Ethiopia's Debt Management Experiences

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1. Background

Ethiopia – An East African Country at a glance

- Ethiopia is located in African Countries bordering with six African counties,
- Total area is 1.1 million square KM
- Total population is 100 million.
- Ethiopia is in the tropical zone laying between the Equator and the Tropic of Cancer. It has three different climate zones according to elevation (Tropical zone, Subtropical zone and Cool zone)

1. Background

- Ethiopia is strategically located in East African with big markets,
- The country has proved to be an attractive investment location with its 100 million population and consistent economic growth leading to strong and growing domestic demand,
- The country is a combination of competitive market, business-friendly environment and cost structure that can give the best returns.

1. Background

- Ethiopia offers a well-educated, highly adaptive and industrious workforce with the lowest wages and salaries in the region,
- 40% of the population is under 25, providing a youthful group for recruitment.
- The country has consistently developed a skilled workforce catering to investors needs.
- Energy prices in Ethiopia are the most competitive in the region.

1. Background

- Ethiopia offers the most open minded FDI regime in East Africa, allowing 100% unrestricted exit profits and incomes.
- Ethiopia offers export-oriented industrial enclaves with infrastructural facilities and logistical support for foreign investors
- The economic position of the country:
- GDP Around USD 90 billion;
- per capita USD **863**;

1. Background

Ethiopia's Major items of Import and Export:

Export

- Ethiopia main exports are **gold**, **coffee** and Others including live animals, oilseeds, flowers and others

Import

- Machinery, Vehicles, Electrical machinery, equipment, Mineral fuels including oil, Iron, steel, Cereals, Plastics, plastic articles, Articles of iron or steel, Animal/vegetable fats, oils, waxes and Pharmaceuticals
- Major trading partners of Ethiopia's for both exports and imports are:
- The top export destinations of Ethiopia are China, Switzerland, the Netherlands, Saudi Arabia and the United States.
- The top import origins are China, the United States, India, Kuwait and Italy.

1. Background

Ethiopia's Thriving Economy

- Ethiopia Has formulated and Implemented four Medium Term Economic Development Plan:
- SDPRP Three Years 2002/03-2004/05
- PASDEP Five Years (2005/06-2009/10)

➢ GDP Average Growth 11%

- GTP I Five Years (2010/11-2014/15)

➢ GDP Average Growth 10.1%

- GTP II Five Years (2015/16-2019/20)
- GDP Two Years Average Growth around 10%

1. Background

- The fast growing Economy of Ethiopia has its own story,
- It is on the rise in sustainable manner and has moved itself to the frontier.
- The Economy of the country is growing across all means Broad-based (Agriculture, Industry and Services).

1. Background

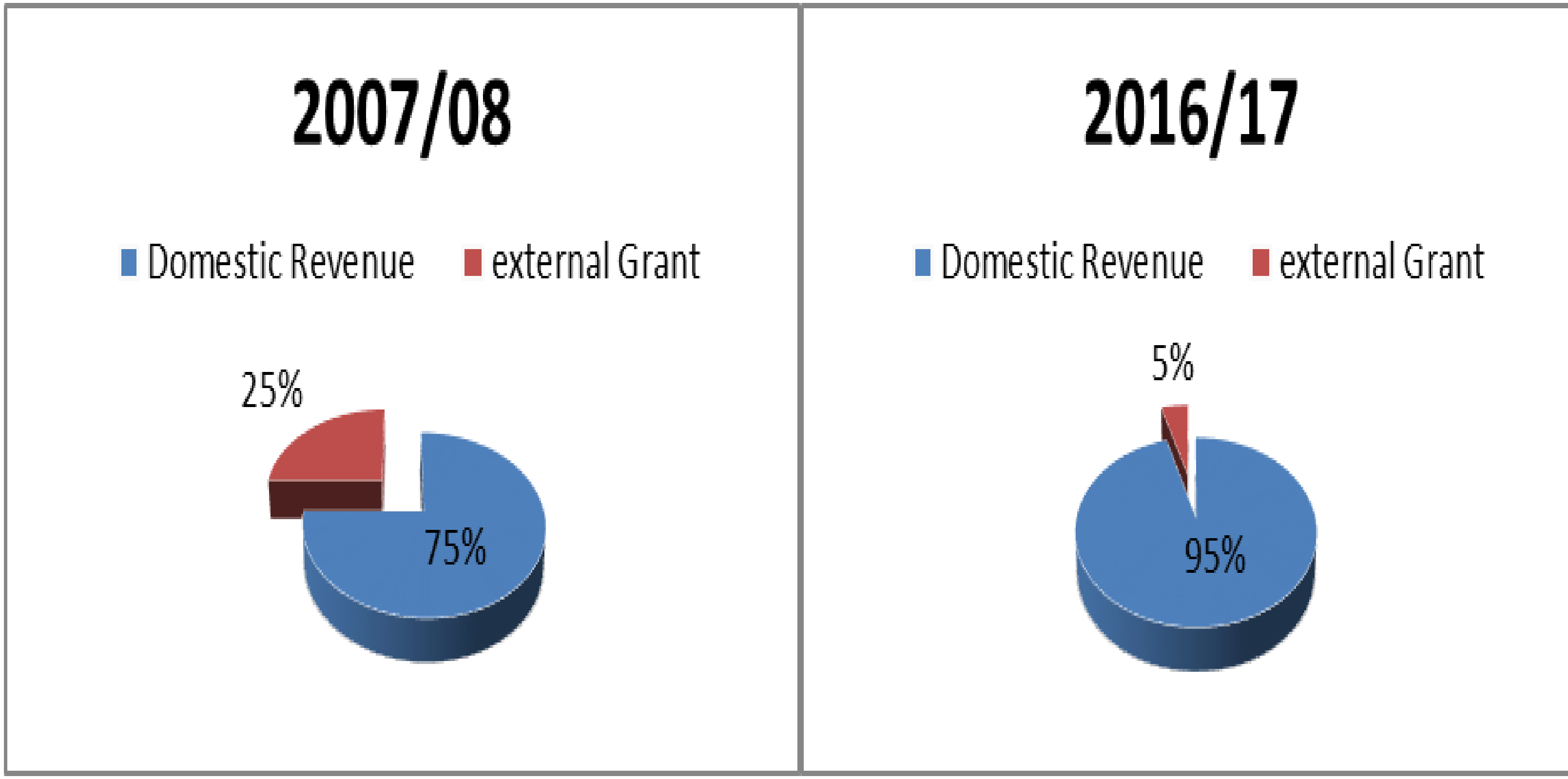
Fiscal Management in Ethiopia

- Medium-term Fiscal Framework (MEFF) which is designed to link the budget with the development policy and resource allocation with performance .

The main trust of fiscal policy in Ethiopia is:

- Strengthening domestic revenue generation,
- Effective and efficient allocation and utilization of the resources
- Keeping prudent Fiscal Policy
- Maintaining fiscal deficit consistent with macroeconomic objectives
- As a result during the years 2007/08-2016/17 on average about 77 percent of the government budgetary revenue was mobilized from domestic revenue sources.

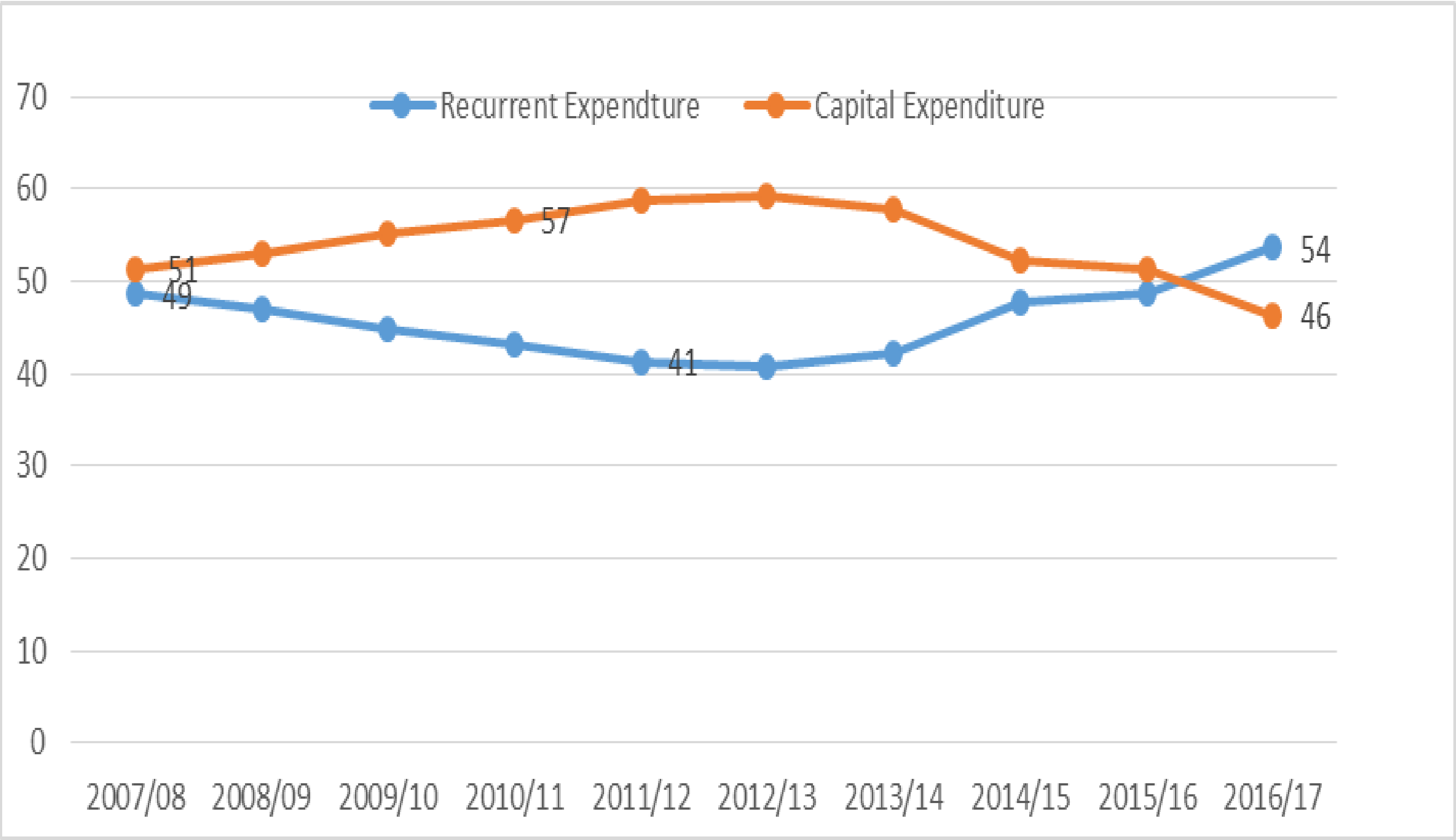
Share of domestic revenue and external grant in 2007/08 and 2016/17



Share of Domestic Revenue and External Grant in 2007/08 and 2016/17

- On the other hand, Government expenditure has been an important driver of Ethiopia's economy.
- The expenditure pattern was mainly focusing on allocating more resource for building economic and social infrastructure to provide basic services.
- To this end, the lion share of the annual budget was devoted to capital expenditures which are critical in bringing future benefits through building physical assets and infrastructures, as well as promoting human resources development and research and development.

Share of Recurrent and Capital Expenditure 2007/08-2016/17



Share of Recurrent and Capital Expenditure 2007/08-2016/17

- The level and financing of the budget deficit is designed in view of promoting the desired macroeconomic goals such as controlling inflation, boosting private investment and growth and maintaining external credit worthiness.
- The Government over the past years capped the overall budget deficit at 3 percept of GDP.
- For Example In 2016/17 the overall budget deficit including grant turned out to be 3.4 percept of GDP. ➔This was against a deficit target of 3.9 percept of GDP.

2. Public sector debt Accumulation and outlook

Public sector debt stock and its Growth

- As of June 30, 2017 **Overall Debt Outstanding USD 45,070.25 (50% of GDP)**
- **Composition of Public Debt**:

➢ **External Debt** 54% :

-The Share of Federal Government 30%

-The Share of SOEs 23.94% Of which

-Guaranteed 18%

-Non Guaranteed 5.94%

➢ **Composition of Concessionality**

55.4% Concessional

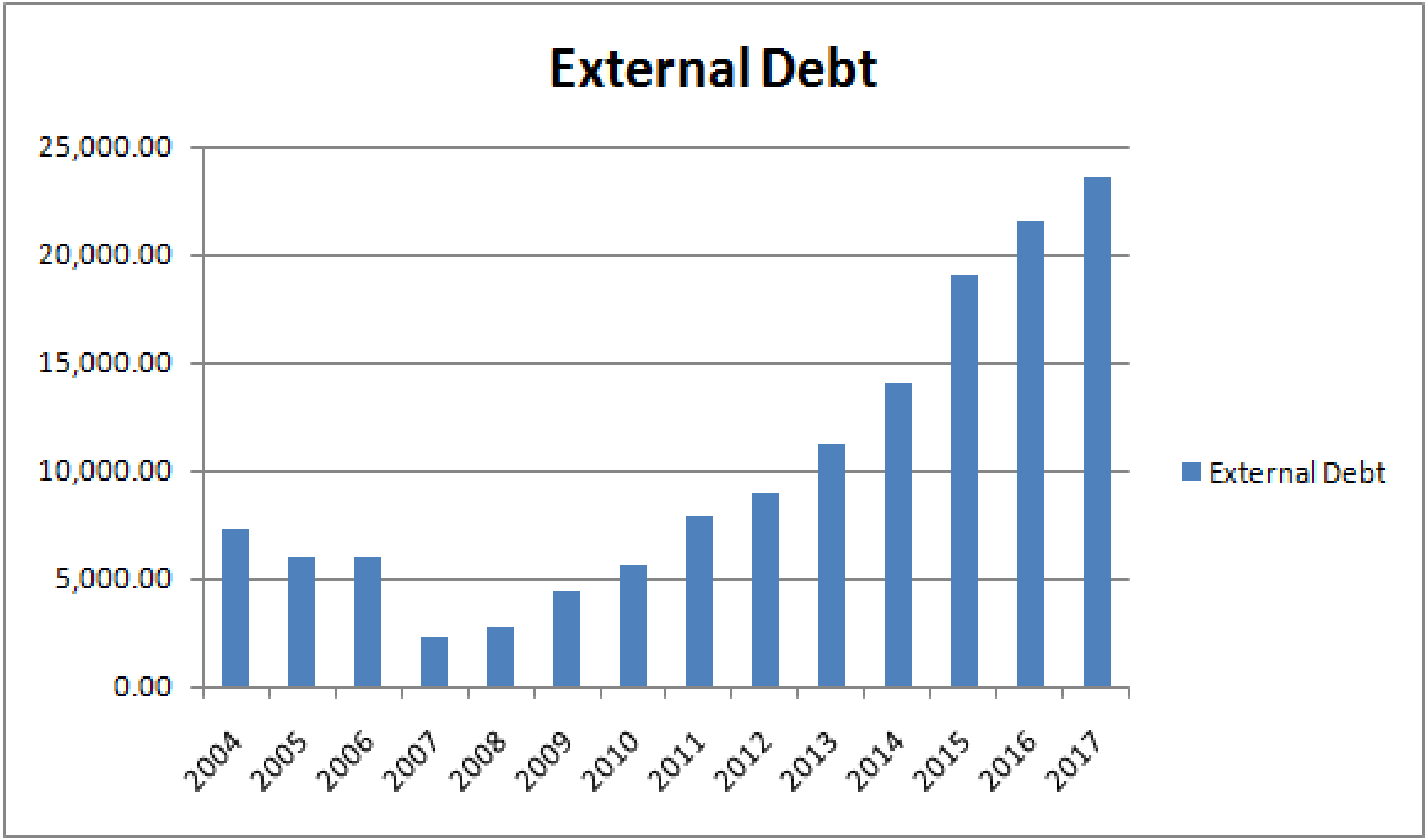
44.6% Non-Concessional

Public sector debt Accumulation and outlook

- Composition of Currencies

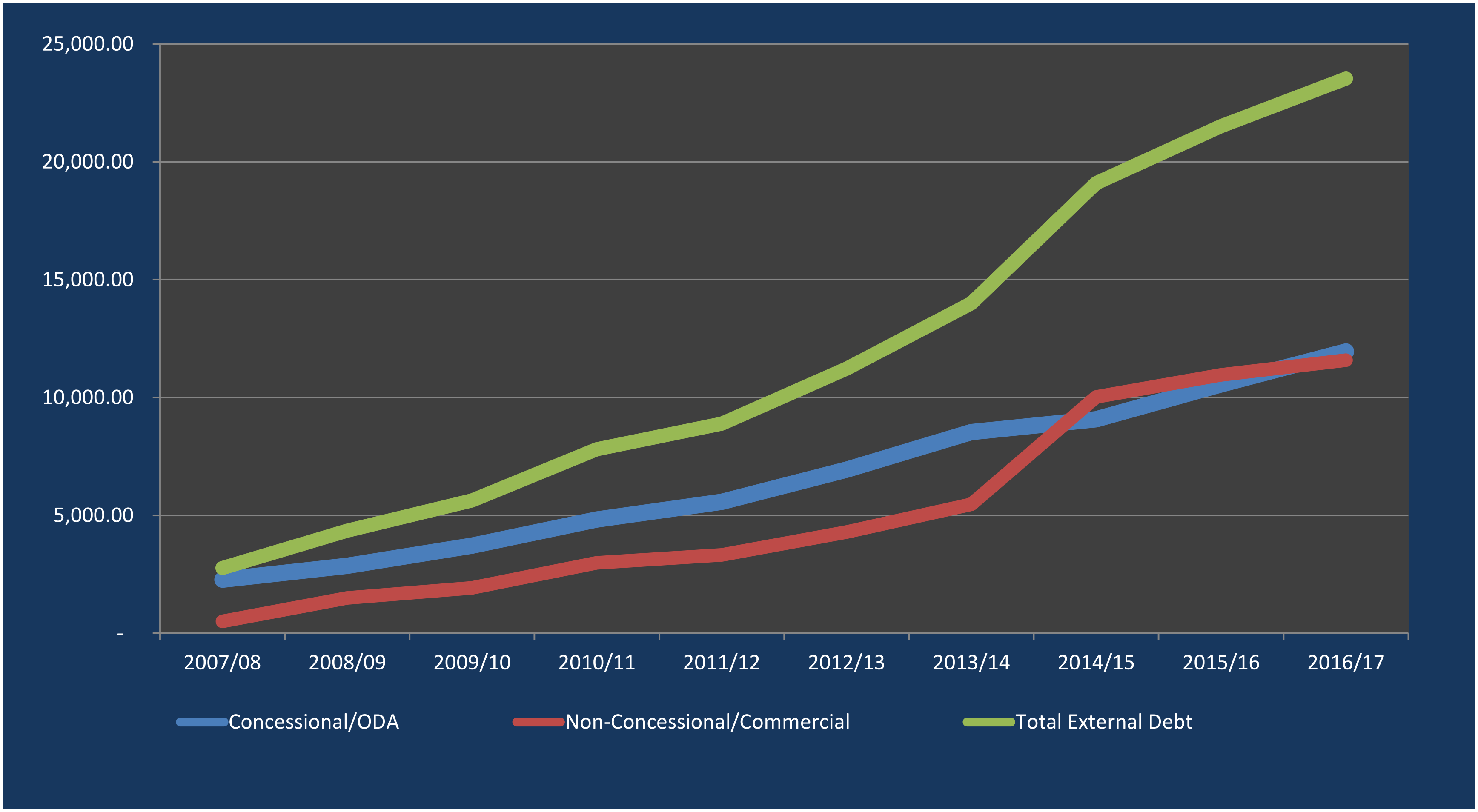
USD	63.4%
SDR	29.9%
EURO	3.2%
CNY	2%
Others	1.5%

External Debt Accumulation due to Created Fiscal Space



External Debt Situation

2008 - 2017



Public sector debt Accumulation and outlook

- **Domestic debt** 46%

-Federal Government	22.5%
-SOEs	23.5%

2. **Public sector debt Accumulation and outlook**

Experiences with International Bond issues and potential challenges as they mature

A road show

- presentation given to potential buyers,
- Recruited companies and underwriters issuing securities to do an initial public offering (IPO) travels around the country to give presentations to analysts, fund managers, and potential investors,
- Tried as much as possible to generate excitement and interest in the issue or IPO that is critical to the success of the offering,
- In the process Ethiopia’s was successful and investors were very much interested and want buy beyond plan,

2. **Public sector debt Accumulation and outlook**

Current Demand from the Investors side

- There are a lot of investors approaching the Government to issue another Eurobonds,
- Now, no intention to issue new Eurobond until export pick up

What are the pros and cons?

- Secured the demanded financing for infrastructure investment
- Known, it has costs

Potential challenges as they mature

- Maturity period is in 2025 and there are plenty of time to think of it
- Three years before the maturity period there is an intention to open Sinking Fund

2. **Public sector debt Accumulation and outlook**

Institutional and organizational arrangements for debt management

- Debt Management has established Under the Ministry of Finance since 1961,
- Public Finance Proclamation is the legal framework for Unified debt office under the Ministry of Finance,
- DeMPA Rated Ethiopia among the best countries in terms of Debt management and legal framework
- Managed Federal Government and SOE's External and Domestic Debt
- Conduct MTDS in collaboration with IMF/World Bank TA and other stakeholders
- Conduct its own DSA by using IMF/World Bank Template
- Conduct Various Analytical Works for Policy Makers
- Advising Policy Makers on the matter as Appropriate
- Effect Debt Services of the Federal Government and Closely follow up the Debt Services of SOEs

3. Future Additional Resources Mobilization and the Role of Debt Managers

- The country's economy can accommodate more than the current debt outstanding
- The secured Financing Utilized for Asset Building however,
- Public debt is growing apace in Ethiopia
- We are mindful that increased debt levels and risk exposures lead to debt sustainability concerns
  - Low Risk (2012-2015)
  - Moderate Risk (2015-2017)
  - High Risk (2018)
- Debt Services volume increased
- Sources of the problem is due to External Sector performance

3. Future Additional Resources Mobilization and the Role of Debt Managers

- In the past several Years Export performance is not as expected.
- Price and demand for our products in international market is still not improving as expected.
- So ensuring public investments are efficient and balanced against debt sustainability risks are important,
- For the Time being Additional External resources mobilization will be Exclusively from concessional sources

3. Future Additional Resources Mobilization and the Role of Debt Managers

New Instruments for Additional Financing

- A widening infrastructure gap is forcing governments to find new ways to turn to look into other ways
- Public Private Partnership is significantly developing these days in Ethiopia,
- Public-Private Partnership (PPP) As part of the process of strengthening the Public Private Partnership (PPP) initiatives, a policy for Public-Private Partnership has been formulated.
- In the meantime, PPP office has been set up under the Ministry and a number of officials have been posted to this office for smooth running of its functions.

Domestic Debt Market

- Emplacing Domestic Financial Market to Mobilize Additional Financing

4. Conclusion

- Now, Debt Management is one of the priority agenda of the Government
- Debt managers are in a good position
- All authorities are on the same page on the matter to avoid unforeseen risks
- There are a lot of undertakings to improve the situation
- To this effect the Government is committed to:
- Use New instruments known as PPP to minimize Contingent Liabilities Risks,
- Emplacing Domestic Financing Market
- Closely follow up the implementation of New Debt Management Directive (Not to Borrow from Non-concessional Sources before the pick up export performance)

4. Conclusion

- Enhancing the capacity of debt management to conduct analytical works to advise policy makers
- Enhancing coordination among stakeholders
- Development of Special Industrial Zones for Enhancing Foreign Currency Earning from Export performance
- Increase Remittances
- Increase Economic Diversification

4. Conclusion

- Expedite the Mega project implementation to get return
- Enhance efficiency and effectiveness of SOEs
- Invest Additional Financing from their own sources
- Enhance corporate Governance including improving SOEs financial management (Audit, balance sheet)

Thank you for Your Kind Attention