

Ethiopia: Country Profile

Country Report | 21 Jul 2017

The economy will see another year of strong growth in 2017. The economy is supported by robust consumer spending, strong public spending and foreign direct investment. Strong bilateral ties with China and international organisations ensure that the country is able secure funds easily. Severe drought is a persistent problem. The pace of economic growth will gradually ease to about 7.3% per year in the medium term.

KEY POINTS

- n Ethiopia is the continent's second-most populous country and according to the IMF has overtaken Kenya to become the largest economy in east Africa. Real GDP will grow by 7.5% in 2017 after gains of 8.0% in 2016.
- n The real value of private final consumption grew by 7.0% in 2016 and gains of 6.5% are expected in 2017.
- n Private investment should increase gradually, aided by better access to credit and anticipated improvements in competitiveness.
- n The pace of economic growth will gradually ease to about 7.3% per year in the medium term. Private investment should increase gradually, aided by better access to credit and anticipated improvements in competitiveness.

FACTS

Area

1,000,000 square kilometres

Currency

Birr (ETB = 100 cents)

Location

Ethiopia is a large, landlocked country with much mountainous terrain. It lies in northeast Africa and is bordered in the north by Eritrea. In the west it borders on Sudan, in the south on Kenya, and in the east on Somalia and Djibouti. The country has a warm and desert climate and is prone to periodic drought.

Capital

Addis Ababa

GOVERNMENT

Head of State

Mulatu Teshome Wirtu (2013)

Head of Government

Hailemariam Desalegn (2012)

Ruling Party

Ethiopian People's Revolutionary Democratic Front (EPRF) leads a broad-based coalition.

Political Structure

Ethiopia has an executive president who serves a six-year term and is elected by parliament. The Federal Parliamentary Assembly has two chambers. The Council of People's Representatives has 547 members, elected for five-year terms. The Council of the Federation has 108 members representing the nine regions in the federation and designated by the regional councils which may elect them directly or provide their direct elections.

Last Elections

A general election was held in May 2015. The ruling EPRF won a landslide victory taking 500 seats, while their allies won the 47 remaining seats. The Council of People's Representatives elected Mulatu Teshome Wirtu president in October 2013.

Political Stability and Risks

Ethiopia is a country made up of 82 ethnic groups and many separatist movements. Extreme poverty has been reduced but the threat of famine is a persistent one. Secessionist groups maintain a low-level armed struggle. Almost two-thirds of the population is illiterate.

Food insecurity is a serious problem. Millions of impoverished Ethiopians depend on a Safety Net programme for food assistance.

International Issues

A ceasefire and peace agreement was signed with Eritrea in December 2000 but the peace process stalled after an international boundary commission delivered its ruling on the border, awarding the town of Badme to Eritrea. In 2009, an international claims commission settled the dispute, awarding Ethiopia slightly more than Eritrea. Both countries apparently accepted the ruling.

ECONOMY

Economic Structure and Major Industries

Ethiopia's agricultural sector generates the bulk of export earnings. Coffee and tea are the main exports. The country has 1.2 million coffee farmers and the government estimates that about 15 million households are either directly or indirectly dependent on coffee for their livelihoods. The sector employs 7.6% of the workforce.

Manufacturing employs 13.5% of the workforce. Until recently, most manufacturing was carried on a local scale and catered to the domestic market. However, significant foreign investment, mostly from China, is changing that. Ethiopia is hoping to become a new manufacturing hub as costs rise in places such as Bangladesh and even China.

There are mineral reserves, mainly copper, potash, gold and platinum, but these have not yet been exploited.

The service sector has surpassed agriculture to become the dominant sector of the economy. The banking system is closed to foreign competition. The single state-owned bank accounts for 70% of the sector's assets and exerts considerable control throughout the financial sector.

According to the World Bank, tourism accounts for 15% of foreign exchange earnings and has significant growth potential. The real value of tourist receipts rose by 8.7% in 2016 while gains of 76.4% are expected in 2017.

Overview of the Economy

Ethiopia has been one of the fastest-growing of the non-oil exporting countries in Sub-Saharan Africa since 2001. Income per capita more than doubled in 2004-2014. The incidence of poverty was cut from 60.5% to 30.7% between 2005 and 2011. Unemployment in urban areas also fell steadily.

Growth has been strong with real GDP rising by 10.3% in 2014 and 10.4% in 2015. Much of the support came from the manufacturing and construction sectors. The economy slowed in 2016 but still rose at a healthy pace. Consumption was robust though a large portion of this demand was met through increased imports, creating a sizeable trade deficit.

Government investment typically accounted for more than half of the total but that share has begun to fall as the interest of foreign investors rises. Though the share of private investment is increasing, sustained growth will require enhanced efforts to improve the climate for private investment.

Economic Prospects

Ethiopia is the continent's second-most populous country and according to the IMF has overtaken Kenya to become the largest economy in east Africa. Real GDP will grow by 7.5% in 2017 after gains of 8.0% in 2016. The economy is supported by robust consumer spending, strong public spending and foreign direct investment. Strong bilateral ties with China and international organisations ensure that the country is able to secure funds easily. Severe drought is a persistent problem.

Inflation is a prominent challenge. Prices are expected to rise by 6.3% in 2017, after inflation of 7.3% in 2016. Monetary policy is being tightened.

The current account deficit was 10.4% of GDP in 2016 and it will narrow to 10.0% in 2017. The imbalance is attributed to an increase in infrastructure and industrial investment but is largely offset by FDI.

The fiscal deficit for 2016 was 2.5% of GDP and it is expected to rise to 3.3% in 2017. The public debt to GDP ratio is also expected to rise, reflecting large disbursements associated with implementation of investment projects.

Private investment should increase gradually, aided by better access to credit and anticipated improvements in competitiveness.

The real value of private final consumption grew by 7.0% in 2016 and gains of 6.5% are expected in 2017.

Unemployment was 4.4% in 2016.

Evaluation of Market Potential

Growth-oriented reforms which have recently been adopted should help to boost the economy in the medium term. Infrastructure improvement will also improve

economic performance. Major hydropower projects (including the largest in Africa) will allow Ethiopia to triple its generation capacity. A new rail link to the port of Djibouti will also lower Ethiopia's high transportation costs. Private investment should increase gradually, aided by better access to credit and anticipated improvements in competitiveness. The pace of economic growth will gradually ease to about 7.3% per year in the medium term.

The country's largely agricultural economy remains vulnerable to climatic shocks, which have resulted in wide swings in output in the past. Large public investments in transportation and energy infrastructure are planned.

BUSINESS ENVIRONMENT

The resumption of the privatisation programme has received much international support but sales have been limited to small firms. The private sector of Ethiopia is predominantly small scale, informal and service-oriented. Officials have established an agency for the oversight of state-owned enterprises.

The regulatory environment is extremely complex, making it difficult to operate a business. Corruption is widespread.

The government has overhauled its investment laws, reducing the minimum amount of FDI to US\$100,000 for wholly foreign-owned businesses and scrapping minimum capital requirements for foreign investors which export at least 75% of production.

Table 1 Indicators of Business Environment: 2017

Ease of Doing Business Rank (out of 190)	159
Starting a Business	
Time (days)	35
Procedures (number)	14
Dealing with Construction Permits	
Time (days)	130
Procedures (number)	12
Getting Electricity	
Time (days)	95
Cost (% of income per capita)	1,239
Tax Rate	
Total tax rate (% profit)	38.6
Protecting Minority Investors	
Strength of minority investor protection index (0-10)	3.2
Enforcing Contracts	
Time (days)	530
Cost (% of claim)	15.2

Source: Euromonitor International based on the World Bank

Note: Data is sourced from the World Bank's Doing Business 2017. Doing Business presents quantitative indicators on business regulations and the protection of

property rights - and their effect on businesses, especially small and medium-size domestic firms. The data for all sets of indicators in Doing Business 2017 are from June 2015 until June 2016 (except for paying taxes data which refers to January-December 2015). Rankings are based on data sets across 190 countries.

ENERGY

Ethiopia's current proven hydrocarbon reserves are minimal, but the potential to increase reserves to commercial viability is seen as promising. The country's geology is similar to that of its oil-producing neighbours to the east (on the Arabian Peninsula) and the west (Sudan). The government has long planned to conduct feasibility studies to establish the extent and viability of the deposits but these have yet to proceed. Ethiopia is totally reliant on imports to meet its petroleum requirements. Petroleum imports are received at the port of Djibouti and shipped via rail and tanker truck to Ethiopia.

Statistical Summary

	2011	2012	2013	2014	2015	2016
Inflation (% change)	33,2	22,8	8,1	7,4	10,1	7,3
Exchange rate (per US\$)	16,90	17,70	18,54	19,53	20,64	21,67
GDP (% real growth)	11,4	8,7	9,9	10,3	10,4	8,0
GDP (national currency millions)	515.078,0	747.326,0	866.921,0	1.060.810,0	1.236.680,0	1.528.044,2
GDP (US\$ millions)	30.479,4	42.210,5	46.749,0	54.325,6	59.916,8	70.508,1
Birth rate (per '000)	34,3	33,8	33,3	32,8	32,3	31,8
Death rate (per '000)	8,0	7,7	7,4	7,2	7,0	6,8
No. of households ('000)	19.561,7	20.167,5	20.784,9	21.411,6	22.045,5	22.685,8
Total exports (US\$ millions)	2.621,3	3.093,6	3.043,6	3.214,0	2.948,5	2.785,2
Total imports (US\$ millions)	7.871,7	10.779,3	11.194,8	13.354,6	16.073,7	16.243,7
Tourism receipts (US\$ millions)	758,0	730,9	873,0	-	-	-
Tourism spending (US\$ millions)	170,0	161,5	190,2	-	-	-

Urban population ('000)	15.969,8	16.787,9	17.639,6	18.526,9	19.447,3	20.400,8
Population aged 0-14 (%)	43,9	43,4	42,8	42,2	41,6	41,0
Urban population (%)	17,7	18,2	18,6	19,0	19,5	19,9
Population aged 15-64 (%)	52,7	53,3	53,8	54,4	54,9	55,5
Population aged 65 (%)	3,3	3,4	3,4	3,5	3,5	3,5
Male population (%)	49,9	49,9	49,9	49,9	49,9	49,9
Female population (%)	50,1	50,1	50,1	50,1	50,1	50,1
Life expectancy male (years)	60,8	61,5	62,2	62,7	63,2	63,6
Life expectancy female (years)	64,2	65,1	65,8	66,4	66,9	67,4
Infant mortality (deaths per '000 live births)	49,4	47,0	44,8	42,8	40,9	39,2
Adult literacy (%)	43,8	45,1	46,4	47,7	49,1	49,7

Imports and Exports

Major export destinations	2016 Share (%)	Major import sources	2016 Share (%)
Exports (fob) to Africa and the Middle East	44,0	Imports (cif) from Asia Pacific	45,5
Exports (fob) to Europe	30,8	Imports (cif) from Africa and the Middle East	31,9
Exports (fob) to Asia Pacific	20,0	Imports (cif) from Europe	20,4
Exports (fob) to North America	4,2	Imports (cif) from North America	1,4
Exports (fob) to Australasia	0,5	Imports (cif) from Latin America	0,7
Exports (fob) to Latin America	0,3	Imports (cif) from Australasia	0,2