# Ethiopia

## Recent macroeconomic and financial developments

Ethiopia's economy decelerated to 5.6% growth in 2021 from 6.1% in 2020, due to civil conflict and the effects of COVID-19 on transport and hospitality. Growth was led by industry and services on the supply side and private consumption and investment on the demand side. Inflation increased to 26.7% in 2021 from 20.4% in 2020, much above the central bank's 8% target, because of domestic credit expansion to revive the economy and COVID-19-induced supply chain disruptions. The fiscal deficit, including grants, declined to 2.6% of GDP in 2021 from 2.8% in 2020 due to expenditure reprioritization and growth in tax revenue. The banking sector is stable but closed to international competition; it accounts for 76% of the financial sector's total capital (with state-owned banks accounting for 51.8% of banking sector assets), followed by microfinance (15%), and insurance and leasing (9%).

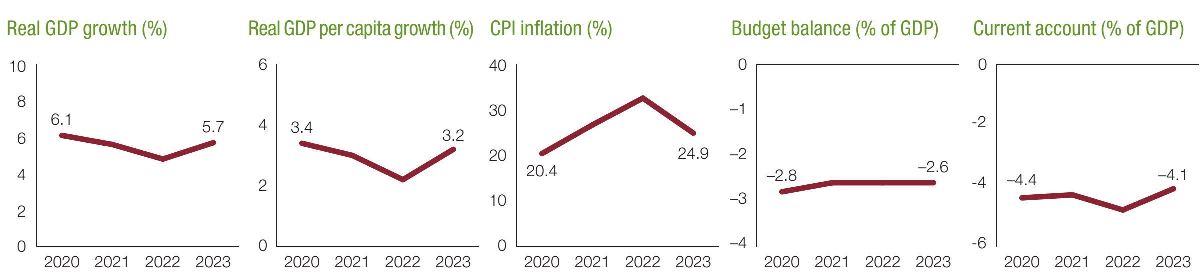
Public and publicly guaranteed debt was estimated at 57.8% of GDP (external debt, 32.8% of GDP) in June 2021. The current account deficit improved slightly from 4.4% of GDP in 2020 to 4.3% in 2021 on account of subdued imports. The current account deficit was financed by FDI and remittances. International reserves remained low at 2.5 months of import cover in 2020, and 2.2 months in 2021. The $408 million SDR allocation (0.4% of GDP), recorded at the central bank, will boost international reserves. Conflict and the COVID-19 pandemic increased the number of people requiring humanitarian support to close to 15.8 million in 2021 from about 8 million in 2020.

## Outlook and risks

GDP growth is projected to fall to 4.8% in 2022 but pickup to 5.7% in 2023, driven by industry and by private consumption and investment. A tourism rebound and liberalization of the telecoms sector are expected to boost the growth outlook. Key downside risks to the growth outlook include the civil conflict in northern Ethiopia, COVID-19, and debt vulnerabilities. Higher global food and oil prices due to the Russia–Ukraine conflict are expected to increase inflation to 32.6% in 2022 before it eases to 24.9% in 2023. The fiscal deficit is projected to remain stable at 2.6% in 2022 and 2023 due to implementation of the fiscal consolidation strategy and improvement in tax revenue mobilization. The current account deficit is expected to widen to 4.8% of GDP in 2022 but to narrow to 4.1% in 2023. This reflects the slow recovery in merchandise and service exports and FDI, amidst lower imports of capital inputs.

## Climate change issues and policy options

Ethiopia is 72 on the 2021 GCRI. Its climate change vulnerabilities include droughts, flooding, desertification, water scarcity, and increased incidence of pests, affecting the agriculture, energy, and health sectors. The 2016 El Niño–induced drought affected about 10.2 million people, requiring a $1.9 billion humanitarian response. The productive safety net program, adopted in 2005 to reduce vulnerability to climate shocks, covers 8 million–10 million people at an annual cost of $0.44 billion. The 2011 Climate Resilient Green Economy (CRGE) Strategy provides a framework for lowering GHG emissions. In its update to its NDC for 2020–30, Ethiopia set emission targets under three scenarios—business-as-usual, unconditional, and conditional. The last projects emissions to decline by 68.8% to 125.8 $MtCO_2eq$ in 2030 from 347.3 $MtCO_2eq$ in 2020. Innovative climate financing would be critical for implementing the Strategy. Ethiopia's NDC financing needs for 2020–30 amount to $316 billion ($275.5 billion for mitigation, $40.5 billion for adaptation); $63.2 billion will come from domestic, and the rest from international climate finance, sources. Ethiopia is on course to meet SDG 13 on climate action.




*Source:* Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.