REAL SECTOR PERFORMANCE AND PROJECTION

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Ministry of Planning and Development
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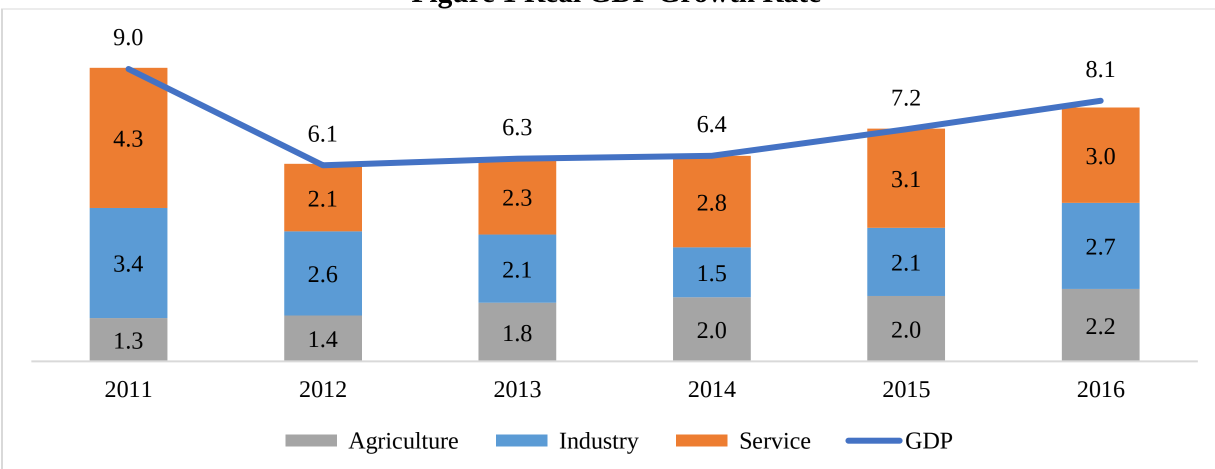
Contents

1. Real Sector Performance (2011 -2016)

1.1. Supply Side

The average real GDP growth was recorded at 7.3 percent between 2011 and 2016 and 6.2 percent during the first Home-grown economic reform implementation period (2012 – 2014). After the observed sharp decline in growth during the COVID year, recovering to the pre-COVID year trajectory is noticed in 2015 and 2016 following the materialization of reform outcome and implementation various initiatives in the economy.

Figure 1 Real GDP Growth Rate



Source: MoPD

On the supply side, growth performance varied significantly across different sectors. The industry sector experienced a decelerating growth trend before rebounding in 2015, while the growth rate in agriculture accelerated during the same period. Within the industry sector, construction demonstrated particularly pronounced deceleration. The growth rate of construction decreased from 15.0 percent in 2010 to 4.9 percent in 2014, before recovering to 7.1 percent in 2015 and 9.0 percent in 2016. The manufacturing sector maintained a stable growth rate of approximately 7 percent, with a notable decline observed in 2013 and 2014 due to internal conflicts. In contrast, the service sector exhibited consistent growth over the past six years, with the exception of the year affected by COVID-19.

Figure 2 Growth Rates of Sectors in the Supply-side

Source: MoPD

During the review period, the service sector made a significant contribution to overall growth. The contribution of the agriculture sector also increased, rising from 14.9 percent at the start of the reform to 27.6 percent in 2016. In contrast, the industry sector's contribution declined from 37.8 percent in 2011 to 32.8 percent in 2016. This decrease in the industry's growth contribution is linked to weak performance in two key subsectors: construction and manufacturing. Specifically, the construction sector's contribution fell from 32.1 percent to 23.0 percent, while the manufacturing sector did show some improvement, yet its contribution remained below levels seen prior to the reform. Within the services sector, the distributive services—such as wholesale and retail trade, hotels and restaurants, and transportation and communication—made a more substantial contribution to the overall economy compared to other service sectors.

Table 1 Percentage distribution of Sectoral growth contribution

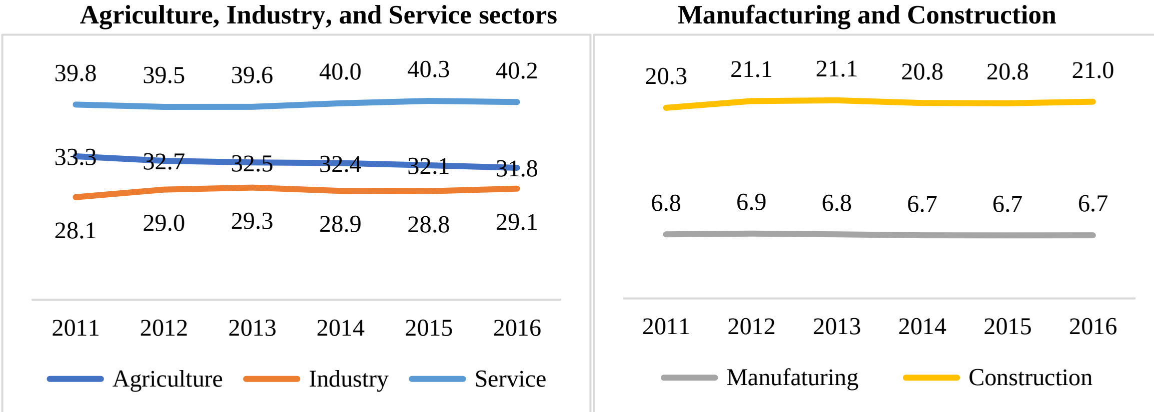
SECTOR	2011	2012	2013	2014	2015	2016
AGRICULTURE	**14.8**	**23.3**	**29.0**	**31.2**	**28.2**	**27.8**
INDUSTRY	**37.8**	**44.6**	**33.6**	**22.6**	**27.9**	**33.1**
Manufacturing	5.9	8.5	5.6	5.2	6.5	7.0
Construction	32.0	33.1	22.2	16.2	20.5	23.2
Other	-0.1	3.0	5.8	1.3	0.9	2.9
SERVICES	**46.9**	**32.4**	**37.1**	**45.2**	**42.3**	**36.7**
Distributive Services	32.3	17.2	21.4	29.1	28.2	25.2
Other Services	14.7	15.2	15.7	16.1	14.1	11.5
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: MoPD

An examination of the economy's structure reveals a persistent lack of significant structural change toward industry; the shares of both the agriculture and service sectors remain high compared to that of the industry sector. Notably, the service sector has exhibited an upward trend. In 2016, agriculture and services contributed 31.8 percent and 40.2 percent, respectively, to GDP. Over the past six years, these sectors have consistently represented an average of about 72.5 percent of the economy. While the agriculture sector has experienced some declines, the growth of the service sector—particularly in traditional non-tradable services like trade—highlights the need for policy interventions to ensure sustainable growth. The industrial sector's share has increased slightly from 28.1 percent in 2011 to 29.1 percent in 2016, primarily due to improvements in the construction sector. However, the manufacturing sector's share has stagnated over the past three years, remaining around 6.7 percent of GDP. In terms of both growth and contribution, this sector has fallen short of expectations.

In conclusion, the combined contributions of the agriculture and service sectors accounted for approximately 72.0 percent of GDP in 2016. Therefore, the targeted structural transformation has not made significant progress, as evidenced by the low growth rates and shares of the industrial sector. The performance of the manufacturing sector has been weaker than anticipated. This weak structural change, alongside the growth of traditional service sectors, presents additional challenges that require attention in the coming years.

Figure 3 Shares of sectors in the economy

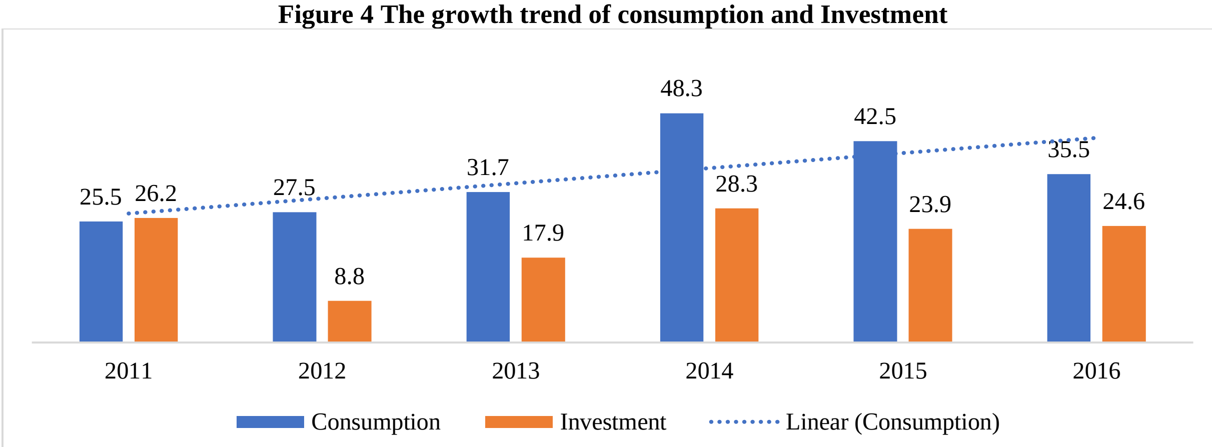


Source: MoPD

1.2. Demand Side

On the expenditure side of the economy, recent economic growth has been primarily driven by consumption, which aligns with robust activity in the service sector on the supply side. Over the past six years, the average growth rate of consumption reached 35.2 percent, with particularly strong growth of approximately 42.1 percent in the last three years. Private consumption has consistently outpaced public consumption, largely due to fiscal consolidation in the public sector. Meanwhile, investment has increased at a modest rate, recording an average growth of 21.6 percent between 2011 and 2016.

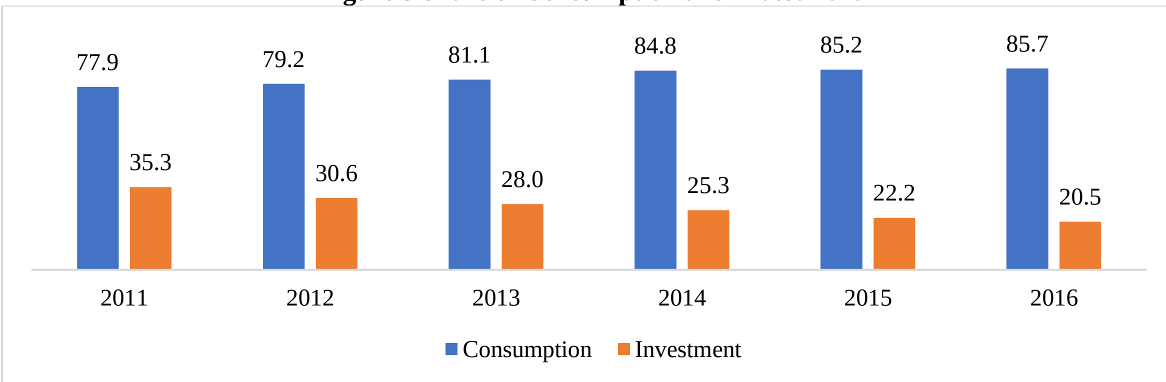
Figure 4 The growth trend of consumption and Investment



Source: MoPD

The investment rate has been steadily declining, even as the economy continues to grow amidst various shocks. The share of gross capital formation has decreased for six consecutive years. In contrast, total consumption has been rising at an increasing rate, with private consumption averaging 75 percentage points over the past six years. This indicates that the economic growth during this period has primarily stemmed from consumption rather than investment. On the demand side, consumption has contributed an average of approximately 85.2 percent to growth.

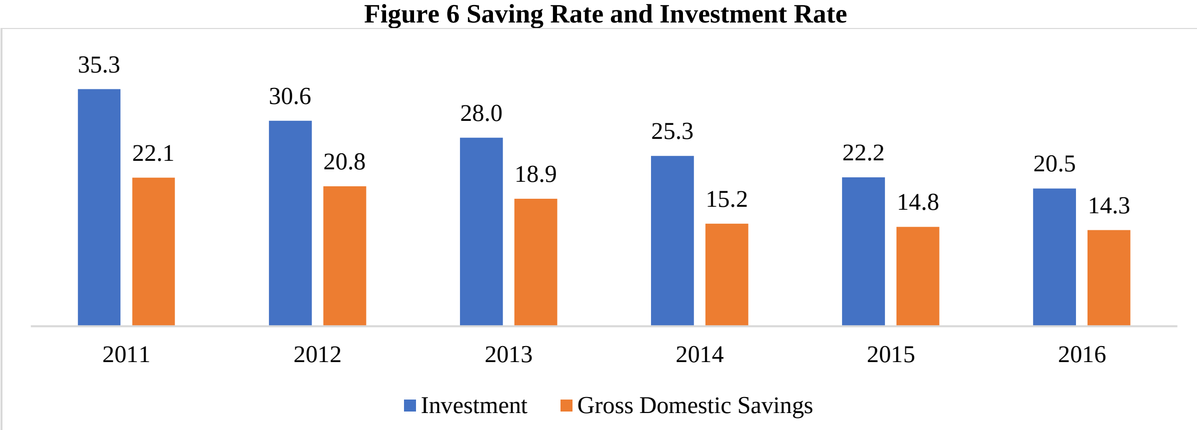
Figure 5 Share of Consumption and Investment



Source: MoPD

The gross domestic saving rate has declined over the past six years, with a decrease of approximately 8 percentage points in its share of GDP from 2011 to 2016. In 2016, the saving rate was recorded at 14.3 percent, still representing a significant source of investment financing within the economy. Of the total investment rate of 20.5 percent in 2016, about 70 percent was financed domestically, which is approximately 7 percentage points higher than in 2011. However, it is important to note that this increase in domestic financing for investment is not a result of rising savings, but rather a consequence of a sharp decline in the investment-to-savings ratio. Moreover, gross national savings have also shown a downward trend due to a reduced reliance on foreign savings. Despite the substantial decline in investment, the resource gap has remained persistently large, averaging 9.3 percent of GDP, primarily because of the decreasing saving rate and the subsequent rise in consumption share. This significant resource gap poses a challenge for sustaining growth, creating potential obstacles to financing investments and threatening future economic expansion. Therefore, enhancing investment is essential for economic stability and growth.

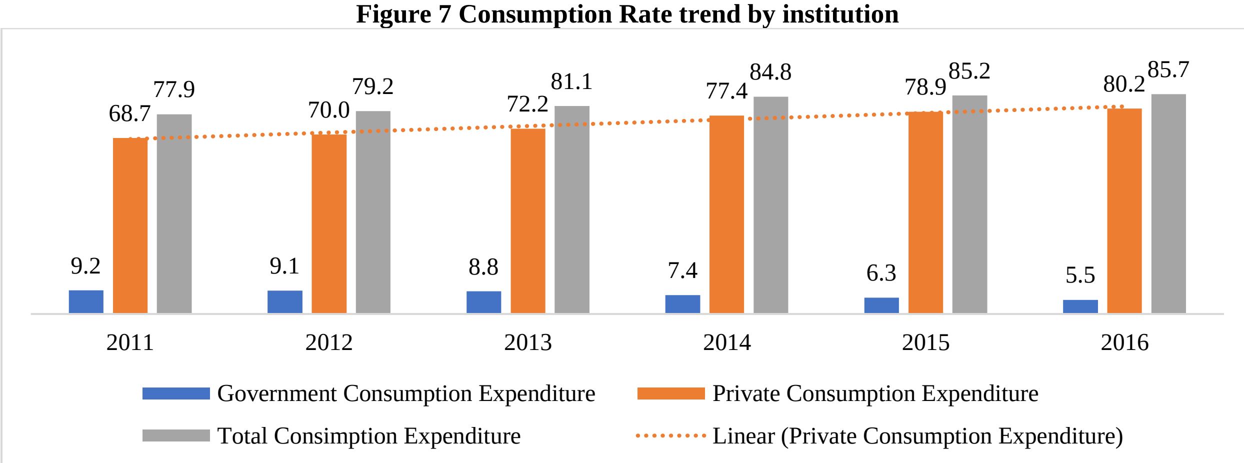
Figure 6 Saving Rate and Investment Rate



Source: MoPD

Private final consumption expenditure has been a key driver of the significant increase in total final consumption expenditure. As illustrated in the figure below, total consumption expenditure as a percentage of GDP rose from 77.9 percent in 2011 to 85.7 percent in 2016. Private final consumption accounted for the lion share of this growth, with its share of GDP increasing from 68.7 percent in 2011 to 80.2 percent in 2016. In contrast, the share of government final consumption expenditure declined from 9.2 percent to 5.5 percent during the same period. This decline in government consumption is attributed to tight fiscal policies aimed at promoting greater private sector participation in the economy. Overall, consumption constitutes a significant portion of GDP and has shown consistent growth. This trend highlights the need for policies focused on stabilizing the macroeconomy and sustaining this momentum in growth.

Figure 7 Consumption Rate trend by institution

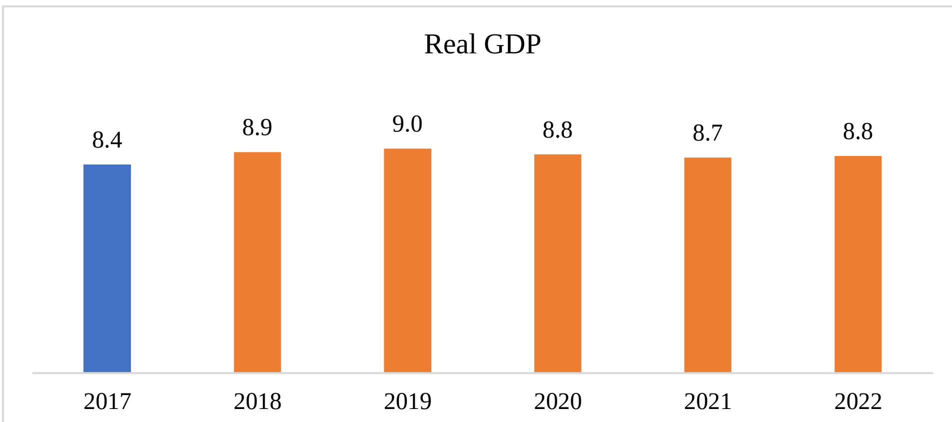


Source MoPD

2. Real Sector Projection (2018 -2022)

2.1. Growth

The projection of real and nominal GDP at basic prices and market prices for EYF 2018 - 2022 with sectoral decomposition is provided below. This projection considers various factors influencing the Ethiopian economy, which has been recovering from slower growth due to multiple shocks experienced between 2012 and 2014. During that period, economic growth was limited to 6 percent. However, the economy began to return to its pre-COVID growth trajectory, as evidenced by performance in 2015 and 2016, with growth rates of 7.2 percent and 8.1 percent, respectively. Over the next five years, the economy is expected to grow by an average of 8.8 percent, similar to the growth observed just prior to the COVID pandemic. This projected growth aims to mitigate the shortfalls experienced during the first three years of the ten-year development plan implementation, although it will not fully offset these lags.



2.2. General Considerations

- The foundations laid by previous reform periods are beginning to yield tangible results, with the implementation of HGER-I expected to further materialize this year. Reform actions targeting productive sectors such as agriculture, manufacturing, mining, tourism, and the digital economy have evidently improved performance and are poised to enhance future growth. The ongoing Development and Investment Plan, a three-year framework supporting the Ten-Year Development Plan, is under implementation and is vital for achieving projected targets. The government's reprioritization of investments for existing projects has already demonstrated significant efficiency gains, even with limited resources, thereby accelerating development efforts.
- The swift implementation of HGER-II has generated a reform momentum that exceeds that of the entire HGER-I period, positively affecting production and productivity across all sectors. Concrete measures aimed at easing service provision and addressing bureaucratic bottlenecks are further expected to modernize and improve sectors efficiency in line with the new civil service policy. The innovative management of various projects, particularly in tourism, has shifted focus from merely heritage-based tourism to a more diverse offering that includes cultural and natural attractions.

- Significant investments and development initiatives under the Green Legacy program are expected to substantially transform Ethiopia's agro-food system. Initiatives such as "YeLemat Tirufat" and "Ethiopia Tamert" are anticipated to reinforce strong sector performance and contribute to higher growth trajectories.
- The "Ethiopia Tamert" initiative is projected to enhance the manufacturing sector by promoting local production and value addition. This initiative is expected to foster the growth of agro-processing industries, which are essential for converting raw agricultural products into finished goods. The integration of these initiatives with the broader manufacturing sector is likely to lead to increased efficiency and productivity, ensuring effective processing and distribution of agricultural outputs. This synergy is anticipated to drive job creation, improve food security, and enhance the overall economic landscape, thereby contributing to sustainable growth in both the agro-food and manufacturing sectors.
- The comprehensive macroeconomic reform has already demonstrated significant improvements in the management of foreign exchange supply, allocation, and access. It is anticipated that more effective supply mechanisms and efficient allocation, driven by market forces, will enhance the distribution of foreign exchange to the most productive sectors of the economy. This approach aims to address historical bottlenecks in foreign exchange supply while meeting the substantial demand of key industries, thereby improving their overall efficiency.
- Comprehensive macroeconomic reforms under HGER-II are creating opportunities for the manufacturing sector to address its structural challenges effectively. Enhancements in capacity utilization will be realized by overcoming input constraints, power outages, and logistical issues. Significant investments aimed at improving energy efficiency and modernizing power distribution and transmission lines will align with Ethiopia’s productivity potential. The expected completion of Grand Ethiopian Renaissance Dam is anticipated to significantly boost the industrial sector’s production capacity by resolving critical challenges.
- Improvements in the management of foreign exchange supply will facilitate more effective allocation to productive sectors, addressing historical backlogs and meeting the significant demands of key industries. The overall improvements in the macroeconomic environment indicate a better outlook for FDI, with ongoing reforms expected to create a more predictable and cost-effective business climate.
- Changes in wholesale and retail trade liberalization, currency convertibility, and corporate governance will enhance the investment landscape. The government’s strategy to promote public-private partnerships and the planned privatization of state-owned enterprises, particularly in the telecommunications sector, is anticipated to reshape the overall FDI landscape significantly.
- The Medium-Term Revenue Strategy will introduce innovations to enhance tax collection, modernize tax administration, and increase government revenue from diverse sources. This will expand the fiscal space for public investment in social and economic infrastructure. As subnational governments engage in significant infrastructure projects, accessibility and local infrastructure supply will improve, addressing existing backlogs.
- The government’s focus on addressing structural impediments to peace through a reorientation of narratives aimed at fostering social cohesion and strong nation-building is critical. Despite past

challenges, these efforts are expected to yield a peace dividend, leading to improved economic engagement in previously affected areas. The anticipated peace will facilitate the resumption of agricultural activities, the reopening of terminated industries, and the revitalization of essential services, particularly in the northern and western parts of the country.

- The comprehensive reform has already shown a positive trend in increasing development finance from foreign sources, and this momentum is expected to continue with improved development loan and aid inflows. Through these reforms, development finance has significantly increased and is anticipated to rise further in the coming years. Additionally, previously delayed and postponed financing is now reemerging with new innovative approaches aligned with national priorities, which will significantly enhance overall financial support for development initiatives.

2.3. Underlying Consideration of Major Sectors

2.3.1. Agricultural Sector Assumptions

- **Cultivated Land Increase**: - A significant expansion in the area of cultivated land is anticipated, which is going to enhance overall agricultural capacity. The plan to expand land cultivation in all seasons will boost production in the agriculture sector. Plus, intervention to expand irrigation will further enhance the sector value addition.
- **Enhancing fertilizer Supplies efficiency and accessibility: -** The supply of fertilizers is projected to increase in coming years, owing to improvement in administration to easing supply and distribution.
- **Strengthening the Livestock Sector: -** The commencement of the Chicken Grand Parent project this year is expected to enhance the livestock sector and overall agricultural productivity, promoting sustainable practices. Plan to increase One-Day-Old Chicks Supply, which anticipated to support poultry production.
- **Modern Beehive Supply Expansion: -** The provision of modern beehives is projected to increase, fostering a more productive honey industry.
- **Promoting Agricultural Mechanization: -** The promotion and delivery of agricultural mechanization technologies will see notable improvements, with irrigation and soil fertility management machinery supply expected to increase with easing of access to foreign exchange to productive sectors. Additionally, the number of transportation technologies, including animal-drawn and tractor-mounted carts, is projected to expand.

Agriculture Sector Reform Activities which will foster future growth: -

- **Improve the Supply of Agricultural Inputs and Technologies: -** Enhancing the supply of agricultural inputs and technologies is essential for boosting productivity and ensuring food security. Increased participation of the private sector in input delivery, fertilizers, chemicals, mechanization machinery, and improved seeds will facilitate a more robust agricultural framework. This shift is expected to lead to greater availability and accessibility of quality inputs, thereby empowering farmers to maximize their yields. Furthermore, efforts to treat acidic soils with limestone will improve arable land quality, allowing for broader cultivation opportunities. The exploration of new lands suitable for irrigated production, alongside the operationalization of large-scale irrigation facilities, will significantly augment the area under irrigation, promoting sustainable agricultural practices.

- **Improve Agricultural Infrastructure:** Investing in agricultural infrastructure is crucial for enhancing production efficiency and market access. The establishment of public-private partnerships in irrigation infrastructure development is anticipated to yield substantial improvements in water management and distribution. Additionally, increasing access to community-based storage facilities will help mitigate post-harvest losses, ensuring that farmers can store their produce securely and sell it at optimal times. These infrastructure enhancements will support the overall agricultural value chain, contributing to a more resilient food system.
- **Enhance Agricultural Marketing and Value Addition:** - Strengthening agricultural marketing and value addition strategies is vital for increasing farmers' incomes. Providing tailored support based on the growth stages of Farmers Production Clusters will ensure that agricultural businesses receive the necessary resources to thrive. Establishing functional Multi-Stakeholder Platforms will enhance linkages between producers, traders, and processors, fostering a collaborative approach to market access. Additionally, replicating successful value chain development experiences, such as those established in malt barley, with wheat processors will further integrate into the agricultural sector, enabling farmers to capitalize on high-value commercial crops.
- **Expand Livestock Veterinary Clinics and Medical Supplies**: - The expansion of livestock veterinary clinics and the increased supply of feed are critical for improving animal health and productivity. Research into local feed alternatives will support sustainable livestock management practices, while full-capacity utilization of feed processors will optimize resource use. Increased availability of vaccines and standardized feed quality control mechanisms will enhance livestock health, ultimately leading to improved production outcomes. Additionally, efforts to attract foreign direct investment for drug production will ensure a steady supply of veterinary medicines, reinforcing the sector's resilience.
- **Improve Coffee Marketing and Value Chain Development**: - Revamping the coffee sector through improved regulatory frameworks and trademark registration will enhance the market position of Ethiopian coffee. Quality research and expanded certifications will elevate the standards of coffee production, ensuring that Ethiopian coffee remains competitive globally. The establishment of optimized warehousing and storage management systems will streamline the supply chain, facilitating timely exports. Furthermore, enhancing digital market information systems will modernize coffee value chain management, enabling farmers to access fair prices and market opportunities, thereby increasing revenue from value-added coffee products.
- **Identify and Champion New Commodities for Import Substitution:** - Identifying and promoting new commodities for import substitution will strengthen Ethiopia's agricultural sector. Conducting product competitiveness analyses will pinpoint potential agricultural products that can be produced domestically, reducing reliance on imports. Designing and implementing an incentive framework for these products will stimulate local production and market access, ultimately fostering economic resilience. Additionally, developing specific strategies to boost production and market access for high-potential export commodities will position Ethiopia as a competitive player in the global market, enhancing overall economic growth.

- **Facilitating Land Access and Financial Incentives**: - Plans are in place to enhance land access and provide financial incentives to support feed producers and processors, fostering a more robust agricultural sector.
- **Scaling Up Integrated Mechanization Services**: - Reform activities aimed at expanding Integrated Mechanization Services and Technologies will be implemented this year, including the establishment of mechanization service centers for maintenance, training, and access to advanced agri-mechanization technologies.
- **Enhancing Irrigation Financing and operation**: - Further innovation of irrigation financing through rationalizing existing irrigation investment and facilitate the maintenance and expansion of irrigation infrastructure, ensuring sustainable agricultural practices. The introduction of water fees for existing irrigation schemes is planned to ensure sustainable management and funding of irrigation systems. The government will provide subsidies, tax incentives, and other fiscal measures to encourage private investment in irrigation, enhancing overall productivity. Efforts will be made to operationalize and enhance the performance of large-scale irrigation facilities through the adoption of innovative technologies, ensuring efficient water use and increased agricultural output.

2.3.2. Industry Sector Assumptions

Manufacturing industry sub-sector assumptions

- **Enhancing Raw Material Supply: -** A plan is in place to enhance the supply of raw materials for manufacturing industries, particularly for textile, leather, and food and beverage sectors. This improvement is expected to stem from better performance in the agricultural sector. Additionally, the supply of raw materials to the chemical and construction industries is projected to increase due to the encouraging performance of the mining sector last year.
- **Improving Financial Access:** Recent data from the National Bank of Ethiopia (NBE) indicates a 9.2% increase in the supply of fresh loans to the manufacturing sector in 2016 EFY, and this positive momentum expected to continue. The plan includes stricter implementation of the NBE policy, which mandates that 10% of every fresh loan from commercial banks must be directed toward small and medium-sized enterprises.
- **Investment Project Transition: -** the plans to transfer investment projects in the manufacturing sector to the operational phase through resolving the primary challenge of project implementation, in collaboration with regional investment bureaus. There is also a focus on increasing projects engaged in investment expansion and reinvestment through targeted aftercare support activities. Further, the expected increase in new direct foreign investment in the manufacturing sector will boost the sector's performance.
- **Enhancing Productive Capacity Utilization: -** Plans are underway to further enhance productive capacity utilization within the sector by improving electricity supply and resolving foreign exchange access issues. The operational commencement of the Grand Ethiopian Renaissance Dam is expected to significantly boost electric supply.
- **Infrastructure Improvements: -** Projects aimed at enhancing electric distribution lines for key areas such as Gondar, Kombolcha, Wolayita Sodo, Shashemen, Harari, and Debre Markos will

commence in October 2024. Additionally, 20 solar energy projects are set to begin operations by December 2024, further bolstering production capacity in surrounding industries. The Hawassa Industrial Park power supply project is also expected to be completed this year, improving the electric supply to industries within the park. Efforts will be made to improve capacity utilization at Ashegoda and Tekeze. Plans are in place to increase transmission and distribution lines, while aiming to reduce transmission and distribution line losses. These measures will ensure a more reliable and efficient power supply, crucial for the growth of the manufacturing sector.

Manufacturing Sector Reform activities to enhance future growth of the sector: -

- **Enhancing Domestic Input Supply and Linkages**: - The strengthening of linkages between micro, small, and medium enterprises (MSME) and large-scale industries is anticipated to significantly improve the domestic input supply system for priority industries. By accelerating efforts to connect agricultural inputs, such as cotton, with the demand generated in industrial parks, the manufacturing sector is expected to see enhanced productivity and reduced reliance on imports. Furthermore, implementing strategies to improve MSME capabilities in supplying quality inputs will foster a more resilient supply chain.
- **Investment in Research and Development: -** Strengthening sector research and development institutions is crucial for improving productivity within the manufacturing sector. By investing in R&D, manufacturers can innovate processes and products, thus enhancing competitiveness. The adoption of a National Linkages Policy to institutionalize connections between local suppliers and investors is expected to facilitate resource optimization and improve local production capabilities.
- **Improving the performance of industrial parks: -** Ensuring good labor management practices in industrial parks will empower workers both economically and socially. Investments in essential services such as housing, transport, and health will enhance worker satisfaction and productivity. Increased occupancy rates of industrial park facilities are projected, leading to greater economies of scale and collaboration among firms. Additionally, establishing improved guidelines for integrating industrial park development within urban planning will create a conducive environment for manufacturing growth.
- **Incentives and Performance-Based Systems: -** The improvement of incentives for the manufacturing sector through performance-based systems is anticipated to stimulate growth and innovation. By enhancing the effectiveness of these incentives, the sector can drive productivity and attract further investment. Furthermore, the establishment of standardized systems for ensuring the graduation of MSMEs will create a dynamic ecosystem that supports sustainable growth.
- **Product-Specific Strategies and Export Development: -** The development of product-specific strategies to substitute key imports and boost high-potential export commodities is expected to strengthen the manufacturing base. By identifying and promoting new manufacturing export products, the sector can diversify its offerings and increase foreign exchange earnings. Improving value addition, quality assurance, and standardization of export goods will enhance Ethiopia's competitiveness in international markets.

- **Streamlining Import of Key Raw Materials:** - Improvements in the importation processes for key raw materials are expected to ensure timely access to essential inputs for priority industries. This will support manufacturers in maintaining production schedules and meeting market demand, thereby enhancing productivity and competitiveness in the sector.

Mining sub-sector assumptions

- The mining sector remains a key focus for the government, with ongoing projects in gold, steel, cement, and hard coal expected to commence operations in the planning period. Traditional gold producers will receive enhanced support to boost production and productivity. Additionally, the sector stands to benefit significantly from comprehensive macroeconomic reforms that have previously hindered mineral product supply.
- **Revising Governance Policies:** A review and revision of the national governance policy and legal framework for mining resources will establish a robust management framework that ensures sustainable and equitable resource utilization.
- **Supporting Artisanal Mining:** The formalization and capacity building of small-scale (artisanal) mining actors will modernize practices, enhance the supply of exportable products, and integrate these actors into the formal economy.
- **Increasing Domestic Production of Inputs:** The agenda includes increasing domestic production of essential industrial inputs such as coal, marble, granite, steel billets, cement, and fertilizers. This initiative will reduce dependency on imports, fostering economic resilience.
- **Enhancing Export Value Addition:** Efforts will be made to improve the value-addition of key mining exports, particularly gemstones and tantalum. This will enhance the sector's contribution to national revenue and economic growth.
- **Developing Export Strategies:** Product-specific strategies will be developed to identify and boost the production and market access of high-potential export commodities. This strategic focus will facilitate the growth of the mining sector's export capabilities.
- **Combating Illicit Trade:** Establishing effective control and governance mechanisms to reduce the illicit trade of mining products is a priority. This reform will help protect legitimate operations and ensure fair competition within the sector; in doing so enhance the sector’s production.

Construction sub-sector assumptions

- The construction sector is poised for significant growth, driven by strategic initiatives aimed at enhancing the production of essential materials. Key components of this projection include:
- **Increased Production of Construction Materials: -** Efforts are underway to boost the volume of production for cement, steel, marble, ceramics, glass, and other construction materials.
- **Cement Production Expansion: -** The recently inaugurated Lemi National Cement Plc, with an investment of Birr 25 billion and an annual production capacity of 450,000 tons, has commenced operations. This facility is expected to contribute significantly to meeting the growing demand for cement.
- **Construction Sector Reform Agendas: -** The following planned key intervention under HGER 2.0 will support the expected strong growth projections for the construction sector: -

- **Streamlining Licensing Processes**: - Shorten the licensing process for construction companies, including contractors, consultants, and suppliers, to establish an efficient mechanism that enhances operational effectiveness.
- **Enhancing Land Access and Permits: -** Facilitate smoother access to land and expedite the issuance of necessary permits for planning, construction, and utility connections.
- **Coordinating Utility Supply: -** Improve coordination in the supply of essential utilities—such as electricity, water, and telecommunications to support construction activities.
- **Modernizing Construction Equipment Registration: -** Update and streamline the registration process for construction equipment to enhance compliance and operational efficiency.
- **Establishing a Construction Sector Information Management System: -** Develop a centralized information management system to provide standardized and up-to-date data on the construction sector, improving transparency and decision-making.
- **Creating Effective Land Expropriation Regulations: -** Establish transparent regulations for land expropriation and compensation to ensure fair treatment and reduce disputes in construction projects.

2.3.3. Service Sector Assumptions

The service sector is mostly the replica of the two productive sectors. Better performance in the agriculture and industry sectors is reflected by better performance of the service sector. In relation to this, the service sector is projected to experience substantial growth driven by strategic interventions in trade liberalization, transport efficiency, tourism development, and digital infrastructure. These efforts are expected to enhance overall productivity, attract investment, and contribute to the broader economic growth of the country.

- **Liberalization of Wholesale and Retail Trade:** - The liberalization of wholesale and retail trade is anticipated to significantly enhance the service sector. By reducing regulatory barriers and promoting competition, this initiative is expected to improve efficiency, lower prices for consumers, and increase overall market accessibility.
- **Improving Transport and Logistics Efficiency: -** A comprehensive plan to reduce port dwell time, enhance multimodal transport performance, and improve the efficiency of cargo transport logistics is projected to bolster both import and export trade. These improvements will facilitate smoother supply chain operations, attracting more business and investment in the transport sector.
- **Expansion of Ethiopian Airlines and Telecom Services: -** Plans to increase the destinations served by Ethiopian Airlines, alongside enhancements in telecom and digital services, are expected to generate additional revenue and stimulate investment in the transport, communication, and hospitality sectors, including hotels and restaurants. This expansion will not only improve connectivity but also enhance the overall experience for travelers.
- **Tourism Sector Development: -** The implementation of developed destination projects is projected to significantly improve the tourism sector. As international tourism shows signs of revival, the economic benefits from this sector are expected to grow. The rise of conference

tourism, driven by urban modernization and completed infrastructure projects, along with initiatives to attract transit travelers, will contribute to better tourist flow and increased income from tourism activities.

- **Digital Infrastructure Expansion: -** The ongoing expansion of digital infrastructure within the telecom sector, particularly in relation to digital finance services, is expected to significantly contribute to the anticipated growth of the service sector. By enhancing access to digital services, this initiative will improve operational efficiency and customer engagement across various service industries.
- **Service Sector Reform Agendas:** - the projected growth of the service sector will also be supported by key reforms aimed at enhancing market efficiency, improving regulatory frameworks, and facilitating increased access to both domestic and international markets.
    - **Modernization of Retail and Wholesale Markets: -** The sequenced liberalization of retail and wholesale markets is expected to attract new international entrants, fostering competition, and enhancing market efficiency. Assessments to identify markets suitable for foreign direct investment will create a more dynamic domestic market environment.
    - **Digitalization of Trade Registration and Licensing: -** Fully digitizing trade registration, licensing, and certification processes will result in a transparent and interoperable system, enhancing operational efficiency and facilitating easier market entry for new businesses.
    - **Approval of Domestic E-Commerce Strategy:** - Implementing a transparent regulatory framework for domestic e-commerce will provide a structured environment for online businesses, encouraging growth and improving accessibility for consumers.
    - **Development of the Mojdo Green Logistics Hub: -** Establishing a national logistics hub is anticipated to streamline logistics operations and enhance supply chain efficiency, which is crucial for supporting the broader service sector.
    - **Fully Digitalizing the Logistics System: -** Implementing a state-of-the-art digital logistics system will enhance operational efficiency and transparency in customs processes, facilitating smoother trade flows and reducing delays.
    - **Improvement of Tourism Marketing: -** Enhancing the quality and effectiveness of tourism marketing is expected to expand tourist flows by leveraging digital presence and targeted promotions to attract visitors.
    - **Enhancement of Digital Payment Systems: -** Diversifying and improving digital payment systems will increase the volume of digital transactions, facilitating smoother financial operations for businesses and consumers.
    - **Establishment of an Enabling Environment for E-Commerce:** - Creating a supportive regulatory framework for e-commerce will encourage growth in online business operations, expanding market access for entrepreneurs and enhancing consumer choice.

2.3.4. Expenditure side assumptions

- Ethiopia's domestic production of export items is expected to expand in line with the development of manufacturing, agriculture, and mining sectors. The recent macroeconomic reform will boost exports through providing price advantage to Ethiopia’s export commodities.

- Increased export promotion and import substitution activities to eliminate foreign exchange bottlenecks and enhance productivity and competitiveness.
- Re-enhancing investment through promoting both domestic & foreign private investment. Particularly the recent consolidated macroeconomic policy innervations including repatriating profit and investment incentives will boost investment in the economy.
- Plan to expand the domestic saving through introducing saving tools and reducing wastages in different sectors of the economy (particularly in the public sector).
- Expected expansion in public investment, especially in infrastructure and human resource development, which are critical catalysts and crowed-in investment for the private sector active participation. Particularly in war affected areas.

2.4. Supply and demand side projections.

The GDP is projected to grow at an average rate of 8.8 percent over the next five years. However, a crucial aspect that warrants attention is the sustainability of this growth beyond the projection period. Currently, economic growth is primarily driven by consumption on the demand side, although contributions from investment are anticipated to rise. On the supply side, the agriculture and distributive service sectors are expected to maintain their significant contributions to growth, albeit with a declining trend. Meanwhile, the contribution from the industrial sector is expected to strengthen, particularly as the manufacturing sector plays a pivotal role in reinforcing growth through economic structural transformation.

Supply Side Projection (growth in percent)						
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Agriculture	**6.1**	**6.7**	**6.4**	**6.4**	**6.2**	**6.0**
Industry	**12.8**	**13.0**	**13.4**	**12.7**	**12.1**	**12.0**
Services	**7.1**	**7.5**	**7.6**	**7.4**	**7.6**	**7.7**
Real GDP	**8.4**	**8.9**	**9.0**	**8.8**	**8.7**	**8.8**

EC	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
GDP at current basic price	**14893.4**	**18203.3**	**21584.9**	**25697.3**	**30014.4**	**35075.3**
GDP at Current Market Prices	**15,602.9**	**19,218.6**	**22,867.8**	**27,291.9**	**31,958.2**	**37,444.8**
Total Consumption Expenditure on GDP	13,172.6	15,836.3	18,532.3	21,460.8	24,346.2	27,403.1
Gross Domestic Capital Formation	3,637.3	4,853.3	6,038.0	7,647.4	9,635.7	12,044.6
Exports of Goods and Non-Factor Services	1578.6	2094.7	2687.9	3378.1	4053.7	4986.0
Imports of Goods and Non-Factor Services	2785.7	3565.7	4390.4	5194.3	6077.4	6989.0

2.5. GDP deflator projection and assumptions

Inflation in Ethiopia is primarily driven by supply-side and cost-push factors, expansionary monetary and fiscal policies, and significant increases in global commodity prices (including fuel, fertilizer, and freight). However, recent government policies are anticipated to help reduce the inflation rate, with expectations of it falling to single digits in the medium term. The GDP deflator, which measures the difference between nominal and real GDP, is also expected to follow this downward trend as part of efforts to reduce inflation. As previously noted, consumption constitutes the largest share of GDP, and its price movements are reflected in the Consumer Price Index (CPI). A projected decline in the CPI in the coming years will directly impact the GDP deflator through consumption patterns. Consequently, the GDP deflator is expected to exhibit lower growth as well.

	2017	2018	2019	2020	2021	2022
GDP Deflator	5.3	5.9	6.4	7.0	7.6	8.1

Assumptions behind GDP deflator

- Plan to improve production in productive sectors of agriculture, industry, mining, etc.
- Absence of government direct advance from NBE, (taking as a last resort if sufficient treasury bill and bonds are not raised in the market).
- Contractionary monetary policy, discouraging banks loan from NBE and frequent open market operation activities to control inflation.
- Improving marketing and overall business environment to facilitate decent interaction between supply and demand.
- Plan to improve logistic system, transport network, and wholesale/retail trade.
- Peace dividend.