ETHIOPIA

Table 1	2019
Population, million	110.1
GDP, current US$ billion	86.6
GDP per capita, current US$	786
International poverty rate ($1.9)[a]	30.8
Lower middle-income poverty rate ($3.2)[a]	68.9
Upper middle-income poverty rate ($5.5)[a]	90.2
Gini index[a]	35.0
Life expectancy at birth, years[b]	65.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

Growth in Ethiopia remained robust in FY19 thanks to a strong service sector performance. A Homegrown Reform Agenda was launched to address the buildup in inflation and persistent foreign exchange shortages. Escalating impacts of COVID-19 is expected to result in a significant slowdown in growth in FY20. While poverty is expected to continue its steady decline, the rate of reduction is likely to slow down in the short term in light of the high inflation and increased unemployment.

Recent developments

Real GDP growth rebounded to 9 percent in FY19, according to official estimates, while intermediate indicators for the first few months of FY20 paint a mixed picture. While growth in agriculture production eased and electricity production was affected by low water levels, growth picked up in FY19 thanks to a strong service sector performance. During the first quarter of FY20 there was an exceptional increase in electricity production, but a slowdown in cement sales (-11.7 percent in Q1) and a 28 percent decline in FDI inflows point to a slowdown in investment.

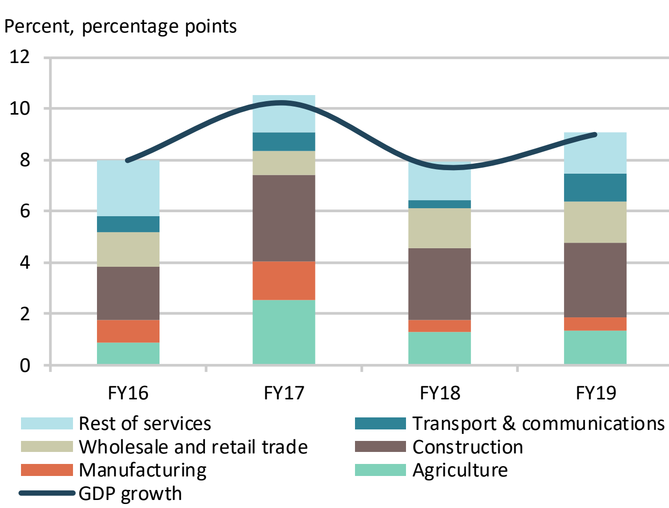
While merchandise export performance disappointed in FY19, preliminary estimates for the first half of FY20 point to a rebound. In the first half of FY20, exports revenue increased by 10 percent compared to the same period last fiscal year, largely owing to a strong increase in the volume of coffee exports. The performance of the other major export commodities including oilseeds and pulses remained weak, while textile exports grew by more than 45 percent. Imports of goods continued to contract declining by about 7 percent during the first half of FY20 as foreign exchange shortages persist and public investment remains restrained. Gross international reserves went down to about US$ 3 billion in December 2019, compared to US$ 3.4 billion in June.

Faster depreciation and tighter monetary policy have been implemented, while inflation remains high. Between mid-November and mid-December, the birr depreciated as much as during the entire FY19. The pace of depreciation eased in January and February. The parallel market premium has declined from 40.5 percent in October 2019 to about 33 percent in February 2020. The average monthly increase in reserve money was just 8.6 percent during July – December 2019, compared to 16 percent during the same period last fiscal year. Inflation eased to 19.5 in December and 18.7 percent in January, but peaked again in February, reaching 21.8 percent, with a jump in both food and non-food prices.

Despite continuing poor revenue performance, the fiscal deficit was reduced to 2.5 percent of GDP in FY19, as authorities curbed expenditure. Tax revenue collection declined to 10 percent of GDP, compared to 10.7 percent in FY18. This poor performance can be explained by weak tax administration and a drop in foreign trade tax revenue related to lower imports. Contained expenditures as a share of GDP and an increase in grant receipts compensated for the lower-than-expected revenue collection.

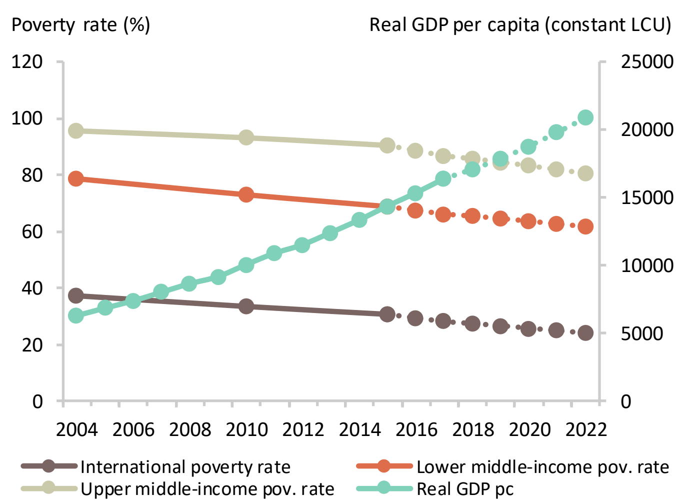
While official data is not yet available, sectors with international linkages showed already a drop in economic activity in March due to the COVID-19 pandemic. Amid the unfolding global pandemic, which is likely to bring the world economy into recession, the CEO of Ethiopian Airlines estimated revenue losses in February and March amount about USD 190 million; on March 20 the airline suspended flights to 30 countries.

FIGURE 1 Ethiopia / Real GDP growth and contributions to real GDP growth



Source: Ethiopian authorities.

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



Source: World Bank.
Notes: see table 2.

The cut-off date for information in this MPO was April 02, 2020.

Hotel occupancy has reportedly declined by 80 percent. Meanwhile, Ethiopia's cut flower industry, the second-largest exporter to Europe (about 10 percent of Ethiopia's merchandise export), incurred in losses amounting USD 11 million during the first weeks of March.
Increased unemployment and inflation presumably translate into slower poverty reduction in urban areas. Urban unemployment increased in 2018 to 19 percent from 17 percent in 2016. Food price inflation in excess of 20 percent has also put pressure on lower-income urban dwellers. In rural areas, which have experienced slow poverty reduction between 2011 and 2016, agricultural production levels have rebounded from the lows of the 2015/16 drought. Rural producers have likely benefited from high food prices.

Outlook

Growth is expected to slow down significantly in FY20 due to the impacts of COVID-19. Macroeconomic measures under the Homegrown Reform Agenda are expected to reduce imbalances and improve growth over the medium term. Growth projections have been revised down in FY20 and FY21 to reflect the severe impacts of the COVID-19 pandemics, which is likely to place global growth in recession. The main transmission channel to Ethiopia will be through declines in services exports (air transport), the lodging industry, and cut flower and other merchandise exports. While growth is expected to be slower in the near term, economic measures under the Homegrown Reform Program are expected to set the foundations for a more balanced and stronger economy in the future. Particularly, as real exchange rate overvaluation is addressed and logistics and business environment reforms are introduced, private sector investment is expected to accelerate in FY21 and FY22. Inflation is projected to remain in double digits in FY20, prior to easing in the medium term.
Poverty is expected to continue its steady decline in the medium run on the back of reforms. The increasing industrial park development and economic reforms being under taken are expected to generate more employment opportunities, especially for the youth.

Risks and challenges

Domestic risks include a more severe impact of the COVID-19 virus, locust infestation and political instability ahead of elections. As in other countries, the situation in Ethiopia could quickly shift from the current handful of COVID-19 imported cases to a scenario of widespread community transmission that could require a lockdown. In addition to the prolonged external demand impacts discussed above, this would depress domestic economic activity and demand sharply. The desert locust invasion which Ethiopia is currently experiencing is the worst in 25 years and could have an adverse impact on crop production in FY21. Finally, there is risk that uncertainty and tensions raise ahead of the national elections, planned for end-August, potentially hampering the prospects for FDI inflows and delaying some of the planned privatizations.
The outlook for poverty reduction, while positive, also faces significant downside risks. COVID-19 will impact the livelihoods of households dependent on remittances or linked to exporting sectors. In addition, lay-offs are expected to be disproportionally concentrated among low-income urban households. Currency depreciation and energy price increases are also expected to have some negative welfare effects across the distribution, especially in urban areas.

TABLE 2 Ethiopia / Macro poverty outlook baseline scenario (annual percent change unless indicated otherwise)

	2017	2018	2019 e	2020f	2021f	2022 f
Real GDP growth, at constant market prices	10.0	7.9	9.0	4.0	6.0	8.0
Private Consumption	5.6	5.3	5.1	3.2	4.5	5.0
Government Consumption	8.3	3.6	6.1	4.6	4.6	6.3
Gross Fixed Capital Investment	18.5	6.5	11.7	4.2	6.2	9.8
Exports, Goods and Services	7.7	8.3	7.4	-3.5	6.0	8.0
Imports, Goods and Services	-7.5	0.2	0.5	-0.5	1.2	1.5
Real GDP growth, at constant factor prices	10.1	7.7	9.0	4.0	6.0	8.0
Agriculture	6.7	3.5	3.8	3.5	3.6	4.0
Industry	18.7	12.2	11.5	7.0	9.0	9.0
Services	8.3	8.7	12.0	2.3	5.8	10.6
Inflation (Consumer Price Index)	9.8	13.0	12.5	19.4	11.1	8.1
Current Account Balance (% of GDP)	-8.2	-6.5	-4.5	-6.3	-4.7	-4.0
Fiscal Balance (% of GDP)	-3.3	-2.8	-2.5	-3.0	-2.6	-2.2
Debt (% of GDP)	58.1	59.2	57.2	54.6	53.9	53.3
Primary Balance (% of GDP)	-2.8	-2.3	-1.9	-2.4	-1.9	-1.4
International poverty rate ($1.9 in 2011 PPP)[a,b]	28.2	27.4	26.6	25.8	24.9	24.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	66.2	65.4	64.5	63.5	62.5	61.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	86.7	85.6	84.5	83.2	81.9	80.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2011-, 2017-, and 2015-HICES. Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.