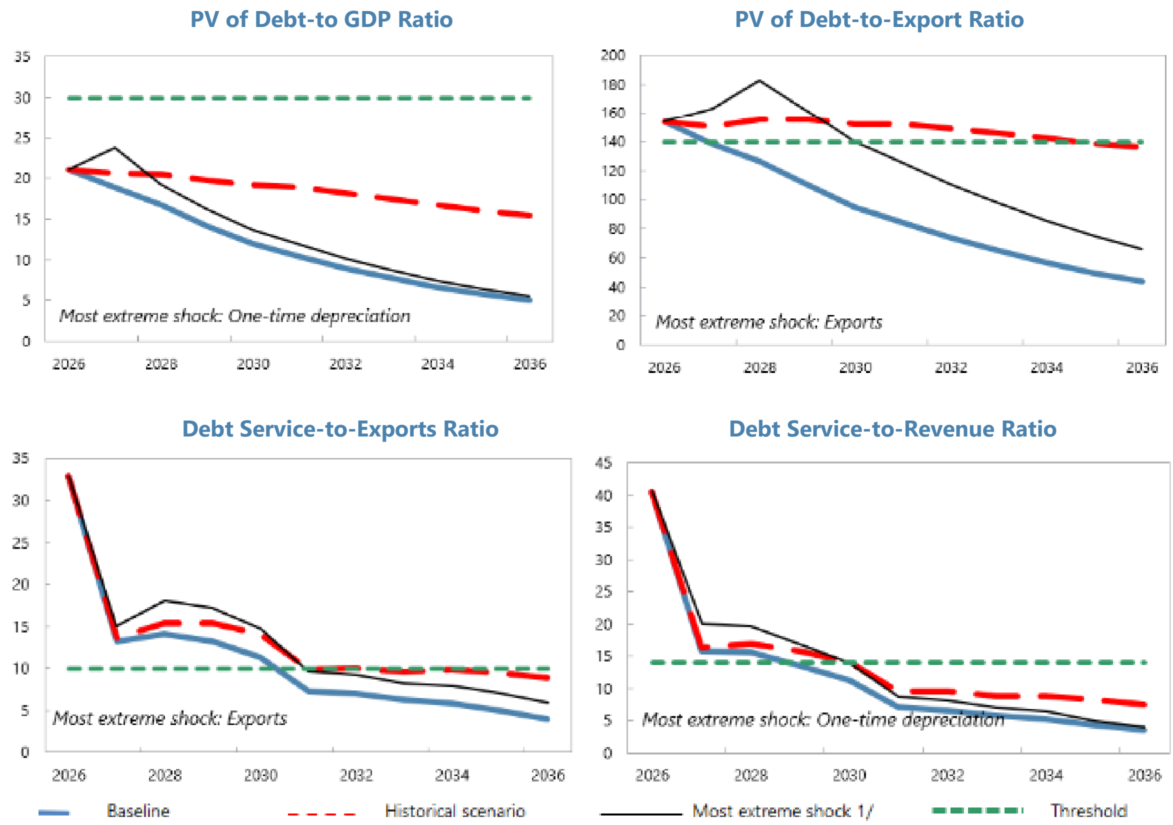
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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 ((-): a primary surplus), which would stabilizes 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.

Figure 1. Ethiopia: Indicators of Public and Publicly Guaranteed External Debt



Customization of Default Settings

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

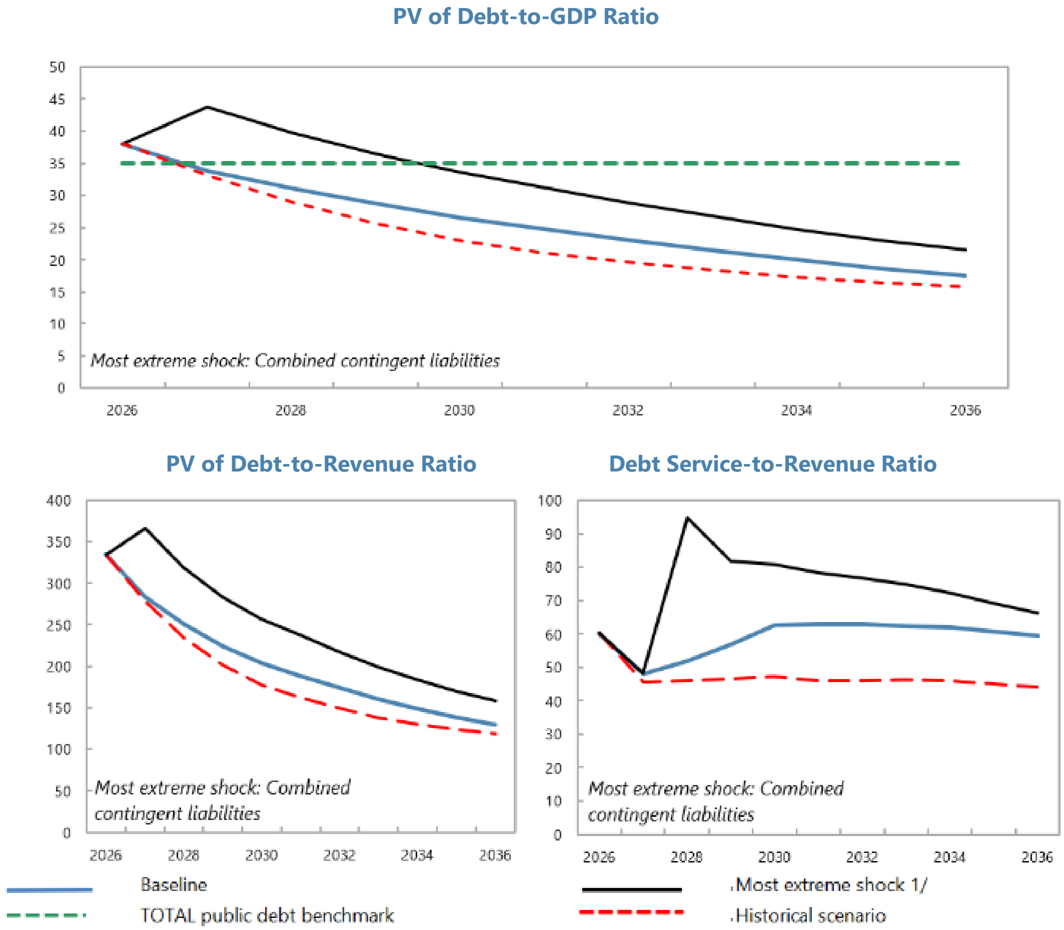
Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*

	Default	User Defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	6	6

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. 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.

Figure 2. 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	16%	30%
Domestic medium and long-term	25%	25%
Domestic short-term	59%	45%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.2%	5.2%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4.8%	4.8%

* 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 2036. 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 exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2026–2036

(In percent)

	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
	PV of debt-to GDP ratio										
Baseline	21	19	17	15	13	11	10	9	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	21	21	21	21	20	20	20	19	18	18	17
B. Bound Tests											
B1. Real GDP growth	21	20	19	16	14	12	11	9	8	7	6
B2. Primary balance	21	20	19	17	15	13	12	11	9	8	7
B3. Exports	21	20	20	17	15	13	12	10	9	8	7
B4. Other flows 3/	21	21	21	18	16	14	12	11	10	8	7
B5. Depreciation	21	24	20	17	15	13	11	10	9	8	7
B6. Combination of B1-B5	21	22	21	18	16	14	12	11	10	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	21	21	20	18	16	15	13	12	11	10	9
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	21	22	19	17	14	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	155	142	132	117	101	92	83	74	66	59	52
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	155	154	160	162	160	161	160	158	155	152	149
B. Bound Tests											
B1. Real GDP growth	155	142	132	117	101	92	83	74	66	59	52
B2. Primary balance	155	146	146	132	117	107	98	89	80	72	65
B3. Exports	155	168	192	171	150	137	123	110	99	88	78
B4. Other flows 3/	155	155	158	141	124	113	102	91	81	72	64
B5. Depreciation	155	142	120	106	92	83	74	66	58	52	47
B6. Combination of B1-B5	155	163	148	148	130	118	106	95	85	75	67
C. Tailored Tests											
C1. Combined contingent liabilities	155	157	152	140	126	117	108	100	92	84	77
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	155	142	132	117	102	92	82	74	65	58	52
Threshold	140	140	140	140	140	140	140	140	140	140	140
	Debt service-to-exports ratio										
Baseline	33	13	14	13	11	7	7	6	6	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	33	14	15	15	14	10	10	10	10	10	10
B. Bound Tests											
B1. Real GDP growth	33	13	14	13	11	7	7	6	6	5	4
B2. Primary balance	33	13	14	14	12	8	8	7	7	6	5
B3. Exports	33	15	18	17	15	10	9	8	8	8	7
B4. Other flows 3/	33	13	14	14	12	8	7	7	7	6	5
B5. Depreciation	33	13	14	13	11	7	7	6	6	5	4
B6. Combination of B1-B5	33	14	16	15	13	9	8	7	8	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	33	13	14	14	12	8	7	7	6	6	5
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	33	13	14	13	11	8	7	7	6	5	4
Threshold	10	10	10	10	10	10	10	10	10	10	10
	Debt service-to-revenue ratio										
Baseline	41	16	16	14	12	7	7	6	6	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	41	17	17	16	14	10	10	9	10	9	9
B. Bound Tests											
B1. Real GDP growth	41	17	17	15	12	8	7	7	6	5	4
B2. Primary balance	43	16	16	15	12	8	7	7	6	5	5
B3. Exports	41	16	16	14	12	8	7	6	6	6	5
B4. Other flows 3/	41	16	16	14	12	8	7	6	6	6	5
B5. Depreciation	41	20	20	17	14	9	8	8	7	5	4
B6. Combination of B1-B5	41	17	17	15	13	8	8	7	7	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	43	16	16	14	12	8	7	6	6	5	4
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	43	16	16	14	12	8	7	6	6	5	4
Threshold	14	14	14	14	14	14	14	14	14	14	14
Memorandum item:											
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	42.9	42.9	42.9	42.9	42.9	42.9	42.9	42.9	42.9	42.9	42.9

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. Ethiopia: Sensitivity Analysis for Key Indicators of Public Debt, 2026-2036
(In percent)

	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PV of Debt-to-GDP Ratio											
Baseline	**38**	34	31	28	26	24	23	21	20	18	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	**38**	33	29	26	23	21	19	18	17	16	16
B. Bound Tests											
B1. Real GDP growth	**38**	**35**	34	32	30	29	27	26	25	24	23
B2. Primary balance	**38**	**36**	**36**	33	30	28	26	24	22	21	19
B3. Exports	**38**	35	33	31	28	26	24	23	21	19	18
B4. Other flows 3/	**38**	**35**	34	32	29	27	25	23	21	20	19
B5. Depreciation	**38**	**37**	33	30	27	24	22	20	18	16	14
B6. Combination of B1-B5	**38**	34	33	31	28	26	24	22	21	19	18
C. Tailored Tests											
C1. Combined contingent liabilities	**38**	**44**	**40**	**36**	34	31	29	27	25	23	21
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	**38**	34	31	28	26	24	23	21	20	18	17
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	334	286	255	227	206	191	175	162	149	139	130
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	334	282	240	206	181	166	152	141	133	126	121
B. Bound Tests											
B1. Real GDP growth	334	298	279	254	235	223	211	199	189	180	174
B2. Primary balance	334	308	295	262	237	219	201	185	170	158	147
B3. Exports	334	294	275	245	222	205	188	174	160	147	137
B4. Other flows 3/	334	302	283	252	228	211	194	178	164	151	140
B5. Depreciation	334	319	273	236	208	187	167	150	134	120	109
B6. Combination of B1-B5	334	292	274	243	220	204	187	171	157	145	135
C. Tailored Tests											
C1. Combined contingent liabilities	334	372	327	290	262	242	222	203	187	173	161
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	334	286	255	227	206	191	175	162	149	139	130
Debt Service-to-Revenue Ratio											
Baseline	60	46	49	53	59	59	58	57	57	56	55
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	60	44	45	43	45	43	44	44	44	43	43
B. Bound Tests											
B1. Real GDP growth	60	48	53	60	68	69	69	70	71	70	70
B2. Primary balance	60	46	60	68	69	67	65	64	63	61	59
B3. Exports	60	46	49	53	59	59	58	57	57	57	55
B4. Other flows 3/	60	46	49	53	59	59	58	57	58	57	55
B5. Depreciation	60	46	50	52	58	57	56	55	54	53	51
B6. Combination of B1-B5	60	45	49	57	61	60	59	58	58	56	55
C. Tailored Tests											
C1. Combined contingent liabilities	60	46	94	79	78	75	72	70	67	64	62
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	60	46	49	53	59	59	58	57	57	56	55

Sources: Country authorities; and staff estimates and projections.

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

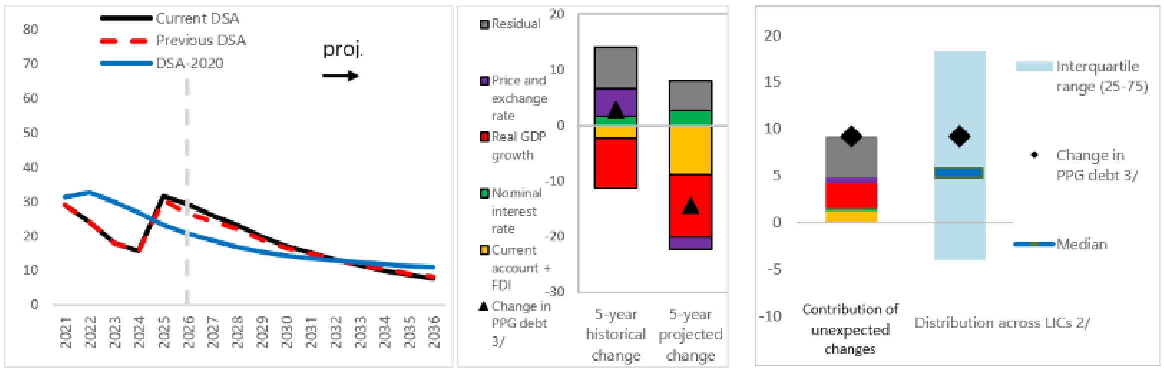
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Ethiopia: Drivers of Debt Dynamics—Baseline Scenario

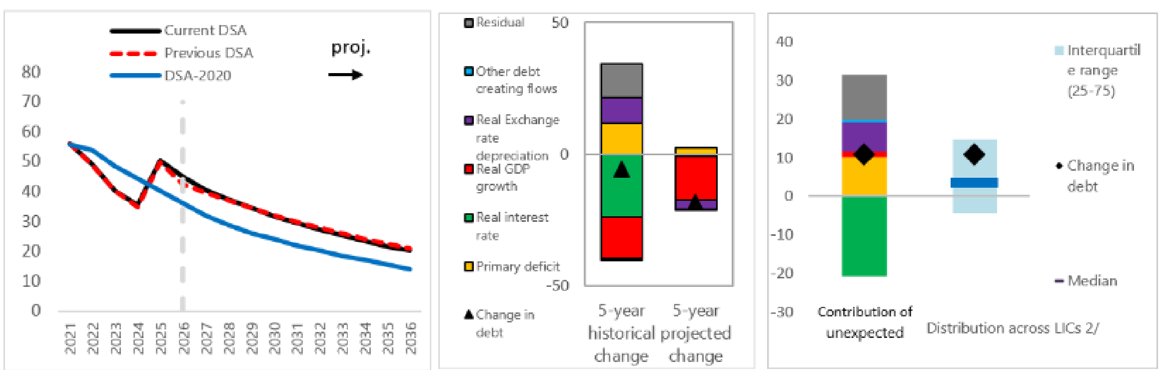
External Debt

Gross Nominal PPG External Debt (In Percent of GDP, DSA Vintages) | **Debt-Creating Flows** (Percent of GDP) | **Unexpected**[1] (Past 5 Years, Percent of GDP)



Public Debt

Gross Nominal PPG External Debt (In Percent of GDP, DSA Vintages) | **Debt-Creating Flows** (Percent of GDP) | **Unexpected**[1] (Past 5 Years, Percent of GDP)



[1] Difference between anticipated and actual contributions on debt rations.

[2] Distribution across LICs for which LIC DSA s 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. Ethiopia: Realism Tools

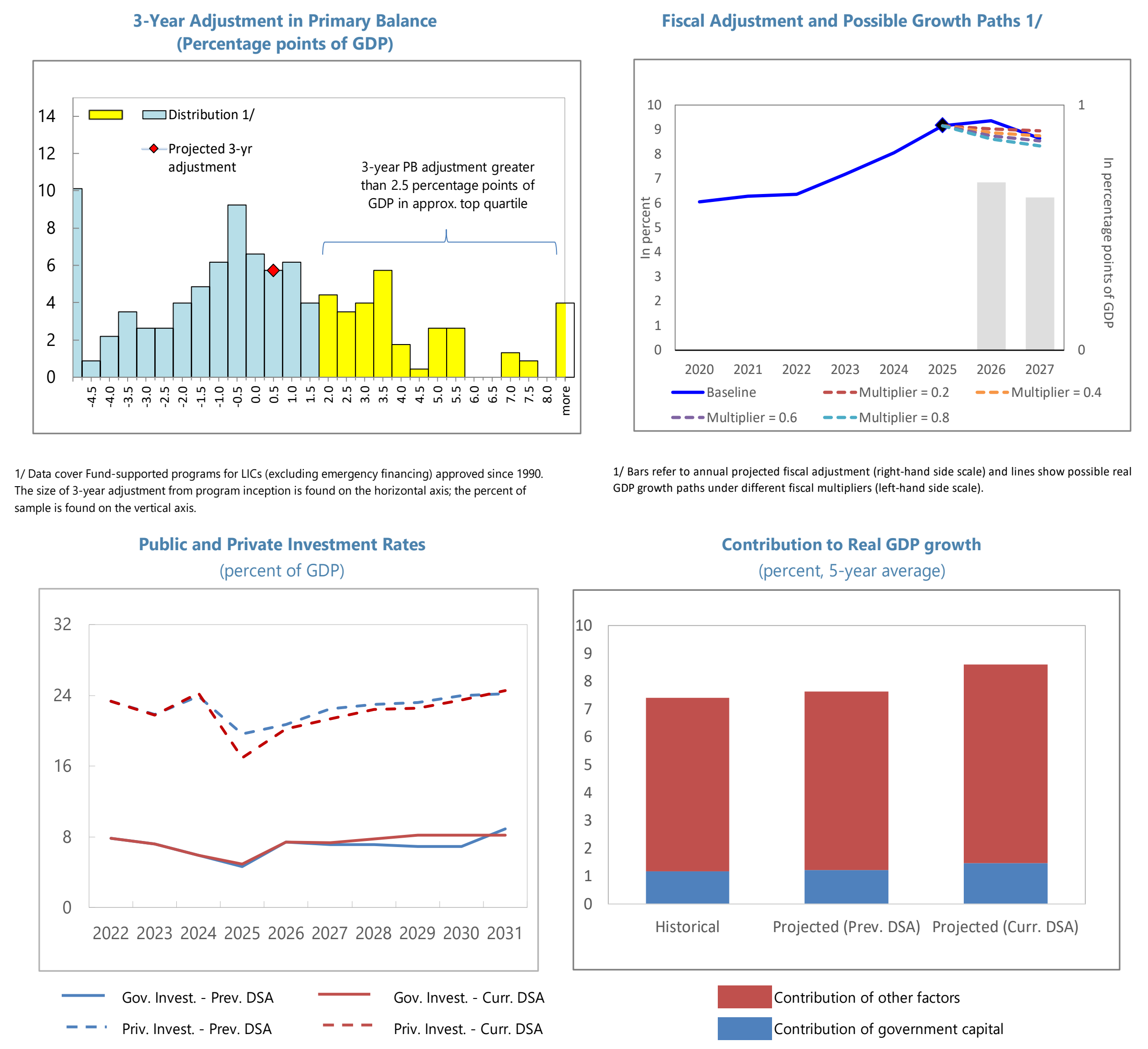
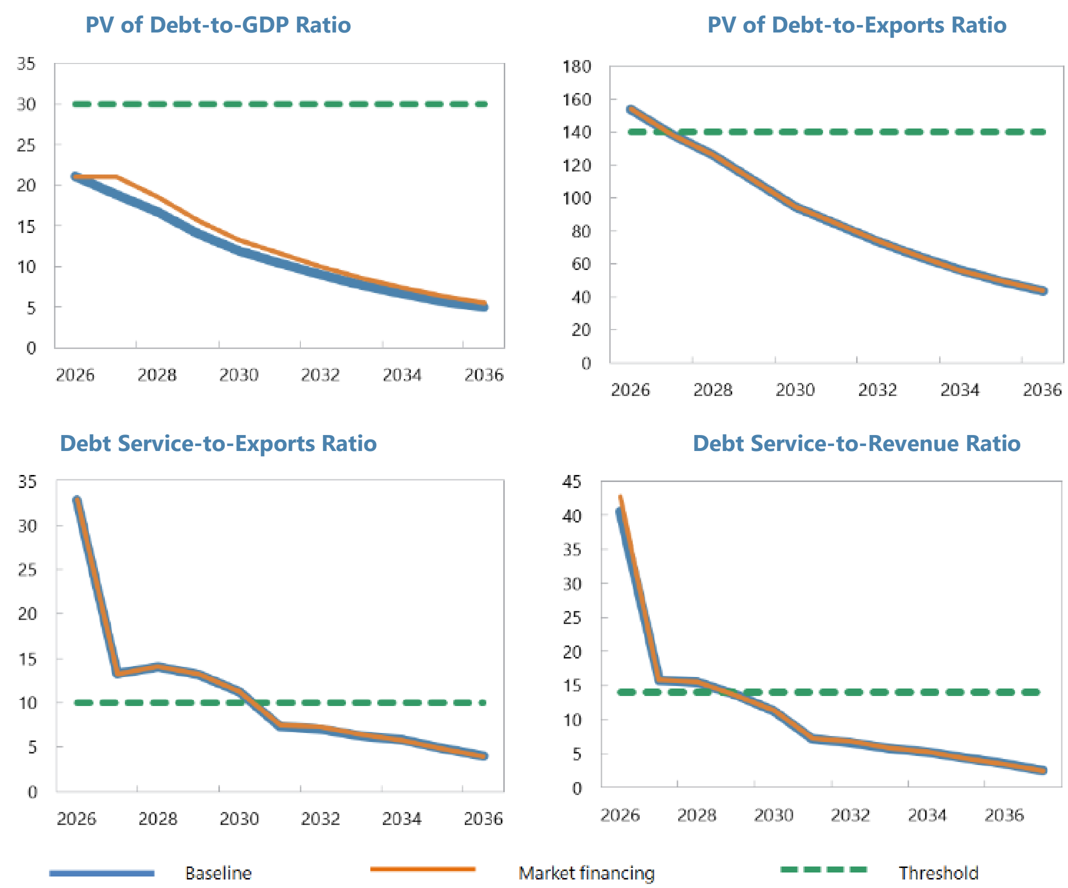


Figure 5. Ethiopia: Market Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	8	1069
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 September 23, 2025.

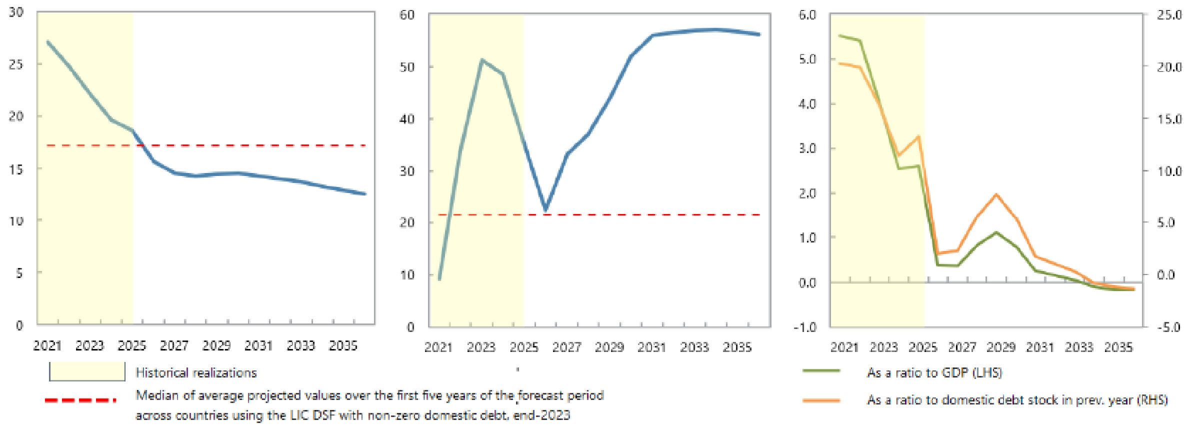


Sources: Country authorities; and staff estimates and projections.

Figure 6. Ethiopia: Indicators of Domestic Public Debt, 2021–2036

(in Percent)

Domestic Debt to GDP Ratio | Domestic Debt Service to Revenue (Incl. Grants) | Net Domestic Debt Issuance 1/



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	30%
Short-term	70%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	5.2%
Avg. maturity (incl. grace period)	6
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	4.8%

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.

Statement by the Executive Director, Mr. Regis O. N'Sonde, the Alternate Executive Director, Ms. Fatou Assah, and by the Advisor of the Executive Director, Mr. Mawek Tesfaye Mengistu, on the Federal Democratic Republic of Ethiopia
January 16, 2026

I. Introduction

1. **On behalf of our Ethiopian authorities, we express our sincere appreciation to the Executive Board, Management, and staff for their continued support of Ethiopia's reform agenda.** The authorities value the constructive, candid, and high-quality policy discussions held including during the Fourth Review mission under the Extended Credit Facility (ECF) arrangement. They also underscore the critical importance of sustained financial and technical support from development partners, including creditors, to ensure the successful implementation of the reform program.

2. **One and a half years since the approval of the ECF arrangement, implementation of the authorities' Homegrown Economic Reform Agenda (HGER) continues to make solid progress.** Macroeconomic outcomes have exceeded expectations while downside risks identified at program inception have been effectively mitigated to date, reflecting the authorities' sustained reform implementation and strong commitment. The authorities continue to make encouraging progress on their debt treatment under the G20 Common Framework, including by reaching an Agreement in Principle (AIP) with the Ad Hoc Committee of Ethiopia's Eurobond holders and with one large commercial creditor. The ongoing implementation of transformative macroeconomic reforms, supported by broad-based structural measures to enhance the business environment and targeted sectoral initiatives, alongside the finalization of the external debt treatment, remains central to achieving the program's objectives.

3. **The authorities reaffirm their strong commitment to maintaining reform momentum to consolidate gains and foster economic resilience.** They remain resolute in proactively calibrating policies to respond to shocks and mitigate the impact of potential downside risks. **In this context, and considering satisfactory program performance, the authorities seek Executive Directors' support for the completion of the Fourth Review under the ECF arrangement, modification of performance criteria, and the financing assurances review.**

II. Program Performance

4. **Program performance remains on track, with all quantitative performance criteria (QPCs) for the Fourth Review being met.** Two of the four Indicative Targets

(ITs) for September 2025 were also met. Regarding the NBE's FX intervention, the authorities explained that the NBE conducted bilateral sales of FX reserves to the Commercial Bank of Ethiopia (CBE) to settle fertilizer imports with a view to reallocate significant reserve overperformance toward the importation of a strategic commodity, particularly given capacity constraints among private banks. They emphasized that this operation was not intended to impede market-based price discovery. Going forward, the authorities committed to conduct all FX interventions exclusively through auctions and to introducing a new continuous QPC setting a zero limit on FX intervention outside of auctions. With respect to government contributions to the PSNP, the performance is expected to return to the agreed program target by end-December 2025, once development partners' contributions are fully absorbed.

5. **Progress in the implementation of structural benchmarks has remained strong.** Of the nine benchmarks scheduled for June–December 2025, seven were met. One benchmark, relating to the publication of Ethiopian Investment Holding (EIH)'s consolidated financial statements for FY2022/23, was not met due to delays in procuring external consultants. However, completion is expected by end-March 2026. Regarding the other unmet benchmark, the FY2025/26 Federal Government budget, the authorities are taking measures to ensure the budget is aligned with the agreed program framework. Looking ahead, four new structural benchmarks have been agreed for implementation during July–December 2026, aimed at lifting financial repression, strengthening tax administration, and supporting FX market development. In addition, in December 2025, FX auction guidelines were published on the NBE's website, meeting the only prior action for the completion of this review.

III. Recent Macroeconomic Developments and Outlook

6. **Economic growth has exceeded expectations, while the disinflation trend has persisted, with headline inflation falling to single digits in December 2025 after nearly a decade of persistent double-digit rates.** Real GDP growth reached 9.2 percent in 2024/25, up from 8.1 percent in 2023/24, driven by strong performance in agriculture, mining, construction, and manufacturing. Momentum is expected to continue into 2025/26, with growth projected at 9.3 percent, an upward revision from the 7.1 percent forecast at the time of the Third Review. Headline inflation declined to 9.7 percent in December 2025, reflecting prudent macroeconomic policies and improved supply-side conditions. Inflation is expected to stabilize around 6–7 percent over the medium term.

7. **The current account deficit narrowed significantly, from 2.9 percent of GDP in 2023/24 to 1.1 percent in 2024/25, supported by strong goods export performance.** As FX availability has eased, imports are projected to increase, widening the current

account deficit to 2.3 percent of GDP in 2025/26. Over the medium term, the deficit is expected to stabilize at around 2 percent of GDP. Gross international reserves increased from 0.7 months of prospective import coverage (US$1.4 billion) at end-2023/24 to 1.9 months (US$4.4 billion) at end-2024/25. Reserves are projected to strengthen further to 2.2 months of import coverage (US$5.6 billion) by end-2025/26 and to 3.5 months (US$10.5 billion) by the end of the program period.

8. **The overall fiscal deficit declined from 2.0 percent of GDP in FY2023/24 to 1.2 percent of GDP in FY2024/25.** Fiscal outcomes were strong, reflecting higher tax revenues driven by well-designed tax policy measures, exchange rate reforms, and strengthened tax administration, which lifted the tax-to-GDP ratio by 1.6 percentage points in the first year of the program alone, creating fiscal space for increased priority spending.

IV. Near- and Medium-Term Macroeconomic Policy Priorities

4.1. Fiscal Policy

9. **The authorities are taking steps to align the FY2025/26 budget with program targets and have reiterated their commitment to maintaining fiscal consolidation over the medium term.** The FY2025/26 federal budget reflects a deviation of 1.5 percent of GDP from the Third Review fiscal framework, primarily due to a higher budget envelope for public sector compensation to address significant real wage erosion resulting from several years of elevated inflation. The authorities view this adjustment as necessary to preserve social cohesion and protect the most vulnerable. At the same time, they are implementing offsetting measures in other areas to preserve the program's core fiscal objectives, including through further domestic revenue mobilization, development of domestic financial markets, and phased removal of blanket fuel subsidies. Demonstrating this commitment, fuel prices increased by a cumulative 42 percent in 2025, while efforts to deepen the T-bills market and strengthen revenue mobilization are ongoing. As a result, the primary fiscal balance in FY2025/26 is expected to weaken modestly to 0.6 percent of GDP, before stabilizing at around 0.4 percent of GDP over the medium term.

10. **The tax-to-GDP ratio is on track to increase by 2.9 percentage points over the first two years of the program,** guided by the National Medium-Term Revenue Strategy (NMTRS), reversing a decade-long decline. Building on VAT and excise tax reforms in FY2024/25, the authorities amended the Income Tax Proclamation in July 2025 to enhance compliance and fairness, and adopted a new Investment Incentive Regulation, replacing the previous open-ended regime with a transparent, rules-based framework.

Ongoing reforms, including full national rollout of the excise stamp system, motor vehicle ownership tax reform, and nationwide property tax implementation, supported by strengthened tax and customs administration and digitalization are expected to boost revenues. The authorities are confident that a cumulative 4-percentage-point increase in the tax-to-GDP ratio over the program period is achievable.

11. **Comprehensive social protection remains a central pillar of the reform agenda.** Strong social protection measures, together with well-sequenced reform implementation, have helped build broad public support. The authorities remain committed to expanding coverage and improving targeting of social programs. In FY2025/26, they increased allocations for the PSNP and are developing a comprehensive National Social Registry Ecosystem. They are also strengthening national capacity to respond to shocks, including through establishing a national disaster risk-management fund, while gradually raising pro-poor spending and capital expenditure to pre-pandemic levels over the medium term.

12. **The debt restructuring process is advancing well.** All members of the Official Creditor Committee (OCC) have signed the MoU agreed in July 2025. Building on this milestone, the authorities reached an AIP with one large commercial creditor and the Ad Hoc Committee of Ethiopia's Eurobond holders—representing more than 45 percent of total principal—marking another significant milestone. An AIP with another commercial creditor is expected soon. Engagement with all creditors to finalize bilateral agreements in line with the OCC MoU is ongoing. The authorities will continue to adhere to the principles of comparability of treatment and consistency with the program's key parameters in their debt treatment engagement. At the same time, they continue making good-faith efforts to reach agreement with the remaining bilateral and commercial creditors as well as to resolve longstanding external arrears while refraining from non-concessional external borrowing.

4.2. Monetary, Exchange Rate and Financial Sector Policies

13. **The NBE remain committed to maintain a tight monetary policy stance to anchor expectations and foster stability.** At its December 2025 Monetary Policy Committee (MPC) meeting, the NBE kept the policy rate unchanged at 15 percent, noting the continued decline in inflation while opting to maintain a tight policy stance to anchor expectations and durably return inflation to the single-digit target. At the same time, to address rising excess liquidity, largely driven by base money expansion related to NBE's liquidity injections due to its increased gold purchase, the reserve requirement ratio was raised from 7.0 percent to 10.0 percent, with banks' heterogeneous liquidity positions considered for compliance. The floor on the deposit interest rate was also removed to

support market determined pricing and reinvigorate interest rate–based monetary policy framework. At the same time, the NBE pursued a cautious and gradual phase-out of the credit cap policy, raising the credit growth limit to 24 percent, with a view to fully eliminating the cap by December 2026.

14. **The authorities are implementing measures to deepen FX market functioning.** The adoption of a market-determined exchange rate regime early in the program has improved FX access, significantly reduced the parallel market premium, and corrected real effective exchange rate misalignment. Nevertheless, the authorities continue to implement reforms to address remaining structural bottlenecks and strengthen competition. To this end, the publications of the FX auction guidelines and an auction calendar, the issuance of revised NOP directives aligned with international best practices, and the implementation of an agreed plan between the NBE and the CBE to reduce CBE's on-balance-sheet NOP are expected to enhance competition and deepen FX market development. The authorities are engaging parallel market players to encourage compliance with national laws and integration into the formal financial system, with several money transfer agents already integrated. Looking ahead, the NBE will develop a roadmap for interbank FX market development, establish indicators to assess market maturity, gradually lift remaining surrender requirements, and begin regular assessments of unmet FX demand. Together with positive real interest rates, these measures are expected to deepen FX market functioning, increase incentives to hold Birr assets, and further reduce reliance on parallel markets.

15. **The authorities are modernizing financial sector supervisory and regulatory frameworks.** Financial soundness indicators point to a sound and stable banking system, with improved liquidity, profitability, and asset quality. The sector continues to evolve with capital market development and gradual opening to foreign investors. Against this backdrop, the NBE has strengthened regulatory and supervisory frameworks, including adoption of the Basel II risk-based capital framework, with a focus on Pillar I requirements. In parallel, the authorities are enhancing the AML/CFT framework and preparing for the FATF mutual evaluation scheduled for early 2026.

V. Structural Reforms

16. **The authorities are implementing structural reforms that complement the macroeconomic reforms with a view to promote private sector–led investment and growth.** Improved FX access and energy supply has raised capacity utilization among existing firms. The authorities continue to engage the private sector through a structured Public–Private Dialogue to identify binding constraints and implement targeted policy responses. In the same vein, they have recently launched the ambitious Digital Ethiopia

Strategy 2030, building on the successful completion of the previous strategy, with a view to digitalizing government services, enhancing productivity across economic sectors, advancing digital payment systems, and accelerating the rollout of a digital national identification system.

17. **SOE reform is progressing well.** The establishment of EIH as a sovereign wealth fund has helped modernize SOE governance and management, promote commercial orientation, and strengthen financial performance across several entities. Significant progress has also been made in improving SOE financial reporting, with consolidated financial statements covering the entire EIH SOE portfolio for FY2022/23 expected to be finalized by March 2026. The authorities reaffirmed their commitment to ensuring that future SOE investments remain consistent with the country's fiscal and debt sustainability.

18. **Climate change poses significant macroeconomic vulnerabilities for Ethiopia, which prompt the authorities' strong climate plan.** The authorities are advancing their climate adaptation agenda under the Climate-Resilient Green Economy (CRGE) strategy, drawing on IMF's Climate Public Investment Management Assessment (C-PIMA) and the World Bank's Country Climate and Development Report (CCDR) to guide policy priorities. They welcome Ethiopia's presidency of COP32 and view it as an important opportunity to highlight climate challenges and advocate for implementable solutions. In this context, the authorities are keen to access the Resilience and Sustainability Facility (RSF) and seek Fund technical assistance on a Climate Policy Diagnostic (CPD) to inform the design of appropriate reform measures.

VI. Conclusion

19. Implementation of the authorities' HGER agenda, supported by the ECF arrangement, is progressing well. Macroeconomic outcomes have exceeded expectations, with stronger-than-projected performance in growth, inflation, exports, and international reserves. The authorities remain firmly committed to sustaining reform momentum while protecting the most vulnerable, with a view to consolidating macroeconomic gains and supporting robust private sector–led growth. They remain prepared to recalibrate policies as needed to achieve the objectives of the ECF-supported program. **In this context, the authorities seek Executive Directors' support for the completion of the Fourth Review under the ECF arrangement, together with associated requests.**