ETHIOPIA

Population[1] million **132.1**	Poverty[2] millions living on less than $2.15/day **39.0**
Life expectancy at birth[3] years **65.6**	School enrollment[4] primary (% gross) **84.5**
GDP[5] current US$, billion **221.6**	GDP per capita[6] current US$ **1677.8**

Sources: WDI, MFMod, and official data. 1/ 2024. 2/ 2021 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

Macroeconomic reforms initiated in mid-2024 have reduced exchange rate spreads and inflation. Reforms to modernize monetary policy, mobilize revenues, and enhance safety nets are ongoing. Sustaining reforms and easing barriers to private investment and job creation are crucial for external sustainability, inclusive growth, and mitigating social risks amid humanitarian needs.

Key conditions and challenges

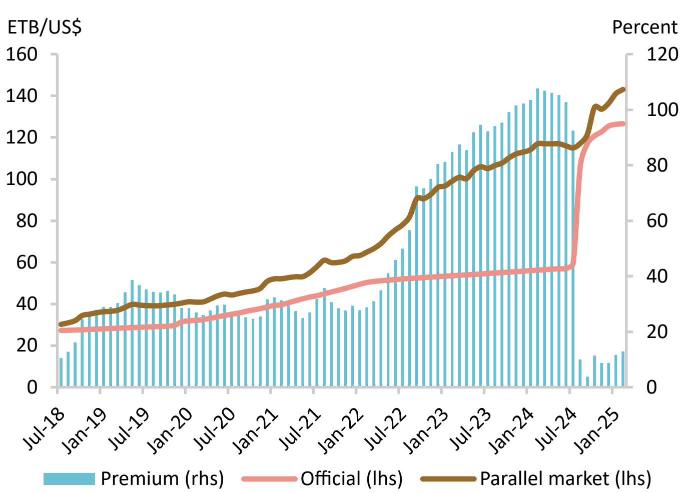
Ethiopia's state-led development model improved infrastructure and living standards but relied on an overvalued currency, unsustainable debt, and restrictive regulations that hindered private investment. This weakened competitiveness, fueled inflation, and failed to generate enough jobs for two million new job seekers annually. Poverty increased from 27 percent to 32 percent between 2016 and 2021 ($2.15/day), human capital remained low, and agriculture still employs 70 percent of the workforce. Limited global trade integration and budget constraints further reduced social and capital spending. Multiple crises, including COVID-19, the Ukraine war, the Tigray conflict, and droughts, exacerbated economic imbalances, culminating in a debt default in late 2023. Double-digit inflation worsened living standards, while the Tigray conflict displaced over three million people, creating a $20 billion humanitarian and reconstruction need. About 15 million people still rely on food aid.

To stabilize the economy, the government launched macroeconomic reforms in July 2024, targeting a market-determined exchange rate, easing current account restrictions, and adopting a new interest rate-based monetary policy. These reforms, backed by the IMF, World Bank, and proposed G-20 debt relief, helped narrow the official-parallel exchange rate spread from over 100 percent to low teens, although it has widened recently reaching 20 percent by end-March 2025. Market inefficiencies, including high foreign exchange (FX) fees, incentivize continued use of the parallel market. Sustained reforms are essential for translating macroeconomic improvements into better livelihoods, higher earnings, productive jobs, and improved public services.

Recent developments

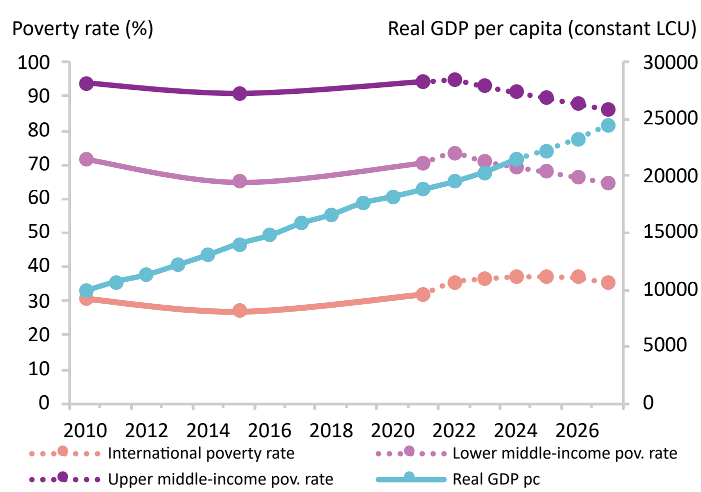
Ethiopia's GDP growth was 8.1 percent in FY2023/24, driven by strong harvests, increased mining, and higher electricity generation activity. Following the July 2024 exchange rate reform, goods exports doubled year-on-year (yoy) in H1 FY25, with coffee shifting to export markets and gold moving from informal to official channels. Remittances also grew by 23 percent. Tight monetary conditions, including caps on bank lending growth (initially 14 percent, later loosened to 18 percent),

FIGURE 1 / Nominal exchange rate of Ethiopian Birr (ETB)



Source: National Bank of Ethiopia.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

helped contain domestic and FX demand. Gradual fuel price adjustments and government imports of essential goods mitigated inflationary pressures, bringing inflation down from 19 percent yoy in July to 15 percent in February. Real interest rates turned positive despite the monetary policy rate remaining unchanged at 15 percent. The balance of payments and current account improved in H1 FY25 due to stronger exports, remittances, International Financial Institutions (IFI) disbursements, and modest foreign direct investment (FDI) growth. Service exports remained flat, primarily reflecting stable Ethiopian Airlines revenue, while electricity exports tripled, supported by growing data-center and crypto-mining demand.

To ease reform impacts, a supplementary budget in November introduced spending measures worth 1.5 percent of GDP, including a 20 percent increase in safety net benefits, overdue increase in public sector salaries, and temporary fuel and fertilizer subsidies. Tax revenues surged by 81 percent yoy in H1 FY25, driven by VAT reforms that eliminated exemptions and standardized the tax base across federal and regional jurisdictions. Trade valuation adjustments from the exchange rate reform also boosted revenues. Additionally, a four-year electricity tariff adjustment was launched to improve cost recovery, attract private investment, and expand energy access.

Household economic sentiment remained negative in 2024 due to past economic shocks. While inflation did not spike post-FX reform as initially feared, persistent inflation has eroded real incomes, pushing poverty to an estimated 37 percent by 2025. The government's reform agenda aims to reverse this trend by fostering private-sector employment, integrating smallholder farmers into markets, and strengthening safety nets to protect vulnerable populations.

Outlook

Near-term growth will be constrained by tight monetary policy, security challenges, and exchange rate uncertainty. However, GDP growth is projected to rebound in the medium term, supported by debt relief and reforms that enhance investor confidence, productivity, and exports. Inflation will remain high as fuel and fertilizer subsidies are phased out but is expected to ease to single digits with improved supply capacity and reduced localized conflicts. Despite higher export revenues, pent-up import demand will widen the current account deficit to over 3 percent of GDP in FY25 before stabilizing at 2 percent as external competitiveness strengthens. The overall impact of recent tariff measures on the current account is likely to be neutral, with weaker demand for Ethiopian exports offset by lower import prices (especially fuel). Relatively higher US tariffs on Ethiopia's major export competitors could help improve the competitiveness of Ethiopian coffee, textile, and leather exports in the US and revive supplier relationships previously affected by Ethiopia's suspension from the Africa Growth Opportunities Act (AGOA).Further tax reforms (if implemented effectively) and IFI disbursements will help reverse declining real public spending. Poverty is expected to decline gradually, reaching 35 percent by 2027, but significant investment is needed to improve human capital, enhance resilience, and boost agricultural production.

The outlook is predicated on reforms to sustain hard won exchange rate and macro stability and deeper structural reforms to increase financial intermediation, ease constraints to private sector investment, exports and trading and tax reforms to ensure fair and predictable revenue mobilization. Key risks include weaker forex inflows, unforeseen fiscal burdens, reform delays, and social unrest, particularly in fragile rural areas.

Recent history and projections

	2021/22	2022/23	2023/24e	2024/25f	2025/26f	2026/27f
Real GDP growth, at constant market prices	6.4	7.2	8.1	6.4	6.5	7.2
Private consumption	4.5	6.1	7.1	5.2	6.1	6.7
Government consumption	1.5	-16.0	-5.8	31.3	5.8	0.8
Gross fixed capital investment	11.0	11.2	13.8	5.1	8.2	9.5
Exports, goods and services	11.7	-0.8	4.5	11.2	2.4	3.6
Imports, goods and services	10.8	-4.1	13.0	9.9	8.1	8.1
Real GDP growth, at constant factor prices	6.4	7.2	8.1	6.4	6.5	7.2
Agriculture	6.0	6.3	7.0	6.2	5.9	5.8
Industry	4.8	6.9	9.2	5.2	7.1	7.3
Services	7.9	8.0	8.3	7.5	6.7	8.2
Employment rate (% of working-age population, 15 years+)	77.5	77.6	77.8	78.0	78.4	78.9
Inflation (consumer price index)	33.7	32.6	26.7	20.7	16.9	10.6
Current account balance (% of GDP)	-4.0	-2.8	-2.8	-3.2	-3.2	-2.8
Fiscal balance (% of GDP)	-4.2	-2.7	-2.0	-1.7	-2.0	-1.9
Revenues (% of GDP)	8.2	7.9	7.5	9.8	10.3	11.3
Debt (% of GDP)	30.8	25.3	22.6	28.4	29.5	30.3
Primary balance (% of GDP)	-3.6	-2.1	-1.5	-1.1	-0.9	-0.5
International poverty rate ($2.15 in 2017 PPP)[1,2]	35.7	36.6	37.3	37.3	37.0	35.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[1,2]	73.1	70.8	69.3	67.9	66.4	64.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[1,2]	95.0	93.1	91.3	89.6	87.8	86.1
GHG emissions growth (mtCO2e)	1.6	3.8	3.7	3.3	3.1	2.9

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise. Growth projections reflect limited available information, and are subject to revision as better data becomes available.
1/ Calculations based on 2021-HCES. Actual data: 2021. Nowcast: 2022-2024. Forecasts are from 2025 to 2027.
2/ Projections using microsimulation methodology.