INTERNATIONAL MONETARY FUND

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THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

July 2026

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR REPHASING OF ACCESS, MODIFICATION OF INDICATIVE TARGETS, 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 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 July 1, 2026, following the discussions that ended on May 20, 2026, with the officials of The Federal Democratic Republic of Ethiopia on economic developments and policies underpinning the IMF Arrangement under the Extended Credit Facility program. Based on information available at the time of these discussions, the Staff Report was completed on June 16, 2026.
- A **Debt Sustainability Analysis** prepared by staffs of the World Bank and the IMF.
- A **Supplementary Information of Staff Report** prepared by staff of 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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Washington, D.C.

PRESS RELEASE

PR26/235

IMF Executive Board Completes the Fifth Review Under the Extended Credit Facility Arrangement for The Federal Democratic Republic of Ethiopia

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the fifth review of the arrangement under the Extended Credit Facility (ECF) for Ethiopia, allowing the authorities to draw the equivalent of about US$464 million (SDR 342.05 million).
- While strong macroeconomic performance to date has created resilience, the war in the Middle East represents a substantial external shock. Rephasing will bring forward about US$200 million under Ethiopia's program to help ease near-term financing pressures and address immediate war impacts.
- The authorities have made solid progress in achieving the objectives of the Fund-supported program. Strong exports, revenue mobilization, and reserves accumulation show good results from the reforms. The authorities continue their efforts to advance debt restructuring.

Washington, DC – **July 1, 2026:** The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of the 48-month Extended Credit Facility (ECF) for Ethiopia. The Board's decision allows for an immediate disbursement of about US$464 million (SDR 342.05 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$2.647 billion, with about US$200 million in additional resources to help respond to pressures resulting from the war in the Middle East, especially the significantly higher price of imported fuel.

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.

Program performance overall was in line with program commitments. All quantitative performance criteria (QPCs) and most indicative targets (ITs) were met. The government's contribution to the Productive Safety Nets Program was lower-than-targeted as donor contributions exceeded expected amounts, with overall support to beneficiaries above objectives (including a supplement for urban beneficiaries in response to the external shock).

Maintaining a tight monetary stance continues to be appropriate to anchor inflation expectations. The authorities are making sustained efforts to deepen foreign exchange (FX) market functioning, such as partially easing certain exchange restrictions, developing an interbank FX market and enhancing competition among banks.

Tax revenue growth and fiscal outcomes have remained strong. Prudent expenditure management and revenue administration reforms are important to ensure fiscal sustainability, revenue mobilization, and priority spending objectives can be sustained in the medium-term.

The authorities continue their efforts to advance debt restructuring. Several bilateral agreements have been signed with official creditors, and significant progress has also been made with several external commercial creditors. Staff welcome the agreement-in-principle reached with Eurobond holders. 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 economic reform agenda, with favorable macroeconomic outcomes despite a challenging environment. The war in the Middle East represents a significant external shock, and continued reform efforts alongside adroit responses to emerging challenges will be important to sustain macroeconomic momentum.

“Sustained efforts by the National Bank of Ethiopia (NBE) to enhance foreign exchange (FX) market functioning remain essential for efficient price discovery. Ongoing actions to enforce net open FX position limits, develop the interbank FX market, and relax exchange restrictions are welcome, alongside efforts to enhance competition among banks and fairer treatment of clients. Developing a well-designed plan for NBE to improve its gold market operations, and eventually exit the gold market, consistent with reserve accumulation objectives will be important.

“Maintaining a tight monetary stance remains appropriate to anchor inflation expectations, and the NBE should stand ready to tighten further if second round inflationary pressures emerge. Continued modernization of the monetary policy framework and fostering a competitive, market-oriented financial sector will support effective monetary transmission.

“Prudent expenditure management and sustained revenue mobilization remain key to advancing development objectives and fiscal sustainability. Strong revenue performance is welcome. Phasing out fuel subsidies while protecting vulnerable groups will create space to advance economic development and social spending objectives. Further progress on fiscal transparency, fiscal risk monitoring, and oversight of state-owned enterprises remains important.

“Completing the debt restructuring process through good faith engagement with creditors will help restore debt sustainability and meet financing needs. Prudence in contracting new debt, along with the development of a liquid local currency market, is important to limiting debt vulnerabilities.

“Continued efforts to strengthen financial sector oversight and financial safety nets remain important, along with close monitoring of private credit growth. Further progress on central bank governance reforms, including appointing new independent members to the NBE Board and recapitalization, will support the NBE’s autonomy and strengthen its capacity to execute its policy mandate.”

Table 1. Ethiopia: Selected Economic Indicators, 2023/24–2030/31

	2023/24	2024/25	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.	2028/29 Proj.	2029/30 Proj.	2030/31 Proj.
Output								
Real GDP growth (%)	8.1	9.2	9.2	7.8	8.2	8.2	8.0	7.7
Prices								
Inflation - average (%)	26.6	16.0	11.7	12.3	9.2	7.8	6.8	6.7
General government finances								
Revenue (% GDP)	7.3	9.2	10.8	11.4	11.8	12.1	12.2	12.3
Expenditure (% GDP)	9.5	12.0	14.1	13.5	13.5	14.0	14.0	14.0
Fiscal balance, including grants (% GDP)	-2.0	-1.2	-2.0	-1.2	-1.4	-1.6	-1.6	-1.6
Public debt (% GDP)[1]	35.5	50.5	45.3	40.8	37.2	34.0	31.2	28.6
Money and Credit								
Broad money (% change)	14.1	35.2	30.3	25.3	23.9	19.2	18.4	19.9
Credit to private sector and state-owned enterprises (% change)[2]	9.3	-9.7	55.9	24.8	23.6	24.1	23.2	19.1
Balance of payments								
Current account (% GDP)	-2.9	-1.1	-2.5	-1.3	-1.5	-2.0	-2.0	-2.7
FDI (%GDP)	1.9	3.2	3.2	2.9	3.0	3.0	3.1	3.1
Reserves (in months of imports)	0.7	1.7	2.1	2.7	3.5	3.7	3.8	3.8
External debt (% GDP)	15.8	31.8	29.9	27.1	24.5	21.4	18.7	16.7
Exchange rate								
Real effective exchange rate (% change, end of period, depreciation –)	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 24/25 include impact of CBE recapitalization.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR REPHASING OF ACCESS, MODIFICATION OF INDICATIVE TARGETS, AND FINANCING ASSURANCES REVIEW

June 16, 2026

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 debt sustainability, and lay the foundations for high, private sector-led growth. Progress under HGER continues, with better-than-anticipated macroeconomic outcomes to date. However, the Middle East war represents a significant external shock that is generating short-term financing pressures. Thus, maintaining positive macro momentum will require adroit responses to emerging challenges and continued effort to strengthen the foundations for private sector-led growth.

Policy discussions. Discussions focused on: (i) the response to the Middle East war, including fuel price adjustment and mitigating the social impact of the shock; (ii) the FY26/27 budget; (iii) continuation of foreign exchange market reforms; and (iv) the monetary policy stance considering new inflationary risks.

Program performance. All end-December quantitative performance criteria (QPC) were met and most indicative targets (ITs) were met. Structural benchmarks (SBs) on the on the phase-out of Commercial Bank of Ethiopia's (CBE) legacy T-bill portfolio (July SB) and adopting methodology and institutional protocols for monitoring and reporting tax expenditures (end June) are expected to be met. In light of the need to ease near-term financing pressures and smooth adjustment from the external fuel and fertilizer price shock, staff support the authorities' request for a rephasing of access. Staff support the authorities' request of modification of the end-September and end-December ITs on government contributions to the Productive Safety Net Program.

Outlook and risks. Policy reforms are expected to support robust growth and continued declines in inflation over the medium term. A more severe, longer, commodity price shock would worsen fiscal and trade balances, potentially leading to higher inflationary pressures and financing needs. Other 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
Costas Christou (AFR) and Pritha Mitra (SPR)

The mission was held from May 6–20, 2026. The team comprised Messrs. Piris Chávarri (Head), Lee, Tulin; Mses. Daly, and Garimella (all AFR); Messrs. Arias Vázquez (FAD) and Dielmann (SPR) and Ms. Ferguson (MCM), and Mr. 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 assisted with the preparation of this report.

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CONTEXT

1. **Progress under the Homegrown Economic Reform (HGER) agenda continued, with favorable macroeconomic outcomes through to the Middle East war.** Macroeconomic outcomes continued to improve through end-2025, with strong leading indicators of growth, and exports, reserves, and government revenue, all above expectations. Treasury bill rates and the monetary policy rate remain positive in real terms, tempering buoyant money and credit growth. Maintaining positive macroeconomic momentum will require adroit responses to emerging challenges and continued efforts to strengthen the foundations for private sector-led growth.

2. **Domestic security risks have risen and the war in the Middle East is a significant external shock.** The war has disrupted international trade and caused sharp price increases for key imports, pressuring economic activity, inflation, and the balance of payments (Box 1). Security tensions have increased in Tigray and with Eritrea, while conflicts in Amhara and Oromia continue, threatening to increase displacement and humanitarian needs (RAM).

Box 1. Transmission Channels from the Middle East War

- **All petroleum fuels are imported.** The main vulnerabilities include: (i) reliance on two suppliers, one of which has declared force majeure; (ii) use of deferred letters of credit (LC) for fuel imports; and (iii) exclusive reliance on Red Sea ports, creates logistical and storage constraints, and structurally high unit costs. Resort to spot market purchase of fuels has come at very high cost, with total costs including premiums over benchmark prices peaking at about US$270 per barrel for diesel, and US$300 for jet fuel in April, before declining more recently. Moving some purchases to sight payment will reduce premiums but will also add to foreign exchange (FX) liquidity needs.
- **Fertilizer imports (1 percent of GDP, two thirds DAP and one third urea),** a little over half of annual needs has been delivered—enough for the upcoming season—limiting near-term food security implications. A new procurement round commences in the fall of 2026.
- **Disruption of exports markets.** The Middle East accounts for around 19 percent of non-gold goods exports. About half of suspended cargo flight routes were quickly re-opened, and the impact has been muted so far.
- **Gold exports.** Chartered flights have been used to transport raw gold to Dubai, which is the sole refinery and importer of Ethiopian gold. Gold price forecasts are substantially higher than at the fourth review, offsetting adverse impacts provided that shipments can continue.
- **Ethiopian Airlines (EAL)** has suspended some flights to the Gulf, but also benefits from passenger and cargo re-routing and has not cut any other services. Very high jet fuel costs and supply pressures are significant risks.
- **Remittances from the Gulf** account for around 35 percent of the total.
- **Small-scale import trade,** typically individuals on commercial flights to the Gulf trading in consumer goods, has ceased (reportedly reducing demand for parallel market dollars).
- **Exchange rate expectations** appear unaffected so far, with low and steady birr depreciation, and some parallel market appreciation. This may change if the war prolongs and the terms of trade worsen.

3. **General Elections were held on June 1.** Voting proceeded peacefully. The results have not yet been announced but the ruling Prosperity party is expected to retain its majority.

PROGRAM PERFORMANCE

4. **End-December 2025 quantitative performance criteria (QPCs) were met.** There was no new provision of advances to the government by National Bank of Ethiopia (NBE), accumulation of external arrears, or contracting of non-concessional debt. The QPCs on federal government tax collection and the accumulation of net international reserves for end-December were met with a comfortable margin, and all but one indicative targets (ITs) for end-March were also met. The QPC on financing of the primary deficit overperformed by about 0.4 percent of GDP due to strong revenue outcomes and lags in public sector wage adjustment in the regions. End-December ITs on claims on public enterprises by commercial banks, and on the present value of external borrowing were met. The end-March 2026 IT on government contributions to the Productive Safety Net Program (PSNP) was missed as donor contributions substantially exceeded expected amounts (by US$ 234 million, 0.2 percent of GDP), allowing for program objectives to be met and supplemented with a three-month extension of support for rural beneficiaries and a small increase in benefits for urban beneficiaries in response to the external shock. The government's contribution is expected to return to programmed levels in FY26/27. The continuous PC on FX intervention that was introduced at the fourth review was met.

Text Table 1. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2025–March 2026

(in millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2025 Performance Criteria			end-Sep 2025 Indicative Target			end-Dec 2025 Performance Criteria			end-Mar 2026 Indicative Target		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Prel.	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/]	106,000	105,160	Met	76,000	-12,267	Met	105,000	-44,105	Met	116,000	39,053	Met
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,911	Met	200	746	Met	400	1,433	Met	400	1,577	Met
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	578,000	701,753	Met	120,000	223,862	Met	276,000	579,641	Met	525,000	906,894	Met
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-1,830	Met	0	-42,216	Met	0	-38,647	Met	0	-84,914	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	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	0	0	Met
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]										0	0	Met
Indicative targets												
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/, 5/]	147,000	91,971	Met	50,000	8,846	Met	95,000	-41,820	Met	139,000	-13,292	Met
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [6/]	51,400	58,232	Met	8,500	4,000	Not Met	22,500	23,565	Met	33,500	26,600	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)	3,000	629	Met	2,000	450	Met	2,500	467	Met	2,750	714	Met

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

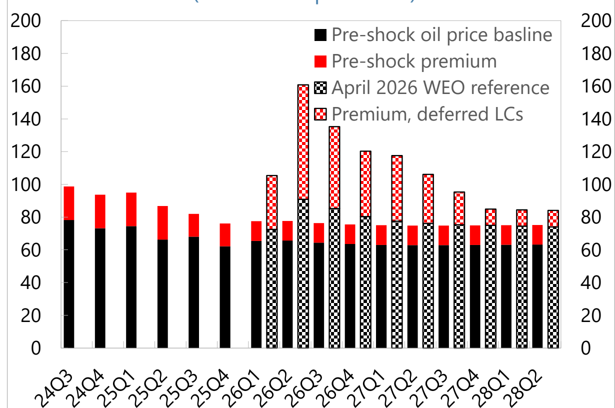
6/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

5. Structural benchmarks (SBs) are expected to be met. SBs on the phase-out of CBEs legacy T-bill portfolio (July) and adopting methodology and institutional protocols for monitoring and reporting tax expenditures (end June) are on track.

ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

6. Fuel supply disruptions and high spot prices related to the war in the Middle East led to shortages and contributed to balance of payments (BOP) pressures. After one supplier declared force majeure in early March, spot market purchases partially filled the supply gap, at very high cost. Premiums peaked at US$80 over Platt's for diesel and US$88 for jet fuel in April, bringing costs per barrel at that point to about US$270 and US$300 per barrel respectively. During March-April, the authorities were able to secure only about 60 percent of monthly diesel imports, leading to rationing measures and long lines at fuel retailers, forced leave for public servants, notable declines in traffic and increases in prices for fresh produce in Addis Ababa. Gasoline supply was largely uninterrupted. Supply volumes were restored from May through increased spot market imports, and most of the effects of shortages have dissipated. Prices and premiums have fallen back moderately from peaks (diesel at Platts of US$155 plus US$35 average premium on a 360-day payment basis, as of end-May). Despite this, short-term financing pressures remain acute.

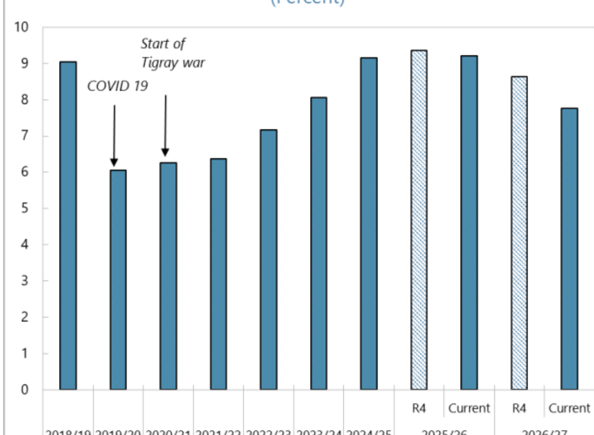
Ethiopia: Price Path for Ethiopian Fuel Imports
(U.S. dollars per barrel)



Sources: Ethiopian authorities and IMF staff estimates.
Note: Ethiopia-specific import prices incorporate a premium over the WEO reflecting (i) relevant benchmark prices, and (ii) supplier premiums to cover shipping, re-routing, and insurance costs.

7. Strong BOP outcomes to date have created resilience despite the significant shock and higher risks. Export performance through the first half of 2025/26 was strong, supported by rising gold prices and volumes. Strong full-year performance in coffee and gold is expected to offset higher fuel import costs and underlying import growth and support growing FX availability. Overall, the goods trade deficit is expected to narrow slightly compared with the fourth review and end the year at US$12.6 billion with high gold prices supporting outcomes over the medium term. Service exports are expected to continue to grow, with EAL maintaining revenues, albeit stronger private sector demand for services imports following FX liberalization weakened the balance. Remittances have increased modestly, and FDI projections remain broadly unchanged. Gross international reserves are expected

Ethiopia: Real GDP Growth
(Percent)

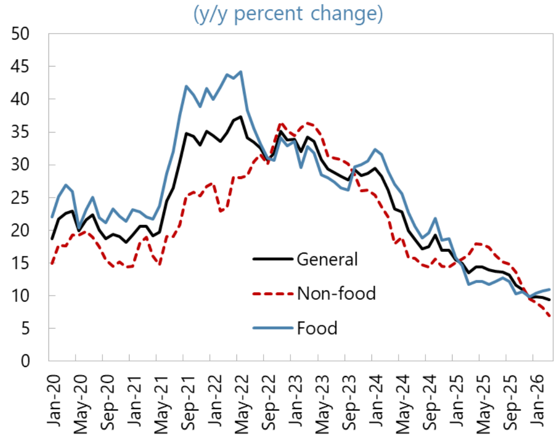


to reach US$5.9 billion by end-2025/26 (2.1 months of import coverage). Nevertheless, downside risks have increased materially; prolonged high fuel import prices or lower gold or coffee prices could pressure reserves and complicate the objective of reaching 3.5 months of import coverage by the end of the program.

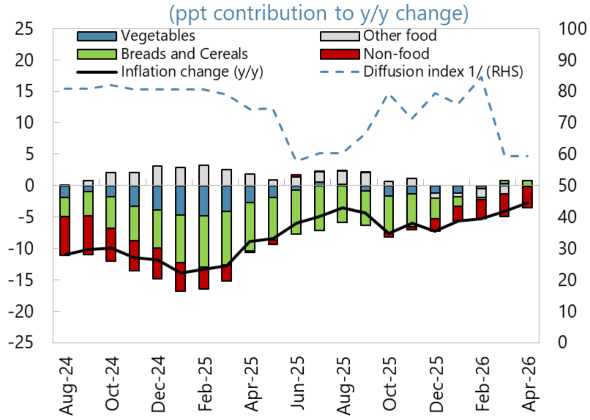
8. Assuming the shock is not prolonged, modest downward revisions to growth due to lower private consumption and investment are expected. High-frequency indicators suggest strong growth performance in the first half of 2025/26 (robust gold, electricity, cement, and rebar production), which would offset impact of the war this year with some carry-through to 2026/27.

9. Inflation rose in April 2026. After declining to 9.4 in March 12-month inflation rose to 11.7 percent in April driven by staple foods and solid fuels for domestic use. The authorities moved quickly in response to the external shock, raising retail fuel prices in March and April (VAT and excise on fuel were temporarily applied at below statutory tax rates, while keeping gross fuel tax proceeds in line with FY25/26 budget revenue target). However, liquid fuels and transport account for only 3 percent of the consumption basket, muting the immediate effects. Overall, inflation is expected to rise due to seasonality, base effects, and higher fuel prices and reach 14 percent at end-2025/26, before declining toward single digits by late 2026, in line with the authorities' policy objective and assuming a gradual normalization of international fuel prices as reflected in April 2026 World Economic Outlook (WEO) reference forecast.

Ethiopia: Consumer Price Index
(y/y percent change)



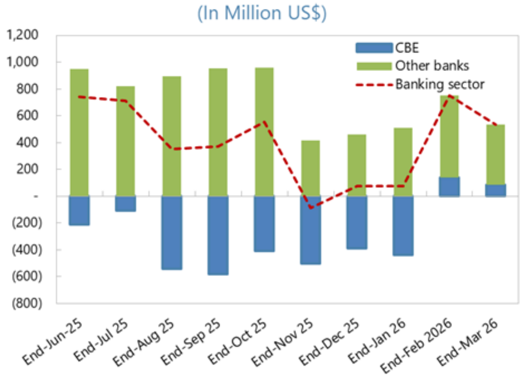
Ethiopia: Decomposition of Inflation
(ppt contribution to y/y change)



1/ Weighted share of items with falling annual inflation.

10. The birr continued to depreciate slowly, with low volatility. Since October 2025, the exchange rate has depreciated at about 1.3 percent per month. The parallel market spread has fluctuated between 10-20 percent since October 2025, declining to around 11 percent in late May, possibly reflecting the impact of the recent FX reform measures (see Box 2), FX auctions that supported market liquidity (14 auctions totaling US$2.5 billion over 11 months of the fiscal year), and reduced parallel market FX demand associated with suspended informal Gulf trade. Banking sector FX liquidity improved after falling through November 2025, reflecting FX inflows from remittances and FDI, NBE auctions. While auctions are competitive and open to all banks, the banks continue to cluster their bids, and the offer rates they post for clients. FX backlogs at banks were estimated at about US$1.4 billion as of end-April 2026. All banks' net open positions (NOPs) remained within the prudential limits as of end-April 2026. Interbank FX trading remains limited and episodic. The real effective exchange rate has remained broadly stable since the initial depreciation.

Ethiopia: Banks' Monthly On-balance Sheet NOP
(In Million US$)



Sources: National Bank of Ethiopia and IMF staff calculations.

NBE FX Sales Auctions During FY2025/26 (To Date)
(unit: ETB/US$, unless indicated)

Date	Auction volume (in million US$)	Weighted average rate of successful bids	Highest bid rate	Lowest bid rate	Total bid amount (In million US$)
5-Aug-25	150	138.26			
14-Oct-25	150	148.10			
2-Dec-25	50	154.40			
16-Dec-25	50	154.77			
27-Dec-25	150	154.48			
6-Jan-25	70	154.87			
20-Jan-26	70	154.92	155.00	153.00	95
27-Jan-26	500	154.82	155.00	153.50	592
3-Feb-26	70	155.05	155.05	154.81	127
17-Feb-56	70	155.12	155.13	155.10	145
21-Feb-26	500	153.25	154.00	152.01	455
3-Mar-26	70	155.94	156.05	153.88	177
17-Mar-26	70	157.47	158.50	154.50	242
19-May-26	500	159.63	160.91	157.30	1,060

Sources: NBE
* NBE has published full FX auction details since the January 20, 2026 auction.

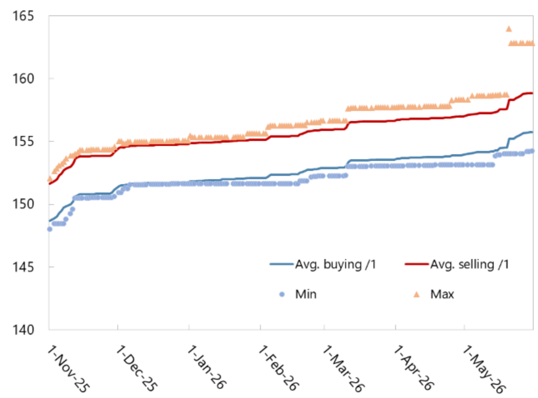
Box 2. Recent FX Measures

NBE implemented further FX reforms in January, February and May 2026. Key measures include:

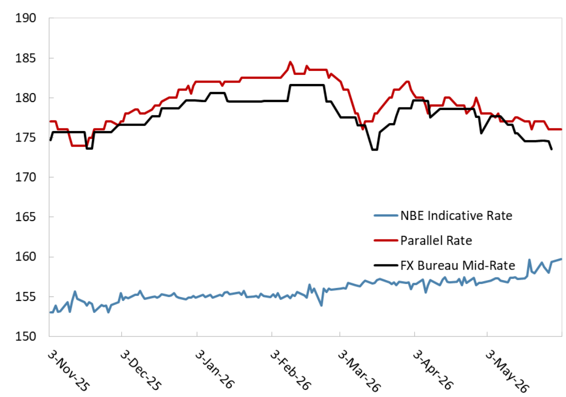
- To facilitate more competitive, real-time bidding among banks, NBE launched an automated interbank FX trading platform at the Ethiopian Securities Exchange (ESX).
- On February 11, 2026, NBE announced nineteen amendments to the FX Directive, among which:
  - Eliminating surrender requirements for services exporters, who are permitted to hold 100 percent of export proceeds in FX retention account for an indefinite period.
  - Authorized banks can enter forward exchange transactions without NBE approval.
  - Exporters are authorized to receive advance payment.
  - Approval of external loans and suppliers' credit to be fully handled by banks.
  - Authorized banks are allowed to offer private external loan guarantees not exceeding 10 percent of their total capital.
  - Several reforms to retail transaction limits (including eased requirements for opening FX accounts; outbound remittance allowed up to US$3,000 for family reasons, and advance payment up to US$20,000 for medical or educational services).
  - Releases of security deposit for FX bureaus depending on length of operations.
  - Dividend payments can be authorized without NBE approval (documents submitted to banks).
  - Raising cash holding limits for FX bureaus up to 25 percent of their capital.
- On May 25–26, 2026, the NBE introduced amendments to its FX directive to ease foreign exchange administration and support the business environment:
  - Authorizing banks to approve LCs and Cash Against Documents (CAD) transactions for FX accounts holders and retention account holders, without NBE approval.
  - Allowing initiation of shipments under CAD arrangements without prior bank approval, for institutions holding foreign currency accounts.
  - Instructing banks to apply fees and charges for LC transactions on an annualized, pro-rated basis according to the tenor of the LC, within maximum limits set by the NBE.
  - Authorizing all licensed commercial banks in addition to CBE to issue export permits, manage documentary credits, and handle all related banking transactions for goods destined for China.
- NBE now publish full details of FX auction results including highest and lowest bid prices, total bid amount, cut-off rate and the number of participating banks.

Ethiopia: Recent Exchange Rate Developments

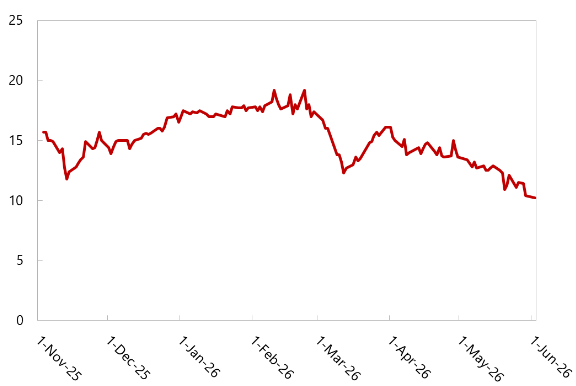
Posted Exchange Rates of Largest Banks[1]
(ETB/USD)



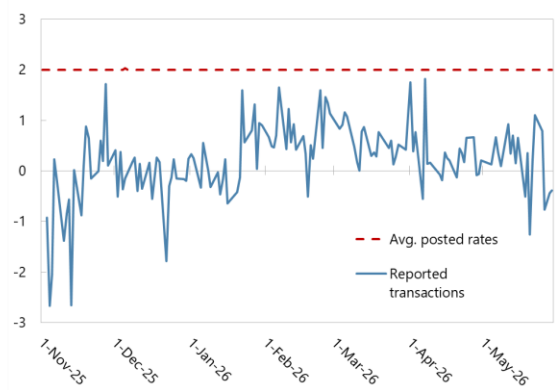
NBE Indicative Rate[2] vs Parallel Rate
(ETB/USD)



Parallel Market Spread
(Percent)



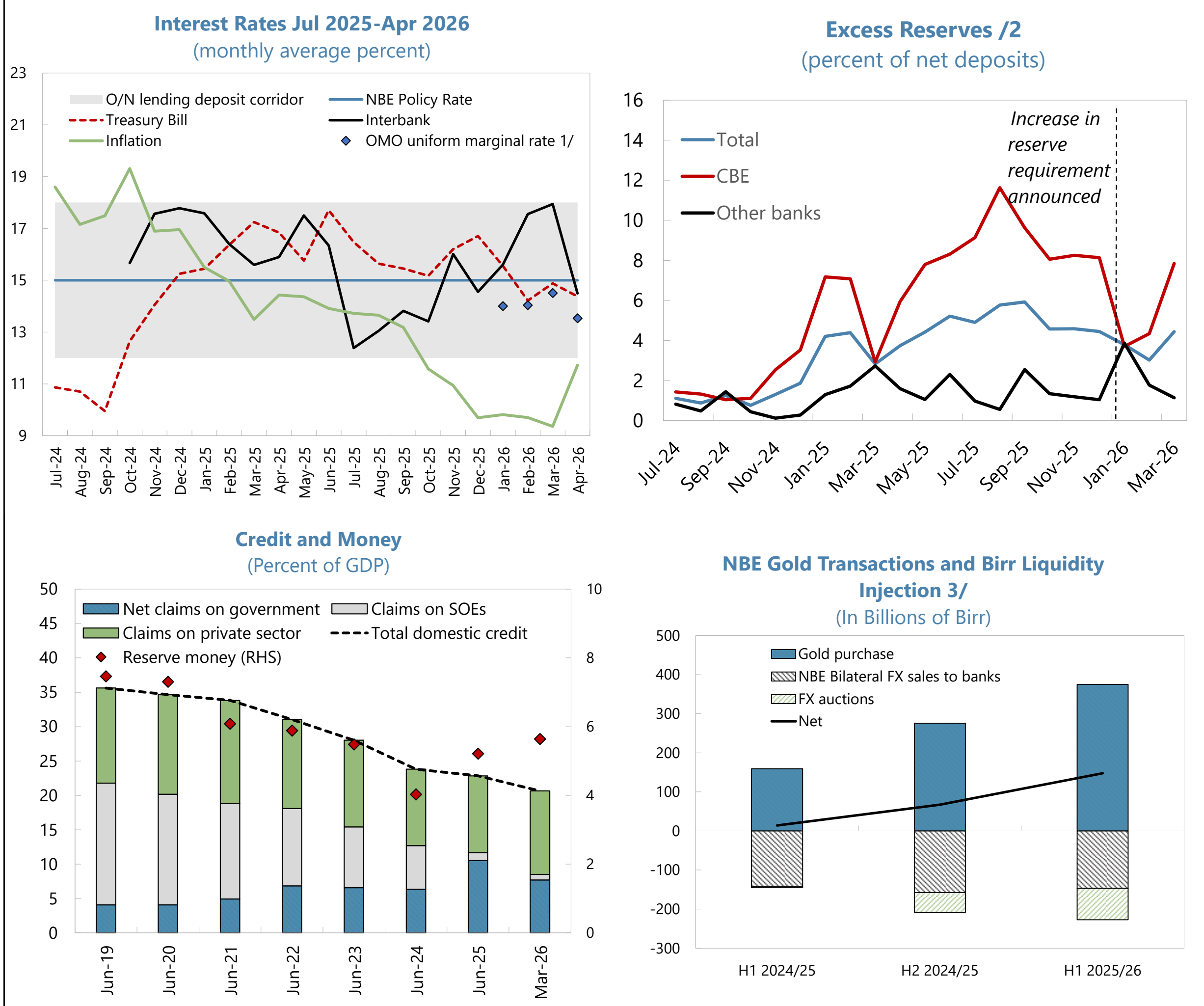
Banks' Buy-Sell Spread[3]
(Percent)



Sources: NBE and IMF staff calculations.
1/ Simple average.
2/ Weighted average of actual transactions across all banks (posted the following morning). Indicative Rate does not include fees.
3/ Banks' buy-sell spread excludes fees (typically 4 percent).

11. Growth in monetary aggregates remains high. Following a slight slowdown in February, reserve money growth stood at 67 percent y/y in March up from 43 percent in February, driven by significant rises related to NBE gold purchases. Broad money growth has slowed slightly to 37 percent in March from a peak of 42 percent in December, as deposit growth slowed. Excess reserves reported by NBE stood at 4.4 percent of net deposits at end-March, concentrated at CBE. Interbank interest rates fell from 17.9 percent in March to 14.5 percent in April. Total credit growth remained around 25 percent y/y at end-March (slightly below expected nominal GDP growth), driven by very high private credit growth (50 percent y/y) while credit to the government was subdued (0.3 percent y/y), and declined to SOEs (-10 percent y/y).

Ethiopia: Monetary Conditions



Sources: NBE and IMF staff calculations.

1/ Prior to January 2026, OMOs conducted at fixed rate full allotment at the policy rate.

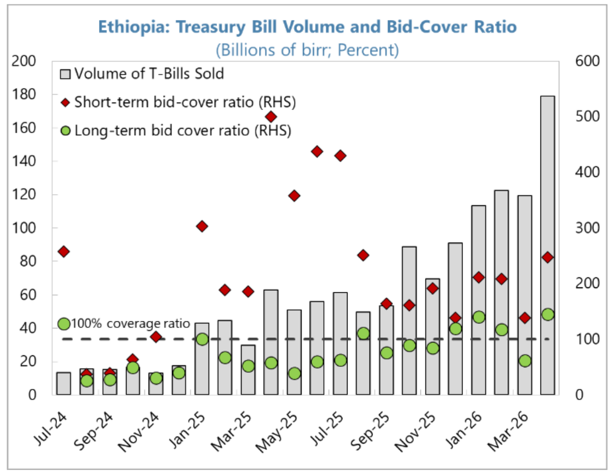
2/ Total and other banks' excess reserve estimate based on aggregate data from NBE. CBE estimate based on 7 percent reserve requirement prior to Jan 26 and 10 percent thereafter.

3/ NBE's bilateral FX sales to banks in 2024/25 are assumed to be evenly distributed between 1st and 2nd half.

12. **The NBE held the policy rate at 15 percent in December and March.** Following recent monetary policy committee meetings, the NBE Board emphasized their view that the monetary policy rate is set appropriately to control inflation. They reported progress in the transition to interest rate based monetary policy, noting efforts to strengthen transmission from the policy rate to lending rates including through continued development of the interbank money market. The Board also (i) approved an increase in the reserve requirement from 7 to 10 percent in response to the increase in excess liquidity; (ii) maintained the cap on private credit growth at 24 percent y/y; and (iii) unexpectedly removed the minimum savings deposit rate of 7 percent which had acted as an informal coordination mechanism tying down deposit rates—a potentially significant easing of financial repression. In January the NBE moved from fixed-rate full allotment open market operation

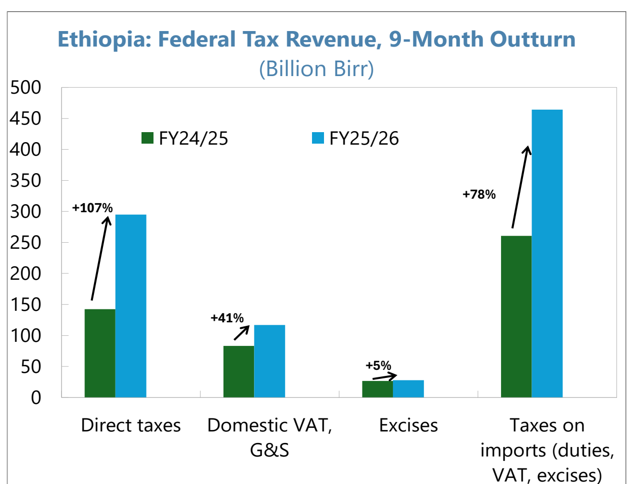
(OMO) auctions to a uniform rate auction reflecting concerns about costs to NBE given high demand. OMO volumes have declined considerably (although auctions remain oversubscribed) and cut-off rates have been below the policy rate, weakening support for the development of market-based liquidity management. OMOs remain 14-day liquidity absorbing operations. Following the March monetary policy committee meeting, NBE noted the inflation risks from the war in the Middle East and the need to maintain a tight monetary stance, committing to reconvene and consider new policy measures if needed.

13. **Demand for T-bills continued to increase.** Auction volumes almost doubled in the six months to April 2026 from the previous six months (to 694 billion birr) and both short and longer term (6 months or longer) bills were oversubscribed on average. The weighted average interest rate for new issuances fell to 14.4 percent in April from 16.7 percent in December. Central government domestic debt increased by 196 billion birr (1 percent of GDP), of which 187 billion birr was T-bills. The share of 182-day T-bills increased from 29 to 46 percent over the period. Banks' holdings of T-bills remained stable at around 60 percent of the total as of end February 2026.



14. **Banking sector indicators remained stable (Table 5).** Reported non-performing loans stood at 3.6 percent in December 2025, compared with 4.4 percent in December 2024. Banking sector liquid assets stood at 24 percent (above the 15 percent regulatory benchmark). The reported average capital ratio decreased to 17.7 percent from 18.2 in Dec 2024. Banks' exposure to the government (T-bonds and T-bills; banks do not make loans to the government) stood at 23 percent of total assets at end-March 2026 including the CBE recapitalization bond, and 7 percent excluding this bond, while lending to public enterprises was 9 percent of assets.

15. **Strong tax revenues and lags in budget execution have contributed to a stronger primary balance than expected for the first nine months of FY25/26.** Federal tax revenues increased 76 percent compared to the same period of FY24/25, driven by income and fuel tax reforms. However, domestic indirect taxes fell short of the Budget targets due to delays in excise stamp rollout and VAT buoyancy below the authorities' expectations (despite reaching 1.45). Budget execution lags



Sources: Ethiopian authorities and IMF staff calculations.

stem from gradual implementation of wage increases and are temporary, with the regional wage bill expected some 0.1 percent of GDP above target, which can be accommodated within the budgeted operating contingency reserve.

16. Fiscal policy reforms are on track. Implementation of the Income Tax Proclamation, including the minimum alternative tax, adjustments to withholding and personal income taxation, simplification of the presumptive regime, and revisions to the corporate income tax (CIT) payment regime, is underway. A revised Investment Incentive Regulation has entered into force, replacing income tax exemptions with reduced income tax rates of limited scope and duration, tied to measurable investment-linked criteria for all new incentives, and introducing a legal basis and requirements for monitoring, analysis, and reporting of the tax revenue foregone.

17. External debt rose in line with projections during the first eight months of the fiscal year. Total disbursements amounted to US$1.25 billion, with the IMF and the World Bank accounting for US$1.2 billion. Official bilateral and external commercial debt where restructuring discussions are ongoing continued not to be serviced. Total new concessional debt contracted during the period amounted to US$1.2 billion.

Text Table 2. Ethiopia: Selected Economic Indicators

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Actual		Proj.	Proj.	Projections			
	In percent change, unless otherwise mentioned							
Real sector								
GDP at constant prices (at factor cost)	8.1	9.2	9.2	7.8	8.2	8.2	8.0	7.7
Consumer prices (period average) [1]	26.6	16.0	11.7	12.3	9.2	7.8	6.8	6.7
Consumer prices (end of period) [1]	19.9	13.9	13.9	10.7	8.0	7.0	6.0	5.9
External sector								
Exports of goods and services (U.S. dollars, f.o.b.)	8.1	42.0	17.2	14.9	8.5	12.9	12.3	12.3
Imports of goods and services (U.S. dollars, c.i.f.)	7.8	3.2	21.0	7.3	8.3	13.6	12.0	13.4
Gross official reserves (in millions of U.S. dollars)	1,429	4,418	5,863	8,173	11,868	13,958	16,233	18,194
(months of prospective imports of goods and nonfactor services)	0.7	1.7	2.1	2.7	3.5	3.7	3.8	3.8
	In percent of GDP, unless otherwise mentioned							
External current account balance, including official transfers	-2.9	-1.1	-2.5	-1.3	-1.5	-2.0	-2.0	-2.7
Government finances								
Overall fiscal balance, including grants (cash basis)	-2.0	-1.2	-2.0	-1.2	-1.4	-1.6	-1.6	-1.6
Total financing (including residuals and excluding net acqusition of assets)	2.0	1.2	2.0	1.2	1.4	1.6	1.6	1.6
External financing	0.2	1.0	0.4	-0.1	0.1	-0.4	-0.4	0.0
Domestic financing [2]	1.8	0.5	1.6	1.3	1.3	1.9	1.9	1.6
Primary fiscal balance, including grants	-1.4	-0.4	-0.7	0.1	-0.1	-0.3	-0.2	-0.1
Public debt [3]	35.5	50.5	45.3	40.8	37.2	34.0	31.2	28.6
Domestic debt	19.7	18.7	15.4	13.7	12.6	12.6	12.5	11.9
External debt (including to the IMF)	15.8	31.8	29.9	27.1	24.5	21.4	18.7	16.7

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.

18. Risks are tilted to the downside (Annex I, II). A more severe, longer duration, commodity price shock would worsen fiscal and trade outcomes and could lead to inflationary pressures and higher financing needs, including near-term FX liquidity pressures. Security challenges continue to represent key risks. The baseline is predicated on successful program execution and progress in implementing the external debt treatment. Policy slippage or delays in reform implementation in response to social pressures could result in larger financing gaps or withdrawal of development partner or creditor support. Fragility risks related to conflict (intensifying unrest within the country or regionally) and institutional weaknesses may further complicate policy implementation risks.

POLICY DISCUSSIONS

A. Exchange Rate

19. The NBE remains committed to a market-determined exchange rate and is implementing further actions to enhance FX market functioning (MEFP ¶16):

- **Net open FX positions.** The NBE has strengthened enforcement of the Net Open Position (NOP) Directive, with daily monitoring of limits set at ±18 percent of capital. All banks were within prudential limits as of end-April 2026. Regular consultations with the NBE have supported CBE's compliance, despite pressures related to large import flows, and CBE has intensified efforts to mobilize FX from exporters and remittances.
- **Interbank FX market development.** A roadmap to deepen the interbank FX market will be developed by end-September 2026 (**SB**), with support from IMF technical assistance. Planned system upgrades at the NBE, expected to be completed by end-July 2026, will enable domestic settlement of interbank FX transactions.
- **NBE FX auctions.** The NBE will continue to conduct FX auctions in a transparent and predictable manner, including by publishing quarterly auction calendars in advance. Market monitoring has been strengthened to promote competition and ensure compliance with FX directives and the FX Code of Conduct.
- **Surrender requirements.** The NBE will adopt, by end-September 2026, a plan to remove the remaining surrender requirements. Indicators to assess FX market development—identified in May 2026—include the level and persistence of the parallel market premium, interbank market activity, unmet FX demand, and banks' NOPs. These indicators will guide the sequencing of reforms through the remainder of the program period. In addition, upgrades to NBE's FX market reporting system to be operationalized by end-December 2026 will allow for relaxation of rules governing use of retention accounts, providing exporters with greater flexibility to secure favorable exchange rates while still fulfilling surrender requirements.

20. Reforms to gold market operations aim to reduce distortions, mitigate balance sheet risks for NBE, and channel more FX through the private sector (MEFP ¶20). NBE is the sole buyer of artisanal gold and has relied on FX auctions to partially re-channel strong gold export inflows to the private sector. Near-term measures include expanded ore purity verification capacity and improved internal procedures. A plan to phase out the premium paid to miners above international prices will be adopted by end-September 2026, in conjunction with the NBE recapitalization plan. A longer-term exit strategy from direct participation in the gold market will be developed by end-December 2026, considering implications for reserve accumulation objectives.

Box 3. Potential Drivers of Parallel Market Spread

Despite consistent policy efforts, several factors could contribute to persistent parallel market spreads:

- Remaining restrictions on access to FX for current account transactions.
- High transaction costs with banks, including fees (around 4 percent), NBE's FX commission (2.5 percent), and possibly informal payments or hidden costs through cross-selling of other products. Potential collusion among banks may reflect a preference for low-volume, high-margin transactions, that give them market power through FX allocation decisions.
- The absence of hedging instruments in the formal market may drive participants to the parallel market to lock in exchange rates.
- The high import tax burden—customs duties (0–35 percent), a surtax (10 percent), excise taxes (5–500 percent), and VAT (15 percent), together with arbitrary or inflated customs valuations—create incentives for smuggling and sourcing FX in the parallel market.
- Demand for FX to circumvent capital controls on outbound investment.
- To the extent that gold export earnings are the marginal source of FX, the premium paid by the NBE for gold purchases (around 5–15 percent above international prices) may contribute to determining the parallel market exchange rate.

Recently adopted policy measures (see Box 2) should reduce incentives to use the parallel market for some agents. Progress towards phasing out remaining exchange restrictions, the gold price premium, gradual capital account liberalization, developing an FX forwards market, and introducing stronger competition through a greater role for FX bureaus and possible foreign bank entry will take time. Improvements in customs administration, including greater digitalization, should reduce scope and incentives for smuggling and reliance on the parallel market, while reductions in import taxes could be considered in the longer term within the broader revenue mobilization strategy.

21. The authorities are phasing out long-standing exchange restrictions (MEFP ¶18). The authorities committed to removing all restrictions identified in the IMF's Article VIII assessment during the program period. The backlog of dividend payments has been cleared.[1] The prohibition on accessing and using FX for moderate outbound family remittances has been partially eased, with remittances now permitted but capped at US$3,000.[2] Further liberalization will be guided by an assessment of risks, including potential circumvention of capital controls to be completed by end-December 2026 (delayed from planned completion by the fifth review). The eventual removal of the NBE's exchange commission will be aligned with the review of the NBE's capital position currently underway. The remaining exchange restrictions (tax clearance requirement for dividend repatriation and the NBE clearance requirement for import permits) will be eliminated by the end of the program, supported by inter-agency coordination to identify alternative mechanisms to minimize risks of capital flight and tax evasion. Since the fourth review, there have been no occurrences of impermissible spread for the two multiple currency practices (MCPs) that Ethiopia currently has,

[1] Banks were permitted to settle dividends accumulated prior to the FX reform over an 18-month period starting from end-September 2024; with the period over and the backlog cleared, the exchange restriction on access to and use of FX for the repatriation of backlog dividends outstanding as of July 29th, 2024, is eliminated.

[2] The exchange restriction will be updated to a restriction arising from the imposition of hard ceilings on access to and use of FX for the purposes of cross-border payment of moderate family remittances.

arising in connection with (i) the 2.5 percent exchange commission applied to bank-client FX transactions, and (ii) the 2.5 percent commission applied by the NBE on FX transactions (using a lagged exchange rate not in line with the MCP policy) with the government for external payments.[3] Since it has been 12 months since the observation of an impermissible spread, the MCPs on (i) was eliminated on March 11, 2026, and the MCP on (ii) was eliminated on January 27, 2026. As these MCPs are eliminated, the related exchange restriction on the commission of the 2.5 exchange commission is also eliminated.[4]

22. The NBE introduced numerous changes to the capital flow management (CFM) framework, the large majority of which eased controls. These include the removal of the surrender requirement on services exports, lower barriers to opening FDI-related foreign currency accounts, bank-issued external loan guarantees, relaxed conditions on forward FX transactions—while controls on resident outward investment, which remain subject to case-by-case approval, were largely retained (see Box 2). Consistent with the Fund's Institutional View and recognizing that CFMs should not substitute for warranted macroeconomic policies, staff encouraged the authorities to proceed with further, well-sequenced and condition-based capital flow liberalization.

B. Monetary Policy

23. A tight monetary policy stance remains appropriate to anchor inflation expectations. The anticipated rise in inflation from higher fuel import prices coincides with seasonal increases in food prices, while the Middle East war is currently expected to weigh only moderately on aggregate demand next year. NBE faces several pressures in managing monetary and financial conditions:

- NBE gold purchases results in significant liquidity injections, concentrated at CBE which has the most important presence in gold producing regions. Exit from the gold purchases will take time.
- OMOs have become costly, with NBE responding to the pressure on income by shifting from full allotment to uniform rate auctions. Absorption volumes and cut-off rates have declined since December 2025.
- The increase in reserve requirements in December helped absorb some structural excess liquidity, but market segmentation with liquidity concentrated at CBE limits scope for further system-wide increases.
- FX auctions have absorbed liquidity; however, they run counter to the interest rate-based tools the NBE is trying to develop and by leaving an important role in the market to NBE, may distort or inhibit FX market development despite sales through competitive auctions.

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[3] As noted in the Staff Report for the third review (Country Report No. 2025/188), an impermissible spread on (i) most recently occurred on May 21, 2025, while an impermissible spread on (ii) most recently occurred on March 10, 2025. Based on updated data received by staff, the dates of the most recent impermissible breaches should be revised to March 11, 2025, and January 27, 2025, respectively.

[4] Under the revised MCP policy, exchange taxes and other mandatory costs or subsidies that are subject to the MCP policy and do not give rise to MCPs would also not give rise to exchange restrictions.

Economic and policy conditions since the interest rate-based policy framework was adopted in July 2024 have been generally favorable for disinflation—notably the end of monetary financing of fiscal deficits and trend declines in staple food prices—and growth in monetary aggregates and private credit has not yet given rise to inflationary pressures. In this context, the current shock is a test for the credibility of the new policy framework. The authorities should take a proactive approach, monitoring price dynamics closely, resuming more active use of OMOs, and raising the policy rate if second round inflationary pressures appear likely to emerge.

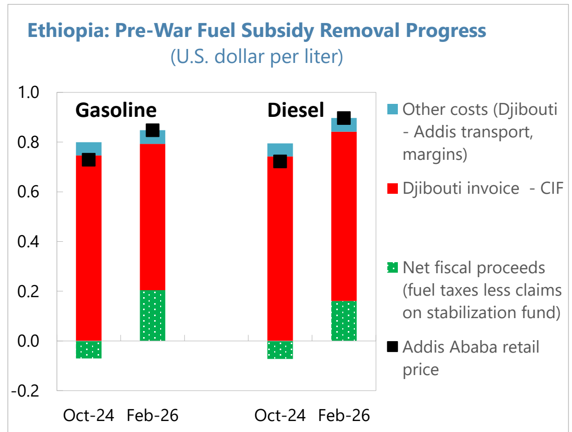
24. Efforts to develop the interest rate-based monetary policy framework should continue. The authorities are strengthening forecasting and analytical capacity, developing a monetary policy communication strategy, and enhancing liquidity management (MEFP ¶23-25). The cap on private credit growth will be removed in December 2026 (MEFP ¶25), although staff noted it is increasingly ineffective (20 of 28 banks exceeded their annual growth caps by March 2026). Staff advised against a possible new law requiring banks to allocate a portion of their credit to the manufacturing sector, which is not consistent with market determination of lending rates and credit decisions, and could weaken credit quality. Fostering a competitive, market-oriented financial sector, including through removing direct monetary instruments and quantitative limits, is important to strengthen monetary transmission.

25. The authorities have set up a joint committee to agree a recapitalization plan for NBE (**new SB, September 2026**). Recapitalization will support NBE's operational independence and effective monetary policy implementation. The plan, guided by Fund TA, will aim to: (i) achieve policy solvency (that is, sufficiently strong earnings to ensure that NBE can conduct monetary policy effectively and achieve a sustainable equity path with positive realized earnings); (ii) full removal of the NBE FX commission by end-June 2028; (iii) gradual reduction in NBE exposure to public sector banks (significant progress has been made already); and (iv) phasing out of premiums and subsidies for the purchase of gold.

C. Fiscal Policy

26. Revenue mobilization and deficit objectives for FY25/26 are on track. Revenue projections were revised up by 0.3 percent of GDP from the fourth review (overperformance of about 30 billion birr at the federal level) on stronger than expected corporate income and import tax outturns, which more than offset delays in excise stamp implementation. Higher revenues offset additional spending from capex payments (0.1 percent of GDP carried over from FY24/25), and higher interest and public sector fuel consumption costs. Additional pressures from fuel and fertilizer costs are reflected in the FY26/27 budget.

27. The FY26/27 fiscal stance will be contractionary as front-loaded World Bank support normalizes and net external financing declines. The Council of Ministers has submitted a draft FY2026/27 Federal Government budget to Parliament in line with the program (**prior action**). The primary deficit, excluding grants and projects, is projected to strengthen from 0.6 to 0.1 percent of GDP (MEFP ¶30). Treasury financed primary expenditure is expected to remain stable at 11.5 percent of GDP, despite the assumption of restructured debt service for loss-making rail and sugar SOEs by the central government that adds 0.4 percent of GDP to spending. The budget allocation for PSNP will be 60 billion birr (0.3 percent of GDP, Box 4). The budget includes revenue mobilization measures (0.6 percent of GDP, ¶28). Domestic financing rises from 1.1 to 1.3 percent of GDP, and additional external budget support (0.4 percent of GDP in FY26/27 from ECF and DPO) will help ease financing pressures, smooth adjustment to the fuel and fertilizer shock, and recapitalize the Ethiopian Petroleum Supply Enterprise (EPSE, the fuel importing SOE).



Sources: Ethiopian authorities and IMF staff estimates.

28. The authorities will cap the FY26/27 fuel subsidy envelope at 0.1 percent of GDP and recapitalize EPSE (MEFP ¶¶32, 36). Having effectively eliminated subsidies by March 2026, the authorities responded quickly to the fuel price shock, raising diesel prices by 40 percent and 94 percent for retail and commercial customers respectively, and gasoline prices by 30 percent since early March. Jet fuel and kerosene prices were raised in line with import costs. The FY26/27 fuel subsidy will smooth transition to full cost recovery while recapitalization will eliminate legacy claims on the fuel price stabilization fund of 1.3 percent of GDP (**prior action**). The recapitalization will provide sufficient birr liquidity to enable a partial shift to sight payment for fuel imports, lowering costs. Fuel taxes (0.8 percent of GDP) will be collected and transferred to treasury at full statutory rates from early FY26/27 (**prior action**), as included in the FY26/27 Budget and in line with fiscal transparency commitment. Fuel pricing reform including an automatic fuel price mechanism is planned (MEFP ¶37). Electricity generation and subsidies are not affected by hydrocarbon prices or supply.

29. Revenue mobilization continues to advance under the National Medium Term Revenue Strategy (MEFP ¶34). Implementation of the 2025 income tax reform is progressing as planned, with strong direct tax collection and continued rollout of the quarterly CIT payment regime. Progress is also being made in rationalizing tax incentives and institutionalizing tax expenditure reporting, supported by IMF technical assistance (**SB, end-June 2026**). Additional revenue measures in preparation include launching the excise stamp system (**new SB, end-December 2026**), submission of the motor vehicle tax reform proposal to the House of Federation to establish revenue assignment (**new SB, end-December 2026**), and phased rollout of the property tax regime, initially focused on large cities with World Bank support.

30. Strengthened tax administration efforts will be essential to sustain medium-term revenue mobilization (MEFP ¶35). Building on the 2024 TADAT, the authorities are preparing a Compliance Improvement Plan for medium and large taxpayers (**SB, end-December 2026**). Efforts to improve compliance risk management, e-filing, and e-payment continue, alongside broader tax administration digitalization, including VAT e-invoicing and development of a new IT system to replace SIGTAS. Staff underscored the importance of closer integration between MoF and the Ministry of Revenues information systems.

31. The authorities continue to strengthen fiscal policy formulation, the budget framework, and fiscal transparency (MEFP ¶40). Priorities, supported by IMF technical assistance, are regular budget execution reporting—with the FY25/26 mid-year budget review published in April 2026— expanded GFS coverage, improved compilation and reporting of fiscal accounts, and closer monitoring of extrabudgetary units. Staff emphasized the need to advance Treasury single account (TSA) implementation, improvements in cash management and forecasting, and continuing PIMA-guided reforms.

Box 4. Social Safety Net Programs

The PSNP was launched in 2005 and is the backbone of the safety net for vulnerable people. PSNP, structured as a series of World Bank and development partner supported projects, operates through public works and unconditional cash transfers, providing a safety net for households that are chronically food insecure, poor, or affected by shocks such as droughts. It has expanded over the years to cover eight million rural and almost two million urban beneficiaries across most of the country. Rural and urban safety nets reach close to 10 percent of the total population. The PSNP provides temporary shock support but aims above all to support sustainable livelihoods for vulnerable households by providing (i) predictable cash and food transfers; (ii) short-term public works employment that creates community assets; and (iii) training and mentorship. Investment in targeting, digitalization, and payment systems have steadily improved delivery and reduced wastage. During disasters, the government uses PSNP infrastructure to reach affected households while other instruments (e.g., humanitarian food assistance) provide critical additional, less targeted support. The Government recently launched a self-reliance initiative to support humanitarian response, and in early 2026 created the National Disaster Risk Response Fund that complements PSNP with a domestic resource envelope of about 0.2 percent of GDP.

In the first year of the ECF the authorities increased the national budget contribution to PSNP from 0.1 to 0.4 percent of GDP. The government has committed to sustain increased allocations and eventually achieve self-sufficiency. PSNP-5 (2021–25) was financed primarily by the World Bank (IDA and multi-donor trust funds) and contributions from thirteen other development partners, and faced significant financing pressures until the last year as persistent drought and conflict raised needs, costs rose due to high inflation, and donor and government financing was affected by the Tigray war. Additional resources from donors (some 0.2 percent of GDP) raised in late 2025 enabled an extension of PSNP-5 through May 2026, providing an additional three months of coverage for vulnerable rural households, while also offsetting a portion of the government contribution initially planned for the second half of FY25/26. The government will use a small part of the unused allocation to provide additional support to urban households affected by the current shock.

PSNP-6 was approved in March 2026 and will reach vulnerable households in rural areas in late 2026. Government contributions are projected at 60 billion birr in the FY26/27 budget, which will expand the program to all regions of the country for the first time and add 1.5 million new beneficiaries. PSNP-6 will scale-up and enhance the digital platform initiated under PSNP-5 and contribute to the development of the National Social Registry.

32. The Fiscal Safeguards Review mission was concluded in March. Federal budget operations provide broadly reasonable safeguards on the use of Fund resources for budget support, with Federal government banking and cash management arrangements broadly aligned with the core features of a TSA framework, and comprehensive coverage of federal public bodies, transfers to regional governments and the rest of public sector in the annual budget. Recommendations focused on improving control and accountability of administrative transfers between public bodies, limiting the size of contingency budgets, and establishing clear triggers for initiating supplementary budgets. The notable progress in fiscal reporting and transparency was acknowledged, with publication of periodic budget execution reports recommended. The mission identified gaps in internal audit effectiveness, which is constrained by weaknesses in independence, oversight, capacity, and the application of risk-based practices. The authorities committed to follow up on FSR mission recommendations on fiscal reporting, TSA reconciliation, expenditure controls, arrears monitoring, and fiscal risk oversight. Work is underway to finalize the FSR report.

33. SOE sector reforms are broadly on track (MEFP ¶¶46–48). Ethiopia Investment Holdings' (EIH) reform efforts continue to prioritize financial reporting and operating efficiency, with gains in sectors including sugar and logistics. Electricity tariffs were raised in December 2025 and April 2026 consistent with the quarterly tariff adjustment plan, and the financial position of the power utilities has strengthened consistently. Further efforts are needed to improve investment planning and ensure long-term sustainability, both key to grid expansion and universal access. Several large investment projects remain under development, including the new airport led by EAL 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 continue to be monitored closely for fiscal risks. Ethiopian Investment Holdings (EIH) published its consolidated financial statements for FY22/23 at the end of March, but completion of audited consolidated statements was delayed by the external audit process (a missed SB for the fourth review) and is expected by end-June 2026. Clearance of the backlog in preparing IFRS accounts across SOEs is advancing as planned. The next step is to operationalize MoF's SOE fiscal oversight and monitoring mandate, and develop regular SOE fiscal-risk reporting, supported by IMF technical assistance envisaged for 2026.

D. Debt

34. Pending full resolution of the debt restructuring, debt continues to be assessed as unsustainable and in distress according to the updated, preliminary pre-restructuring DSA. Prolonged breaches persist in external debt service to exports and external debt service to revenue indicators. It is assumed that non-concessional loans to complete the Koysha dam will be contracted in 2026/27—one year later than projected in the Fourth Review—under the same assumptions for loan size, terms, and disbursement schedule.

35. The authorities continue to make good faith efforts to advance debt restructuring, consistent with program parameters.

- **Official bilateral creditors.** Three members of the Official Creditor Committee under the Common Framework (OCC) have signed bilateral agreements. Agreements with three additional OCC members are expected shortly. A portion of the restructured official bilateral debt owed to China is being converted from U.S. dollars into renminbi. The authorities will consider further conversions, considering the evolution of bilateral trade with China and exchange rate risk considerations. An agreement in principle has been reached with two non-OCC members.

- **External commercial creditors.** An agreement in principle (AIP) has been reached with three major commercial creditors on comparable terms to the memorandum of understanding (MOU with the OCC and aligned with the program's objectives. Total outstanding debt owed to these entities amounted to about 40 percent of total external commercial debt, including Eurobonds.
- **Eurobond holders.** The authorities have reiterated their commitment to engage in good faith negotiations with bondholders to reach agreement on terms comparable to the OCC MOU and consistent with program parameters. In a press release issued on June 1, 2026, the Ad Hoc Committee indicated that, while it remains open to alternative solutions, some members intend to pursue legal action given the lack of progress in recent discussions.

36. The authorities continue to contain the buildup of new debt vulnerabilities. No new non-concessional borrowing has been undertaken, and the pace of contracting new public and publicly guaranteed (PPG) concessional debt has remained below the ceiling set for the present value of new external borrowing.

37. Development of the local currency bond market (LCBM) continues (MEFP ¶45). Robust growth in demand, including for longer maturities, demonstrates returns from outreach, the launch of the central securities depository, and the phase out of mandatory bond purchases. Next steps include the update and publication of the T-bill and bond issuance directive by October 2026 (**new SB**), adoption of a master repurchase agreement by end-December 2026 and of the launch of a secured repo market to support LCBM development and market-based liquidity management by March 2027, increasing participation in T-bill and bond auctions, and enhancing the issuance plan and auction calendar. Secured transactions could also support liquidity management by supporting collateralized redistribution of liquidity and easing unsecured counterparty credit limits. A letter to CBE indicating the phase-out of their legacy T-bill portfolio (July SB) is expected to be issued in June. Capital market development continues, including share offerings of Ethio-Telecom and private banks on the Ethiopian Securities Exchange.

E. Financial Sector

38. Building capacity in oversight and strengthening the financial safety net remain priorities. Critical directives adopted over the last two years include on risk-based capital adequacy requirements, foreign exposure limits, asset classification, and banks' recovery plans. NBE and capacity development provider focus is gradually shifting to implementation and monitoring to ensure compliance. Developing an understanding of bank practices under the new regulations will contribute to developing a Prompt Corrective Action and bank resolution framework. The authorities are also working to develop an integrated macroprudential policy framework and stress testing models for systemic risk analysis, with the support of IMF technical assistance (MEFP ¶49), and developing regulation and supervision of the insurance sector and Islamic banking practices.

39. The recent rapid increase in private credit growth warrants close monitoring. While overall credit growth is relatively contained, reported non-performing loans remain very low, and private credit is starting from a low base (11 percent of GDP at end 2023/24), the pace of growth of private credit concentrated in particular sectors (domestic and international trade) indicates the need for more scrutiny. Private credit growth at CBE has been particularly fast, reflecting the bank's need to diversify its assets (heavily concentrated in government exposure since recapitalization). Although NBE continues to assess credit approval processes, borrower due diligence, collateral use, and internal governance in onsite inspections, a formal review of lending practices across the sector could help identify potential risks, best practice, knowledge gaps, and compliance problems. Additional short-term measures such as enhanced oversight of CBE as it strengthens its private credit underwriting processes should also be considered.

40. Reform of CBE and Development Bank of Ethiopia (DBE) continues. The authorities have adopted a framework to define CBE's public service obligations. An Asset Quality Review (AQR) is scheduled to be completed by June 2026, and the authorities plan to develop an action plan to address the recommendations, in consultation with the World Bank by December 2026 (MEFP ¶52). CBE has now repaid all long-term borrowing from NBE. Building on its recently completed AQR, DBE has adopted a modernized risk management and governance framework and is working to develop an action plan to develop a recovery strategy for NPLs and address credit risk management gaps.

41. Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) mutual evaluation of the Anti-Money Laundering/ Combatting the Financing of Terrorism framework commenced in June 2026. The implementation of the beneficial ownership registry (SB, September 2025) is advancing with the proclamation no. 1387/2025 establishing the legal requirement of a registry with regulations adopted by the Council of Ministers in May 2026, with further legislation prepared and expected to be adopted by September 2026. Implementation steps to be taken by the Ministry of Trade and Regional Integration cover IT infrastructure development, data collection and verification, and aligning the beneficial ownership framework with international standards (United Nations Convention Against Corruption and FATF). ESAAMLG plenary to consider the mutual evaluation report is expected to take place in the first half of 2027.

42. Further progress has been made on the recommendations from the 2024 update safeguards assessment. Progress was made on financial reporting, internal audit, and risk management recommendations. On governance, progress includes: (i) implementation in February 2026 of the new organizational structure based on the amended law; (ii) appointment of two external members with suitable backgrounds to the Monetary Policy Committee; and (iii) publication of the 2024/25 NBE audited financial statements in December 2025. Staff reiterated the importance of appointing new independent Board members with suitable professional background to support effective independent oversight. NBE should continue its efforts to implement the remaining safeguards recommendations (MEFP ¶¶20, 27, and 28).

F. Structural Issues

43. Efforts to promote sustainable, private sector-led growth continue. A periodic Public-Private Dialogue aims to address challenges faced by the private sector, including with respect to tax collection and enforcement, customs, investment protection, and regulatory stability. Investment mobilization efforts have also garnered interest with the March 2026 Invest in Ethiopia conference resulting in US$13.1 billion in investment pledges, up substantially from US$1.6 billion the year before. The authorities are also taking steps to liberalize the logistics sector through a package of measures supported by the World Bank DPO. A Climate Policy Diagnostic was completed by FAD and MCM to help strengthen climate-related fiscal and financial policies.

44. Improving economic statistics remains a priority. The authorities are in the process of finalizing and publishing a new agricultural census, household survey, and enterprise survey, which will serve as key inputs for the rebasing of GDP and CPI (planned for December 2026 or earlier; MEFP ¶60). A revised National Statistics Proclamation supported by the World Bank aimed at strengthening the institutional mandate of the Ethiopian Statistical Service is also expected to be submitted to Parliament in June. The IMF continues to provide technical assistance support in this regard.

PROGRAM MODALITIES

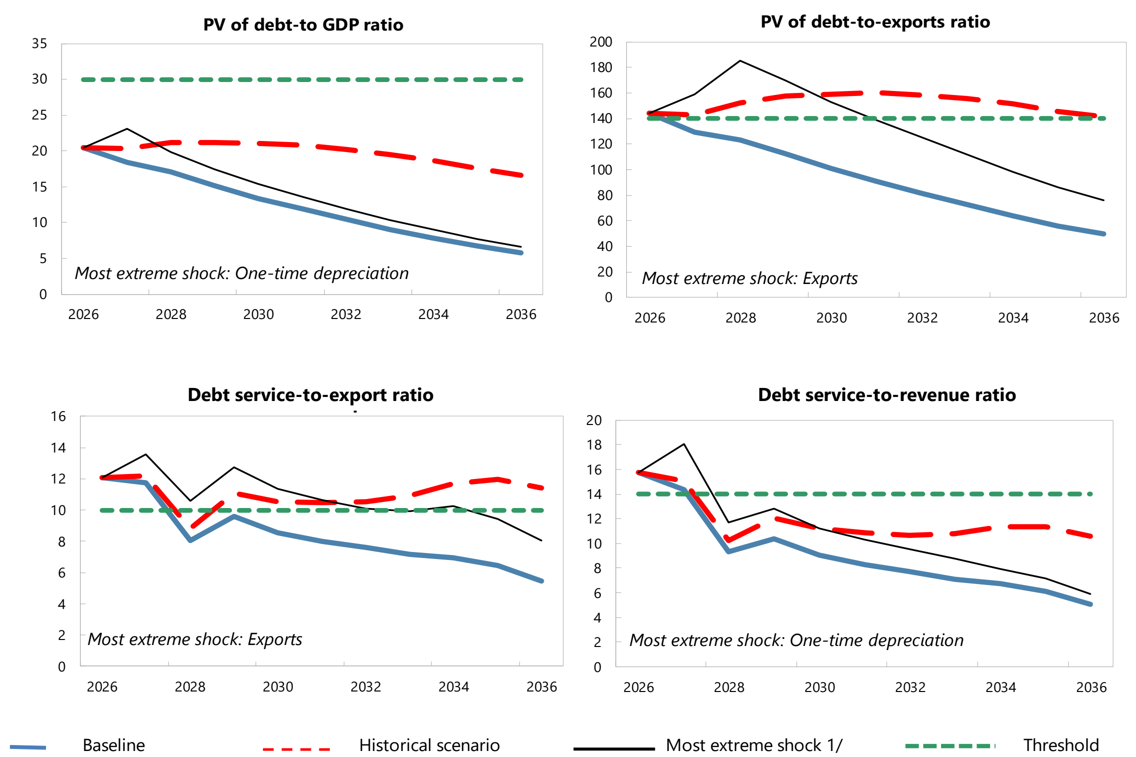
45. The program is fully financed in the baseline, with firm commitments in place for the next twelve months and good prospects for financing the remainder of the program:

- The World Bank has provided financing assurances to the IMF for the second and third DPOs, totaling US$2 billion in budget support programmed for 2025/26 and 2026/27, of which US$1.5 billion has been disbursed for 2025/26. US$450 million of DPO funding which the authorities expect to use for recapitalization of EPSE is presented under project financing for 2025/26, as it will not be exceptional financing freely usable for BOP purposes.
- The authorities have requested, and staff support, a rephasing of Fund disbursements to add US$200 million (SDR150.98 million) to the disbursement for the Fifth Review, to ease near-term financing pressures and smooth adjustment from the external fuel and fertilizer price shock. Prior actions on restoring fuel taxation to statutory rates, recapitalizing EPSE, and on submitting a budget for FY26/27 consistent with the program provide assurances that fiscal financing pressures from the shock are appropriately managed and temporary.
- Progress towards debt restructuring under the Common Framework is consistent with Ethiopia reaching a moderate risk of debt distress and restoring debt sustainability by the end of the program. The illustrative post-restructuring DSA scenario—based on bilateral agreements signed with some OCC members, the debt treatment outlined in the OCC memorandum of understanding for remaining OCC claims, the AIPs with large commercial creditors, 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 5).

46. 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.

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



[1]/ The illustrative post-restructuring scenario incorporates bilateral agreements signed with some OCC members, the debt treatments set out in the signed OCC MOU for remaining OCC claims, the AIP with large commercial creditors, and the authorities' latest debt-treatment assumptions for other creditors.

47. 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.

48. The program will continue to be monitored through semi-annual reviews. The sixth review will be based on end-June 2026 QPCs and ITs (Tables 9–10) and SBs (Table 11). SBs have been added in the areas of domestic revenue mobilization (¶28), local currency bond market development (¶35), and NBE recapitalization (¶24). Staff support the authorities' request to modify the end-September and end-December 2026 ITs on the government's contribution to the PSNP to reflect underlying seasonal and budget execution patterns (with lowered end-September 2026 contributions expected to be offset by December 2026).

Box 5. 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 to be met.

Staff assess 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 (2.1 months of imports for FY2025/26[1]), anticipated reductions in foreign aid, adverse shock from the Middle East war 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. To date, three OCC members have signed bilateral agreements following completion of the OCC MOU in December 2025. In addition, an agreement in principle with three large commercial creditors is in place, and discussions with other commercial creditors are ongoing.
- *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. The ruling Prosperity Party is expected to retain its majority in the June 1 general elections, maintaining the political capacity to deliver the planned policy adjustment.

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.

49. Fund resources under the sixth and seventh reviews (SDR 287.55 million) will be used for budget support in FY26/27. Use of Fund resources for budget support under the fifth review will remain capped at SDR 95.85 million. Budget support under the sixth and seventh reviews (equal to about 0.3 percent of GDP) would help smooth the impact of the Middle East war and is included in the FY26/27 Budget. If fully used, cumulative budget support will reach 38.8 percent (SDR 992.43 million) of total access, with no additional budget support envisaged. Domestic financing is expected to cover 1.3 percent of GDP, increasing from 1.1 percent of GDP in FY25/26, consistent with gradual growth of the government securities market in the context of the commitment to zero monetary financing of fiscal deficits. Increasing domestic financing to 1.6 percent of GDP in the absence of budget support is likely to be out of reach in the short term. IMF budget support remains small in comparison to the adjustment effort and domestic financing and is consistent with the fiscal policy stance, tax revenue mobilization plan, and overall program strategy.

50. Ethiopia's capacity to repay the Fund is considered adequate although substantial downside risks remain. The outstanding stock of Fund credit would peak at 14.5 percent of exports in 2027/28, 40.0 percent of FX reserves in 2025/26, and 2.2 percent of GDP in 2026/27. Debt service to the Fund is projected to peak at 1.5 percent of exports in 2033/34, 3.2 percent of FX reserves in 2033/34, and 0.2 percent of GDP in 2033/34. While capacity to repay has improved steadily due to successful program implementation and continued progress on debt restructuring, downside risks have increased recently due to the war in the Middle East. Starting in 2029/30, repayments to the Fund will pick up significantly. 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.

51. Enterprise risks remain significant and have risen since the fourth review. Business risks have risen due to the domestic security situation and the Middle East war. Program implementation risks arise from political and social pressures, potential resistance from vested interests, increases in external financing needs, or loss of external financing. Uncertainty is heightened by the need for immediate adjustment efforts to address the fuel price shock in the context of a fragile socio-economic environment and conflict risks. Financial risks (adequacy of financing, credit risk, financing assurances, and Fund safeguards) are also higher due to international economic and commodity price volatility, weakening confidence, and potentially higher adjustment costs, with constrained scope for augmentation for both the IMF and the World Bank. Meanwhile, reputational risk could arise if the program is seen as not adequately supporting a population hit by the fuel price shock and reduced aid, potentially eroding support. Nonetheless, risk mitigants remain strong. Macroeconomic outcomes to date have been more favorable than anticipated, with stronger-than-expected growth, disinflation, revenue mobilization, export earnings, and reserve accumulation. Strong ownership, political commitment, and reform momentum reinforce the credibility of the adjustment effort. The socio-economic impact of reforms to date has been contained.

STAFF APPRAISAL

52. The authorities continue to advance their economic reform agenda, with better-than-anticipated macroeconomic outcomes, but the Middle East war represents a significant external shock. The higher fuel import bill raises financing needs and impacts economic growth and inflation. Maintaining positive macro momentum will require continued effort to strengthen foundations for private sector-led growth and adroit responses to emerging challenges.

53. Sustained policy efforts to enhance FX market functioning remain critical for more efficient price discovery. Strict enforcement of the NOP directive is expected to support greater trading activity and liquidity. Progress in developing the interbank FX market, including improvements to the settlement system, will strengthen FX liquidity management and lay the foundation for more advanced FX instruments. The publication of an auction calendar is expected to improve price discovery, predictability, and transparency. Further relaxation of restrictions should make the formal FX market more attractive and help narrow the parallel market premium. More assertive monitoring of compliance with the FX Code of Conduct could help ensure more competitive behavior among the banks and fairer treatment of clients. Improvements in NBE's gold market operations and eventual exit from the gold market will channel more FX resources through the private sector and should be guided by a well-designed plan aligned with reserve accumulation objectives.

54. A tight monetary stance remains appropriate to anchor inflation expectations, and the authorities should stand ready to raise rates if second round inflationary pressures emerge. Efforts to modernize the monetary policy framework should continue. Ensuring a competitive, market-oriented financial sector, including through the removal of direct monetary instruments and quantitative limits like the cap on private credit, will be important for enhancing monetary transmission.

55. Prudent expenditure management and revenue mobilization are key for advancing development objectives and fiscal sustainability. Revenue growth has remained strong and tax policy efforts bode well for sustained resource mobilization and base broadening. Phasing out untargeted fuel subsidies will create space to advance economic development and social spending objectives. Operational reform and financial strengthening of SOEs continues to advance well overall. Further efforts should be made to advance fiscal transparency and accountability reforms, fiscal risk management, and monitoring and disclosure for SOEs.

56. Progress towards restoring debt sustainability has been notable. Several bilateral agreements with both OCC and non-OCC official creditors have been signed. The authorities are engaging in good faith efforts to reach comparable terms with external commercial creditors and have reached agreements in principle with several. They continue to refrain from non-concessional borrowing—except for financing related to the Koysha dam project—and remain prudent in contracting new concessional debt. Further development of a liquid local currency bond market will support sustainable domestic financing and provide a foundation for the emerging capital market.

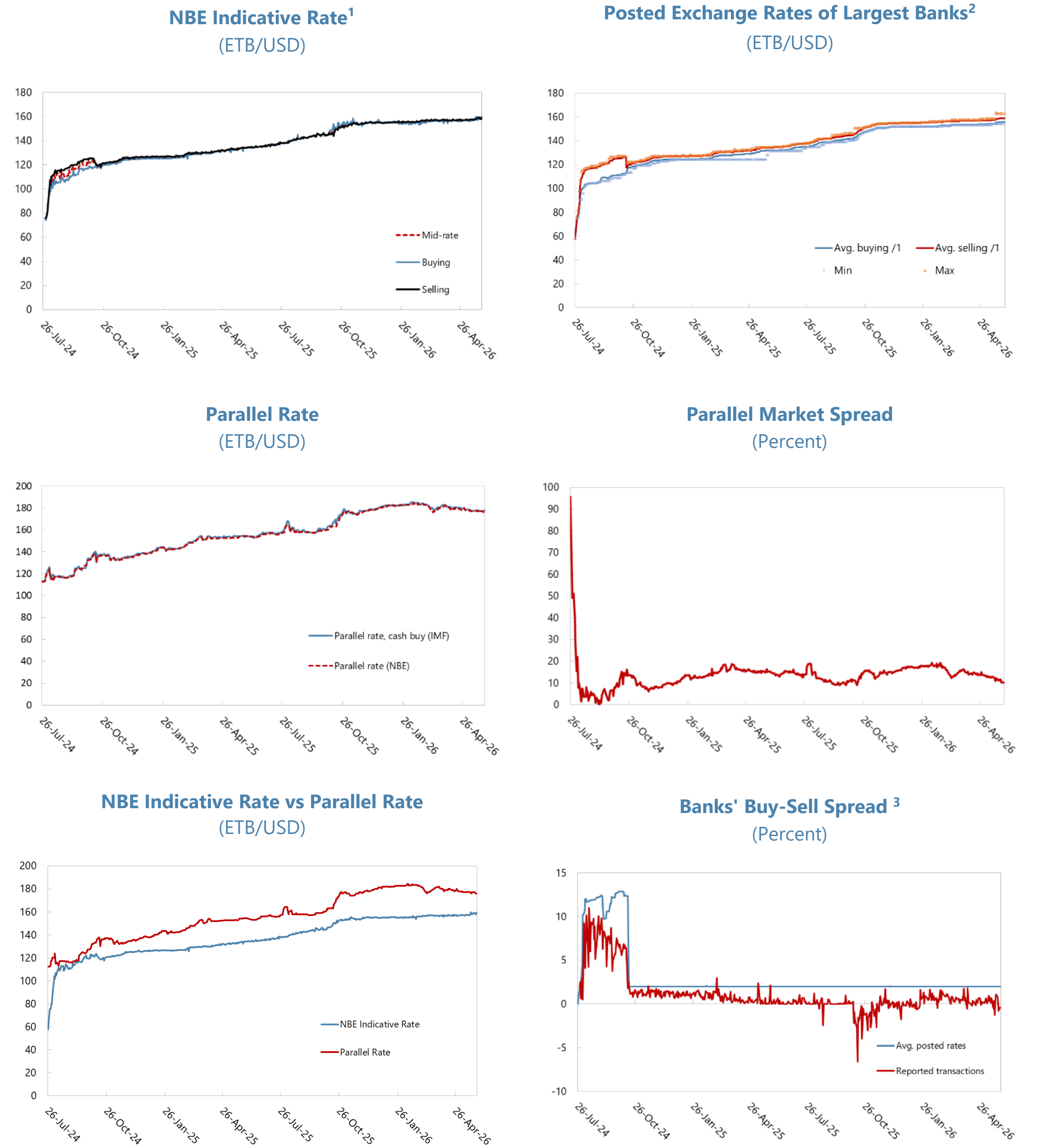
57. Strengthening financial oversight capacity and the financial sector safety net remain priorities. Close monitoring of implementation of recently issued directives—including risk-based capital adequacy, foreign exposure limits, asset classification, and recovery planning—will be important. Efforts to develop prompt corrective action, bank resolution, and an integrated macroprudential framework should continue. The recent rapid expansion of private credit warrants close attention, and a review of bank lending policies could help identify vulnerabilities and industry best practices in the evolving macroeconomic and regulatory framework.

58. Continued progress on safeguards recommendations is important. Appointing new members to the expanded NBE Board with suitable technical and professional backgrounds is a priority. Adopting and implementing NBE recapitalization plans consistent with its policy mandate will be a key step and help support NBE's independence and effectiveness. Building on the human resources transformation initiative, NBE should strengthen staff capacity across key functions including accounting, risk management, and internal audit. In line with commitment to a timely audit cycle, NBE should publish audited accounts for FY25/26 by December 2026.

59. Staff support the authorities' request for temporary approval of two exchange restrictions. The restrictions currently in place for BOP reasons are the imposition of hard ceilings on access to and use of FX for travel purposes, and the imposition of hard ceilings on access to and use of FX for the purposes of cross-border payment of moderate family remittances. The authorities have requested approval of these exchange restrictions on the grounds that they are imposed for BOP reasons given current account pressures and still-low international reserve coverage, necessary, temporary, and expected to be lifted throughout the program period; Staff assesses that approval criteria are met and supports the authorities' request. No approval of the remaining two long-standing exchange restrictions (tax clearance requirement for dividend repatriation and the NBE clearance requirement for import permits) is sought; staff urges removal of these restrictions, and the authorities plan to remove them by the end of the program (¶21).

60. Staff support the completion of the fifth review under the ECF arrangement. All quantitative performance criteria for December 2025 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. In light of the need to ease near-term financing pressures, staff support the authorities' request for a rephasing of access.

Figure 1. Ethiopia: Exchange Rate Developments



Sources: NBE and IMF Staff.

1/ Weighted average of actual transactions across all banks (posted the following morning). Indicative Rate does not include fees.

2/ Simple average.

3/ Banks' Buy-Sell Spread excludes fees (typically 4 percent).

Table 1. Ethiopia: Selected Economic Indicators, 2023/24–2030/31

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
	In percent change, unless otherwise mentioned									
National income and prices										
GDP at constant prices (at factor cost)	8.1	9.2	9.3	9.2	8.6	7.8	8.2	8.2	8.0	7.7
GDP deflator	25.2	17.0	15.9	15.1	10.5	14.4	10.7	9.2	8.4	8.6
Consumer prices (period average) [1]	26.6	16.0	11.9	11.7	9.3	12.3	9.2	7.8	6.8	6.7
Consumer prices (end period) [1]	19.9	13.9	12.0	13.9	9.3	10.7	8.0	7.0	6.0	5.9
External sector										
Exports of goods and services (f.o.b.)	8.1	42.0	5.7	17.2	11.2	14.9	8.5	12.9	12.3	12.3
Imports of goods and services (c.i.f.)	7.8	3.2	10.0	21.0	7.9	7.3	8.3	13.6	12.0	13.4
Export volume (goods)	-1.2	114.0	-12.8	4.1	6.3	5.6	-1.7	6.3	3.7	2.0
Export volume (goods and services)	1.7	38.3	-9.3	1.5	5.6	2.2	1.3	5.3	3.1	1.4
Import price index (percent change) [2]	-4.0	-2.0	-3.6	-1.9	-2.4	-1.2	-3.2	-2.5	-2.3	-2.3
Terms of trade (goods and services, deterioration –)	10.7	4.8	20.9	17.7	7.9	13.8	10.6	9.9	11.4	13.3
Nominal effective exchange rate (end of period, depreciation –	-1.5	-49.5	...	...	...	...	...	...	...	...
Real effective exchange rate (end of period, depreciation –)	12.4	-44.2	...	...	...	...	...	...	...	...
Money and credit										
Claims on nongovernment [3]	9.3	-9.7	35.2	55.9	31.3	24.8	23.6	24.1	23.2	19.1
Broad money	14.1	35.2	25.9	30.3	21.8	25.3	23.9	19.2	18.4	19.9
Base money	-1.1	66.4	16.5	63.9	19.0	24.4	18.8	12.7	15.5	21.0
Velocity (GDP/broad money)	4.74	4.51	4.60	4.41	4.55	4.36	4.22	4.20	4.15	4.05
	In percent of GDP, unless otherwise mentioned									
Financial balances [4]										
Gross domestic savings	14.4	13.1	18.1	19.7	18.5	20.1	20.1	20.1	20.4	19.5
Public savings	1.7	2.1	2.9	2.9	4.0	4.2	4.1	4.3	4.3	4.4
Private savings	12.8	10.9	15.2	16.8	14.5	15.9	16.0	15.8	16.1	15.1
Gross domestic investment	20.6	20.1	26.4	28.7	26.2	27.5	27.2	27.2	27.4	26.5
Public investment	4.0	4.5	7.3	7.8	6.5	6.9	6.4	6.5	6.1	5.9
Private investment	16.6	15.6	19.0	20.9	19.7	20.7	20.8	20.7	21.3	20.6
Resource gap	-6.2	-7.1	-8.3	-9.0	-7.6	-7.4	-7.0	-7.1	-6.9	-7.0
External current account balance, including official transfers	-2.9	-1.1	-2.3	-2.5	-2.3	-1.3	-1.5	-2.0	-2.0	-2.7
Government finances										
Revenue	7.3	9.2	10.5	10.8	11.2	11.4	11.8	12.1	12.2	12.3
Tax revenue	6.2	7.8	9.1	9.5	9.8	10.1	10.5	10.8	10.9	11.0
Nontax revenue	1.1	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.3	1.3
External grants	0.3	1.7	0.8	1.3	0.6	0.9	0.3	0.3	0.3	0.1
Expenditure and net lending	9.5	12.0	13.1	14.1	12.8	13.5	13.5	14.0	14.0	14.0
Fiscal balance, including grants (cash basis)	-2.0	-1.2	-1.8	-2.0	-1.1	-1.2	-1.4	-1.6	-1.6	-1.6
Total financing (including residuals and excluding privatization	2.0	1.2	1.8	2.0	1.1	1.2	1.4	1.6	1.6	1.6
External financing	0.2	1.0	0.3	0.4	-0.3	-0.1	0.1	-0.4	-0.4	0.0
Domestic financing [5]	1.8	0.5	1.5	1.6	1.3	1.3	1.3	1.9	1.9	1.6
Public debt [6]	35.5	50.5	45.1	45.3	40.7	40.8	37.2	34.0	31.2	28.6
Domestic debt	19.7	18.7	15.3	15.4	13.8	13.7	12.6	12.6	12.5	11.9
External debt (including to the IMF)	15.8	31.8	29.8	29.9	27.0	27.1	24.5	21.4	18.7	16.7
Overall balance of payments (in millions of U.S. dollars)	276	-1,148	-2,760	-2,772	705	969	2,013	2,127	2,321	2,337
Gross official reserves (in millions of U.S. dollars)	1,429	4,418	5,576	5,863	7,453	8,173	11,868	13,958	16,233	18,194
(months of prospective imports of goods and nonfactor servic	0.7	1.7	2.2	2.1	2.7	2.7	3.5	3.7	3.8	3.8
GDP at current market prices (billions of birr)	11,752	15,094	19,415	19,268	23,392	23,851	28,590	33,896	39,697	46,433

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] The base is December 2016.

[2] Higher fuel and fertilizer prices are offset by declines in all other import components, resulting in the index decline

[3] Projections from 24/25 include impact of CBE recapitalization.

[4] 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).

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

[6] 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, 2023/24–2030/31[1]

(Billions of Birr)

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
Total revenue and grants	887	1,639	2,194	2,331	2,744	2,928	3,456	4,206	4,956	5,761
Revenue	854	1,386	2,037	2,075	2,615	2,723	3,363	4,103	4,837	5,708
Tax revenue	724	1,172	1,761	1,825	2,282	2,414	2,992	3,663	4,322	5,105
Direct taxes	341	521	756	811	989	1,071	1,379	1,660	1,973	2,341
Indirect taxes	383	651	1,005	1,014	1,294	1,343	1,613	2,003	2,349	2,765
Domestic indirect taxes	205	298	426	397	583	558	752	971	1,153	1,369
Import duties and taxes [2]	179	353	578	617	710	785	862	1,032	1,196	1,396
Nontax revenue	130	215	276	250	333	310	371	440	515	603
Grants	33	253	157	256	129	205	93	103	119	53
Program grants	0	190	52	117	15	83	16	18	25	29
Project grants	33	63	104	140	114	122	76	86	94	23
Total expenditure and net lending (cash basis)	1,121	1,818	2,535	2,710	2,989	3,219	3,855	4,731	5,572	6,504
Recurrent expenditure [3]	653	1,069	1,569	1,586	1,762	1,902	2,434	2,918	3,490	4,143
Defense spending	71	87	120	111	145	96	165	196	229	268
Poverty-reducing expenditure [4]	263	346	556	535	670	691	952	1,163	1,403	1,641
Education	162	208	335	319	404	415	572	698	842	985
Health	61	86	139	138	167	179	247	301	363	425
Agriculture	30	37	59	56	71	69	96	117	141	165
Natural resources	7	10	16	15	19	19	26	32	38	45
Roads	3	5	8	7	9	9	12	15	18	21
Interest payments	69	121	230	253	269	308	373	441	548	701
Domestic interest and charges	57	95	190	190	229	223	292	366	474	630
External interest payments [5]	12	26	40	63	40	85	81	74	74	71
Other recurrent expenditure	250	515	663	687	678	807	943	1,118	1,310	1,532
Capital expenditure	468	749	965	1,123	1,228	1,317	1,421	1,813	2,081	2,361
Central treasury	382	616	841	861	1,029	1,164	1,253	1,598	1,868	2,139
External project grants	33	63	104	140	114	122	76	86	94	23
External project loans	52	70	20	123	85	31	92	130	119	199
Overall balance										
Including grants	-234	-179	-341	-379	-246	-291	-399	-525	-615	-743
Excluding grants	-267	-432	-498	-635	-375	-495	-492	-629	-734	-795
Financing	251	232	341	379	246	291	399	525	615	743
Net external financing	25	153	53	76	-69	-14	16	-134	-140	-7
Gross borrowing [6]	53	219	196	225	117	194	187	130	119	199
IMF budget support		87	39	41	0	64	0	0	0	0
Project loans	53	70	20	123	85	31	92	130	119	199
Budget support	0	62	137	61	33	99	95	0	0	0
Exceptional financing	0	181	207	344	-61	-13	89	0	0	0
G20 Debt Service Suspension Initiative	0	0	0	0	0	0	0	0	0	0
Debt Service Moratorium		181	0	0	0	0	0	0	0	0
Principal		171	0	0	0	0	0	0	0	0
Interest		10	0	0	0	0	0	0	0	0
Expected debt service relief	0	0	207	344	-61	-13	89	0	0	0
Amortization, due	-28	-247	-351	-493	-125	-195	-260	-263	-259	-206
Net domestic financing [7]	226	164	203	218	315	305	383	659	755	750
o/w gross advances from NBE	111	0	0	0	0	0	0	0	0	0
o/w T-bills and T-bonds	115	164	203	218	315	305	383	659	755	750
o/w Other (incl. net deposit withdrawal)	0	0	0	0	0	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	0	0	0	0	0
Other below-the-line operations [8]	-17	-85	85	85	0	0	0	0	0	0
Unidentified		-52	0	0	0	0	0	0	0	0
CBE recapitalization										
Total debt outstanding	900	900	900	900	900	900	771	643	519	394
Debt service	0	76	85	85	89	89	213	201	186	174
Amortization	0	0	0	0	0	0	129	129	124	124
Interest (included in the budgetary central government)	0	76	85	85	89	89	85	73	62	50
Total net financing (budgetary plus CBE recap. amortization)	251	232	341	379	246	291	528	654	740	867

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, 2023/24–2030/31[1]

(Percent of GDP)

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
Total revenue and grants	7.5	10.9	11.3	12.1	11.7	12.3	12.1	12.4	12.5	12.4
Revenue	7.3	9.2	10.5	10.8	11.2	11.4	11.8	12.1	12.2	12.3
Tax revenue	6.2	7.8	9.1	9.5	9.8	10.1	10.5	10.8	10.9	11.0
Direct taxes	2.9	3.5	3.9	4.2	4.2	4.5	4.8	4.9	5.0	5.0
Indirect taxes	3.3	4.3	5.2	5.3	5.5	5.6	5.6	5.9	5.9	6.0
Domestic indirect taxes	1.7	2.0	2.2	2.1	2.5	2.3	2.6	2.9	2.9	2.9
Import duties and taxes [2]	1.5	2.3	3.0	3.2	3.0	3.3	3.0	3.0	3.0	3.0
Nontax revenue	1.1	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.3	1.3
Grants	0.3	1.7	0.8	1.3	0.6	0.9	0.3	0.3	0.3	0.1
Program grants	0.0	1.3	0.3	0.6	0.1	0.3	0.1	0.1	0.1	0.1
Project grants	0.3	0.4	0.5	0.7	0.5	0.5	0.3	0.3	0.2	0.0
Total expenditure and net lending (cash basis)	9.5	12.0	13.1	14.1	12.8	13.5	13.5	14.0	14.0	14.0
Recurrent expenditure [3]	5.6	7.1	8.1	8.2	7.5	8.0	8.5	8.6	8.8	8.9
Defense spending	0.6	0.6	0.6	0.6	0.6	0.4	0.6	0.6	0.6	0.6
Poverty-reducing expenditure [4]	2.2	2.3	2.9	2.8	2.9	2.9	3.3	3.4	3.5	3.5
Education	1.4	1.4	1.7	1.7	1.7	1.7	2.0	2.1	2.1	2.1
Health	0.5	0.6	0.7	0.7	0.7	0.8	0.9	0.9	0.9	0.9
Agriculture	0.3	0.2	0.3	0.3	0.3	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	0.8	1.2	1.3	1.1	1.3	1.3	1.3	1.4	1.5
Domestic interest and charges	0.5	0.6	1.0	1.0	1.0	0.9	1.0	1.1	1.2	1.4
External interest payments [5]	0.1	0.2	0.2	0.3	0.2	0.4	0.3	0.2	0.2	0.2
Other recurrent expenditure	2.1	3.4	3.4	3.6	2.9	3.4	3.3	3.3	3.3	3.3
Capital expenditure	4.0	5.0	5.0	5.8	5.2	5.5	5.0	5.4	5.2	5.1
Central treasury	3.3	4.1	4.3	4.5	4.4	4.9	4.4	4.7	4.7	4.6
External project grants	0.3	0.4	0.5	0.7	0.5	0.5	0.3	0.3	0.2	0.0
External project loans	0.4	0.5	0.1	0.6	0.4	0.1	0.3	0.4	0.3	0.4
Overall balance										
Including grants	-2.0	-1.2	-1.8	-2.0	-1.1	-1.2	-1.4	-1.6	-1.6	-1.6
Excluding grants	-2.3	-2.9	-2.6	-3.3	-1.6	-2.1	-1.7	-1.9	-1.9	-1.7
Financing	2.1	1.5	1.8	2.0	1.1	1.2	1.4	1.6	1.6	1.6
Net external financing	0.2	1.0	0.3	0.4	-0.3	-0.1	0.1	-0.4	-0.4	0.0
Gross borrowing [6]	0.4	1.5	1.0	1.2	0.5	0.8	0.7	0.4	0.3	0.4
IMF budget support		0.6	0.2	0.2	0.0	0.3	0.0	0.0	0.0	0.0
Project loans	0.4	0.5	0.1	0.6	0.4	0.1	0.3	0.4	0.3	0.4
Budget Support	0.0	0.4	0.7	0.3	0.1	0.4	0.3	0.0	0.0	0.0
Exceptional financing	0.0	1.2	1.1	1.8	-0.3	-0.1	0.3	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal		1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest		0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expected debt service relief	0.0	0.0	1.1	1.8	-0.3	-0.1	0.3	0.0	0.0	0.0
Amortization, due	-0.2	-1.6	-1.8	-2.6	-0.5	-0.8	-0.9	-0.8	-0.7	-0.4
Net domestic financing [7]	1.9	1.1	1.0	1.1	1.3	1.3	1.3	1.9	1.9	1.6
o/w gross advances from NBE	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w T-bills and T-bonds	1.0	1.1	1.0	1.1	1.3	1.3	1.3	1.9	1.9	1.6
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]	-0.1	-0.6	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified		-0.3								
CBE recapitalization										
Total debt outstanding	7.7	6.0	4.6	4.7	3.8	3.8	2.7	1.9	1.3	0.8
Debt service	0.0	0.5	0.4	0.4	0.4	0.4	0.7	0.6	0.5	0.4
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4	0.3	0.3
Interest (included in the budgetary central government)	0.0	0.5	0.4	0.4	0.4	0.4	0.3	0.2	0.2	0.1
Total net financing (budgetary plus CBE recap. amortization)	2.1	1.5	1.8	2.0	1.1	1.2	1.8	1.9	1.9	1.9
Memorandum items :										
Primary fiscal balance, including grants	-1.4	-0.4	-0.6	-0.7	0.1	0.1	-0.1	-0.3	-0.2	-0.1

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, 2023/24–2030/31

(Billions of Birr)

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
				I. Depository Corporation Survey						
Monetary survey										
Net foreign assets	-245.3	-211.5	-119.9	125.1	120.0	506.1	1,147.3	1,592.8	2,106.3	2,611.9
Central bank	-288.9	-469.4	-498.1	-249.0	-275.5	108.5	732.2	1,163.4	1,666.6	2,162.6
Commercial banks	43.6	258.0	378.2	374.1	395.5	397.6	415.1	429.4	439.6	449.3
Net domestic assets	2,723.2	3,561.5	4,337.0	4,240.7	5,016.4	4,966.3	5,633.0	6,486.0	7,456.1	8,849.3
Domestic credit [1]	2,839.1	3,478.2	4,234.6	4,640.7	5,191.5	5,524.2	6,584.4	8,005.6	9,685.7	11,379.4
Claims on government (net) [2]	745.5	1,586.7	1,676.7	1,691.7	1,834.2	1,844.2	2,035.7	2,362.5	2,735.7	3,105.3
Claims on nongovernment	2,093.5	1,891.5	2,557.8	2,949.0	3,357.3	3,680.0	4,548.6	5,643.1	6,950.0	8,274.0
Public enterprises	747.5	173.3	358.6	480.7	507.3	602.1	708.9	850.9	967.3	1,100.8
Private sector	1,306.3	1,681.5	2,169.1	2,438.2	2,819.9	3,047.7	3,809.6	4,762.1	5,952.6	7,143.1
Broad money	2,477.9	3,350.0	4,217.0	4,365.8	5,136.4	5,472.4	6,780.3	8,078.8	9,562.3	11,461.2
Money	822.5	1,129.0	1,383.4	1,423.6	1,666.6	1,764.6	2,166.8	2,567.8	3,022.6	3,597.2
Currency outside banks	205.4	289.3	320.8	320.2	365.4	374.2	436.7	501.2	570.2	648.2
Demand deposits	617.1	839.7	1,062.6	1,103.3	1,301.2	1,390.4	1,730.1	2,066.6	2,452.4	2,949.0
Quasi money	1,655.4	2,221.0	2,833.6	2,942.3	3,469.8	3,707.8	4,613.5	5,511.0	6,539.7	7,864.0
Savings deposits	1,461.9	1,976.7	2,516.3	2,612.7	3,081.2	3,292.5	4,096.8	4,893.7	5,807.3	6,983.3
Time deposits	193.5	244.3	317.4	329.5	388.6	415.3	516.7	617.2	732.4	880.8
Central bank										
Net foreign assets	-288.9	-469.4	-498.1	-249.0	-275.5	108.5	732.2	1,163.4	1,666.6	2,162.6
Foreign assets	82.2	635.2	821.2	864.9	1,136.5	1,255.1	1,906.7	2,287.8	2,712.8	3,087.1
Foreign liabilities	371.1	1,104.6	1,319.4	1,113.9	1,412.1	1,146.6	1,174.5	1,124.4	1,046.2	924.5
Net domestic assets	762.1	1,256.8	1,415.6	1,539.3	1,367.6	1,496.1	1,173.8	984.8	814.7	840.5
Domestic credit	673.6	616.5	448.5	616.5	292.9	160.1	-337.4	-29.4	-144.6	-232.2
Government (net)	632.3	630.4	630.4	630.4	630.4	630.4	630.4	630.4	630.4	630.4
Other items (net)	88.6	640.2	967.1	922.9	1,074.7	1,336.0	1,511.2	1,014.2	959.3	1,072.6
Reserve money	473.2	787.3	917.5	1,290.4	1,092.1	1,604.6	1,906.0	2,148.2	2,481.3	3,003.1
Currency outside banks	205.4	289.3	320.8	320.2	365.4	374.2	436.7	501.2	570.2	648.2
Commercial bank reserves	267.8	498.1	596.6	970.2	726.7	1,230.4	1,469.3	1,647.0	1,911.1	2,354.8
Cash in vault	52.9	62.0	119.3	194.0	145.3	246.1	293.9	329.4	382.2	471.0
Reserve deposit	143.7	162.4	182.7	182.7	205.5	205.5	231.0	290.0	343.7	360.2
				(Annual percentage change, unless otherwise indicated)						
Monetary survey										
Net foreign assets	53.2	-13.8	-43.3	-159.2	-200.0	304.4	126.7	38.8	32.2	24.0
Net domestic assets	16.8	30.8	21.8	19.1	15.7	17.1	13.4	15.1	15.0	18.7
Domestic credit [1]	14.1	22.5	21.7	33.4	22.6	19.0	19.2	21.6	21.0	17.5
Claims on government (net) [2]	30.0	112.8	5.7	6.6	9.4	9.0	10.4	16.1	15.8	13.5
Claims on nongovernment	9.3	-9.7	35.2	55.9	31.3	24.8	23.6	24.1	23.2	19.1
Public enterprises	-3.2	-76.8	107.0	177.4	41.5	25.3	17.7	20.0	13.7	13.8
Private sector	18.0	28.7	29.0	45.0	30.0	25.0	25.0	25.0	25.0	20.0
Broad money	14.1	35.2	25.9	30.3	21.8	25.3	23.9	19.2	18.4	19.9
Money	16.5	37.3	22.5	26.1	20.5	24.0	22.8	18.5	17.7	19.0
Quasi money	13.0	34.2	27.6	32.5	22.5	26.0	24.4	19.5	18.7	20.3
Memorandum items:										
Base money growth	-1.1	66.4	16.5	63.9	19.0	24.4	18.8	12.7	15.5	21.0
Nominal GDP growth	34.7	28.4	28.6	27.6	20.5	23.8	19.9	18.6	17.1	17.0
Excess reserve deposit (billions of birr)	33	197	205	493	247	627	731	787	899	1,127
Percent of deposits	1.5	6.4	5.3	12.2	5.2	12.3	11.5	10.4	10.0	10.4
Money multiplier (broad money/reserve money)	5.24	4.25	4.60	3.38	4.70	3.41	3.56	3.76	3.85	3.82
Velocity (GDP/broad money)	4.74	4.51	4.60	4.41	4.55	4.36	4.22	4.20	4.15	4.05
Currency-deposit ratio	0.090	0.094	0.082	0.079	0.077	0.073	0.069	0.066	0.063	0.060
Birr per U.S. dollar (end of period)	57.3	...	...	...	...	...	...	...	...	...
Nominal GDP (billions of birr)	11,752	15,094	19,415	19,268	23,392	23,851	28,590	33,896	39,697	46,433

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, 2023/24–2030/31

(In percent of GDP)

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
			Percent of GDP							
Monetary survey										
Net foreign assets	-2.1	-1.4	-0.6	0.6	0.5	2.1	4.0	4.7	5.3	5.6
Central bank	-2.5	-3.1	-2.6	-1.3	-1.2	0.5	2.6	3.4	4.2	4.7
Commercial banks	0.4	1.7	1.9	1.9	1.7	1.7	1.5	1.3	1.1	1.0
Net domestic assets	23.2	23.6	22.3	22.0	21.4	20.8	19.7	19.1	18.8	19.1
Domestic credit [1]	24.2	23.0	21.8	24.1	22.2	23.2	23.0	23.6	24.4	24.5
Claims on government (net) [2]	6.3	10.5	8.6	8.8	7.8	7.7	7.1	7.0	6.9	6.7
Claims on nongovernment	17.8	12.5	13.2	15.3	14.4	15.4	15.9	16.6	17.5	17.8
Public enterprises	6.4	1.1	1.8	2.5	2.2	2.5	2.5	2.5	2.4	2.4
Private sector	11.1	11.1	11.2	12.7	12.1	12.8	13.3	14.0	15.0	15.4
Broad money	21.1	22.2	21.7	22.7	22.0	22.9	23.7	23.8	24.1	24.7
Money	7.0	7.5	7.1	7.4	7.1	7.4	7.6	7.6	7.6	7.7
Currency outside banks	1.7	1.9	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4
Demand deposits	5.3	5.6	5.5	5.7	5.6	5.8	6.1	6.1	6.2	6.4
Quasi money	14.1	14.7	14.6	15.3	14.8	15.5	16.1	16.3	16.5	16.9
Savings deposits	12.4	13.1	13.0	13.6	13.2	13.8	14.3	14.4	14.6	15.0
Time deposits	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9
Central bank										
Net foreign assets	-2.5	-3.1	-2.6	-1.3	-1.2	0.5	2.6	3.4	4.2	4.7
Foreign assets	0.7	4.2	4.2	4.5	4.9	5.3	6.7	6.7	6.8	6.6
Foreign liabilities	3.2	7.3	6.8	5.8	6.0	4.8	4.1	3.3	2.6	2.0
Net domestic assets	6.5	8.3	7.3	8.0	5.8	6.3	4.1	2.9	2.1	1.8
Domestic credit	5.7	4.1	2.3	3.2	1.3	0.7	-1.2	-0.1	-0.4	-0.5
Government (net)	5.4	4.2	3.2	3.3	2.7	2.6	2.2	1.9	1.6	1.4
Other items (net)	0.8	4.2	5.0	4.8	4.6	5.6	5.3	3.0	2.4	2.3
Reserve money	4.0	5.2	4.7	6.7	4.7	6.7	6.7	6.3	6.3	6.5
Currency outside banks	1.7	1.9	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4
Commercial bank reserves	2.3	3.3	3.1	5.0	3.1	5.2	5.1	4.9	4.8	5.1
Cash in vault	0.5	0.4	0.6	1.0	0.6	1.0	1.0	1.0	1.0	1.0
Reserve deposit	1.2	1.1	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.8
Nominal GDP (billions of birr)	11,752	15,094	19,415	19,268	23,392	23,851	28,590	33,896	39,697	46,433

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, 2023/24–2030/31

(In Millions of U.S. dollars)

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
(Millions of U.S. dollars, unless otherwise indicated)										
Current account balance [1]	-6,014	-1,449	-2,998	-3,192	-3,339	-1,882	-2,432	-3,742	-4,343	-6,614
Excl. official transfers [1]	-7,153	-2,647	-4,282	-4,475	-4,552	-3,246	-3,820	-5,168	-5,955	-7,998
Trade balance	-14,642	-10,446	-12,711	-12,644	-13,482	-12,487	-13,919	-16,048	-17,841	-20,411
Exports of goods	3,799	8,347	8,485	10,032	9,498	11,913	12,542	14,289	16,147	18,246
Imports of goods	-18,441	-18,794	-21,196	-22,676	-22,980	-24,400	-26,461	-30,337	-33,989	-38,657
Services (net)	1,610	1,515	2,165	1,205	2,667	1,686	2,264	2,653	2,906	3,124
Exports	7,866	8,212	9,017	9,376	9,964	10,388	11,645	13,019	14,516	16,185
Imports	-6,256	-6,698	-6,852	-8,171	-7,297	-8,702	-9,381	-10,366	-11,610	-13,061
Income (net) [1]	-332	-752	-835	-705	-985	-1,054	-930	-879	-879	-879
Private transfers (net)	6,211	7,037	7,099	7,669	7,248	8,609	8,766	9,106	9,859	10,167
Official transfers (net) [1]	1,139	1,198	1,284	1,283	1,213	1,364	1,388	1,425	1,613	1,384
Capital account balance [1]	5,819	2,500	238	1,951	4,044	2,852	4,444	5,869	6,663	8,951
Foreign direct investment (net, incl. privatization)	3,906	4,012	4,075	4,075	4,113	4,209	4,934	5,630	6,570	7,514
Other investment (net) [1]	1,913	-1,512	-3,837	-2,124	-69	-1,357	-490	239	94	1,437
Federal government	595	-631	-733	-1,411	1,258	672	489	948	955	1,669
Disbursements [1]	1,090	1,354	1,472	1,702	1,988	1,787	1,907	2,323	2,249	2,659
Amortization [1]	-494	-1,985	-2,206	-3,114	-730	-1,114	-1,418	-1,375	-1,295	-990
Other public sector [1,2]	1,782	-632	-1,744	-1,772	-739	-81	-269	-1,024	-1,355	-917
Disbursements	2,536	950	1,393	458	634	909	926	489	184	124
Amortization [1]	-754	-1,582	-3,136	-2,230	-1,373	-990	-1,195	-1,513	-1,539	-1,041
Private sector borrowing (net)	73	196	234	155	257	171	188	207	228	250
Other (net)	-536	-445	-1,594	903	-845	-2,120	-898	109	267	435
Errors and omissions	471	-2,198	0	-1,531	0	0	0	0	0	0
Overall balance	276	-1,148	-2,760	-2,772	705	969	2,013	2,127	2,321	2,337
Financing	-276	1,148	2,760	2,772	-705	-969	-2,013	-2,127	-2,321	-2,337
Central bank (net; increase –)	-564	-1,376	-440	-978	-1,405	-1,469	-3,343	-2,127	-2,321	-2,337
Reserves (increase –)	-352	-2,780	-1,158	-1,445	-1,877	-2,310	-3,695	-2,089	-2,276	-1,961
Liabilities (increase +)	-212	1,404	718	468	472	841	352	-37	-45	-376
IMF credit (net)	-212	1,404	718	468	472	841	352	-37	-45	-376
of which: IMF Rapid Financing Instrument (RFI)	…	…	…	…	…	…	…	…	…	…
SDR allocation	0	0	0	0	0	0	0	0	0	0
Prospective donor financing	0	1,500	1,000	1,500	700	500	550	0	0	0
of which: grants	0	1,000	*650*	*650*	*0*	*0*	*0*	*0*	*0*	*0*
Exceptional Financing	288	3,063	2,650	2,700	0	0	780	0	0	1
Debt service restructuring [3]	288	3,063	2,650	2,700	0	0	780	0	0	1
Reprofiling of external sovereign deposits at NBE, 2020	*288*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1*
Debt Service Moratorium	*0*	*3,063*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other restructuring (incl. pros. G20 CF)	*0*	*0*	*2,650*	*2,700*	*0*	*0*	*780*	*0*	*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	5.0	119.7	1.7	20.2	11.9	18.7	5.3	13.9	13.0	13.0
Imports of goods	7.7	1.9	12.8	20.7	8.4	7.6	8.4	14.6	12.0	13.7
Services exports	9.6	4.4	9.8	14.2	10.5	10.8	12.1	11.8	11.5	11.5
Services imports	8.3	7.1	2.3	22.0	6.5	6.5	7.8	10.5	12.0	12.5
Private transfers	-8.6	13.3	0.9	9.0	2.1	12.3	1.8	3.9	8.3	3.1
Exports of goods and services (percent of GDP)	5.6	13.1	13.7	15.3	13.7	15.3	14.6	14.4	14.3	14.0
Imports of goods and services (percent of GDP)	-11.8	-20.2	-22.0	-24.3	-21.3	-22.7	-21.6	-21.5	-21.2	-21.0
Trade balance (percent of GDP)	-7.0	-8.3	-10.0	-9.9	-9.5	-8.6	-8.4	-8.5	-8.3	-8.3
Private transfers (net, percent of GDP)	3.0	5.6	5.6	6.0	5.1	5.9	5.3	4.8	4.6	4.1
Gross official reserves (millions U.S. dollars)	1,429	4,418	5,576	5,863	7,453	8,173	11,868	13,958	16,233	18,194
(Months of following year's imports of goods and services)	0.7	1.7	2.2	2.1	2.7	2.7	3.5	3.7	3.8	3.8

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, 2023/24–2030/31

(In percent of GDP)

	2023/24	2024/25	2025/26		2026/27		2027/28	2028/29	2029/30	2030/31
	Actual		4th Rev.	Proj.	4th Rev.	Proj.	Projections			
(Percent of GDP, unless otherwise indicated)										
Current account balance [1]	-2.9	-1.1	-2.3	-2.5	-2.3	-1.3	-1.5	-2.0	-2.0	-2.7
Excl. official transfers [1]	-3.4	-2.1	-3.4	-3.5	-3.2	-2.2	-2.3	-2.7	-2.8	-3.3
Trade balance	-7.0	-8.3	-10.0	-9.9	-9.5	-8.6	-8.4	-8.5	-8.3	-8.3
Exports of goods	1.8	6.6	6.6	7.9	6.7	8.2	7.6	7.6	7.5	7.4
Imports of goods	-8.8	-14.9	-16.6	-17.8	-16.1	-16.7	-16.0	-16.1	-15.8	-15.7
Services (net)	0.8	1.2	1.7	0.9	1.9	1.2	1.4	1.4	1.4	1.3
Exports	3.7	6.5	7.1	7.4	7.0	7.1	7.0	6.9	6.8	6.6
Imports	-3.0	-5.3	-5.4	-6.4	-5.1	-6.0	-5.7	-5.5	-5.4	-5.3
Income (net) [1]	-0.2	-0.6	-0.7	-0.6	-0.7	-0.7	-0.6	-0.5	-0.4	-0.4
Private transfers (net)	3.0	5.6	5.6	6.0	5.1	5.9	5.3	4.8	4.6	4.1
Official transfers (net) [1]	0.5	0.9	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.6
Capital account balance [1]	2.8	2.0	0.2	1.5	2.8	2.0	2.7	3.1	3.1	3.6
Foreign direct investment (net, incl. privatization)	1.9	3.2	3.2	3.2	2.9	2.9	3.0	3.0	3.1	3.1
Other investment (net) [1,2]	0.9	-1.2	-3.0	-1.7	0.0	-0.9	-0.3	0.1	0.0	0.6
Federal government	0.3	-0.5	-0.6	-1.1	0.9	0.5	0.3	0.5	0.4	0.7
Disbursements [1]	0.5	1.1	1.2	1.3	1.4	1.2	1.2	1.2	1.0	1.1
Amortization [1]	-0.2	-1.6	-1.7	-2.4	-0.5	-0.8	-0.9	-0.7	-0.6	-0.4
Other public sector [1]	0.8	-0.5	-1.4	-1.4	-0.5	-0.1	-0.2	-0.5	-0.6	-0.4
Disbursements	2.0	0.7	1.1	0.4	0.4	0.6	0.6	0.3	0.1	0.1
Amortization [1]	-0.6	-1.2	-2.5	-1.8	-1.0	-0.7	-0.7	-0.8	-0.7	-0.4
Private sector borrowing (net)	0.0	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Other (net)	-0.3	-0.4	-1.2	0.7	-0.6	-1.5	-0.5	0.1	0.1	0.2
Errors and omissions	0.2	-1.7	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.1	-0.9	-2.2	-2.2	0.5	0.7	1.2	1.1	1.1	1.0
Financing	-0.1	0.9	2.2	2.2	-0.5	-0.7	-1.2	-1.1	-1.1	-1.0
Central bank (net; increase –)	-0.3	-1.1	-0.3	-0.8	-1.0	-1.0	-2.0	-1.1	-1.1	-1.0
Reserves (increase –)	-0.2	-2.2	-0.9	-1.1	-1.3	-1.6	-2.2	-1.1	-1.1	-0.8
Liabilities (increase +)	-0.1	1.1	0.6	0.4	0.3	0.6	0.2	0.0	0.0	-0.2
IMF credit (net)	-0.1	1.1	0.6	0.4	0.3	0.6	0.2	0.0	0.0	-0.2
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	1.2	0.8	1.2	0.5	0.3	0.3	0.0	0.0	0.0
of which: grants	*0.0*	0.8	*0.5*	*0.5*	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing	0.1	2.4	2.1	2.1	0.0	0.0	0.5	0.0	0.0	0.0
Debt service restructuring [3]	0.1	2.4	2.1	2.1	0.0	0.0	0.5	0.0	0.0	0.0
Reprofiling of external sovereign deposits at NBE, 2020	*0.1*	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service Moratorium	*0.0*	*2.4*	*0.0*	*0.0*	0.0	0.0	0.0			
Other restructuring (incl. pros. G20 CF)	*0.0*	*0.0*	*2.1*	*2.1*	0.0	0.0	0.5	0.0	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	N.A.	N.A.	N.A.	N.A.
Gross official reserves	0.7	3.5	4.4	4.6	5.2	5.6	7.2	7.4	7.5	7.4

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]

(Percent, unless otherwise indicated)

	Jun-22	Jun-23	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Capital adequacy									
Capital to Risk-Weighted Assets	16.3	14.7	15.4	17.9	18.2	17.3	19.1	18.2	17.7
Capital to Assets	7.5	7.8	8.2	9.3	9.3	8.8	9.5	9.2	9.2
Asset quality									
NPLs to Total Loans	3.9	3.6	3.9	5.5	4.3	3.9	3.1	3.9	3.6
NPLs Net of Provisions to Capital	-4.7	-8.6	-0.9	0.6	0.1	0.3	0.3	0.6	0.6
Earning and profitability									
Return on Assets	2.4	2.0	2.0	-1.3	1.3	2.1	2.5	4.2	4.1
Return on Equity	32.6	25.7	24.6	-14.9	14.7	24.6	27.4	45.0	43.9
Gross Interest Income to Total Income	71.6	76.1	76.5	39.7	46.5	52.2	54.6	64.2	63.0
Interest Margin to Gross Income	42.3	45.3	47.4	25.2	30.0	33.6	35.5	43.2	42.5
Non-interest Expenses to Gross Income [2]	34.5	43.1	46.7	87.3	75.1	67.6	62.2	48.7	48.5
Liquidity									
Liquid Assets to Total Assets	21.0	19.3	17.8	18.7	19.7	19.9	24.0	25.0	23.6
Liquid Assets to Total Deposits	27.1	24.3	22.4	23.8	24.9	24.9	30.4	31.8	29.6

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 CBE AQR.

[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**	**11,768**	**7,714**	**10,200**	**40,932**
Current account deficit, excl. official transfers	7,153	2,647	4,475	3,246	3,820	14,187
Federal government amortization	494	1,985	3,114	1,114	1,418	7,630
Other public sector amortization[1]	754	1,582	2,230	990	1,195	5,996
Repayments to Fund	212	217	55	55	72	400
Change in gross reserves (increase +)	352	2,780	1,445	2,310	3,695	10,230
External financing sources	**7,539**	**3,868**	**5,763**	**4,955**	**7,057**	**21,643**
Foreign direct investment, excl. privatization	3,906	4,012	4,075	4,209	4,934	17,230
External loans to Federal government	1,090	1,354	1,702	1,787	1,907	6,750
Other public sector external borrowing	2,536	950	458	909	926	3,243
Other (net) [3]	-463	-249	1,059	-1,949	-710	-1,849
Errors and Omissions	471	-2,198	-1,531	0	0	-3,730
Financing gap (need for financing +)	**1,427**	**7,382**	**6,005**	**2,759**	**3,143**	**19,289**
Expected financing	**1,427**	**4,261**	**1,283**	**1,364**	**1,388**	**8,295**
Official transfers	1,139	1,198	1,283	1,364	1,388	5,232
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**	**4,722**	**1,395**	**1,755**	**10,994**
IMF	0	1,621	522	895	425	3,464
Disbursements	*0*	*1,621*	*522*	*895*	*425*	3,464
Prospective debt restructuring	0	0	2,700	0	780	3,480
Prospective budget support	0	1,500	1,500	500	550	4,050
Memorandum items :						
Gross official reserves (millions U.S. dollars)	1,429	4,418	5,863	8,173	11,868	
(Months of following year's imports of goods and services)	0.7	1.7	2.1	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: Approved at the 4th Review	Amount: Proposed	Percent of quota[1]: Approved at the 4th Review	Percent of quota[1]: Proposed
		SDR million	SDR million	Specific review	Specific review
July 29, 2024	Executive Board approval of the ECF arrangement	766.75	766.75	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	255.60	85.0	85.0
December 10, 2024	Observance of continuous PCs and PCs for end-September 2024 and completion of the second review	191.70	191.70	63.8	63.8
April 15, 2025	Observance of continuous PCs and PCs for end-December 2024 and completion of the third review	191.70	191.70	63.8	63.8
October 15, 2025	Observance of continuous PCs and PCs for end-June 2025 and completion of the fourth review	191.70	191.70	63.8	63.8
April 15, 2026	Observance of continuous PCs and PCs for end-December 2025 and completion of the fifth review	191.70	342.05	63.8	113.8
October 15, 2026	Observance of continuous PCs and PCs for end-June 2026 and completion of the sixth review	191.70	154.11	63.8	51.3
April 15, 2027	Observance of continuous PCs and PCs for end-December 2026 and completion of the seventh review	191.70	154.11	63.8	51.3
October 15, 2027	Observance of continuous PCs and PCs for end-June 2027 and completion of the eighth review	191.70	154.11	63.8	51.3
April 15, 2028	Observance of continuous PCs and PCs for end-December 2027 and completion of the ninth review	191.70	154.12	63.8	51.3
	Total	2555.95	2555.95	850.0	850.0

Source: IMF staff calculations.

[1] Ethiopia's quota is SDR 300.7 million.

Table 8. Ethiopia: Indicators of Fund Credit, 2025/26–2039/40[1]

(In millions of SDR unless stated otherwise)

	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	41.8	41.8	55.1	28.4	136.5	262.0	319.5	319.5	319.5	217.3	57.5	0.0	0.0	0.0	0.0
Charges and interest (excl. obligations to SDR department)	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)	44.0	43.5	56.3	29.1	136.7	262.0	369.1	465.0	545.4	409.0	215.0	142.1	46.2	0.0	0.0
Principal	41.8	41.8	55.1	28.4	136.5	262.0	369.1	465.0	545.4	409.0	215.0	142.1	46.2	0.0	0.0
PRGT	26.7	26.7	40.1	13.4	129.0	262.0	369.1	465.0	545.4	409.0	215.0	142.1	46.2	0.0	0.0
EFF	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	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)	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	44.0	43.5	56.3	29.1	136.7	262.0	369.1	465.0	545.4	409.0	215.0	142.1	46.2	0.0	0.0
In millions of U.S. dollars	58.7	58.1	75.5	39.0	183.1	351.0	494.5	623.0	730.7	547.9	288.1	190.4	61.9	0.0	0.0
In percent of general government revenue	0.4	0.3	0.4	0.2	0.7	1.2	1.4	1.6	1.6	1.1	0.5	0.3	0.1	0.0	0.0
In percent of exports of goods and services	0.3	0.3	0.3	0.1	0.6	1.0	1.3	1.4	1.5	1.0	0.5	0.3	0.1	0.0	0.0
In percent of total external debt service	1.0	1.8	2.1	1.0	5.0	12.7	17.1	19.9	23.1	17.9	10.1	6.7	2.3	0.0	0.0
In percent of gross international reserves	1.0	0.7	0.6	0.3	1.1	1.9	2.6	3.0	3.2	2.2	1.0	0.6	0.2	0.0	0.0
In percent of GDP	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	14.6	14.5	18.7	9.7	45.5	87.1	122.7	154.6	181.4	136.0	71.5	47.3	15.4	0.0	0.0
Outstanding Fund credit (end of period)															
In millions of SDRs	1,757.0	2,365.5	2,618.6	2,590.2	2,453.7	2,191.7	1,822.6	1,357.7	812.3	403.3	188.3	46.2	0.0	0.0	0.0
In millions of U.S. dollars	2,342.6	3,161.5	3,508.5	3,470.4	3,287.6	2,936.5	2,442.0	1,819.0	1,088.3	540.4	252.3	61.9	0.0	0.0	0.0
In percent of general government revenue	17.9	19.6	18.4	15.4	12.7	9.8	7.1	4.7	2.4	1.1	0.4	0.1	0.0	0.0	0.0
In percent of exports of goods and services	12.1	14.2	14.5	12.7	10.7	8.5	6.3	4.2	2.2	1.0	0.4	0.1	0.0	0.0	0.0
In percent of total external debt	5.9	7.6	8.1	8.1	7.8	6.8	5.6	4.2	2.5	1.2	0.6	0.1	0.0	0.0	0.0
In percent of gross international reserves	40.0	38.7	29.6	24.9	20.3	16.1	12.6	8.6	4.8	2.2	0.9	0.2	0.0	0.0	0.0
In percent of GDP	1.8	2.2	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	584.3	786.7	870.8	861.4	816.0	728.9	606.1	451.5	270.1	134.1	62.6	15.4	0.0	0.0	0.0
PRGT	566.8	774.2	863.3	858.9	816.0	728.9	606.1	451.5	270.1	134.1	62.6	15.4	0.0	0.0	0.0
EFF	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
Net use of Fund credit (millions of SDR)	533.3	341.6	328.3	-28.4	-136.5	-262.0	-369.1	-465.0	-545.4	-409.0	-215.0	-142.1	-46.2	0.0	0.0
Disbursements	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	41.8	41.8	55.1	28.4	136.5	262.0	369.1	465.0	545.4	409.0	215.0	142.1	46.2	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
Memorandum items:															
General government revenue (billions of birr)	2,074.6	2,723.3	3,363.1	4,102.7	4,837.1	5,708.1	6,667.4	7,767.0	9,054.9	10,543.0	12,258.6	14,252.3	16,113.0	18,142.5	20,419.1
Exports of goods and services (billions of U.S. dollars)	19.4	22.3	24.2	27.3	30.7	34.4	38.6	43.3	48.6	54.6	61.1	68.5	76.7	85.9	95.8
Total debt service (millions of U.S. dollars)															
Gross international reserves (billions of U.S. dollars)	5.9	8.2	11.9	14.0	16.2	18.2	19.3	21.0	22.9	24.6	27.7	31.8	35.8	40.3	44.1
In months of prospective imports	2.1	2.7	3.5	3.7	3.8	3.8	3.6	3.5	3.5	3.4	3.5	3.6	3.7	3.8	3.7
Nominal GDP (billions of U.S. dollars)	127.1	145.7	165.7	189.0	215.0	245.9	280.4	320.2	366.0	418.6	479.0	548.4	608.0	671.5	740.7
SDR per U.S. dollar (period average)	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

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, June 2025–June 2026

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2025 Performance Criteria			end-Sep 2025 Indicative Target			end-Dec 2025 Performance Criteria			end-Mar 2026 Indicative Target			end-Jun 2026 Performance Criteria
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Prel.	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/]	106,000	105,160	Met	76,000	-12,267	Met	105,000	-44,105	Met	116,000	39,053	Met	128,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,911	Met	200	746	Met	400	1,433	Met	400	1,577	Met	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	578,000	701,753	Met	120,000	223,862	Met	276,000	579,641	Met	525,000	906,894	Met	850,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-1,830	Met	0	-42,216	Met	0	-38,647	Met	0	-84,914	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	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	0	Met	0
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]										0	0	Met	0
Indicative targets													
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/, 5/]	147,000	91,971	Met	50,000	8,846	Met	95,000	-41,820	Met	139,000	-13,292	Met	185,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [6/]	51,400	58,232	Met	8,500	4,000	Not Met	22,500	23,565	Met	33,500	26,600	Not met	57,400
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)	3,000	629	Met	2,000	450	Met	2,500	467	Met	2,750	714	Met	3,000

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

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

Table 10. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2026–June 2027
(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2026 Performance Criteria	end-Sep 2026 Indicative Target	end-Dec 2026 Performance Criteria	end-Mar 2027 Indicative Target	end-Jun 2027 Performance Criteria
	Prog.	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/]	128,000	58,000	93,000	37,000	33,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	300	500	500	500
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	850,000	201,000	448,000	849,000	1,296,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	0	0	0	0
Continuous performance criteria					
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [3/]	0	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	0
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]	0	0	0	0	0
Indicative targets					
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/]	185,000	254,000	307,000	307,000	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/]	57,400	6,000	22,500	33,500	57,500
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)	3,000	1,050	1,550	2,000	2,500

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			
Council of Ministers to submit to Parliament draft FY2026/27 budget for Federal Government in line with IMF program's macro-framework.	Ensure fiscal targets consistent with program's objectives.	End-June 2026.	Met
EIH's Board to authorize recapitalization of EPSE for the amount of 286 billion Birr to be affected via the government budget.	Ensure fiscal targets consistent with program's objectives.	End-June 2026.	
Ministry of Finance to issue a directive instructing the Ethiopian Customs Commission to collect fuel taxes at full statutory tax rates and remit the proceeds to MoF's treasury account.	Ensure fiscal targets consistent with program's objectives.	End-June 2026.	
Structural Benchmark			
1. 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-June 2026).
2. 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.	
3. 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.	
4. NBE to develop a roadmap to deepen the interbank FX market, including establishing an interdealer trading platform.	Support FX market development.	End-September 2026.	
5. 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.	

Table 11. Ethiopia: Structural Conditionality (Concluded)

Measure	Rationale	Board Approved Target Date	Status
Structural Benchmark			
6. Ministry of Revenue to launch excise stamp.	Improve tax compliance and raise revenue.	End-December 2026.	Proposed.
7. Ministry of Finance and NBE approve and publish the Treasury Bill and Bond Issuance Directive.	Support local currency bond market development.	End-October 2026.	Proposed.
8. NBE and MoF to agree on NBE recapitalization plan, 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.	Support NBE operational independence and effective monetary policy implementation.	End-September 2026.	Proposed.
9. Council of Ministers to submit a proposal for the House of Federation to decide on the revenue assignment of the motor vehicle ownership tax between federal and regional governments.	Raise revenue.	End-December 2026.	Proposed.

Annex I. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Renewed conflict in Tigray or further intensification of conflict in Amhara and Oromia regions.	**M**	**M.** Economic disruption, increased displacement and humanitarian needs, and increase in prices of staples, with Amhara and Oromia encompassing 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.
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 and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflict, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, additional financial frictions and market volatility	**H**	**M/H.** Disruption to supply and higher prices of key imports, especially fuel, alongside reduced export to and remittances from the Middle East pressure balance of payments, inflation, and growth.	Accelerate reforms enhancing export competitiveness. Ensure a market-clearing exchange rate. Accelerate WTO accession process and implementation of trade agreements such as AfCFTA. Tighten monetary policy if second-round inflation effects are significant.
Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, higher migration pressures, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	**H**	**M/H.** Lower demand for exports adds to trade deficit and weakens debt sustainability. Reduction in remittances from diaspora, FDI, and creditor cooperation. Official development assistance is further reduced. Increased unmet humanitarian needs, especially in food security and health.	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.	**H**	**M/H.** Higher prices for imported commodities, including food, fuel, and fertilizers. Lower prices of key exports, especially gold and coffee. 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 February 2026 update of the Global Risk Assessment Matrix.

Annex II. Impact of Prolonged Conflict in the Middle East

Higher fuel prices under a more prolonged conflict would lead to significant fiscal and balance of payments financing gaps. Policy adjustment could help weather a limited shock, but additional external and fiscal financing may be needed in the severe scenarios.

1. **A longer and more severe war in the Middle East is a key macroeconomic risk and could create substantial FX and fiscal liquidity pressures.** The primary channel is higher fuel prices, firstly through the direct price impact, potentially exacerbated by supply disruptions limiting quantities. Ultimately, higher fuel prices could result in significant BOP and fiscal financing gaps. Other channels include higher fertilizer prices, higher global food prices (food imports are limited, but reduced food aid would have a disproportionate impact on the most vulnerable), lower remittances, and lower gold prices (which mitigate the impact of the war under the baseline).

2. **Higher fuel prices could result in significant BOP and fiscal financing gaps.** In a prolonged oil price shock scenario based on the April 2026 WEO severe scenario, oil prices would remain elevated and imported fuel prices for Ethiopia remain constant at the 2026 Q2 peak of US$177 per barrel through to 2028 Q2.[1] This would result in a financing shortfall relative to the baseline at end-2027/28 of US$2.9 billion. Alternatively, reserve coverage would fall from 3.5 months in the baseline to 2.6 months. With no policy action fiscal subsidy costs would be substantially higher, cumulating to 1.2 percent of GDP over FY26/27–FY27/28.

Ethiopia: Fuel Imports, FX Reserves, and Fiscal Subsidy
(In billions of U.S. Dollars, unless indicated)

	2025/26	2026/27	2027/28
Baseline Scenario			
Fuel imports	4.1	4.8	3.7
Cash payment	3.5	6.4	4.0
Trade financing	0.6	-1.6	-0.3
FX reserves	5.9	8.2	11.9
(months of imports)	2.1	2.7	3.5
Subsidy (% of GDP)	0.5	0.1	0.0
Severe Scenario (prolonged high fuel price)			
Fuel imports	4.1	5.8	6.3
Cash payment	3.5	7.1	6.2
Trade financing	0.6	-1.3	0.1
FX reserves	5.9	7.5	9.0
(months of imports)	2.1	2.5	2.6
Subsidy (% of GDP)	0.5	0.6	0.6

Source: IMF staff estimates.

3. **Physical supply shortages could have severe macroeconomic consequences of unpredictable magnitude.** While it is assumed that the authorities are still able to procure fuel at higher prices, prolonged shortages could lead to severe disruptions to economic activity with over 90 percent of the country's logistics reliant on diesel for road transportation. Such an impact would be acutely felt in the agricultural sector (a third of economy) as access to inputs and to markets for selling agricultural products would become more difficult. While over 90 percent of electricity generation is from hydropower, a point of resilience, specific users in energy intensive sectors like construction and manufacturing would be affected by fuel shortages. There could be significant humanitarian implications if shortages were to affect the distribution of food aid. While liquid fuels and transport make up a relatively small share of the CPI basket (a combined 3 percent), and home fuel is predominantly locally produced charcoal or electricity, fuel-related price increases and

[1] Ethiopia's fuel import prices incorporate a premium over the WEO refence scenario that reflect (i) relevant benchmark prices, and (ii) supplier premiums to cover shipping, re-routing, and insurance costs.

broader economic disruptions are likely to result in spikes in inflation and significant hardship. Food accounts for 54 percent of the CPI basket, and disruptions to passenger transport would affect the economy and livelihoods in cities, above all Addis Ababa.

4. Policy adjustment should be the first response to addressing financing gaps, with limited space for further adjustment to program targets or additional financing. Should a prolonged or more permanent shock materialize, adjustment would be appropriate and necessary. Exchange rate adjustment should be freely allowed to reflect real exchange rate realignment, with FX intervention limited to addressing disorderly market conditions if needed. International reserves should be preserved to the extent possible. The authorities should stand ready to tighten monetary policy should second-round price effects become likely. With limited scope for additional revenue mobilization in the near term or spending cuts, the fiscal policy response should focus on the prompt elimination of fuel subsidies. Retail price increases would have to be calibrated to fiscal space, capacity to put in place targeted mitigating measures, social impacts and tolerance for rapid increases, and scope for raising additional financing.

Appendix I. Letter of Intent

Addis Ababa, June 16, 2026

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, continues to advance well despite more adverse external conditions. The war in the Middle East has disrupted trade and caused sharp price increases for fuel and fertilizer imports. Even so, economic activity remains robust, with real GDP growth expected at 9.2 percent in FY2025/26 and only a modest increase in consumer price inflation.

The strong economic performance in face of adverse conditions has been supported by steady advances on implementation of our reform agenda. This includes continued progress towards anchoring macroeconomic stability with an interest-rate based monetary policy framework, a market-determined exchange rate, and increased domestic revenue mobilization. Advances in these areas created buffers that helped us absorb the shock from the Middle East war while maintaining sound monetary and fiscal policy stances.

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.

Priorities for the remainder of the 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 by elimination of remaining current account restrictions and 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 342.05 million for completion of the fifth review of the ECF arrangement. This includes rephasing 50 percent of quota (SDR150.35 million), providing around US$200 million in additional resources to help respond to pressures resulting from the war in the Middle East, especially the sharply higher price of imported fuel. Of this amount, SDR 95.85 million will be made available as budget support. Remaining access will be spread equally over the last four reviews. We also request modification of the end-September and end-December 2026 indicative targets on government contribution to PSNP to accommodate underlying seasonal and budget execution patterns.

As part of this fifth program review, we also request (i) completion of the financing assurances review and (ii) temporary approval of two exchange restrictions on the grounds that these measures have been imposed for balance of payments reasons, are necessary, and their use will be temporary and expected to be lifted throughout the program period. These measures include: the imposition of hard ceilings on access to and use of FX for travel purposes, and the imposition of hard ceilings on access to and use of FX for the purposes of cross-border payment of moderate family remittances.

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

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

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

Very truly yours,

/s/	/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, June 16, 2026

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. The reform program is delivering tangible macroeconomic gains. Exports of goods have more than doubled in value since the start of the program, 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 took 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. **The war in the Middle East represents a substantial external shock.** With fuel supply stemming predominantly from the Persian Gulf region, and as an importer of fertilizer, the economic impact is expected to be substantial. The immediate challenge has been to secure adequate imports of fuel in the face of supply shortages, and costs rising as much as three times per barrel from pre-crisis levels. While supply has improved and costs have fallen since March-April, the fuel import bill for 2026/27 is expected to be significantly higher than the level in 2025/26, representing a major financing challenge. Sharply higher prices of fertilizer in international markets are adding to financing pressure. Economic growth is expected to moderate due to the impact of higher fuel prices on production and distribution costs across the economy. Inflation will rise, affecting purchasing power and tempering real growth in consumption.

8. **Real GDP growth has accelerated.** Despite the war in the Middle East, growth is expected to remain at 9.2 percent in 2025/26 given the strong performance in the first three quarters of the fiscal year. 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.

9. **Inflation has started to increase.** Although inflation fell to single digits in March 2026 for the first time since 2019, it rose to 11.7 percent y/y in April 2026, mostly driven by higher food

prices. The shock to prices from the Middle East war is projected to drive an increase in the short term, to 13.9 percent at the end of 2025/26, but is expected to decline from this peak considering appropriate macroeconomic policies and continued efforts to build the credibility of the new monetary policy framework.

10. The balance of payments has been supported by a continued strong export performance. Until recently, coffee and gold exports benefited from high international prices alongside large increases in volumes spurred by the foreign exchange (FX) reform. Services exports have continued to perform well, and early indications of investment in new sectors—for example solar panels—and mining hold promise for export diversification. With nominal goods imports up by 19.3 percent y/y in the first ten months, the current account deficit is expected to increase to 2.5 percent of GDP in 2025/26 from 1.1 percent of GDP in 2024/25. Over the year, gross international reserves are projected to increase by US$1.4 billion to US$5.9 billion (roughly 2.1 months of import cover), in line with the program target.

11. Government revenue has grown rapidly, enabling increased spending in priority areas. The ratio of general government tax revenue to GDP has risen by 3.3 percentage points, from 6.2 percent of GDP in FY2023/24 to an expected 9.5 percent of GDP in FY2025/26, with revenue boosted by policy changes in income tax, 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 has 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 is expected to be 2.0 percent of GDP at end 2025/26, and fiscal performance criteria were met. An unused portion of the government's contribution to the rural safety net program is being used to provide shock response payments to beneficiaries, to mitigate the impact of the external shock from the Middle East war on the most vulnerable. As we move into the next safety net programs' cycle later in 2026, we will reach every region of the country, and an estimated increase from 8 to 9.5 million beneficiaries.

12. Monetary policy settings are unchanged. 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. Liquidity conditions have eased relative to last year, albeit they remain heterogeneous across the banking sector. Broad money grew by 37 percent y/y at end-March 2026, driven by deposit growth at CBE, and base money increases resulting from the increase in central bank reserves linked to NBE gold purchases. Credit growth has risen to 25 percent y/y, with credit to the private sector up 50 percent, claims on SOEs down 10 percent, and net credit to government at 0.3 percent y/y. 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.

13. Debt ratios are evolving favorably. Total public debt is expected to end 2025/6 at 45.3 percent of GDP, down from 50.5 percent at end-June 2025. 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 discussions with bondholders continue.

B. Objectives of the Program

14. 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.

15. 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

16. We are committed to a market-determined exchange rate to strengthen resilience against external shocks. An automated interbank FX trading platform was launched at the Ethiopian Securities Exchange (ESX) in January 2026. Nineteen amendments to the FX Directive were introduced in February 2026 to further ease FX market restrictions. These measures are expected to make the formal FX market more attractive and help deepen market liquidity. They include eliminating surrender requirements for services exporters, allowing outbound remittances up to US$3,000 for family reasons, authorizing banks to enter forward transactions without NBE approval, and case by case approval by NBE of overseas investment. Since January 2026, NBE has published full details of FX auction results, including highest and lowest bid prices, the total bid amount, the cut-off rate, and the number of participating banks.

17. FX liquidity in the banking sector has improved. As NBE is the main beneficiary of higher gold exports in terms of FX liquidity and reserve accumulation was above target, NBE continued to sell FX through competitive auctions open to all banks to ease liquidity pressures in the FX market. Increased FX inflows, including from higher remittances and FDI, further supported liquidity. However, adverse terms-of-trade shocks stemming from the war in the Middle East are creating new pressures on FX liquidity. Limited competition among banks continues to hinder efficient market clearing and price discovery, and the interbank FX market remains illiquid with very few transactions. We continue to take measures to enhance FX market functioning:

- NBE will continue to rigorously enforce the Net Open Position (NOP) Directive to ensure that the banks remain within prudential limits. Following the conclusion of the transition period for implementing the revised directive at end-March 2026, daily enforcement of NOP limits—set at ±18 percent of capital—has been in place, including the imposition of penalties for noncompliance. As of end-April 2026, all banks' NOPs were within the prudential limits. Weekly consultations between NBE and CBE have continued to support sustained compliance with prudential limits, including maintaining a small precautionary long position within the regulatory bounds to absorb unexpected FX pressures. Given that the historically negative NOP of CBE has been driven by large importer flows, CBE has also stepped up efforts to mobilize FX resources from exporters and remittances from diaspora communities.
- A roadmap to deepen the interbank FX market will be developed by end-September 2026 (structural benchmark), with support from IMF technical assistance. Upgrades to the NBE's settlement system are expected to be completed by end-July 2026, enabling banks to settle interbank FX transactions domestically.
- NBE will continue to conduct FX auctions in a transparent and predictable manner, following international best practices. This includes issuing a quarterly auction calendar in advance and adhering to the published schedule. Accordingly, we published the calendar for remaining auctions in 2025/26 at the end of May 2026 and will publish the calendar for the first quarter of 2026/27 by the end of June 2026. Market monitoring has also been strengthened to encourage competition and prevent violations of the directives and discourage violations of the FX Code of Conduct. NBE will take actions, in consultation with other authorities, against any banks found to be in violation of the FX Code of Conduct.
- NBE will adopt a plan by end-September to remove the remaining surrender requirements. Indicators to assess FX market development were identified in May 2026, including the level and persistence of the parallel market premium, interbank market activity, unmet FX demand, and banks' NOP positions. Based on these indicators, NBE will develop benchmarks that will guide the removal of surrender requirements through the end of the program.
- The FEMOS reporting system will be fully operationalized by end-December 2026. NBE will also relax current rules by end-December 2026 governing exporters' sale of funds from their retention accounts to meet surrender requirements, with a view to providing exporters greater flexibility.

18. Efforts to phase out long-standing exchange restrictions continue. We remain committed to removing all long-standing exchange restrictions identified in the IMF Article VIII assessment during the program period. The 18-month transition period for banks to settle pre-FX reform accumulated dividends has ended, and all have been cleared. The use of FX for moderate outbound family remittances has been permitted, capped at US$3,000. FX account holders are also allowed to use their funds for overseas payments—including travel expenses— up to the full amount of their outstanding deposits. The pace and scope of further relaxation of restrictions on access to family remittances and travel-related expenses will be guided by an assessment of the risks of circumventing capital controls. This assessment—including monitoring developments following the recent relaxation and a review of international experience—will be completed by end-December 2026. Phasing out the NBE exchange commission, which constitutes a significant share of NBE's income, will align with review of NBE's capital position. We will eliminate the last two additional exchange restrictions by the end of the program: 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. Joint consultations with the other affected public authorities have been initiated to identify alternative solutions that avoid exchange restrictions and minimize business disruptions without inducing capital flight and tax evasion.

19. 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. NBE will continue to conduct FX transactions exclusively with banks through FX auctions, in line with the continuous performance criterion. NBE will report all daily FX transactions with banks to the IMF on a weekly basis.

20. Efforts to strengthen NBE's gold transaction procedures to mitigate the risks to NBE's balance sheet and reduce distortions in the banking sector are underway. Quality control has been improved through the introduction of 11 additional ore purity verification units, alongside enhanced internal procedures and external awareness initiatives. There are no regulatory or technical impediments preventing private banks from participating in the settlement of gold purchases. While a detailed plan for phasing out the premium above international prices paid to miners was delayed, it will be adopted by NBE by end-September 2026 in connection with the NBE recapitalization plan, which is expected to be agreed by the same date. 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

21. 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. To enhance its operations, NBE has recently implemented an internal reorganization, including creating clusters focused on Monetary Stability and Financial Market Operations. We continue to take steps to strengthen liquidity forecasting and policy analysis capabilities and are developing an automated

Macroeconomic Database Management System with support from IMF TA under the newly created Statistics Directorate. The system aims to align data collection, integration, and dissemination processes with rigorous international standards. We also continue to develop a transparent monetary policy communication strategy, under the newly created Corporate Communications and International Relations Directorate.

22. The NBE has maintained the monetary policy rate at 15 percent since its introduction in July 2024. Standing lending and deposit facilities 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 Open Market Operations. In December 2025, the NBE Board approved an increase in the reserve requirement from 7 to 10 percent in response to the increase in excess liquidity in the system and removed the minimum savings deposit rate to support the price based monetary policy framework. In January 2026, the NBE also amended the interest rate directive to support freely determined interest rates across the economy and enhance reporting and monitoring of interest rates.

23. 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 of Birr 2.4 trillion and interest rates consistently falling within 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, which introduced partial reserve averaging and a lagged maintenance period. We will continue to monitor its implementation closely with a view to the objective of helping banks' improve liquidity management and consider further adjustments such as full reserve averaging, and tiered requirements. We have also developed a plan outlining how to address structural liquidity concentration at CBE, which includes increasing investment in T-bills and bonds; expanding participation in the interbank money market; and purchasing FX in the interbank market. We will conduct a review assessing the effectiveness of this plan by September 2026.

24. 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 and stand ready to raise rates should inflation deviate from the baseline or signs of second-round inflationary pressures emerge. Given heightened global economic uncertainty, the MPC will meet before the next scheduled quarterly meeting if warranted. 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 raising the policy rate or reserve requirements.

25. We will continue efforts to develop the monetary policy transmission mechanism, including by encouraging greater competition and market-orientation in the financial sector.

We reaffirm our commitment to eliminating financial repression and avoiding directed lending. We will also fully remove the cap on growth in credit to the private sector before end-December 2026. Considering the progress in restoring key SOEs to financial health and to encourage commercially-oriented lending decisions, we intend to gradually ease the domestic borrowing limit for state-owned enterprises (as monitored by the indicative target, IT), calibrating borrowing limits to SOEs' debt-to-equity ratios. This approach balances the need to ensure SOE's have space to meet businesses needs while ruling out past practices of lending to loss-making and overindebted entities that led to the buildup of financial stability risks.

26. 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 will continue to support tight monetary conditions.

27. 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 Ministers' Office (PMO) while NBE will play its advisory role whenever requested. Two external members with suitable professional backgrounds were appointed to the Monetary Policy Committee in February 2026. To strengthen the foreign reserves management framework, we have drafted reserve management policy and guidelines and will form an executive investment committee with its own charter, which will be approved by the NBE Board by September 2026. With IMF technical assistance, we will develop a comprehensive business continuity and disaster recovery plan that covers all critical operational processes within the central bank, which will be adopted by June 2027. In coordination with the ongoing human resources transformation initiative, we are strengthening staff capacity across several functions (accounting, risk management, internal audit). As part of our commitment to maintaining a timely audit cycle, the FY2024/25 NBE audited accounts were published in January 2026 and the FY25/26 NBE audited accounts are expected to be published by December 2026.

28. 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 and maintaining single digit inflation and the 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, the recently established joint NBE–MoF staff working group has prepared a recapitalization plan, which we expect to be agreed with the MoF by end-September 2026 (**new Structural Benchmark, end-September 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 the Development Bank of Ethiopia; and (iv) phasing out of premiums and subsidies for the purchase of gold.

E. Fiscal Policy

29. 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.

30. Fiscal consolidation will be maintained over the medium term to underpin sustainable public finances for long-term development. We will reduce the primary general government deficit, on a cash basis, from 1.4 percent of GDP in 2023/24 to 0.1 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.

31. FY2025/26 fiscal policy has been implemented in line with program commitments. We increased public sector salaries, with wage increases benefitting 2.3 million federal and regional civil service workers at a gross cost of 196 billion Birr (0.9 percent of GDP), of which about one third will be offset by higher income tax receipts. The increase largely offsets real wage erosion over several years during which the public sector pay scale was not adjusted. The overall deficit, excluding budget grants, will be maintained at 3.3 percent of GDP in 2025/26, in line with program targets. We have rationalized lower priority current and capital expenditure to offset the impact of higher fuel costs for the public sector. We will contain expenditure at levels consistent with the agreed financing totals and will not seek to exceed agreed spending levels or pass budget amendments without consultation. The FY25/26 fuel and fertilizer subsidy will be capped at the budgeted level of 100 billion Birr (0.6 percent of GDP) and 84 billion Birr (0.4 percent of GDP), respectively. In addition, 170 billion Birr (US$ 1,050 million, 0.9 percent of GDP) of the expected World Bank financing under the Development Policy Operation and Rapid Response Option facilities will be channeled through the federal budget to increase capital of EPSE in July 2026.

32. The Council of Ministers will submit a draft FY2026/27 Federal Government budget to Parliament in line with the program (prior action). The FY2026/27 Budget will target a reduction in overall deficit excluding grants from 3.3 percent to 2.1 percent of GDP. The Budget will include an additional expenditure allocation of 116 billion Birr (0.5 percent of GDP), allocated out of central treasury resources to recapitalize EPSE. The shift of spending away from untargeted subsidies towards growth enhancing development spending and targeted social support will proceed as planned. The FY26/27 fertilizer subsidy will be capped at 100 billion Birr (0.4 percent of GDP) and the fuel subsidy at 20 billion Birr. Transfers from the contingency will be limited to unforeseen and urgent events.

33. 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 4.3-percentage point rise in the tax-to-GDP ratio to 10.5 percent of GDP by 2027/28 will provide a sustainable resource base for raising pro-poor and capital expenditure by 1.5 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 as needed to ensure the attainment of our revenue and primary deficit targets. We will also ensure that revenue mobilization remains consistent with our trade integration agenda. As WTO accession advances, we will prepare for phasing out of import-related levies, including the import surtax and the Social Welfare Levy, and offset associated revenue losses through tax policy measures under the NMTRS.

34. We are advancing the next phase of revenue mobilization reforms, in line with the NMTRS. The revenue impact of tax policy measures taken to date is expected to generate a 0.6 percentage point increase in the general government tax to GDP ratio, to 10.1 percent of GDP in FY2026/27. To this end:

- All federal fuel taxes (0.8 percent of GDP in FY2026/27) will be collected in full at statutory rates by Customs and remitted to the Budget. Excise and VAT liabilities will be assessed on the applicable statutory tax base, without caps or ad hoc adjustments that reduce effective fuel tax collection. By end June 2026, the Ministry of Finance will issue a directive instructing the Ethiopian Customs Commission to collect fuel taxes at full statutory tax rates and remit the proceeds to MoF's treasury account (**prior action**).
- Implementation of the 2025 Income Tax Proclamation amendment is expected to yield an additional 0.3 percent of GDP. The income tax 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 deferred the first advance payments to February 2026 for corporate taxpayers submitting annual returns in October 2025. The implementation of the advance quarterly payment regime will continue in FY26/27. To improve tax policy impact assessment and revenue planning, Ministry of Revenue will finalize business income tax recordation to separate minimum alternative tax, advance and annual business income tax payments by December 2026.
- 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 customs duty exemptions by reduced rates, implemented in FY2025/26, is projected to yield revenue gains of about 0.2 percent of GDP per year.

- 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, with IMF technical assistance, will adopt a tax expenditure methodology framework and establish binding institutional protocols for data processing, estimating, consolidating, reporting and monitoring tax expenditures across VAT, CIT, PIT and excises (structural benchmark, end-June 2026). Following the ongoing IMF TA, we will begin work in July 2026 on a first tax expenditure report focused on CIT incentives, drawing on data shared by the MoR under the new institutional protocols. The report is expected to be published in April 2027. We will progressively expand coverage to other tax bases as data and estimation capacity improve.
- On excise taxes, we will accelerate implementation of the excise stamp and digital track-and-trace system, a key NMTRS measure to strengthen control of excisable goods and support revenue collection. Following delays, the MoR in coordination with MoF and the Information Network Security Agency (INSA) will finalize procurement and contracting arrangements by end September 2026, and proceed with the rollout of the excise stamp system. The excise stamp will be launched by December 2026 (**new structural benchmark, end-December 2026**). Rollout will be accompanied by an increase in specific excise rates on alcohol and tobacco in line with accumulated inflation. Progress towards full implementation will be checked monthly by MoF starting June 2026.
- We have completed the study on the motor vehicle ownership tax reform, which is in line with the yield of 0.2 percent of GDP envisaged in the NMTRS. The Council of Ministers will submit a proposal for the House of Federation to decide on the assignment of the revenue collected between federal and regional governments (**new structural benchmark, end-December 2026).** 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 strengthen our international tax treaties framework through a model double taxation treaty and negotiation manual. 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.
- Following enactment of the Real Estate Property Tax Proclamation in January 2025 and guided by the property tax roadmap under the NMTRS, we are working with regional governments on a phased roll out covering valuation, registration, billing, and taxpayer communication strategy. Initial implementation will focus on large cities in FY2026/27, with gradual expansion thereafter and expected revenue yields of at least 0.3 percent of GDP over the medium term.

35. 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 reporting tax liabilities 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 (structural benchmark). We will seek Fund technical assistance to support preparation and implementation of the CIP. The Ministry of Revenue is preparing migration to a new IT system to replace SIGTAS. The system, developed locally in collaboration with 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.

36. To mitigate the socio-economic impact of the spike in fuel import costs, we have provided temporary fiscal support. In line with commitment to eliminate fuel subsidies and given the prohibitive fiscal cost of accommodating the shocks, we raised fuel prices in March, April, and May 2026. We have introduced differentiation across products and consumers to address distributional effects and mitigate fiscal costs, with a separate price of diesel for commercial customers that has doubled since February to near full cost recovery level. Retail pump prices for diesel and gasoline will be gradually adjusted to reach full cost recovery, including all tax payments at statutory rates, to keep untargeted fuel subsidies within the 20 billion Birr allocated in the 2026/27 budget. Subsidies for jet fuel have been fully eliminated, and costs will continue to be fully passed on to the airlines. 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.

37. We will implement automatic fuel price adjustment, consistent with our commitment to eliminate untargeted fuel subsidies. With IMF technical assistance, we will reform the fuel price regime, to: (i) review the fuel price structure; (ii) adopt an automatic fuel pricing mechanism, (iii) implement a communication strategy and transparency; and (iv) address the residual legacy claims of the Fuel Price Stabilization Fund (FPSF). In the interim, pump prices will continue to be set by regulation and administrative decision.

38. We will settle legacy fuel subsidy debt resulting from exchange rate losses and the use of deferred letters of credit for fuel imports, and prevent the re-emergence of similar liabilities. In June 2026, (i) EIH's Board will authorize recapitalization of EPSE for the amount of 286 billion Birr, and (ii) this will be effected via the government budget (**prior action**). The 170 bn proceeds of the DPO and RRO, earmarked for EPSE recapitalization and expected to be disbursed in FY25/26, will be transferred to EPSE within 5 working days of each disbursement. The remaining 116 bn Birr will be transferred to EPSE before end-March-2027. EPSE will gradually transition to lower cost LCs for future fuel purchases. Pump prices will include a temporary surcharge (fiscal proceeds of 80 billion Birr in FY26/27) to eliminate the residual claims on the FPSF and for EPSE to build liquid assets that cover the outstanding trade credit liabilities. EPSE will open a foreign currency account(s), and implement a foreign currency purchase program to gradually build a position to settle maturing LCs or purchase new fuel while reducing the impact of lumpy fuel purchases on the FX market.

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

- **Safety nets:** we will continue to enhance the adequacy, coverage, and sustainability of PSNP expenditure. In response to the external shock from the Middle East war, including the impact of higher fuel prices on transport costs and second round effects on food prices, we will allocate 4 billion Birr within FY2025/26 fiscal year to provide temporary shock response payments, or additional payments under the urban PSNP program, to vulnerable households through existing PSNP delivery mechanisms. The budgetary envelope for the PSNP in FY 2026/27 will help to expand coverage of food insecure and poor households, increasing the number of rural beneficiaries from 8 to 9.5 million. We are working with development partners to strengthen targeting mechanisms. update and improve poverty assessment metrics, and undertake regular program evaluations. A diagnostic assessment, which will inform technical and legal framework gaps to implement a National Social Registry Ecosystem was finalized in March 2026. 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, the fund will be financed with budgetary allocations and dedicated domestic revenue sources, consistent with our NMTRS and tax policy reforms. As with all extra-budgetary funds, the fund's operations will be consolidated within the general government (TMU ¶3) and we will ensure that its spending mandate, budget execution, reporting, and audit arrangements are consistent with our fiscal transparency and PFM commitments.

- **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.

40. 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 was published in April-2026. To enhance macro-fiscal policymaking, 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 undertook the IMF Fiscal Safeguards Review and will use its recommendations to strengthen fiscal reporting, Treasury Single Account monitoring and reconciliation, selected IFMIS controls, arrears monitoring, and internal audit oversight.

41. 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, in line with GFSM2001/2014, specifically moving the large extrabudgetary government units into the general government perimeter by July 2027. 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

42. We aim to finalize all bilateral and commercial debt treatment agreements by December 2026. To date, three members of the Official Creditor Committee (OCC) under the Common Framework have signed bilateral agreements. Agreements with three additional OCC members are expected shortly. In addition, an Agreement in Principle (AIP) has been reached with three major commercial creditors on comparable terms to the OCC MoU and aligned with the program's objectives. We continue to engage with Eurobond holders, seeking a restructuring on comparable terms to the official creditors and consistent with program parameters.

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

44. We will refrain from new non-concessional borrowing. The Government will continue to ensure that all public and publicly guaranteed (PPG) external financing agreements are on concessional terms (at least 35 percent of grant element) and are taken up at a pace consistent with the external borrowing plan (see Technical Memorandum of Understanding—TMU). This will be underpinned by a zero limit on contracting and guaranteeing PPG non-concessional borrowing (continuous performance criterion) and an indicative target on the PV of contracting and guaranteeing new PPG external borrowing (see TMU). An exception to the zero limit on non-concessional borrowing was granted by the IMF for a new loan to complete the Koysha hydroelectric dam project at program approval, 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.

45. 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.** In June 2026, we issued a letter to CBE specifying (i) 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 (ii) that we will completely end mandatory rollover by end-FY2026/27 (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. By September 2026, the Ethiopian Securities Exchange will establish a trading facility for over-the-counter trading of T-bills. Next steps

include, finalizing an Ethiopian Master Repurchase Agreement by end of December 2026. A secured repo market will be launched by March 2027 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. We continue to work to update the Treasury bill and bond issuance directive with the support of the IMF and World Bank to establish a unified framework, and plan to approve and publish the directive by October 2026 (**new structural benchmark, end-October 2026**). With IMF and World Bank technical assistance, we plan to finalize a Fiscal Agency Agreement between MoF and NBE by September 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 completed a survey of government bank accounts in June 2026, which will provide a full inventory of accounts to guide their rationalization and consolidation under the TSA.

G. State-Owned Enterprise Policy

46. 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, 30 out of 36 SOEs having completed and published FY2024/25 audited accounts. The consolidated financial statements of EIH for 2022/23 have been completed. Delays in finalizing the external audit process resulted in missing the end-December 2025 structural benchmark. We will publish the audited consolidated financial accounts on the EIH website by end-June 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 it 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 the way forward, we 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, the broader fiscal risk management framework, and reporting (internal and external) of fiscal risks from SOEs by the MoF.

47. 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 was adopted in March 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.

48. 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 for electricity introduced with the new VAT regime. With World Bank energy project support, EEU and EEP have contracted external consultants to update and refine financial modelling and 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 (ERC). 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. As ERC remains loss-making with substantial operational challenges, the company's post-restructuring external debts will be serviced by the Federal Government through the budget.

- **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. In the interim, half of the company's post-restructuring external debt will be serviced by the Federal Government through the budget.

H. Financial Sector Policy

49. As our financial sector develops, we continue to align regulatory and supervisory standards with international practices. We issued a new directive on risk-based capital adequacy requirements for banks requiring all banks to be in adherence with Basel II/III Pillar 1 requirements (capital definition and credit, market, and operational risk risk-weighted assets (RWAs) calculation)) in November 2025 and will continue to closely monitor and support banks to ensure full compliance by the end of the transition period in December 2026. More broadly, we will continue to develop our internal supervisory processes through onsite and offsite examinations to understand banks' practices and ensure compliance and harmonization of practices for recently enacted directives, including on risk-based capital adequacy requirements, foreign exposure limits, and banks' recovery plans. We will also strengthen our tools to support implementation and enforcement including updating and enhancing supervision manuals and enforcement check lists. We will develop an integrated macroprudential policy framework and advanced stress testing models for systemic risk analysis with the support of IMF TA. We have developed terms of reference for the recently created Financial Stability Committee of the NBE, and established directorates under a Financial Stability Cluster (FSC) in the NBE focused on financial analysis and stability; regulation, licensing, and approval; supervision; enforcement and resolution; and credit reference/movable collateral. We continue to publish a regular financial stability report.

50. The NBE is strengthening systems to ensure prompt identification and provisioning of non-performing loans (NPLs) in accordance with international practices. We have issued a Recovery Plan Directive and continue to develop a Prompt Corrective Action Framework to strengthen early supervisory intervention. Building on this, we are operationalizing our bank resolution framework with assistance from the IMF, which is to be supported by the newly created enforcement resolution directorate. A merger and acquisition directive is being finalized.

51. NBE will issue a new Internal Control and Risk Management Directive by September 2026 to strengthen governance of banks' credit policies and ensure consistent application of prudential standards. Following the issuance of the Directive, NBE will conduct a thematic review to assess its implementation. The NBE will also continue to conduct regular onsite reviews to assess banks' lending policies and practices, assessing credit approval processes, borrower due diligence, collateral use, and internal governance. The NBE will also work to establish supervisory frameworks to accommodate Islamic banking practices.

52. Building on the restructuring and recapitalization of CBE in July 2024, CBE 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 and strengthened governance to ensure independence and robust risk management. We continue to work to define CBE's public service obligations (PSOs), with clear procedures for approval, financing, and disclosure, including for strategic products like fuel and fertilizer. Since February 2026, CBE has been in full compliance with the new NOP Directive. An Asset Quality Review (AQR) of CBE's lending portfolio was completed in June 2026. In consultation with the World Bank, CBE will develop an action plan addressing recommendations of the AQR by December 2026.

53. We continue to implement a strategic plan to maximize DBE's development impact. The bank has adopted and is operationalizing a modernized risk management and governance framework, aligned with global best practices for development finance institutions. We plan to update the recently completed AQR covering 2019-2024 to include 2025 with the support of KfW by September 2026. Based on the findings of the AQR, we will develop an action plan, which includes the development of a recovery strategy for NPLs with the support of an international consultant and measures to address credit risk management gaps. 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. The bank will continue to develop a recapitalization proposal following full assessment of its loan quality, future mandate, and ongoing operational restructuring process.

54. We are also enhancing financial regulation and supervision of the insurance sector, with World Bank support. We have published a draft Insurance Proclamation, which establishes an independent Insurance Regulatory Authority focused on protecting policyholders' interests, promoting a fair, safe, efficient, and stable insurance market, and contributing to the overall stability of the financial sector. The Proclamation also aims to foster a competitive industry, including by opening the sector to foreign investment. Following consultation with key stakeholders, we will finalize and submit the Proclamation to Parliament by January 2027.

55. 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 with transaction volume nearing 3 trillion Birr, 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 and 7 others have applied, 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 have drafted a directive outlining a framework for the development of Collective Investment Schemes (CIS), which has been submitted by the Ministry of Justice for legal review. 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

56. 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, with ongoing consultations since the launch of the process in April 2025. This has supported Ethiopia as an investment destination, with the March 2026 Invest in Ethiopia conference resulting in investment pledges totaling US$13.1 billion.

57. 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.

58. We are adopting policies to bolster climate resilience and food security. Ethiopia faces significant challenges from climate change. The Climate Resilient Green Economy Strategy defines adaptation and mitigation policies, building a green economy and meeting commitments made in our nationally determined contributions for greenhouse gas emissions under the Paris Agreement. Our essential infrastructure projects also consider adaptation to climate change, including on sustainable green energy generation and distribution, irrigation systems, and water reservoirs to ensure water security—a key consideration for food security. To strengthen climate-related fiscal and financial sector policies, we conducted a comprehensive Climate Policy Diagnostic (CPD) with the support of IMF TA in April 2026. The findings of the CPD, together with 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, will inform our policy agenda, including for potential borrowing operations with international financial institutions.

59. 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, and regulation guiding the establishment of the registry was adopted by the Council of Ministers in May 2026. Draft directives for the creation and operationalization of a beneficial ownership registry have been prepared and will be adopted by September 2026. The Ministry of Trade and Regional Integration has been mandated to establish the beneficial ownership registry system and IT infrastructure, which will be implemented by March 2027. 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

60. Improving the quality of economic statistics is a key priority under HGER2.0. In December 2023, the government adopted the Ethiopian Statistical Development Program (ESDP) to strengthen capacity to collect and process data and improve the economic data available to the public. We continue to develop key inputs for updating our National Accounts and Consumer Price Index statistics, including expanding the information we collect from rural areas. In June 2026, we expect to finalize and publish the new agricultural census and household survey covering over 50,000 households. We will finalize and publish an Enterprise Survey by September 2026, which will further enhance information regarding the manufacturing and construction sectors. We continue to modernize the legal framework for statistics. A revised National Statistics Proclamation to the Council of Ministers aimed at strengthening the institutional mandate and coordination authority of the Ethiopian Statistical Service across the national statistical system was approved by the Council of Ministers in May 2026. With the support of IMF technical assistance, we are preparing a rebasing of the national accounts to base year 2024/25 by December 2026 or earlier. 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. We continue to work to upgrade CPI compilation methodology with the support of IMF TA. Based on the recommendations of this assistance, We updated our methodology in June 2026 to impute missing prices from the Tigray region instead of carrying forward prices from October 2020 and plan to incorporate prices from the region in line with the timeline for GDP rebasing. Based on the household expenditure survey, we will update the consumption basket and expand the coverage of the CPI and complete CPI rebasing in line with the timeline for GDP rebasing. Other priority areas include aligning data presentation with BPM6 for external sector statistics and government finance statistics.

K. Risks and Contingencies

61. 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

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

63. The program will be monitored by the IMF's Executive Board. 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 October15, 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.

64. 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.

65. The total exceptional financing over the 2024/25–2027/28 program period is estimated at US$11 billion. In addition to US$3.5 billion from the IMF, we expect a total of US$4.0 billion in budget support from the World Bank. The remaining US$3.5 billion is expected to be provided by financing associated with debt treatment under the Common Framework.

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

67. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP and disbursement of the sixth loan installment, totaling SDR 342.05 million, out of a total four-year arrangement of SDR 2,556 million.

Table 1a. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2025–June 2026

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2025 Performance Criteria			end-Sep 2025 Indicative Target			end-Dec 2025 Performance Criteria			end-Mar 2026 Indicative Target			end-Jun 2026 Performance Criteria
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Prel.	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/]	106,000	105,160	Met	76,000	-12,267	Met	105,000	-44,105	Met	116,000	39,053	Met	128,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,911	Met	200	746	Met	400	1,433	Met	400	1,577	Met	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	578,000	701,753	Met	120,000	223,862	Met	276,000	579,641	Met	525,000	906,894	Met	850,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-1,830	Met	0	-42,216	Met	0	-38,647	Met	0	-84,914	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	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	0	Met	0
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]										0	0	Met	0
Indicative targets													
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/, 5/]	147,000	91,971	Met	50,000	8,846	Met	95,000	-41,820	Met	139,000	-13,292	Met	185,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [6/]	51,400	58,232	Met	8,500	4,000	Not Met	22,500	23,565	Met	33,500	26,600	Not met	57,400
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)	3,000	629	Met	2,000	450	Met	2,500	467	Met	2,750	714	Met	3,000

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

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

Table 1b. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2026–June 2027

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2026 Performance Criteria	end-Sep 2026 Indicative Target	end-Dec 2026 Performance Criteria	end-Mar 2027 Indicative Target	end-Jun 2027 Performance Criteria
	Prog.	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/]	128,000	58,000	93,000	37,000	33,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	300	500	500	500
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	850,000	201,000	448,000	849,000	1,296,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	0	0	0	0
Continuous performance criteria					
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [3/]	0	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	0
Foreign exchange interventions by the NBE except through auctions (ceiling, US$ million) [4/]	0	0	0	0	0
Indicative targets					
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/]	185,000	254,000	307,000	307,000	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/]	57,400	6,000	22,500	33,500	57,500
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)	3,000	1,050	1,550	2,000	2,500

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 Conditionality

Measure	Rationale	Board Approved Target Date	Status
Prior Action			
Council of Ministers to submit to Parliament draft FY2026/27 budget for Federal Government in line with IMF program's macro-framework.	Ensure fiscal targets consistent with program's objectives.	End-June 2026.	Met
EIH's Board to authorize recapitalization of EPSE for the amount of 286 billion Birr to be affected via the government budget.	Ensure fiscal targets consistent with program's objectives.	End-June 2026.	
Ministry of Finance to issue a directive instructing the Ethiopian Customs Commission to collect fuel taxes at full statutory tax rates and remit the proceeds to MoF's treasury account.	Ensure fiscal targets consistent with program's objectives.	End-June 2026.	
Structural Benchmark			
1. 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-June 2026).
2. 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.	
3. 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.	
4. NBE to develop a roadmap to deepen the interbank FX market, including establishing an interdealer trading platform.	Support FX market development.	End-September 2026.	
5. 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.	

Table 2. Ethiopia: Structural Conditionality (concluded)

Measure	Rationale	Board Approved Target Date	Status
Structural Benchmark			
6. Ministry of Revenue to launch excise stamp.	Improve tax compliance and raise revenue.	End-December 2026.	Proposed.
7. Ministry of Finance and NBE approve and publish the Treasury Bill and Bond Issuance Directive.	Support local currency bond market development.	End-October 2026.	Proposed.
8. NBE and MoF to agree on NBE recapitalization plan, 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.	Support NBE operational independence and effective monetary policy implementation.	End-September 2026.	Proposed.
9. Council of Ministers to submit a proposal for the House of Federation to decide on the revenue assignment of the motor vehicle ownership tax between federal and regional governments.	Raise revenue.	End-December 2026.	Proposed.

Attachment II. Technical Memorandum of Understanding

Addis Ababa, June 16, 2026

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 sixth and seventh reviews under the arrangements are June 30, 2026 and December 31, 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, 2026, and March 31, 2027.

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 June 30, 2026, September 30, 2026, December 31, 2026, March 31, 2027, and June 30, 2027 (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 FY2026/27 is capped at US$300 million. The total upward adjustment to the floor on cumulative change in NIR target for FY2026/27 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

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

(i) duties, taxes, and other charges on international trade;

(ii) personal income tax of federal government employees (including on employment income, royalty income, dividends, interest, capital gains);

(iii) profit (including repatriated profits) tax and sales (including value-added tax, and excises) taxes from enterprises assigned to the federal government (including sole proprietors subject to the turnover tax);

(iv) taxes on gains from lotteries and gambling;

(v) taxes from air, rail, and marine transport;

(vi) taxes from rent of property assigned to the federal government;

(vii) taxes and fees on licenses and federal services;

(viii) stamp duties;

(ix) personal income tax of staff of enterprises jointly assigned to the federal and regional governments;

(x) profit tax, royalties, and rent from large scale mining, petroleum, and gas incorporated enterprises;

(xi) any other excises not covered by the list thus far;

(xii) all revenue assignments under the concurrent taxation powers of the federal and regional governments – namely, corporate income tax and dividend withholding tax on companies, profit and sales tax on enterprises jointly assigned to the federal and regional governments;

(xiii) unclassified tax revenues minus corresponding refunds.

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

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

Definition

23. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to IMF Executive Board Decision No. 16919(20/103) adopted on October 28, 2020.[1]

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

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

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

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

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

26. For program purposes, a debt is deemed concessional if it contains a grant element representing at least 35 percent. The grant element is the difference between the present value (PV) of the loan and its face value, expressed as a percentage of the loan's face value. The PV of a loan at the time of its signing date is calculated by discounting future principal and interest payments, based on the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). 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.

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

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

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

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

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

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

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

J. Continuous PC on Foreign Exchange Intervention by the NBE Except Through Auctions

31. 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.

32. 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. It will replace the current continuous indicative target on the ceiling for FX intervention, including the targets previously set through end-June 2026.

33. 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

34. 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

35. 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

36. 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 2026/27

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2026/27		PV of new debt in 2026/27 (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

37. 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.

38. 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

39. 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.

40. 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

June 16, 2026

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR REPHASING OF ACCESS, MODIFICATION OF INDICATIVE TARGET, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Hassan Zaman and Manuela Francisco (IDA), and Costas Christou and Pritha Mitra (IMF)

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 in external debt service to exports and external debt service to revenue 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 April 2026 World Economic Outlook and 2024 WB Country Policy and Institutional Assessment (CPIA) data that was published in July 2025, is currently estimated at 2.68.

As of December 2025, all members of the OCC have signed the Memorandum of Understanding (MOU). Since then, three OCC members have signed bilateral agreements. Agreements with three additional OCC members are expected shortly. An agreement in principle (AIP) has been reached with two non-OCC members. The authorities have reiterated their commitment to engage in good faith negotiations with bondholders to reach agreement on terms comparable to the OCC MOU and consistent with the IMF-supported program. In a press release issued on June 1, 2026, the Ad Hoc Committee of the Eurobond holders indicated that, while it remains open to alternative solutions, some members intend to pursue legal action given the lack of progress in recent discussions. An AIP has been reached with three large commercial creditors on terms that are comparable to the OCC MOU and aligned with program parameters. The illustrative debt treatment reflecting bilateral agreements signed with OCC members, the debt treatments set out in the OCC MOU for remaining OCC claims, the AIP with commercial creditors and the authorities' latest debt treatment scenario for other 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 6.5 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	6.5	To account for potential liabilities, including from a policy bank and claims by Koysha contractor; and EAL
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)			11.5	

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.

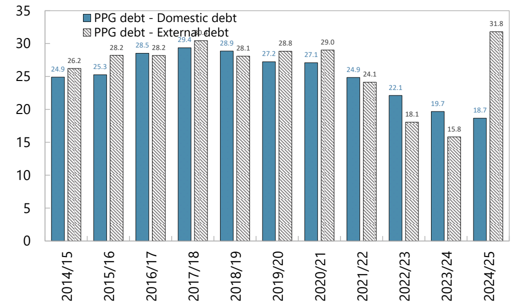
[5] Debt bulletins are available on the Ministry of Finance website (https://www.mofed.gov.et/resources/bulletin/).

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 50.5 percent of GDP at end-June 2024, up from 35.5 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 16 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)

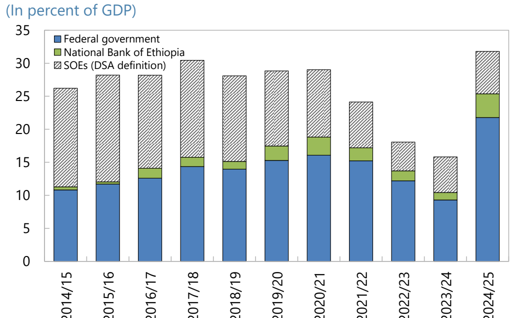


Sources: Ethiopian authorities; and IMF staff calculations.

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 31.8 percent of GDP, up from 15.8 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 external debt, consistent both with the IDA Sustainable Development Financing Policy and a continuous performance criterion under the current ECF program.

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



Sources: Ethiopian authorities; and IMF staff calculations.

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

Text Table 2. 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	**56,225**	**100.0**	**50.5**	**9,022**	**5,530**	**7,426**	**7.1**	**3.8**	**4.5**
External	**35,428**	**63.0**	**31.8**	**5,607**	**2,367**	**2,757**	**4.4**	**1.6**	**1.7**
International financial institutions	19,176	34.1	17.2	602	642	693	0.5	0.4	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/	12,710	22.6	11.4	2,519	1,247	1,613	2.0	0.9	1.0
Paris Club	2,082	3.7	1.9	315	185	218	0.2	0.1	0.1
o/w Italy	651	1.2	0.6	126	68	71	0.1	0.0	0.0
o/w Korea	408	0.7	0.4	0	1	2	0.0	0.0	0.0
Non-Paris Club	10,628	18.9	9.5	2,204	1,062	1,395	1.7	0.7	0.8
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/	2,443	4.3	2.2	1,386	479	451	1.1	0.3	0.3
Domestic	**20,797**	**37.0**	**18.7**	**3,416**	**3,163**	**4,669**	**2.7**	**2.2**	**2.8**
Held by residents, total	20,797	37.0	18.7	3,416	3,163	4,669	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	29.7	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.
- IDA provided positive net disbursements of US$3.0 billion in 2024/25, from US$1.5 billion and US$1.7 billion in 2023/24 and 2022/23, respectively (see WB website).

[7] Ethiopia has pre-HIPC arrears to Libya, Russia, and the former Yugoslavia, totaling about US$525 million, 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.

- 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.
- Over the first eight months of FY2025/26, total disbursements reached US$1.25 billion, largely driven by US$1.2 billion from the IMF and the World Bank. Official bilateral and external commercial debt has not been serviced as restructuring discussions are ongoing. New concessional debt approved by Parliament during the period totaled US$1.2 billion.

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. Fourteen OCC meetings have already taken place, with the last one being held in January 2026. An agreement in principle on key terms was reached in March 2025. An MoU on debt treatment was agreed in July 2025, with signatures from all OCC members completed in December 2025. Three OCC members have since signed bilateral agreements, and agreements with three additional members are expected shortly.

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

[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.

nonperforming SOE exposures (263 billion Birr) and bring CBE's capital adequacy ratio to the regulatory minimum. Monetary financing of fiscal deficits has been eliminated.

- ***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-to-offer ratio has increased to 1.9 in April 2026 from 1.4 in April 2025, and volumes rose to 107 billion Birr from 46 billion Birr over the same period. 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, and is projected to increase to 2.6 percent of GDP by end-June 2026. The weighted average yield for 364 days tenor has gone up to around 20 percent in September 2025 and came down to around 15 percent in May 2026. All financially repressive mandatory purchases of Treasury bonds and Development Bank of Ethiopia (DBE) bonds have been 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, partly reflecting the concentration of Birr liquidity at CBE arising from the NBE's gold purchases. Other banks accounted for 14 percent, mainly concentrated in shorter maturities, while pension funds and insurance companies accounted for 41 percent.
- ***Over the first eight months of 2025/26, central government domestic debt increased by 196 billion birr (1 percent of GDP), of which 187 billion birr was T-bills.*** The share of 182-day T-bills increased from 29 to 46 percent over the period. Banks' holdings of T-bills remained stable at around 60 percent of the total as of end-February 2026. Demand for Treasury bills has continued to increase, with both short and longer terms bills oversubscribed on average since December 2025.

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, progress in implementing the external debt treatment, and the assumption that the Middle East war is not prolonged (Text Table 3).

Text Table 3. Ethiopia: Key Macroeconomic Assumptions

Fiscal year ending June	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Average (2030/31-2044/45)
Real GDP Growth (annual percent change)							
Current DSA	9.2	7.8	8.2	8.2	8.0	7.7	6.1
2026 January ECF 4th review DSA	9.3	8.6	8.6	8.5	8.0	7.7	6.1
Current Account Balance (percent of GDP)							
Current DSA	-2.5	-1.3	-1.5	-2.0	-2.0	-2.7	-2.1
2026 January ECF 4th review DSA	-2.3	-2.3	-2.0	-1.8	-2.0	-2.3	-2.2
Exports of goods and services (percent of GDP)							
Current DSA	15.3	15.3	14.6	14.4	14.3	14.0	13.1
2026 January ECF 4th review DSA	13.7	13.7	13.3	12.8	12.7	12.4	11.6
Exports of goods and services (annual percent change)							
Current DSA	17.2	14.9	8.5	12.9	12.3	12.3	11.5
2026 January ECF 4th review DSA	5.7	11.2	11.4	11.1	13.2	12.7	11.8
Imports of goods and services (percent of GDP)							
Current DSA	24.3	22.7	21.6	21.5	21.2	21.0	18.4
2026 January ECF 4th review DSA	22.0	21.3	20.1	19.2	19.1	18.7	16.7
Fiscal balance, including grants (percent of GDP)							
Current DSA	-2.3	-1.4	-1.4	-1.5	-1.5	-1.6	-1.6
2026 January ECF 4th review DSA	-1.8	-1.1	-1.7	-1.6	-1.6	-1.6	-1.6
International reserves (billions of U.S. dollars)							
Current DSA	5.9	8.2	11.9	14.0	16.2	18.2	38.7
2026 January ECF 4th review DSA	5.6	7.5	10.5	12.6	15.0	17.6	33.4
General government revenue (percent of GDP)							
Current DSA	10.8	11.4	11.8	12.1	12.2	12.3	12.5
2026 January ECF 4th review DSA	10.5	11.2	11.7	12.1	12.3	12.4	13.1
Grant element of new external borrowing							
Current DSA	24.0	38.2	34.7	46.2	46.1	47.5	47.4
2026 January ECF 4th review DSA	19.5	44.0	35.7	46.5	47.3	47.6	47.4
Nonconcessional debt disbursements (billions of U.S. dollars)							
Current DSA	0.00	0.53	0.09	0.07	0.06	0.00	0.00
2026 January ECF 4th review DSA	0.53	0.09	0.07	0.06	0.00	0.00	0.00

Source: IMF staff projections.

- ***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. Leading indicators show that growth remained strong in the first nine months of the fiscal year. The impact of the Middle East war on exports and private consumption leads to modest downward revisions to growth forecasts for 2025/26 and 2026/27, with strong performance in the first nine months of 2025/26 offsetting the impact this year with some carry-through to 2026/27.
  - Between 2025/26–2033/34, average real GDP growth is projected at around 7.8 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 2024/25 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.

- ***Inflation rose in April 2026 after declining to single digits.*** 12-month inflation rose from 9.4 in March to 11.7 percent in April driven by staple foods and solid fuels for domestic use, with the impact of higher imported fuel prices not yet apparent. The authorities are adopting an interest-rate based monetary policy framework, with low and stable inflation as the policy objective. Inflation declined moderately in 2023/24, with non-food inflation declining in response to fiscal and monetary tightening. Inflation ended 2024/25 lower than anticipated at 13.9 percent y/y and declined to single digits by February 2026. Non-food items led a broad-based slowdown in price rises, while disinflation in foods has slowed in recent months. Inflation is expected to rise due to seasonality, base effects, and higher fuel prices reaching 14 percent at end-2025/26, before declining in late 2026 toward single digits, in line with the authorities' policy objective and normalization after the Middle East war. 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.

- ***The birr continued to depreciate slowly, with low volatility.*** Since October 2025, the exchange rate has depreciated at about 1.3 percent per month. The parallel market spread has fluctuated between 10–20 percent since October 2025, and 11–12 percent in May 2026. Exchange rate expectations appear unaffected so far from the Middle East war, with birr depreciation remaining low and steady, and some parallel market appreciation. Banks continue to cluster their posted offer rates and bids at NBE FX auctions. FX backlogs at banks were estimated at about US$1.4 billion as of end-April 2026. All banks' net open positions (NOPs) remained within the prudential limits as of end-April 2026. Interbank FX trading remains limited and episodic. The real effective exchange rate has remained broadly stable since the initial depreciation. Banking sector FX liquidity improved after falling through November 2025, reflecting FX inflows from remittances and FDI. NBE sales of FX through competitive auctions open to all banks supported liquidity (14 auctions totaling US$2.5 billion over 11 months of the fiscal year). However, adverse terms-of-trade shocks, including those stemming from the conflict in the Middle East, have created renewed pressures. The NBE has implemented further FX reforms in January, February, and May 2026. Key measures include:
  - To facilitate more competitive, real-time bidding among banks, NBE launched automated interbank FX trading platform at the Ethiopian Securities Exchange (ESX).

- NBE announced nineteen amendments to the FX Directives, aimed at easing FX restrictions, among which:
  - Eliminating surrender requirements for services exporters, who are permitted to hold 100 percent of export proceeds in FX retention account for indefinite period.
  - Authorized banks can do forward exchange transactions without NBE approval.
  - Exporters are authorized to receive advance payment.
  - Approval of external loans and suppliers' credit to be fully handled by banks.
  - Authorized banks are allowed to offer private external loan guarantees not exceeding 10 percent of their total capital.
  - Several reforms to retail transaction limits (including eased requirements for opening FX accounts; outbound remittance allowed up to US$3,000 for family reasons, and advance payment up to US$20,000 for medical or educational services).
  - Releases of security deposit for FX bureaus depending on length of operations.
  - Requiring all banks to apply Ethiopian Customs Commission prices for selected imported items as "indicative prices" when opening LCs and issuing import permits (to reduce scope for under-invoicing).
  - Dividend payments can be authorized without NBE approval (documents submitted to banks).
  - Raising cash holding limits for FX bureaus to 25 percent of their capital.
- On May 25–26, 2026, the NBE introduced amendments to its FX directive to ease foreign exchange administration and support the business environment:
  - Authorizing banks to approve LCs and Cash Against Documents (CAD) transactions for FX accounts holders and retention account holders, without NBE approval.
  - Allowing initiation of shipments under CAD arrangements without prior bank approval.
  - Instructing banks to apply fees and charges for LC transactions on an annualized, pro-rated basis according to the tenor of the LC, within maximum limits set by the NBE.
  - Authorizing all licensed commercial banks in addition to CBE to issue export permits, manage documentary credits, and handle all related banking transactions for goods destined for China.
- NBE now publish full details of FX auction results including highest and lowest bid prices, total bid amount, cut-off rate and the number of participating banks.

- ***Fuel price increases represent a significant challenge.*** After one supplier declared force majeure in early March, spot market purchases have partially filled the supply gap, at very high cost. Premiums peaked at US$80 over Platt's for diesel and US$88 for jet fuel in April, bringing costs per barrel at that point to US$270 and US$300 per barrel respectively. Prices and premiums have since fallen back. During March-April, the authorities were able to secure only about 60 percent of monthly diesel and gasoline imports, leading to rationing measures and long lines at fuel retailers, forced leave for public servants, notable declines in traffic and increases in prices for fresh produce in Addis Ababa. Supply volumes were restored starting in May through increased-spot market imports. Ethiopia's imports are referenced to Asia, with high premiums for Singapore-related benchmarks driven by tight physical supplies. On this basis, macroeconomic projections incorporate a premium over baseline fuel-price projections reflecting (i) relevant benchmark prices; and (ii) supplier premiums to cover shipping, re-routing, and insurance costs.

- ***The authorities moved quickly to raise retail fuel prices***. Since early March, diesel prices have been raised by 40 percent and 94 percent for retail and commercial customers respectively, while gasoline prices have been raised by 30 percent. Jet fuel and kerosene prices were raised in line with import costs. VAT and excise on fuel were temporarily applied at below statutory tax rates, while keeping gross fuel tax proceeds in line with FY25/26 budget revenue target.

Box 1. Potential Drivers of Parallel Market Spread

Despite consistent policy efforts, several factors could contribute to persistent parallel market spreads:

- Remaining restrictions on access to FX for current account transactions.
- High transaction costs with banks, including fees (around 4 percent), NBE's FX commission (2.5 percent), and possibly informal payments or hidden costs through cross-selling of other products. Potential collusion among banks may reflect a preference for low-volume, high-margin transactions, that give them market power through FX allocation decisions.
- The absence of hedging instruments in the formal market may drive participants to the parallel market to lock in exchange rates.
- The high import tax burden—customs duties (0–35 percent), a surtax (10 percent), excise taxes (5–500 percent), and VAT (15 percent), together with arbitrary or inflated customs valuations—create incentives for smuggling and sourcing FX in the parallel market.
- Demand for FX to circumvent capital controls on outbound investment.
- To the extent that gold export earnings are the marginal source of FX, the premium paid by the NBE for gold purchases (around 5–15 percent above international prices) may contribute to determining the parallel market exchange rate.

Recently adopted policy measures should reduce incentives to use the parallel market for some agents. Progress towards phasing out remaining exchange restrictions, the gold price premium, gradual capital account liberalization, developing an FX forwards market, and introducing stronger competition through a greater role for FX bureaus and possible foreign bank entry will take time. Improvements in customs administration, including greater digitalization, should reduce scope and incentives for smuggling and reliance on the parallel market, while reductions in import taxes could be considered in the longer term within the broader revenue mobilization strategy.

- ***Strong BOP outcomes to date have created resilience despite the significant shock and higher risks.*** Export performance continues strong, driven by elevated gold prices and volumes (although gold prices have fallen by more than 15 percent since January 2026, they remain above fourth review forecasts). Coffee exports are expected to approach US$3 billion in 2026/27 despite the 35 percent decline in international coffee prices since November 2025. Higher fuel prices, strong domestic demand, and greater FX availability allowing satisfaction of previously repressed demand led to goods imports rising 20 percent. Projections for prices of key export commodities, such as coffee and gold, are based on the IMF's World Economic Outlook. Overall, the goods trade deficit is expected to end the year at US$12.6 billion (9.9 percent of GDP, up from 8.3 percent in 2024/25). Services exports have outperformed expectations, with EAL maintaining revenues, albeit stronger private sector demand for international services following FX liberalization weakened the balance. Remittances have increased modestly, and FDI projections remain broadly unchanged. Gross international reserves are expected to reach US$5.9 billion by end-2025/26 (2.1 months of import coverage). Downside risks have increased materially; prolonged period high fuel import prices or lower gold prices could place pressure on reserves and complicate the objective of reaching 3.5 months of import coverage by the end of the program period.

- ***Revenue mobilization will anchor debt sustainability while safeguarding humanitarian and pro-poor spending.*** Tax revenue collection in the nine months of 2025/26 was strong. Federal tax revenues increased 75 percent compared to the same period of 2024/25, driven by income and fuel tax reforms. Domestic indirect taxes fell short of the Budget target due to slow excise stamp implementation and weaker-than-expected (albeit still strong) VAT buoyancy. Delays in budget execution also contributed to overperformance on the primary deficit for the first nine months of 2025/26. Lags—primarily from slow implementation of wage increases through regional transfers are likely to be temporary and can be accommodated within the budgeted operating contingency reserve. The overall fiscal deficit in 2025/26 is projected to widen to 2.3 percent of GDP, with higher revenue more than offset by capex and higher interest public sector fuel consumption costs. The deficit in 2026/27 is projected at 1.4 percent of GDP (up from the fourth review projection of 1.1 percent), partly reflecting the recapitalization of Ethiopian Petroleum Supply Enterprise (EPSE). Fuel taxes (0.8 percent of GDP) will be collected and transferred to treasury at full statutory rates from early FY26/27, as included in the FY26/27 Budget. Fuel pricing reform to introduce an automatic pricing mechanism is expected in 2026/27. The general government primary deficit is forecast at 0.1 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 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 a larger and prolonged commodity price shock, domestic policy slippages, potential social discontent, security challenges, and reductions in ODA. Key risks are:

- A more adverse, longer duration, commodity price shock, related to the Middle East war, would worsen fiscal and trade outcomes and could lead to inflationary pressures and higher financing needs.
- 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.
- 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.

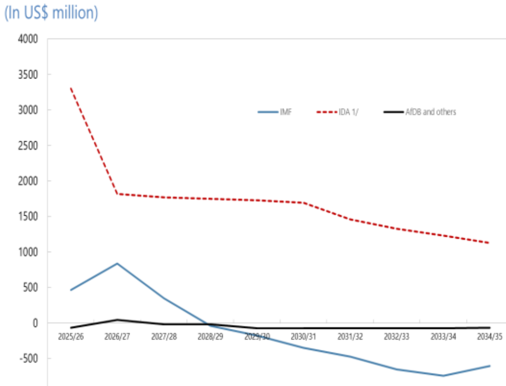
10. The fiscal adjustment is driven by tax policy measures, the recovery of the tax base from recent shocks and by continued restraint of SOE borrowing. The DSA realism tools do not indicate that the projected fiscal adjustment is unrealistic, with the primary balance adjustment below the top quartile 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, with gains in sectors including sugar and logistics. 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 (EAL), 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. Publication of EIH's audited consolidated financial statements for FY22/23 was delayed by the external audit process but is expected by end-June 2026. Clearance of the backlog in preparing IFRS accounts across SOEs is advancing as planned. The next step is to operationalize MoF's SOE oversight and monitoring mandate, and develop regular SOE fiscal-risk reporting, supported by IMF technical assistance envisaged for 2026.

12. Program-supported reforms reducing financial repression and exchange rate distortions underpin a consolidation of quasi fiscal activity and increase fiscal transparency. Moving to positive real interest rates (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, 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 and permanent allocation to the Road Fund have been included in the FY2025/26 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 including further liberalization of logistics industry.

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



Sources: IMF staff projections.
1/ Includes grants

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 2026/27. 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).

Text Table 4. Ethiopia: External Borrowing Plan for FY2026/27[1]
(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2026/27		PV of new debt in 2026/27 (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 average overall annual IDA disbursement during the remainder of program period (2025/26, 2026/27 and 2027/28), including DPOs, is expected to be around US$2.7 billion, with disbursements frontloaded in 2025/26. The annual disbursement is projected to stabilize at about US$2.3 billion from 2028/29 onwards. Most of the IDA disbursement 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]

- A residual external financing gap of US$11 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 Fund would contribute about US$3.5 billion to fill the gap. Besides IMF financing, US$4.5 billion of budget support from the World Bank and US$3.5 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, are expected. 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 and third DPOs, totaling US$2 billion in budget support programmed for 2025/26 and 2026/27, of which US$1.5 billion has been disbursed for 2025/26. A rephasing of Fund disbursements is incorporated to add US$200 million to the disbursement for the fifth review. No assumption on

[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.

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 not be reintroduced. 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 was removed in December 2025.
- 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; and a master repurchase agreement is expected to be adopted by end-December 2026 and a secured repo market launched by March 2027 to support LCBM development and market-based liquidity management. 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 April 2026 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 2.68, 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 two indicators consistently breach their indicative thresholds. The debt service-to-revenue ratio and the debt service-to-exports ratio present protracted breaches, reflecting two main factors: (i) high and bunched debt service from SOE investment projects; and (ii) the low level of exports. Finally, the PV of debt-to GDP ratio remains well below its indicative threshold for the entire projection period (Figure 1).

Standardized Stress Tests

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 restricted default rating by credit rating agencies remain in place as debt restructuring discussion is ongoing. 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 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	47%
Real growth rate (in percent)	2.719	7.881	0.21	8%
Import coverage of reserves (in percent)	4.052	19.473	0.79	29%
Import coverage of reserves^2 (in percent)	-3.990	3.792	-0.15	-6%
Remittances (in percent)	2.022	4.355	0.09	3%
World economic growth (in percent)	13.520	3.637	0.49	18%
CI Score			2.68	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 remain limited in the near term, although they have increased due to difficulties in securing jet fuel due to the Middle East war. The airline, which is excluded from the DSA, has suspended some flights to the Gulf, but also benefits from passenger and cargo re-routing and has not cut any other services. EAL was able to import jet fuel directly from suppliers in April and May 2026. However, elevated jet fuel costs and global supply pressures pose risks. The authorities have conveyed that EAL does not intend to seek government support for ongoing operations. Looking ahead, EAL announced a new US$12.5 billion international airport project. While 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, risks may also rise from this source.

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 debt service to exports and debt service to revenue ratios. 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.

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. 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. A larger and prolonged commodity price shocks, potential social discontent and security challenges represent the key downside risks for achieving the authorities' reform and debt sustainability objectives. A more adverse, longer duration, commodity price shock, related to the Middle East war, would worsen fiscal and trade outcomes and could lead to inflationary pressures and higher financing needs. 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. 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.

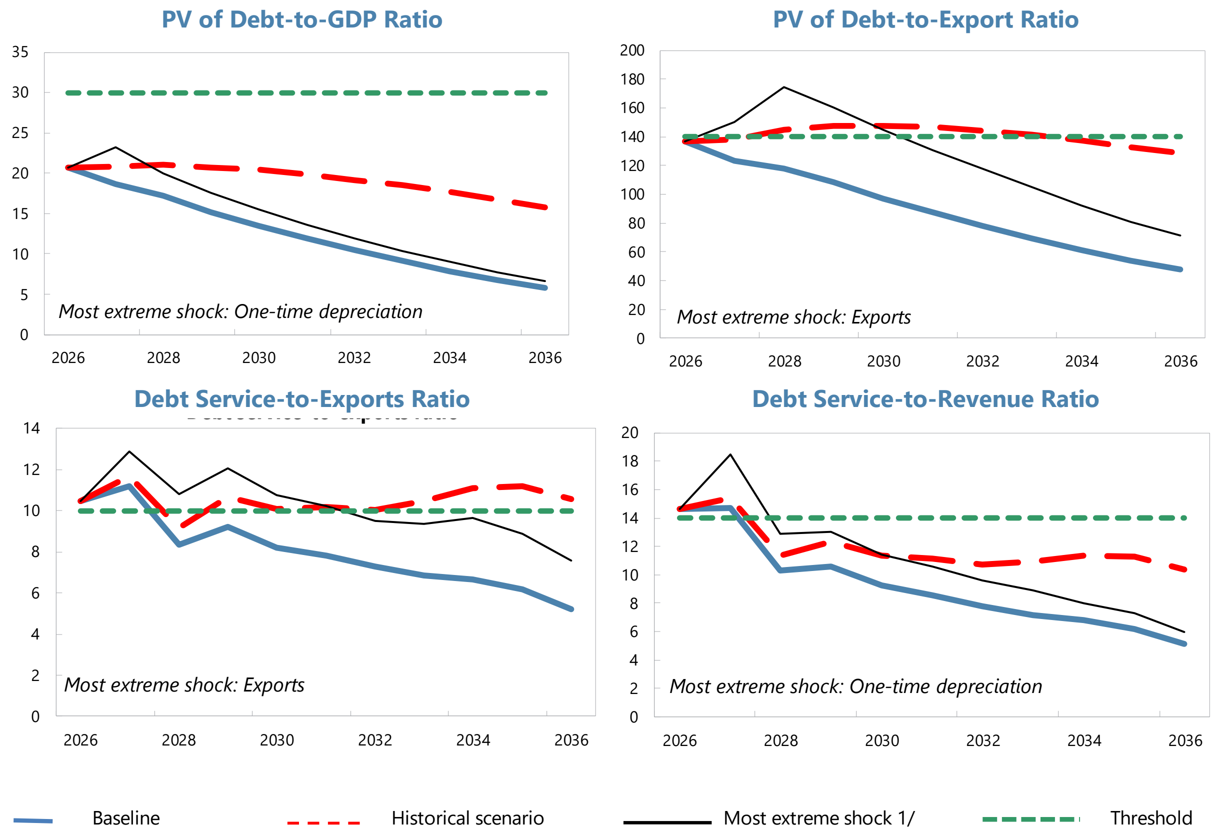
25. An external debt treatment is needed for Ethiopia to close financing gaps over the program period and to help achieve a moderate risk of debt distress by the end of the requested Fund-supported program. To close the BOP financing gap, required debt relief during the program period (2024/25–2027/28) amounts to about US$3.5 billion. To bring Ethiopia's risk of debt distress to "moderate" over the medium term, debt relief would need to bring the two binding external debt burden indicators below the thresholds (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. The authorities continue to make good faith efforts to advance debt restructuring, consistent with program parameters.

- **Official bilateral creditors.** Three members of the OCC (accounting for about 6 percent of the debt owed to OCC) have signed bilateral agreements. Agreements with three additional OCC members are expected shortly. A portion of the restructured official bilateral debt owed to China commensurate with export earnings in China is being converted from U.S. dollars into renminbi. The authorities will consider further conversions, considering the evolution of bilateral trade with China and exchange rate risk. An AIP has been reached with two non-OCC members (accounting for about 92 percent of the debt owed to non-OCC members). Debt owed to OCC creditors accounts for around 67 percent of total debt within the restructuring perimeter, while debt owed to non-OCC official creditors accounts for about 9 percent.
- **External commercial creditors.** An AIP has been reached with three major commercial creditors on comparable terms to the OCC MOU and aligned with the program's objectives. Total outstanding debt owed to these entities amounted to about 40 percent of total external commercial debt, including Eurobonds. Debt owed to commercial creditors, including Eurobonds, accounts for about 26 percent of total debt within the restructuring perimeter.
- **Eurobond holders.** The authorities have reiterated their commitment to engage in good faith negotiations with bondholders to reach agreement on terms comparable to the OCC MOU and consistent with program parameters. In a press release issued on June 1, 2026, the Ad Hoc Committee indicated that, while it remains open to alternative solutions, some members intend to pursue legal action given the lack of progress in recent discussions.

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) and close the financing gap over the program period. The illustrative post-restructuring DSA scenario is based on bilateral agreements signed with some OCC members, the debt treatment outlined in the OCC MOU for remaining OCC claims, the AIPs with large commercial creditors, 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).

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 bilateral agreements signed with some OCC members, the debt treatments set out in the signed OCC MOU for remaining OCC claims, the AIP with large commercial creditors, and the authorities' latest debt-treatment assumptions for other creditors.

H. Authorities' Views

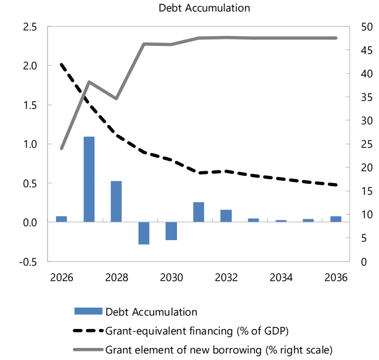
28. **The authorities broadly agreed with the overall assessment of the country's debt sustainability.** Debt sustainability is expected to be restored through a debt restructuring, development partner support, and the reforms contemplated under the Fund-supported program. The authorities are committed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

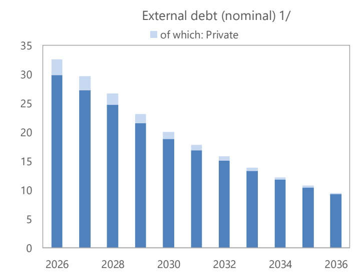
Table 1. Ethiopia: External Debt Sustainability Framework, 2023–2045

(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	16.9	34.0	32.5	29.6	26.7	23.1	20.0	17.8	9.5	4.1	**28.5**	**19.2**
of which: public and publicly guaranteed (PPG)	18.1	15.8	31.8	29.9	27.2	24.7	21.5	18.8	16.8	9.2	4.1	**26.3**	**18.1**
Change in external debt	-6.5	-2.6	17.2	-1.5	-2.9	-2.9	-3.6	-3.1	-2.2	-1.3	-0.4		
Identified net debt-creating flows	-5.1	-3.3	8.0	-4.3	-3.8	-3.7	-2.9	-2.7	-1.7	-1.1	-0.3	**-0.6**	**-2.3**
Non-interest current account deficit	2.6	2.7	-0.2	1.4	0.6	0.9	1.5	1.6	2.4	1.8	2.3	**4.0**	**1.7**
Deficit in balance of goods and services	7.4	6.2	7.1	9.0	7.4	7.0	7.1	6.9	7.0	5.4	4.6	**11.2**	**6.9**
Exports	6.6	5.6	13.1	15.3	15.3	14.6	14.4	14.3	14.0	12.8	13.2		
Imports	14.0	11.8	20.2	24.3	22.7	21.6	21.5	21.2	21.0	18.2	17.8		
Net current transfers (negative = inflow)	-4.8	-3.5	-7.3	-7.6	-6.8	-6.1	-5.6	-5.3	-4.7	-3.7	-2.3	**-7.1**	**-5.2**
of which: official	-0.7	-0.5	-1.7	-1.5	-0.9	-0.8	-0.8	-0.7	-0.6	-0.7	-0.7		
Other current account flows (negative = net inflow)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	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	11.4	-2.6	-1.5	-1.6	-1.5	-1.2	-1.0	-0.5	-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	-2.2	-2.1	-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	0.7	9.2	2.8	0.9	0.7	-0.7	-0.4	-0.5	-0.1	-0.2	**1.1**	**0.1**
of which: exceptional financing	0.2	0.0	2.3	3.7	0.9	1.0	0.0	0.0	-0.2	-0.1	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	21.1	21.1	19.3	17.5	15.1	13.0	11.6	6.2	2.7		
PV of PPG external debt-to-exports ratio	...	...	161.1	138.0	126.3	119.6	104.3	91.4	83.1	48.6	20.8		
PPG debt service-to-exports ratio	10.7	7.5	4.8	29.0	11.9	12.4	11.7	10.1	6.5	4.1	1.8		
PPG debt service-to-revenue ratio	8.9	5.8	6.9	39.0	15.8	15.3	14.0	11.8	7.4	4.3	1.9		
Gross external financing need (Million of U.S. dollars)	2201.8	3058.1	-3059.3	3809.8	-222.1	109.8	1001.3	606.6	1131.5	-264.2	2261.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	7.2	8.1	9.2	9.2	7.8	8.2	8.2	8.0	7.7	6.3	5.5	**7.8**	**7.5**
GDP deflator in US dollar terms (change in percent)	20.5	18.7	-44.9	-7.9	6.4	5.0	5.4	5.4	6.2	7.6	3.8	**1.1**	**5.1**
Effective interest rate (percent) 4/	1.5	1.1	0.9	1.6	2.6	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	17.2	14.9	8.5	12.9	12.3	12.3	12.0	9.4	**11.2**	**12.6**
Growth of imports of G&S (US dollar terms, in percent)	-1.4	7.8	3.2	21.0	7.3	8.3	13.6	12.0	13.4	10.3	10.7	**3.0**	**11.9**
Grant element of new public sector borrowing (in percent)	...	...	...	24.0	38.2	34.7	46.2	46.1	47.5	47.5	47.6	**...**	**43.1**
Government revenues (excluding grants, in percent of GDP)	7.9	7.3	9.2	10.8	11.4	11.8	12.1	12.2	12.3	12.3	12.9	**10.6**	**12.0**
Aid flows (in Million of US dollars) 5/	602.9	590.2	2114.7	3719.4	3196.7	3016.3	2898.6	2894.8	2937.2	3652.2	5324.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.0	1.5	1.1	0.9	0.8	0.6	0.5	0.3	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	36.8	47.7	42.8	56.6	57.9	52.5	62.3	72.9	**...**	**54.0**
Memorandum items:													
PV of external debt 7/	...	...	23.4	23.7	21.7	19.5	16.6	14.3	12.6	6.4	2.7		
In percent of exports	...	...	178.3	155.3	142.1	133.4	115.2	100.1	89.9	50.5	20.8		
Total external debt service-to-exports ratio	13.4	11.1	7.4	31.2	14.2	14.7	13.8	11.9	8.0	4.7	1.9		
PV of PPG external debt (in Million of US dollars)			26680.3	26780.3	28168.7	28935.4	28470.1	28040.9	28596.7	29704.9	32778.3		
(PVt-PVt-1)/GDPt-1 (in percent)				0.1	1.1	0.5	-0.3	-0.2	0.3	0.1	0.0		
Non-interest current account deficit that stabilizes debt ratio	9.0	5.3	-17.4	3.0	3.5	3.8	5.1	4.7	4.6	3.1	2.7		

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.

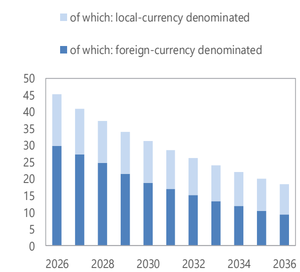
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

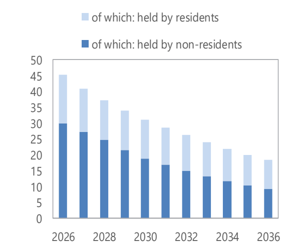
Table 2. Ethiopia: Public Sector Debt Sustainability Framework, 2023–2045
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2036	2045	Historical	Projections
Public sector debt 1/	40.2	35.5	50.5	45.3	40.8	37.2	34.0	31.1	28.6	18.4	13.6	51.4	29.8
of which: external debt	18.1	15.8	31.8	29.9	27.2	24.7	21.5	18.8	16.8	9.2	4.1	26.3	18.1
Change in public sector debt	-8.8	-4.7	15.0	-5.2	-4.5	-3.6	-3.2	-2.8	-2.6	-1.6	-0.3		
Identified debt-creating flows	-10.6	-7.2	11.3	-5.0	-3.5	-2.8	-2.3	-2.0	-1.7	-1.0	-0.2	-3.5	-2.1
Primary deficit	2.2	1.6	1.4	1.1	0.3	0.3	0.4	0.2	0.2	-0.2	0.0	2.3	0.2
Revenue and grants	8.2	7.5	10.9	11.7	11.9	12.1	12.4	12.5	12.4	12.5	13.1	11.4	12.3
of which: grants	0.4	0.3	1.7	0.9	0.5	0.3	0.3	0.3	0.1	0.2	0.2		
Primary (noninterest) expenditure	10.4	9.2	12.3	12.8	12.2	12.4	12.8	12.7	12.6	12.3	13.1	13.7	12.5
Automatic debt dynamics	-12.8	-8.8	9.9	-6.1	-3.8	-3.1	-2.7	-2.2	-1.9	-0.8	-0.2		
Contribution from interest rate/growth differential	-8.9	-6.6	-5.3	-6.1	-3.8	-3.1	-2.7	-2.2	-1.9	-0.8	-0.2		
of which: contribution from average real interest rate	-5.6	-3.6	-2.3	-1.8	-0.5	0.0	0.1	0.3	0.3	0.4	0.5		
of which: contribution from real GDP growth	-3.3	-3.0	-3.0	-4.3	-3.3	-3.1	-2.8	-2.5	-2.2	-1.2	-0.7		
Contribution from real exchange rate depreciation	-3.9	-2.3	15.1	...	...	...	...	...	...	...	...		
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	2.5	3.7	-0.2	-1.0	-0.8	-0.9	-0.9	-0.9	-0.6	-0.1	3.5	-0.8
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	42.6	37.5	33.5	30.3	27.8	25.6	23.5	15.4	12.3		
PV of public debt-to-revenue and grants ratio	...	...	392.4	321.1	281.7	251.0	224.1	204.8	189.4	123.2	93.8		
Debt service-to-revenue and grants ratio 3/	59.7	54.0	40.6	57.9	45.5	48.2	50.0	56.2	55.7	48.7	33.8		
Gross financing need 4/	7.1	5.7	5.8	7.9	5.7	6.1	6.6	7.3	7.1	5.9	4.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	7.2	8.1	9.2	9.2	7.8	8.2	8.2	8.0	7.7	6.3	5.5	7.8	7.5
Average nominal interest rate on external debt (in percent)	1.5	0.9	0.7	1.8	2.6	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	-9.8	-5.1	-0.6	1.0	2.6	3.3	4.6	6.6	-12.1	1.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.6	-13.7	106.5	...	...	...	...	...	...	...	...	8.4	...
Inflation rate (GDP deflator, in percent)	32.2	24.7	17.7	16.9	14.9	10.8	9.5	8.4	8.6	9.6	5.3	18.9	10.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-9.2	-4.9	46.4	14.0	2.3	10.1	12.3	7.1	6.4	6.0	6.1	5.4	7.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	11.0	6.3	-13.5	6.3	4.8	3.9	3.6	3.1	2.8	1.4	0.3	1.2	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.

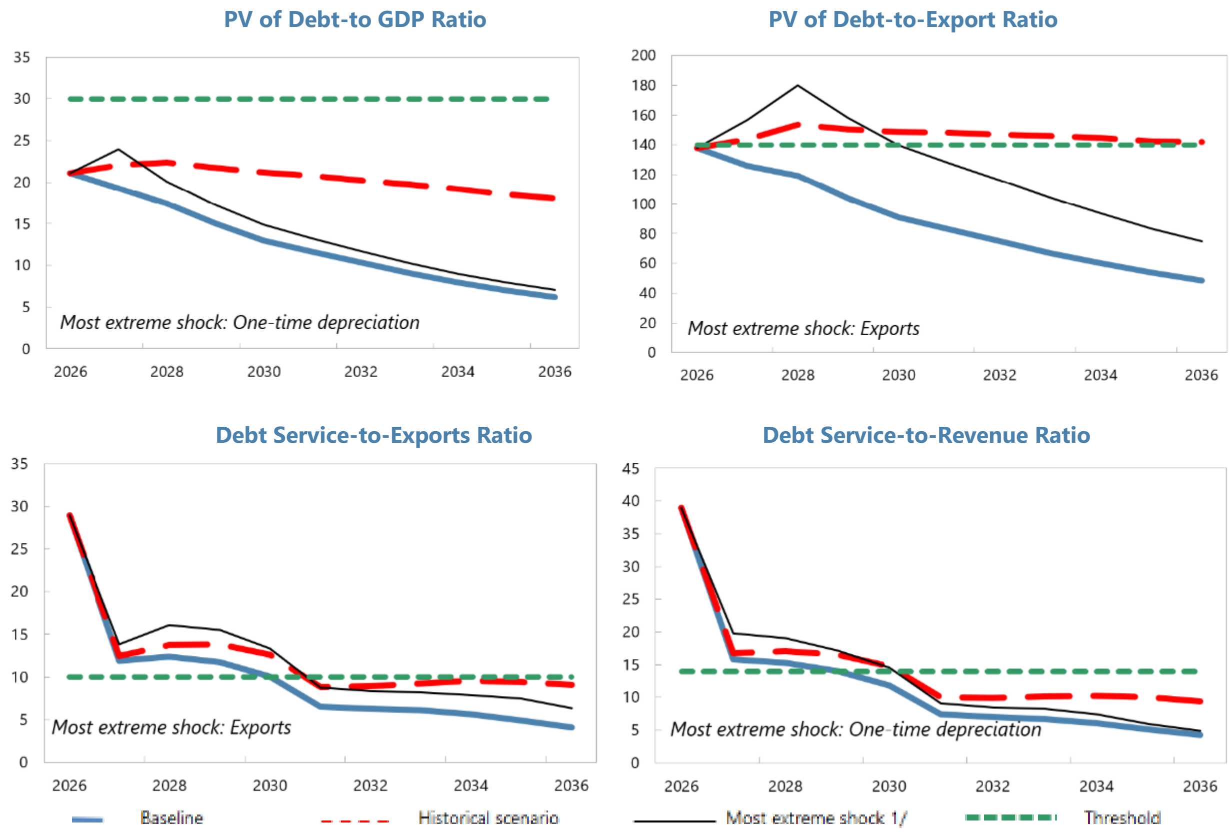
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

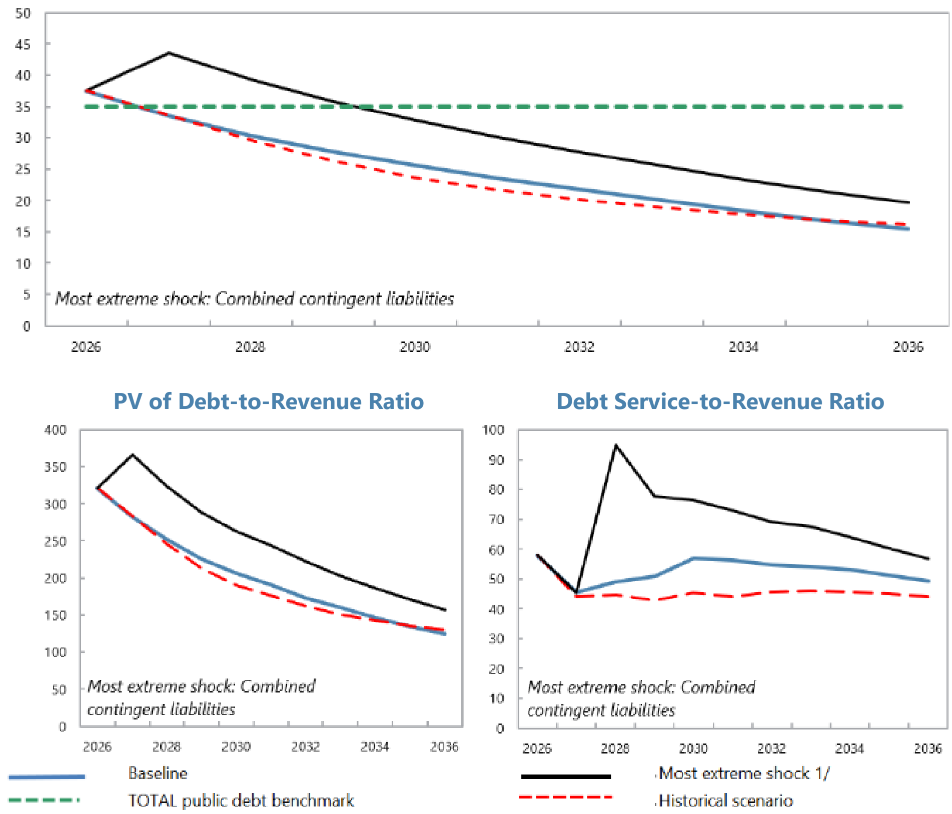
	Default	User Defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6

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 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)

PV of Debt-to-GDP Ratio



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	21%	30%
Domestic medium and long-term	24%	24%
Domestic short-term	55%	46%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.9%	4.9%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4.5%	4.5%

* 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	12	10	9	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	21	22	22	22	21	21	20	20	19	19	18
B. Bound Tests											
B1. Real GDP growth	21	20	18	16	14	12	11	9	8	7	6
B2. Primary balance	21	20	19	17	15	14	12	11	10	9	8
B3. Exports	21	21	21	18	16	14	12	11	10	9	7
B4. Other flows 3/	21	21	21	18	16	14	13	11	10	9	8
B5. Depreciation	21	24	20	17	15	13	12	10	9	8	7
B6. Combination of B1-B5	21	22	21	18	16	14	13	11	10	9	8
C. Tailored Tests											
C1. Combined contingent liabilities	21	21	20	18	16	15	14	12	11	10	9
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	21	21	19	17	15	13	11	10	9	8	7
Threshold	30	30	30	30	30	30	30	30	30	30	30
	PV of debt-to-exports ratio										
Baseline	138	126	120	104	91	83	75	67	60	54	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	138	**144**	**154**	**151**	**149**	**149**	**147**	**146**	**145**	**143**	**142**
B. Bound Tests											
B1. Real GDP growth	138	126	120	104	91	83	75	67	60	54	49
B2. Primary balance	138	129	133	119	106	98	90	82	74	67	62
B3. Exports	138	**157**	**180**	**159**	**140**	128	116	105	94	84	75
B4. Other flows 3/	138	138	**143**	126	112	102	93	84	75	67	60
B5. Depreciation	138	126	111	96	84	76	69	61	55	49	44
B6. Combination of B1-B5	138	**152**	138	138	122	111	101	91	81	72	65
C. Tailored Tests											
C1. Combined contingent liabilities	138	139	139	125	114	106	99	91	84	77	71
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	138	126	120	105	92	83	75	67	60	54	48
Threshold	140	140	140	140	140	140	140	140	140	140	140
	Debt service-to-exports ratio										
Baseline	**29**	**12**	**12**	**12**	**10**	7	6	6	6	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	**29**	**12**	**14**	**14**	**13**	9	9	9	10	9	9
B. Bound Tests											
B1. Real GDP growth	**29**	**12**	**12**	**12**	**10**	7	6	6	6	5	4
B2. Primary balance	**29**	**12**	**13**	**12**	**11**	7	7	7	6	6	5
B3. Exports	**29**	**14**	**16**	**16**	**13**	9	8	8	8	7	6
B4. Other flows 3/	**29**	**12**	**13**	**12**	**10**	7	7	6	6	6	5
B5. Depreciation	**29**	**12**	**12**	**12**	10	6	6	6	6	4	4
B6. Combination of B1-B5	**29**	**13**	**14**	**14**	**12**	8	7	7	7	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	**29**	**12**	**13**	**12**	**10**	7	7	6	6	5	4
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	**29**	**12**	**12**	**12**	**10**	7	7	6	6	5	4
Threshold	10	10	10	10	10	10	10	10	10	10	10
	Debt service-to-revenue ratio										
Baseline	**39**	**16**	**15**	14	12	7	7	7	6	5	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	**39**	**17**	**17**	**17**	**15**	10	10	10	10	10	9
B. Bound Tests											
B1. Real GDP growth	**39**	**16**	**16**	**15**	12	8	7	7	6	5	4
B2. Primary balance	**41**	**16**	**16**	**15**	12	8	8	7	7	6	5
B3. Exports	**39**	**16**	**16**	**14**	12	8	7	7	7	6	5
B4. Other flows 3/	**39**	**16**	**16**	**14**	12	8	7	7	7	6	5
B5. Depreciation	**39**	**20**	**19**	**17**	**15**	9	9	8	7	6	5
B6. Combination of B1-B5	**39**	**16**	**16**	**15**	13	8	8	7	7	6	5
C. Tailored Tests											
C1. Combined contingent liabilities	**41**	**16**	**16**	**14**	12	8	7	7	6	6	5
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	**41**	**16**	**15**	**14**	12	8	8	7	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/	42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6	42.6

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)

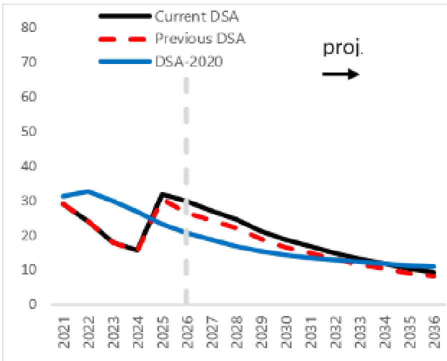
	Projections 1/										
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
PV of Debt-to-GDP Ratio											
Baseline	**38**	34	30	28	26	23	22	20	18	17	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	**38**	34	30	26	24	22	20	19	18	17	16
B. Bound Tests											
B1. Real GDP growth	**38**	34	32	30	28	26	24	23	21	20	19
B2. Primary balance	**38**	**36**	**36**	33	30	27	25	23	21	19	18
B3. Exports	**38**	35	33	31	28	26	24	22	20	18	17
B4. Other flows 3/	**38**	**35**	34	31	28	26	24	22	20	18	17
B5. Depreciation	**38**	**37**	32	29	26	23	21	18	16	14	13
B6. Combination of B1-B5	**38**	34	33	30	27	25	23	21	19	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	**38**	**44**	**39**	**36**	33	30	28	25	23	21	20
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	**38**	34	30	28	26	23	22	20	18	17	15
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	321	282	251	224	205	189	173	159	145	133	123
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	321	282	245	213	190	175	161	151	142	135	130
B. Bound Tests											
B1. Real GDP growth	321	289	266	241	224	210	195	183	170	160	151
B2. Primary balance	321	302	295	263	240	221	202	185	169	155	143
B3. Exports	321	293	277	247	225	208	190	174	159	145	133
B4. Other flows 3/	321	297	280	250	228	211	192	177	161	147	135
B5. Depreciation	321	310	268	233	207	186	165	147	130	115	103
B6. Combination of B1-B5	321	284	269	239	217	200	181	165	150	137	125
C. Tailored Tests											
C1. Combined contingent liabilities	321	366	324	288	263	242	221	203	185	170	157
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	321	282	251	224	205	189	172	158	145	133	123
Debt Service-to-Revenue Ratio											
Baseline	58	45	48	50	56	56	54	53	53	51	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2026-2036 2/	58	44	44	42	45	44	45	46	45	45	44
B. Bound Tests											
B1. Real GDP growth	58	46	51	55	62	62	61	61	61	60	58
B2. Primary balance	58	45	60	68	68	65	62	61	60	57	54
B3. Exports	58	45	48	50	57	56	54	54	53	52	50
B4. Other flows 3/	58	45	48	50	57	56	54	54	53	52	50
B5. Depreciation	58	45	50	50	56	54	52	51	50	48	46
B6. Combination of B1-B5	58	44	48	54	58	57	54	53	52	50	48
C. Tailored Tests											
C1. Combined contingent liabilities	58	45	94	77	76	72	69	67	63	60	56
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	58	45	48	50	56	57	55	54	52	51	49

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.

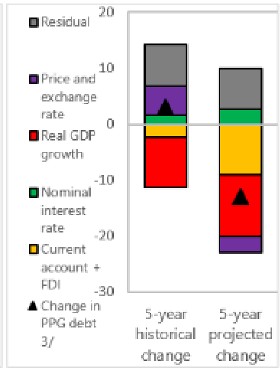
Figure 3. Ethiopia: Drivers of Debt Dynamics—Baseline Scenario

External Debt

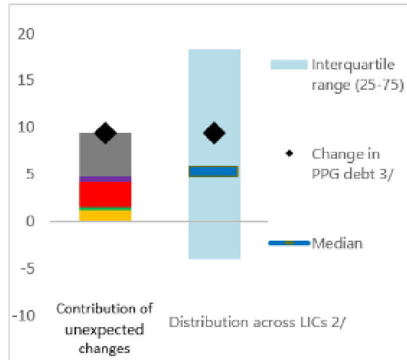
Gross Nominal PPG External Debt
(In Percent of GDP, DSA Vintages



Debt-Creating Flows
(Percent of GDP)

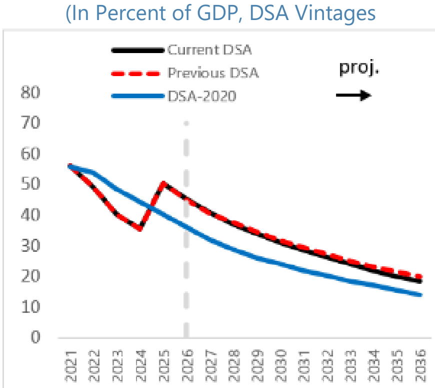


Unexpected[1]
(Past 5 Years, Percent of GDP)

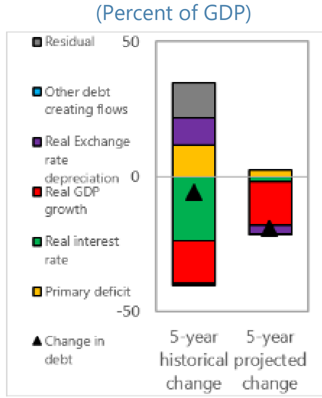


Public Debt

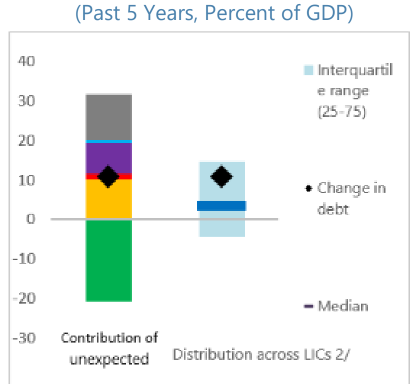
Gross Nominal PPG External Debt
(In Percent of GDP, DSA Vintages



Debt-Creating Flows
(Percent of GDP)



Unexpected[1]
(Past 5 Years, Percent of GDP)



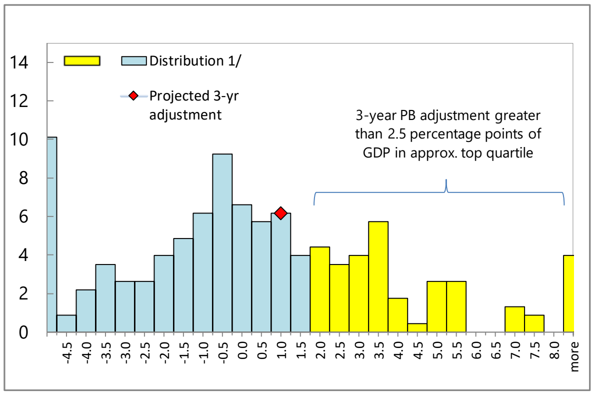
[1] Difference between anticipated and actual contributions on debt rations.

[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.

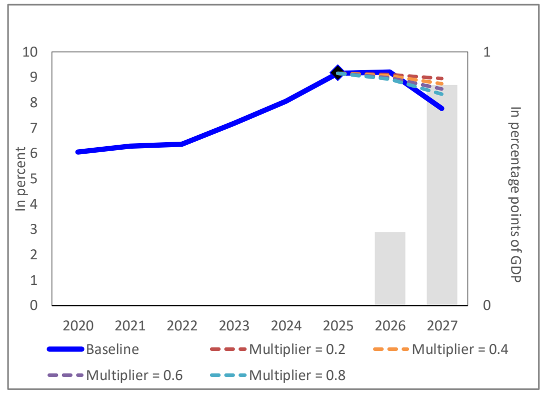
Figure 4. Ethiopia: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



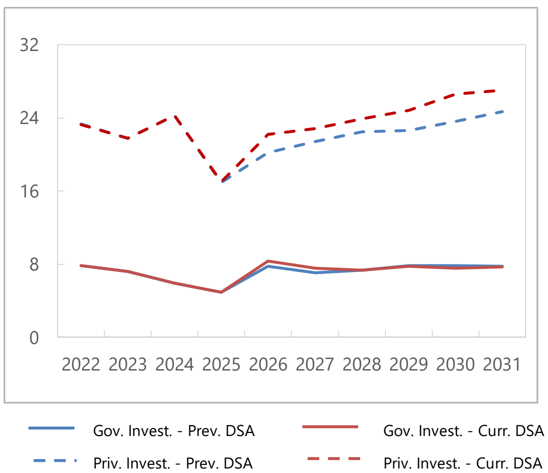
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

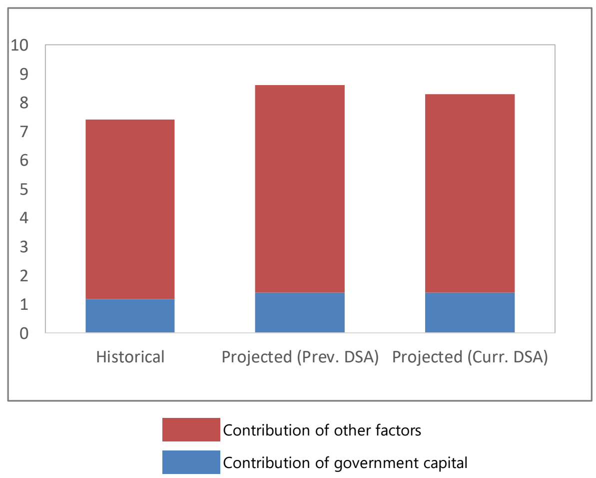
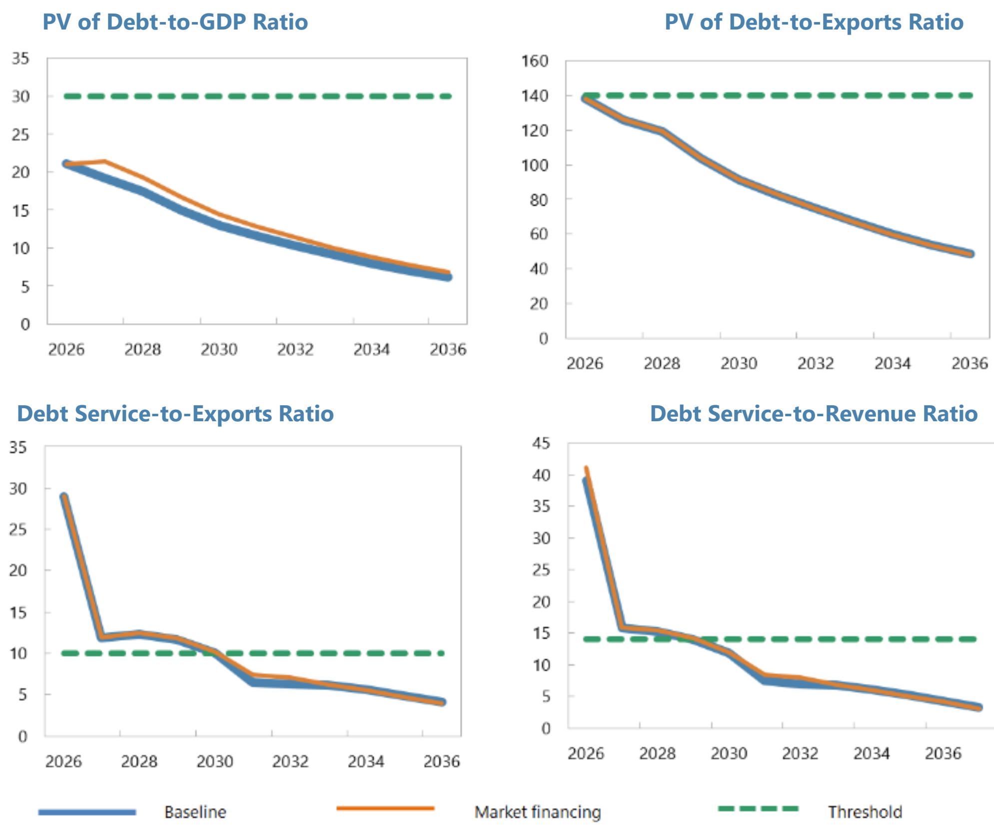


Figure 5. Ethiopia: Market Financing Risk Indicators

	GFN 1/	EMBI
Benchmarks	14	570
Values	8	n.a.
Breach of benchmark	No	n.a.
Potential heightened liquidity needs	Low	

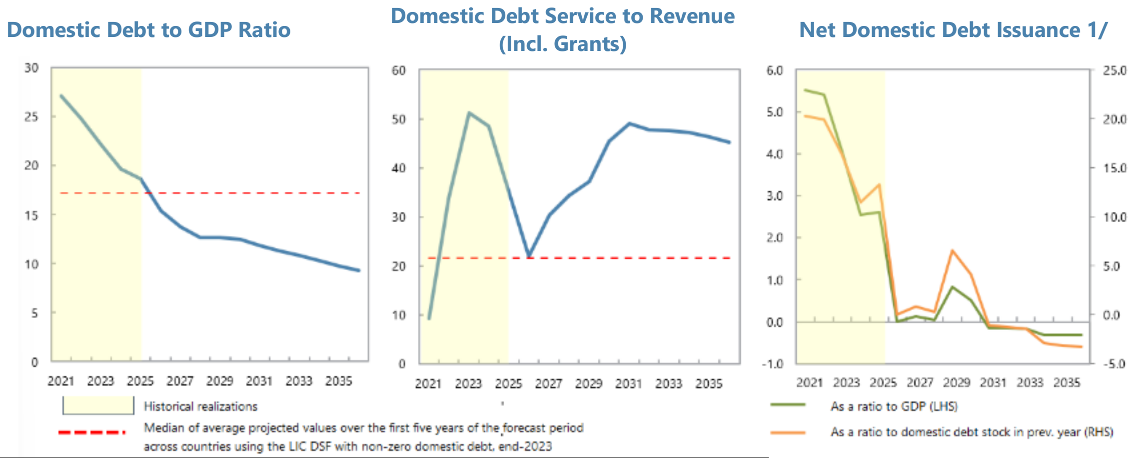
1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.



Sources: Country authorities; and staff estimates and projections.

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

(in Percent)



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	4.9%
Avg. maturity (incl. grace period)	6
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	4.5%

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.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

June 25, 2026

FIFTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR REPHASING OF ACCESS, MODIFICATION OF INDICATIVE TARGETS, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

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

Prepared by the African Department.

This supplement provides an update on recent developments since the issuance of the staff report on June 18, 2026. This update does not alter the thrust of the staff appraisal.

1. Prior Actions. Staff assess that two remaining prior actions for the fifth review under the Extended Credit Facility (ECF) have been met. On June 12, the Ministry of Finance (MoF) issued a decision to allocate a total of 286 billion birr for the recapitalization of the Ethiopian Petroleum Supply Enterprise, and on June 23, the Board of Ethiopian Investment Holdings authorized the recapitalization in the same amount. As per the MoF's decision, approximately 170 billion birrs will be disbursed from funds the government obtains from the World Bank at the end of FY2025/26, with the remaining 116 billion birr allocated from the FY26/27 Budget. On June 22, the MoF issued a directive instructing the Ethiopian Customs Commission to collect fuel taxes at full statutory rates and to transfer the proceeds to the MoF's treasury account.

2. Debt Restructuring. Four additional OCC members have signed bilateral agreements, bringing the total to seven of fourteen members. Agreements in principle have been reached with two additional external commercial creditors, bringing the total to five and 47 percent of total external commercial debt. Discussions with Euro bondholders continue.

3. Elections. Following the June 1 general elections, the results released by the National Election Board on June 21 showed that the ruling Prosperity Party won close to 90 percent of the contested seats in the national parliament. The Prosperity Party won a similar percentage of the seats in the previous election in 2021 and is expected to maintain policy continuity.

4. Inflation. Year-on-year headline inflation rose from 11.7 percent in April to 13.4 percent in May, in line with staff projections.

Statement by the Executive Director, Mr. Regis O. N'Sonde, by the Alternate Executive Director, Ms. Fatou Cecile Lakoue Derant Assah, and by the Advisor of the Executive Director, Mr. Mawek Tesfaye Mengistu, on The Federal Democratic Republic of Ethiopia, July 1, 2026

I. Introduction

1. **On behalf of our Ethiopian authorities, we thank staff for their candid and constructive engagement during the Fifth Review Under the Extended Credit Facility (ECF) Arrangement.** The authorities are grateful to the IMF Executive Board and Management for the Fund's continued high-quality policy advice, financial assistance, and capacity development support. They also appreciate the steadfast support from their other development partners.

2. **Two years into the Homegrown Economic Reform (HGER) agenda, Ethiopia's economy has built significant resilience.** Macroeconomic outcomes have improved markedly, exceeding expectations. The policy framework has been strengthened, and key structural reforms have advanced. While reform gains remain firmly on track, the economy has faced significant spillover effects from the conflict in the Middle East. The resulting increase in global fuel and fertilizer prices has put pressure on the external and fiscal accounts and, alongside supply disruptions, weighed on economic activity with intensified inflationary pressures.

3. **The authorities remain firmly committed to maintaining strong reform momentum while calibrating policies to address emerging external shocks.** They have taken measures to ensure adequate fuel supplies, including through spot market purchases, while adjusting domestic fuel prices and introducing administrative conservation measures. They have demonstrated strong ownership of their reform agenda by continuing policy adjustments, even during the national election year. In face of the significant near-term financing pressures arising from the sharp rise in fuel and fertilizer import costs, and in complementing their policy actions, the authorities underscore the importance of continued and enhanced support from development partners to sustain reform momentum and achieve the program's objectives. **In this context, the authorities request Executive Directors' favorable consideration of the completion of the fifth ECF review, the rephasing of access, the modification of indicative targets, and the financing assurances review.**

II. Program Performance

4. **The authorities have maintained strong program performance amid a trying global environment.** All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2025 were met, with strong overperformance in government revenue, the primary balance, and international reserves. For end-March 2026, all ITs were met except the target on the government contributions to the Productive Safety Net Program (PSNP), as donors' funding exceeded program assumptions, meeting the program objectives. The authorities have also met all continuous performance criteria, including those related to the non-accumulation of external arrears and zero non-auction foreign exchange intervention. Three prior actions for this review

have also been completed, including the approval of the FY2026/27 Federal Government budget in line with program targets.

5. **The implementation of structural reforms has also been progressing well.** The authorities are nearing completion of the structural benchmarks (SBs) set for June and July 2026, including measures related to the phasing out of the legacy below-market T-bill portfolio held by the Commercial Bank of Ethiopia (CBE) and the monitoring of tax expenditures. One SB concerning the publication of audited consolidated financial statements of state-owned enterprises (SOEs) has been postponed due to delays in the audit firm's finalization of the consolidated accounts, although audited financial statements for individual SOEs have already been published. The authorities have also committed to four new SBs for the next six months aimed at further enhancing government revenue, supporting financial market development, and strengthening monetary policy implementation and central bank credibility.

III. Recent Macroeconomic Developments, Outlook, and Risks

6. **Despite the challenging external environment, economic activity remains strong.** Real GDP growth is projected at 9.2 percent in 2025/26 before moderating to 7.8 percent in 2026/27, a downward revision from the last review due to spillovers from the conflict in the Middle East. Growth continues to be supported by robust production, productivity-enhancing government initiatives, and a favorable domestic macroeconomic environment underpinned by sound public policies. The authorities see significant upside risks to this yet strong outlook due to the ongoing reform agenda. Over the medium term, growth is expected to stabilize at around 8 percent. Inflation, on the other hand, rose to 13.4 percent in May 2026, reflecting higher global price pressures on essential commodities. However, with a focus on tight macroeconomic policies, the authorities expect inflation to return to single digits over the medium term. While commodity price shocks remain the main downside risk, a proven track record of prudent macroeconomic policy management will help contain this risk.

7. **External sector performance remains robust, reflecting the benefits of the reform program.** Strong export growth in 2025/26 has helped finance part of higher imports associated with rising fuel and fertilizer prices. Consequently, the current account deficit is projected to widen to 2.5 percent of GDP, from 1.1 percent in 2024/25. Gross international reserves have increased from US$1.4 billion (0.7 months of import coverage) before the program to an estimated US$5.9 billion (2.1 months of import coverage) by end-2025/26, a marked progress towards the reserve coverage target of 3.5 months of imports by the end of the program period.

8. **Fiscal performance continues to strengthen.** The tax-to-GDP ratio is expected to increase by a cumulative 3.3 percentage points during the first two years of the program, supported by the strong tax policy and administration reforms. Budget execution is in line with program commitments. Higher fuel prices have placed pressure on the budget, but the authorities have accommodated the additional costs through expenditure rationalization while protecting priority spending. As a result, the primary fiscal deficit is projected to be contained to 0.7 percent of GDP in 2025/26 and is expected to remain broadly balanced over the near to medium term.

IV. Near- and Medium-Term Policy Priorities

Fiscal Policy and Debt Management

9. The authorities reaffirmed their commitment to revenue-led medium-term fiscal consolidation. Durable tax policy reforms—including VAT, excise, income tax, and investment incentive reforms—have generated stronger-than-expected revenue and will continue to support the implementation of the National Medium-Term Revenue Strategy (2023/24–2027/28). Ongoing reforms include the introduction of an excise stamp and digital tracking system, motor vehicle circulation taxes, and real estate property tax reforms. On the administration side, the authorities are developing a Comprehensive Compliance Improvement Plan and leveraging digitalization to strengthen compliance and revenue collection. They remain mindful of the potential revenue implications of trade integration efforts and stand ready to implement offsetting measures. The continued implementation of enacted measures and those planned in forthcoming reforms is expected to raise the tax-to-GDP ratio by a further 0.6 percentage points in 2026/27, supporting the program target of a cumulative increase of 4.3 percentage points.

10. The authorities continue to prioritize pro-poor spending while phasing out less-targeted subsidies. The FY2026/27 budget has been enacted in line with the program's macroeconomic framework. Untargeted fuel subsidies have been effectively eliminated, and the authorities plan to introduce an automatic fuel pricing mechanism with the support of IMF technical assistance. They have allocated 1.3 percent of GDP to recapitalize Ethiopian Petroleum Supply Enterprise (EPSE), which will facilitate a transition to less costly sight payments for fuel imports and, eventually, the adoption of an automatic fuel pricing mechanism. At the same time, they are strengthening the social protection system, including by allocating 0.3 percent of GDP to the PSNP in the FY2026/27 budget, scaling up digital platforms to improve efficiency in targeting the most vulnerable, expanding coverage to all regions, and increasing beneficiaries by 1.5 million in FY2026/27. A diagnostic assessment for a National Social Registry Ecosystem has also been completed. In parallel, the authorities are strengthening public financial and investment management. They have undertaken the Fund's Fiscal Safeguards Assessment and stand ready to implement its recommendations.

11. The authorities have made significant progress toward restoring debt sustainability. As of late June 2026, they have signed bilateral agreements with seven members of the Official Creditors Committee (OCC)[1], with additional agreements expected soon. They have also reached Agreements in Principle (AIPs) with two non-OCC creditors (holding 92 percent of debt owed to non-OCC members) and five major commercial creditors and expect more agreements in the near term. They also continue to engage in good faith with their Eurobond holders to reach a debt treatment agreement that is consistent with program parameters and comparable to the OCC Memorandum of Understanding. They aim to finalize all debt treatment agreements by December 2026. At the same time, they continue to refrain from non-concessional borrowing, strengthen debt management practices, and support the development of the domestic securities market, which has shown a promising start.

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[1] OCC accounts for 67 percent of debt within the restructuring perimeter, while commercial creditors including Eurobond holders accounts for 26 percent.

Monetary, Foreign Exchange Market, and Financial Sector Policies

12. **The authorities reiterated their commitment to maintaining a tight and data-driven monetary policy stance to anchor inflation expectations.** While keeping the monetary policy rate unchanged at 15 percent, the Monetary Policy Committee (MPC), at its March meeting, underscored the importance of maintaining a tight policy stance considering inflationary pressures stemming from the conflict in the Middle East. National Bank of Ethiopia's (NBE) policy decisions will continue to be guided by incoming data and the balance of risks to inflation. The authorities stand ready to further tighten the policy stance if second-round inflationary pressures emerge. In parallel, notwithstanding some structural challenges, the NBE has continued to advance reforms aimed at strengthening monetary policy transmission and deepening the interest-rate-based monetary policy framework. These efforts are being complemented by broader financial sector reforms aimed at developing domestic financial markets, sustaining the commitment to refrain from monetary financing and avoid financial repression, and further advancing the NBE's governance and transparency agenda.

13. **Reforms to deepen a market-determined exchange rate are being advanced.** The authorities have implemented several measures aimed at easing foreign exchange market restrictions, reducing administrative burdens, providing the necessary infrastructure to support market development, and strengthening competition. The recently launched automated interbank FX trading platform will help enhance price discovery and deepen competition. The NBE continues to sell FX to the market through transparent and competitive auctions using reserve overperformance related to higher-than-expected gold exports. The reforms implemented thus far have narrowed the parallel market premium and improved FX liquidity in the banking sector, with all banks now meeting the regulatory Net Open Position requirement. Building on this progress, the authorities remain committed to taking additional measures to further deepen the FX market, including through the strict enforcement of existing directives, continued support for the development of the FX interbank market, gradual and sequenced easing of capital account restrictions, and the phasing out of the remaining surrender requirements and long-standing exchange restrictions.

14. **The financial sector remains stable, with improved asset quality and strong capital and liquidity buffers.** The authorities noted that the recent increase in private sector credit growth reflects a deliberate policy shift toward supporting private sector-led development and reducing the economy's historical reliance on public enterprises. Nonetheless, they will remain attentive to pockets of vulnerability while ensuring compliance through strengthened supervision and regulation. At the same time, financial sector development is progressing rapidly, supported by ongoing digitalization, growing financial inclusion, and the advancement of the capital market. The increasing interest of private companies in undertaking initial public offerings (IPOs) underscores the strong potential of Ethiopia's emerging capital market and the broader opportunities being created by the ongoing financial sector reforms. The authorities have also strengthened the country's AML/CFT framework, including through the adoption of the necessary legal framework and infrastructure to advance the implementation of the beneficial ownership registry.

V. Structural Policies

15. Broader structural and sectoral reforms remain at the center of the authorities' reform agenda. The authorities continue to advance their structured Public-Private Dialogue to promote inclusive policymaking and address key impediments to doing business. These efforts, alongside the ongoing macroeconomic reforms, are already yielding encouraging results. The *Invest in Ethiopia* Conference held in March 2026 attracted investment pledges totaling US$13.1 billion, while new export products have begun to emerge. In addition to attracting new investment, the capacity utilization of existing firms has increased significantly—from below 50 percent prior to the reform period to around 70 percent currently. These developments reflect improved foreign exchange availability, enhanced access to electricity, and comprehensive legal and regulatory reforms in trade, logistics, and customs administration. The notable reforms implemented to strengthen SOE governance, transparency, and financial viability have significantly improved performance. Through Ethiopian Investment Holdings (EIH), these reforms are also playing a catalytic role in attracting private investment. The authorities remain committed to building on these achievements and advancing reforms aimed at unlocking Ethiopia's full economic potential, including through the finalization of multilateral and regional trade agreements. The authorities have also invested significant resources in enhancing the quality of economic statistics by undertaking key surveys, strengthening institutional capacity, and increasing the use of digitalization.

16. Enhancing climate resilience is at the forefront of the authorities' reform agenda. Ethiopia remains highly vulnerable to adverse climate events, largely due to the structure of its economy. Recognizing these vulnerabilities, the authorities have placed climate adaptation at the forefront of their reform efforts while investing substantial resources in renewable energy generation. They have benefited from technical assistance provided by the IMF and the World Bank, including the Fund's Climate Policy Diagnostic (CPD), in their efforts to integrate climate considerations into macro-financial policymaking. They are actively undertaking extensive preparations to successfully host the 2027 UN COP32 Climate Summit and champion African climate priorities. In this context, they have expressed interest in accessing the IMF's Resilience and Sustainability Facility (RSF) to support their climate agenda, strengthen economic resilience, complement the ECF-supported program, and catalyze additional climate finance.

VI. Conclusion

17. The strong performance under the authorities' HGER agenda has helped build resilience and create policy space to respond to emerging external shocks. The authorities remain steadfast in sustaining this strong reform momentum while responding to these shocks. Continued strong support from development partners remains critical to sustaining the authorities' policy and reform implementation, achieving the program objectives, and unlocking Ethiopia's substantial growth potential. The authorities stand ready to recalibrate policies as needed to preserve macroeconomic stability and enhance reform gains. **Against this backdrop, they seek Executive Directors' support for the completion of the Fifth Review Under the ECF Arrangement, together with the associated requests.**