INTERNATIONAL MONETARY FUND

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THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

July 2025

2025 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

In the context of the 2025 Article IV Consultation, Third Review Under the Extended Credit Facility Arrangement, and Financing Assurances Review, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its July 2, 2025 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 2, 2025, following the discussions that ended on April 28, 2025, with the officials of The Federal Democratic Republic of Ethiopia on economic developments and policies underpinning the IMF arrangements under the Extended Credit Facility program. Based on information available at the time of these discussions, the Staff Report was completed on June 13, 2025.
- A **Debt Sustainability Analysis** prepared by staffs of the World Bank and the IMF.
- An **Informational Annex** prepared by IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for The Federal Democratic Republic of Ethiopia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 25/234

IMF Executive Board Completes Third Review under the Extended Credit Facility (ECF) Arrangement for Ethiopia and Concludes the 2025 Article IV Consultation

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the third review under the Extended Credit Facility (ECF) arrangement for Ethiopia, allowing the authorities to draw the equivalent of about US$262.3 million (SDR 191.7 million).
- The Ethiopian authorities have made a significant progress in implementing fundamental macroeconomic reforms under the ECF, approved in July 2024. Economic indicators have improved markedly, with better-than-expected results for inflation, export growth, and international reserves.
- Sustained reform momentum is essential to consolidate recent gains and foster a more favorable environment for investment. Priorities include improving foreign exchange (FX) market functioning, boosting domestic revenues, restoring external debt sustainability, and enhancing fiscal transparency.
- Medium-term economic growth prospects are promising, though downside risks remain.

Washington, DC – **July 3, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded today the 2025 Article IV consultation with Ethiopia[1] together with the third review of the 48-month Extended Credit Facility (ECF). The Board's decision allows for an immediate disbursement of about US$262.3 million (SDR 191.7 million), which will help Ethiopia meet its balance of payments and fiscal financing needs. The completion of the review brings total disbursements under the arrangement to about US$1.873 billion.

The ECF arrangement for a total of SDR 2.556 billion (850 percent of quota) or about US$3.4 billion at the time of program approval on July 29, 2024 (see Press Release 24/291) supports the Ethiopian authorities' Homegrown Economic Reform Agenda (HGER) in addressing macroeconomic imbalances and laying the foundations for private sector led growth.

All quantitative performance criteria were met. There was overperformance in the accumulation of net international reserves, resulting from strong gold exports. There was no new provision of advances from the National Bank of Ethiopia to the government, accumulation of external arrears, or contracting of non-concessional external debt.

Recent FX policy measures to enhance transparency, reduce costs for market participants, ease restrictions on current account transactions, and strengthen prudential regulations

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board

contribute to improving FX market efficiency. Continued policy efforts will be critical to cement the impressive gains from the FX market reform, maintain competitiveness, improve reserve coverage, and gradually tackle the remaining FX restrictions. Maintaining tight monetary and financial conditions and a prudent fiscal policy stance are important for managing inflation.

Measures to mobilize domestic revenues, enhance social safety nets, phase out fuel subsidies, strengthen SOEs, and improve fiscal transparency continue to show encouraging results. Maintaining a prudent approach to spending, timely tax revenue reform implementation, and further development of market-based domestic financing instruments are warranted.

The authorities continue their efforts to restore debt sustainability, and are taking steps to secure a debt treatment. Progress made in negotiations with the Official Creditor Committee (OCC) under the Common Framework is welcome. The authorities are making good faith efforts to reach an agreement with their external commercial creditors on terms comparable to the OCC terms, and consistent with program parameters. The financing assurances received and adjustment efforts made are consistent with IMF policy requirements and program parameters.

Following the Executive Board discussion, Mr. Nigel Clarke, Deputy Managing Director and Chairman of the Board, made the following statement:

“The authorities have made strong progress in implementing their economic reform agenda in the first year of their Fund-supported program. Growth has been resilient and inflation has fallen. The exchange rate reform has corrected real exchange rate misalignment and increased foreign exchange (FX) availability. Measures to modernize monetary policy, mobilize domestic revenues, enhance social safety nets, strengthen SOEs, and anchor financial stability continue to show encouraging results. However, the outlook remains subject to downside risks given security challenges and declining donor support. In that context, maintaining the reform momentum will be important to consolidate gains to support private-led diversified growth and poverty reduction.

“The National Bank of Ethiopia’s efforts to deepen the FX market and tackle distortions are welcome. The authorities should remain ready to adopt new measures if growth in FX supply weakens and parallel market spreads widen again.

“Maintaining tight monetary and financial conditions is important for containing inflation. Next steps to develop the monetary policy framework include moving decisively to using the NBE policy rate as the primary operating target of monetary policy and enhancing communication and analytical capacity.

“Building on the strong start, revenue mobilization is critical to create space for social and development spending. Next steps are income, excise, and property tax reforms and efforts to broaden the tax base and enhance customs administration. Continued prudence in spending and domestic bond market development are important.

“Securing a debt treatment will help restore debt sustainability and meet financing needs. Continued avoidance of non-concessional borrowing, except financing for the Koysha dam project, and careful evaluation of new concessional debt, will help contain debt vulnerabilities.

“Steady reduction of financial repression and strengthening financial sector oversight will underpin financial sector stability and support for private sector-led growth. Close monitoring of credit developments and risks, and banks’ net open foreign exchange positions are important.

"Implementation of the reformed legal framework for the NBE, including filling the vacant NBE Board positions in line with the requirements of the new law, will support its autonomy. Strengthening NBEs financial position, in due course, will also help ensure it can realize its policy mandate."

Executive Board assessment:[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' significant progress in advancing the homegrown economic reform agenda supported by the Fund program, and welcomed the strong macroeconomic outcomes achieved. Noting the downside risks, including potential social discontent, security challenges, and climate shocks, Directors emphasized the need to maintain the reform momentum, with technical assistance from the Fund and development partners, to consolidate gains and support a more favorable investment environment and diversification. Ensuring societal support for the envisaged reforms and contingency planning would be crucial for the program's success.

Directors encouraged continued efforts to transition to an interest rate based monetary policy framework with a flexible exchange rate and stronger monetary transmission. They called on the authorities to further deepen the FX market and improve its efficiency, including through the planned removal of the remaining restrictions. Directors underscored the need to maintain tight monetary and financial conditions to contain inflation. They urged the authorities to implement the reformed legal framework for the National Bank of Ethiopia (NBE), including to strengthen its autonomy by filling the vacant NBE Board positions with well qualified candidates. Directors encouraged continued efforts to reduce financial repression and strengthen financial sector oversight to enable the financial sector to support private sector-led growth.

Directors highlighted the need for continued revenue mobilization to meet social and development needs, rebuild fiscal space, and address debt vulnerabilities. Noting Ethiopia's low tax-to-GDP ratio by regional standards as well as the challenges posed by the continued decline in ODA, Directors stressed the importance of implementing the National Medium-Term Revenue Strategy. They also emphasized the importance of improving spending efficiency, including phasing out fuel subsidies while strengthening safety nets, along with efforts to develop the domestic bond market. Directors also encouraged continued progress on SOE transparency and accountability reforms.

Directors welcomed the Agreement in Principle with the Official Creditor Committee (OCC) to secure a debt treatment under the G20 Common Framework and looked forward to the signature of a Memorandum of Understanding that would be consistent with program objectives. Good faith efforts to also reach agreement with external commercial creditors on terms comparable to the OCC terms should continue.

Directors stressed that strengthening governance, enhancing transparency, and reinforcing the AML/CFT framework will be critical to improve the business climate and investors' confidence, and thus support private sector-led diversified growth. Continued efforts to improve the quality and availability of economic statistics with the support of technical assistance is also important.

It is expected that the next Article IV consultation with Ethiopia will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings-up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. The Federal Democratic Republic of Ethiopia: Selected Economic Indicators, 2021/22–2028/29

	2021/22	2022/23	2023/24 Prel.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.	2028/29 Proj.
Output								
Real GDP growth (%)	6.4	7.2	8.1	7.2	7.1	7.7	8.0	7.8
Prices								
Inflation - average (%)	33.9	32.5	26.6	16.6	12.0	9.2	7.7	7.2
General government finances								
Revenue (% GDP)	8.1	7.9	7.3	8.5	10.2	10.7	11.1	11.4
Expenditure (% GDP)	12.7	10.8	9.5	12.0	12.6	13.0	13.3	13.4
Fiscal balance, including grants (% GDP)	-4.2	-2.6	-2.0	-1.5	-1.7	-1.8	-1.8	-1.6
Public debt (% GDP)[1]	48.9	40.2	34.8	49.8	42.6	39.7	37.2	34.5
Money and Credit								
Broad money (% change)	27.2	26.6	14.1	24.0	24.4	23.8	19.4	18.7
Credit to private sector and state-owned enterprises (% change)[2]	17.2	23.4	9.3	-11.9	33.8	30.3	21.2	19.9
Balance of payments								
Current account (% GDP)	-4.0	-2.9	-2.9	-2.9	-3.1	-2.7	-2.1	-2.2
FDI (%GDP)	2.6	2.1	1.9	3.2	3.0	2.9	3.0	3.0
Reserves (in months of imports)	0.8	0.5	0.6	1.7	2.1	2.7	3.5	3.4
External debt (% GDP)	24.0	18.1	15.4	30.4	26.6	24.3	22.1	19.2
Exchange rate								
Real effective exchange rate (% change, end of period, depreciation –)	10.3	27.9	12.6	…	…	…	…	…

1/ Public and publicly guaranteed external debt, which includes long-term foreign liabilities of NBE and external debt of Ethio-Telecom. Does not include expected debt relief.

2/ Projections from 24/25 include impact of CBE recapitalization.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

June 13, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. In July 2024, the Board approved a four-year arrangement under the Extended Credit Facility to support the authorities' Homegrown Economic Reform agenda (HGER), which aims to correct macroeconomic imbalances, restore external debt sustainability, and lay the foundations for high, private sector-led growth. The authorities' policy actions in the first year of the program have yielded strong results. The transition towards a flexible exchange rate regime has proceeded with little disruption. Measures to modernize monetary policy, mobilize domestic revenues, enhance social safety nets, strengthen SOEs, and anchor financial stability continue to show encouraging results. Maintaining reform momentum will be important to consolidate gains and support growth and poverty reduction in the medium term.

Policy discussions. Article IV discussions took stock of progress on key pillars of the HGER. Program discussions focused on continuing with foreign exchange (FX) reforms; developing the new monetary policy framework and maintaining appropriate monetary and financial conditions; revenue mobilization to rebuild fiscal space; strengthening financial regulation; and SOE reform efforts.

Program performance. Performance continues to be strong, in line with commitments, and all quantitative performance criteria (QPCs) and most indicative targets (ITs) were met. Of the structural benchmarks (SBs) targeted for end-March and end-April 2025, one was met, and the other implemented with delay (publication of the external audited accounts of the National Bank of Ethiopia—NBE). Staff support the authorities' request of modification of the end-September ITs on net international reserves and on government contributions to the Productive Safety Net Program.

Outlook and risks. Tight macroeconomic policies are expected to constrain economic activity in the near term, albeit less than previously anticipated based on recent indicators. Reforms are expected to support higher growth and further falls in inflation over the medium term. Key downside risks include security risks, social unrest or policy slippage.

Approved By
Annalisa Fedelino (AFR) and Bjoern Rother (SPR)

Discussions took place in Addis Ababa, April 3–17, and in Washington, D.C., April 21–28, 2025. The mission held discussions with Minister of Finance Ahmed Shide, Governor of the National Bank of Ethiopia Mamo Esmelealem Mihretu, and other senior officials as well as representatives from civil society and the private sector. The staff team comprised Messrs. Piris Chávarri (Head), Lee, Tulin; Mses. Daly, Garimella (all AFR); Messrs. Dielmann (SPR), Gurhy (MCM), Hegab (FAD), and Rasmussen (IMF Resident Representative in Addis Ababa). Ms. Fedelino (AFR) joined the last few days of the mission. Messrs. Abiy Hailu and Woldeyes (local economists) assisted the mission from Addis Ababa. Mr. Mengistu (OED) participated in key policy meetings. Ms. Asgedom assisted the mission in Addis Ababa. Mr. Morán Arce and Ms. Nsanzimana assisted with the preparation of this report.

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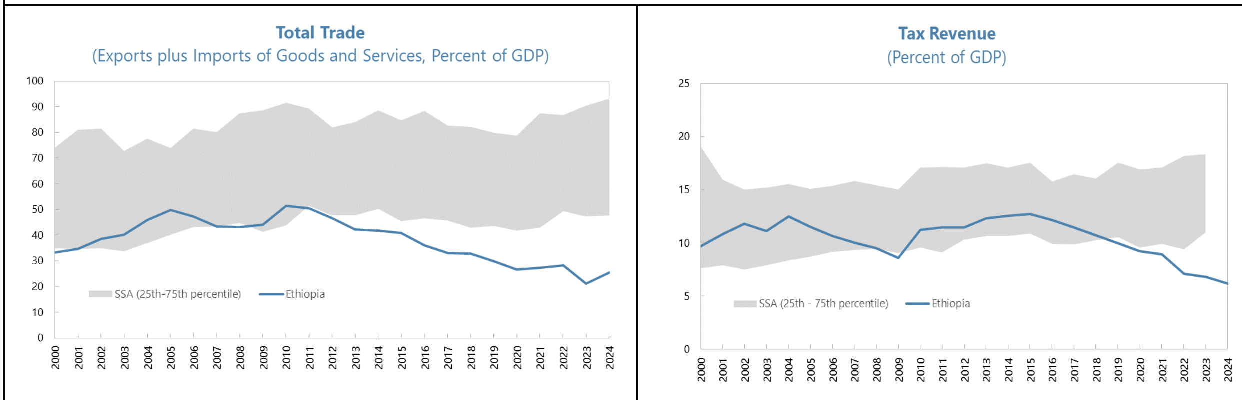
CONTEXT

1. One year after approval, the authorities have very substantial achievements under the Homegrown Economic Reform Agenda (HGER), supported by the ECF. The exchange rate reform has corrected real exchange rate misalignment, liberalized current account transactions, and greatly increased FX availability. Interest rates are positive in real terms for the first time in several years, monetary financing of deficits has ended, reserves are up significantly, and the core pieces of a new monetary policy framework are in place. Commercial Bank of Ethiopia (CBE) has been recapitalized, past losses of state-owned enterprises (SOEs) recognized, and progress is being made on bringing electricity tariffs and fuel prices in line with the cost of provision. Inflation has fallen and spending on social safety nets has risen. The first steps in a major revenue mobilization effort have been taken, and there is good progress on securing a debt restructuring and restoring debt sustainability. Macroeconomic indicators have performed better than expected, with substantially better outcomes than forecast for inflation, goods exports, international reserves, and high frequency indicators suggesting strong growth for this year.

2. Maintaining reform momentum is key to consolidating gains and securing sustainable high growth, in the context of uncertain domestic and external conditions. Structural challenges to durable macroeconomic stability and growth remain, including FX market development, monetary transmission, and raising tax revenues. While the first steps have been encouraging, reversing the long-term decline in trade (exports and imports of goods and services fell below 20 percent of GDP in 2023/24, less than half the sum in 2010) and government tax revenue (only 6.2 percent of GDP in 2023/24, down from 12.7 percent of GDP in 2014/15) remain formidable challenges as well as critical to reducing long-term balance of payments (BOP) vulnerabilities (Text Figure 1). Inflation, food insecurity, conflict, sudden reductions in official aid, and displacement present risks and challenges.

Text Figure 1. Ethiopia: Export and Revenue Performance, 2000–2024



Source: IMF Staff Calculations.

3. Ethiopia faces severe humanitarian challenges linked to conflicts and natural disasters (Annexes 1 and 2). Internally, there is widespread conflict in the Oromia and Amhara regions, and political tensions rose again in Tigray. Tensions in the wider Horn of Africa region persist, while relations with neighboring Somalia are normalizing. Conflict and climate shocks have led to large numbers of internally displaced people; 4.4 million in 2024 according to UN-OCHA. In addition, Ethiopia hosts around 1 million refugees, with increased arrivals from Sudan and South Sudan in recent months. Food insecurity is widespread and could increase as U.S. and other development partners scale back assistance (Box 1), with the UN estimating that one-fifth of the population (21.4 million people) required humanitarian assistance to meet basic needs in 2024. Climate-related risks are also significant (Box 2).

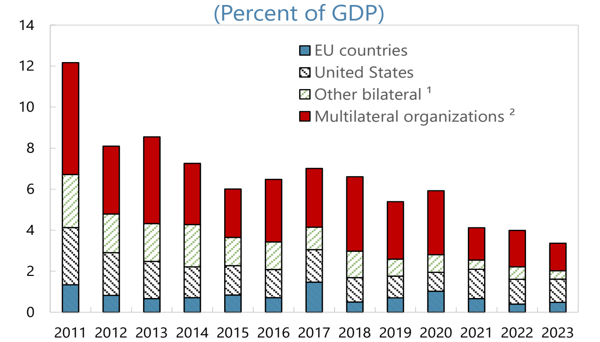
Box 1. Official Development Assistance (ODA) to Ethiopia

Ethiopia's dependence on foreign aid is on a declining trend. ODA fell from around 12 percent of GDP in 2011 to under 4 percent of GDP in 2023.

A large part of ODA is in the form of humanitarian assistance and much of it is delivered through the UN system. Humanitarian assistance has been important in ameliorating food security problems, particularly in the aftermath of the conflict in Tigray, and assisting internally displaced people and refugees. The UN-coordinated Humanitarian Response Plan for 2024 targeted funding of US$3.2 billion and received funding of US$1.8 billion (1.4 percent of GDP), comprising new donor contributions of US$746 million (down from US$1.6 billion in 2023 and US$1.9 billion in 2022), carryover resources from 2023 totaling US$585 million, and US$265 million from the Ethiopian government.

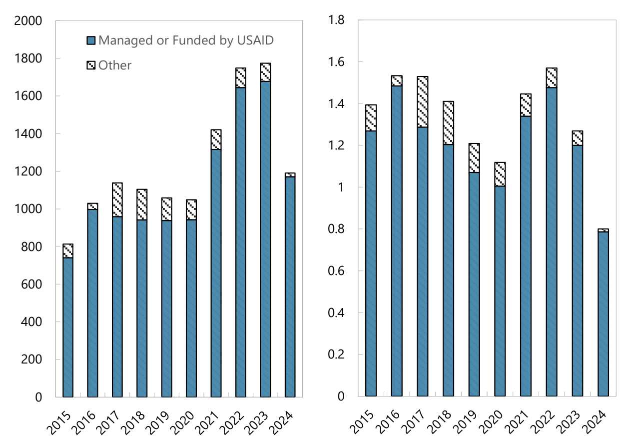
Further reductions in ODA are expected in 2025. USAID has been a major donor, with total assistance to Ethiopia of US$1.2 billion in 2024—mainly for food and health programs—and it has signaled a major scaling back of its support globally. USAID operations in Ethiopia were already reduced in early 2025, but the outlook remains unclear with many programs operating on a temporary waiver for life-saving activities. Several European countries have also signaled cuts in ODA that are likely to impact Ethiopia as well. These cuts will be partly offset by new bilateral budget support. France is likely to disburse budget support of maximum €70 million in FY2025/26, following a €10 million disbursement in late 2024. Germany has budgeted budget support of €100 million this calendar year.

Net ODA Flows
(Percent of GDP)



Sources: OECD and IMF Staff Calculations.
1/ Other bilateral includes - Australia, Canada, Iceland, Japan, Korea, New Zealand, Norway, Switzerland, United Kingdom, Azerbaijan, Israel, Kuwait, Liechtenstein, Qatar, Romania, Saudi Arabia, Thailand, Türkiye, United Arab Emirates.
2/ Multilateral organizations include - EU Institutions, International Monetary Fund, Regional Development Banks, United Nations, World Bank Group, Adaptation Fund, CIF, GAVI, GEF, Global Fund, GGGI, GCF, ICGEB, NDF, OPEC Fund, Private Infrastructure Development Group.

United States Development Assistance to Ethiopia
(In constant USD millions) (In percent of GDP)



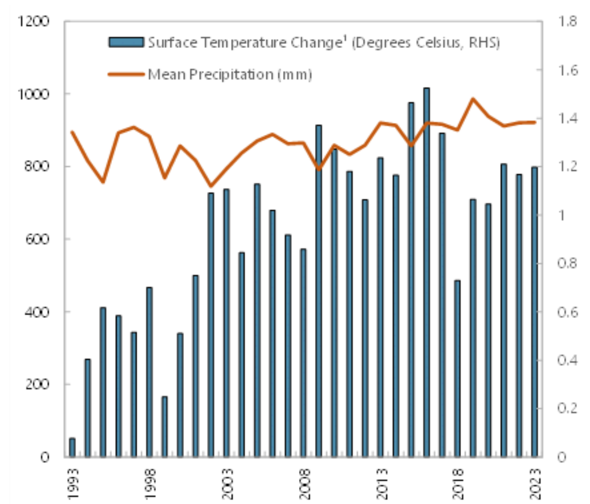
Source: USAID.

4. **Advancing the macroeconomic agenda will be critical to tackling poverty and addressing some of the long-term drivers of fragility (Annex 1).** Ensuring macroeconomic stability and promoting private sector activity will support resilient growth and job creation, providing better living standards and increased opportunities for a young population whose frustrations otherwise could foment unrest. Reform efforts are supported by extensive technical assistance (TA) from the Fund (Annex 3) and other development partners, which is helping to raise capacity for economic management from a low base.

Box 2. Climate Vulnerabilities

Climate change presents a major risk to Ethiopia's economic outlook. Agriculture—accounting for some 38 percent of GDP, 63 percent of employment, and 70 percent of exports—is a central pillar of the economy and highly sensitive to changing climatic conditions. Rainfall dependent hydroelectric power generation provides over 90 percent of Ethiopia's current electricity supply, as well as the bulk of planned capacity increases. Already, mean temperatures have increased by about 1°C since the early 1990s while rainfall has trended up slightly (Figure).

Mean Precipitation and Temperature



Source: World Bank Climate Change Knowledge Portal and FAOSTAT
[1] Change from 1951-80 baseline.

While the impact of climate change in Ethiopia is uncertain, many studies suggest that the impact will be negative.[1] The World Bank's Country Climate and Development Report (CCDR) for Ethiopia assessed that under current policies climate change causes average annual losses to GDP and household consumption of 1 to 1.5 percent annually, with cumulative losses rising from 10–14 percent during 2023–30 to 20–30 percent during 2030–40. The impact varies by scenario. Climate change projections point to a rise in mean temperature but no clear trend for the level of rainfall except higher variability, with increased frequency and severity of drought being a key risk.

Ethiopia's National Adaptation Plan (NAP) **outlines the country's long-term strategy to address the impact of climate change.** Launched in 2019 and covering the period until 2030, the plan focuses on enhancing adaptive capacity, reducing vulnerability, and building resilience across sectors. The NAP outlines a series of adaptation options designed to address climate vulnerabilities and enhance resilience across sectors, including measures in water resource management, disaster risk management, shock-responsive social protection, sustainable land use and forest management, and climate-resilient infrastructure. The estimated cost of implementing the NAP is US$6 billion per year over 15 years, totaling US$90 billion for the plan period (2015-2030). This funding was expected to come from a combination of public and private sources, both domestically and internationally. Actual funding so far has been a small fraction on this, reflecting limited resource availability.

[1] See e.g. Borgomeo et al., 2018, *Ecological Economics*, pp. 621-632; and Robinson et a., 2012, *Review of Development Economics*, pp 489–502.

PROGRAM PERFORMANCE

5. **All end-December quantitative performance criteria (QPCs) and most indicative targets (ITs) were met.** There was overperformance in the accumulation of net international reserves (NIR). There was strong performance on the fiscal primary balance and tax revenue QPCs. There was no new provision of advances from the National Bank of Ethiopia (NBE) to the government, accumulation of external arrears, or contracting of non-concessional external debt. ITs on social spending (budget contributions to the Productive Safety Net Program), gross claims on public enterprises by commercial banks, and the present value of external new debt contracted or guaranteed were all met. Preliminary data suggest that March indicative targets are in reach.

Text Table 1. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024-December 2024

(in millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2024 Prel. Initial level	Aug. 16, 2024[1] Performance Criteria			end-Sep 2024 Performance Criteria				end-Dec 2024 Performance Criteria		
		Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prel.	Status
Quantitative performance criteria											
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [2/, 3/]	150,000	N/A	N/A	N/A	42,000		-5,972	Met	69,000	-108,105	Met
Net international reserves (floor, cumulative change since previous June, US$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	534	1,242	Met	500	1,224	Met
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	384,000	N/A	N/A	N/A	86,000	N/A	153,542	Met	192,000	358,407	Met
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10,895	Met	0	N/A	-6,727	Met	0	-21,994	Met
Continuous performance criteria											
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [4/]		0	0	Met	0	N/A	0	Met	0	0	Met
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)		0	0	Met	0	N/A	0	Met	0	0	Met
Indicative targets											
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) [3/, 5/]	747,485	N/A	N/A	N/A	37,000	N/A	-641,549	Met	74,000	26,709	Met
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [6/]	9,000	N/A	N/A	N/A	6,500	N/A	2,370	Not Met	22,100	22,532	Met
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US$ millions)		N/A	N/A	N/A	2,000	N/A	248	Met	2,500	629	Met
Memorandum items:											
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	791				1,211		1,225		1,419	1,704	
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	627				638		657		775	797	
Gross privatization proceeds (US$ millions, cumulative since previous June)	0				0		0		0	0	

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/Not all quantitative performance criteria and indicative targets were assessed at the First Review given data availability.

2/ Excluding on-lending from the general government.

3/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

4/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

5/ IT on gross claims on public enterprises by commercial banks exclude changes in claims related to CBE recapitalization (665,814 billion birr)

6/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

6. **One structural benchmark (SB) targeted for end-March was met, and the SB on the NBE external audit (end-April 2025) was completed with a minor delay.** The Ministry of Finance published an inaugural mid-year review of the federal government budget implementation on April 30[1], and budget execution reports for the first two quarters of FY2024/25, on the ministry's website.[2] The external audit of NBE's 2022/23 financial accounts, conducted by new external auditor (end-March SB), was finalized on March 28, but the SB was missed due to a minor delay in publication (April 4).[3] Progress toward completing end-June SBs is on track. The authorities have stepped up

[1] Mid-Year Budget Implementation Review (https://www.mofed.gov.et/media/filer_public/26/0a/260a61bf-3d79-4aa0-a9bd-dc56274133bf/mid_year_budget_performance_report-final-april_2025.pdf).

[2] http://www.mofed.gov.et/resources/government-account/.

[3] Audited Financial Statements June 2023 (https://nbe.gov.et/files/audited-financial-statement-june-2023/).

efforts to mobilize demand for Treasury bills and bonds in preparation for the repeal of the compulsory Treasury Bond Purchase directive.

7. The authorities raised fuel and electricity prices in line with expectations. Fuel prices have been increased three times since the beginning of 2025, with a cumulative increase of 30 percent for diesel and 35 percent for petrol, bringing pump prices above cost recovery, in line with the agreed phase out of fuel subsidies. Electricity tariffs were raised in December 2024 and in April 2025 consistent with the quarterly tariff adjustment plan (SB under the First Review).

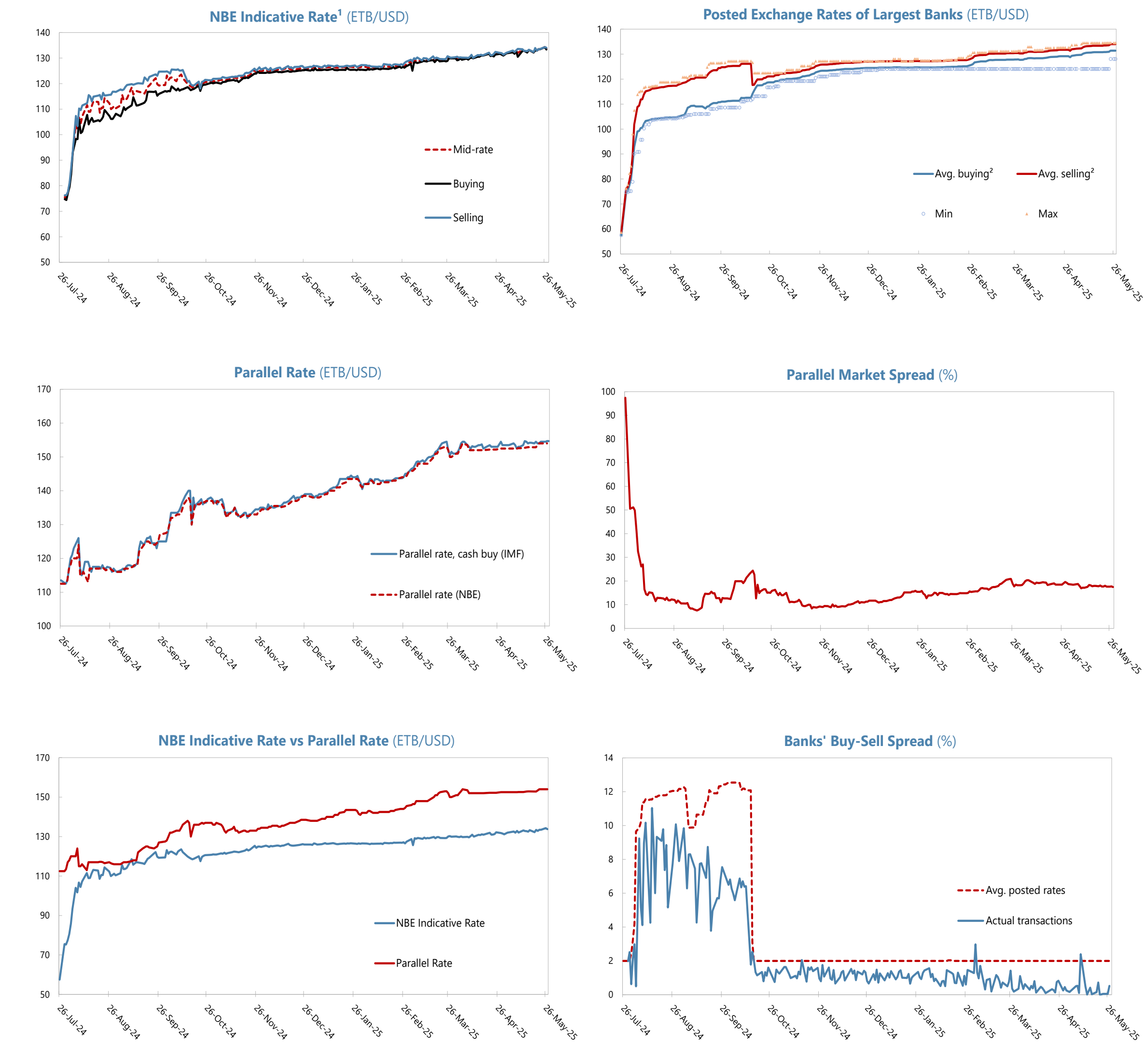
ECONOMIC DEVELOPMENTS, OUTLOOK, AND RISKS

8. Progress in deepening and improving the functioning of the FX market slowed after an initial phase of strong advancement. Banks' posted-and-transacted rates have shown more limited variation since late in 2024 (Text Figure 2). From a low under 5 percent in September 2024, the parallel market premium has fluctuated at around 15 percent since March 2025. Measured transaction volumes have stabilized, and the aggregate net open position (NOP) of the banking sector widened in January 2025 reflecting seasonal imports of fertilizer handled by CBE. While FX availability has improved, reports of queuing and high fees and commissions persist. However, real exchange misalignment has been corrected, and the real effective exchange rate (REER) has remained relatively stable (see Annex 4). Interbank FX transactions have been growing.

9. Strong gold exports and reserve accumulation enabled NBE to conduct FX sale auctions from April 2025. The auctions conducted every two weeks, for total sales of US$300 million, differ from the NBE's direct provision of FX to settle legacy fuel LCs and FX intervention aimed at addressing disorderly market conditions. The auctions re-channel a portion of NBE's FX accumulation from gold purchases and exports (in which NBE is a de facto monopsony buyer) to the banking system and improve the effectiveness of NBE's monetary policy implementation by neutralizing Birr liquidity injection from the gold purchases. The transitional arrangements to settle legacy fuel import letters of credit (LCs) have concluded, with commercial banks now managing and settling all new LCs. The NBE made no FX interventions to address disorderly market conditions.

10. Inflation has been much lower than anticipated. Following a steady decline, headline inflation rose to 14.4 percent y/y in April from 13.6 percent y/y in March, still well below expectations, reflecting seasonality and higher non-food items (including an uptick in transport prices from fuel price increases, Text Figure 3). Exchange rate passthrough has been lower than anticipated, while supply side conditions (favorable agricultural output) and the cap on credit growth have helped ease price pressures. The forecast has been revised down to 16 percent at end-June 2024/25 (compared with 25 percent at the second review). Further price impact from seasonal trends and increases in administered prices (fuel, electricity, and fertilizers) will slow downward momentum somewhat, while prudent monetary (consistent with achieving the authorities' objective of single digit inflation) and fiscal policies (including avoiding direct advances) continue to support decline over the medium term.

Text Figure 2. Ethiopia: Exchange Rate Developments



Sources: NBE and IMF Staff

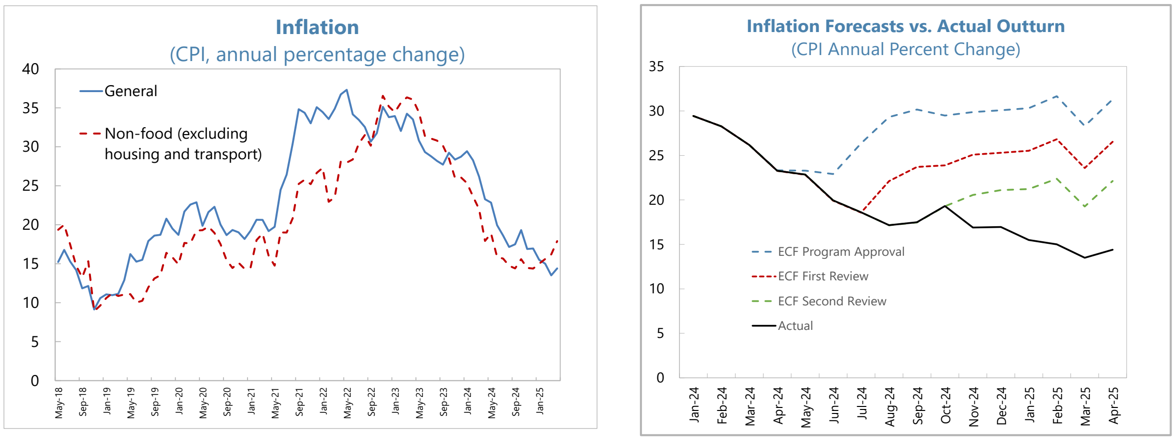
[1] Weighted average of actual transactions across all banks (posted the following morning).

[2] Simple average

11. High-frequency indicators suggest stronger growth for this year. With favorable rains, crop production will support growth along with robust gold and electricity production, and the forecast for 2024/25 has been revised upwards from 6.5 to 7.2 percent. The benefits of reforms, external debt treatment, resumption of external financing, and greater domestic stability are expected to raise medium-term growth to 7.5–8 percent.

12. The current account deficit is expected to rise moderately in 2024/25, though less than anticipated previously. Goods exports have exceeded expectations, particularly for coffee and gold, which are both benefiting from record high international prices and higher export volumes. Record export volumes for gold are in response to the exchange rate reform and NBE price incentives but may also reflect a reduction of inventory accumulated during periods of conflict and low domestic prices offered by NBE; volumes are expected to decline from current exceptional levels before resuming steady growth. Goods imports have also increased as a result of improved FX availability, and airplane purchases, with the goods trade balance improving overall. Service exports have outpaced service imports, while private transfers have trended higher. Overall, the current account deficit is expected to rise to 3.2 percent of GDP in 2024/25.

Text Figure 3. Ethiopia: Inflation



Source: Ethiopian authorities and IMF staff

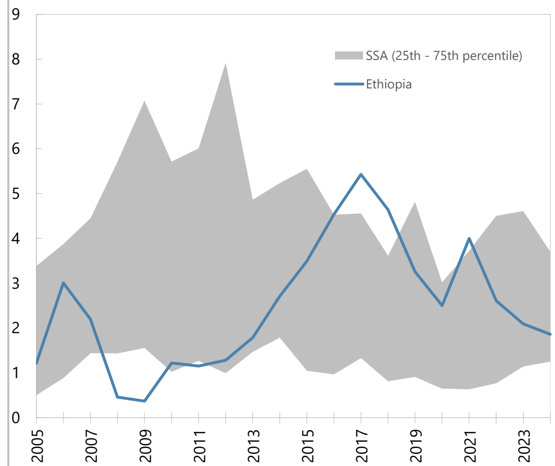
13. While the BOP is stronger in 2024/25 than previously anticipated, the medium-term outlook is more mixed. Foreign direct investment (FDI) has been weaker than anticipated, affected by security and business environment challenges (Box 3). These factors, and structural changes in the international market for telecoms licenses, mean the authorities no longer expect privatization revenues in the program period. The decline in ODA, much of which is channeled through non-governmental organizations, will be reflected in lower private transfers (projected at approximately US$1 billion lower annually from 2025/26 than previously forecast). Staff assume that most imports of essential items covered by ODA (food and medicines account for about 70 percent) will continue; with little fiscal space, the expected decline in funding is also expected to be covered partly by the private sector. If financing is feasible and can be secured, currently uncertain, a mooted investment in a new airport could represent a significant BOP drain at first before yielding a rise in services exports. While gold exports underpin expectations for gross international reserves (GIR) to end 2024/25 at US$3.8 billion, well above the projection of US$3.1 billion at the second review, reaching the objective of 3.5 months of import coverage by the end of the program period remains ambitious.

Box 3. Foreign Direct Investment (FDI) and Business Environment

FDI in Ethiopia has declined since peaking in 2017, though it remains near the average for Sub-Saharan Africa as a share of GDP. Investors cite persistent barriers, including limits on foreign participation in the economy, difficulties accessing foreign exchange, weak property rights, arbitrary taxation, and ongoing regional conflicts, as deterrents to greater investment.

The reform program underway aims to boost FDI. Last year's FX reform eliminated restrictions on current account transactions, including for repatriation of dividends; most sectors previously closed to foreign investment have been opened, including the banking sector from this year; a total of 11 special economic zones have been established to incentivize private investment; public-private partnership frameworks have seen ongoing development; and business registration, licensing, and permit processes have been simplified with the Ethiopian Investment Commission as a one-stop shop.

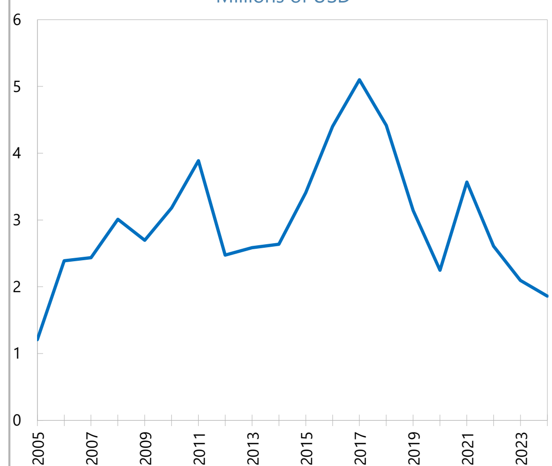
Net Foreign Direct Investment
Percent of GDP



Source: IMF

While the policy direction is widely applauded by the business community, they note that reform implementation has been uneven and that improvements in their operating environment have in practice been limited. In recognition of the continued difficulties, a structure for public-private dialogue was recently established to identify and resolve obstacles to doing business. Priorities identified at a high-level event in April 2025 include issuing comprehensive customs and tax manuals to make revenue administration more transparent and predictable; clarifying rules for sourcing foreign exchange outside the local banking system; and establishing formal advisory councils composed of both government and private sector representatives to increase private sector involvement in policy design and implementation.

Net Foreign Direct Investment Inflow
Millions of USD

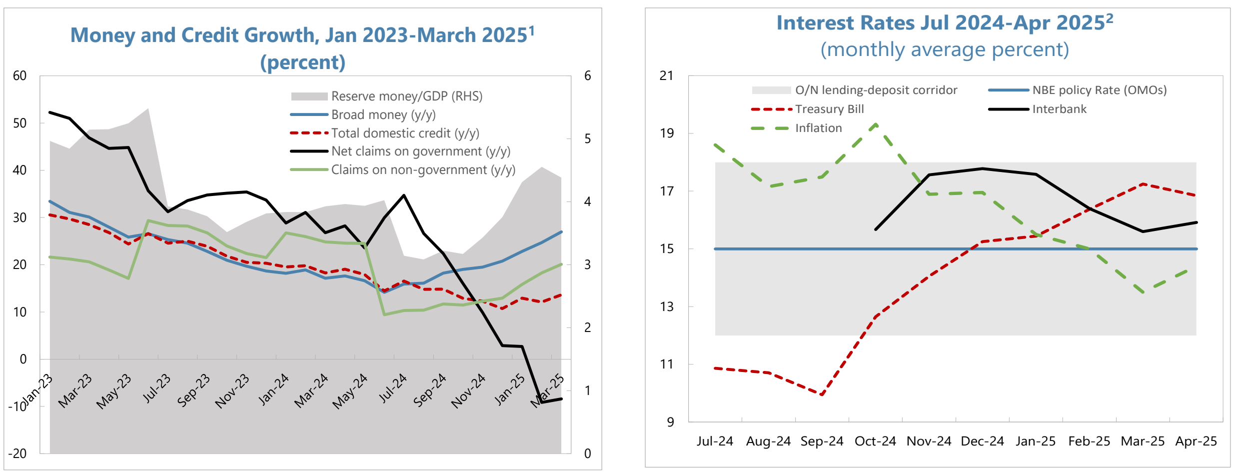


Source: National Bank of Ethiopia

The potential for increased FDI is substantial. A series of significant FDI projects have been announced in recent months, including with foreign companies signing agreements to invest a total of USD 1.6 billion in solar energy and mining at a business forum in May 2025.

14. Monetary conditions have eased, and credit to the private sector has picked up (Text Figure 4). The authorities have maintained a tight policy stance, holding the policy rate at 15 percent (now above inflation), while increasing the cap on growth in private credit from 14 to 18 percent in March 2025. Broad money growth picked up to 27.0 percent y/y in March. With easing seasonal liquidity pressures, the pickup in government spending, and the relaxation of the cap, private sector credit increased (27.7 percent y/y) along with claims on SOEs (13.6 percent y/y), which together offset the decline in credit to the government (-8.4 percent y/y). Overall credit is expected to remain stable as a share of GDP over the medium term. Private credit growth is projected to contract slightly as a share of GDP this year owing to the impact of the cap on credit growth (with nominal growth at 20 percent y/y given the cap is applied based on banks' total loans and advances in FY2023/24) and steadily increase over the medium term, reflecting the shift to private sector-led growth.

Text Figure 4. Ethiopia: Monetary Conditions



Source: Ethiopian authorities and IMF staff.

1/ Credit growth numbers exclude impact of the July 2024 CBE recapitalization.

2/ Treasury bill and interbank rates weighted averages across maturities.

15. Banking sector indicators are stable. Non-performing loans have declined to 4.3 percent in December, down from 5.5. percent in September 2024 following the introduction of the new asset classification and provisioning directive (Table 5). Banking sector liquid assets stood at 19.7 percent in December 2024 (the regulatory benchmark is 15 percent), although some banks faced more pressure in seasonally tight liquidity. Profitability improved in December but remains relatively low due to some banks' NOP positions and the recognition of losses linked to the recapitalization of CBE. As of end February, banks' exposure to the government (Treasury bonds and bills; banks do not lend directly to the central government) reached 31 percent of total assets—however, the CBE recapitalization instrument comprises two-thirds of this total.[4] Lending to public enterprises has declined to 4 percent of total assets. The World Bank has disbursed US$253 million under the Financial Sector Strengthening Project (FSSP), which will support the capitalization and foreign asset position of CBE.

16. Revenue performance has been strong, while spending execution has picked up. Federal government tax revenues grew 76 percent in the third quarter of FY2024/25 (year-to-date, compared

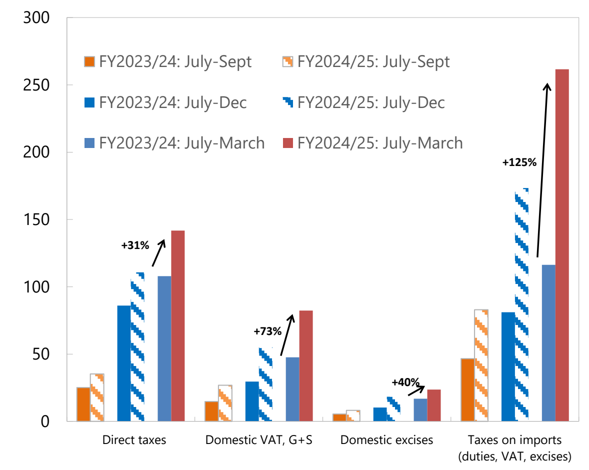
[4] For further discussion on the CBE recapitalization instrument see Annex II. Sovereign Bank Nexus and MEFP ¶49 in The Federal Democratic Republic of Ethiopia: Request of an Arrangement Under the Extended Credit Facility (IMF Country Report, 24/253).

to the same period of the last fiscal year), driven by VAT and excise reforms (Text Figure 5). Tax revenues from imports jumped by 125 percent (reflecting the exchange rate change and policy reform) and VAT on domestic goods and services by 64 percent, above staff expectations, while income tax collection has been in line with the second review baseline (though somewhat below the Supplementary Budget). Lags in spending execution have eased. A primary deficit of 0.5 percent of GDP is expected in FY2024/25, with fiscal effort having been strong overall.

17. Domestic financing has picked up slowly. After subdued commercial bank participation in Treasury bill auctions in January-March 2025 due to tight liquidity conditions, volumes rose considerably in April with some auctions oversubscribed and an average bid-cover ratio of 143 percent for the month—a breakthrough after several years of routinely undersubscribed auctions. Treasury bill yields continue to increase, with the weighted average rising from 14.0 percent in November to 17.8 percent in April (above the policy rate and inflation). Higher than anticipated credit growth has led to higher mandatory purchases of Treasury bonds as the amount banks are required to purchase is linked to loan disbursement amounts (these will be phased out in June 2025—SB). While easier liquidity conditions and outreach to increase auction participation will support reaching financing targets, the authorities have requested a small additional use of IMF disbursements for budget support, and further use in 2025/26 (¶31), to ensure domestic financing targets remain realistic in the still incipient market.

Text Figure 5. Ethiopia: Federal Tax Revenue

(bill birr, cumulative since FY start)



18. The outlook is subject to downside risks, stemming from potential social discontent, security challenges, and potentially more significant reductions in ODA (Annex 5). The baseline scenario (Text Table 2) is predicated on successful program execution and progress in implementing the external debt treatment. Policy slippages or delays in reform implementation in response to social pressures are downside risks. Inconsistent implementation or reversal of key fiscal or exchange rate reforms could result in larger financing gaps or withdrawal of development partner or creditor support, and business environment concerns could deter FDI and contribute to risks that longer-term reserve accumulation targets may prove out of reach. Intensifying unrest within the country or regionally also poses risks to the outlook. Larger than expected cutbacks in assistance from development partners could have significant humanitarian implications and put pressure on government to fill part of the gap.

Text Table 2. Ethiopia: Selected Economic Indicators

	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
			2nd Rev.	Prel.	2nd Rev.	Proj.	Projections				
	In percent change, unless otherwise mentioned										
GDP at constant prices (at factor cost)	6.4	7.2	8.1	8.1	6.6	7.2	7.1	7.7	8.0	7.8	7.5
Consumer prices (period average) [1]	33.9	32.5	26.6	26.6	20.7	16.6	12.0	9.2	7.7	7.2	6.2
Consumer prices (end of period) [1]	34.2	29.3	19.9	19.9	24.9	16.5	10.2	8.6	7.1	7.0	6.0
External sector											
Exports of goods and services (U.S. dollars, f.o.b.)	22.8	3.3	8.1	8.1	7.7	25.5	2.3	10.3	17.2	13.9	13.5
Imports of goods and services (U.S. dollars, c.i.f.)	24.9	-1.4	7.8	7.8	3.7	7.3	1.2	6.9	8.8	12.1	13.1
	In percent of GDP, unless otherwise mentioned										
External current account balance, including official transfers	-4.0	-2.9	-2.9	-2.9	-4.4	-3.2	-3.1	-2.7	-2.1	-2.2	-2.3
Government finances											
Overall fiscal balance, including grants (cash basis)	-4.2	-2.6	-2.0	-2.0	-1.7	-1.5	-1.7	-1.8	-1.8	-1.6	-1.6
Total financing (including residuals and excluding net acqusition of assets)	4.2	2.6	2.0	2.0	1.7	1.5	1.7	1.8	1.8	1.6	1.6
External financing	0.1	0.3	0.2	0.2	1.3	1.0	0.3	0.3	0.2	-0.1	-0.1
Domestic financing	4.3	2.5	1.9	1.9	0.8	1.0	1.1	1.5	1.5	1.7	1.7
Primary fiscal balance, including grants	-3.5	-2.0	-1.1	-1.4	-0.5	-0.5	-0.5	-0.6	-0.6	-0.3	-0.2
Public debt [2]	48.9	40.2	34.4	34.8	45.6	49.8	42.6	39.7	37.2	34.5	32.1
Domestic debt	24.9	22.1	19.3	19.3	16.3	19.3	15.9	15.4	15.1	15.3	15.4
External debt (including to the IMF)	24.0	18.1	15.1	15.4	29.3	30.4	26.6	24.3	22.1	19.2	16.7
Gross official reserves (in millions of U.S. dollars)	1,495	1,026	1,438	1,432	3,126	3,751	5,025	7,105	10,194	11,201	12,573
(months of prospective imports of goods and nonfactor services)	0.8	0.5	0.7	0.6	1.4	1.7	2.1	2.7	3.5	3.4	3.4

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] The base is December 2016.

[2] Public and publicly guaranteed external debt, which includes long-term foreign liabilities of NBE and external debt of Ethio-Telecom.

19. **Risks from potential trade policy shocks and global uncertainty would have a limited impact in the near term but could pose challenges to medium-term growth.** Ethiopia's low export base (goods exports below 6 percent of GDP in 2023/24) and relatively closed capital account limit the near-term impact of trade shocks and uncertainty on the broader economy. The recent imposition of tariffs by the United States, with which Ethiopia has a goods trade deficit and exports below 0.5 percent of GDP, will have only a marginal impact. Exchange rate reform, current account liberalization, and HGER reforms are expected to have a more significant impact in the near term, and there has been a recent push to accelerate the WTO accession process. However, export growth is a key reform objective underpinning longer-term economic growth and the reduction in BOP vulnerabilities, and a prolonged trade shock or higher global uncertainty could affect FDI and investment in export sectors.

Authorities' Views

20. **The authorities broadly concur with staff's assessment, with some exceptions.** They project higher growth of 8.4 percent growth for FY2024/25 based on strong manufacturing, export, and construction sector performance and the expectation that the benefits of the reforms taken will be fully realized sooner. The authorities concurred with staff on the inflation outlook but see scope for lower outturns based on current trends. They broadly concurred with the Fund's assessment of the external sector and BOP outlook, including projections for key components such as gold and coffee exports, remittance inflows, and the trajectory of gross international reserves. The authorities agreed with staff's outlook on the financial sector, and the main sources of risk.

POLICY DISCUSSIONS

HGER reforms aim to correct macroeconomic imbalances and encourage private sector-led growth. Article IV discussions took stock of the key reform pillars over the medium term and from a cross-country perspective. Program discussions focused on maintaining momentum towards a flexible exchange rate including addressing structural challenges to FX market development; continued tight monetary policy and efforts to develop monetary transmission; rebuilding fiscal space including through implementation of the National Medium-Term Revenue Strategy (NMTRS); strengthening financial regulation to support financial sector development; and SOE reform.

A. Exchange Rate

21. Exchange rate flexibility and prudent macroeconomic policies will increase economic resilience to external shocks. Prior to the FX reform, the significantly overvalued real exchange rate hindered efficient resource allocation by distorting relative price signals, and constrained private sector growth. Surrendering FX earnings at the overvalued official rate acted as a heavy tax on exports, while allocating FX to the import of selected commodities acted as a subsidy for consumers of those items. Fragmentation of the FX market, with unmet demand for FX for imports clearing through the parallel market strengthened incentives to operate in the informal economy, contributing to the erosion of the tax base. While the exchange rate adjustment substantially corrects real exchange rate misalignment (see Annex 4), reaping the full benefit of the reform through private, export sector development will require sustained effort.

22. Comparative analysis suggests a moderate parallel market spread is likely to persist (SIP). Important factors include: (i) relatively closed capital and financial accounts; (ii) financial market underdevelopment (lack of hedging instruments, limited competition among banks); and (iii) remaining current account restrictions. Deeper structural factors, notably concerns about security and property rights may also play a role in encouraging outflows through the parallel market.

23. NBE efforts to deepen and improve efficiency of the FX market continue (MEFP, ¶14):

- Improving transparency: In early June, the NBE began posting all banks' fees and commissions for FX transactions with clients on their website to facilitate comparison (prior action). By end-September 2025, the NBE will revise the methodology for calculating the daily indicative exchange rate to ensure the daily reference rate is representative and robust (SB). TA on this topic has been provided, and further TA on developing an FX market platform has been requested.
- FX sales auctions: By redirecting some of the windfall from exceptional gold exports back to the market, NBE aims to bolster FX market liquidity, partially sterilize Birr liquidity created from gold purchases, and build market confidence that the economy is generating sufficient FX volumes. Auctions will continue to be pre-announced, depending on FX availability in excess of reserve accumulation targets, allocated on the basis of bid price, and open to all banks. All other FX intervention will be restricted to managing disorderly market conditions, at NBE's discretion via

public auction following international best practices. The FX auction guidelines are expected to be published in June 2025.

- Regularizing incentives for banks' NOPs: NBE has agreed a quantified, time-bound plan with CBE to close CBE's on-balance sheet NOP to comply with the prudential limit by end-2025 (prior action), with at least half of the position above the limit as of end-April 2025 to be closed by end-September 2025. NBE will also revise the NOP directive by the end of September 2025 to reflect standard international practice in relation to the treatment of FX-linked assets, with support from IMF TA (SB). These reforms along with disbursements to CBE under the World Bank's FSSP will improve commercial bank NOPs and rebalance incentives, facilitating FX market competition.
- Further easing of FX market restrictions. The NBE raised the cap applicable on advance payments for imports from US$5,000 to US$50,000 in May 2025, reducing a key incentive for importers to use the parallel market. The NBE also raised limit on FX usage for personal and business travel from US$5,000 to US$10,000 and US$15,000, respectively in May 2025. NBE will review rules on export retention accounts with a view to increasing exporters' ability to secure the best exchange rate when fulfilling surrender requirements.
- Dialogue with the private sector. The authorities have launched regular public-private dialogues to identify obstacles to private investment and policy measures to support the private sector. The dialogues will provide insights into FX market inefficiencies, among other topics. In addition, NBE plans regular FX market studies, periodic assessments of whether there is unmet FX demand (from September 2025) and is also considering authorizing fintech firms to operate in one or more segments of the FX market.

24. The authorities continue to ease exchange restrictions (MEFP, ¶15). Plans to remove long-standing exchange restrictions identified in the October 2024 Article VIII assessment during the program period continue. A letter specifying timelines for settlement of dividends accumulated prior to the FX reform was sent in September 2024. FX allowances for personal and business travel were raised in May 2025. A study to calibrate the removal of restrictions on accessing and using FX for moderate family remittances to mitigate the risk of circumventing capital controls is planned for September 2025. The phasing out of NBE exchange commission, which constitutes a significant portion of NBE's income and gives rise to an exchange rate restriction and multiple currency practices, will be aligned with review of NBE's capital position, for which TA was provided in April 2025. This commission gives rise to exchange rate restrictions and two multiple currency practices through two channels: (i) its application to bank-client foreign exchange transactions, which resulted in 25 breaches since the last Board date (most recently on May 21, 2025); and (ii) its application to NBE's foreign exchange transactions (using a lagged exchange rate not in line with the MCP policy) with the government for external payments, with 18 breaches recorded over the same period (most recently on March 10, 2025). The economic impacts of temporarily retaining the remaining measures are expected to be limited. Two exchange rate restrictions—namely, the tax clearance certificate requirement for repatriation of dividend and other investment income, and the requirement to provide a clearance certificate from the NBE to obtain import permits—will be studied jointly with the other affected public authorities to identify alternative solutions that do not give rise to exchange restrictions. NBE will phase out surrender requirements by the end of the program, at a pace determined by the development of the FX market.

25. Ethiopia's external position is broadly in line with the level implied by fundamentals and desirable policies (Annex 4). Measures to boost competitiveness, diversify the export basket, and improve the business climate should durably reduce external imbalances.

Authorities' Views

26. **The authorities reaffirm their commitment to a market-determined exchange rate.** They acknowledged that structural impediments to a well-functioning FX market still exist, although significant progress has been made, including improved FX availability. The authorities note their view that banking sector competition in the FX market is already meaningful and would be further strengthened by the increased transparency measures they are introducing. In line with staff's assessment, NBE stressed their policy priorities aim at reducing incentives to use the parallel market and encouraging FX supply to the official market. The authorities agreed with staff's assessment of Ethiopia's external position.

B. Monetary Policy

27. Modernizing the monetary policy framework and gradually removing financial repression are necessary to support long-term price stability and private sector development. In the past, monetary financing of government, funneling of credit to SOEs, and mandatory purchases of government debt at below-inflation interest rates fueled high inflation, distorted resource allocation away from the private sector, and impeded financial sector development. Continued progress on the transition to an interest-rate based monetary policy framework including using the policy rate as the main instrument to steer inflation toward the central bank's target, avoiding central bank financing of fiscal deficits, and phasing out financial repression are key reforms to resolve macroeconomic imbalances and foster private-sector led growth.

28. Tight monetary and financial conditions remain essential to anchor inflation expectations and support price stability. While the policy rate is now positive in real terms based on a 6 to 12-month forward-looking horizon, staff recommended a moderate rate increase at the June MPC meeting given that inflation is expected to increase in the coming months, while the anticipated phasing out of the cap on private lending growth (planned for September 2025) could lead to an acceleration in credit growth in the context of monetary conditions that have eased recently. The authorities should remain ready to adjust further if inflation deviates from the baseline, particularly in response to second-round effects from price increases in fertilizers, electricity, and fuel prices, or if the phasing out of the credit cap leads to a strong acceleration in credit and rising demand pressure.

29. Continued efforts to improve Treasury bill market functioning and develop the local currency bond market (LCBM) are needed to mobilize domestic resources. Notwithstanding positive real Treasury bill rates and rising demand, banking sector participation in auctions remains low and the bond market faces several constraints (Box 4). With liquidity conditions easing, staff advised the authorities to explain their domestic debt strategy to market participants (including through joint World Bank and IMF TA missions), focused on meeting their financing targets this fiscal year and next. The ending of mandatory purchases of Treasury bonds (SB, June 2025) will encourage stronger, market-based demand, but requires preparation from the authorities. To motivate their participation in domestic debt markets the authorities have initiated high-level engagements with commercial banks and other key stakeholders (MEFP, ¶21). The exception allowing CBE to count its Treasury bill holdings toward reserve requirements was removed in January 2025.

30. Monetary transmission will strengthen as the policy framework is developed (see SIP). With the cap on credit growth to be phased out in September 2025, NBE will then use the policy rate as the primary operating target (MEFP, ¶20). Reserve requirements will continue to serve as a complementary tool, fulfilling both monetary and prudential functions. NBE is developing analytical tools to support forward-looking policy, including a TA program on the Forecasting and Policy Analysis System (FPAS), and developing liquidity forecasting with the Ministry of Finance (MOF). Development of the links between policy signals and lending rates will be the next step. Addressing shallow money and bond markets and impediments to exchange rate flexibility will help market and financial sector development, as will measures such as the opening of the financial sector to foreign investment but will take time.

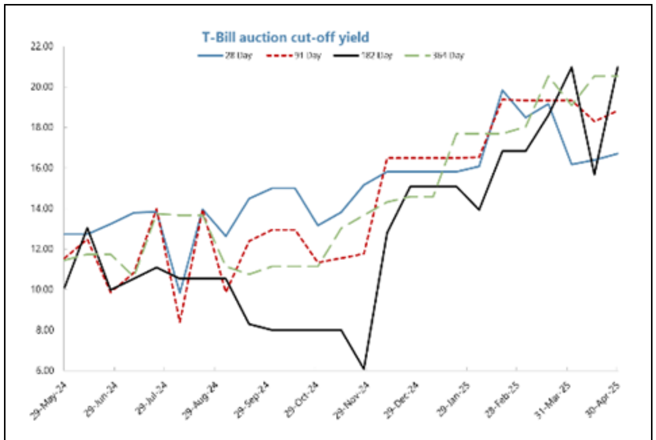
31. Improving NBE's financial position will support operational autonomy, and improve banking sector liquidity management, monetary policy effectiveness, and market confidence. TA (April 2025) provided tools for the NBE to assess the capital needed to fulfill its policy mandate (MEFP, ¶25). This work will inform discussions on a recapitalization plan by December 2025. Gradually reducing legacy government exposure, the NBE commission on FX transactions, and quasi-fiscal activities (gold purchases) will be important to ensure NBE's operational and financial independence.

Authorities' Views

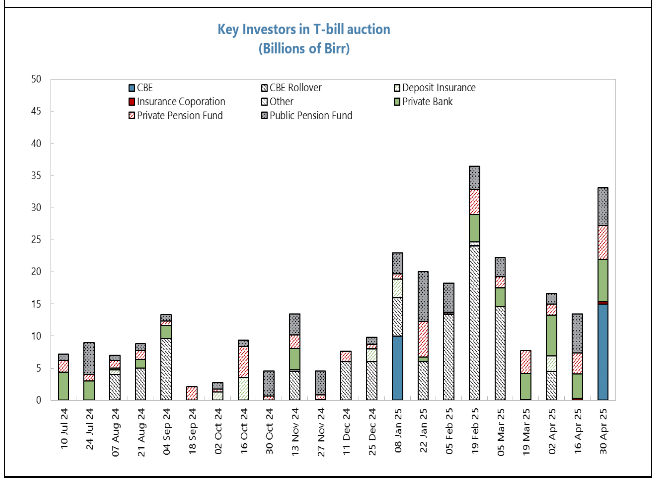
32. The authorities concurred with the need to maintain a tight monetary policy stance in line with the objectives of achieving single digit inflation in the medium term. The need for any change in interest rates would be assessed by NBE staff for the next monetary policy committee meeting. NBE reiterated its commitment to an interest-rate based policy framework, while noting that using quantity-based tools during the transitional period may still be needed. The authorities remain committed to developing domestic debt markets but emphasized this will take time.

Box 4. Recent Dynamics in the Treasury Bill Market

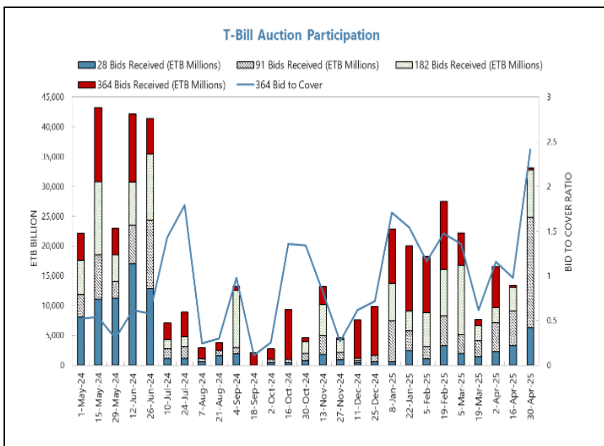
Bank participation in T-bill auctions remains limited despite the recent increase in rates. The cut-off yield has risen over 20 percent with average auction coverage above 100 percent since March. Bid-level data shows increasingly market-oriented pricing by some participants. Demand in the competitive auctions is heavily weighted towards 28- and 91-day bills, while demand at 182- and 364-day T-bill auctions depends primarily on pension fund participation.

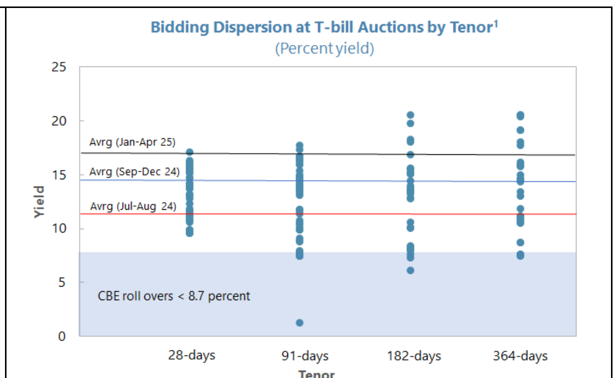


A large portion of the allotted amounts are non-competitive. This reflects a legacy agreement with CBE, that allowed part of its T-bill portfolio to count against its reserve requirement, rolling over at historical interest rates of around 8 percent. This portfolio consists of 182- and 364-day T-bills. As a result, CBE's participation in the competitive auction has been minimal. Banking sector auction participation will need to continue to improve to meet domestic financing needs projected at 1.1 percent of GDP in 25/26 and increasing to 1.5 percent in 26/27.



Private bank participation is variable, with most banks not participating due to past financial repression, tight liquidity, and mandatory purchase of T-bonds. In addition to restrictive fiscal and monetary conditions that have constrained bank liquidity, the mandatory purchases of bonds at sub-inflation rates (ended in June 2025) depressed demand. Lack of trust that T-bills can be redeemed at maturity, poor liquidity management, limited propensity to mobilize new deposits at higher interest rates, lack of awareness and expertise, and the concentration of liquidity at CBE also affect private bank demand for T-bills.





1/The weighted average bid yield excludes non-competitive bids associated with the rollover of CBE's portfolio.

Box 4. Recent Dynamics in the Treasury Bill Market (concluded)[1]

The authorities are taking action to increase participation and prepare for the end of mandatory T-bond purchases. As part of efforts to reset, reform and relaunch the domestic debt market, policymakers are engaging directly with bank CEOs to build support and encourage broader participation. In June, the authorities published a market notice signaling commitment to market-based issuance. A quarterly issuance calendar and Monthly Debt Report were introduced to improve transparency and anchor expectations. Upcoming infrastructure upgrades, including a new auction platform, central securities depository, and dematerialization, were highlighted as key steps to strengthen market functioning. The authorities plan outreach to banks on the regulatory treatment of government securities, and their role as high-quality liquid assets eligible for meeting liquidity requirements. Plans to introduce a secured repo market by end- 2025 will further enhance the collateral value of securities and support their use in liquidity and bank asset-liability management. Joint IMF-World Bank TA (including the IFC), will continue to support the authorities' efforts.

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1/ Based on the findings of a joint IMF-World Bank-IFC technical assistance mission February/May 2025.

C. Fiscal Policy and SOE Reform

33. Raising tax revenues to sustainably increase space for social and capital expenditure and strengthening state-owned enterprises are key medium-term objectives. Fiscal policy aims to strike a balance between growth-friendly developmental spending—to address gaps in infrastructure, electricity, and human capital investment in health, education, and social safety nets—and reinforcing debt sustainability through revenue mobilization and better public financial management. A concerted effort to expand the tax base and improve revenue administration underpins the four-percentage point rise in the tax-to-GDP ratio to 9.9 percent of GDP by 2027/28 envisaged in the National Medium-Term Revenue Strategy, which will provide a sustainable resource base for raising pro-poor and capital expenditure by 2 and 1.2 percent of GDP, respectively. Cushioning the socio-economic impact of reforms and strengthening targeted social safety nets are important to sustain reform momentum, improve livelihoods and reduce poverty. Enhancing public investment efficiency, prioritizing completion of the existing investment pipeline, can help catalyze private sector-led growth. Financial strengthening of SOEs, better governance and public service delivery are key to reducing fiscal risks and the long-term stability of public finances.

34. A primary fiscal deficit of around ½ percent of GDP will be maintained throughout the program horizon. Considering quasi-fiscal operations formerly funded through exchange rate distortions and financial repression have been brought on budget, this represents a substantial fiscal effort. The consolidated public sector deficit including estimates for quasi-fiscal operations has contracted by about 3 percent of GDP since FY2022/23, exceeding the reduction in the general government deficit by about 2 percentage points. Key measures include: (i) domestic revenue mobilization with continued spending restraint; (ii) SOE reforms and subsidy rationalization; (iii) rehabilitation of CBE; and (iv) gradual phasing out of financial repression. Continued restraint in borrowing by regional governments and SOEs reinforces a consistent macro-fiscal policy stance at the broader public sector level.

35. FY2024/25 fiscal policy implementation and FY2025/26 budgetary plans are in line with program commitments. The FY2024/25 supplementary budget included measures consistent with the 1½ percent of GDP spending package to mitigate the inflationary and socio-economic impacts of the authorities' reform program (MEFP, ¶28). In view of moderate downward revisions to nominal revenue stemming mainly from the impact of lower-than-expected inflation, the authorities rationalized lower priority current and capital expenditure in relation to the supplementary budget approved in September 2024. The Council of Ministers has submitted a draft FY2025/26 Federal Government budget to Parliament in line with the program (SB, end-June 2025). The FY2025/26 Budget will target a reduction in overall deficit excluding grants from 3.5 percent to 2.4 percent of GDP (MEFP, ¶29), reflecting:

- An increase in the tax-to-GDP ratio, at the general government level, from 7.3 in FY2024/25 to 9.0 percent of GDP, in line with revenue mobilization commitments and the NMTRS.
- All federal fuel taxes (0.8 percent of GDP), which formerly accrued to Ethiopian Petroleum Supply Enterprise (EPSE) and the Road Fund, will be remitted to the Budget (SB, end-June 2025). A temporary fuel subsidy (0.6 percent of GDP) and permanent allocation to the Road Fund (0.1 percent of GDP) are included in the budget.
- The unwinding of temporary support will proceed as planned, shifting the spending mix away from subsidies towards growth enhancing development spending and targeted social support. Consistent with their agricultural development policy, the authorities intend to keep fertilizer subsidies at around 0.45 percent of GDP.
- An additional budget allocation of 0.2 percent of GDP to the Ministry of Health for purchases of critical pharmaceuticals, to offset lower ODA for the sector. The authorities intend to work closely with the World Bank and other development partners to address funding gaps in HIV, tuberculosis, malaria, and health and community care.
- Margins of adjustment, should the humanitarian and disaster risk funding gap turn out larger than expected, could include containing capital and recurrent spending in lower-priority categories, accelerating revenue measures, and modest accommodation of higher deficits if financing is available.

36. Policy changes to income taxes, VAT, and excise will increase revenues (MEFP, ¶31). The authorities will submit amendments to the income tax law to Parliament (SB, end-September 2025) that will: (i) introduce a minimum alternative tax (MAT), (ii) increase withholding tax rates, (iii) simplify the presumptive tax regime, and (iv) adjust the personal income tax schedule to correct bracket creep leading to tax payments by individuals with incomes below the poverty line. They also plan to introduce an inheritance and donation tax. The yield from the turnover-based MAT and reducing tax holidays is now estimated at less than 0.2 percent of GDP (compared to 0.4 percent in the NMTRS, with an asset-based MAT design); to mitigate the impact on revenue mobilization targets, the authorities intend to maintain the statutory corporate income tax rate at the current level of 30 percent. Key corporate income tax measures, subject to further quantification, will include rationalizing tax incentives, immediately halting new tax holidays under the current regime. Although the immediate tax savings are expected to be small, the benefits will grow over time. Revenue yields envisaged in the MTRS from addressing gaps in the corporate tax base are likely to require additional policy measures in future. VAT and excise revenue yield are expected to rise as improved efficiency, the expanded tax base, and revenue administration improvements are realized (Text Table 4). The Ministry of Revenue published the 2024 Tax Administration Diagnostic Assessment (TADAT) Performance Assessment report and has developed a comprehensive revenue administration reform plan. Strategic guidance and oversight are provided by the recently created Domestic Revenue Mobilization Task Force, reporting to the Prime Minister.

Text Table 4. Ethiopia: Revenue Measures in the Program Baseline
(In percent of GDP)

	2024/25	2025/26	2026/27	2027/28
Cumulative tax-to-GDP ratio increase since FY2023/24	**1.2**	**2.9**	**3.4**	**3.8**
XR reform and economic recovery	0.3	0.6	0.6	0.8
Tax policies	**0.9**	**2.3**	**2.8**	**3.0**
Direct Taxes	**0.1**	**0.5**	**0.9**	**1.1**
Addressing gaps in the corporate tax base (minimum alternative tax) and reducing revenue losses from exemptions and tax holidays.		0.2	0.4	0.6
Rationalizing PIT regime (increasing exemption threhold)		-0.1	-0.1	-0.1
Increasing witholding rates		0.1	0.1	0.1
New property tax regime	0.1	0.2	0.3	0.3
Motor vehicle ownership tax/fees		0.1	0.2	0.2
Indirect Taxes	**0.8**	**1.8**	**1.9**	**1.9**
VAT	**0.5**	**1.0**	**1.1**	**1.1**
VAT on domestic good sand services (base broadeing and removal of exemptions)	0.5	0.5	0.6	0.6
VAT on fuel[1]		0.5	0.5	0.5
Excise	**0.2**	**0.7**	**0.7**	**0.7**
Excise regime (telecom, rate revisions, stamp)	0.2	0.4	0.4	0.4
Fuel[1]		0.3	0.3	0.3
Social welfare duty	0.1	0.1	0.1	0.1

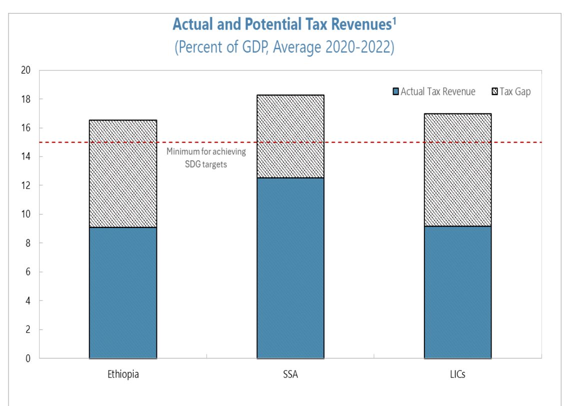
[1] Represents gross impact of fuel taxes (0.8 percent of GDP) in 2025/26, without adjustment for temporary fuel subsidy (0.6 percent of GDP).

Sources: Ethiopian authorities and IMF staff estimates.

37. Fiscal policy considerations for the medium term include the need to improve the federal fiscal framework and close revenue gaps with peers. Staff analysis (SIP) suggests that:

- **Federal fiscal arrangements redistribute significant resources to regional governments.** The arrangements provide partial insurance against regional macroeconomic shocks and help meet equity objectives. However, federal grants to regions have been constrained by limited fiscal space. There is scope to develop counter-cyclical macroeconomic stabilization features for the federal government and strengthen regional budgetary frameworks. The impact of program-supported fiscal reforms will likely differ across regions, reflecting differences in revenue mobilization capacity and spending needs, which will require careful consideration in setting the size of the general-purpose grant pool to mitigate regional fiscal imbalances.
- **Comparative evaluation of tax revenues and efficiency relative to peer countries indicates substantial additional tax revenue potential.** There is scope to achieve a tax-to-GDP ratio of about 17 percent in the long term, with policy, administration, and compliance reforms (SIP; Text Figure 6).

Text Figure 6. Tax Revenue Potential and Tax Effort in Ethiopia and Peers (2020–22)

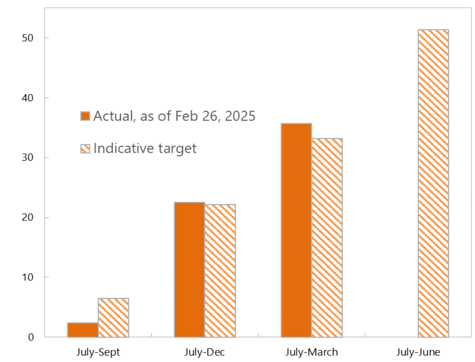


38. The expansion of the social safety net is proceeding as planned. As of end-March, MoF has made transfers to the safety net programs in line with end-December and end-March 2025 ITs (Text

Figure 7). With relatively little development aid flowing through the national budget, the authorities intend to offset the fall in ODA curtailment with an increased budgetary allocation on health. The authorities will also create a national disaster risk management fund to strengthen the response to natural disasters and humanitarian crises, with a particular emphasis on droughts and floods, and channel available international resources transparently (MEFP, ¶35).

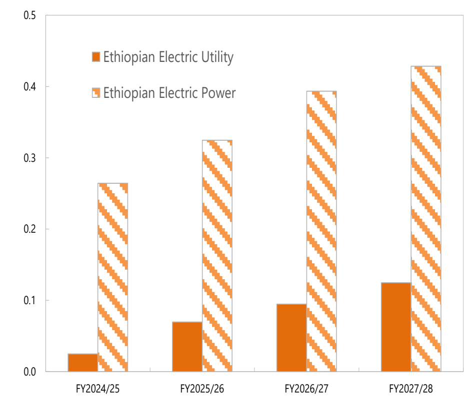
Text Figure 7. Ethiopia: Government Contribution to Urban and Rural PSNP; Year-to-Date

(bill birr, cumulative since FY start)



Text Figure 8. Ethiopia: Electricity SOEs Operations

(EBITDA, as percent of GDP)



39. Electricity sector reforms are proceeding well. Preliminary updates of the electricity SOEs financial models using year-to-date financial performance, the new electricity tariffs, and preliminary debt restructuring assumptions, indicate that Ethiopian Electric Power (EEP) is on track to reach positive net income this fiscal year, ahead of expectations (Text Figure 8). Higher-than-expected demand from industrial customers and lower-than-expected cost increases underpin the result. The next step is to align the power utilities' investment planning frameworks with internal financing and debt carrying capacity (World Bank support continues in this area).

40. SOE governance reforms are proceeding as planned. In January, the Council of Ministers dissolved the Public Enterprises Holding and Administration Authority (PEHAA) and transferred the eight SOEs it managed to Ethiopia Investment Holdings (EIH), including some relatively financially weak SOEs. EIH is (MEFP, ¶44-45):

- Preparing consolidated financial statements for its SOE portfolio for FY2022/23 for publication by end-2025 (SB). Eight SOEs formerly managed by PEHAA have adopted IFRS and will be included in the consolidated statements in the future.
- Implementing operational reform and portfolio consolidation of their holdings, including a focus on financial rehabilitation and corporate governance reforms in the newly transferred SOEs, and advancing sectoral and regulatory reforms.
- Stepping up monitoring of performance indicators and disclosures from SOEs to the state, with a particular focus on public service obligations.

41. The authorities are implementing fiscal transparency and accountability reforms. MOF published a report on Macro-fiscal Performance and Recent Policy Developments for the period 2020/21–2022/23, covering macroeconomic and fiscal policy and performance, developments in public debt, and analysis of disaster-related fiscal risks. MOF also published an inaugural mid-year analytical review of the Federal Government budget (SB, April-2025),[5] which should become a regular publication.

Authorities' Views

42. The authorities concurred with the need to maintain a prudent fiscal policy stance and push ahead with domestic revenue mobilization measures. They noted that scope to increase domestic financing may be constrained for some time as domestic debt markets develop. They acknowledged the importance of macro-fiscal policy coordination.

D. Debt

43. Ethiopia's debt continues to be unsustainable and in distress under the updated, pre-restructuring DSA. There are protracted breaches in exports-related debt vulnerability indicators. Due to macroeconomic forecast revisions, the magnitude of these breaches is smaller compared to the second review DSA, while the duration is similar. The debt relief envelope required to meet program financing needs remains broadly unchanged. Major updates include:

- Exports of goods and services are projected to exceed those in the second review, particularly in the near term, primarily due to strong gold exports.
- The current DSA and macroeconomic forecast are based on the pre-restructuring debt service schedule, with obligations originally due in FY2024/25 but under the debt service moratorium added to debt service in FY2025/26. Revisions to the debt service schedule provided by the authorities in agreement with their creditors are used.
- Non-concessional loans to complete Koysha dam are assumed to be contracted in 2025/26, a year later than originally assumed, with a more front-loaded disbursement schedule. Discussions with prospective creditors are currently underway, with new non-concessional lending for this project exempt from the zero-limit on new non-concessional borrowing.

44. A Memorandum of Understanding (MOU) with official creditors is expected to be agreed in the near term. An Agreement in Principle (AIP) with the Official Creditor Committee (OCC) on terms for a debt treatment consistent with program objectives was reached on March 21, 2025. An AIP with external commercial creditors is expected to follow. The authorities are making good faith efforts to reach an agreement with their external commercial creditors on terms comparable to the OCC terms, and consistent with program parameters. They have been actively engaging with the financial advisor to the Eurobond holders, and relevant data and information has been shared on the overall economic reform and debt restructuring strategies, including through presentations and regular publication of the debt statistics bulletin.

45. The authorities continue to limit the accumulation of new debt vulnerabilities. No new

[5] Mid-Year Budget Implementation Review (https://www.mofed.gov.et/media/filer_public/26/0a/260a61bf-3d79-4aa0-a9bd-dc56274133bf/mid_year_budget_performance_report-final-april_2025.pdf).

non-concessional loans have been contracted. The pace of contracting new public and publicly guaranteed (PPG) concessional debt aligns with the established ceiling on the present value of new external borrowing.

Authorities' Views

46. The authorities remain committed to restoring debt sustainability and reducing vulnerabilities. They insisted on the importance of timely completion of a debt restructuring agreement consistent with program objectives.

E. Financial Sector

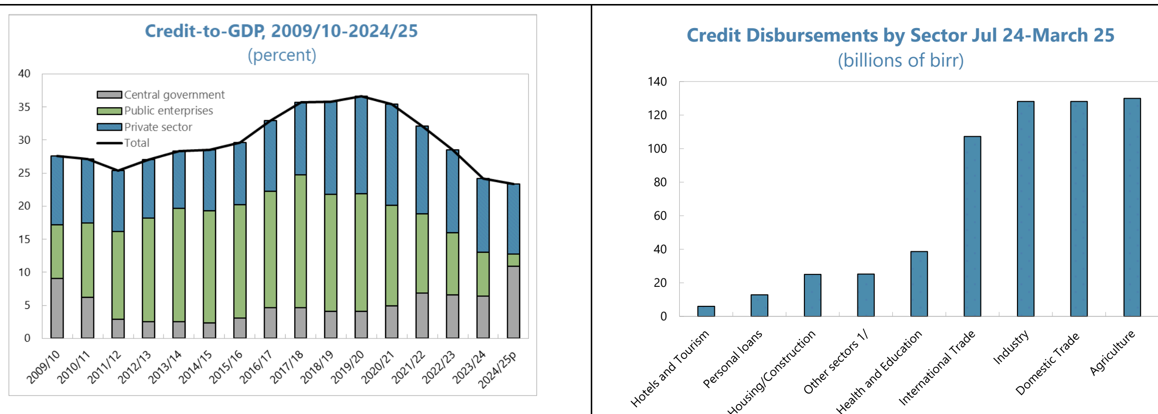
47. Reducing financial repression and opening the banking sector to foreign competition will support private sector-led growth. Although interest rates have started to increase, savings and lending rates for some borrowers remain negative in real terms. Financial sector growth has not kept pace with GDP growth, with deposits and lending to the private sector at 19 and 11 percent of GDP, respectively, similar levels to the early 2010s and lagging other countries in the region. The banking sector is highly concentrated, with (state-owned) CBE holding 51 percent of assets (five times larger than the next largest bank). In addition to macroeconomic reforms and resolving CBE's legacy of lending to SOEs, the authorities aim to boost competition, attract investment, and expand access to credit. The amended banking sector law approved in February 2025 takes an important step by allowing foreign banks to operate in Ethiopia. The authorities are taking steps to ensure financial regulation evolves in parallel with financial sector development (Annex 6).

48. Credit growth remains subdued, with more space for private sector lending, while indicators suggest risks are manageable. The overall credit-to-GDP ratio is projected to decline slightly to 23.3 percent in 2024/25, with growth in credit to the private sector still below nominal GDP growth, with much of the new lending going to agriculture, trade, and industry (Text Figure 9). Nonperforming loans remain below the 5 percent regulatory threshold. Risks from the transition to market-based pricing include that abrupt interest rate shifts could trigger deterioration in asset quality or liquidity mismatches. NBE is enhancing oversight of credit risks, including a thematic review of banks' lending policies and practices (MEFP, ¶49) and a compliance assessment of the new asset classification and provisioning rules and its effect on reported nonperforming loans (MEFP, ¶51).

49. The authorities are strengthening regulation and supervision (MEFP, ¶50). They are drawing on CD from the IMF (including to upgrade the capital adequacy framework and strengthen risk-based supervision), and the World Bank (licensing requirements given the opening of the banking system to foreign bank investors and developing the resolution framework).

50. Reforms to the operating model and governance framework of CBE and Development Bank of Ethiopia (DBE) are underway, supported by the World Bank (MEFP, ¶47–48). In May, CBE adopted a new commercial operating model and governance framework, including a commercial mandate issued by EIH to guide CBE's strategic direction. Governance measures include enhancing board independence, enforcing prudential regulations, and ensuring public sector transactions are commercially based. CBEs public sector obligations should be defined with EIH by September 2025. DBE will implement a strategic business plan and mandatory commercial bank purchases of DBE bonds will cease by end-2025. An Asset Quality Review, due in September 2025, will assess any capital shortfall. DBEs' revised business model will focus on wholesale lending and a new funding strategy centered on mobilizing resources from development partners.

Text Figure 9. Ethiopia: Credit Growth



Source: Ethiopian authorities; IMF Staff calculations

1/ Includes mines, power, water; transport and communication; financial institutions; and other.

Authorities' Views

51. The authorities emphasized their objective of maintaining a sound financial sector as they promote financial development and greater competition. They noted the amendments to the NBE law that give a mandate and emphasis to preserving financial stability, their view that the banking sector remains resilient and that system-wide risks are limited, as evidenced by financial soundness indicators. The authorities concurred with the priorities to strengthen oversight.

F. Safeguards and Governance

52. The authorities' reform agenda supported by the ECF and World Bank operations aims to strengthen governance and institutional frameworks and reduce vulnerabilities to corruption. Key policy measures aim to address vulnerabilities in fiscal and central bank governance, financial sector oversight, market regulation, rule of law, and AML/CFT frameworks. The authorities' reforms to address vulnerabilities to corruption include reforms of SOE sector governance, prevention of conflict of interests in the public sector, public procurement, rural land property rights, and beneficial ownership disclosure reforms. The recently adopted Asset Recovery Proclamation is an important element of the authorities' anti-corruption strategy, targeting recovery of illicitly acquired assets and corruption prevention.

53. Amendments to the NBE Proclamation represent a step forward, albeit departing from leading practices with respect to governance and autonomy. The new legal framework introduces important improvements to NBE's mandate, decision-making structure, external audit, and transparency. Next steps include: (i) appointment of three new members to the expanded board, in accordance with the stipulations of the law and NBE's technical and policy needs; (ii) formulate a recapitalization strategy for NBE based on an assessment of the appropriate level to achieve policy goals, and consistent with the program's fiscal framework and debt sustainability, and (iii) in the longer term, put in place a strategy to exit from gold operations (MEFP, ¶24). NBE is also considering its internal organization based on the new mandate and priorities, and macroeconomic reforms. These include establishing a Financial Stability Committee and developing charters for the NBE Board, MPC, and financial stability committee and developing macroprudential capabilities. NBE benefits from peer-to-peer support from the Riksbank of Sweden and the Bank of England.

54. The NBE is making progress in implementing recommendations of the 2024 safeguards assessment. The 2022/23 audited financial statements prepared by the new auditor were published in early April 2025.[6] Guided by the new legislative framework, new independent members with suitable professional background should be appointed to the expanded NBE Board. NBE's Board near-term program includes setting up internal audit and reserve management committees and strengthening capacity in financial reporting, internal audit, and risk management functions.

55. The authorities are preparing for the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) mutual evaluation expected in 2026 (MEFP, ¶57). They have initiated a TA program on their anti-money laundering and combating the financing of terrorism (AML/CFT) framework, including support to prioritize raising effective implementation of money laundering investigations, asset recovery and the investigation of terrorism financing offences. The National AML Committee will develop and adopt a roadmap for the establishment of a beneficial ownership registry (new SB, September 2025), which will be backed by additional TA from the IMF.

Authorities' Views

56. The authorities broadly shared staff's views and expressed their commitment to strengthening governance and addressing vulnerabilities to corruption. They noted that IMF recommendations on accountability and personal autonomy of the NBE Governor and board members were deemed unconstitutional. They will take measures to fully implement the new NBE proclamation, which they see as a historic milestone in strengthening the NBE as an institution and the macroeconomic policymaking framework in Ethiopia. They are implementing an ambitious AML/CFT action plan to address the risks and priority areas highlighted in the updated national risk assessment and strengthen country's compliance with the FATF standards.

G. Economic Statistics

57. The authorities are working to improve the quality and availability of economic data (MEFP, ¶58). Some shortcomings in data provided to the IMF somewhat hamper surveillance (Annex 7) and are being addressed with the support of the Fund and other partners. Ethiopia also does not currently produce international investment position (IIP) data due to capacity constraints. Efforts to

[6] Audited Financial Statements June 2023 (https://nbe.gov.et/files/audited-financial-statement-june-2023/).

improve national account statistics include plans for rebasing GDP and producing quarterly estimates with the support of IMF TA. Key inputs including a new agricultural census and household expenditure survey will be completed in summer 2025 and improving price indices will also be part of this work. There is also ongoing CD on improving the coverage of government finance statistics (with slow results so far) and upgrading external sector statistics to BPM6 and producing IIP statistics. TA programs with the MoF and NBE to develop model-based approaches to policy analysis (macro-fiscal with ICD and FPAS with MCM led support, respectively) have started strongly and are also generating new internal demands for high quality, higher frequency data.

PROGRAM MODALITIES

58. Program monitoring is based on semi-annual reviews. The fourth review will be based on end-June 2025 quantitative performance criteria and indicative targets (Table 10) and structural benchmarks (Table 11). Staff support the authorities' request to modify (i) the end-September IT on NIR reserves to reflect updated timing for the World Bank Development Policy Operation (with disbursements expected to occur in two tranches over the course of the year compared with one assumed at the second review); (ii) the end-September 2025 IT on the government's contribution to the PSNP to reflect underlying seasonal and budget execution patterns (expected to be offset by December 2025). SBs have been added through end-December in revenue mobilization (amending the income tax proclamation); FX market development (revising NBE methodology for the interbank FX rate and reforming the NOP directive); AML/CFT (developing a roadmap for a beneficial ownership registry); and SOE transparency (publishing EIH's consolidated financial statements).

59. Adequate financing assurances are in place, with firm commitments for the next twelve months and good prospects for financing the remainder of the program. The World Bank has provided financing assurances for the next Development Policy Operation of US$1 billion in budget support programmed for FY2025/26. A further US$300 million in budget support over two years is expected from other development partners. Progress towards debt restructuring through the Credible Official Creditor Process under the Common Framework is consistent with Ethiopia reaching a moderate risk of debt distress by the end of the program. The illustrative post-restructuring DSA scenario, based on the debt treatment agreed in principle with the OCC for bilateral claims and the authorities' latest debt treatment scenario for commercial creditors' claims, is consistent with this goal (Text Figure 10). Staff assess that all Poverty Reduction and Growth Trust exceptional access criteria and criteria under the Policy Safeguards on High Combined Credit have been met (Box 5).

60. A portion of the third review disbursement (47.7 percent, SDR 91.45 million) and 50 percent of access programmed for FY2025/26 will be available for budget support. Considering the so far slow development of the domestic bond market and relatively tight monetary conditions, providing budget support reduces risks of domestic funding shortfalls. Budget support of about 0.2 percent of GDP (one half of access for the fourth and fifth reviews) will remain small in comparison to net domestic financing in the second year of the program (1.1 percent of GDP) and consistent with fiscal policy stance (a decline in the overall deficit excluding grants from 3.1 percent to 2.5 percent of GDP and tax revenue mobilization effort of 0.8 percent of GDP. Efforts to deepen the

Treasury bill market continue, and the commitment to no monetary financing of fiscal deficits remains in place. Removal of the requirement for banks to purchase Treasury bonds at sub-inflation rates is expected in June 2025 (SB) and will be an important step in developing demand for government paper. The authorities committed to undergoing a Fiscal Safeguards Review in the next fiscal year, should the requirement be triggered under the Fund's safeguards assessment policy.

Box 5. Assessment of Exceptional Access Criteria and Policy Safeguards on High Combined Credit

The ECF arrangement for Ethiopia includes exceptional access under the Poverty Reduction and Growth Trust (PRGT). It triggers the Policy Safeguards on High Combined Credit (PS-HCC) due to Ethiopia's outstanding obligations to the General Resources Account (GRA) and resulting in high levels of combined PRGT and GRA credit. Staff judge related criteria under these two circumstances to be met.

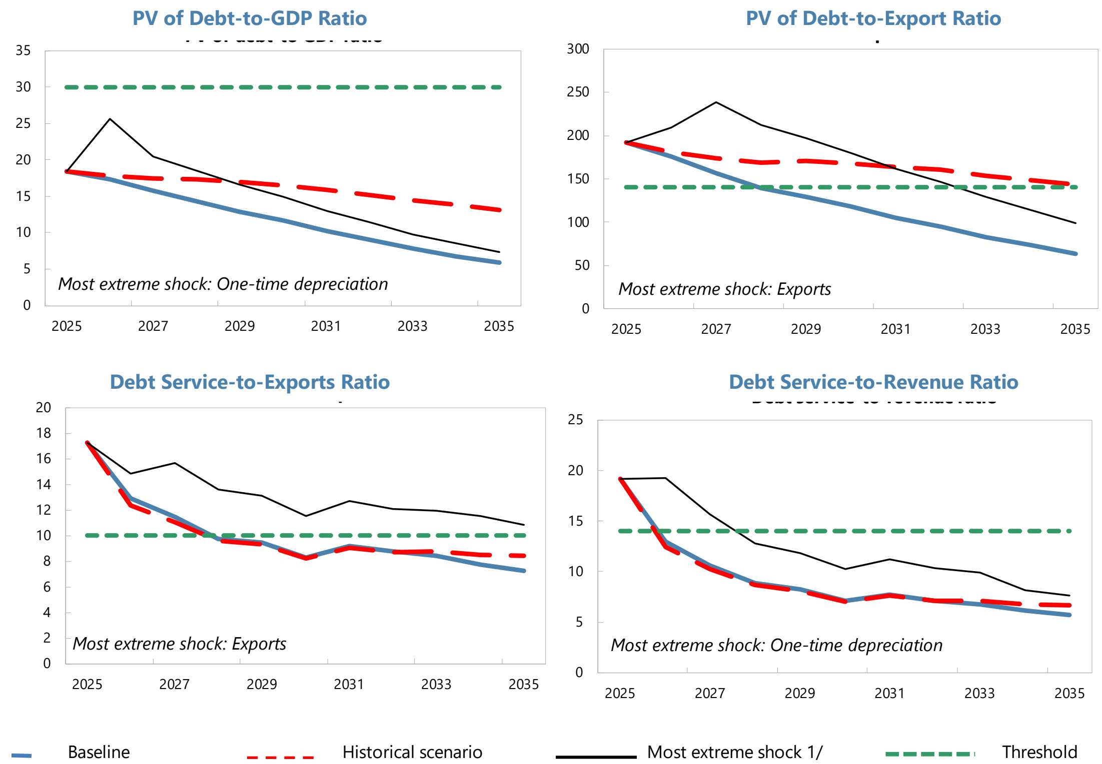
Staff assesses all PRGT exceptional access criteria to be met based on financing assurances from development partners, and from official bilateral creditors for a debt treatment under the Common Framework, an assessment of moderate risk of debt distress by the end of the program, and the authorities' commitment to the program.

- *Criterion 1 (exceptional BOP pressures):* Ethiopia is experiencing exceptional BOP pressures, with low reserves (less than 2 months of imports for FY2024/25), anticipated reductions in foreign aid, and is in external debt distress.
- *Criterion 2 (debt sustainability with high probability):* A combination of strong policies and financing from sources other than the Fund, including via the treatment of official bilateral debt under the Common Framework and application of comparability of treatment to non-official debt, would secure sustainability with high probability by improving the debt distress rating to moderate by the end of the program. There are good prospects for a successful debt restructuring.
- *Criterion 3 (income criterion for presumed blending):* At about 74 percent of the IDA Operational Cut-off at the time of the program request, Ethiopia does not meet the income criterion for presumed blending and is thus eligible for PRGT exceptional access.
- *Criterion 4 (reasonably strong prospect of program success):* Frontloaded policy adjustment and the authorities' commitment to program implementation provide a sufficient basis for a favorable assessment of a strong prospect of success. The implementation of policies early in the program demonstrates strong program ownership.

Staff assesses that the criteria under the Policy Safeguards on High Combined Credit (PS-HCC) are also met. In line with staff's judgment on PRGT exceptional access criteria 1, 2 and 4, staff assesses that the three criteria under the PS-HCC are also met.

61. Ethiopia's capacity to repay the Fund is considered adequate, predicated on successful program implementation, securing financing assurances and debt restructuring, although there are substantial downside risks. The outstanding stock of Fund credit would peak at 18.3 percent of exports in 2026/27, 51.7 percent of FX reserves in 2024/25, and 2.0 percent of GDP in 2026/27 and 2027/28. Debt service to the Fund is projected to peak at 1.7 percent of exports in 2033/34, 6.1 percent of FX reserves in 2024/25, and 0.2 percent of GDP in 2024/25 (as well as between 2030/31 and 2033/34). Risks to capacity to repay rise beginning in 2029/30 when repayments to the Fund peak. Risks are mitigated by reforms to address external imbalances, and the reserve accumulation envisaged under the program.

Text Figure 10. Ethiopia: The Illustrative Debt Restructuring Scenario—Indicators of PPG Debt, 2025/26–2034/35[1]



1/ The illustrative post-restructuring scenario incorporates the debt treatment agreed in principle with the OCC for bilateral claims and the authorities' latest debt treatment scenario for other commercial creditors' claims.

62. Enterprise risks to the Fund remain significant, although broadly unchanged from the second review, mitigated by program design and the implementation record. Strong ownership, political commitment, and reform outcomes so far have mitigated key risks. Macroeconomic outcomes have been substantially more positive than expected, with strong growth, lower inflation, higher exports, a lower current account deficit and a strong start to revenue mobilization. While cuts in ODA, no expected privatization revenue, and relatively weak FDI raise uncertainties, strong performance in goods exports and faster than anticipated reserve accumulation mitigates financial risks for the Fund and support achievement of program objectives. The socio-economic impact of reforms to date has been muted. Uncertainty will persist due to the complexity of the reform agenda, data limitations, the fragile socio-economic environment, and scope for escalation in conflict, representing an important continuous source of risks. IMF Country Report No. 2024/253 gives more detail on program design.

63. As the OCC is an adequately representative forum and includes Paris Club creditors, arrears to other official bilateral creditors are deemed away under the Lending into Official Arrears policy. In addition, Ethiopia has pre-HIPC era arrears to Libya, Russia, and the former Republic of Yugoslavia, totaling about US$525 million as of June 2024, which are deemed away due to a representative Paris Club agreement under HIPC. There are about US$32 million in external arrears to commercial creditors from the former Czechoslovakia, India, Italy, Bulgaria and the former Yugoslavia, all pre-dating the 1990s.

64. The financing assurances review indicates policy requirements are met. The Lending into Arrears and Lending into Official Arrears policies are met with respect to external arrears, adequate safeguards remain in place for the further use of the Fund's resources considering progress made in debt restructuring, and adjustment efforts are not undermined by developments in creditor-debtor relations. The authorities continue to make good faith efforts to resolve arrears to official bilateral creditors and external commercial creditors.

STAFF APPRAISAL

65. At the one-year mark, the Ethiopian authorities have made remarkable progress in advancing their economic reform agenda. Correction of the real exchange rate misalignment and current account liberalization have increased FX availability and changed incentives for exporters, visible already in strong receipts for gold and coffee exports. Important steps have been taken to eliminate financial repression, with positive real monetary policy and Treasury bill interest rates, the end of central bank deficit financing, and correction of quasi-fiscal imbalances through loss recognition, electricity tariff and fuel price increases, and bringing subsidies transparently on-budget. International reserves are up significantly. While the main pieces of the new monetary policy framework are in place, NBE reforms are strengthening its operational capacity, and CBE has been recapitalized, removing a financial stability risk, the framework remains to be tested in a period of rising inflation. Inflation has fallen, spending on social safety nets has risen, and some correction of real wage erosion taken place. The first revenue mobilization efforts have been effective, while progress towards restoring debt sustainability and securing a debt restructuring is advancing well.

66. Challenges remain, in consolidating gains to date and ensuring a more favorable environment for investment. Continued efforts from the authorities and market participants are needed to ensure the FX market works efficiently to maintain competitiveness, reduce external imbalances, provide a buffer to external shocks, and reduce recourse to the parallel market. Similarly, deepening the market and broadening the appeal of Treasury bills and bonds is necessary to ensure a stable, flexible source of financing for the government, and begin to develop capital market. Consolidating gains will require sustained private sector investment, particularly in outward-oriented sectors, and reforms improving the business environment, ensuring fair taxation practices, encouraging FDI, and facilitating open dialogue with the private sector will be key. Finally, building a strong and sufficient revenue base to fund critical state functions and human and capital investment will require careful and consistent effort over several years.

67. Conditions for medium-term economic growth are promising. The positive outlook hinges on continued implementation of program-supported macroeconomic reforms, the advancement of structural reforms, and implementation of the external debt restructuring. Creating the right incentives for saving and financial sector development hinges on reduced inflationary pressures—including from avoiding monetary financing of government—and the gradual removal of financial repression. The outlook remains subject to downside risks, including potential social discontent, security challenges, and policy slippages.

68. Ethiopia's external position in 2024/25 is assessed to be broadly in line with the level implied by medium-term fundamentals and desired macroeconomic policies. The FX reform and current account liberalization implemented in July 2024 led to significant nominal and real depreciation, correcting previous overvaluation. Maintenance of a prudent monetary and fiscal policy stance, and reforms to improve the business environment, facilitate private investment, and diversify the export base will sustain competitiveness gains, increasing resilience to external shocks.

69. The authorities are taking significant measures to deepen the FX market and tackle distortions, including the widening of the parallel market spread. Increased transparency on banks' fees and commissions is a potentially powerful stimulant to competition, while increasing the caps on advance payments for imports and personal expenses could significantly reduce incentives to use the parallel market. Reducing the overhang of demand for FX from the past through addressing CBE's particular situation and updating the NOP regulation should lower incentives to hoard FX and promote more trading and price discovery, particularly as rising real interest rates make Birr assets more attractive. Re-channeling some of NBE's gold-related FX accumulation above reserve targets back to the banking sector through transparent, competitive auctions supports price discovery and deepens market liquidity. The authorities should remain alert to market developments and stand willing to adopt new measures should growth in FX supply weaken, or the parallel market spread widen again.

70. Maintaining tight monetary and financial conditions is important for managing inflation expectations. A modest increase in the policy rate would provide an appropriate policy signal given anticipated seasonal increases in inflation, and the phase out of the cap on growth in private credit in the context of easing monetary conditions. The authorities should stand ready to adjust the rate promptly if deviations from the inflation baseline forecast become likely (e.g., second-round effects from administered price increases). The monetary policy transmission mechanism can be strengthened through continuing to develop a clear, well-communicated policy framework, moving to a single operating target (the policy rate), and strengthening analytical capacity. Strengthening NBE's financial position in due course will bolster operational autonomy, monetary policy effectiveness, and market confidence. The authorities should further support NBE independence, including through appointing, in accordance with the reformed law, well-qualified Board members independent of the government to the three vacant positions.

71. The authorities' fiscal plans are consistent with program objectives. Following a strong start to revenue mobilization, timely implementation of income, excise, and property tax reforms, supported by efforts to broaden the tax base and enhance tax and customs administration are key to reaching ambitious program objectives. Phasing out fuel subsidies will contribute to reaching revenue targets in 2025/26 and rebuilding fiscal buffers. A continued prudent approach to spending, consistent with revenue performance, and efforts to develop domestic financing are warranted. Fiscal transparency and accountability reforms have advanced with the publication of the mid-year review of budget implementation and the quarterly budget execution report; next steps include publication of audited consolidated financial statements for EIH.

72. **SOE governance reforms are proceeding as planned.** The centralization of SOE management under the EIH is poised to facilitate financial management, corporate governance, and operational efficiency reforms, particularly for the recently transferred SOEs, and support strategic investment planning aligned with public policy priorities. Further efforts to regularize performance monitoring and fiscal exposures disclosures from SOEs to the state is needed.

73. **Steps to securing a debt treatment and restoring debt sustainability continue.** A Memorandum of Understanding on a debt treatment consistent with program objectives between Ethiopia and the OCC is expected to be agreed in the near term. Following AIP with the OCC on terms for a debt treatment that was reached on March 21, 2025, good faith efforts to reach agreement with external commercial creditors on terms comparable to the OCC terms continue. The authorities continue to avoid non-concessional borrowing, with the exception of financing for the Koysha dam project, and to carefully evaluate new concessional debt.

74. **Reducing financial repression and strengthening oversight will best enable the financial sector support private sector-led growth.** Regulatory and supervisory reform should keep pace with a financial sector fast adapting to a new exchange rate regime, rising real interest rates, and prospective entry of foreign competitors. Close monitoring of credit developments and NOPs will be important to ensure financial stability risks remain contained. Advancing governance and operational reforms for CBE will help ensure this critical bank can operate as a competitive, commercially oriented institution. Developing a strategic plan for DBE, with a new funding strategy, will be important for maximizing its development impact and phase out mandatory purchases of DBE bonds by end-2025.

75. **The authorities should push ahead with implementing the upgraded legal framework of the NBE.** Priorities include implementing the new organizational charter aligned with the institutional mandate, including financial stability and macroprudential functions, internal audit and risk management frameworks, and appointing new members to the expanded NBE Board with suitable technical expertise and professional backgrounds. Going forward, the authorities should formulate a recapitalization strategy for NBE conducive to realizing its policy mandate, and consistent with the program's fiscal framework and debt sustainability. Staff welcomed the conclusion of the FY2022/23 financial audit of the NBE by new external auditor and called for continued progress on other safeguards recommendations.

76. **Improving the quality and availability economic statistics is a priority.** The authorities' efforts to improve data quality with the TA support are welcome, including in priority areas of national accounts, external sector and government finance statistics.

77. Staff support the completion of the third review under the ECF arrangement. All quantitative performance criteria for end-December have been met. The authorities present a strong set of policies and structural reform measures in the attached LOI and MEFP, demonstrating their commitment to achieving the objectives of the Fund-support program.

78. Staff support the authorities' request for temporary approval of the four exchange restrictions and multiple currency practices. The restrictions currently in place for BOP reasons are the 2.5 percent NBE exchange commission that give rise to an exchange restriction and two multiple currency practices, the imposition of hard ceilings on access to and use of FX for travel purposes, the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances, and the exchange restriction on backlog dividends. The authorities have requested approval for these restrictions on the grounds that they are temporary, expected to be lifted throughout the program period, and do not create an unfair competitive advantage for any member or discriminate among members. Additionally, staff support the authorities' plan to explore solutions to the remaining two exchange restrictions.

79. Staff recommend that the next Article IV consultation with Ethiopia be held on a 24-month cycle in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96), as amended).

Table 1. Ethiopia: Selected Economic Indicators, 2021/22–2029/30

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		Prel.	Proj.			Projections		
			In percent change, unless otherwise mentioned						
National income and prices									
GDP at constant prices (at factor cost)	6.4	7.2	8.1	7.2	7.1	7.7	8.0	7.8	7.5
GDP deflator	34.7	32.9	25.5	16.0	13.8	10.4	9.1	9.0	8.3
Consumer prices (period average) [1]	33.9	32.5	26.6	16.6	12.0	9.2	7.7	7.2	6.2
Consumer prices (end period) [1]	34.2	29.3	19.9	16.5	10.2	8.6	7.1	7.0	6.0
External sector									
Exports of goods and services (f.o.b.)	22.8	3.3	8.1	25.5	2.3	10.3	17.2	13.9	13.5
Imports of goods and services (c.i.f.)	24.9	-1.4	7.8	7.3	1.2	6.9	8.8	12.1	13.1
Export volume (goods)	2.5	-17.3	-1.2	63.6	-9.9	4.6	7.7	0.5	-0.1
Export volume (goods and services)	11.0	-3.2	1.7	23.7	-6.0	4.3	7.1	2.9	1.8
Import price index (percent change)	16.5	4.3	-3.7	-0.8	-2.3	-1.5	-1.3	-1.3	-1.3
Terms of trade (goods and services, deterioration –)	-5.0	2.2	10.3	3.4	11.3	8.0	9.4	12.2	13.7
Nominal effective exchange rate (end of period, depreciation –)	-8.6	6.9	-1.4	...	...	...	...	...	...
Real effective exchange rate (end of period, depreciation –)	10.3	27.9	12.6	...	...	...	...	...	...
Money and credit									
Claims on nongovernment [2]	17.2	23.4	9.3	-11.9	33.8	30.3	21.2	19.9	17.7
Broad money	27.2	26.6	14.1	24.0	24.4	23.8	19.4	18.7	18.0
Base money	37.2	32.0	-1.1	21.7	23.5	21.3	21.5	18.6	18.0
Velocity (GDP/broad money)	3.59	4.02	4.74	4.83	4.80	4.61	4.57	4.53	4.47
			In percent of GDP, unless otherwise mentioned						
Financial balances [3]									
Gross domestic savings	15.2	14.8	14.2	13.3	16.5	18.2	19.0	18.4	18.2
Public savings	-0.4	1.1	1.7	1.2	2.9	3.1	3.3	3.6	3.8
Private savings	15.6	13.7	12.5	12.1	13.6	15.0	15.7	14.8	14.4
Gross domestic investment	25.3	22.2	20.4	22.6	25.9	26.4	26.1	25.2	25.0
Public investment	6.4	5.5	4.0	4.3	6.8	6.4	6.2	5.8	5.6
Private investment	19.0	16.7	16.4	18.3	19.1	20.1	19.9	19.4	19.4
Resource gap	-10.1	-7.4	-6.2	-9.3	-9.4	-8.3	-7.1	-6.8	-6.7
External current account balance, including official transfers	-4.0	-2.9	-2.9	-3.2	-3.1	-2.7	-2.1	-2.2	-2.3
Government finances									
Revenue	8.1	7.9	7.3	8.5	10.2	10.7	11.1	11.4	11.5
Tax revenue	7.1	6.8	6.2	7.3	9.0	9.6	9.9	10.2	10.4
Nontax revenue	1.0	1.0	1.1	1.2	1.1	1.1	1.1	1.1	1.1
External grants	0.4	0.4	0.3	1.9	0.7	0.5	0.5	0.5	0.5
Expenditure and net lending	12.7	10.8	9.5	12.0	12.6	13.0	13.3	13.4	13.6
Fiscal balance, including grants (cash basis)	-4.2	-2.6	-2.0	-1.5	-1.7	-1.8	-1.8	-1.6	-1.6
Total financing (including residuals and excluding privatization)	4.2	2.6	2.0	1.5	1.7	1.8	1.8	1.6	1.6
External financing	0.1	0.3	0.2	1.0	0.3	0.3	0.2	-0.1	-0.1
Domestic financing	4.3	2.5	1.9	1.0	1.1	1.5	1.5	1.7	1.7
Public debt [4]	48.9	40.2	34.8	49.8	42.6	39.7	37.2	34.5	32.1
Domestic debt	24.9	22.1	19.3	19.3	15.9	15.4	15.1	15.3	15.4
External debt (including to the IMF)	24.0	18.1	15.4	30.4	26.6	24.3	22.1	19.2	16.7
Overall balance of payments (in millions of U.S. dollars)	-2,639	-809	330	246	-2,759	919	1,278	1,044	1,417
Gross official reserves (in millions of U.S. dollars)	1,495	1,026	1,432	3,751	5,025	7,105	10,194	11,201	12,573
(months of prospective imports of goods and nonfactor services)	0.8	0.5	0.6	1.7	2.1	2.7	3.5	3.4	3.4
GDP at current market prices (billions of birr)	6,157	8,723	11,752	14,856	18,331	21,827	25,796	30,377.1	35,398.1

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] The base is December 2016.

[2] Projections from 24/25 include impact of CBE recapitalization.

[3] Based on data from Central Statistical Agency (CSA), except for the current account balance, which is based on balance of payments (BOP) data from National Bank of Ethiopia

[4] Public and publicly guaranteed external debt, which includes long-term foreign liabilities of NBE and external debt of Ethio-Telecom. Does not include expected debt relief.

Table 2a. Ethiopia: General Government Financial Operations, 2021/22–2029/30[1]

(Millions of Birr)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
			Prel.	Proj.	Projections				
Total revenue and grants	525,736	717,149	887,178	1,547,364	1,992,429	2,451,293	2,970,854	3,588,649	4,251,661
Revenue	499,043	685,021	854,146	1,263,329	1,863,935	2,337,190	2,851,498	3,449,807	4,085,898
Tax revenue	436,753	595,135	723,768	1,085,851	1,655,888	2,089,470	2,558,726	3,105,047	3,684,153
Direct taxes	206,825	265,385	340,763	406,133	611,422	816,813	987,645	1,189,329	1,405,570
Indirect taxes	229,927	329,749	383,006	679,717	1,044,466	1,272,658	1,571,081	1,915,718	2,278,582
Domestic indirect taxes	98,617	161,197	204,502	312,520	466,052	621,429	819,207	1,051,955	1,243,220
Import duties and taxes [2]	131,310	168,553	178,504	367,197	578,414	651,229	751,874	863,763	1,035,363
Nontax revenue	62,290	89,887	130,378	177,479	208,048	247,720	292,772	344,760	401,745
Grants	26,693	32,128	33,032	284,034	128,494	114,102	119,356	138,842	165,763
Program grants	0	2,426	0	198,482	33,240	15,140	16,430	17,662	24,554
Project grants	26,693	29,701	33,032	85,552	95,254	98,962	102,926	121,180	141,210
Total expenditure and net lending (cash basis)	781,789	943,881	1,120,903	1,777,110	2,307,177	2,833,262	3,422,290	4,059,494	4,800,331
Recurrent expenditure [3]	518,302	588,122	653,136	1,135,967	1,408,733	1,726,498	2,092,049	2,493,019	2,920,820
Defense spending	102,617	82,825	71,122	80,430	93,537	111,374	131,629	155,003	165,571
Poverty-reducing expenditure [4]	208,540	234,055	262,969	441,087	676,812	846,167	1,050,058	1,236,518	1,440,901
Education	127,506	145,117	162,037	272,426	403,388	504,325	625,847	736,979	858,794
Health	47,267	53,596	61,108	102,738	171,143	213,967	265,524	312,673	364,355
Agriculture	23,282	26,288	29,632	49,820	77,458	96,839	120,174	141,513	164,904
Natural resources	7,779	6,928	7,453	11,777	18,310	22,892	28,408	33,452	38,981
Roads	2,706	2,126	2,738	4,327	6,514	8,144	10,106	11,901	13,868
Interest payments	38,513	54,544	68,888	159,905	223,332	250,049	297,083	379,319	472,799
Domestic interest and charges	26,602	41,557	56,774	140,125	190,930	215,804	261,791	343,152	434,883
External interest payments [5]	11,911	12,987	12,114	19,780	32,402	34,245	35,292	36,166	37,916
Other recurrent expenditure	168,632	216,699	250,157	454,545	415,052	518,908	613,279	722,180	841,549
Capital expenditure	263,488	355,759	467,767	641,143	898,444	1,106,764	1,330,241	1,566,474	1,879,511
Central treasury	216,570	284,022	382,496	484,964	701,635	915,954	1,116,106	1,341,860	1,639,232
External project grants	26,693	29,701	33,032	85,552	95,254	98,962	102,926	121,180	141,210
External project loans	20,224	42,036	52,239	70,627	101,555	91,848	111,209	103,434	99,070
Overall balance									
Including grants	-256,054	-226,733	-233,725	-229,746	-314,747	-381,969	-451,436	-470,844	-548,670
Excluding grants	-282,747	-258,860	-266,757	-513,780	-443,241	-496,072	-570,792	-609,686	-714,433
Financing	265,726	243,219	240,422	229,746	314,747	381,969	451,436	470,844	548,670
Net external financing	3,295	28,976	24,579	147,195	50,395	56,940	61,657	-31,987	-38,221
Gross borrowing [6]	20,224	51,843	52,239	213,007	183,950	190,717	192,112	103,434	99,070
IMF budget support				83,021	35,794	0	0	0	0
Project loans	20,224	42,036	52,239	70,627	101,555	91,848	111,209	103,434	99,070
Budget support	0	9,807	0	59,358	46,601	98,869	80,903	0	0
Exceptional financing	0	0	0	179,727	170,069	-31,210	-1,051	0	0
G20 Debt Service Suspension Initiative	0	0	0	0	0	0	0	0	0
Debt Service Moratorium				179,727	0	0	0	0	0
Principal				169,802	0	0	0	0	0
Interest				9,925	0	0	0	0	0
Expected debt service relief	0	0	0	0	170,069	-31,210	-1,051	0	0
Amortization, due	-16,929	-22,867	-27,659	-245,538	-303,624	-102,567	-129,404	-135,421	-137,291
Net domestic financing [7]	262,431	214,243	226,077	146,751	200,153	325,030	389,780	502,831	586,891
o/w gross advances from NBE	61,201	189,543	121,363	0	0	0	0	0	0
o/w T-bills and T-bonds	201,230	24,700	104,714	146,751	200,153	325,030	389,780	502,831	586,891
o/w Other (incl. net deposit withdrawal)	0	0	0	0	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	0	0	0	0
Other below-the-line operations [8]	-9,673	-16,486	-6,697	-64,200	64,200	0	0	0	0
Unidentified				0	0	0	0	0	0
CBE recapitalization									
Total debt outstanding			900,000	900,000	900,000	900,000	771,429	642,858	518,572
Debt service			0	76,050	84,500	88,725	213,071	201,071	186,429
Amortization			0	0	0	0	128,571	128,571	124,286
Interest (included in the budgetary central government)			0	76,050	84,500	88,725	84,500	72,500	62,143
Total net financing (budgetary plus CBE recap. amortization)			240,422	229,746	314,747	381,969	580,007	599,415	672,956

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Government financial statistics are reported by the authorities based on GFSM 1986.

[2] Includes full on-budget recognition of fuel taxes (VAT, excise, social welfare duty) starting in FY2025/26.

[3] Excluding special programs (demobilization and reconstruction).

[4] Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

[5] External interest due in 2025/26-2027/28 is on pre-restructuring basis and does not include expected repayment of suspended interest. External interest in 2024/25 is on paid basis.

[6] Includes prospective donor financing to close the financing gap.

[7] Net domestic financing is derived as a residual financing source in projection years.

[8] Negative amounts signify overfinancing, with FY2025/26 reflecting timeline of DPO2 disbursement.

Table 2b. Ethiopia: General Government Financial Operations, 2021/22–2029/30[1]

(Percent of GDP)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		Prel.	Proj.			Projections		
Total revenue and grants	8.5	8.2	7.5	10.4	10.9	11.2	11.5	11.8	12.0
Revenue	8.1	7.9	7.3	8.5	10.2	10.7	11.1	11.4	11.5
Tax revenue	7.1	6.8	6.2	7.3	9.0	9.6	9.9	10.2	10.4
Direct taxes	3.4	3.0	2.9	2.7	3.3	3.7	3.8	3.9	4.0
Indirect taxes	3.7	3.8	3.3	4.6	5.7	5.8	6.1	6.3	6.4
Domestic indirect taxes	1.6	1.8	1.7	2.1	2.5	2.8	3.2	3.5	3.5
Import duties and taxes [2]	2.1	1.9	1.5	2.5	3.2	3.0	2.9	2.8	2.9
Nontax revenue	1.0	1.0	1.1	1.2	1.1	1.1	1.1	1.1	1.1
Grants	0.4	0.4	0.3	1.9	0.7	0.5	0.5	0.5	0.5
Program grants	0.0	0.0	0.0	1.3	0.2	0.1	0.1	0.1	0.1
Project grants	0.4	0.3	0.3	0.6	0.5	0.5	0.4	0.4	0.4
Total expenditure and net lending (cash basis)	12.7	10.8	9.5	12.0	12.6	13.0	13.3	13.4	13.6
Recurrent expenditure [3]	8.4	6.7	5.6	7.6	7.7	7.9	8.1	8.2	8.3
Defense spending	1.7	0.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Poverty-reducing expenditure [4]	3.4	2.7	2.2	3.0	3.7	3.9	4.1	4.1	4.1
Education	2.1	1.7	1.4	1.8	2.2	2.3	2.4	2.4	2.4
Health	0.8	0.6	0.5	0.7	0.9	1.0	1.0	1.0	1.0
Agriculture	0.4	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
Natural resources	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Roads	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	0.6	0.6	0.6	1.1	1.2	1.1	1.2	1.2	1.3
Domestic interest and charges	0.4	0.5	0.5	0.9	1.0	1.0	1.0	1.1	1.2
External interest payments [5]	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Other recurrent expenditure	2.7	2.5	2.1	3.1	2.3	2.4	2.4	2.4	2.4
Capital expenditure	4.3	4.1	4.0	4.3	4.9	5.1	5.2	5.2	5.3
Central treasury	3.5	3.3	3.3	3.3	3.8	4.2	4.3	4.4	4.6
External project grants	0.4	0.3	0.3	0.6	0.5	0.5	0.4	0.4	0.4
External project loans	0.3	0.5	0.4	0.5	0.6	0.4	0.4	0.3	0.3
Overall balance									
Including grants	-4.2	-2.6	-2.0	-1.5	-1.7	-1.8	-1.8	-1.6	-1.6
Excluding grants	-4.6	-3.0	-2.3	-3.5	-2.4	-2.3	-2.2	-2.0	-2.0
Financing	4.3	2.8	2.0	1.5	1.7	1.8	1.8	1.6	1.6
Net external financing	0.1	0.3	0.2	1.0	0.3	0.3	0.2	-0.1	-0.1
Gross borrowing [6]	0.3	0.6	0.4	1.4	1.0	0.9	0.7	0.3	0.3
IMF budget support				0.6	0.2	0.0	0.0	0.0	0.0
Project loans	0.3	0.5	0.4	0.5	0.6	0.4	0.4	0.3	0.3
Budget Support	0.0	0.1	0.0	0.4	0.3	0.5	0.3	0.0	0.0
Exceptional financing			0.0	1.2	0.9	-0.1	0.0	0.0	0.0
G20 Debt Service Suspension Initiative	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Service Moratorium				1.2	0.0	0.0	0.0	0.0	0.0
Principal				1.1	0.0	0.0	0.0	0.0	0.0
Interest				0.1	0.0	0.0	0.0	0.0	0.0
Expected debt service relief	0.0	0.0	0.0	0.0	0.9	-0.1	0.0	0.0	0.0
Amortization, due	-0.3	-0.3	-0.2	-1.7	-1.7	-0.5	-0.5	-0.4	-0.4
Net domestic financing [7]	4.3	2.5	1.9	1.0	1.1	1.5	1.5	1.7	1.7
o/w gross advances from NBE	1.0	2.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w T-bills and T-bonds	3.3	0.3	0.9	1.0	1.1	1.5	1.5	1.7	1.7
o/w Other (incl. net deposit withdrawal)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other below-the-line operations [8]	-0.2	-0.2	-0.1	-0.4	0.4	0.0	0.0	0.0	0.0
Unidentified									
CBE recapitalization									
Total debt outstanding			7.7	6.1	4.9	4.1	3.0	2.1	1.5
Debt service			0.0	0.5	0.5	0.4	0.8	0.7	0.5
Amortization			0.0	0.0	0.0	0.0	0.5	0.4	0.4
Interest (included in the budgetary central government)			0.0	0.5	0.5	0.4	0.3	0.2	0.2
Total net financing (budgetary plus CBE recap. amortization)			2.0	1.5	1.7	1.8	2.2	2.0	1.9
Memorandum items :									
Primary fiscal balance, including grants	-3.5	-2.0	-1.4	-0.5	-0.5	-0.6	-0.6	-0.3	-0.2

Sources: Ethiopian authorities and IMF staff estimates and projections. The Ethiopian fiscal year ends July 7.

[1] Government financial statistics are reported by the authorities based on GFSM 1986.

[2] Includes full on-budget recognition of fuel taxes (VAT, excise, social welfare duty) starting in FY2025/26.

[3] Excluding special programs (demobilization and reconstruction).

[4] Poverty-reducing spending is defined to include total spending on health, education, agriculture, roads, and food security.

[5] External interest due in 2025/26-2027/28 is on pre-restructuring basis and does not include expected repayment of suspended interest. External interest in 2024/25 is on paid basis.

[6] Includes prospective donor financing to close the financing gap.

[7] Net domestic financing is derived as a residual financing source in projection years.

[8] Negative amounts signify overfinancing, with FY2025/26 reflecting timeline of DPO2 disbursement.

Table 3a. Ethiopia: Monetary Survey and Central Bank Accounts, 2021/22–2029/30

(Millions of Birr)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		Prel.	Proj.	Projections				
				I. Depository Corporation Survey					
Monetary survey									
Net foreign assets	-111,428	-160,098	-245,300	-214,518	-110,682	123,862	548,962	758,399	1,036,213
Central bank	-134,219	-191,423	-288,909	-434,011	-375,626	-153,149	261,944	461,672	732,317
Commercial banks	22,791	31,325	43,609	219,492	264,944	277,011	287,018	296,727	303,896
Net domestic assets	1,826,738	2,330,946	2,723,192	3,287,104	3,932,263	4,607,195	5,098,715	5,944,433	6,874,818
Domestic credit [1]	1,975,445	2,489,258	2,839,075	3,468,016	4,204,165	5,113,456	5,991,240	7,019,307	8,141,219
Claims on government (net) [2]	422,864	573,676	745,541	1,624,610	1,737,232	1,899,747	2,094,636	2,346,052	2,639,498
Claims on nongovernment	1,552,580	1,915,582	2,093,534	1,843,406	2,466,933	3,213,710	3,896,603	4,673,255	5,501,722
Public enterprises	736,949	816,894	788,842	272,357	440,279	579,060	735,023	879,359	949,046
Private sector	815,631	1,098,689	1,304,692	1,571,049	2,026,654	2,634,650	3,161,580	3,793,896	4,552,675
Broad money	1,715,310	2,170,848	2,477,892	3,072,586	3,821,581	4,731,057	5,647,678	6,702,832	7,911,031
Money	588,016	706,142	822,499	986,030	1,209,786	1,479,998	1,758,388	2,076,551	2,419,572
Currency outside banks	173,383	211,637	205,441	213,210	242,427	275,868	317,871	363,066	385,641
Demand deposits	414,633	494,505	617,057	772,820	967,358	1,204,130	1,440,518	1,713,485	2,033,931
Quasi money	1,127,294	1,464,706	1,655,393	2,086,556	2,611,795	3,251,059	3,889,289	4,626,281	5,491,459
Savings deposits	1,016,049	1,315,260	1,461,904	1,843,392	2,307,421	2,872,186	3,436,038	4,087,142	4,851,494
Time deposits	111,245	149,446	193,489	243,164	304,374	378,873	453,251	539,139	639,965
Central bank									
Net foreign assets	-134,219	-191,423	-288,909	-434,011	-375,626	-153,149	261,944	461,672	732,317
Foreign assets	79,820	56,154	82,159	528,150	668,342	974,261	1,464,644	1,668,327	1,923,878
Foreign liabilities	214,038	247,577	371,069	962,160	1,043,969	1,127,410	1,202,700	1,206,655	1,191,561
Net domestic assets	496,717	669,895	762,133	1,010,056	1,087,181	1,016,172	786,765	782,224	735,330
Domestic credit	371,039	566,123	673,576	436,975	559,620	387,052	210,547	415,187	358,766
Government (net)	326,216	521,300	632,253	602,253	602,253	602,253	602,253	602,253	602,253
Other items (net)	125,678	103,772	88,557	573,081	527,561	629,120	576,218	367,037	376,565
Reserve money	362,499	478,472	473,223	576,045	711,554	863,023	1,048,709	1,243,895	1,467,647
Currency outside banks	173,383	211,637	205,441	213,210	242,427	275,868	317,871	363,066	385,641
Commercial bank reserves	189,116	266,835	267,782	362,835	469,127	587,155	730,838	880,830	1,082,006
Cash in vault	34,828	42,679	51,855	70,167	90,722	113,547	141,333	170,339	209,244
Reserve deposit	111,346	127,177	143,739	162,397	182,696	205,534	231,011	289,978	343,668
				(Annual percentage change, unless otherwise indicated)					
Monetary survey									
Net foreign assets	13617.2	43.7	53.2	-12.5	-48.4	-211.9	343.2	38.2	36.6
Net domestic assets	35.4	27.6	16.8	20.7	19.6	17.2	10.7	16.6	15.7
Domestic credit 1	28.4	26.0	14.1	22.2	21.2	21.6	17.2	17.2	16.0
Claims on government (net) [2]	97.4	35.7	30.0	117.9	6.9	9.4	10.3	12.0	12.5
Claims on nongovernment	17.2	23.4	9.3	-11.9	33.8	30.3	21.2	19.9	17.7
Public enterprises	11.6	10.8	-3.4	-65.5	61.7	31.5	26.9	19.6	7.9
Private sector	22.8	34.7	18.7	20.4	29.0	30.0	20.0	20.0	20.0
Broad money	27.2	26.6	14.1	24.0	24.4	23.8	19.4	18.7	18.0
Money	34.4	20.1	16.5	19.9	22.7	22.3	18.8	18.1	16.5
Quasi money	23.8	29.9	13.0	26.0	25.2	24.5	19.6	18.9	18.7
Memorandum items:									
Base money growth	37.2	32.0	-1.1	21.7	23.5	21.3	21.5	18.6	18.0
Nominal GDP growth	41.8	41.7	34.7	26.4	23.4	19.1	18.2	17.8	16.5
Excess reserve deposit (billions of birr)	22,206	66,804	33,241	92,512	127,864	161,744	216,418	266,707	345,985
Percent of deposits	2.1	3.4	1.5	3.2	3.6	3.6	4.1	4.2	4.6
Money multiplier (broad money/reserve money)	4.73	4.54	5.24	5.33	5.37	5.48	5.39	5.39	5.39
Velocity (GDP/broad money)	3.59	4.02	4.74	4.83	4.80	4.61	4.57	4.53	4.47
Currency-deposit ratio	0.112	0.108	0.090	0.075	0.068	0.062	0.060	0.057	0.051
Birr per U.S. dollar (end of period)	52.0	54.6	57.3	...	...	...	...	...	...
Nominal GDP (millions of birr)	6,157,015	8,723,117	11,752,138	14,855,881	18,331,234	21,826,823	25,796,367	30,377,055	35,398,052

Sources: NBE and IMF staff estimates and projections.

[1] Domestic credit projections for 24/25 include impact of the CBE recapitalization.

[2] Claims on the general government by the banking system less deposits of the general government with the banking system.

Table 3b. Ethiopia: Monetary Survey and Central Bank Accounts, 2021/22–2029/30

(In percent of GDP)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		Prel.	Proj.	Projections				
			Percent of GDP						
Monetary survey									
Net foreign assets	-1.8	-1.8	-2.1	-1.4	-0.6	0.6	2.1	2.5	2.9
Central bank	-2.2	-2.2	-2.5	-2.9	-2.0	-0.7	1.0	1.5	2.1
Commercial banks	0.4	0.4	0.4	1.5	1.4	1.3	1.1	1.0	0.9
Net domestic assets	29.7	26.7	23.2	22.1	21.5	21.1	19.8	19.6	19.4
Domestic credit [1]	32.1	28.5	24.2	23.3	22.9	23.4	23.2	23.1	23.0
Claims on government (net) [2]	6.9	6.6	6.3	10.9	9.5	8.7	8.1	7.7	7.5
Claims on nongovernment	25.2	22.0	17.8	12.4	13.5	14.7	15.1	15.4	15.5
Public enterprises	12.0	9.4	6.7	1.8	2.4	2.7	2.8	2.9	2.7
Private sector	13.2	12.6	11.1	10.6	11.1	12.1	12.3	12.5	12.9
Broad money	27.9	24.9	21.1	20.7	20.8	21.7	21.9	22.1	22.3
Money	9.6	8.1	7.0	6.6	6.6	6.8	6.8	6.8	6.8
Currency outside banks	2.8	2.4	1.7	1.4	1.3	1.3	1.2	1.2	1.1
Demand deposits	6.7	5.7	5.3	5.2	5.3	5.5	5.6	5.6	5.7
Quasi money	18.3	16.8	14.1	14.0	14.2	14.9	15.1	15.2	15.5
Savings deposits	16.5	15.1	12.4	12.4	12.6	13.2	13.3	13.5	13.7
Time deposits	1.8	1.7	1.6	1.6	1.7	1.7	1.8	1.8	1.8
Central bank									
Net foreign assets	-2.2	-2.2	-2.5	-2.9	-2.0	-0.7	1.0	1.5	2.1
Foreign assets	1.3	0.6	0.7	3.6	3.6	4.5	5.7	5.5	5.4
Foreign liabilities	3.5	2.8	3.2	6.5	5.7	5.2	4.7	4.0	3.4
Net domestic assets	8.1	7.7	6.5	6.8	5.9	4.7	3.0	2.6	2.1
Domestic credit	6.0	6.5	5.7	2.9	3.1	1.8	0.8	1.4	1.0
Government (net)	5.3	6.0	5.4	4.1	3.3	2.8	2.3	2.0	1.7
Other items (net)	2.0	1.2	0.8	3.9	2.9	2.9	2.2	1.2	1.1
Reserve money	5.9	5.5	4.0	3.9	3.9	4.0	4.1	4.1	4.1
Currency outside banks	2.8	2.4	1.7	1.4	1.3	1.3	1.2	1.2	1.1
Commercial bank reserves	3.1	3.1	2.3	2.4	2.6	2.7	2.8	2.9	3.1
Cash in vault	0.6	0.5	0.4	0.5	0.5	0.5	0.5	0.6	0.6
Reserve deposit	1.8	1.5	1.2	1.1	1.0	0.9	0.9	1.0	1.0
Nominal GDP (millions of birr)	6,157,015	8,723,117	11,752,138	14,855,881	18,331,234	21,826,823	25,796,367	30,377,055	35,398,052

Sources: NBE and IMF staff estimates and projections.

[1] Domestic credit projections for 24/25 include impact of the CBE recapitalization.

[2] Claims on the general government by the banking system less deposits of the general government with the banking system.

Table 4a. Ethiopia: Summary Balance of Payments, 2021/22–2029/30

(In millions of U.S. dollars)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		Prel.	Proj.			Projections		
(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance [1]	-5,134	-4,671	-6,014	-4,037	-4,282	-4,152	-3,743	-4,484	-5,242
Excl. official transfers [1]	-6,270	-5,764	-7,153	-5,444	-5,830	-5,802	-5,452	-6,246	-7,263
Trade balance	-13,991	-13,512	-14,642	-13,731	-14,164	-14,386	-14,713	-16,310	-18,545
Exports of goods	4,101	3,618	3,799	6,370	6,106	6,938	8,062	8,970	10,046
Imports of goods	-18,092	-17,130	-18,441	-20,101	-20,270	-21,324	-22,775	-25,280	-28,591
Services (net)	1,213	1,399	1,610	1,878	2,318	2,241	2,873	3,382	3,993
Exports	6,350	7,174	7,866	8,268	8,867	9,576	11,294	13,078	14,975
Imports	-5,137	-5,775	-6,256	-6,390	-6,549	-7,335	-8,421	-9,697	-10,982
Income (net) [1]	-574	-449	-332	-768	-927	-940	-970	-948	-948
Private transfers (net)	7,082	6,798	6,211	7,178	6,943	7,283	7,358	7,631	8,237
Official transfers (net) [1]	1,136	1,093	1,139	1,407	1,548	1,650	1,708	1,762	2,021
Capital account balance [1]	1,975	2,977	5,819	1,918	1,523	5,070	5,021	5,528	6,659
Foreign direct investment (net, incl. privatization)	3,308	3,428	3,906	3,956	4,075	4,462	5,224	5,944	6,904
Other investment (net) [1]	-1,333	-451	1,913	-2,037	-2,552	608	-202	-416	-245
Federal government	274	1,943	595	-643	-641	848	709	1,049	1,020
Disbursements [1]	616	2,372	1,090	1,145	1,517	1,543	1,551	1,900	1,858
Amortization [1]	-343	-429	-494	-1,788	-2,158	-695	-842	-851	-839
Other public sector [1,2]	-1,668	-860	1,782	-611	-1,586	-498	-1,195	-1,776	-1,607
Disbursements	291	541	2,536	950	1,137	812	528	174	164
Amortization [1]	-1,959	-1,401	-754	-1,561	-2,722	-1,309	-1,722	-1,950	-1,771
Private sector borrowing (net)	0	0	73	215	234	257	283	311	343
Other (net)	62	-1,534	-536	-998	-560	0	0	0	0
Errors and omissions	520	885	525	-699	0	0	0	0	0
Overall balance	-2,639	-809	330	-2,817	-2,759	919	1,278	1,044	1,417
Financing	2,639	809	-330	2,817	2,759	-919	-1,278	-1,044	-1,417
Central bank (net; increase –)	1,371	469	-618	-915	-557	-1,619	-2,645	-1,044	-1,417
Reserves (increase –)	1,371	469	-406	-2,319	-1,274	-2,080	-3,089	-1,007	-1,372
Liabilities (increase +)	0	0	-212	1,404	718	461	444	-37	-45
IMF credit (net)	0	0	-212	1,404	718	461	444	-37	-45
of which: IMF Rapid Financing Instrument (RFI)	…	…	…	…	…	…	…	…	…
SDR allocation	397	0	0	0	0	0	0	0	0
Prospective donor financing	0	0	0	1,500	1,000	700	550	0	0
of which: grants	*0*	*0*	0	1,000	*650*	*0*	*0*	*0*	*0*
Exceptional Financing	720	475	288	3,063	2,766	0	817	0	0
Debt service restructuring [3]	663	475	288	3,063	2,766	0	817	0	0
Reprofiling of external sovereign deposits at NBE, 2020		*475*	*288*	*0*	*0*	*0*	*0*	*0*	*0*
Debt Service Moratorium		*0*	*0*	*3,063*	*0*	*0*	*0*	*0*	
Other restructuring (incl. pros. G20 CF)	*0*	*0*	*0*	*0*	*2,766*	*0*	*817*	*0*	*0*
G20 Debt Service Suspension Initiative [3]	57	0	0	0	0	0	0	0	0
IMF CCR Trust debt relief	1	0	0	0	0	0	0	0	0
(Annual percentage change, unless otherwise indicated)									
Memorandum items:									
Exports of goods	13.4	-11.8	5.0	67.7	-4.1	13.6	16.2	11.3	12.0
Imports of goods	26.6	-5.3	7.7	9.0	0.8	5.2	6.8	11.0	13.1
Services exports	29.7	13.0	9.6	5.1	7.2	8.0	17.9	15.8	14.5
Services imports	19.2	12.4	8.3	2.1	2.5	12.0	14.8	15.2	13.2
Private transfers	15.7	-4.0	-8.6	15.6	-3.3				
Exports of goods and services (percent of GDP)	8.2	6.6	5.6	11.7	11.0	10.7	11.0	11.0	11.1
Imports of goods and services (percent of GDP)	-18.3	-14.0	-11.8	-21.2	-19.7	-18.5	-17.8	-17.5	-17.5
Trade balance (percent of GDP)	-11.0	-8.3	-7.0	-11.0	-10.4	-9.3	-8.4	-8.2	-8.2
Private transfers (net, percent of GDP)	5.6	4.2	3.0	5.7	5.1	4.7	4.2	3.8	3.6
Gross official reserves (millions U.S. dollars)	1,495	1,026	1,432	3,751	5,025	7,105	10,194	11,201	12,573
(Months of following year's imports of goods and services)	0.8	0.5	0.6	1.7	2.1	2.7	3.5	3.4	3.4

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Excludes prospective donor financing such as budget support grants and/or exceptional financing such as a debt service moratorium, following the analytical presentation.

[2] Includes net borrowing by state-owned enterprises and the central bank's long-term non-IMF liabilities.

[3] Staff estimates.

Table 4b. Ethiopia: Summary Balance of Payments, 2021/22–2029/30

(In percent of GDP)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Actual		Prel.	Proj.	Projections				
	(Percent of GDP, unless otherwise indicated)								
Current account balance [1]	-4.0	-2.9	-2.9	-3.2	-3.1	-2.7	-2.1	-2.2	-2.3
Excl. official transfers [1]	-4.9	-3.5	-3.4	-4.4	-4.3	-3.8	-3.1	-3.1	-3.2
Trade balance	-11.0	-8.3	-7.0	-11.0	-10.4	-9.3	-8.4	-8.2	-8.2
Exports of goods	3.2	2.2	1.8	5.1	4.5	4.5	4.6	4.5	4.4
Imports of goods	-14.3	-10.5	-8.8	-16.1	-14.9	-13.8	-13.0	-12.7	-12.7
Services (net)	1.0	0.9	0.8	1.5	1.7	1.5	1.6	1.7	1.8
Exports	5.0	4.4	3.7	6.6	6.5	6.2	6.4	6.6	6.6
Imports	-4.1	-3.5	-3.0	-5.1	-4.8	-4.7	-4.8	-4.9	-4.9
Income (net) [1]	-0.5	-0.3	-0.2	-0.6	-0.7	-0.6	-0.6	-0.5	-0.4
Private transfers (net)	5.6	4.2	3.0	5.7	5.1	4.7	4.2	3.8	3.6
Official transfers (net) [1]	0.9	0.7	0.5	1.1	1.1	1.1	1.0	0.9	0.9
Capital account balance [1]	1.6	1.8	2.8	1.5	1.1	3.3	2.9	2.8	2.9
Foreign direct investment (net, incl. privatization)	2.6	2.1	1.9	3.2	3.0	2.9	3.0	3.0	3.1
Other investment (net) [1,2]	-1.1	-0.3	0.9	-1.6	-1.9	0.4	-0.1	-0.2	-0.1
Federal government	0.2	1.2	0.3	-0.5	-0.5	0.5	0.4	0.5	0.5
Disbursements [1]	0.5	1.4	0.5	0.9	1.1	1.0	0.9	1.0	0.8
Amortization [1]	-0.3	-0.3	-0.2	-1.4	-1.6	-0.4	-0.5	-0.4	-0.4
Other public sector [1]	-1.3	-0.5	0.8	-0.5	-1.2	-0.3	-0.7	-0.9	-0.7
Disbursements	0.2	0.3	2.0	0.7	0.8	0.5	0.3	0.1	
Amortization [1]	-1.2	-0.7	-0.6	-1.1	-2.0	-0.8	-1.0	-1.0	
Private sector borrowing (net)	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Other (net)	0.0	-0.9	-0.3	-0.8	-0.4	0.0	0.0	0.0	0.0
Errors and omissions	0.4	0.5	0.3	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance	-2.1	-0.5	0.2	-2.3	-2.0	0.6	0.7	0.5	0.6
Financing	2.1	0.5	-0.2	2.3	2.0	-0.6	-0.7	-0.5	-0.6
Central bank (net; increase –)	1.1	0.3	-0.3	-0.7	-0.4	-1.0	-1.5	-0.5	-0.6
Reserves (increase –)	1.1	0.3	-0.2	-1.9	-0.9	-1.3	-1.8	-0.5	-0.6
Liabilities (increase +)	0.0	0.0	-0.1	1.1	0.5	0.3	0.3	0.0	0.0
IMF credit (net)	0.0	0.0	-0.1	1.1	0.5	0.3	0.3	0.0	0.0
of which: IMF Rapid Financing Instrument (RFI)	…	…	…	…	…				
SDR allocation	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prospective donor financing	0.0	0.0	0.0	1.2	0.7	0.5	0.3	0.0	0.0
of which: grants	*0.0*	*0.0*	*0.0*	0.8	*0.5*	0.0	0.0	0.0	0.0
Exceptional Financing	0.6	0.3	0.1	2.4	2.0	0.0	0.5	0.0	0.0
Debt service restructuring [3]	0.5	0.3	0.1	2.4	2.0	0.0	0.5	0.0	0.0
Reprofiling of external sovereign deposits at NBE, 2020		*0.3*	*0.1*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
Debt Service Moratorium	*0.0*	*0.0*	*0.0*	*2.4*	*0.0*	0.0	0.0		
Other restructuring (incl. pros. G20 CF)	*0.0*	*0.0*	*0.0*	*0.0*	*2.0*	0.0	0.5	0.0	0.0
G20 Debt Service Suspension Initiative (DSSI) [3]	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0
IMF CCR Trust debt relief	0.0	0.0	0.0	0.0	0.0	0.0	N.A.	N.A.	N.A.
Gross official reserves	1.2	0.6	0.7	3.0	3.7	4.6	5.8	5.6	5.6

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Excludes prospective donor financing such as budget support grants and/or exceptional financing such as a debt service moratorium, following the analytical presentation.

[2] Includes net borrowing by state-owned enterprises and the central bank's long-term non-IMF liabilities.

[3] Staff estimates.

Table 5. Ethiopia: Financial Soundness Indicators of the Banking Sector[1]

(Percent, unless otherwise indicated)

	Jun-22	Jun-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Capital adequacy							
Capital to Risk-Weighted Assets	16.3	14.7	15.7	15.7	15.4	17.9	18.2
Capital to Assets	7.5	7.8	8.4	8.4	8.2	9.3	9.3
Asset quality							
NPLs to Total Loans	3.9	3.6	4.3	4.7	3.9	5.5	4.3
NPLs Net of Provisions to Capital	-4.7	-8.6	-2.6	-8.6	-0.9	0.6	0.1
Earning and profitability							
Return on Assets	2.4	2.0	1.4	1.7	2.0	-1.3	1.3
Return on Equity	32.6	25.7	17.4	21.5	24.6	-14.9	14.7
Gross Interest Income to Total Income	71.6	76.1	77.4	77.0	76.5	39.7	46.5
Interest Margin to Gross Income	42.3	45.3	46.2	46.8	47.4	25.2	30.0
Non-interest Expenses to Gross Income [2]	34.5	43.1	46.4	45.7	46.7	87.3	75.1
Liquidity							
Liquid Assets to Total Assets	21.0	19.3	16.5	16.4	17.8	18.7	19.7
Liquid Assets to Total Deposits	27.1	24.3	20.7	20.7	22.4	23.8	24.9

Sources: National Bank of Ethiopia

[1] Data after June 2024 reflects the impact of the CBE recapitalization and the July 2024 Asset Classification and Provisioning Directive (with updates to NPL definitions and provision requirements). Reported NPLs prior to July 2024 exclude non-performing government-guaranteed SOE debts, and are not adjusted for the results of the 2021 CBE AQR.

[2] Gross income comprises net interest income and total non-interest income.

Table 6. Ethiopia: External Financing Requirements and Sources, 2023/24–2027/28

(In millions of U.S. dollars, unless otherwise indicated)

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	Prel.	Projections				(FY2024/25-27/28)
External financing requirement	**9,020**	**12,160**	**12,490**	**9,941**	**11,177**	**45,767**
Current account deficit, excl. official transfers	7,153	5,444	5,830	5,802	5,452	22,527
Federal government amortization	494	1,788	2,158	695	842	5,483
Other public sector amortization[1]	754	1,561	2,722	1,309	1,722	7,315
Repayments to Fund	212	217	55	55	72	400
Change in gross reserves (increase +)	406	2,319	1,274	2,080	3,089	8,762
External financing sources	**7,593**	**4,569**	**6,404**	**7,075**	**7,586**	**25,632**
Foreign direct investment, excl. privatization	3,906	3,956	4,075	4,462	5,224	17,717
External loans to Federal government	1,090	1,145	1,517	1,543	1,551	5,757
Other public sector external borrowing	2,536	950	1,137	812	528	3,426
Short-term capital [3]	-463	-783	-326	257	283	-569
Errors and Omissions	525	-699	0	0	0	-699
Financing gap (need for financing +)	**1,427**	**7,591**	**6,086**	**2,866**	**3,591**	**20,135**
Expected financing	**1,427**	**4,470**	**1,548**	**1,650**	**1,708**	**9,377**
Official transfers	1,139	1,407	1,548	1,650	1,708	6,314
Privatization proceeds	0	0	0	0	0	0
Reprofiling of external sovereign deposits at NBE, 2020 [2]	288	0	0	0	0	0
Debt service moratorium [4]	0	3,063	0	0	0	3,063
Residual gap	**0**	**3,121**	**4,538**	**1,216**	**1,883**	**10,758**
IMF	0	1,621	773	516	516	3,425
Disbursements	*0*	*1,621*	*773*	*516*	*516*	3,425
Prospective debt restructuring	0	0	2,766	0	817	3,583
Prospective budget support	0	1,500	1,000	700	550	3,750
Memorandum items :						
Gross official reserves (millions U.S. dollars)	1,432	3,751	5,025	7,105	10,194	
(Months of following year's imports of goods and services)	0.6	1.7	2.1	2.7	3.5	

Sources: IMF staff projections and estimates.

[1] Includes guaranteed and non-guaranteed SOE loans and long-term debt of National Bank of Ethiopia (NBE).

[2] Represents reprofiling that was finalized under the previous ECF/EFF program and through recent negotiation.

[3] Includes SOE deposit accumulation abroad and private sector borrowing.

[4] Represents debt service moratorium until debt treatment discussion is finalized.

Table 7. Ethiopia: Access and Phasing Under the Extended Credit Facility

Date of availability	Condition for disbursement	Amount		Percent of quota[1]	
		SDR million	Percent share of total	Specific review	Cumulative
July 29, 2024	Executive Board approval of the ECF arrangement	766.75	30.0	255.0	255.0
September 10, 2024	Observance of continuous performance criteria (PCs) and PCs for August 16, 2024 and completion of the first review	255.60	10.0	85.0	340.0
December 10, 2024	Observance of continuous PCs and PCs for end-September 2024 and completion of the second review	191.70	7.5	63.8	403.7
April 15, 2025	Observance of continuous PCs and PCs for end-December 2024 and completion of the third review	191.70	7.5	63.8	467.5
October 15, 2025	Observance of continuous PCs and PCs for end-June 2025 and completion of the fourth review	191.70	7.5	63.8	531.2
April 15, 2026	Observance of continuous PCs and PCs for end-December 2025 and completion of the fifth review	191.70	7.5	63.8	595.0
October 15, 2026	Observance of continuous PCs and PCs for end-June 2026 and completion of the sixth review	191.70	7.5	63.8	658.7
April 15, 2027	Observance of continuous PCs and PCs for end-December 2026 and completion of the seventh review	191.70	7.5	63.8	722.5
October 15, 2027	Observance of continuous PCs and PCs for end-June 2027 and completion of the eighth review	191.70	7.5	63.8	786.2
April 15, 2028	Observance of continuous PCs and PCs for end-December 2027 and completion of the ninth review	191.70	7.5	63.8	850.0
	Total	2555.95	100.0	850.0	

Source: IMF staff calculations.

[1] Ethiopia's quota is SDR 300.7 million.

Table 8. Ethiopia: Indicators of Fund Credit, 2024/25–2039/40[1]

(In millions of SDR unless stated otherwise)

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40
Fund obligations based on existing credit																
(In millions of SDR)																
Principal	165.4	41.8	41.8	55.1	28.4	136.5	242.8	242.8	242.8	242.8	140.6	0.0	0.0	0.0	0.0	0.0
Charges and interest (excl. obligations to SDR department)	7.9	2.4	1.8	1.3	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit [2]																
(In millions of SDR)	173.3	44.1	43.6	56.4	29.2	136.7	281.2	377.0	453.7	530.4	389.8	230.0	134.2	57.5	0.0	0.0
Principal	165.4	41.8	41.8	55.1	28.4	136.5	281.2	377.0	453.7	530.4	389.8	230.0	134.2	57.5	0.0	0.0
PRGT	0.0	26.7	26.7	40.1	13.4	129.0	281.2	377.0	453.7	530.4	389.8	230.0	134.2	57.5	0.0	0.0
EFF	15.0	15.0	15.0	15.0	15.0	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RFI	150.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest (excl. obligations to SDR department)	7.9	2.4	1.8	1.3	0.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit [2]																
In millions of SDRs	173.3	44.1	43.6	56.4	29.2	136.7	281.2	377.0	453.7	530.4	389.8	230.0	134.2	57.5	0.0	0.0
In millions of U.S. dollars	230.5	58.9	58.3	75.6	39.1	183.1	376.7	505.1	607.9	710.6	522.2	308.2	179.8	77.1	0.0	0.0
In percent of general government revenue	2.2	0.4	0.4	0.4	0.2	0.7	1.3	1.5	1.6	1.6	1.0	0.5	0.3	0.1	0.0	0.0
In percent of exports of goods and services	1.6	0.4	0.4	0.4	0.2	0.7	1.3	1.6	1.7	1.7	1.1	0.6	0.3	0.1	0.0	0.0
In percent of total external debt service	18.5	1.0	1.9	2.1	1.0	5.2	14.3	17.2	20.0	22.5	16.5	10.6	6.8	3.1	0.0	0.0
In percent of gross international reserves	6.1	1.2	0.8	0.7	0.3	1.5	2.6	3.2	3.4	3.5	2.4	1.3	0.7	0.3	0.0	0.0
In percent of GDP	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	57.6	14.7	14.5	18.8	9.7	45.5	93.5	125.4	150.9	176.4	129.6	76.5	44.6	19.1	0.0	0.0
Outstanding Fund credit (end of period)																
In millions of SDRs	1,415.3	1,948.7	2,290.3	2,618.6	2,590.2	2,453.7	2,172.6	1,795.6	1,341.9	811.5	421.7	191.7	57.5	0.0	0.0	0.0
In millions of U.S. dollars	1,882.6	2,598.2	3,061.1	3,508.5	3,470.4	3,287.6	2,910.9	2,405.7	1,797.9	1,087.3	565.1	256.8	77.1	0.0	0.0	0.0
In percent of general government revenue	19.6	19.3	18.9	18.4	15.6	12.8	9.8	7.1	4.6	2.5	1.1	0.4	0.1	0.0	0.0	0.0
In percent of exports of goods and services	12.9	17.4	18.5	18.1	15.7	13.1	10.3	7.5	4.9	2.6	1.2	0.5	0.1	0.0	0.0	0.0
In percent of total external debt	5.1	6.7	7.6	8.5	8.5	8.2	7.2	6.0	4.5	2.7	1.4	0.6	0.2	0.0	0.0	0.0
In percent of gross international reserves	50.2	51.7	43.1	34.4	31.0	26.1	20.3	15.1	10.0	5.4	2.6	1.1	0.3	0.0	0.0	0.0
In percent of GDP	1.5	1.9	2.0	2.0	1.7	1.5	1.1	0.8	0.5	0.3	0.1	0.1	0.0	0.0	0.0	0.0
In percent of quota	470.7	648.0	761.7	870.8	861.4	816.0	722.5	597.1	446.3	269.9	140.3	63.8	19.1	0.0	0.0	0.0
PRGT	448.2	630.5	749.2	863.3	858.9	816.0	722.5	597.1	446.3	269.9	140.3	63.8	19.1	0.0	0.0	0.0
EFF	22.5	17.5	12.5	7.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RFI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund credit (millions of SDR)	1,048.7	533.3	341.6	328.3	-28.4	-136.5	-281.2	-377.0	-453.7	-530.4	-389.8	-230.0	-134.2	-57.5	0.0	0.0
Disbursements	1,214.1	575.1	383.4	383.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	165.4	41.8	41.8	55.1	28.4	136.5	281.2	377.0	453.7	530.4	389.8	230.0	134.2	57.5	0.0	0.0
Debt relief under the CCRT [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:																
General government revenue (billions of birr)	1,263.3	1,863.9	2,337.2	2,851.5	3,449.8	4,085.9	4,793.4	5,595.1	6,548.8	7,654.2	8,949.8	10,441.2	12,160.0	13,741.8	15,467.2	17,364.1
Exports of goods and services (billions of U.S. dollars)	14.6	15.0	16.5	19.4	22.0	25.0	28.3	32.1	36.4	41.3	46.7	52.6	60.2	66.4	72.1	78.1
Total debt service (millions of U.S. dollars)																
Gross international reserves (billions of U.S. dollars)	3.8	5.0	7.1	10.2	11.2	12.6	14.3	15.9	18.0	20.1	21.4	23.3	26.1	29.1	31.3	32.1
In months of prospective imports	1.7	2.1	2.7	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.3	3.2	3.3	3.4	3.3	3.2
Nominal GDP (billions of U.S. dollars)	125.1	136.2	154.5	175.4	199.5	226.0	256.6	291.9	332.7	379.4	432.0	490.7	557.5	611.1	667.6	728.0
SDR per U.S. dollar (period average)	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Quota (millions of SDR)	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7	300.7

Source: IMF staff estimates and projections.

[1] Year ending June 30th.

[2] Including the proposed disbursements under the ECF.

[3] Currently available on debt service to the Fund falling due until October 15, 2021. Subsequent relief is contingent on availability of financing for the Trust.

Table 9. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024–December 2024

(All figures in millions of Ethiopian Birr, unless otherwise specified)

	end-Jun 2024	Aug. 16, 2024[1]			end-Sep 2024				end-Dec 2024		
	Prel. Initial level	Performance Criteria			Performance Criteria				Performance Criteria		
		Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prel.	Status
Quantitative performance criteria											
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [2/, 3/]	150,000	N/A	N/A	N/A	42,000		-5,972	Met	69,000	-108,105	Met
Net international reserves (floor, cumulative change since previous June, US$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	534	1,242	Met	500	1,224	Met
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	384,000	N/A	N/A	N/A	86,000	N/A	153,542	Met	192,000	358,407	Met
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10,895	Met	0	N/A	-6,727	Met	0	-21,994	Met
Continuous performance criteria											
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [4/]		0	0	Met	0	N/A	0	Met	0	0	Met
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)		0	0	Met	0	N/A	0	Met	0	0	Met
Indicative targets											
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) [3/, 5/]	747,485	N/A	N/A	N/A	37,000	N/A	-641,549	Met	74,000	26,709	Met
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [6/]	9,000	N/A	N/A	N/A	6,500	N/A	2,370	Not Met	22,100	22,532	Met
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US$ millions)		N/A	N/A	N/A	2,000	N/A	248	Met	2,500	629	Met
Memorandum items:											
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	791				1,211		1,225		1,419	1,704	
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	627				638		657		775	797	
Gross privatization proceeds (US$ millions, cumulative since previous June)	0				0		0		0	0	

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/Not all quantitative performance criteria and indicative targets were assessed at the First Review given data availability.

2/ Excluding on-lending from the general government.

3/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

4/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

5/ IT on gross claims on public enterprises by commercial banks exclude changes in claims related to CBE recapitalization (665,814 billion birr)

6/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

Table 10. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2025–June 2026

(All figures in millions of Ethiopian Birr, unless otherwise specified)

	end-Mar 2025 Indicative Target			end-Jun 2025 Performance Criteria	end-Sep 2025 Indicative Target	end-Dec 2025 Performance Criteria	end-Mar 2026 Indicative Target	end-Jun 2026 Performance Criteria
	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Proposed	Proposed
Quantitative performance criteria								
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [1/, 2/]	95,000	-85,203	Met	106,000	76,000	105,000	108,000	115,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,408	Met	400	200	400	400	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	347,000	509,297	Met	578,000	120,000	276,000	525,000	850,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-32399	Met	0	0	0	0	0
Continuous performance criteria								
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [3/]	0	0	Met	0	0	0	0	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	Met	0	0	0	0	0
Indicative targets								
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/, 4/]	110,000	93,110	Met	147,000	50,000	95,000	139,000	185,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [5/]	33,200	35,722	Met	51,400	8,500	22,500	33,500	57,400
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US$ millions)	2,750		TBD	3,000	2,000	2,500	2,750	3,000
Memorandum items:								
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	2,055			2,407	696	1,042	1,238	1,434
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,359			1,645	379	1,109	1,488	1,867
Gross privatization proceeds (US$ millions, cumulative since previous June)	0			0	0	0	0	0

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

2/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

3/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

4/ For the IT on gross claims on public enterprises by commercial banks, March-June 2025 test date excludes changes in claims related to CBE recapitalization.

5/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

Table 11. Ethiopia: Prior Actions and Structural Benchmarks

Measure	Rationale	Board Approved Target Date	Status
Prior Action			
1. The NBE to agree a plan with CBE to close its on-balance sheet NOP to comply with the prudential limit by end-2025, with at least half of the position above the limit as of end-April 2025 to be closed by end-September 2025.	Support FX market development, strengthen financial stability		New
2. The NBE to start posting all banks' fees and commissions for FX transactions with clients on the NBE's website.	Support FX market development		New
Structural Benchmark			
1. NBE to submit to Parliament comprehensive draft legal amendments to the NBE Proclamation, to be prepared in consultation with IMF staff, with respect to the NBE's mandate, decision-making structure (internal check and balances and collegial implementation of decisions), accountability, transparency, and autonomy.	Update and modernize governance of the NBE	End-December 2024	Not met
2. The NBE to finalize and publish audited financial statements for 2021/22–2022/23.	Update and modernize governance of the NBE	End-March 2025	Not met; implemented with delay
3. Ministry of Finance to start publication of a mid-year review on the implementation of the budget as of the middle of the fiscal year and a quarterly budget execution report for prior quarter, both for Federal Government.	Strengthen fiscal transparency	End-April 2025	Met
4. National Bank of Ethiopia to repeal directive (MFAD/TRBO/001/2022) obliging financial institutions to buy Treasury Bonds effective immediately.	Reduce financial repression and promote bond market development	End-June 2025	
5. Ministry of Finance to issue instruction to Ethiopian Petroleum Supply Enterprise to start remitting all federal fuel taxes to the Ministry of Revenue by December 2025.	Strengthen fiscal transparency and secure budget revenue	End-June 2025	
6. Council of Ministers to submit to Parliament draft FY2025/26 budget for the Federal Government in line with IMF program's macro-framework.	Ensure fiscal targets consistent with program objectives	End-June 2025	
7. To strengthen transparency, internal controls, and public investment management, Ministry of Finance will allocate funding for the Road Fund through the Federal Government budget.	Strengthen PFM internal controls and public investment management	End-June 2025	

Table 11. Ethiopia: Prior Actions and Structural Benchmarks (concluded)

Measure	Rationale	Board Approved Target Date	Status
Structural Benchmark			
8. Council of Ministers to submit to Parliament amendments to the Income Tax Proclamation to: (i) introduce a minimum alternative tax (MAT), (ii) increase withholding tax rates, (iii) simplify the presumptive tax regime, and (iv) adjust the personal income tax schedule.	Support revenue mobilization.	End-September 2025	New
9. National Bank of Ethiopia to revise the methodology to calculate the NBE indicative rate to include all interbank FX transactions and the NBE's sales and purchase of FX with banks.	Support FX market development	End-September 2025	New
10. The NBE to update the NOP directive, including in relation to the treatment of FX-linked assets with clear definitions of FX risk exposures, and appropriate treatment and alignment with risk-based supervision.	Support FX market development, modernize financial oversight	End-October 2025	New
11. Ethiopia Investment Holdings (EIH) to publish consolidated financial statements for FY2022/23 for the EIH SOE portfolio on the EIH website.	Strengthen SOE transparency	End-December 2025	New
12. The National AML Committee will develop and adopt a roadmap for the acceleration of the establishment of a beneficial ownership registry.	Strengthen AML/CFT regime	End-September 2025	New

Table 12. Ethiopia: Public and Publicly Guaranteed Debt Profile

	Debt stock 1/ (as of end-June 2024)			Debt Service 2/					
				2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
	In US$ million	In percent of total	In percent of GDP	In US$ million			In percent of GDP		
Total	**70,349**	**100.0**	**34.3**	**5,874**	**5,897**	**5,543**	**4.7**	**4.3**	**3.6**
o/w Federal government	55,093	78.3	26.9	4,622	4,336	3,802	3.7	3.2	2.5
External	**30,705**	**43.6**	**15.0**	**3,361**	**2,204**	**2,359**	**2.7**	**1.6**	**1.5**
International financial institutions	15,554	22.1	7.6	708	567	607	0.6	0.4	0.4
IMF	482	0.7	0.2	229	59	58	0.2	0.0	0.0
World Bank	12,090	17.2	5.9	379	401	437	0.3	0.3	0.3
AfDB/AfDF	2,208	3.1	1.1	56	60	65	0.0	0.0	0.0
Others	774	1.1	0.4	45	46	47	0.0	0.0	0.0
o/w IFAD	430	0.6	0.2	13	15	16	0.0	0.0	0.0
Bilateral official creditors 3/ 4/	12,106	17.2	5.9	1,141	1,297	1,278	0.9	0.9	0.8
Paris Club	1,946	2.8	0.9	123	184	185	0.1	0.1	0.1
o/w Italy	626	0.9	0.3	73	75	69	0.1	0.1	0.0
o/w Korea	366	0.5	0.2	0	0	1	0.0	0.0	0.0
Non-Paris Club	10,160	14.4	5.0	1,018	1,095	1,026	0.8	0.8	0.7
o/w China	4,984	7.1	2.4	628	597	590	0.5	0.4	0.4
o/w UAE	3,009	4.3	1.5	48	95	93	0.0	0.1	0.1
Bonds	1,066	1.5	0.5	1,099	0	0	0.9	0.0	0.0
Commercial creditors 4/ 5/	1,979	2.8	1.0	412	340	475	0.3	0.2	0.3
Domestic	**39,644**	**56.4**	**19.3**	**2,513**	**3,693**	**3,184**	**2.0**	**2.7**	**2.1**
Held by residents, total	39,644	56.4	19.3	2,513	3,693	3,184	2.0	2.7	2.1
T-bills 6/	7,811	11.1	3.8	...			...	...	
Commercial banks	2,883	4.1	1.4	...			...	...	
Non-bank financial institutions	4,929	7.0	2.4	...			...	...	
Bonds 7/	12,866	18.3	6.3	...			...	...	
Central bank	7,563	10.8	3.7	...			...	...	
Loans	8,815	12.5	4.3	...			...	...	
Central bank direct advance	4,221	6.0	2.1	...			...	...	
Commercial banks	4,594	6.5	2.2	...			...	...	
Transferred to LAMC	10,152	14.4	5.0						
Held by nonresidents, total	0	0.0	0.0	...			...	...	
Memo Items:									
Collateralized debt 8/	0	...	...	...			...	...	
Contingent liabilities 9/	0	...	...	...			...	...	
Nominal GDP (US dollar, end of period)	205,004	...	...	...			...	...	

Sources: Ethiopian authorities; and IMF staff estimates and projections.

1/ Consistent with the DSA coverage and may differ from official debt statistics on external debt.

2/ Includes roll-over of T-bills.

3/ Includes loans backed by export credit agencies.

4/ Includes pre-HIPC arrears waiting to receive HIPC comparable treatment.

5/ Loans from commercial banks and credit suppliers non-backed by ECAs and loans backed by China export credit agency.

6/ Marketable T-bills issued under auctions since December 2019.

7/ Includes previously issued short-term debt (direct advance and T-bills) that were converted into bonds.

8/ No collateralized debt is reported.

9/ No significant contingent liabilities have been identified, with the debt perimeter comprehensive encompassing non-guaranteed SOEs debt.

Annex I. Country Engagement Strategy

This Country Engagement Strategy for Ethiopia was prepared in the context of the IMF Strategy for Fragile and Conflict Affected States. It seeks to inform the Fund's engagement in the country, including the current Extended Credit Facility (ECF) arrangement, by identifying key sources of fragility, remedies, and risks.

Background and Context

1. **Ethiopia is classified as a fragile and conflict-affected state owing to protracted internal conflicts.** The Tigray civil war that started in November 2020 was one of the bloodiest globally in the past decade and the most devastating conflict that Ethiopia has ever experienced. The war ended with the signing of the Pretoria peace agreement in November 2022. While Tigray has since remained largely free of armed conflict, other parts of the country continue to suffer unrest, including the two most populous regions, Oromia, and Amhara, and large parts of Ethiopia's total population remain internally displaced (4.4 million in 2024 according to OCHA, 3.1 million according to IDMC, some of whom are displaced due to natural disasters).

2. **Economic growth has significantly raised income levels since the 1990s but poverty remains widespread, though exact magnitudes are uncertain.** Ethiopia's poverty rate declined from an estimated 69 percent in 1995 to 25 percent in 2016. Progress was supported by increased agricultural productivity and government spending on basic services and social safety nets. Progress since then has been halting, due to a combination of shocks (notably the COVID-19 pandemic, conflict, drought and locust infestation) and structural weaknesses from Ethiopia's previous state-led growth model. While security concerns impeded data collection, the World Bank considers that its estimated increase in the poverty rate to 33 percent in 2021 is reliable and representative for the country, excluding areas that were inaccessible, such as Tigray. GDP per capita at market exchange rates is projected at around US$1,100 for FY2024/25, up from less than US$200 at the start of the millennium per IMF data.

3. **IMF engagement focuses on supporting Ethiopia's Homegrown Economic Reform Agenda.** The HGER agenda was launched in 2019 to move the economy in a more market-oriented direction to sustain growth in face of growing challenges with debt and competitiveness. An ECF/EFF launched in late 2019 ended without concluding any reviews, as the Tigray war and the COVID-19 pandemic stalled progress towards the reform objectives and financing assurances from creditors could not be obtained. Following the Pretoria peace agreement, economic reforms came back in focus and a new ECF arrangement was launched in mid-2024 to support an updated reform agenda (HGER2.0).

Sources of Fragility

4. **The sources of fragility are many and intertwined.** They include historical, ethnic, and socio-economic factors in an environment of weak public institutions, increasing demands on limited natural resources, and significant exposure to climatic and weather shocks. Conflict arising from

these fragilities has taken a major human and economic toll on the country. The government estimated damage from the Tigray war along with other conflicts taking place at the same time (mainly in Oromia and Amhara) at US$22.6 billion (18 percent of GDP in 2024/25), but only a small fraction of the resources needed for reconstruction have been mobilized from international partners. Moreover, ongoing conflict in Oromia and Amhara continues to significantly impede economic activity. Key sources of fragility are:

- Ethnic polarization and fragmentation. Ethiopia is a highly diverse country comprising more than 80 ethnic groups with different languages. Longstanding tensions between the different groups, often involving land disputes, are amplified by regional political elites that tend to focus on concerns of individual ethnic groups and accuse the federal government of excluding them from national decision-making. Recent conflicts in Ethiopia have all involved ethnic issues in some way.
- Poverty. Macroeconomic imbalances such as exchange rate misalignment and high inflation contributed to poor export performance and lower growth. This along with weak domestic revenue mobilization and a sharp decline in foreign assistance resulted in reduced fiscal space, which meant that government could not afford to fully adjust social assistance benefits to inflation in face of surging needs following from the war in Tigray. The impact was especially pronounced in rural areas. The high level of poverty feeds social discontent, especially among the young whose prospects for advancement have been limited.
- Weak inclusivity of public institutions and corruption. Organizational fragmentation, political instability, lack of adequate resources, politicization of reforms, and failure to integrate traditional values and norms impede the effectiveness and inclusivity of public institutions. While corruption has historically been relatively well controlled in Ethiopia, it is still present and may have increased in recent years, with widespread complaints of petty corruption. Corruption, limited transparency, and weak inclusivity of public institutions feed public discontent and frustration.
- Weak economic management. Multiple economic distortions have arisen from weak economic institutions that lacked resources and were subordinated to political goals. While the ongoing reform program is making substantial progress, undoing the consequences of past shortcomings in economic management will take time. Key challenges include inflation, foreign exchange management, external competitiveness, government revenue mobilization, public financial management, data availability and quality, property rights, and frequent regulatory changes.
- Climate change and competition for natural resources. Ethiopia's heavy dependence on rainfed smallholder agriculture makes it highly vulnerable to weather shocks and climate change. Agriculture accounts for about a third of GDP and employs some three-fourths of the economically active population. Weak natural resource management, including a lack of irrigation systems exposes the country to severe vulnerabilities from drought, with risks increasing due to climate change. Conflicts arising from competition for increasingly scarce land and water resources are common, particularly along the borders of the country's different regions. Ethiopia's National Adaptation Plan for Climate Resilient Green Economy from 2019 had

an estimated implementation cost of US$6 billion a year for 15 years, well beyond what has been feasible to finance.

- Regional tension and instability. The Horn of Africa region is exceptionally volatile. Unrest in the region has left Ethiopia with over a million refugees, straining the country's limited resources. In addition, Ethiopia has longstanding disputes with its neighbors over land and water resources that are an ongoing source of tension.

Strategies to Escape Fragility

5. If successful, the ongoing macroeconomic reforms under HGER2.0 supported by the ECF arrangement would help address some of the key drivers of fragility. Progress towards building a stable macroeconomic environment and policies to promote private sector activity should support resilient long-term growth and job creation, providing increased opportunities and better living standards to the population, thereby reducing economic drivers of fragility. Similarly, success towards building a capable and efficient civil service would improve service delivery, reducing drivers of fragility in that area, especially if the reforms also make public institutions more inclusive and effectively tackle corruption. Successful macro-economic policy is, however, only one ingredient among the necessary social, political, and security polices needed to overcome fragility in Ethiopia.

6. Outside the macroeconomic area, government is also seeking to address ethnic polarization, albeit with mixed success so far. A key initiative is the Ethiopian National Dialogue Commission approved by Parliament at end-2021. The Commission has been holding consultations with various segments of society to gather agenda items for an all-inclusive nationwide dialogue that aims to bring together different political interest groups to facilitate national dialogue. If successful, this could significantly ease ethnic tensions in the country.

7. In the area of climate policy, adaptation measures will be especially important. The country is actively pursuing climate resilience, with a strategy based on four pillars: (i) improved crop and livestock production practices to improve food security and farmer income; (ii) protection and re-establishment of forests for their economic and ecosystem services, including as carbon capture; (iii) expand electricity generation from renewable sources of energy for domestic and regional markets; and (iv) leapfrog to modern and energy-efficient technologies in transport, industrial sectors, and buildings. Cross-cutting adaptation measures that will be critical include strengthening water resource management, disaster risk management, shock-responsive social protection, sustainable land use and forest management, and climate-resilient infrastructure.

Fund Engagement

8. The current ECF arrangement can contribute to efforts to address fragility. First, it supports macro and debt stability, helping to avert an economic crisis and the social upheaval that would entail. Second, it supports inclusive economic growth, which with time should provide for more and better jobs prospects for the population at large. Third, it directly responds to social pressures by enabling funding for government spending to protect vulnerable groups from negative reform impacts. This is backed, among others, by a program indicative target that sets a floor on government contributions to Ethiopia's Productive Safety Net Program.

9. The Country Engagement Strategy will help guide the ECF going forward. The sources of fragility and related strategies to escape fragility will guide discussions with the authorities on prioritization and risks as program objectives are pursued. The strategy also influenced Article IV surveillance priorities, with analysis of fiscal federalism (linked to ethnic polarization and fragmentation as a source of fragility), humanitarian issues, and climate change included in Article IV coverage.

10. Communication and understanding of the evolving context will be supported by close engagement with development partners and stakeholder outreach. Key development partners for the Fund include the World Bank, UN (UNDP, UNHCR, WFP, etc.) and significant providers of development assistance to Ethiopia (EU, UK, USA). Engagement with local stakeholders will involve business communities, academia, and civil society organizations, who can be partners helping to validate and explain economic reforms in ways that help reduce social tension.

11. Alongside the ECF, capacity development programs by the Fund have been scaled up to support the HGER agenda. IMF technical assistance and training are being delivered from headquarters and the regional technical assistance center in East Africa in coordination with assistance from other development partners. Priority areas for the medium and long term include: (i) strengthening domestic revenue mobilization, including tax policy and revenue administration; (ii) improving the monetary policy transmission mechanism and secure transition to a market-determined exchange rate; (iii) strengthening financial supervision; (iv) improving PFM, budget transparency and debt management; and (v) enhancing data quality and statistics. While all these areas are important to support the broader macro-economic reform agenda, revenue mobilization, PFM, and data quality have direct links to drivers of fragility identified above by providing resources to address poverty and to build trust in government.

Risks

12. Efforts to address fragility face both domestic and external challenges. Domestic risks include failure of the reform program; drought or other environmental shocks; election related tensions; intensification of conflict in Amhara and Oromia; and renewed instability in Tigray. On the external side, risks include worsening of regional conflicts; escalation of tension between Ethiopia and its neighbors; global price shock, setbacks to international trade, or financial market volatility; weakened international cooperation; and reduced official development assistance.

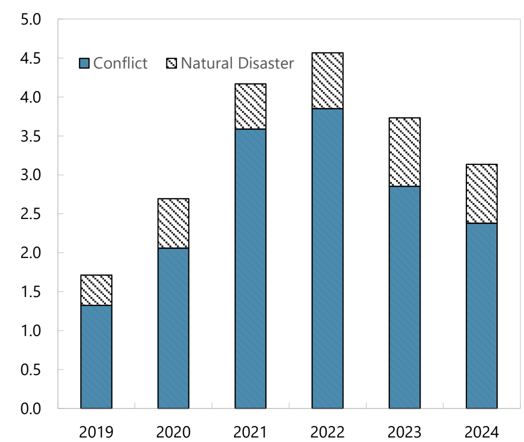
Annex II. The Humanitarian Situation in Ethiopia[1]

1. Ethiopia faces major humanitarian challenges, with millions of people in need of assistance due to internal conflict, unrest elsewhere in the region, and natural disasters and climate shocks. Coordinated response efforts from the Ethiopian government and international partners are needed to meet immediate needs and to work toward sustainable, long-term solutions. Pressure points include:

- **Internally Displaced Persons (IDPs).** Conflicts and natural disasters across Ethiopia have displaced large numbers of people—particularly in the Tigray, Afar, Amhara, Oromia, and Somali regions. The 2020-22 Tigray War caused unprecedented displacement, with most still to return home. OCHA (2024a) puts the total number of IDPs at 4.5 million in 2023 and 4.4 million in 2024, while the Internal Displacement Monitoring Center puts the number at 3.1 million in 2024, down from 3.7 million in 2023 and 4.6 million in 2022 (Figure 1). Displaced individuals are concentrated in camps, often enduring harsh conditions, with limited access to food, water, healthcare, and shelter. IDPs also put pressure on host communities with limited resources to share.

Annex II. Figure 1. Ethiopia: Internally Displaced People

(Millions of people at end of year)



Source: Internal Displacement Monitoring Center

- **Refugees from regional conflicts.** Ethiopia has long served as a host country for refugees from neighboring nations. As of April 2025, the country was home to around 1.1 million refugees and asylum seekers, mostly from South Sudan, Somalia, Eritrea, and Sudan (Annex 2 Table 1 and Figure 2). More than three quarters of refugees reside in 20 camps across five regional states, primarily in rural areas close to borders. The conflict in Sudan that began in 2023 has triggered a significant refugee influx, with almost 72 thousand arrivals recorded as of March 31, 2025 (UNHCR, 2025a). The demographic composition of refugees is skewed towards vulnerable groups, with women and children comprising 78 percent of the refugee population. Refugees in Ethiopia face significant hardship, with a multidimensional poverty index score estimated at 0.38 in 2023 compared to 0.17 among host communities (UNHCR, 2025b). Like IDPs, refugees endure overcrowded camps, with new arrivals putting pressure on limited infrastructure and social services.

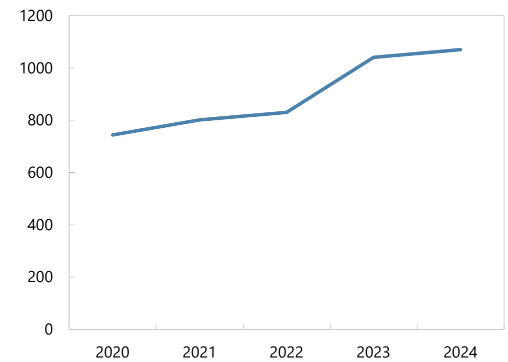
[1] With contributions from Atinkut Wubneh (UNHCR) and Annalaura Sacco (MCD).

Annex II. Table 1. Ethiopia: Refugees and Asylum-Seekers from Other Countries
(April 2025)

Country of origin	Total Individuals
South Sudan	431,130
Somalia	361,189
Eritrea	179,364
Sudan	90,825
Kenya	4,085
Yemen	2,602
DR Congo	993
Syrian Arab Republic	741
Others	931
Total	1,071,860

Source: UNHCR.

Annex II. Figure 2. Ethiopia: Number of Refugees
(Thousands)



Source: UNHCR.

- **Drought.** Ethiopia's variable rain patterns and dependence on rainfed agriculture makes it highly vulnerable to drought. Droughts are a regular occurrence across the country. They worsen poverty, malnutrition, and reduce access to safe drinking water. Prolonged droughts lead to crop failures, livestock deaths, and widespread food insecurity. The most vulnerable are pastoralist and agro-pastoralist communities in the arid and semi-arid southern and eastern lowlands. During 2020-23, Ethiopia experienced one of its most severe droughts ever, with below-normal rainfall for six consecutive seasons (WFP, 2023).
- **Floods.** The country also experiences seasonal flooding, particularly in lowland areas. Floods often disrupt lives, destroy crops, displace communities, and cause significant damage to infrastructure. Additionally, floods increase the risk of waterborne diseases, such as cholera and malaria. During 2024, 560,000 people were affected by heavy rains and flooding in April-May, displacing 57,000 people (WHO, 2024a).
- **Landslides.** Ethiopia is susceptible to landslides during periods of heavy rainfall. These cause loss of life, destruction of homes, and disruption of transportation routes, particularly in rural areas. In July 2024, one large landslide in the Gofa zone of the Southern Ethiopia Region caused at least 249 deaths and affected some 15,000 people (WHO, 2024b).

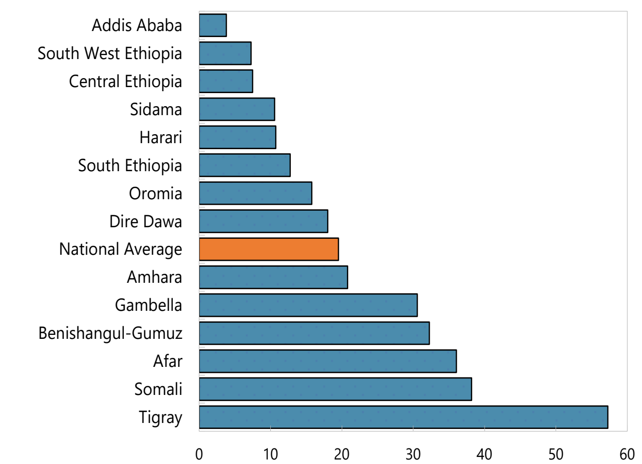
Needs Assessment

2. **In 2024, OCHA assessed that a total of 21.4 million people (about a fifth of Ethiopia's population) required humanitarian assistance to meet their basic needs (OCHA, 2024a).** This includes individuals affected by conflict, natural disasters, and disease outbreaks. Of the 21.4 million in need, 4.4 million were IDPs, 2 million returning IDPs, and 14.7 million non-displaced people. Of the total, 15.8 million were acutely food insecure, requiring emergency food assistance for at least for some months in 2024. Tigray had the highest proportion of people in need (over half, Figure 3). The majority (56 percent) of those in need were children under 17 years old.

3. **During January-November 2024, 10.2 million people were provided with some form of humanitarian assistance (OCHA, 2024b).** This was enabled by total funding of US$1.6 billion, comprising government-allocated resources of US$264.5 million, new donor contributions of US$745.5 million, and carryover resources from 2023 totaling US$585 million. The amount raised was only about half of the US$3.2 billion initially estimated to be required to respond effectively. By year-end, 11.4 million people had received at least one form of humanitarian assistance; an average of 3.8 million people received monthly food distributions, and 10.1 million people received at least one food basket (or equivalent cash support).[2]

Annex II. Figure 3. Ethiopia: Share of People in Need Per Regions, 2024

(Percent total Ethiopian population)



Source: OCHA.

4. **Additionally, many vulnerable households receive support from Ethiopia's Productive Safety Net Program (PSNP), one of the largest social safety net programs in Africa.** Currently there are about 7.9 million beneficiaries under the Rural PSNP, which provides food and cash transfers to food insecure households. The Urban PSNP has close to 2.4 million beneficiaries, including some 900 thousand IDPs and 110 thousand refugees.

5. **Overall favorable weather conditions lessened humanitarian pressures in 2024 and early 2025 but withdrawal of international support may significantly worsen the situation.** While the country experienced drought in some lowland areas and unseasonal rains in October and November 2024 caused damage to crop and yields, the main Kiremt rains from June to September 2024 were good, resulting in increased agricultural production. A situation update from December 2024 indicates that government and its partners aimed to provide humanitarian assistance to approximately 10 million people in 2025, with the expected funding requirement set at US$2 billion (OCHA, 2024b). These figures, however, do not include the impact of the reduction in humanitarian assistance from USAID starting in February 2025.

Policies

6. **There are significant humanitarian and economic benefits from facilitating displaced people's ability to earn income.** When displaced populations can contribute economically, they stimulate growth, create jobs, and build prosperity for themselves and their host communities. The economic cost of restricted mobility and limited ability to access economic opportunities for displaced people is substantial. World Bank (2024) indicates that enabling full economic inclusion

[2] Ethiopia: HRP Implementation in 2024, January-December. Release date: 19 February 2025 - Ethiopia | ReliefWeb

could reduce annual basic assistance costs from US$210 at current situation to approximately US$78 per refugee under full inclusion. This "economic-inclusion dividend" stems from refugees' capacity to generate income and reduce dependency on humanitarian assistance when they can effectively participate in local economies. Similar benefits are likely to apply to IDPs.

7. To maximize economic contributions of displaced populations, several priorities emerge. For refugees, expanding work rights and making strategic investments in skills development and market creation will help realize the full economic-inclusion dividend. For IDPs, comprehensive socioeconomic assessments are needed to understand their potential and develop frameworks facilitating their economic participation.

8. Ethiopia has established progressive policies facilitating economic contributions from refugees. The 2019 Refugee Proclamation and 2024 Right to Work Directive create legal pathways for refugee economic inclusion, while at the 2023 Global Refugee Forum, the government announced six far-reaching pledges focusing on climate action, human settlements, inclusion in national systems, private sector engagement, access to land, and digital connectivity. In March 2024, Ethiopia launched a landmark initiative to integrate refugees into the national Digital ID system. This allows refugees to open bank accounts, register businesses, and access services, significantly enhancing their ability to participate in the formal economy. As of early 2025, approximately 67,000 refugees had already received digital IDs, with plans to include 814,000 refugees by 2027.

9. Additional support to government institutions at all levels is critical to strengthen inclusive service delivery in areas hosting displaced persons, including financial and technical resources to build capacity. Securing sufficient funding for essential humanitarian interventions remains a key challenge. Securing funding for reconstruction following the Tigray war has also been challenging; estimated and still almost entirely unmet needs are close to 20 percent of GDP (see also Annex 1).

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Annex III. Capacity Development (CD) Strategy

1. **Ethiopia is undertaking major economic reforms as it transitions from a public to a private sector-led growth model.** The government is implementing a broad strategy to transform the economy towards private sector-led investment and inclusive growth, address macro imbalances, and modernize the economic policy framework. The authorities reform plan is laid out in the *Homegrown Economic Reform Agenda* (HGER2.0) and supported by the four-year ECF arrangement that started in July 2024. Key reforms objectives include: (i) increase government revenue and improve the efficiency of spending; (ii) strengthen the monetary and exchange rate policy frameworks; (iii) develop the financial sector to support credit to the private sector; (iv) strengthen debt management and ensure debt sustainability; (v) strengthen SOE governance and improve the business environment; and (vi) enhance the coverage and quality of economic statistics. Technical support from the Fund will be important for success, with the authorities' ambitious reform plan covering core macroeconomic areas of Fund expertise, including fiscal, monetary, financial sector, and statistics. Key risks include domestic conflict, climate change, and a volatile external environment.

2. **Technical assistance (TA) intensity has picked up significantly in recent years.** Fund engagement intensified with the ECF/EFF arrangement that was launched in late 2019 and picked up again in 2023 with preparations for the current program. Total TA provided rose from 59.7 field person weeks (FPWs) in FY23 to 86.5 FPWs in FY24 and is set to increase further in FY25. The bulk of TA since 2022 has been in the fiscal area, especially revenue administration, and to a lesser extent in the financial and monetary area. Recent TA has included PIMA/C-PIMA and TADAT assessments in 2024; support to the FX reform launched in July 2024, including on drafting of FX regulations and development of supporting monetary policy tools; support to drafting of the new central bank law adopted in late 2024; strengthening of financial supervision; and enhancement of balance of payment and government finance statistics. Support continues in most of these areas. A key focus going forward, financed in part by the Revenue Mobilization Thematic Fund (RMTF), will be to support implementation of the National Medium-Term Revenue Strategy (NMTRS) adopted in September 2024 and involving both tax policy and revenue administration. New areas include support to macro-fiscal frameworks and Forecasting and Policy Analysis Systems (FPAS) for monetary policy formulation, local currency bond market development, budget review and transparency, CD for tax policy analysis and design through the new regional tax policy advisor, and national accounts rebasing.

Annex III. Table 1. Ethiopia: Total Technical Assistance

(FPWs)

FY23	59.7
FY24	86.5
FY25[1]	90.5

Source: CDMAP

[1] Completed and in execution as of mid-March 2025.

3. **Diagnostic assessments in key reform areas will be important to guide TA.** The PIMA/C-PIMA and TADAT assessments should guide future support in public investment management and in tax administration, which are both critical areas. A Fiscal Transparency Evaluation (FTE) would be helpful to identify potential reform measures to strengthen risk assessment and accountability. SOE oversight and monitoring could be strengthened by TA support on the FAD health-check and stress testing tools. Capacity development in financial sector

supervision could be supported with training from AFE in prudential supervision and financial development. A diagnostic of national accounts statistics using the IMF Data Quality Assessment Framework would help guide rebasing of the national accounts, which is to be completed by end-2026. Dialogue with development partners remains key for coordination.

4. The proposed strategy for IMF TA FY26–28 is as follows:

Priorities	Objectives
Domestic revenue mobilization: Tax policy and revenue administration	Increase the tax revenue to GDP ratio in line with the National Medium Term Revenue Strategy.
Improve the monetary policy transmission mechanism and anchor transition to a market-determined exchange rate	Interest-rate-based monetary policy framework; efficient FX market; market for government securities, including a local currency bond market; and active management of liquidity all in place.
Strengthen financial supervision frameworks and map financial development needs	Gaps in regulation and the supervisory framework addressed, including processes and tools (including for new entrant firms).
Improve PFM, budget transparency, and debt management	Strengthen the PFM framework, account comprehensively for fiscal risks, and improve debt management practices.
Enhance data coverage and quality in economic statistics	Improved reliability, coverage, timeliness, and integrity of economic statistics, including government finance statistics, national accounts, price statistics, BOP, monetary, and public debt statistics.

5. Achieving these objectives will require intensive TA support from FAD, MCM, STA, LEG, and AFRITAC East. While delivery of TA is largely done through short-term missions focusing on policy recommendations, training will also be important, especially in the areas of macro-fiscal management, tax administration, and government finance and national accounts statistics.

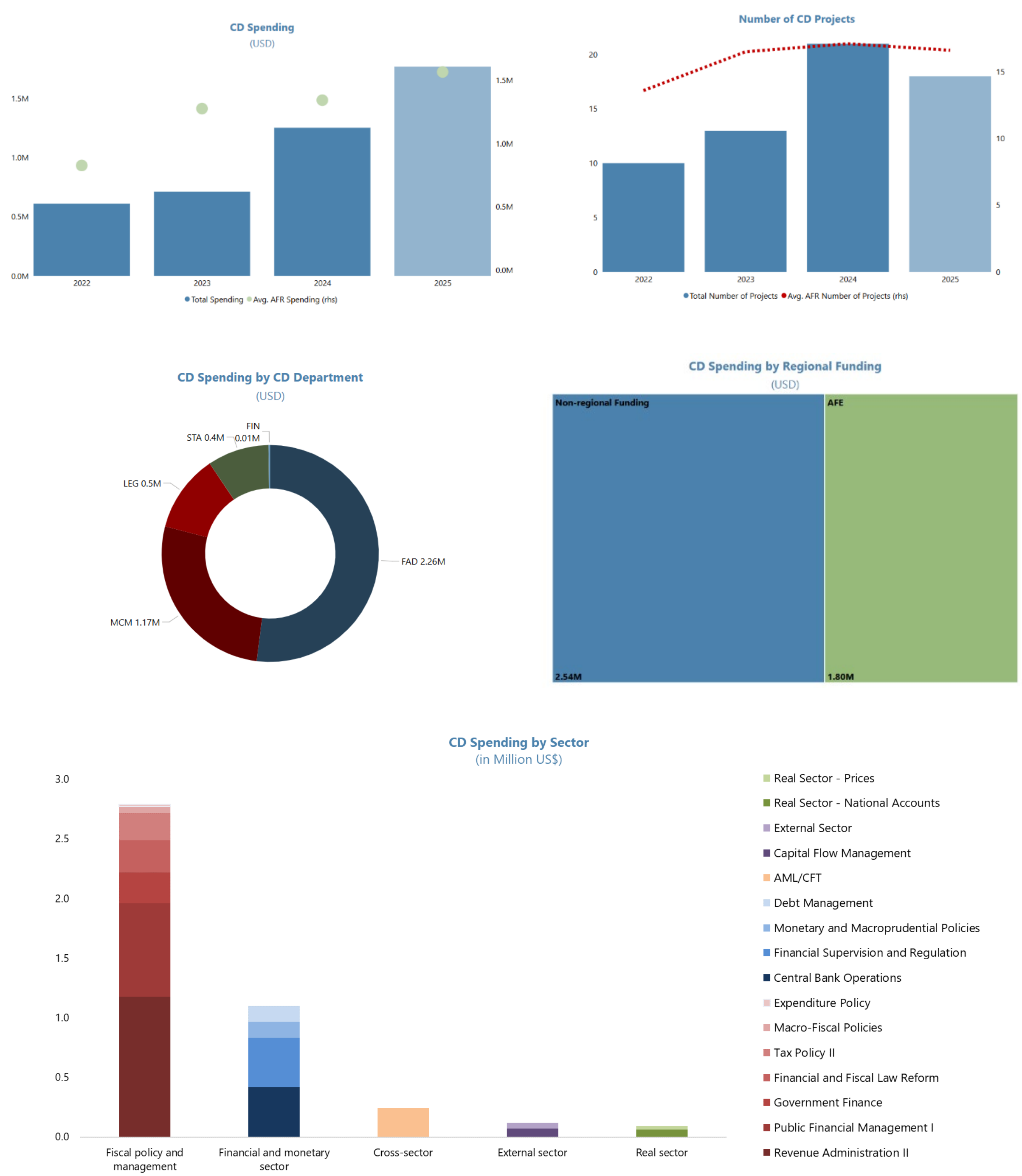
Main Risks and Mitigation

6. The main risks to the impact of the TA are capacity constraints in an environment with a large reform agenda and intense economic pressures. Absorptive capacity for CD is limited. Challenges include technical issues associated with an upgrade of policy frameworks and coordination with TA work done by other development partners in overlapping policy areas. Risks could be mitigated by aligning TA closely with government reform priorities, earmarking and training dedicated staff in government agencies to implement the reforms, and further strengthening of coordination among development partners, supported by the IMF Resident Representative. Evolving needs and the course of the Fund program engagement over the next three years will affect both TA requests and implementation of TA recommendations, requiring flexibility in CD support.

Authorities' Views

7. The authorities concurred with the thrust of the Capacity Development Strategy and found it broadly consistent with their objectives.

Annex III. Figure 1. Ethiopia: Capacity Development Spending



Source: IMF AFR CD staff calculations based on CDMAP data.
Notes: 1) Years are fiscal years.
2) FY22 to last FY: actual data; current FY: planned activities
3) Includes projects in “Approval”, “Execution”, and “Complete” stages.

Annex IV. External Sector Assessment

Overall Assessment. *This assessment is based on staff's projection of external sector developments in FY 2024/25, incorporating data for the first nine months. Ethiopia's external position in 2024/25 is assessed to be broadly in line with the level implied by medium-term fundamentals and desired macroeconomic policies. The FX reform and current account liberalization implemented in July 2024 led to significant nominal and real depreciation, as well as an improvement in current account balance in the first nine months of FY2024/25 compared to the same period in the previous fiscal year. The currency overvaluation has been largely corrected.*

Potential Policy Responses. *The authorities should continue prudent fiscal and monetary policies to forestall REER overvaluation. Sustained reform is needed to improve the business environment to facilitate private investment and diversify the export base, boost export competitiveness, and increase resilience to exogenous shocks. Additionally, the authorities should continue to accumulate foreign reserves in accordance with the ECF program targets.*

A. The Current Account

Background

1. **The current account (CA) deficit in FY2024/25 is projected to narrow to 2.1 percent of GDP, from 2.9 percent of GDP in FY2023/24.[1]** The change in the ratio of variables to GDP is also affected by lower GDP in US$ terms following the devaluation. The CA balance in the first nine months of FY2024/25 recorded a deficit of US$899.5 million, marking a significant improvement from the deficit of US$4,815.1 million in the first nine months of FY2023/24.

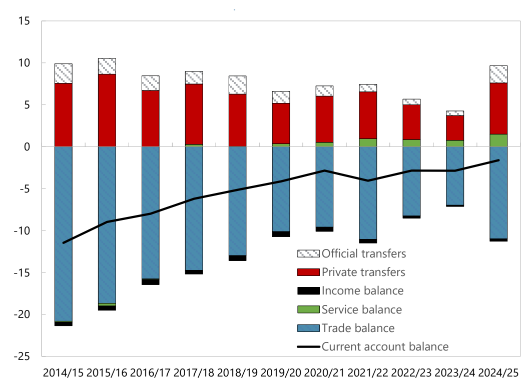
- Goods exports are expected to increase to 5.1 percent of GDP in FY2024/25, up from 1.8 percent the year before. Both significant increase in exports volume accompanied by higher international prices of Ethiopia's main export commodities (gold and coffee) contributed to the rise in export value, which rose by 110 percent during the first nine months of FY2024/25 compared to the same period in FY2023/24.
- Goods imports to GDP are projected to increase to 16.1 percent of GDP, up from 8.8 percent in 2023/24. The increase is mainly driven by lower GDP in US$ due to sharp Birr depreciation following the FX reform, while the dollar value of goods imports increased by only 9 percent. Inelastic demand for major imports—fuel, fertilizer, foods—and materialization of some pent-up import demand in response to higher FX availability played a role. Higher capital goods imports were broadly offset by lower fuel and fertilizers imports.
- The goods trade deficit is expected to widen to 11 percent of GDP from 7.0 percent of GDP in 2023/24. The goods trade deficit value during the first nine months of FY2024/25 decreased by 18 percent compared to the same period in FY2023/24.

[1] The current account balance is based on standard presentation, as opposed to the analytical presentation where World Bank grants and flows from the debt service moratorium are recorded as exceptional financing items. The current account deficit in 2024/25 based on the analytical presentation is projected at 3.2 percent of GDP.

- The services account surplus is expected to increase to 1.5 percent of GDP in FY2024/25 from 0.8 percent of GDP in 2023/24. Service exports are mainly driven by Ethiopian Airlines. The value of service account surplus during the first nine months of FY2024/25 rose 30 percent compared to figures from the same period in FY2023/24.
- Net private transfers are projected to increase by US$966 million in FY2024/25 compared to the previous year, reflecting an increase to 5.7 percent of GDP in FY2024/25 compared to 3.0 percent the year prior, again reflecting exchange rate depreciation. Accounting for the World Bank Development Policy Operation (DPO) of US$1 billion, official transfers picked up to 1.9 percent of GDP in FY2024/25 from 0.5 percent of GDP in FY2023/24. The total net transfers during the first nine months of FY2024/25 rose 34 percent compared to the same period in FY2023/24.

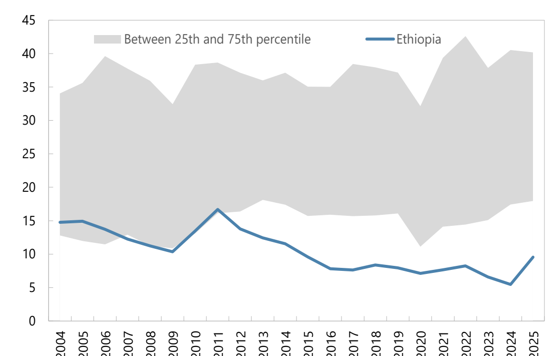
2. Goods exports are undiversified, concentrated in low value-added agricultural products (coffee, flowers, oil seeds, khat, and pulses) and gold. The agricultural sector is characterized by low labor productivity and rain-fed production, making the export basket susceptible to shocks, natural disasters, and global price movements. The significant pick-up in gold exports volume in FY2024/25 is driven by higher production by small-scale artisanal gold miners as well as drawing-down of inventory. The share of manufactured goods such as textiles, leather and meat product in total exports had grown to 13.5 percent in FY2018/19, from a small base, but declined sharply thereafter to around 4 percent in the first nine months of FY2024/25, due to the pandemic, conflict, suspension from AGOA, and FX shortages that limited availability of intermediate imports.

Annex IV. Figure 1. Ethiopia: Current Account Balance
(In percent of GDP)



Sources: National Bank of Ethiopia; IMF Staff Calculations

Annex IV. Figure 2. Ethiopia and SSA Exports 2004–2025
(In percent of GDP)



Sources: National Bank of Ethiopia; IMF Staff Calculations

Assessment

3. The EBA-lite model shows that the 2024/25 CA balance is broadly in line with the level implied by medium-term fundamentals and desired policies. The model-identified CA gap is 0.4 percent of GDP, with a cyclically adjusted CA of –2.9 percent and CA norm of –3.4 percent of

GDP. The FX reforms in July 2024 resulted in a significant nominal and real deprecation, correcting currency overvaluation.

- Model-estimated policy gaps contribute about 1.5 percent of GDP to the CA gap.[2] Less significant deviation in the fiscal deficit and public health expenditure from its desired level compared to the rest of the world aids in narrowing the CA gap in addition to the FX reserves build-up. Tighter capital controls contribute to the widening of the CA gap.
- The current account norm is adjusted upwards by 1.0 percentage points, from –4.4 percent to –3.4 percent of GDP, to reflect the need to reach a moderate CA deficit to achieve medium-term external sustainability. The adjustment aligns the norm with the highest model estimated level of net international investment positions (IIP) to GDP in the past (around -28 percent of GDP).
- The cyclically adjusted CA balance is subject to additional model-based adjustment due to an impact of conflicts (0.6 percent of GDP).
- The estimated CA gap of 0.4 percent of GDP corresponds to 4.5 percent REER undervaluation using –0.09 elasticity of CA balance to REER.

Annex IV. Table 1. Ethiopia: Assessment for 2024/25

(In percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-2.1**	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	0.6	
Adjusted CA	**-2.9**	
CA Norm (from model) 3/	**-4.4**	
Adjustments to the norm (+)	1.0	
Adjusted CA Norm	**-3.4**	
CA Gap	**0.4**	**0.2**
o/w Relative policy gap	1.5	
Elasticity	-0.1	
REER Gap (in percent)	**-4.5**	**-2.2**

Source: IMF staff estimates.

1/ Based on the EBA-lite 3.0 methodology.

2/ Cyclically adjusted, including multilateral consistency adjustments.

4. **Measures to boost competitiveness, diversify the export basket, and improve the business climate should continue to avoid re-emergence of external imbalances.** Prudent fiscal and monetary policies should be maintained to forestall REER overvaluation. Sustained reform is needed to improve the business environment to facilitate private investment and diversify the export base, boost export competitiveness, and increase resilience to exogenous shocks. Sufficient

[2] The overall policy gap, as a share of GDP, comprises fiscal policy (1.3 percent); public health expenditure (1.0 percent); changes in reserves (0.2 percent); private credit level (0.0 percent); private credit growth (0.2 percent); and capital controls (-1.1 percent).

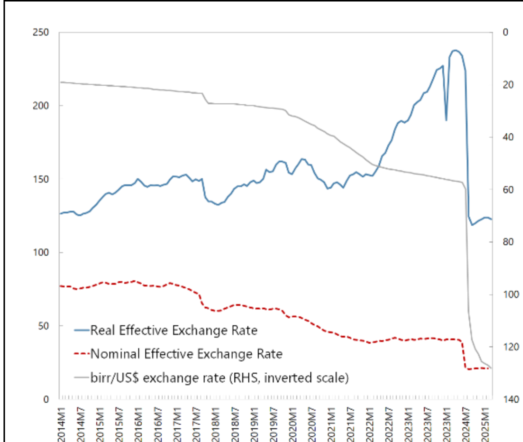
and reliable access to credit and imported intermediate inputs is important for supporting exports, especially higher value-added manufactured goods that are part of global and regional supply chains. Improving the efficiency of trade and border logistics is important to lower trade costs. Reform of SOEs to improve their operational performance and finance investment needs sustainably would help support an improvement in the CA balance over the medium term.

B. Real Exchange Rate

Background

5. The real effective exchange rate (REER) depreciated sharply following the authorities' commitment to adopt a market-determined exchange rate regime in July 2024 and has remained broadly stable since then. Leading up to the FX reform, there was a steady appreciation of the REER, as inflation differentials have more than offset trend depreciation in the nominal effective exchange rate (NEER). However, Birr per US$ exchange rate more than doubled after the FX reform, causing the REER index to drop from 234 in June 2024 to 123 in March 2025. Additionally, lower-than-expected inflation, with limited pass-through effects so far, also contributed to stable REER post-reform.

Annex IV. Figure 3. Ethiopia: Exchange Rates Jan 2014-Mar 2025
(Index, 2010=100 for effective exchange rates)



Sources: IMF, Information Notice System.

Assessment

6. The EBA-lite REER model estimates a REER gap of -2.2 percent in 2024/25. The average parallel market premium rose to 101 percent in 2023/24, up from 78 percent in 2022/23 and 32 percent in 2021/22. After the reform, the parallel market premium fell to nearly zero but has since widened to around 15 percent.

7. The move towards exchange rate flexibility, combined with appropriately tight macroeconomic policies and a shift to a modern monetary policy framework and durably lower inflation, should support a further improvement in price competitiveness. The transition towards a market determined exchange rate, coupled with the removal of most current account restrictions in July 2024, has addressed overvaluation and FX shortages, supported by a tight and more active monetary policy. The fiscal stance will be constrained by availability of financing and tighter monetary policy. Revenue mobilization is essential to support longer-term development spending while alleviating pressures on the external sector.

C. Capital and Financial Flows

Background

8. The capital and financial accounts are primarily driven by exceptional financing in 2024/25. The contribution from the debt service moratorium, in the context of the Common Framework (CF) debt restructuring discussions, is estimated at around US$3 billion. A World Bank Development Policy Operation loan of US$500 million was disbursed in addition to a US$1 billion grant. IMF loan disbursements under the ECF totaled at around US$ 1.4 billion. Net FDI inflows are projected to increase to 3.2 percent of GDP in 2024/25, up from 1.9 percent the previous year. Ethiopia maintains certain exchange controls and capital flow management measures. FDI during the first nine months of FY2024/25 saw a slight increase compared to the same period of FY2023/24.

Assessment

9. Over the medium term, the external financing environment is expected to improve as strong reform measures supported by IMF program take hold. Significant FX market distortions, which had previously dampened FDI—such as restrictions on new (since 29 July 2024) dividend payments and uncertainties surrounding FX availability—have been removed. The normalization of project financing and budget support is anticipated once the debt treatment discussion under the Common Framework is completed. However, a disciplined fiscal policy, including the development of a medium-term debt management strategy, should be implemented to prevent vulnerabilities related to external debt sustainability. This is particularly important given that there will be less debt available for restructuring once the debt treatment is completed.

D. FX Reserves

Background

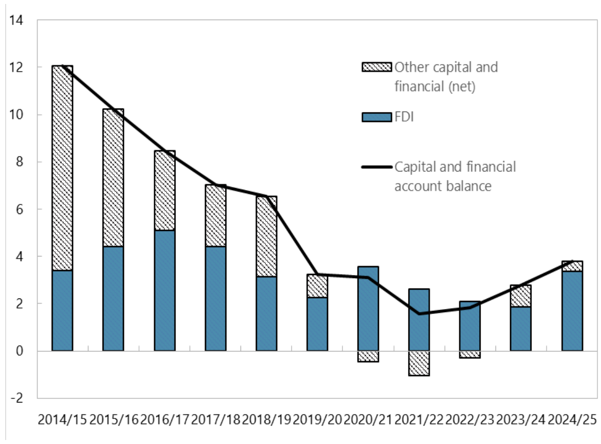
10. Gross international reserves (GIR) are projected at US$3.8 billion (1.7 months of prospective imports coverage) at end-2024/25, up from US$1.4 billion at end-2023/24. The increase in reserves during 2024/25 was mainly supported by financial assistance from IMF, World Bank and creditors, as well as robust export performance.

Assessment

11. International reserves are below the adequacy threshold. The reserve adequacy template for credit-constrained low-income countries indicates that approximately 4 to 7 months of prospective import coverage would be adequate, under the fixed exchange rate regime, depending on cost of holding reserves from 6.2 percent (the recommended average value for LICs) to 10 percent. However, under a de facto flexible exchange rate regime, this range would decrease to around 2 months. Under the Fund-supported program reserves are projected to increase to 3.5 months of import coverage by the end of 2027/28. The relatively high level of NBE's liabilities, the necessity to enhance market confidence in both the Birr and the NBE, and the vulnerability to large unforeseen shocks such as conflicts and natural disasters justify maintaining reserves that exceed those recommended by the model, even after a complete transition to a floating exchange rate regime.

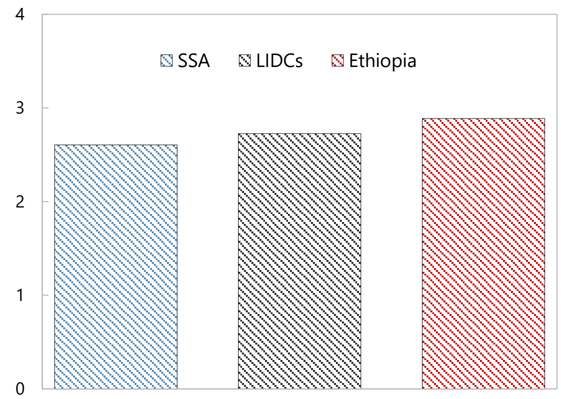
Annex IV. Figure 4. Ethiopia: Capital and Financial Account Balance

(In percent of GDP)



Annex IV. Figure 5. Ethiopia and SSA/LIDCs: Foreign Direct Investment

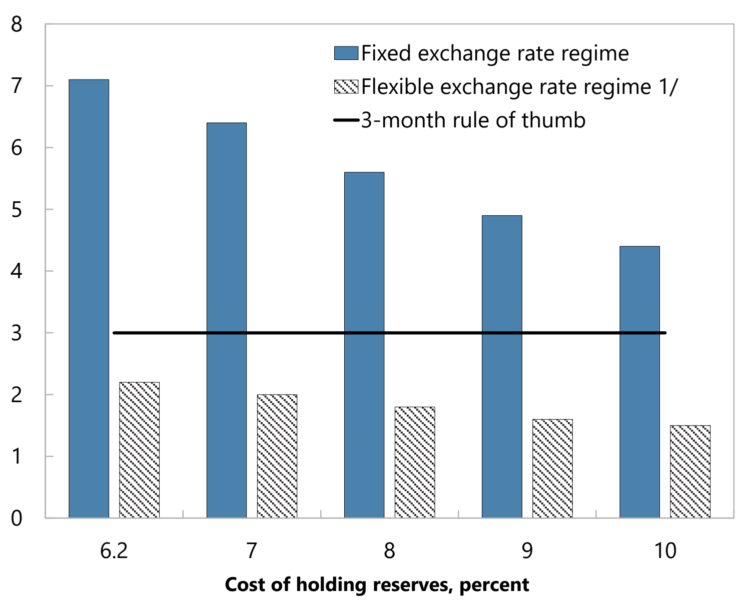
(Net flows in percent of GDP, average over 2020–25)



Sources: National Bank of Ethiopia; IMF Staff Estimates.

Annex IV. Figure 6. Ethiopia: Optimal Level of Holding Reserves

(In months of import coverage; At various costs of holding reserves)



Source: IMF staff estimates.

1/ Includes de facto floating or freely floating regimes.

Annex V. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Further intensification of conflict in Amhara and Oromia regions, or escalation of tension in Tigray or between Amhara and Tigray.	**M**	**M.** Economic disruption, increased humanitarian needs, and increase in prices of staples as Amhara and Oromia encompass the country's main crop producing areas.	Ensure clear communication, facilitate humanitarian aid, and accelerate peace talks. Ethiopian National Dialogue Commission already established.
Political instability as the mid-2026 election approaches, potentially leading to civil unrest.	**M**	**M.** Intensified ethnic tension and economic disruption.	Political dialogue and strengthening electoral system to ensure free and fair elections.
Adverse weather events, including drought or flooding in different parts of the country.	**M/L**	**M.** Further increase in food insecurity.	Scaling up humanitarian assistance to affected areas in coordination with international relief agencies.
Increased tension between Ethiopia and Eritrea.	**L**	**M/H.** Regional instability, humanitarian crisis.	Diplomatic engagement, regional cooperation.
Domestic resistance delays implementation of planned economic reforms.	**L**	**M.** Economic distortions continue, difficulties accessing imported goods intensify, growth and investment weaken.	Forceful communication of reform benefits complemented by protection of vulnerable groups.

[1] Likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
		External Risks[1]	
Regional conflicts. Intensification of conflict or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee inflows.	**M**	**M.** Lower demand for Ethiopia's main exports, trade flow disruptions, increased humanitarian pressures, lower private investment, and weaker debt sustainability. Financing from a major bilateral partner adversely affected.	Accelerate reforms enhancing export competitiveness. Adopt a market-clearing exchange rate policy. Accelerate the WTO accession process and implementation of trade agreements such as AfCFTA.
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**H**	**M/H.** Increased unmet humanitarian needs, especially in food security and health. Fiscal, price, and balance of payments pressures. Lower demand for exports adds to trade deficit and weakens debt sustainability. Reduction in remittances from diaspora, FDI, and creditor cooperation. Cutbacks by USAID and other partners significantly reduces official development assistance.	Further emphasize domestic revenue mobilization and re-prioritize government spending. Accelerate reforms enhancing export competitiveness. Adopt and maintain a more flexible exchange rate policy.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**M**	**M/H.** Higher import prices for import commodity, including food, fuel, and fertilizers. Wider trade and fiscal deficits. Negative impact on agriculture due to lower fertilizer imports.	Tighten monetary policy if second-round inflation effects are significant. Increase social spending.

[1] Based on the February 21, 2025, update of the Global Risk Assessment Matrix.

Annex VI. Financial Sector Reform Agenda

This Annex outlines Ethiopia's financial regulatory agenda as it liberalizes the financial sector and shifts to a more market-oriented economic model. Financial sector resilience is essential to ensure the sector can make a positive contribution to sustainable growth, highlighting the importance of strong financial oversight. A phased approach to regulatory reform and sustained effort to ensure oversight capacity keeps pace with financial sector developments will be important. Near-term actions to strengthen banking sector regulations to align them more closely with international standards, include the adoption of Basel II/III and strengthening risk-based financial supervision.

1. As part of efforts to liberalize the financial sector, NBE has established a comprehensive reform agenda covering prudential oversight, governance, and regulation (Table A1). These reforms address legacy financial vulnerabilities, including the dominance of state-owned banks, financial sector exposures to non-performing state-owned enterprises (SOEs), and banking sector competition.

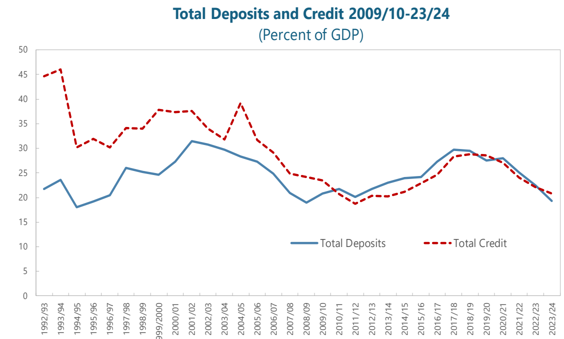
2. A phased approach is essential to ensure that institutional and supervisory capacity keeps pace with increasing financial sector competition. Financial development in Ethiopia is starting from a low base, with limited private sector credit and a highly concentrated banking system despite recent increases in the number of private banks (Figure 1). Both savings rates and lending rates for some borrowers remain negative in real terms, after decades of financial repression during which interest rate misalignment and weak credit risk pricing were widespread. In the absence of competitively set deposit and lending rates, bank lending practices relied on relationships with borrowers, favoring clients with access to foreign exchange or strong Birr liquidity rather than employing risk-adjusted pricing.

3. Potential financial stability risks associated with unwinding financial repression must be carefully managed. Reforms to key measures such as the minimum savings rate or the cap on private sector credit growth are necessary to foster a more competitive and efficient financial sector. However, as with any significant transition, potential vulnerabilities must be addressed. The primary risks stem from abrupt interest rate adjustments leading to materialization of previously manageable asset quality problems, deterioration of loan performance, or liquidity mismatches in a banking sector unaccustomed to operating under market-based pricing conditions. A carefully sequenced approach, supported by supervisory strengthening and enhanced market discipline, will mitigate these risks.

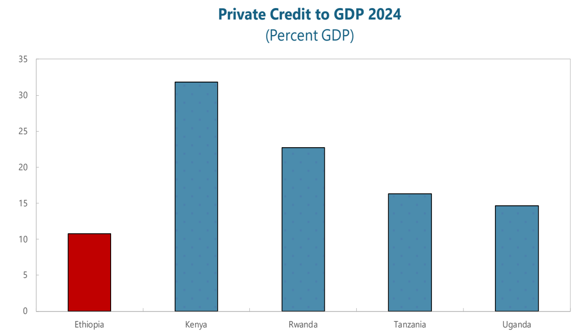
4. It is essential to closely monitor credit risk and improve underlying data as the broader regulatory agenda is implemented. The NBE is taking steps in this direction including a thematic review of banks' lending policies and practices and a Quantitative Impact Study (QIS) to assess the effects of the new asset classification and provisioning directives on measured Non-Performing Loans (NPLs). The QIS will cover the five largest banks (over 75 percent of the banking system) and is expected to be completed by December 2025.

Annex VI. Figure 1. Ethiopia: Financial Sector Development

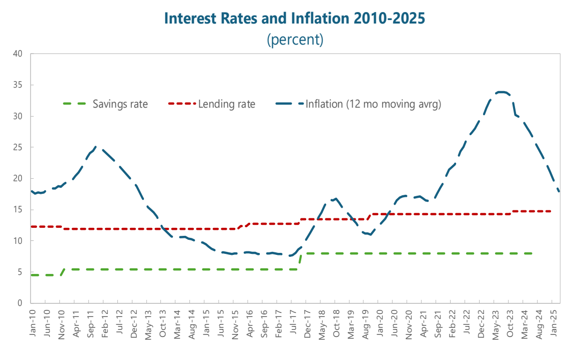
Financial sector deepening has not kept up with economic growth…



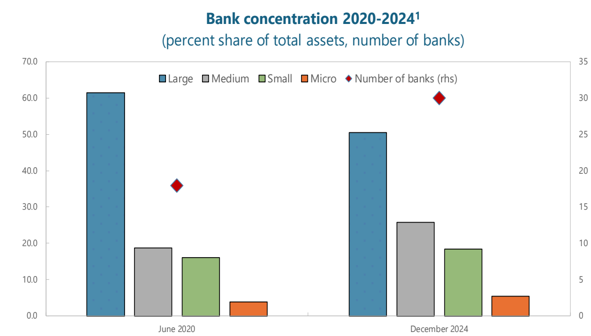
…and Ethiopia lags behind peers in key indicators.



Real rates remain negative despite disinflation gains.



The banking sector remains highly concentrated.



Sources: Ethiopian Authorities. IMF Financial Development Index.

[1/] Bank categorization based on bank size as of December 2024: large (assets >200 bn Birr, 1 bank); medium (100–200-billion-Birr assets; 4 banks); small (50–100-billion-Birr assets, 10 banks); micro (<50 billion Birr assets, 13 banks)).

5. **Given plans to open the banking sector to foreign participation, aligning local regulations with international standards is a priority.** This alignment, especially through the adoption of Basel II/III, will be critical to attracting foreign investment and ensuring that banks maintain adequate capital buffers to support a stable transition to a more open financial sector. Currently, NBE's framework operates on Basel I, that covers only credit risk, excluding operational and market risks. Initial steps toward Basel II/III implementation include finalizing directives and reporting templates for industry consultation and conducting a QIS to assess implications of the new framework on capital requirement for each bank. This QIS will also inform potential increases in the minimum Capital Adequacy Ratio (CAR) above the current 8 percent. The next phase of reforms will involve Basel III components, including the introduction of leverage and liquidity ratios, capital conservation buffers, Pillar II (supervisory review) and Pillar III (market discipline framework). In parallel, regulatory guidance on banks' exposure to government securities should aim to safeguard financial stability while supporting the development of the local currency bond market.

6. **Another near-term priority is strengthening risk-based supervision of risk management and loan loss provisioning practices.** This includes the active enforcement of IFRS 9 provisioning requirements, supported by the new 2024 directive on provisioning, moving to

integrate climate-related financial risks in prudential supervision, and a more assertive supervisory stance in challenging banks' implementation of the regulatory directives. The NBE should also strengthen its risk-based supervision procedures and manuals. The supervisory engagement model, processes, and tools should optimize the allocation of resources, the offsite and onsite interaction, and the supervisory cycle design.

7. Financial regulation must also evolve to support a more competitive banking sector. As capital requirements and regulatory standards are strengthened, new challenges may emerge for some institutions as they transition to full compliance. Strengthening crisis preparedness, the prompt corrective action framework, and the resolution framework will ensure that banks and the authorities have the right tools and are well prepared to deal smoothly with shocks. In parallel, developing a more up-to-date mergers and acquisition framework is expected to enable market-led consolidation. The developing interbank money market and continued enhancement of monetary policy tools will support systemic liquidity management and market-based financial intermediation.

8. Capacity development is supporting the regulatory and supervisory reform agenda. Strengthening human resources, ensuring regulatory autonomy, upgrading IT systems, and strong enforcement mechanisms will underpin a successful transition to a more competitive, market-based, financial system. The phasing of reforms should be carefully aligned with available capacity and supported by TA partners.

Annex VI. Table 1. Ethiopia: Recent Key Financial Reforms

Core Area	Reform	Implementation Date/Status	Objective
Central Bank and Financial Stability Oversight	NBE Proclamation	Dec-24	Enhance central bank independence to strengthen oversight of the banking sector and ensure financial system stability.
State-Owned Banks Reform	Reform, Restructuring, and Recapitalization Plan for CBE	Started July 2024	Address significant legacy financial stability risks.
	Reform and Restructuring Plan for DBE	Pending December 2025 (FSSP PBC)	Reduce financial sector repression (including mandatory bond purchases) and ensure DBE can take on the development role previously played by CBE.
Banking Sector Competition and Foreign Entry	Banking Business Proclamation	Approved December 2024 (effective mid-2025)	Improve banking sector competition by providing a legal basis for foreign entry. Careful sequencing is needed to avoid destabilization.
Banking Regulation and Risk Management	Asset Classification and Provisioning (Directive No. SBB/90/2024)	Jun-24	Improve banking sector health and performance by aligning asset classification and provisioning with international prudential and accounting standards (Basel Framework, IFRS 9). Strengthen provisioning buffers.
	Large Exposures to Counterparty or Group of Connected Counterparties (Directive No. SBB/87/2024)	Jun-24	Manage concentration risks by limiting losses from a single counterparty or group default.
	Exposure to Related Party (Directive No. SBB/88/2024)	Jun-24	Limit banks' exposure to individual or group counterparties.
Bank Governance and Integrity	Requirements for Persons with Significant Influence in a Bank (Directive No. SBB/89/2024)	Jun-24	Enhance requirements for bank boards, including integrity, experience, time commitments, and conflict-of-interest measures.
	Bank Corporate Governance (Directive No. SBB/91/2024)	Jun-24	Strengthen corporate governance by introducing independent directors and increasing board and senior management accountability.

Annex VI. Table 1. Ethiopia: Recent Key Financial Reforms (concluded)

Core Area	Reform	Implementation Date/Status	Objective
Foreign Exchange Risk Management	Compliance with Net Open Position Thresholds	Pending end-June 2025	Reduce FX risks in the banking sector.
Basel Implementation and Capital Framework	Adoption of Basel II (Pillar 1)	Pending December 2025 (Financial Sector Strengthening Project—FSSP)	Upgrade capital requirements for credit and market risk and introduce capital requirements for operational risk. Establish the foundation for a future Basel III transition.
Risk-Based Supervision and Financial Crisis Management	Development of the Emergency Liquidity Assistance Framework (Directive No. NBE/ELA/001/2024)	October 2024	Provide temporary liquidity to solvent banks facing liquidity strains.
	Development of Internal Control and Risk Management Directive and Implementation of the Risk Assessment Model	Pending end-June 2025 (FSSP)	Strengthen the risk-based supervisory framework.
	Development of a Prompt Collective Action Framework	Pending end-June 2025 (FSSP)	Ensure timely and effective actions by the NBE to address problem banks.
Climate Risk and Financial Disclosure	Climate-related financial risk guidelines	Pending end-2026 (FSSP)	Ensure disclosure of climate-related risks to the NBE.

Annex VII. Data Issues

Annex VII. Table 1. Ethiopia: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	C	B	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	C	C	C	B		
Granularity 3/	C		C	B	B		
			C		C		
Consistency			C	C		C	
Frequency and Timeliness	C	A	C	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

1. **Rationale for staff assessment.** Data provided to the Fund has some shortcomings that somewhat hampers surveillance. Specifically, there are deficiencies in the source data and compilation practices affect the accuracy and reliability of GDP statistics. Limitations are particularly evident with respect to estimation on the expenditure side (private consumption, saving, investment, and fixed capital formation) and agricultural output. It is also unclear the extent to which national account data are consistent with balance of payments data. The lack of high frequency indicators (including quarterly GDP statistics) affects analysis of the impact of recent developments as well as the use of policy modeling tools (e.g. Forecasting and Policy Analysis System), which could further guide recommendations. The CPI basket (based on FY2015/16 needs to be updated. For monetary survey and financial statistics, the authorities provide granular and timely data to staff directly, which is adequate for surveillance. While recent changes in provisioning requirements and the definition of non-performing loans implemented in July 2024 has better aligned Financial Sector Indicators with best practices, earlier data has not been updated, limiting historical comparisons. While quarterly data on budgetary central government expenditure is available on the MOF's website, revenue and below-the-line transactions are not included. Ethiopia's charts of accounts and financial management systems, including Integrated Budget and Expenditure System and Integrated Financial Management Information System, are not aligned with the GFSM 2014 frameworks.

2. Changes since the last Article IV consultation. In December 2023, the government adopted the Ethiopian Statistical Development Program (ESDP) to strengthen capacity to collect and process economic data and approve availability to the public. The authorities are also revising the legal framework for statistics. A new agricultural census and household expenditure survey were launched and are expected to be completed in 2024/25. Ethiopia has benefitted from TA in the areas of national accounts, government financial, and external sector statistics. Data provision to the Fund has improved in the context of program engagement. The authorities are also implementing fiscal transparency and accountability reforms.

3. Corrective actions and capacity development priorities. Improving the quality of statistics is a priority for the authorities, including with CD on; rebasing national accounts and producing quarterly GDP, updating the consumption basket for CPI, aligning BOP presentation with BPM6, and improving the coverage and consistency of government finance statistics.

4. Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

5. Other data gaps. Income and poverty indicators need to be updated. Plans to update the household and expenditure survey should be helpful in this regard.

Annex VII. Table 2. Ethiopia: Data Standards Initiatives

Ethiopia participates in the Enhanced General Data Dissemination System (e-GDDS) and published data on its National Summary Data Page since August 2019.

Annex VII. Table 3. Ethiopia: Table of Common Indicators Required for Surveillance

(As of May 20, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Ethiopia[8]	Expected Timeliness[6,7]	Ethiopia[8]
Exchange Rates	9-May-25	16-May-25	D	W	D	M	...	1W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May-25	May-25	W	W	M	M	1M	15D
Reserve/Base Money	Feb-25	Mar-25	M	2M	M	M	2M	2M
Broad Money	Feb-25	Mar-25	M	2M	M	M	1Q	2M
Central Bank Balance Sheet	Feb-25	Mar-25	M	2M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	Feb-25	Mar-25	M	2M	M	M	1Q	2M
Interest Rates[2]	Apr-25	May-25	M	I	M	M	...	2M
Consumer Price Index	Mar-25	Apr-25	M	M	M	M	2M	15D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2024Q4	Apr-25	Q	Q	A	Q	3Q	3M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	2025Q1	May-25	Q	Q	Q	Q	1Q	1Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q2	Apr-25	Q	2M	Q	Q	2Q	3M
External Current Account Balance	Mar-25	May-25	M	M	Q	Q	1Q	25D
Exports and Imports of Goods and Services	Mar-25	May-25	M	M	M	M	12W	15D
GDP/GNP	Jun-24	Oct-24	A	A	Q	A	1Q	3M
Gross External Debt	2024Q2	Apr-25	Q	2M	Q	Q	2Q	3M
International Investment Position	NA	NA	NA	NA	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. While Treasury bill rates have been provided on a regular basis, there have been delays and irregularieis reporting of lending/savings and money market rates,

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VIII. Implementation of Key Recommendations from the 2019 Article IV Consultation

Sector	Recommendation	Status
Fiscal Policy/SOE Reform	Strengthen domestic revenue mobilization through tax policy measures and tax administration reforms	The government has taken steps mobilize revenues, notably: introducing an excise stamp regime and modernizing the VAT regime with the adoption of a new VAT proclamation, eliminating exemptions; implementing the new Real Estate Property Tax Proclamation; adopting a National Medium-Term Revenue Strategy (NMTRS) (September 2024) and creating the National Tax Reform Taskforce to lead implementation and monitor tax policy and administration reform efforts; advancing digitalization of tax revenue administration to improve tax compliance; and conducting a Tax Administration Diagnostic Assessment (TADAT) with the support of IMF TA. While tax policy measures taken prior to the ECF did not reverse the trend decline in the tax-to-GDP ratio, measures taken in 2024/25 are on track to generate additional revenues of 0.7 ppt of GDP, with plans for additional measures in FY2025/26 to generate 0.6 ppt of GDP.
	Improve expenditure efficiency by undertaking a review of explicit and implicit subsidies on energy products and rationalizing them, simultaneously with poverty-impact mitigation measures	The authorities embarked on fuel subsidy reform in December 2021 eliminating about 1 percent of extra-budgetary fiscal costs between 2021-July 2024. Although some transitional fuel subsidies were provided to mitigate the impact of the FX reform, the authorities plan to phase them out, allowing pump prices for fuel and diesel to reach full cost recovery by December 2025. The government has adopted, and the power utility company has implemented a 4-year electricity tariff adjustment plan, with quarterly price adjustment that commenced in September-2025. The authorities have increased the budget allocation to the Productive Safety Net Program (PSNP) to 0.3 ppt of GDP and are working with development partners to strengthen targeting mechanisms. PIMA and C-PIMA were conducted with IMF TA in March 2024.
	Continue SOE reform efforts to reduce debt vulnerabilities, including improving disclosure and financial reporting, reducing net SOE borrowing requirements, and recognizing losses from non-performing SOE loans.	Net borrowing requirements of SOEs have been reduced significantly. Infrastructure investment and quasi-fiscal activities have been curtailed and new borrowing limited in the context of the IMF program. The Liability and Asset Management Corporation was established to 2021 to improve the balance sheets of indebted SOEs by taking over the bulk of domestic debt (9.3 percent of GDP). Work to restore the viability of the three largest loss-making SOEs is ongoing (electricity, railway, and sugar). A new Public Enterprise law was approved in June 2024, strengthening the SOE governance framework, clarifying roles and objectives, and providing the basis for specification of public sector obligations of SOEs. The authorities have taken steps to strengthen SOE governance and oversight. The Public Enterprise Holding and Administration Authority (PEHAA 2018) and Ethiopian Investment Holdings (EIH, 2021) were created to modernize and centralize SOE oversight and risk management. PEHAA SOEs were subsequently transferred to EIH. Both entities made progress in addressing long delays in submitting audited accounts by SOEs and improved IFRS compliance. An inaugural SOE risk report was published in 2023.

Sector	Recommendation	Status
Monetary Policy and Exchange Rate	Continue efforts to modernize the monetary policy framework	The NBE established a strategic plan for 2023–26 including the transition to an interest rate-based monetary policy regime. A new governance framework for monetary policy was adopted in July 2024, and a revised NBE Proclamation was approved in February 2025, institutionalizing the Monetary Policy Committee. A policy rate was introduced, and open market operations began in July 2024.
	Increase issuance of market-based securities and strengthen NBEs liquidity management framework	NBE financing of the government through direct advances has been eliminated. Issuance volumes for Treasury bills have increased, with rates now positive in real terms, but participation remains low relative to fiscal needs. The authorities have allowed Treasury bill rates to move freely to the market-clearing rate set in auctions and engaged with commercial banks and other market participants to motivate their participation in the domestic debt market. The eligibility of Treasury bills to meet the reserve requirement for CBE was eliminated at end-January 2025. The authorities will also phase out mandatory Treasury bond purchases by end-June 2025. The authorities are working to develop a new issuance framework with the support of IMF/World Bank technical assistance on local currency bond markets. The NBE implemented an Emergency Liquidity Assistance framework in October 2024 to provide temporary liquidity to solvent banks facing strains. To manage liquidity in the financial system more broadly, an interbank money market, including a trading platform, was launched in October 2024 to help banks manage their liquidity more efficiently.
	Eliminate exchange rate overvaluation	The authorities committed to adopt a market-determined exchange rate in July 2024. Following this reform, the nominal and real exchange rate depreciated and corrected real overvaluation. Since then, the real effective exchange rate (REER) has remained stable. FX availability has improved, and interbank FX transactions are increasing. The authorities continue to work to address structural impediments to FX market efficiency and address the recent widening of the parallel market spread.
Financial Sector	Conduct a more comprehensive assessment of systemically important institutions to identify financial stability concerns and map out the extent of potential contingent liabilities	With the support of the World Bank, the authorities have taken significant steps to strengthen Commercial Bank of Ethiopia (CBE) financial position and address the legacy of its role in SOE lending. In addition to recapitalization in July 2024, reforms are being implemented to ensure CBE can operate as a commercially oriented financial institution with clearly specified public obligations. An updated Asset Quality Review is planned for June 2026. The authorities have also committed to developing a strategic plan for the Development Bank of Ethiopia with the support of the FSSP and finalize an AQR in September 2025.
	Expedite financial sector reforms, including strengthening the financial safety net and the resolution framework and putting in place a crisis management framework	The authorities are working with the World Bank to develop a Prompt Collective Action Framework by December 2025 and are developing a bank resolution regime. Efforts to strengthen the supervisory and regulatory framework continue. Asset classification and provisioning practices were updated in accordance with international practices in June 2024. Work to implement the Basel II framework, with the support of IMF TA is ongoing and expected to be complete by December 2025.

Sector	Recommendation	Status
Structural	Advance structural reforms to improve the business and investment climate	The Commercial Code was revised in 2021, including in the areas of insolvency procedures and minority shareholder rights. Sixty previously closed sectors and sub-sectors (e.g., logistics and telecom) have been opened to both domestic and foreign investment. The authorities are also pursuing access to global and regional trade agreements, including joining the World Trade Organization. Legal frameworks for contract farming have been put in place to provide alternative sources of finance and market access for farmers. Liberalization of the telecom sector has enhanced competition and paved the way for digital transformation. On mining, the "National Artisanal and Small-Scale Mining Strategy" was implemented to encourage formalization. A national ID is being rolled out which will provide the basis for increasing financial inclusion and public service delivery.
	Continue efforts to improve data quality	The government adopted the Ethiopian Statistical Development Program (ESDP) in December 2023 to strengthen capacity to collect and process data and improve the economic data available to the public. Revisions to the legal framework for statistics are in progress with a view to submission to the Council of Ministers by June 2025. A new agricultural census and household expenditure survey are expected to be completed in Summer 2025, which would serve as key inputs to updating national accounts and consumer price index statistics. The authorities have also received TA in the areas of external sector statistics and government finance statistics.

Appendix I. Letter of Intent

Addis Ababa, June 13, 2025

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Madame Managing Director:

Our economic reform program supported by the four-year Extended Credit Facility (ECF) approved by the IMF Board on July 29, 2024, has continued to advance well. The interest-rate based monetary policy framework and market-determined exchange rate introduced at the start of the program are developing well, with widening public acceptance and deepening participation by market actors. Tight monetary and fiscal policy have helped put inflation on a clear downward trajectory, bringing relief to consumers. New central bank and banking laws passed in December 2024 provide a strong platform for financial stability.

Following the success of the recent reforms, we continue to push ahead with our IMF-supported program to address macroeconomic imbalances and promote private sector-led growth. The objectives of our economic program remain to: (i) address foreign exchange shortages and long-term balance of payments vulnerabilities; (ii) reduce inflation through prudent monetary policies and sound public finances; (iii) address debt vulnerabilities and strengthen domestic revenue to enable government investment and other priority spending; (iv) strengthen the financial sector, address vulnerabilities in SOEs, and lift financial repression progressively; and (v) promote a robust, inclusive, and sustainable economy.

This economic program builds on our updated Homegrown Economic Reform Agenda 2.0 (HGER2.0) from last year, which updates the original HGER from 2019 and aims to deliver a vibrant private sector that can accelerate growth and create decent jobs. HGER 2.0 rests on four key pillars: (i) ensuring macro-economic stability; (ii) creating a conducive investment and trade climate; (iii) increasing productivity across key sectors; and (iv) building a capable and efficient civil service.

Next steps in our economic program include: (i) finalizing the government budget of FY2025/26 with carefully prioritized pro-poor spending and revenue mobilization in line with our National Medium Term Revenue Strategy; (ii) promoting continued development of an efficient FX market, including through enforcement of prudential regulation on banks' net open position and the gradual phase-out of surrender requirements; (iii) completing the transition from quantitative controls on credit to interest rate-based monetary policy; and (iv) further developing the T-bill market to ensure efficient provision of credit to government.

We request the Fund's continued financial support for our economic program through a disbursement of SDR 191.70 million for completion of the third review of the ECF arrangement. As part of this third program review, we also request (i) completion of the financing assurances review and (ii) temporary approval of exchange restrictions and multiple currency practices on the grounds that these measures have been imposed for balance of payments reasons, are temporary, non-discriminatory, and do not give Ethiopia unfair competitive advantage. These measures include: the 2.5 percent NBE exchange commission that gives rise to an exchange restriction and multiple currency practices, the imposition of hard ceilings on access to and use of FX for travel purposes, the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances, and the exchange restriction on backlog dividends. We also request modification of the end-September indicative targets (ITs) on (i) net international reserves to reflect updated timing for World Bank financing and (ii) on government contribution to PSNP to accommodate underlying seasonal and budget execution patterns.

The policies and actions underpinning the ECF arrangement are set out in the attached Memorandum of Economic and Financial Policies (MEFP). The implementation of our program will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks described in the MEFP and further specified in the attached Technical Memorandum of Understanding (TMU). We will provide the IMF with all the data and information required to monitor implementation of the agreed measures and the execution of the program, as detailed in the TMU.

We are confident that the policies and measures outlined in the MEFP will enable us to achieve our program objectives. We will promptly take any additional measures that may become appropriate for that purpose, in consultation with the IMF, and in accordance with applicable IMF policies. We will refrain from any policy that would not be consistent with the program's objectives and commitments herein. We are committed to working closely with IMF staff to ensure that the program is successful, and we will provide the IMF with the information necessary for monitoring our progress.

In line with our commitment to transparency, we consent to the publication of this letter and its attachments, and the related staff report.

Very truly yours,

/s/	/s/
H. E. Mr. Ahmed Shide Minister of Finance The Federal Democratic Republic of Ethiopia	H. E. Mr. Mamo E. Mihretu Governor, National Bank of Ethiopia The Federal Democratic Republic of Ethiopia

Attachments:

I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Addis Ababa, June 13, 2025

A. Context and Recent Developments

1. After two decades of rapid economic and social development, Ethiopia's economy, while facing challenges, remains resilient. Per capita income rose 650 percent during 2000–20, supporting gains in human development, health, and education indicators. Although a key driver of growth was public investment in large infrastructure projects, this contributed to macroeconomic imbalances that threatened to undermine progress. In 2019, the government embarked on the Homegrown Economic Reform Agenda (HGER) to address imbalances and encourage private sector-led development. A series of economic shocks, including the COVID 19 pandemic, drought, domestic conflict, and international commodity price rises, delayed reforms and led to a moderation in growth, worsening economic imbalances, internal displacement, and food insecurity challenges. Financing reconstruction and recovery from conflict and managing the long-term effects of climate change add to the challenges that must be addressed.

2. Core elements of the economic reform plans were successfully implemented prior to the ECF program despite very challenging circumstances. The fiscal deficit was significantly reduced over FY2021/22-23/24, difficult subsidy reforms were implemented helping minimize fiscal risks, and borrowing by state-owned enterprises (SOEs) was tightly controlled (including by avoidance of non-concessional debt). A new holding company, Ethiopian Investment Holdings, was established to achieve improved performance in public enterprises through use of modern management practices, corporate governance standards, and partnerships with foreign investors. The telecom and logistics sectors (both previously dominated by a government monopoly) were opened to competition. The decision to open the banking sector to foreign participation was another decisive reform measure taken to help address long-standing weaknesses in the scope, depth, and accessibility of modern financial services.

3. To sustain progress, we are reinvigorating our reform agenda. Our updated reform agenda from last year (HGER2.0) renews the government's commitment to maximizing the potential and building the resilience of our economy. HGER2.0 is built on four pillars: (i) macroeconomic reforms, to establish a modern and sound macroeconomic policy framework that supports stability, resilience, and sustainability; (ii) investment and trade sector reforms, to boost competitiveness through a favorable environment that promotes and enhances innovation and entrepreneurship; (iii) productive sector reforms, to expand capacity and raise productivity growth by increasing investment; and (iv) public sector reforms, to enhance the government's capacity to ensure the efficient delivery of high-quality services.

4. Our reform drive is now making substantial advances. In July 2024, we introduced a modern interest rate-based monetary policy framework, floated the exchange rate, embarked on a four-year ECF arrangement with the IMF, advanced discussions with creditors on restructuring of our external debt, and secured budget support from the World Bank in support of our development objectives. More sectors, including residential housing, retail and wholesale trade, and banking are being opened to foreign investment. As part of strengthening the institutional and regulatory framework, new central bank and banking laws were passed in late 2024, complementing new investment, trade, procurement, and public enterprise laws that had already been enacted. A securities exchange was launched in early 2025.

5. Real GDP growth has remained resilient. Growth rose from 7.2 percent in 2022/23 to 8.1 percent in 2023/24, above sub-Saharan African averages, but down from pre-pandemic average growth of 9 percent. The Cessation of Hostilities Agreement in November 2022, strong agricultural production due to favorable rains and initiatives to increase irrigated crop production, growth in mining and lately in manufacturing and electricity (with a large project coming online) have driven the recovery. High-frequency data for 2024/25 suggests strong crop growth thanks to favorable weather conditions along with robust mining activity.

6. Inflation continues to decline. Inflation fell to 13.6 percent in March from 15.0 percent in February, with a further slowdown in food prices offsetting an increase in non-food inflation driven by an uptick in administered fuel prices. The impact of the exchange rate reform on inflation has been lower than anticipated and has remained under control due to the government's and National Bank of Ethiopia's (NBE) decisive actions since 2023. These actions include curbing monetary financing of fiscal deficits and controlling the growth of credit to the private sector. Additionally, gradual adjustments to key regulated prices, such as fuel, public transport, and electricity, alongside price stabilization efforts for imported edible oil and medicines, have helped mitigate and smooth the reform's impact on consumers, aligning with program objectives.

7. Balance of payments (BOP) developments in 2024/25 are strong. Goods exports are exceeding expectations, driven by exceptionally strong gold and coffee exports. The performance of gold exports reflects higher volumes, including reduction of inventory, as producers respond to better price incentives since the exchange rate reform and record global prices. Improved FX availability has helped clear import backlogs, raising total imports. A higher services surplus is contributing to a decline in the current account deficit. While private transfers have been higher than anticipated, FDI flows have been lower, reflecting challenges in the security situation and the business environment. Gross international reserves stood at $4.1 billion at end-March—well above the previous year-end projection of $3.1 billion, reflecting NBE's purchases of gold—equivalent to roughly 1.9 months of import coverage.

8. The federal government budget recorded a primary surplus in the first eight months of FY2024/25, reflecting strong revenue performance and lags in spending execution. Tax revenues grew 80 percent compared to the same period of the previous fiscal year, reflecting our strong efforts to achieve the ambitious revenue mobilization targets for this year. Domestic indirect taxes (VAT and excise) rose by 87 percent on implementation of VAT and excise reforms. Exchange rate unification resulted in a "windfall" in import tax receipts, with custom revenues rising by 124 percent compared to the previous year. A small primary surplus was recorded as key program-supported spending measures were backloaded with the adoption of the Supplementary Budget at the end of November 2024. The government contribution to the safety net programs (Indicative

Target) at end-December was in line with program commitments, compensating the shortfall recorded at end-September 2024. We anticipate allocations to remain in line with program targets.

9. SOE reforms continue. Infrastructure investment and quasi-fiscal activities of some large SOEs have been curtailed, and longer-term reform programs to restore operational viability are underway. A key macro-financial vulnerability arose from past lending to these SOEs by the systemic state-owned Commercial Bank of Ethiopia (CBE). In early 2024/25, CBE's claims on LAMC and EEP were replaced with a government bond. In addition, a further amount was provided to ensure CBE is fully capitalized beyond the 8 percent regulatory requirement. In January, the Council of Ministers dissolved the Public Enterprises Holding and Administration Authority (PEHAA) agency and transferred the eight SOEs it managed to Ethiopian Investment Holdings (EIH). SOE management and development has been consolidated under EIH.

10. The NBE has maintained a tight monetary policy. Monetary financing of fiscal deficits was eliminated from the start of 2024/25. The new NBE proclamation introduced a short-term Cash Flow Facility to manage unexpected liquidity shortfalls in line with international practice. The NBE has maintained limits on the annual growth in commercial bank credit to the private sector since August 2023. The introduction of a new monetary policy framework and the operationalization of OMOs in July 2024 has further supported our tight monetary policy stance. Regular open market operations (OMOs) are conducted at the policy rate of 15 percent, and banks can utilize overnight standing facilities and the interbank money market to manage liquidity. The Monetary Policy Committee (MPC) recommended maintaining the policy rate at 15 percent at its first two meetings (December 2024 and March 2025), and to raise the limit on growth in commercial bank credit to the private sector from 14 to 18 percent for this fiscal year. Short-term market interest rates have for the first time turned positive in real terms. Weighted average Treasury bill yields rose from 14.0 percent in November to 18.1 percent in March, although auction participation has remained subdued. The weighted average interbank rate was 16.8 percent in March, and transaction volumes continue to grow. NBE gold purchases and execution of externally financed government spending are now easing monetary conditions, with broad money and base money growth at 27 percent and 41 percent y/y, respectively in March 2025. The next MPC meeting will take place in June 2025.

11. Prudent debt management has continued. The government has not contracted new external non-concessional loans since 2018, while SOEs have not started new externally financed investments, continuing only a few ongoing projects. The stock of external debt declined from 29.0 percent of GDP in 2020/21 to around 15 percent of GDP in 2023/24. With domestic debt falling too, total public and publicly guaranteed debt declined from 56.1 percent of GDP in 2020/21 to around 34 percent in 2023/24. While external debt is not projected to increase, the total debt-to-GDP ratio is projected to rise in 2024/25, primarily due to significant depreciation of the Birr resulting from the FX reforms.

B. Objectives of the Program

12. Our economic reform agenda provides a foundation for strong, inclusive, and private sector-led growth. We envision high and stable growth and gradual reduction in inflation to single digits within the program period. Correcting exchange rate distortions, unlocking external financing, controlling inflation, boosting tax revenues, optimizing public investment, ensuring debt sustainability, strengthening banking sector resilience, and improving the business environment will anchor macroeconomic stability and stimulate economic growth.

13. Our economic program supported by the IMF and outlined in this memorandum is built on the HGER. Key objectives under the program are to (i) address FX shortages and long-term BOP vulnerabilities stemming from exchange rate distortions among other factors; (ii) reduce inflation through modernizing the monetary policy framework and sound public finances; (iii) address debt vulnerabilities and strengthen domestic revenue to enable government investment and other priority spending; (iv) strengthen the financial sector, address vulnerabilities in SOEs, and lift financial repression progressively; and (v) promote a robust, inclusive, and sustainable economy, through improving governance, financial inclusion, public service delivery and bolstering climate resilience and food security. Strengthening institutions and macroeconomic policy frameworks is critical to achieve these goals, which together will create the right conditions for private investors to unlock the economic potential of our country.

C. Foreign Exchange Policy

14. We reiterate our commitment to a market-determined exchange rate. FX availability has improved since the FX reform in July 2024, the real effective exchange rate (REER) has remained competitive, and interbank FX transactions are increasing. We are taking measures to address structural impediments to FX market functioning that drive inefficiencies, and the recent widening of the parallel market spread. FX market pressures stem from seasonally high imports, a high level of settlement of letters of credit (LCs) for fuel and fertilizer in recent months, recent monetary expansion, mainly arising from NBE gold purchases, continued capital account restrictions and general sentiment factors. The large payments for essential imports (a legacy of financing arrangements from the period of FX shortages), and enhanced transparency are key areas for action:

- NBE will monitor commercial practices in the foreign exchange market to ensure competitive conditions as well as price transparency and will address behaviors that obscure the true cost of FX transactions. Starting June 2, 2025, we have posted all banks' fees and commissions for FX transactions with clients on the NBE's website to facilitate easier comparison (prior action). As part of stepped-up market monitoring efforts, NBE will periodically assess whether there is unmet FX demand from September 1, 2025.
- NBE will revise the methodology for calculating the daily NBE indicative rate with a view to including interbank FX transactions and NBE's sales and purchases of FX with banks by the end of September 2025 (structural benchmark). The revised methodology will be informed by IMF technical assistance, including a review of the current transaction size threshold of US$1,000.
- NBE will continue special FX sale auctions using proceeds from gold sales that exceed reserve accumulation targets. These auctions will follow international best practices and are open to all banks and allocated based on the highest bids, with no restrictions on bidding prices or amounts. The FX auction guidelines specifying these principles were published in June 2025.

- The NBE has agreed with the CBE on a plan to reduce its on-balance sheet NOP to within the prudential limit by the end of 2025 (prior action). This plan includes closing at least half of the excess position as of end-April 2025 by the end of September 2025. In parallel, we will revise the NOP directive by the end of October 2025 to align with international best practices for the treatment of FX-linked assets, with support from IMF technical assistance (structural benchmark). The revised NOP directive will take effect from February 1, 2026, and will be accompanied by a clear penalty regime for non-compliance.
- The NBE raised the cap that was applicable on advance payments for imports from US$5,000 to US$50,000 in May 2025. This change aims to help importers better manage FX risk in line with their risk tolerance. We will review current rules regarding the exporters' sale of funds in their retention accounts with a view to increasing exporters' ability to secure the best exchange rate when fulfilling surrender obligations.
- Regular public-private dialogue on improving the business environment will serve as a platform to identify policy measures that support the private sector. This will be informed by a regular comprehensive FX market study to gather insights on current market dynamics and key impediments. We will also consider changing the rules on who can participate in specific areas of the FX market by, for example, giving consideration to authorizing fintech firms to operate in one or more segments of the FX market.

15. Efforts to phase out long-standing restrictions continue. We reaffirm our commitment to removing three exchange restrictions out of six long-standing restrictions identified in the recent IMF Article VIII assessment during the program period. The NBE has already issued a letter to banks regarding the settlement of dividends accumulated prior to the FX reform. We raised the current limit on FX usage for personal and business travel from US$5,000 to US$10,000 and US$ 15,000, respectively, in May 2025. The potential removal of restrictions on accessing and using FX for moderate family remittances will be evaluated to mitigate the risk of circumventing capital controls. The phasing out of the NBE exchange commission, which constitutes a significant portion of NBE's income, will be aligned with review of NBE's capital position, for which we have received IMF TA in April 2025. The two additional exchange rate restrictions—namely, the tax clearance certificate requirement for repatriation of dividend and other investment income, and the requirement to provide a clearance certificate from the NBE to obtain import permit—will be studied jointly with the other affected public authorities to identify alternative solutions that do not give rise to exchange restrictions. NBE will phase out surrender requirements by the end of the program, at a pace determined by the development of the FX market.

16. Intervention in the foreign exchange market will be limited to stemming disorderly market conditions, and auction of proceeds from gold noted above. The NBE has approved an FX intervention strategy (including governance process) that allows, but does not oblige, the NBE to buy or sell foreign currency in volatile market conditions. Any FX intervention will be conducted via public auction following the recently adopted FX auction guidelines.

D. Monetary Policy

17. We are modernizing the monetary policy framework. The NBE's strategic plan for 2023–26 prioritizes maintaining low and stable inflation and transitioning to an interest rate-based monetary policy regime. A new governance framework for monetary policy was adopted in July 2024, and the revised NBE Establishment Proclamation was approved in February 2025, institutionalizing a transparent and credible monetary policy regime and the role of the MPC. The MPC recommends the policy stance to the Board of the NBE and approves all instruments and guidelines relating to the implementation of monetary policy. Since December 2024, NBE has held two MPC meetings, and will continue to hold meetings on a quarterly basis, following a published calendar, with the scope to convene more frequently if needed depending on monetary and financial conditions. A policy statement is published after each meeting to communicate the monetary policy stance. To continue to support the transition to the interest rate-based monetary policy framework, NBE has (i) upgraded the real-time gross settlement system (RTGS); (ii) is in the process of dematerializing government securities; (iii) launched the central securities depository for monetary operations; (iv) strengthened liquidity forecasting capabilities; and (iv) continued developing a transparent monetary policy communication strategy.

18. The NBE has maintained a monetary policy rate of 15 percent since July 2024. Standing lending and deposit facility rates are set at ± 3 percent around the policy rate, with the interbank lending rate as an operational target. To achieve this policy stance, the NBE has continued to conduct regular full allotment Open Market Operations (OMOs) at the policy rate to align banking sector liquidity with the monetary policy stance. In October 2024, NBE implemented an emergency liquidity assistance framework to provide temporary liquidity to solvent banks facing strains, and we will continue efforts to establish a comprehensive collateral framework with technical assistance from the IMF.

19. To support the monetary policy framework, we continue to take steps to enhance the management of liquidity in the financial system. In late October 2024, we launched the Interbank Money Market, including a trading platform, which banks have been using to manage their liquidity more efficiently. Transaction volume rose continuously since October 2024, with weighted average rates generally falling between the policy and NBE's overnight lending rate. We merged banks' payment and settlement accounts with their reserve accounts in August 2024 and we are finalizing the new reserve framework to support more efficient liquidity management in the banking sector. We will review directive FIS/03/2020 on maximum Cash Withdrawal Limits with a view to assessing its impact on liquidity by September 2025.

20. We will maintain tight monetary and financial conditions to anchor exchange rate and inflation expectations with the objective of ensuring price stability. NBE's policy rate will be the key instrument to signal the policy stance and will be calibrated to be consistent with achieving low and stable inflation. We plan to phase out quantitative restrictions (the credit growth cap on private sector lending) by-September 2025. We reaffirm our commitment to adjust the policy rate based on projected inflation as assessed by the MPC. We will maintain a close dialogue with the IMF on monetary policy setting, consulting as needed if inflation deviates from the baseline projection and standing ready to take additional monetary policy measures to manage inflation expectations as needed, including using the reserve requirement.

21. We continue efforts to develop the Treasury bill market. Since November 2024, T-bill rates have increased and now offer yields that are positive in real terms. T-bill auctions remain undersubscribed, with variable demand, and limited participation from the banking sector. To address these challenges, the Ministry of Finance (MoF) has initiated high-level engagements with commercial banks and other financial sector participants motivating their participation in a market-based domestic debt market that meets their investment needs and the fundamental change from past debt management practices. We completely removed the eligibility of T-bills toward meeting the reserve requirement for CBE at the end-January 2025 and will phase out the rollover of CBE's legacy T-bill portfolio. We ended the mandatory purchase of 5-year treasury bonds by commercial banks by repealing the Treasury Bond Purchase Directive No. MFAD/TRBO/001/2022 (end-June 2025 structural benchmark).

22. With the support of technical assistance from the IMF and the World Bank Group, we are strengthening debt management and broadening the uses of T-bills and bonds. A new issuance framework is being developed. We have introduced an issuance calendar, initiated regular engagement with market participants, and begun publishing a monthly debt report as of June 2025. By September 2025, we will launch the Ethiopian Bond Market Forum in collaboration with key stakeholders. We are reviewing the regulatory treatment of T-bills and bonds for capital adequacy and liquidity purposes and will enhance their role as collateral by gradually transitioning to a secured interbank money market. These reforms will be supported by the operational launch of a Central Securities Depository (CSD) and the full dematerialization of government securities by end-December 2025.

23. Monetary financing of fiscal deficits has been eliminated ending a key driver of inflation and reinforcing our commitment to disciplined monetary policy. All direct advances are now terminated (quantitative performance criterion, QPC). To ensure the federal government can manage its cash position as liquidity forecasting improves and the Treasury bill and bond market develops, a government short-term credit facility has been created. As per the NBE Proclamation, this Cash Flow Facility may provide temporary credit to the government for a duration of no longer than 12 months at the NBE monetary policy rate, for amounts not exceeding 15 percent of the previous fiscal years' General Government domestic revenue. Tighter fiscal policy and limits on SOE borrowing (indicative target, IT) also continue to support tighter monetary conditions, with a significant impact on overall credit demand given the large share of government and public enterprises in total credit.

24. We are strengthening NBE governance and transparency. Following approval of the revised NBE Proclamation, the government will take measures to fully implement the new proclamation. This will include the appointment of three new Board members in line with the enhanced governance principles outlined in the law. Following appointment of a new external auditor of the NBE, the FY2022/23 audit was approved by NBE Board on March 28 and published on

NBE website on April 4, 2025. The audit resulted in a clean audit opinion, confirming that the financial statements were fairly presented in line with IFRS and local requirements. NBE remains committed to keeping to a timely audit cycle going forward, and the FY2023/24 audited accounts are expected to be published by end June 2025.

25. An assessment of NBE's capital was undertaken in April 2025 with support from IMF technical assistance. The assessment will inform discussion of the recapitalization needed to ensure NBE can attain its policy objectives and operate independently by December 2025, including to enable phasing out of the 2.5 percent commission fee on FX transactions. Stronger capitalization will allow the NBE to gradually reduce its dependence on non-core activities.

E. Fiscal Policy

26. Our fiscal policy will create space for critical public investment in human capital—health, education, and social protection—and basic infrastructure to support inclusive growth. A revenue-led strategy will restore long-term stability to the public finances, while ensuring a significant contribution to restoring debt sustainability. To spearhead collaborative reform implementation, the Ministry of Finance has established several inter-ministerial working groups (revenue mobilization, subsidy reform, debt management) that lead policy coordination, monitoring, and evaluation processes and report bi-monthly to the Macro-Economic Committee.

27. Fiscal consolidation will be maintained over the medium term to underpin sustainable public finances for long-term development. We will reduce the primary federal government deficit, on a cash basis, from 1.5 percent of GDP in 2023/24 to 0.8 percent of GDP in 2027/28 (quantitative performance criterion, QPC). The general government deficit will decline in line with that of the budgetary federal government, underpinned by continued restraint in borrowing by regional governments.

28. FY2024/25 fiscal policy has been implemented in line with program commitments. The supplementary budget included a spending package consistent with the 1½ percent of GDP of measures to mitigate the inflationary and socio-economic impacts of our reform program. We increased public sector salaries, prioritizing low wage earners that fell below the poverty line. The wage increases benefitted 2.3 million federal and regional civil service workers at a gross cost of 91 billion birr (0.6 percent of GDP), of which about 1/3 will be offset by higher income tax receipts. The increase partly restored wage erosion in the public sector from the rise in the cost of living. The overall deficit, excluding budget grants, will be maintained at 3.5 percent of GDP in 2024/25, in line with program targets. We have rationalized lower priority current and capital expenditure to offset the impact of moderate downward revisions to revenue stemming from the impact of lower-than-expected inflation and administrative factors on the tax base.

29. The Council of Ministers will submit a draft FY2025/26 Federal Government budget to Parliament in line with the program (Structural Benchmark, end-June 2025). The FY2025/26 Budget will target a reduction in overall deficit excluding grants from 3.5 percent to 2.4 percent of GDP. An increase in the tax-to-GDP ratio from 7.3 in FY2024/25 to 9.0 percent of GDP is in line with tax reform commitments under the National Medium-Term Revenue Strategy (NMTRS). All federal fuel taxes (0.8 percent of GDP), which formerly accrued to Ethiopian Petroleum Supply Enterprise (EPSE) and the Road Fund, will be remitted to the Budget. A temporary fuel subsidy (0.6 percent of GDP) and permanent allocation to the Road Fund (0.15 percent of GDP) are included in the budget. The unwinding of temporary spending measures will proceed as planned, shifting spending away from untargeted subsidies towards growth enhancing development spending and targeted social support.

30. Durably raising domestic revenues is essential to increase space for social and capital spending. We have formed a National Tax Reform Taskforce to provide leadership and secure comprehensive implementation and monitoring of tax policy and tax administration reform, guided by the NMTRS. Revenue yields will come primarily from tax policy reforms at first, with gains from tax administration reforms setting in over time. Over the medium-term, a 4-percentage point rise in the tax-to-GDP ratio to 9.9 percent of GDP by 2027/28, including 0.8 percent of GDP from the foreign exchange impact, will provide a sustainable resource base for raising pro-poor and capital expenditure by 2 and 1.2 percent of GDP, respectively. We have adopted a revised Medium-Term Fiscal Framework for 2024/25-27/28 in line with these goals. We are committed to undertaking additional revenue and expenditure measures that may become necessary to ensure the attainment of our revenue and primary deficit targets.

31. We are advancing the next phase of revenue mobilization reforms, in line with the NMTRS. The tax policy measures taken in 2024/25 are on track to generate revenues of 0.7 percent of GDP. Tax policy measures implemented in FY2025/26 will generate an additional 0.6 percent of GDP, including:

- A directive to streamline and eliminate tax exemptions, including VAT, excise, customs duties, and surtax, granted for imported intermediate inputs for new investment projects. A new performance-based duty drawback mechanism will be restricted to iron bars and zinc used in the construction industry. These reforms are projected to have a net full-year revenue impact of 0.1 percent of GDP, with implementation beginning in June 2025.
- The Council of Ministers will submit to Parliament amendments to the Income Tax Proclamation (**new structural benchmark, end-September 2025**) that will generate 0.3 percent of GDP in tax revenue which will include:
    i. introduction of a minimum alternative tax (MAT). With nearly two thirds of businesses reporting no taxable profit, MAT is expected to raise revenues, reduce avoidance, and combat evasion. MAT will be based on turnover, and will apply to all corporations, as well as to unincorporated businesses that will not be subject to presumptive tax regime.
    ii. increase in the withholding tax rates. The withholding tax on deposit interest, the tax rate on royalties, and games of chance winnings will be increased. We intend to maintain intercorporate dividends as tax-free to avoid cascading as income moves within a corporate group.
    iii. simplification of the presumptive tax regime. The existing system is overly complex and fails to deliver fairness to taxpayers. The presumptive tax will be based on turnover, with fewer

brackets and no differentiation among business activities. This policy reform will be revenue neutral, with revenue gains expected from administration and compliance.

iv. adjustment of the personal income tax schedule to correct bracket creep leading to tax payments by individuals with incomes below the poverty line, with revenue loss not to exceed 0.1 percent of GDP.

- We will maintain the statutory corporate income tax (CIT) rate at the current level of 30 percent given that Ethiopia's CIT rate remains in line with most countries in the region.
- We intend to introduce an inheritance and donation tax at a flat rate for bequests or donations greater than 1 million Birr per legatee.
- We are committed to rationalizing tax incentives, which provide an ineffective incentive for growth and deliver the biggest benefits to the most profitable firms. We will immediately cease granting new tax holidays under the current tax holiday regime. Existing tax holidays will be allowed to run their course but will not be renewed or expanded. Although the immediate tax savings are expected to be small, benefits these will grow over time. We will implement a rules-based system for tax incentives, which we will develop in consultation with IMF and World Bank. We will put in place a statutory requirement to annually publish estimates of tax forgone for all tax incentives.
- The new VAT Proclamation has been fully effective since the start of FY2024/25. Revenue yield will continue to rise as improved efficiency, expanded tax base, and revenue administration improvements are realized.
- We will increase specific excise rates on alcohol and tobacco in line with accumulated inflation in FY2024/25. After some delays, the rollout of the excise stamp regime is expected to be implemented by December-2025 (including a digital track and trace system). An excise stamp provider had been selected, and the contract will be finalized before end-June 2025.
- We have finalized assessment of the existing motor vehicle fees and charges, based on which we will prepare a proposal for Parliament to decide on the tax revenue assignment of the tax between federal and regional governments. As an interim mechanism to realize the NMTRS target (0.1 percent of GDP from 2025/26), we are considering a review of the annual motor vehicle ownership fees.
- Revenue gains from property tax reforms are on track to yield 0.1 percent of GDP in FY2024/25, which has been realized under the existing legal framework through revision of tax base assessments and stepped-up enforcement. The new Real Estate Property Tax Proclamation was enacted in parliament in January-2025, with plans for advance rollout by the largest cities in FY2025/26 and nationwide implementation (at least 0.3 percent of GDP) by FY2026/27, as legally mandated.

32. We are strengthening tax and customs administration and improving compliance. Our efforts focus on strengthening taxpayer registration, e-filing and digitalized self-assessment, compliance risk management (particularly in construction, manufacturing, and retail), and tax audit efficiency, guided by the NMTRS. The Customs Commission will digitalize the valuation and the tariff classification process to strengthen tax base control and transparency. To advance swiftly with digitalization of tax revenue administration, the 2024/25 Federal Budget allocated the full funding requirement to procure the Integrated Tax Administration System. The August 2024 TADAT assessment is informing tax administration reform priorities. We will authorize the publication of the finalized TADAT report in May 2025 on the TADAT secretariat website. We will consult with the Fund before implementing any voluntary asset repatriation program. Any such program will aim to ensure full transparency and consistency with international Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) standards and avoid erosion in the legitimacy and fairness of the tax system.

33. The FY2025/26 Budget will contain the following spending measures:

- The budget allocation to the Productive Safety Net Program (PSNP) that targets the most vulnerable households will be maintained at 60 billion Birr (0.3 percent of GDP, Indicative Target). The direct subsidies for edible oil will be phased out entirely by June-2025. We will refrain from direct price controls.
- An additional budget allocation of 0.15 percent of GDP to the Ministry of Health for purchases of critical pharmaceuticals. We will work closely with the World Bank and other developmental partners to address funding gaps in HIV, tuberculosis, malaria, and health and community care.
- We will phase out transitional fuel subsidies mitigating the impact of FX reform. Pump prices on petrol and diesel will reach full cost recovery, including statutory tax rates, by December-2025. The budget net cash transfer to EPSE will be capped at 30 billion Birr (0.15 percent of GDP) in FY2025/26 (the gross subsidy allocation to EPSE will be capped at 130 billion Birr, including retained fuel taxes in the first half of the fiscal year). We will continue to provide targeted fuel subsidies for public transportation to support vulnerable households, relying on the current targeting mechanisms and digital solutions (rebates through mobile payment and digital wallets), and limiting eligibility to city and regional public bus transportation.
- We will end the practice of earmarking and remitting a portion of fuel taxes to the Road Fund, allocating 0.1 percent of GDP to the Road Fund for road maintenance in the budget. Fertilizer subsidies will be capped at 84 billion Birr (0.45 percent of GDP).

34. We will settle legacy fuel subsidy debt resulting from exchange rate losses and prevent the reemergence of similar liabilities. In the first quarter of 2026 the Council of Ministers will increase the authorized capital of EPSE to offset losses stemming from FX reform (given trade credit liabilities) and EPSE will eventually transition to lower cost LCs for future fuel purchases. FX revaluation losses were estimated at 138 billion Birr as of end-September 2024. Starting with the FY2024/25 Supplementary Budget, fuel subsidies have been explicitly recognized as federal government spending. To ensure EPSE has sufficient Birr liquidity, it will bill MoF on a month ahead basis and MoF will fully settle in cash within a month the amount of the projected fuel subsidy and EPSE's additional cash shortfall related to maturing FX liabilities. We plan to seek technical assistance from the Fund to devise a strategy for rebuilding and managing fuel price stabilization buffers and implementing transparent and automatic fuel price adjustment.

35. In the medium-term, we plan to increase pro-poor spending and capital expenditure, as a share of GDP, to above pre-2019 levels. Higher revenues will underpin sustainable expansion of public spending, which will also help meet reconstruction needs. Specifically:

- **Safety nets:** we will continue to enhance the adequacy, coverage, and sustainability of PSNP expenditure. The increased budgetary envelope for the PSNP will help to expand coverage of the food insecure and poorest households. We are working with development partners to strengthen targeting mechanisms, update and improve poverty assessment metrics, and undertake regular program evaluations. As the cost-of-living shock abates, we are focusing on durable livelihood improvement to reduce poverty.
- **Disaster risk management:** We intend to create a national fund under the auspices of the Ethiopian Disaster Risk Management Commission (EDRMC) to ensure effective response to natural and man-made disasters, with a particular emphasis on droughts and floods, a key source of humanitarian, macroeconomic and fiscal risk. To partially compensate for declining overseas development assistance, we are considering domestic financing resources for the fund, including budgetary allocations and EDRMC developing its own revenue sources (consistent with our NMTRS and tax policy reforms). The fund's operations will be consolidated within the general government, in line with our policies and commitments on transparency of extrabudgetary entities.
- **Public investment:** Promoting sustainably financed growth-enhancing investment in public infrastructure is one of our main priorities. To tackle the large unfinished public investment portfolio and facilitate medium-term capital expenditure planning, we plan to formulate an explicit framework for centralized prioritization, selection, and budgeting of the investment project pipeline, which will be backed by an IT system, currently under development, to systematize public investment data. We have undertaken a comprehensive review of the public investment management institutional landscape (March 2024 IMF Public Investment Management Assessment (PIMA) mission) and will publish the report once it is finalized. We will use the findings of this assessment, which also included a climate module, to improve planning, allocation, and implementation stages, as well as transparency of the public investment management cycle.

36. We will enhance transparency and accountability in the management of public finances. Ministry of Finance has recently published a flagship Macro-fiscal Performance and Recent Policy Developments Report for the period 2020/21–2022/23, that provides insights into Ethiopia's macroeconomic and fiscal performance including developments in public debt, fiscal policy changes, and analysis of disaster-related fiscal risks. In FY2024/25, Ministry of Finance started publication of a mid-year review on the implementation of the Federal Government budget and a quarterly budget execution report (Structural Benchmark, April-2025), analyzing economic development, consolidated budget performance against commitments, cash flow, near-term fiscal risks, and proposed policy responses.

37. We will improve transparency and monitoring of fiscal risks from extrabudgetary units. We will expand of the coverage of extrabudgetary units in government finance statistics, to comply with GFSM2001/2014, specifically moving the large extrabudgetary government units into the general government perimeter. Guided by Fund TA we will strengthen Government Finance Statistics compilation, reconciliation, and reporting practices. MoF has advanced the planned date for EPSE to start remitting all federal fuel taxes to the Ministry of Revenue to the start of FY2025/26 (from December 2025), issuing the related instruction (Structural Benchmark, June-2025). To strengthen transparency, the practice of earmarking a portion of fuel VAT for the Road Fund has been discontinued—road maintenance funding will now be allocated through the budget (Structural Benchmark, June-2025). New roads will continue to be financed through the federal budget. The introduction of public sector obligations (PSO) framework, supported by the World Bank, is an important step towards comprehensive disclosure of quasi-fiscal activities and managing fiscal risks.

F. Public Debt

38. A Memorandum of Understanding (MOU) with official creditors will be agreed by the time of the third review. An Agreement in Principle (AIP) with the Official Creditor Committee (OCC) on the key terms for a debt treatment consistent with the IMF program objectives was reached on March 21, 2025. The MoU specifies: (i) the reduction in debt service during the period determined by the parties to the MoU; (ii) the extension of the duration of payments; and (iii) the reduction in the present value of payments. These parameters would guide the implementation of relief by other official bilateral and private creditors through bilateral agreements following comparable treatment. We continue to engage with Eurobond holders, seeking a restructuring on comparable terms to the official creditors.

39. We continue our efforts to resolve arrears. The government is making best efforts to resolve external arrears. The arrears are "deemed away" under the IMF's policy on arrears to official bilateral creditors, as the underlying CF agreement is adequately representative to proceed with the program in accordance with the IMF's policy on arrears to official bilateral creditors. No new external arrears will be accumulated in line with our commitment to a zero limit on accumulation of external arrears (continuous performance criterion).

40. We will refrain from new non-concessional borrowing. The Government will continue to ensure that all public and publicly guaranteed (PPG) external financing agreements are on concessional terms (at least 35 percent of grant element) and are taken up at a pace consistent with the external borrowing plan (see Technical Memorandum of Understanding—TMU). This will be underpinned by a zero limit on contracting and guaranteeing PPG non-concessional borrowing (continuous performance criterion) and an indicative target on the PV of contracting and guaranteeing new PPG external borrowing (see TMU). An exception to the zero limit on non-concessional borrowing was granted by the IMF for a new loan to complete the Koysha hydroelectric dam project at program approval. Details of all new contracted loans will be communicated to the IMF. Finally, we remain committed to pursuing a disciplined fiscal policy and robust economic and export growth to reduce vulnerabilities to debt problems in future, particularly considering that there will be less restructurable debt after the debt treatment is concluded.

41. We are continuing discussions with prospective lenders to secure the best terms possible for the Koysha dam project. The project is critical for our medium-term growth and poverty-reduction strategy and is already some 66 percent completed. Securing external financing and resuming construction are crucial to avoid incurring contractual penalties due to delays, potential termination, and overall construction cost increases. The project is expected to generate 1,800 MW of power upon completion, equivalent to 40 percent of Ethiopia's current generation capacity. Per capita electricity consumption is only 5 percent of the global average, and nearly 57 million people, primarily in rural areas, are without this essential service. Koysha is expected to underpin improved access to electricity, rural electrification, generate export revenues, and strengthen climate resilience.

42. We are taking measures to manage the legacy of domestic public debt, balancing fiscal sustainability with the gradual elimination of financial repression. This will support bond market development, credit allocation to the private sector and ensure that the cost of funding for the government is market determined, reflecting the opportunity cost of using investable funds. We are taking the following actions to phase out non-market-based financing of the public sector:

- Monetary financing of public deficits has been eliminated, and we will address the capital position of NBE comprehensively based on recently completed technical assistance.
- We plan to finalize a sustainable funding strategy for the Development Bank of Ethiopia (DBE) by September 2025, and the requirement for financial institutions to purchase DBE bonds will be removed by end-2025. In the interim, the yield on newly issued DBE bonds will be aligned to the yield of the most recent issued 1-year T-Bill at time of issuance, plus a 50 basis points spread. In the event that a market-based T-bond issuance takes place, it will serve as the new pricing benchmark for DBE. DBE bonds will be included in the public debt bulletin to enhance disclosure.
- We will rely on market-based domestic financing, notably through developing the T-bill market. We will inform Fund staff before taking any action to roll over or restructure public sector liabilities at rates below contemporaneous T-bill rates.

43. We are strengthening debt management and transparency. The development of the medium-term debt management strategy (MTDS) will be completed by end December 2025, with capacity development support as needed. The Debt Management Division will be strengthened within MoF by end September 2025 to strengthen its authority and operational effectiveness.

G. State-Owned Enterprise Policy

44. We have strengthened oversight and governance of the SOE sector. EIH centralizes SOE oversight and facilitates fiscal risk management:

- **We have made progress in addressing long delays in submitting audited accounts by SOEs and improved IFRS compliance.** All 26 SOEs in EIH's portfolio as of December-2024, except the Ethiopian Sugar Group, have finalized audited IFRS financial statements for FY2023/24. Audited consolidated financial statements of EIH for 2022/23 are in preparation and will be published on the EIH website (**new SB for end December-2025**). Furthermore, all of the SOEs managed by PEHAA until end-2024 have adopted IFRS.

- **We are developing a comprehensive digital reporting system.** This system will enable MoF supervision of SOEs' key performance indicators and monitoring of financial relations between SOEs and the state, including financial flows (subsidies, lending, and tax obligations), implicit transfers (public service obligations—PSO, preferential tax regimes), and loan guarantees and contingent liabilities. The IT budget allocation has been approved, and the project will be operational by June 2026.
- **The MoF fiscal oversight function will be strengthened to ensure centralized periodic, timely, and standardized SOE financial and performance indicator reporting.** An inaugural SOE sector risk report was published in May 2023, covering financial and operational performance of 21 SOEs in PEHAA's portfolio for the period 2018/19–2020/21. To build on this progress, and to reflect that SOE management is now consolidated under EIH, we will establish a dedicated SOE Directorate tasked with central SOE oversight function and a clear mandate vis-à-vis EIH. The unit will provide high level data analytics and strategic insight into SOE sector regarding actual, potential, and contingent fiscal exposure, aggregated performance particularly related to policy delivery and safeguarding of public assets and financial return (dividend). The new SOE analytical report covering FY2023/24 will be published by September-2025.

45. We are developing a comprehensive legal framework governing SOEs. A new Public Enterprise law was approved in January 2024. To assess and recognize uncompensated SOE activities undertaken in the public interest rather than on a commercial basis, we will implement PSO costing and disclosure regulations, beginning with pilots in the electricity sector by December 2025, and assess SOE performance in meeting their public service mandates. These measures will lead to transparent budgetary disclosure of and compensation for non-commercial services. EIH acts as a commercially oriented shareholder on behalf of the state for all but five SOEs, pressing for cost efficiency, good governance, and transparency for the sector. EIH has made progress in developing a state ownership policy that articulates the rationale for state ownership of commercial enterprises and clarifies the roles of the entities involved in implementing policy. EIH has finalized a dividend policy with respect to its subsidiaries, prescribing transparent and sustainable profit retention and distribution that also considers the SOEs' investment plans and treasury financing and debt servicing needs. To ringfence public finances from SOE operations in line with Public Debt and Guarantee Issuance Directive (No 46/2017), we will refrain from further expansion of state guarantees.

46. We are taking measures to restore the viability of the three largest loss-making SOEs (EEP, ERC, ESC). The transfer to LAMC of the debts of the most indebted nonfinancial SOEs contributed to restoring their financial health. Further actions are required to improve their operational viability.

- **In the electricity sector:** The government has adopted, and the power utility company has implemented a 4-year electricity tariff adjustment plan, with quarterly price adjustment that commenced in September-2024. Average tariffs have increased by 80 percent in the first year, helping offset lack of the required adjustment over the previous three years. Poor and vulnerable households will continue to be protected through maintaining low tariffs for very low consumption brackets and the VAT exemption introduced with the new VAT regime. The adequacy of the tariff plan will be reviewed on an annual basis given prospective changes to the sector's cost structure arising from exchange rate, inflation, and other economic developments. The next step is to align the power utilities' investment planning frameworks with internal financing and debt carrying capacity. A revised schedule of electricity tariff changes will be adopted by end-June 2025 to ensure full recovery of the sector's operational and debt service costs by 2028.

- **In the railway sector:** Building on efforts to strengthen standards and timeliness of SOE financial reporting, we are developing a strategy to address financial vulnerabilities and fiscal risk emanating from the Ethiopian Railway Corporation. Proposed reform areas include streamlining the fragmented infrastructure management and operations, including allowing the private sector to participate both in management and operations of the railway sector. To benefit from improved external competitiveness and strengthen its revenue potential, the Ethio-Djibouti Railways has recently launched new cargo container transport service. We aim to secure financial sustainability and continuity in the provision of public funding through targeting diversified funding sources, ensuring long-term commitments from the government, and developing sustainable cost recovery strategies. Further, by creating a robust institutional framework, we aim to attract private investors, leverage their expertise, and accelerate the development of a modern, efficient, and integrated railway network. Complementary measures include finalization of the legal framework for the liberalization of key logistics sub-sectors (dry port, freight, and logistics services) by end-December 2026
- **In the sugar sector:** We have relaunched the privatization process for nine sugar estates to attract private sector investment to exploit Ethiopia's sugar industry potential and help recoup the large public investments in the sector. Direct negotiations on eight sugar companies are underway, with view to transfer of assets to successful private investors by end-December 2025. Finalizing the bid process, transferring ownership to successful investors by end-December 2025 will be a major milestone in propelling the Ethiopian sugar industry to become a leading regional exporter and a significant contributor to economic growth.

H. Financial Sector Policy

47. Building on the restructuring and recapitalization of CBE in July 2024, we are reforming CBE to function as a commercially oriented and viable financial institution with clearly specified public obligations. The World Bank's Financial Sector Strengthening Project (FSSP) is supporting the restructuring and recapitalization of CBE. With its support, we have:

- Set a commercial mandate for CBE issued by EIH that sets long-term commercial expectations for operations, and updated CBE's strategic plan based on this mandate.
- Reformed CBE's governance framework by: (i) ensuring arm's length dealings with the public sector on commercial terms; (ii) appointing directors independent of the government for at least

one third of positions on the board of directors; (iii) ensuring a robust risk governance framework; and (iv) enforcing strict adherence to prudential regulations and directives.

- Reduced CBE's NOP and agreed a plan to close the remaining on balance sheet position. We plan to develop a plan to reduce outstanding FX liabilities related to deferred LCs for fuel and fertilizer over time. In addition, a government guarantee of 280 billion Birr was provided to EPSE to cover the Birr counterpart of these FX obligations.
- By the end September 2025, working with EIH, we plan to define CBE's public sector obligations, establishing the process for review, approval, financing, and disclosure of PSOs.
- We plan to conduct an Asset Quality Review (AQR) of CBE's lending portfolio by end-June 2026 and implement its recommendations thereafter.

48. We will implement a strategic plan to maximize DBE's development impact, with support from the FSSP, by the end of June 2025. DBE has completed a comprehensive loan reclassification exercise. An AQR, to be finalized by end-September 2025, will identify any capital shortfall. Thereafter, we will develop a revised business model focused on wholesale borrowing and a new funding strategy, including greater mobilization of resources from international development partners. Implementing a reformed risk management and governance framework aligned with global best practices for development finance institutions and the NBE's Corporate Governance Directive is a key component.

49. NBE will conduct a thematic review of banks' lending policies and practices by end-December 2025. The review will cover loan pricing policies and internal governance to ensure lending decisions are informed by risk management and financial soundness objectives. Separately, by September 2025, NBE will review and revise Directive No. NBE/INT/12/2017 to include key principles for sound credit underwriting and monitoring, covering borrower risk assessment, loan term evaluation, post-disbursement uses monitoring, and continuous credit risk monitoring.

50. NBE is strengthening the supervisory and regulatory framework for banks. With IMF TA, we aim to implement the Basel II framework (risk-based capital framework) for selected banks in a representative manner, focusing on Pillar 1 requirements, including a Quantitative Impact Study (QIS) by December 2025. In parallel, with World Bank support, in June 2025, we developed a risk-based supervisory framework encompassing directives on internal controls, risk management and a Risk Assessment Model (RAM). Supervisory guidelines aligned with Basel Committee standards will address governance, risk management, and climate-related financial disclosures by end-2026. In addition, we will develop a robust financial stability framework, built on a new department or unit, a Financial Stability Committee, and enhanced reporting through macro-prudential tools like stress testing and early warning systems. We are regularly publishing a financial stability report underscoring our commitment to safeguarding financial stability

51. The NBE has revised the asset classification and provisioning directive in June 2024 in accordance with international practices to ensure the prompt identification and provisioning of non-performing loans (NPLs), including with public entities, and appropriate recognition of non-performing guarantees. As the banking system transitions to align with the new directive, we are closely monitoring NPLs and will take appropriate regulatory action as needed. By end-September 2025, we will conduct compliance assessment on the directive's implementation and its effect on NPLs in the five largest private banks. With the support of the World Bank, we developed a Prompt Corrective Action Framework in December 2025 and will continue to work toward developing a bank resolution regime.

52. The new banking business proclamation was approved in February 2025. The proclamation updates provisions for bank licensing, governance, capital adequacy, financial reporting and risk management, enhances NBE's supervisory and enforcement authority, including mechanisms for early intervention, receivership and liquidation. The proclamation also provides a legal basis for the entry of foreign banks. We continue to align regulatory and supervisory standards with international best practices, including strengthening the assessment of FX exposures, interest rate, and funding risks, advancing stress testing capabilities and updating the related regulatory framework for mobile money institutions.

53. We are developing capital markets with the government T-bill market as an immediate priority to establish key pre-conditions. Capital market development will facilitate, and in turn be supported by, the development of our pension and insurance industries. The Capital Market Proclamation (No 1248/2021), issued in 2021, provides the legal framework for regulating capital markets, including by establishing the Ethiopian Capital Market Authority (ECMA), and creating the Ethiopian Securities Exchange (ESX). ECMA is the regulatory body responsible for granting exchange licenses, setting the minimum admission criteria, and providing conditions for listing on the exchange. The sale of up to 10 percent of Ethio Telecom in an initial public offering is planned by the end of 2025 with 100 million shares already offered to domestic investors via Ethio Telecom's mobile money platform, Telebirr.

- We are committed to developing the asset management industry, including by ongoing regulatory work on an industry directive supported by the Capital Market Proclamation that, among others, will establish a solid framework for the development of collective investment schemes (CIS). The CIS products will further expand financial inclusion and resource mobilization with funds invested in government and corporate fixed income instruments.
- Capital market development will be supported by clear and predictable taxation. The ECMA has engaged with the MoF in promoting favorable taxation policies as well as clarity and predictability of taxation treatment for capital market products. This includes the adoption, in principle, of the concept of taxation "neutrality" in relation to capital market products relative to alternative funding mechanisms, including bank lending and to direct investment.

I. Promoting Sustainable, Inclusive Growth

54. To support the business environment, the Government of Ethiopia is advancing Public-Private Dialogue (PPD) to address challenges faced by the private sector. The Ethiopian Investment Commission and the MoF have revived a PPD forum, organized with chambers of commerce representing FDI partners among others, and private sector-focused development partners. The focus has been on taxation and customs, and investment protection and predictability. The tax and customs discussions have involved the MoF, the Ministry of Revenue, and the Ethiopian Customs Commission, while the investment protection and predictability discussions have included the Ministry of Justice and regional governments. The PPD has identified a series of specific private sector concerns that the relevant authorities are now working to resolve. The findings of the work were presented at a high-level private sector event that was held in mid-May.

55. Structural reforms under HGER2.0 focus on creating a conducive trade and investment climate and increasing productivity across key sectors, which will contribute to poverty reduction and improving living standards. Retail and wholesale market structure will be modernized, including through sequenced liberalization. We are pursuing accession to global and regional trade agreements—including the World Trade Organization—to improve access to markets and support exports. Efforts will be stepped up to simplify and fully digitalize trade registration, licensing, certification, and customs polices. Rural land administration and use rights will be reformed to unlock economic value through investment. Financing strategies for agriculture will be implemented to allow for lease financing, movable collateral, and contract farming. Privatization of SOEs will continue, including partial privatization of Ethio-telecom, issuance of a second telecom license and the sale of eight sugar factories. The roll-out of the National Digital ID system will be completed. Strategic e-government initiatives will be launched to bring efficiency and effectiveness to public service delivery.

56. We are adopting policies to bolster climate resilience and food security. Ethiopia faces significant challenges from climate change. The Climate Resilient Green Economy Strategy defines adaptation and mitigation policies, building a green economy and meeting commitments made in our nationally determined contributions for greenhouse gas emissions under the Paris Agreement. Our essential infrastructure projects also consider adaptation to climate change, including on sustainable green energy generation and distribution, irrigation systems, and water reservoirs to ensure water security—a key consideration for food security. To further improve climate-aware planning and coordination between entities, we conducted a Climate Public Investment Management Assessment (C-PIMA) in March 2024, and completed a Country Climate and Development Report with the World Bank in February 2024. The recommendations of these reports will inform our policy agenda, including for potential borrowing operations with international financial institutions.

57. We are preparing for the upcoming Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) mutual evaluation. We have initiated a technical assistance program with the Fund to strengthen anti-money laundering and combating the financing of terrorism (AML/CFT) framework, focused on effectiveness of money laundering investigations, asset recovery and the investigation of terrorism financing offences. The National AML Committee will adopt an action plan which will consider the major risks identified in the updated National Risk Assessment and examine in greater detail the key elements of each priority action to further map out how each objective will be met. The recently adopted Asset Recovery Proclamation is an important element of our anti-corruption strategy, targeting recovery of illicitly acquired assets and corruption prevention. The National AML Committee will develop and adopt a roadmap for the acceleration of the establishment of a beneficial ownership registry (**new Structural Benchmark, September 2025**), which will be backed by additional technical assistance from the IMF.

J. Economic Statistics

58. Improving the quality of economic statistics is a key priority under HGER2.0. In December 2023, the government adopted the Ethiopian Statistical Development Program (ESDP) to strengthening capacity to collect and process data and improve the economic data available to the public. We are conducting a new agricultural census and a new household expenditure survey, with the fieldwork to be completed in August 2025 and new household expenditure survey to be completed in August 2025, which will serve as a key input for updating our National Accounts and Consumer Price Index statistics, including expanding information from more rural markets. We are revising the legal framework for statistics with a view to submitting it to the Council of Ministers by end-June 2025. With the support of IMF technical assistance, we are preparing a rebasing of the national accounts to base year 2025/26 by December 2026. Shortly after this rebasing, we will conduct a diagnostic assessment of national account statistics using the IMF Data Quality Assessment Framework, again with Fund technical support. We will produce and publish annual and quarterly GDP by production and by expenditure after the rebasing. Based on the household expenditure survey, we will update the consumption basket and expand the coverage of the CPI by end-2025. Other priority areas include aligning data presentation with BPM6 for external sector statistics and government finance statistics.

K. Risks and Contingencies

59. We stand ready to adjust policies if risks materialize. Downside risks to the program in the near-term include disruption from domestic conflict if this was to intensify; a potential rise in political tensions as the mid-2026 elections approach; an abrupt slowdown of global growth through adverse effects on exports and potentially remittances; or rising import costs. Over the medium-term, risks from climate change are salient. Climate shocks could exert pressure on food security and food prices. If these risks materialize, we stand ready to adjust our policies, in close consultation with IMF staff, to ensure the achievement of the program's objectives.

L. Program Design, Financing, and Monitoring

60. The ultimate responsibility for program monitoring and coordination will rest with the Ministry of Finance and National Bank of Ethiopia. To ensure coordinated implementation of the program, the MoF and NBE will consult with the other public institutions involved in meeting program objectives to track progress on various targets and reforms under the program. Similarly, the MoF will provide oversight responsibility for ensuring that public spending is compliant with budget limits.

61. The program will be monitored by the IMF's Executive Board. Progress in implementation of the policies under this program will henceforth occur through semi-annual reviews of the quantitative performance criteria (end-June 2025 and end-December 2025), indicative targets, and structural benchmarks, as presented in Table 1 and Table 2, respectively. Detailed definitions and reporting requirements for all performance criteria and indicative targets are presented in the Technical Memorandum of Understanding (TMU) attached to this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes and presents the projected assumptions that form the basis for some of the performance assessments. The next review will take place on or after October 15, 2025. To this end, the government plans to:

- Not introduce or intensify restrictions on payments and transfers for current international transactions, introduce multiple currency practices, enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or introduce or intensify import restrictions for balance of payments purposes.
- Adopt any new financial or structural measures that may be necessary for the success of its policies, in consultation with the IMF.

62. We will strengthen internal coordination and monitoring mechanisms to ensure strong program implementation. The MoF and the NBE will establish a Technical Committee to monitor and report program performance to the Minister of Finance.

63. The estimated residual financing gap over the 2024/25–2027/28 program period remains unchanged at US$10.7 billion and is expected to be covered. In addition to US$3.4 billion from the IMF, we expect US$3.75 billion in budget support from the World Bank. The remaining gap of US$3.5 billion will be filled by financing associated with debt treatment under the Common Framework.

64. The government believes the policies specified in this MEFP provide a foundation for sustaining growth, reducing inflation, and alleviating poverty, and we stand ready to take additional measures if required. The government will provide IMF staff with the information needed to assess progress in implementing our program as specified in the TMU and will consult with Fund staff on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make this letter and the TMU available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Executive Board approval.

65. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP and disbursement of the fourth loan installment, totaling SDR 191.7 million, out of a total four-year arrangement of SDR 2,556 million.

Table 1a. Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024 – December 2024

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2024 Prel. Initial level	Aug. 16, 2024[1] Performance Criteria			end-Sep 2024 Performance Criteria				end-Dec 2024 Performance Criteria		
		Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prel.	Status
Quantitative performance criteria											
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [2/, 3/]	150,000	N/A	N/A	N/A	42,000		-5,972	Met	69,000	-108,105	Met
Net international reserves (floor, cumulative change since previous June, US$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	534	1,242	Met	500	1,224	Met
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	384,000	N/A	N/A	N/A	86,000	N/A	153,542	Met	192,000	358,407	Met
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10,895	Met	0	N/A	-6,727	Met	0	-21,994	Met
Continuous performance criteria											
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [4/]		0	0	Met	0	N/A	0	Met	0	0	Met
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)		0	0	Met	0	N/A	0	Met	0	0	Met
Indicative targets											
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) [3/, 5/]	747,485	N/A	N/A	N/A	37,000	N/A	-641,549	Met	74,000	26,709	Met
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [6/]	9,000	N/A	N/A	N/A	6,500	N/A	2,370	Not Met	22,100	22,532	Met
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US$ millions)		N/A	N/A	N/A	2,000	N/A	248	Met	2,500	629	Met
Memorandum items:											
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	791				1,211		1,225		1,419	1,704	
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	627				638		657		775	797	
Gross privatization proceeds (US$ millions, cumulative since previous June)	0				0		0		0	0	

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/Not all quantitative performance criteria and indicative targets were assessed at the First Review given data availability.

2/ Excluding on-lending from the general government.

3/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

4/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

5/ IT on gross claims on public enterprises by commercial banks exclude changes in claims related to CBE recapitalization (665,814 billion birr)

6/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

Table 1b. Ethiopia: Quantitative Performance Criteria and Indicative Targets, March 2025-June 2026

(In millions of Ethiopian Birr, unless otherwise indicated)

	end-Mar 2025 Indicative Target			end-Jun 2025 Performance Criteria	end-Sep 2025 Indicative Target	end-Dec 2025 Performance Criteria	end-Mar 2026 Indicative Target	end-Jun 2026 Performance Criteria
	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Proposed	Proposed
Quantitative performance criteria								
Net financing of the general government primary balance (ceiling, cumulative change since previous June, includes grants and excludes interest payments) [1/, 2/]	95,000	-85,203	Met	106,000	76,000	105,000	108,000	115,000
Net international reserves (floor, cumulative change since previous June, US$ millions)	400	1,408	Met	400	200	400	400	400
Tax revenue collected by the federal government (floor, cumulative sum of tax revenues collected since the beginning of the current fiscal year)	347,000	509,297	Met	578,000	120,000	276,000	525,000	850,000
Net NBE claims on the general government (ceiling, cumulative change since previous June)	0	-32399	Met	0	0	0	0	0
Continuous performance criteria								
Contracting or guaranteeing of external non-concessional debt by the general government, the NBE and public enterprises (ceiling, US$ millions) [3/]	0	0	Met	0	0	0	0	0
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)	0	0	Met	0	0	0	0	0
Indicative targets								
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) [2/, 4/]	110,000	93,110	Met	147,000	50,000	95,000	139,000	185,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [5/]	33,200	35,722	Met	51,400	8,500	22,500	33,500	57,400
Present value of external new debt (excluding IMF credit) contracted or guaranteed by the general government, the NBE and public enterprises (ceiling for the fiscal year ending June, US$ millions)	2,750		TBD	3,000	2,000	2,500	2,750	3,000
Memorandum items:								
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	2,055			2,407	696	1,042	1,238	1,434
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	1,359			1,645	379	1,109	1,488	1,867
Gross privatization proceeds (US$ millions, cumulative since previous June)	0			0	0	0	0	0

Sources: Ethiopian authorities and IMF staff estimates and projections.

1/ Excluding on-lending from the general government.

2/ Excludes commercial banks' claims related to Addis Ababa Housing credit.

3/ The limit is a continuous target (ceiling) on the contracting of non-concessional debt for the fiscal year by the government including general government, NBE and public enterprises (see TMU). An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at USD 950 million over the duration of the program.

4/ For the IT on gross claims on public enterprises by commercial banks, March-June 2025 test date excludes changes in claims related to CBE recapitalization.

5/ Excludes in-kind benefits and donor contributions. Includes Government of Ethiopia contributions to cash transfers to beneficiaries under the rural Productive Safety Net Programme (PSNP) and Urban Productive Safety Net Programme (UPSNP).

Table 2. Ethiopia: Structural Benchmarks

Measure	Rationale	Board Approved Target Date	Status
Prior Action			
1. The NBE to agree a plan with CBE to close its on-balance sheet NOP to comply with the prudential limit by end-2025, with at least half of the position above the limit as of end-April 2025 to be closed by end-September 2025.	Support FX market development, strengthen financial stability		New
2. The NBE to start posting all banks' fees and commissions for FX transactions with clients on the NBE's website.	Support FX market development		New
Structural Benchmark			
1. NBE to submit to Parliament comprehensive draft legal amendments to the NBE Proclamation, to be prepared in consultation with IMF staff, with respect to the NBE's mandate, decision-making structure (internal check and balances and collegial implementation of decisions), accountability, transparency, and autonomy.	Update and modernize governance of the NBE	End-December 2024	Not met
2. The NBE to finalize and publish audited financial statements for 2021/22–2022/23.	Update and modernize governance of the NBE	End-March 2025	Not met; implemented with 3-day delay
3. Ministry of Finance to start publication of a mid-year review on the implementation of the budget as of the middle of the fiscal year and a quarterly budget execution report for prior quarter, both for Federal Government.	Strengthen fiscal transparency	End-April 2025	Met
4. National Bank of Ethiopia to repeal directive (MFAD/TRBO/001/2022) obliging financial institutions to buy Treasury Bonds effective immediately.	Reduce financial repression and promote bond market development	End-June 2025	

Table 2. Ethiopia: Structural Benchmarks (concluded)

Measure	Rationale	Board Approved Target Date	Status
Structural Benchmark			
5. Ministry of Finance to issue instruction to Ethiopian Petroleum Supply Enterprise to start remitting all federal fuel taxes to the Ministry of Revenue by December 2025.	Strengthen fiscal transparency and secure budget revenue	End-June 2025	
6. Council of Ministers to submit to Parliament draft FY2025/26 budget for the Federal Government in line with IMF program's macro-framework.	Ensure fiscal targets consistent with program objectives	End-June 2025	
7. To strengthen transparency, internal controls, and public investment management, Ministry of Finance will allocate funding for the Road Fund through the Federal Government budget.	Strengthen PFM internal controls and public investment management	End-June 2025	
8. Council of Ministers to submit to Parliament amendments to the Income Tax Proclamation to: (i) introduce a minimum alternative tax (MAT), (ii) increase withholding tax rates, (iii) simplify the presumptive tax regime, and (iv) adjust the personal income tax schedule.	Support revenue mobilization.	End-September 2025	New
9. National Bank of Ethiopia to revise the methodology to calculate the NBE indicative rate to include all interbank FX transactions and the NBE's sales and purchase of FX with banks.	Support FX market development	End-September 2025	New
10. The NBE to update the NOP directive, including in relation to the treatment of FX-linked assets with clear definitions of FX risk exposures, and appropriate treatment and alignment with risk-based supervision.	Support FX market development, modernize financial oversight	End-October 2025	New
11. Ethiopia Investment Holdings (EIH) to publish consolidated financial statements for FY2022/23 for the EIH SOE portfolio on the EIH website.	Strengthen SOE transparency	End-December 2025	New
12. The National AML Committee will develop and adopt a roadmap for the acceleration of the establishment of a beneficial ownership registry.	Strengthen AML/CFT regime	End-September 2025	New

Attachment II. Technical Memorandum of Understanding

Addis Ababa, June 13, 2025

1. This Technical Memorandum of Understanding (TMU) describes the performance criteria (PCs), indicative targets (ITs), and structural assessment criteria established by the Ethiopian authorities and the staff of the International Monetary Fund (IMF) to monitor the program supported by the Fund's Extended Credit Facility (ECF) arrangement, as described in the Memorandum of Economic and Financial Policies (MEFP) and its attached tables. It also specifies the content, the periodicity, and deadlines for the transmission of data to Fund staff for program monitoring purposes.

A. Institutional Definitions

2. Unless otherwise specified, the government is defined in this TMU as the general government of Ethiopia, the National Bank of Ethiopia (NBE), the Liability and Asset Management Corporation (LAMC), and the state-owned or public enterprises.

3. The general government is defined for program monitoring purposes as the budgetary central government plus state governments and woredas, excluding state-owned enterprises and existing extra-budgetary funds (listed in the next paragraph). The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities, at federal, state, or local level, that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2014. The authorities will inform IMF staff on the creation of any such entities without delay.

4. Unless otherwise specified, state-owned or public enterprises refer to those entities that are principally engaged in the production of market goods or nonfinancial services and are owned or controlled, partially or fully, by the general government or units of the general government. For program monitoring purposes this definition will exclude the following entities: Addis Ababa and Regional Housing or other credit facilitators, and Ethiopian Airlines. The Liability and Asset Management Corporation (LAMC) will be treated as an extra-budgetary entity and not a state-owned enterprise. Existing extra budgetary funds excluded from the general government include the Fuel Price Stabilization Fund, Public Servants Social Security and Pension Fund, and the Road Maintenance Fund.

B. Program Exchange Rates

5. **Program exchange rates.** Reserve assets and liabilities will be converted into U.S. dollar terms at exchange rates and the gold price in effect on May 31, 2024, as follows:

Assets and liabilities denominated in other currencies will be evaluated based on their respective exchange rates with the U.S. dollar on May 31, 2024, as published in the IMF's *International Financial Statistics (IFS).*

Original Currency (1 unit, unless otherwise specified)	Value in US$ (unless otherwise specified)
Special Drawing Right (SDR)/ African Development Bank Unit of Account	1.3257
Euro	1.0823
Japanese yen (per USD)	151.38
Pound sterling	1.2638
Chinese yuan (per USD)	7.2065
Canadian dollar (per USD)	1.3581
Norwegian krone (per USD)	10.7336
Swedish krona (per USD)	10.53543
UAE diram (per USD)	3.6725
South African rand (per USD)	18.9907
Gold (1 troy ounce)	2,164.400

C. Quantitative Performance Criteria (QPC) and Indicative Targets (IT)

6. **Test Dates** for evaluating performance against performance criteria (PC) for the first, second and third reviews under the arrangements are August 16, 2024, September 30, 2024, and December 31, 2024, except for the continuous PCs, which remain effective continuously throughout the term of the Fund-supported program. Program reviews usually take place in between two test dates. The continuous PCs remain effective even during delays in reviews.

7. **The quantitative performance criteria listed below are those specified in Table 1 of the MEFP.** Definitions and adjusters (to account for factors or changes beyond the control of the government) for each criterion are specified in the subsequent sections. The quantitative performance criteria targets monitored and evaluated under the program are defined as ceilings or floors set on cumulative changes between June 30 immediately prior to the test date in question and the specified test date itself, unless otherwise indicated. The quantitative performance criteria are set as follows in paragraphs 8–12.

8. **Periodic PCs** that are evaluated as of each test date:

- Net financing of the general government primary balance (ceiling, cumulative change), (Section D).
- Net international reserves of the NBE (floor, cumulative change), (Section E).
- Net claims on the general government by the NBE (ceiling, cumulative change), (Section F).
- Tax revenue collected by the federal government (floor, cumulative change), (Section G).

To facilitate program monitoring, indicative targets for the periodic PCs described above will be set for March 31, 2025.

9. **Continuous PCs** that are evaluated on a continuous basis starting from program approval:

- Contracting of external non-concessional borrowing by the government (as defined in paragraph 2) and provision of government guarantees on external non-concessional borrowing (zero ceiling), (Section H).
- Accumulation of external payment arrears by the government (zero ceiling), (Section I).

10. **The following continuous conditionality will also apply:**

- Non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions;
- Non-introduction or modification of multiple currency practice;
- Prohibition of entering into bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement; and
- Non-imposition or intensification of import restrictions for balance of payments reasons.

11. **Periodic indicative targets** evaluated as of July 31, 2024, September 30, 2024, December 31, 2024, March 31, 2025, and June 30, 2025 (with certain exceptions described below) are:

- Claims on public enterprises by commercial banks (ceiling, cumulative change), (Section J).
- Government Contributions to Productive Safety Net Programs (floor, cumulative change, evaluated at the end of Ethiopian calendar month immediately after the test/evaluation dates listed above), (Section K).
- The present value of new external concessional borrowing contracted or guaranteed by the government, as defined in paragraph 2 (ceiling for the fiscal year ending June), (Section L).

12. **Continuous indicative targets** evaluated on a continuous basis during a fiscal year, starting from program approval are:

- The amount of net foreign exchange sales by the NBE (Section M).

D. QPC on Net financing of the General Government Primary Balance

Definitions

13. **The net financing of the general government cash deficit**, including grants and the operations of sub-national (state and woreda) governments financed from local funds, will be monitored quarterly. Net financing will be measured below the line and will include:

- **Net external financing of the general government,** excluding valuation gains and losses and changes to on-lending to public enterprises, evaluated at actual exchange rates. This will be based on data prepared for the debt bulletin by the debt management directorate at the Ministry of Finance (MOF), including relief received from debt operations.

- **Change in net domestic credit of the banking system to the general government** is defined as the change in outstanding claims of the banking system on the general government. The calculation of net domestic credit of the banking system will be based on monetary survey data compiled by the NBE and will include: (i) net claims on the general government by the NBE (see below for definition), (ii) loans and advances from commercial banks to the general government, and (iii) holdings of government securities (including bonds, notes, and Treasury bills), less (i) local currency deposits of the central and state and local governments at the NBE and commercial banks, (ii) foreign currency deposits of the central government at the NBE. The definition will exclude valuation gains and losses from government deposits denominated in foreign currency. As with net external financing, on-lending from domestic banks through the general government to public enterprises (if any) should also be excluded. For program monitoring purposes, any bonds issued by states or regional housing agencies for housing projects where the debt obligations will be transferred to the private owners of the housing units shall be excluded. The definition will exclude holdings of government securities issued to increase capital of Commercial Bank of Ethiopia and replace claims on LAMC and EEP.
- **Change in the net domestic nonbank financing to the general government**. These include (i) privatization receipts transferred from the privatization accounts to the budget, (ii) the change in the stock of outstanding government securities held by nonbank financial institutions (including pension funds, insurance companies), net of valuation changes, (iii) change in net credit from the domestic nonfinancial sector (including extra-budgetary funds classified outside the general government) to the general government minus (i) change in government financial assets with nonbank financial institutions, (ii) change in financial assets (either in the form of additional equity or loans) owned by the government with public enterprises as the counterparty (as a result of capital injections), and (iii) net flow from the general government to LAMC.

14. **Net financing of the general government primary balance (including grants)** is defined as the net financing of the general government cash deficit minus the consolidated interest bill of the federal and regional government budgets (general government is defined in paragraph 3 and the general government cash deficit in paragraph 13 of this memorandum).

15. **Total external grants to the federal and regional governments** are defined as the sum of project grants, cash external grants for budgetary support, capital grants reflecting the principal amounts of external debt cancellation or swaps, and other grants.

Adjustment Factor

16. **The ceiling on the net financing of the general government primary balance (including grants) will be adjusted relative to the baseline projections:**

- Upward by the amount of cumulative shortfall in external grants relative to the baseline projection up to US$200 million at actual exchange rates.
- Upward by the cumulative excess in external project financing relative to the program projections evaluated in Birr terms at actual exchange rates. External project financing is defined

as disbursements from bilateral and multilateral creditors to the general government for specific project expenditure.

- Upward by cumulative excess in the programmed privatization receipts transferred from the privatization accounts to the budget from privatization to non-resident investors.
- Downward by the full amount of any increase in the stock of budgetary arrears on social payments such as wages, pensions, social benefits accumulated since the beginning of the fiscal year.

E. QPC on Net International Reserves of the NBE

Definitions

17. **Net international reserves (NIR) of the NBE,** are defined as reserve assets of the NBE (i.e., the external assets that are readily available to, and controlled by, the NBE, as per the 6th edition of the IMF *Balance of Payments Manual*), minus the NBE's short term foreign exchange liabilities to residents and nonresidents, and Fund credit outstanding, including any use of it as budget support. Short-term liabilities refer to those that can be called immediately (e.g., FX demand deposits of banks, LAMC, public enterprises or the private sector) or have residual maturity of less than 1 year, including deposits, commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options) and other arrangements. All foreign currency deposits of the general government with the NBE will be excluded when calculating NIR. The performance criterion will be evaluated as the cumulative change in NIR between June 30 immediately prior to the test date in question and the specified test date itself (see Section O).

Adjustment Factor

18. **The floor on cumulative change in NIR** will be adjusted:

i. Upward or downward for any deviation in the expected cumulative inflows of official grants and loans disbursed to the government from official development partners in foreign currency from the beginning of the fiscal year. The projected inflows of official grants and loans to the government are set out in the macroeconomic framework underpinning the program.

ii. Upward or downward for any deviation in the programmed inflows from privatization to non-resident investors (see definition in Section N).

19. The total downward adjustment to the floor on cumulative change in NIR target for FY2025/26 is capped at US$300 million. The total upward adjustment to the floor on cumulative change in NIR target for FY2025/26 is capped at US$150 million.

F. QPC on Net Claims on the General Government by the NBE

20. **Net claims on the general government by the NBE** is defined as the stock of claims of the NBE on the general government, net of general government deposits with the NBE.

G. QPC on Tax Revenues Collected by the Federal Government

Definition

21. **Tax Revenues Collected by the Federal Government**. Total tax revenues collected are defined as the sum of revenues collected by the Ministry of Revenues from any of the following:

(i) duties, taxes, and other charges on international trade;
(ii) personal income tax of federal government employees (including on employment income, royalty income, dividends, interest, capital gains);
(iii) profit (including repatriated profits) tax and sales (including value-added tax, and excises) taxes from enterprises assigned to the federal government (including sole proprietors subject to the turnover tax);
(iv) taxes on gains from lotteries and gambling;
(v) taxes from air, rail, and marine transport;
(vi) taxes from rent of property assigned to the federal government;
(vii) taxes and fees on licenses and federal services;
(viii) stamp duties;
(ix) personal income tax of staff of enterprises jointly assigned to the federal and regional governments;
(x) profit tax, royalties, and rent from large scale mining, petroleum, and gas incorporated enterprises;
(xi) any other excises not covered by the list thus far;
(xii) all revenue assignments under the concurrent taxation powers of the federal and regional governments – namely, corporate income tax and dividend withholding tax on companies, profit and sales tax on enterprises jointly assigned to the federal and regional governments;
(xiii) unclassified tax revenues minus corresponding refunds.

22. **To the extent that revenue assignments change** after the date of this Memorandum, and the federal government is entitled to levy and collect any other instruments not covered by the list above, revenue from such instruments should also be included from that moment. That may include taxes on private movable and immovable property and land use, as well as agricultural income tax and personal income tax of private employees. Total tax revenue collection will be defined, for each test date, as the cumulative sum of tax revenues collected since the beginning of the fiscal year. Note that any end of the month targets for this series refer to end of the respective Ethiopian calendar month, which typically ends on the 7^{th} or 8^{th} of the following Gregorian calendar month.

H. PC on Contracting of External Non-Concessional Debt by the Government and Provision of Government Guarantees on External Non-Concessional Debt

Definition

23. **For program purposes, the definition of debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to IMF Executive Board Decision No. 16919(20/103) adopted on October 28, 2020.[1]

"For the purposes of these guidelines, the term "debt" is understood to mean a current (i.e., noncontingent) liability created by a contractual arrangement whereby a value is provided in the form of assets (including currency) or services, and under which the obligor undertakes to make one or more payments in the form of assets (including currency) or services at a future time, in accordance with a given schedule; these payments will discharge the obligor from its contracted principal and interest liabilities. Debt may take several forms, the primary ones being as follows:

i. *Loans, that is, advances of money to the borrower by the lender on the basis of an undertaking that the borrower will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits), as well as temporary swaps of assets that are equivalent to fully collateralized loans, under which the borrower is required to repay the funds, and often pays interest, by repurchasing the collateral from the buyer in the future (repurchase agreements and official swap arrangements);*
ii. *Suppliers' credits, that is, contracts under which the supplier allows the borrower to defer payments until sometime after the date when the pertinent goods are delivered, or the services are provided; and*
iii. *Leases, that is, agreements governing the provision of property that the lessee has the right to use for one or more specified period(s), generally shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purposes of the guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, apart from payments related to the operation, repair, or maintenance of the property."*

According to the above-mentioned definition, debt includes arrears, penalties, and damages awarded by the courts in the event of a default on a contractual payment obligation that represents a debt. Failure to make payment on an obligation that is not considered a debt according to this definition (e.g., payment on delivery) does not give rise to a debt.

24. **External debt,** in the assessment of the relevant criteria, is defined as any borrowing from nonresidents. The relevant performance criteria are applicable to external debt contracted or guaranteed by the government, or to any private debt for which the government has provided a guarantee. Guaranteed debt refers to any explicit legal obligation for the government to repay a

[1] IMF Policy Paper, Reform of the Policy on Public Debt Limits in IMF-Supported Programs—Proposed Decision and Proposed New Guidelines, November 2020.

debt in the event of default by the debtor (whether payments are to be made in cash or in kind). Public sector external debt includes foreign-currency denominated obligations of NBE contracted on behalf of the national government (excluding newly contracted financing from the IMF and the General SDR allocation). Deposits made at NBE by foreign partners that have been used to support the BOP and are categorized as debt, in line with the treatment of similar deposits in the past. For program purposes, this definition of external debt does not include routine commercial debt related to import operations and maturing in less than a year.

25. **Medium- and long-term external debt** refers to external debt originally maturing in one year or more. **Short-term external debt** refers to external debt originally maturing in less than one year.

26. **For program purposes, a debt is deemed concessional** if it contains a grant element representing at least 35 percent. The grant element is the difference between the present value (PV) of the loan and its face value, expressed as a percentage of the loan's face value. The PV of a loan at the time of its signing date is calculated by discounting future principal and interest payments, based on the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). Concessionally will be assessed based on all aspects of the loan agreement, including maturity, grace period, repayment schedule, front-end fees, and management fees. The calculation is performed by the authorities, using the IMF model,[2] and verified by IMF staff based on data provided by the authorities. For loans with a grant component of zero or less, the PV is set at an amount equal to the face value. In cases where a combination of financing instruments is involved, staff will need to assess, with support of necessary documentation provided by the authorities, if such a combination can be treated as a financing package for the purpose of determining if it is concessional under the Fund-supported program. To the extent a financing package is found to be concessional, the combined nominal amounts of the underlying instruments will be counted toward any debt limits on concessional debt.

27. **In the case of debt with a variable interest rate** represented by a reference interest rate plus a fixed margin, the grant element of the debt will be calculated on the basis of a program reference rate plus a fixed margin (in basis points) specified in the loan agreement. The program reference rate for variable interest rates will be based on the 10-year average projections made in the Fall or Spring edition, whichever is the latest, of the Fund's *World Economic Outlook* (WEO) until modified. Based on the April 2024 WEO projections, the program reference rate for these currencies, until modified, are shown below on a calendar year basis, using their averages over 2023–32. To convert to Ethiopian fiscal year, a simple average of two successive calendar years will be used (e.g., for 2022/23, simple average of 2022 and 2023 will be used). Where the variable rate is linked to a benchmark interest rate other than the six-month USD Secured Overnight Financing Rate (SOFR), a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 bps) will be added.

[2] http://www.imf.org/external/np/spr/2015/conc/index.htm.

Ethiopia: Assumptions for Variable Interest Rate Set Limits		
	10-year average six-month Secured Overnight Financing Rate (SOFR), in percent	Spread (rate in currency noted minus US$, in percent
U.S. dollars	3.688	0.0
Euro	2.803	-1.0
Pound sterling	4.056	0.5
Other	3.316	-0.5

28. **External debt is deemed to have been contracted or guaranteed** on the date of signing a loan contract by authorized signatories of the government (as defined in paragraph 2). Contracting of credit lines with no predetermined disbursement schedules or with multiple disbursements will be also considered as contracting of debt. For program purposes, external debt denominated in currencies other than the U.S. dollar will be converted to U.S. dollars on the basis of the exchange rate as of the assessment date. Such conversions to U.S. dollars will be undertaken by the government and communicated to IMF staff.

29. **The performance criterion (ceiling) applies to the nominal value of new non-concessional external debt** and the nominal value of new concessional external debt, contracted or guaranteed by the government. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. An exception is applied for new non-concessional external debt contracted or guaranteed by the general government for the Koysha dam project, which is capped at US$950 million over the duration of the program. Operations that resolve pre-HIPC arrears and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of end-June 2024, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt.

I. Continuous PC on Accumulation of External Payment Arrears by the Government

30. **External payment arrears** are defined as payments (principal and interest) on external debt contracted or guaranteed by the government that are overdue (considering any contractually agreed grace periods). For the purposes of the program, the government undertake not to accumulate any new external payments arrears on their debt. The definition excludes arrears relating

to debt subject to renegotiation (dispute or ongoing renegotiation). The performance criterion on the public and publicly-guaranteed external debt arrears is defined as a cumulative flow in gross terms from the date of program approval and applies on a continuous basis.

J. IT on Claims on Public Enterprises by Commercial Banks

31. **Claims on public enterprises by commercial banks** are defined as the stock of claims on public enterprises (as defined in paragraph 4 of this memorandum) by commercial banks. Claims on public enterprises by commercial banks shall consist of all domestic commercial bank claims on public enterprises, including loans, bonds, and other liabilities issued by public enterprises. The cumulative change in gross claims in public enterprises by commercial banks for FY2024/25 excludes the reduction in claims related to recapitalization of Commercial Bank of Ethiopia.

K. IT on Government Contributions to Productive Safety Net Programs

32. **Government Contributions to Productive Safety Net Programs (PSNP)** are defined as general government cash contributions to the rural and urban Productive Safety Net Programs. The IT will be measured using total government contributions to disbursements for both programs from Channel 1 and Channel 2 directorates in the MOF. End-of-month targets for this IT refer to end of the respective Ethiopian calendar month, which typically ends on the 7th or 8th of the following Gregorian calendar month.

L. IT on Present Value of New External Debt Contracted or Guaranteed by the Government

33. **An indicative target (ceiling) applies to the PV of new external debt contracted or guaranteed by the government, as defined in section H.** The ceiling applies also to debt contracted or guaranteed for which value has not yet been received. The ceiling is set in alignment with the external borrowing plan (prepared as per the template below). Operations that resolve arrears to pre-HIPC countries and result in reduction in outstanding stock of debt are excluded from the ceiling. Court or arbitral decisions and related debt operations with respect to government guarantees on existing external debt in dispute as of end-June 2024, that result in more favorable terms to the guarantor than those of the initial debt, will be excluded from the ceiling. Debt operations that restructure existing loans and that result in a reduction of the present value (present value savings) compared with the initial debt and/or an improvement of the overall public external debt service profile will be excluded from the ceiling. In the calculation of the present value savings for these debt operations, the discounted future stream of payments of debt service due on the newly issued debt instrument (including all costs associated with the operation) will be compared with the discounted future stream of debt service due on the instrument it replaces using a discount rate of 5 percent and these amounts will not be capped by the nominal value of the debt.

Ethiopia: External Borrowing Plan for 2025/26

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2025/26		PV of new debt in 2025/26 (program purposes)	
	USD million[1]	Percent	USD million[1]	Percent
By sources of debt financing	**4,900**	**100**	**2,856**	**100**
Concessional debt, of which[2]	**3,950**	**81**	**1,906**	**67**
Multilateral debt	3,600	73	1,683	59
Bilateral debt	350	7	224	8
Non-concessional debt, of which[2]	**950**	**19**	**950**	**33**
Semi-concessional[3]	-	-	-	-
Commercial terms[4]	950	19	950	33

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate

[2] Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.

[3] Debt with a positive grant element which does not meet the minimum grant element.

[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

M. Foreign Exchange Intervention (FXI) Framework (ITs)

34. **The FXI rule allows but does not oblige, the NBE to intervene.** FXI will be conducted via auction that satisfies the following criteria: (i) access to bid at the auction is granted to all authorized dealers in good standing, in the wholesale FX market, to sell or make purchases of FX for themselves and on behalf of their clients; (ii) there should be no constraints imposed on the range or level of the exchange rates that bidders can submit; (iii) allotment at the auction should be determined solely on the basis of the bid prices submitted by participants to buy or sell FX.

N. Other Definitions

35. **Privatization** shall be understood to mean both the disposal to private owners by a government unit of equity, controlling or otherwise, in a public corporation or quasi-corporation (transaction in equity), and the disposal of intangible non-produced assets in the form of contracts, leases, and licenses, where a government unit grants a license for the economic ownership of an asset by allowing the licensee to use a natural resource (such as telecommunications spectrum) for an extended period, with little or no intervention.

36. **For the purposes of monitoring structural benchmarks, the following definitions will be used:**

- **Tax expenditure** is understood as any benefit under the tax code that deviates from the benchmark treatment of the code and whose benefit to the relevant taxpayers could be alternatively affected through government spending (such as through the provision of subsidies or other transfers to the relevant taxpayers).

- **Revocation of tax incentives** currently granted on a contractual, rather than legislative basis, entails grandfathering of existing incentives until the term of the original benefit (the case of corporate income tax holidays, for example). The revocation will therefore inhibit at a first stage, the granting of new tax exemptions based on the definition of tax incentives provided above.
- **Subsidies are understood to include both explicit and implicit subsidies.** The former are defined as current unrequited transfers that government units make to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. In turn, implicit subsidies can include, but need not be limited to an official system of multiple exchange rates, payable tax credits, and losses of government trading organizations whose function is to buy products and then sell them at lower prices to residents or nonresidents as a matter of deliberate government economic or social policy, the central bank accepting interest rates lower than the prevailing market rates. The complete definition is included in the Government Finance Statistics Manual 2014 (6.89 and 6.90).

O. Reporting Procedures to the IMF

37. Data on all the variables subject to quantitative performance criteria and indicative targets and information on the progress towards meeting structural benchmarks will be transmitted regularly to the IMF in accordance with the table shown below. Revisions to data will be forwarded to the IMF within 5 days after being made. In addition, the authorities will transmit to IMF staff any information or data not defined in this TMU but pertinent for assessing or monitoring performance relative to the program objectives.

38. To effectively monitor the program performance and development of economic situation, the Ethiopian authorities will provide the IMF with the information listed in next pages.

Table 1. Ethiopia: Reporting Procedures to the IMF

Information	Provider	Periodicity and Due Date
Gross international reserves and foreign liabilities of the National Bank of Ethiopia (NBE), reported by the amounts in the original currency of the assets and liabilities; and the weight (in oz.) of holdings of monetary gold. Breakdown between liquid and unencumbered reserves and reserves that are pledged, swapped, or otherwise encumbered	NBE	Weekly, within 5 business days of end of each week
Net domestic assets of the NBE	NBE	Monthly within 6 weeks of the end of each month
Reserve Money	NBE	Monthly within 6 weeks of the end of each month
Net claims on the general government	MOF/NBE	Monthly within 6 weeks of the end of each month
Regional government's fiscal data	MOF	Quarterly within 12 weeks of the end of each month
Domestic Arrears incurred by the government	MOF	Monthly within 6 weeks of the end of each month
External Arrears incurred by the government	MOF/NBE	Continuously with no lag
Claims on public enterprises by commercial banks.	NBE/MOF	Monthly within 6 weeks of the end of each month
Claims on entities excluded as SOEs in paragraph 4 by commercial banks, including, but not limited to, Addis Ababa and Regional Housing and Liability and Asset Management Company.	NBE/MOF	Monthly within 6 weeks of the end of each month
Federal Government Tax Revenue	MOF	Monthly within 45 days of the end of each month
Rural and Urban Productive Safety Net Program government's cash contributions	MOF	Monthly within 6 weeks of the end of each month
Stock of claims of the Ethiopian Petroleum Supply Enterprise on the Fuel Price Stabilization Fund	MOF	Monthly within 6 weeks of the end of each month
Consumer Price Index	NBE	Monthly within 6 weeks of end of each month
National Accounts, annual	NDPC	Within 3 weeks of any revision or data release
Composite Indicator of Economic Activity (quarterly) and underlying indicators	NBE	Within 6 weeks of the end of each quarter
Consolidated Budget Report of Federal and Regional Government	MOF	Quarterly within 12 weeks of end of each quarter
Monetary Survey	NBE	Monthly within 6 weeks of end of each month

Table 1. Ethiopia: Reporting Procedures to the IMF (continued)		
Information	**Provider**	**Periodicity and Due Date**
NBE's outstanding credit to private commercial banks, CBE and DBE.	NBE	Monthly within 2 weeks of end of each month
Financial Soundness Indicators (aggregate and bank-by-bank), including capital to risk-weighted assets, capital to assets, NPLs to total loans, NPLs net of provisions to capital, return on assets, return on equity, gross interest income to total income, interest margin to gross income, non-interest expenses to gross income, liquid assets to total assets, and liquid assets to short term liabilities.	NBE	Quarterly, within 8 weeks of the end of each quarter.
Lending and savings interest rates, interbank interest rates, term deposit rates.	NBE	Monthly, within 30 calendar days
Credit data on distribution by sector (private/public); credit to enterprises (by economic sector); and credit to individuals (by purpose).	NBE	Monthly, within 30 calendar days
Bank-by-bank financial data of commercial banks and the DBE, including balance sheets, income statements, net open foreign currency positions, NPLs and liquidity positions broken down by currency by template provided by the IMF	NBE	Quarterly, within 8 weeks of the end of each quarter.
T-Bill and T-bond auction details	NBE	Bi-weekly, within 5 business days of each auction / placement
Interbank money market transaction volume and interest rate by tenure	NBE	Bi-weekly, within 5 business days of the end of each week
T-bill and T-bond purchases and outstanding stocks by institution.	NBE	Quarterly, within 8 weeks of the end of each quarter.
Monetary policy operations and liquidity factors: weekly and monthly balances. Detailed table including: (1) intervention on the money market of the central bank (Birr); (2) deposit facilities; (3) ordinary tenders; (4) loan facility; (5) overnight lending; (6) all structural operations; (7) FX swap exchange; (8) open market operations; (9) minimum reserves; and (10) excess reserves (including by institution); (11) central bank policy rate; and (12) participation in open market operations by institution.	NBE	Monthly within 15 calendar days
Daily official exchange rate	NBE	Weekly, within 5 business days of end of each week
Daily foreign exchange intervention by the NBE: (i) US$ amount in purchases and sales of foreign exchange in spot and derivative transactions by counterparty, respectively; (ii) US$ amount in net sales of foreign exchange by the NBE in any 30-day rolling period; (iii) Daily cumulative net sales of foreign exchange by the NBE in a given quarter; (iv) Share of foreign exchange intervention by the NBE over total interbank market transactions: (v) Exchange rate at which the NBE buys or sells foreign exchange	NBE	Weekly, within 5 business days of end of each week

Table 1. Ethiopia: Reporting Procedures to the IMF (concluded)

Information	Provider	Periodicity and Due Date
Weekly US$ amount of trade volume, in interbank market and foreign exchange bureaus, respectively	NBE	Weekly, within 5 business days of end of each week
Daily data underlying the FX benchmark calculation	NBE	Weekly, within 5 business days of end of each week
Interbank market transactions in the spot market for US dollars: total value transacted in US$, total number of transactions, number of banks involved in transactions, average value transacted in US$	NBE	Weekly, within 5 business days of end of each week
Gross international reserves	NBE	Weekly, within 5 business days of end of each week
Foreign exchange cash flows	NBE	Monthly, within 10 business days of end of each month
BoP data: exports, imports, services, transfers, and capital and financial account transactions	NBE	Monthly, within 6 weeks of end of each month
Detailed international trade data on goods exports and imports by commodities	NBE	Monthly, within 4 weeks of end of each month
Imports by type of institutions (e.g., state-owned enterprises or government, and private sector)	NBE	Monthly, within 4 weeks of end of each month
New external debt obligations contracted and/or guaranteed (concessional and non-concessional) by the government of Ethiopia, including details on the amounts, terms, and conditions of each new obligation	MOF/NBE	Monthly, within 4 weeks of end of each month with details of the loans contracted (creditor, terms, projects, estimated grants element, and users—Federal government's direct use or other purposes etc.)
Outstanding stock of external debt, disbursements/issuance to the government (for Federal government, breakdown to include the amounts for on-lending to public enterprises), and debt service, by debtors, creditors, and type of debt	MOF/NBE	Monthly, within 6 weeks of end of each month
Disbursements of loans and grants to Federal government by each creditor/donor with breakdown into cash and non-cash components	MOF	Monthly, within 6 weeks of end of each month
Outstanding stock of domestic debt, disbursements/issuance, and debt service, by debtors, creditors, and type of debt	MOF/NBE	Monthly, within 6 weeks of end of each month
Monthly US$ amount of foreign exchange sales by the National Bank of Ethiopia towards payments to suppliers of Ethiopian Petroleum Supply Enterprise—provided in the NBE cashflow table	NBE	Monthly within 15 calendar days
Public Enterprise Financial Statements (those under PEHAA and EIH)	MOF	Annually, end September.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

June 13, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—DEBT SUSTAINABILITY ANALYSIS

Approved By
Hassan Zaman and Manuela Francisco (IDA), and Annalisa Fedelino (IMF)

The Debt Sustainability Analysis (DSA) was prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA), in consultation with the authorities.

The Federal Democratic Republic of Ethiopia: Joint Bank—Fund Debt Sustainability Analysis[1]	
Risk of external debt distress	*In debt distress*
Risk of overall debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgement	*No*

Ethiopia faces political, economic, and humanitarian challenges. Support from the international community weakened notably during the two-year conflict in Tigray. Bunching of debt service in the near to medium term and adverse developments have led to the realization of debt repayment risks.

Ethiopia's debt is assessed to be unsustainable, mainly due to protracted breaches of exports-related external debt indicators and is based on a weak Debt Carrying Capacity (DCC).[2] Following a missed Eurobond interest payment in December 2023, the country is in debt distress. Timely implementation of the authorities' reform agenda and debt relief from external creditors are required to alleviate liquidity pressures and restore debt sustainability. The authorities have committed to achieving a moderate risk of debt distress rating by the end of the approved ECF arrangement. An Official Creditor Committee under the G20 Common Framework (OCC) was formed in September 2021 and agreed to suspend debt service due in 2023 and 2024 on November 9,2023.

[1] This preliminary analysis is based on the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017.

[2] The composite indicator based on the April 2025 World Economic Outlook (WEO) and 2023 World Bank Country Policy and Institutional Assessment (CPIA) data that was published in July 2024, is currently estimated at 2.51.

An agreement in principle (AIP) on the key terms for a debt treatment between the OCC and the Ethiopian authorities was reached on March 21, 2025, and the Memorandum of Understanding on this debt treatment is expected in the near term. The illustrative debt treatment reflecting the AIP between the authorities and the OCC and the authorities' latest proposal for the debt treatment of other commercial creditors, would close the program's external financing gap and restore a moderate risk of external debt distress by bringing all debt indicators below their respective DSA thresholds in the FY2027/28, when the IMF program ends.

A. Public Debt Coverage

1. Debt coverage under this Debt Sustainability Analysis (DSA) is consistent with the LIC–DSF guidance and previous DSAs.[3] In particular, the DSA includes Federal government debt, the central bank's debt to the IMF and two bilateral creditors, guaranteed nonfinancial public enterprises' debt, and non-guaranteed debt of Ethio-Telecom, a major telecommunication company.[4] External debt is defined according to the residency principle. Notwithstanding the comprehensive coverage, staff assumes a larger contingent liability shock of 4.5 percent of GDP than the default level of 2 percent of GDP, to account for additional risks associated with large state-owned enterprises (SOEs). Financial market shock is assumed at 5 percent of GDP, the default level.

Text Table 1. Ethiopia: Coverage of Public and Publicly Guaranteed Debt and Parameters of Contingent Liability Shocks for the Tailored Stress Test

	Public debt coverage	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	None
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	4.5	Potential liabilities, including from a policy bank and claims by Koysha contractor
4	PPP	0 percent of PPP stock	0.0	None
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	None
	Total (2+3+4+5) (in percent of GDP)		9.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. The coverage of debt statistics is comprehensive. The authorities publish domestic and external debt statistics of the Federal government and SOEs on a quarterly basis.[5] Debt reporting continues to improve under the World Bank's Growth and Competitiveness Programmatic Development Policy

[3] The coverage differs from the official public debt data in two aspects: the DSA does not include Ethiopian Airlines (as it borrows externally without a public guarantee, its operations pose limited fiscal risk, and has demonstrated managerial independence) but includes the deposits of two bilateral creditors at the central bank, as these deposits have the economic characteristics of debt (interest rate and a regular debt-service schedule until maturity, and that a public entity is responsible for servicing these debts) and meeting balance of payment needs.

[4] Ethiopian Airlines and Ethio Telecom are the only state-owned enterprises with non-guaranteed debt. Ethio Telecom's debt service payments are added to revenue as a proxy for the company's net income in the calculation of external debt service to revenue ratio as total operating profit is larger than the debt payments. The inclusion of Ethio Telecom debt service is a conservative estimate of its larger operating profit.

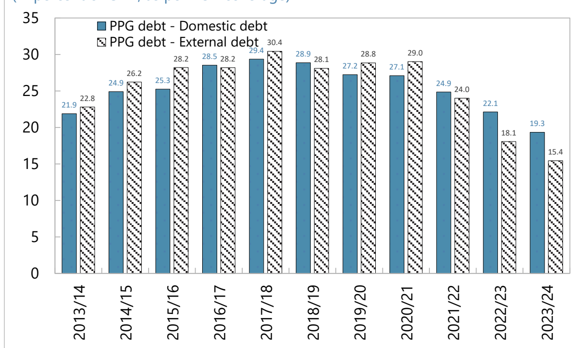
[5] Debt bulletins are available on the Ministry of Finance website (https://www.mofed.gov.et/resources/bulletin/).

Operation series, with expanded coverage of SOE domestic debt in the quarterly debt reports and the publication of an annual debt report.[6]

B. Background

3. Ethiopia's total public and publicly guaranteed debt as a share of GDP declined by about 14 percentage points between 2021/22 and 2023/24. Total public and publicly guaranteed (PPG) debt stood at 34.8 percent of GDP at end-June 2024, down from 40.2 percent of GDP a year before and 48.9 percent of GDP at the end of 2021/22. This decline mainly reflected low external disbursements combined with high nominal GDP growth, with the external debt-to-GDP ratio declining by about 9 percentage points. The domestic debt-to-GDP ratio also declined, with domestic debt rising less than nominal GDP. Debt owed by the Federal government and the central bank accounted for 78 and 6 percent of the total PPG debt stock, respectively, with the remainder owed by SOEs (16 percent).

Ethiopia: Public and Publicly Guaranteed Debt
(In percent of GDP; as per DSA coverage)

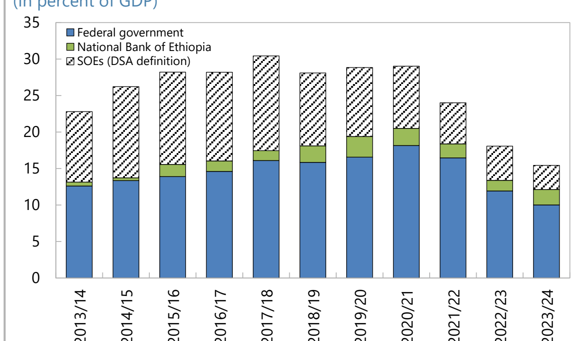


Sources: Ethiopian authorities; and IMF staff calculations.

External Debt

4. External debt accounted for 44.5 percent of total PPG debt as of end-June 2024. In 2023/24, PPG external debt amounted to 15.0 percent of GDP, down from 18.1 percent of GDP a year before. The decline mainly reflected lower disbursements to the Federal government, as official bilateral and market external creditors have mostly halted disbursements in response to Ethiopia's ongoing debt treatment under the G20 Common Framework (CF) and debt service standstill. The Federal government accounts for about 66 percent of total external debt, predominantly to the World Bank and other official creditors. For the SOEs included in the DSA, the PPG external debt ratio fell for the sixth successive year. This decline is due largely to active measures taken by the authorities to contain SOEs' external borrowing, including no new contracting of non-concessional external debt, consistent both with the International Development Association's Sustainable Development Financing Policy and a continuous performance criterion under the 2019 ECF-EFF program.

Ethiopia: Public and Publicly Guaranteed External Debt
(In percent of GDP)



Sources: Ethiopian authorities; and IMF staff calculations.

[6] Further information about the transparency of Ethiopia's debt reporting practices, including changes over time, can be found on the World Bank's Debt Reporting Heatmap (https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report).

Text Table 2. Ethiopia: Public and Publicly Guaranteed Debt Profile

	Debt stock 1/ (as of end-June 2024)			Debt Service 2/					
				2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
	In US$ million	In percent of total	In percent of GDP	In US$ million			In percent of GDP		
Total	**71,379**	**100.0**	**34.8**	**3,311**	**9,042**	**7,726**	**2.6**	**6.6**	**5.0**
o/w Federal government	55,240	77.4	26.9	3,135	5,893	5,997	2.5	4.3	3.9
External	**31,734**	**44.5**	**15.5**	**798**	**5,271**	**2,330**	**0.6**	**3.9**	**1.5**
International financial institutions	15,564	21.8	7.6	718	567	607	0.6	0.4	0.4
IMF	482	0.7	0.2	229	59	58	0.2	0.0	0.0
World Bank	12,100	17.0	5.9	389	401	437	0.3	0.3	0.3
AfDB/AfDF	2,208	3.1	1.1	56	60	65	0.0	0.0	0.0
Others	774	1.1	0.4	45	46	47	0.0	0.0	0.0
o/w IFAD	430	0.6	0.2	13	15	16	0.0	0.0	0.0
Bilateral official creditors 3/ 4/	12,584	17.6	6.1	80	2,395	1,250	0.1	1.8	0.8
Paris Club	1,979	2.8	1.0	0	307	183	0.0	0.2	0.1
o/w Italy	618	0.9	0.3	0	126	68	0.0	0.1	0.0
o/w Korea	366	0.5	0.2	0	0	1	0.0	0.0	0.0
Non-Paris Club	10,605	14.9	5.2	80	0	2,564	0.1	0.0	1.7
o/w China	5,378	7.5	2.6	0	1,246	565	0.0	0.9	0.4
o/w UAE	3,025	4.2	1.5	0	143	93	0.0	0.1	0.1
Bonds	1,099	1.5	0.5	0	1,099	0	0.0	0.8	0.0
Commercial creditors 4/ 5/	2,487	3.5	1.2	0	1,209	473	0.0	0.9	0.3
Domestic	**39,644**	**55.5**	**19.3**	**2,512**	**3,771**	**5,396**	**2.0**	**2.8**	**3.5**
Held by residents, total	39,644	55.5	19.3	2,512	3,771	5,396	2.0	2.8	3.5
T-bills 6/	7,811	10.9	3.8	...			...	...	
Commercial banks	2,883	4.0	1.4	...			...	...	
Non-bank financial institutions	4,929	6.9	2.4	...			...	...	
Bonds 7/	12,866	18.0	6.3	...			...	...	
Central bank	7,563	10.6	3.7	...			...	...	
Loans	8,815	12.3	4.3	...			...	...	
Central bank direct advance	4,221	5.9	2.1	...			...	...	
Commercial banks	4,594	6.4	2.2	...			...	...	
Transferred to LAMC	10,152	14.2	5.0						
Held by nonresidents, total	0	0.0	0.0	...			...	...	
Memo Items:									
Collateralized debt 8/	0	...	...	...			...	...	
Contingent liabilities 9/	0	...	...	...			...	...	
Nominal GDP (US dollar, end of period)	205,004	...	...	...			...	...	

Sources: Ethiopian authorities; and IMF staff estimates and projections.
1/ Consistent with the DSA coverage and may differ from official debt statistics on external debt.
2/ Includes roll-over of T-bills.
3/ Includes loans backed by export credit agencies.
4/ Includes pre-HIPC arrears waiting to receive HIPC comparable treatment.
5/ Loans from commercial banks and credit suppliers non-backed by ECAs and loans backed by China export credit agency.
6/ Marketable T-bills issued under auctions since December 2019.
7/ Includes previously issued short-term debt (direct advance and T-bills) that were converted into bonds.
8/ No collateralized debt is reported.
9/ No significant contingent liabilities have been identified, with the debt perimeter comprehensive encompassing non-guaranteed SOEs debt.

- The bulk of external debt is debt to official creditors.[7] IDA and official non-Paris club creditors accounted for about 38 and 33 percent of PPG external debt, respectively. Non-official creditors accounted for 11 percent of PPG external debt, including a US$1 billion Eurobond that matured in December 2024 (and is now in default) and SOE debt backed by China's export credit agency.

[7] Ethiopia has pre-HIPC arrears to Libya, Russia, and the former Yugoslavia, totaling about US$525 million as of end-June 2024, which are deemed away. Furthermore, there are about US$32 million worth of external arrears to commercial creditors from the former Czechoslovakia, India, Italy, Bulgaria and the former Yugoslavia, all pre-dating the 1990s, which the authorities are also making good faith efforts to resolve.

- IDA financing provided positive net transfers of US$1.5 billion in 2023/24, from US$1.7 billion and US$1.1 billion in 2022/23 and 2021/22, respectively. Approved arrangements amounted to US$3.2 billion in 2023/24 (see WB website).
- The IMF Executive Board approved a blended ECF–EFF arrangement of SDR 2.1049 billion (700 percent of quota)[8] in December 2019, of which Ethiopia drew down SDR 223.85 million. In addition, following the COVID-19 shock, emergency financing was provided through a Rapid Financing Instrument for SDR 300.7 million (100 percent of quota or 0.4 percent of GDP) in April 2020. Debt service relief of obligations under the Catastrophe Containment and Relief Trust was provided until April 13, 2022 (about SDR 14 million).
- Ethiopia also received debt service relief via the G20 Debt Service Suspension Initiative (DSSI), for about US$220 million over May 2020–June 2021. Ethiopia did not seek debt relief under the July–December 2021 phase of the DSSI.
- The authorities have confirmed that there is no collateralized debt outstanding.

5. **The authorities requested debt treatment under the CF in February 2021 and the Official Creditor Committee (OCC) was formed in September 2021.** The request was to strengthen debt sustainability and improve the risk of debt distress rating to moderate by the end of the 2019 ECF-EFF arrangements, consistent with the Fund's exceptional access criteria. This requirement will remain under the current Fund-supported program. Twelve OCC meetings have already taken place, with the last one held in January 2025. Financing assurances from the OCC, necessary for the approval of the current ECF program in July 2024 and for the subsequent reviews in September 2024 and January 2025, were based on the judgement that key milestones in the Credible Official Process under the Common Framework had been achieved.

6. **A standstill agreement was reached with official creditors in November 2023, suspending debt service due in 2023 and 2024.** The debt service suspension is retroactive to January 1, 2023, and therefore resolves official arrears that had accumulated earlier. Ethiopia defaulted on its Eurobond obligations by missing three coupon payments and the principal that came due on December 11, 2024, totaling US$1,099 million. The authorities have continued restructuring negotiations with bondholders.

Domestic Debt

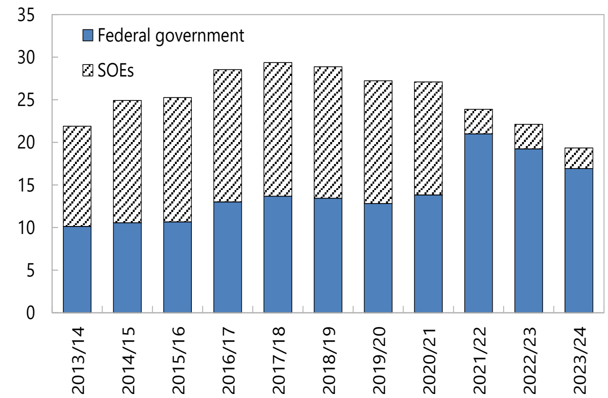
7. **The domestic debt to GDP ratio declined to 19.3 percent of GDP at end-June 2024.** With SOE debt transferred to the Federal government (originally through the Liability and Asset Management Corporation—LAMC) of 5 percent of GDP at end-June 2024, the Federal government accounted for 87 percent of total domestic debt. Meanwhile, SOE domestic debt fell from 13 in 2020/21 to 2.4 percent of GDP to end-June 2024.

[8] Total access under the 2019 ECF-EFF arrangements were modified to 650 percent of quota via a reduction in the EFF access at the time of the Rapid Financing Instrument approval in April 2020 to comply with applicable policies on annual access limits. At the time of program approval in December 2019, PRGT access was subject to a hard cap of 300 percent of quota (which was removed in July 2021), hence the need for blending with GRA resources.

- ***Around one third of the Federal government's domestic debt is legacy debt issued at well below market rates,*** including a long-term bond resulting from the conversion of past direct advances from the NBE, and debt issued for purposes of bank recapitalization. With scarce external financing, the government continued to rely mainly on domestic borrowing in 2023/24 through direct advances from the NBE and issuance of Treasury bills (T-bills).

- ***Treasury bill auctions began in December 2019 at the time of the approval of the ECF-EFF arrangements.*** As of end-June 2024, the stock of T-bills stood at 3.8 percent of GDP down from 3.9 percent of GDP at end-June 2023. The weighted average yield has gone up to 16.4 percent in February 2025 from 9–11 percent in 2023/24 and 1–2 percent offered on non-market instruments in the past. The stock of advances from the NBE increased to 2.1 percent of GDP at end-June 2024 from 1.5 percent of GDP at end-June 2023. The authorities reintroduced some financial repression measures, including mandatory commercial bank purchases of bonds issued by the Development Bank of Ethiopia (August 2021) and of non-marketable 5-year government bonds (November 2022). These will be phased out during the Fund-supported program.

Ethiopia: Public and Publicly Guaranteed Domestic Debt
(In percent of GDP)



Sources: Ethiopian authorities; and IMF staff calculations.

- ***Domestic SOE debt is highly concentrated.*** At end-June 2024, the Commercial Bank of Ethiopia (CBE), a large public sector bank, held virtually all SOE domestic debt including debt that was transferred to LAMC. More than 90 percent of this debt was owed by three troubled SOEs that were not regularly servicing their loans, which were publicly guaranteed. These loans were being systematically renewed and guarantees were not made effective.

C. Outlook and Key Assumptions

The DSA builds on the macroeconomic trajectory envisaged under the Fund-supported program that was approved in July 2024. This involves transition to a market-determined exchange rate with positive effects on the current account and Foreign Direct Investment (FDI), adoption of an interest rate based monetary policy framework, as well as a revenue-driven fiscal consolidation with safeguards on pro-poor spending.

8. The near-term outlook is challenging (Text Table 3).

- ***Growth has moderated but has held up overall.*** Average growth has fallen to 6.8 percent during 2019/20–2023/24 from over 9 percent per year in the decade to 2018/19 and was 8.1 percent for 2023/24. Favorable rainfall and expansion of irrigated crop-production have supported agricultural output, while uptick in electricity and mining bolstered industry sector growth.

  - Growth in 2024/25 is projected at 7.2 percent, with potential uncertainties linked to the transition to market-determined exchange rate offset by improving agricultural conditions and the easing of import shortages. Over the medium term, the competitiveness and allocative efficiency gains from exchange rate unification (reduction in policy uncertainty, correction of overvaluation, and better FX availability) and stronger policy framework (higher spending financed with domestic revenues and concessional external financing and a stable monetary policy framework with positive real interest rates) will support trend growth of 7.5–8 percent.
  - Between 2025/26–2033/34, average real GDP growth is projected at 7.4 percent, slower than historical rates of around 10 percent per annum over the two decades prior to 2019. The long-term projection reflects demographic factors (the median age is below 20 years) and expected productivity gains, including from reforms and economic transformation.
  - The national accounts statistics are being improved. Deficiencies in the source data and compilation practices impact the accuracy and reliability of GDP statistics. Limitations are particularly noticeable in the estimation of expenditure components, including private consumption, savings, investment, and fixed capital formation, as well as in agricultural output. With the support of technical assistance, the authorities are preparing to rebase the national accounts to the base year 2025/26 by December 2026. Additionally, a diagnostic assessment of national account statistics using the IMF Data Quality Assessment Framework is planned for June 2026, also with the technical assistance.

- ***Inflation has declined more quickly than expected, with some way to go.*** The authorities are adopting an interest-rate based monetary policy framework, with low and stable inflation as the policy objective. Inflation declined moderately in 2023/24, with non-food inflation declining in response to fiscal and monetary tightening. Inflation has been lower than forecast in the first nine months of 2024/25. Headline inflation fell to 13.6 percent in March from 15 percent in February 2025 as slowing food price rises offset an uptick in non-food items. The impact of the exchange rate reform on inflation has been contained, and supply side conditions (favorable agricultural output) have helped ease price pressures.
  - Inflation has been revised downward in the near term given lower than expected exchange rate passthrough and the slowing food price inflation, to 16 percent at end-June 2024/25, compared with 25 percent at the second review. Prudent monetary and fiscal policies (including avoiding direct advances) will continue to support a steady decline in inflation in the medium term, reaching single digits in 2026/27.

- ***Progress in deepening and improving the functioning of the foreign exchange (FX) slowed after an initial phase of strong advancement.*** Since late 2024, banks' posted and transacted rates have shown limited variation. After dropping to below 5 percent in September 2024, the parallel market premium has fluctuated around 15 percent since March 2025, while measured transaction volumes have stabilized. Although FX availability has improved and interbank FX transactions have increased, reports of queuing and high fees and commissions, persist. Nonetheless, real exchange rate overvaluation has been corrected, and the real effective exchange rate has been relatively stable. The NBE is taking significant measures to deepen the FX market and tackle structural distortions, including the widening of the parallel market spread:

- In early June 2025, the NBE began posting all banks' fees and commissions for FX transactions with clients on their website to facilitate transparency and competition;
- The cap on advance payments for imports was raised by a factor of ten to US$50,000 to reduce incentives to use the parallel market;
- The NBE and CBE are agreeing a quantified, time-bound plan for CBE to comply with prudential net open position (NOP) limits by end-2025, and NBE will revise the NOP directive by the end of September 2025 in line with international practice. These reforms will rebalance incentives for commercial banks, facilitating FX market competition;
- Re-channeling some of NBE's gold-related FX accumulation above reserve accumulation targets back to the banking sector through competitive auctions supports price discovery and deepens market liquidity.

- ***Preliminary balance of payments data for the first nine months of FY2024/25 reflect a notable improvement in the current account, but worse prospects for the capital and financial accounts, than expected at the second review.*** The current account deficit is anticipated to decrease to –3.2 percent of GDP, down from -4.4 previously projected. Exports of goods and services are now forecasted to reach 12 percent of GDP in FY2024/25, an increase from 9.6 percent at the time of the second review, reflecting volume growth and historically high market prices for coffee and gold. Throughout the first nine months of the fiscal year, goods exports have exceeded the prior full-year forecast. FDI has not met initial expectations. As of the end of April 2025, gross international reserves (GIR) stood at $4 billion, exceeding the previous year-end projection of $3.1 billion.
    - Gold exports are projected to reach $2.4 billion for FY2024/25 (compared to a prior estimate of $1 billion), based on exceptional volumes that may not be sustainable (there has been no formal investment in the sector, and hoarded inventory may have come to market due to more competitive pricing and reopening of Tigray to trade). In FY2025/26 export volume is expected to decline, although remaining higher than the pre-2024/25 historical maximum recorded in FY2012/13 (a period of strong prices for domestic producers given near zero spread on the parallel foreign exchange market), before structural growth resumes. This forecast assumes inventory drawdown is near complete, and minimal impact from inward smuggling. Strong outcomes for coffee similarly reflect inventory drawdown and diversion of production from the domestic to export markets—sustained growth will require new investment.
    - Private transfers to NGOs are anticipated to be approximately $1 billion lower annually than previously forecast, starting from FY2025/26. This adjustment reflects significant shifts in aid policies and funding priorities from international development partners notably including the United States. The anticipated growth in transfers, which was expected to rise from $0.6 billion in FY2024/25 to $2 billion in FY2025/26 and beyond, is no longer deemed feasible. The government has included higher health expenditures (0.2 percent of GDP) in the FY2025/26 budget to partially compensate.

  - Essential imports, comprising critical goods such as food and medicines, account for approximately 70 percent of development assistance (estimated at around $1.4 billion). These imports are projected to continue without significant disruption, reflecting the ongoing need to meet basic needs within the population. About $400 million of the shortfall in financing essential imports is expected to be covered by the private sector.

- ***Foreign direct investment (FDI) is weaker than anticipated but is projected to recover in the medium term.*** The current projections assume no proceeds from privatization, in contrast to the projected US$650 million in FY2025/26 in the second review, given the lack of credible investor interest so far. Private FDI has also been subdued. This reflects investor concerns about the business climate and security (and the changing landscape for telecoms for privatization). The authorities retain privatization as a strategic option for commercially oriented SOEs, to foster private sector-led growth, and to mobilize resources. Over the medium term, FDI is expected to settle at around 3.0 percent of GDP, consistent with pre-COVID trends, assuming a stable or improving investment climate.

- ***Revenue mobilization will anchor debt sustainability while safeguarding humanitarian and pro-poor spending.*** The general government primary deficit is expected to narrow from 1.4 percent of GDP in 2023/24 to 0.8 percent of GDP in 2027/28, having already declined from a peak of 3.5 in 2021/22. The primary fiscal deficit is expected to remain at around ½ percent of GDP through the program horizon. Consolidation will be driven by tax revenue measures, while pro-poor spending will increase, and capital expenditure will partially recover to meet reconstruction needs.

- ***Domestic debt service costs are expected to rise over the medium term.*** As the authorities continue to develop domestic debt markets and reduce financial repression, domestic financing costs are expected to rise, while providing a more reliable source of financing. The steep rise in the domestic debt service to revenue ratio (Figure 6) is partially explained by the monetary policy rate becoming positive in real terms in 2024/25 and the authorities' effort to rely on market-based financing (primarily short-term instruments at first) that sharply increase annual rollover. While interest rates on new debt issuance are now positive in real terms, legacy debts at sub-market terms (including debts held by pension funds rolled into longer-term instruments in 2024) result in effective real rates in the near-term. Interest rates are expected to moderate over time as declining inflation results in lower nominal yields, while bond market development will allow for a higher proportion of borrowing at medium- and long-term maturities. Higher-than-forecast increases in funding costs and difficulties in rollover are risks. An increase in revenue mobilization, supported by tax policy measures, will reduce these risks, and help stabilize the debt service to revenue ratio.

- ***Domestic debt markets will continue to deepen.*** The IMF and World Bank assessed the stage of development of the local currency bond market in October 2023 and have proposed a reform plan to the authorities, with follow up IMF and World Bank joint TA underway. The money market and primary market are the focus of the initial reform agenda. Concrete steps, accompanied by a move towards market determined interest rates, include developing capacity at the MoF, more systematic market outreach, improving the issuance planning process and establishing the medium-term debt strategy.

9. The main risks to the outlook stem from domestic policy slippages, potential social discontent, security challenges, and reductions in official development assistance. Key risks are:

- Reform fatigue due to political and social pressures could lead to delay in or reversal of policy measures. Macroeconomic conditions could threaten social stability through continued shortages or further increases in prices for essential goods, or by an expectations-led inflation-depreciation spiral arising from exchange rate reforms. Sustained effort will be needed to ensure a full transition to a market-determined exchange rate. In other reform areas progress has been relatively strong—for example, inflation is declining, tax revenues rising, and expansion of social support mechanisms proceeding as planned—with social and political pressures remaining contained.
- Recurrent volatility in global commodity prices also poses a risk to the outlook, as do potential delays in the debt restructuring process. Terms of trade have moving in Ethiopia's favor, reflecting strong gold and coffee prices.
- Deterioration in the domestic security situation could renew economic disruption and derail international support. Intensifying spillovers from regional conflicts also pose downside risks to the outlook.
- Larger than expected cutbacks in official development assistance could have significant humanitarian implications and put pressure on government to fill part of the gap.
- There is also upside potential if security conditions continue to improve, strengthening the economic recovery and unlocking investment and sustained increases in gold export volume could lead to higher growth.

10. The fiscal adjustment is driven by tax policy measures, the recovery of the tax base from recent shocks and by continued restraint of SOE borrowing. The DSA realism tools do not indicate that the projected fiscal adjustment is unrealistic, with the primary balance adjustment below the top quartile of the historical distribution of comparator countries. Furthermore, the risk that the adjustment proves infeasible is mitigated by the specific measures under the program to raise revenues, including (i) the broadening of the excise tax base and switching to a specific excise tax system with higher rates on alcohol, tobacco, and fuels; (ii) removal of VAT exemptions; (iii) introduction of a motor vehicle circulation tax; and (iv) recovery of the tax base from the historical lows reached during the pandemic and conflict. The program envisages a limit on domestic bank borrowing by SOEs to supplement the zero limit on non-concessional external borrowing and reforms to the electricity tariff framework with a view to further reducing the total SOE debt to GDP ratio. Potential negative impacts from the envisaged fiscal adjustment are mitigated by a pick-up in productivity through more efficient resource allocation as FX rationing and market distortions stemming from the exchange rate ease, and by the increase in spending on education, health, and social safety net (Figures 3 and 4).

11. Program-supported reforms reducing financial repression and exchange rate distortions underpin a consolidation of quasi fiscal activity and increase fiscal transparency. The general government overall deficit has contracted by about 1 percent of GDP since FY2022/23, while the consolidated public sector deficit including estimates for quasi-fiscal operations has adjusted further.

Moving to positive real interest rates (policy and Treasury bill rates are now positive in real terms) and phasing out of mandatory purchase by banks of Treasury and Development Bank of Ethiopia bonds at sub-market interest rates by end-2025 will eliminate subsidized lending to SOEs and government from captive domestic savers. Recapitalizing CBE with government securities in July 2024 enabled writing off CBE's claims on LAMC and provisioning of non-performing exposures to SOEs, recognizing historic costs of subsidized lending to SOEs on-budget. Eliminating real exchange rate overvaluation through the FX reforms in July 2024 lifted the implicit tax on exporters previously obliged to surrender FX at a below market exchange rate as well as the implicit subsidy to fuel and fertilizers imported at the favorable official rate. Fuel subsidies have now been explicitly brought on-budget. The impacts of the reforms on vulnerable households have been managed through expanded, targeted cash transfers. All federal fuel taxes (0.8 percent of GDP), which formerly accrued to Ethiopian Petroleum Supply Enterprise (EPSE) and the Road Fund, will be remitted to the Budget from FY2025/26. A temporary fuel subsidy (0.6 percent of GDP) and permanent allocation to the Road Fund (0.1 percent of GDP) will be included in the FY2025/26 budget. Fertilizer subsidies will be capped at 54 billion Birr (0.3 percent of GDP) in FY2025/26 budget.

12. World Bank supported reforms complement and reinforce program support. The focus of World Bank policy engagements through its Development Policy Operations, projects, and through the Sustainable Development Financing Policy (SDFP) reinforce areas of the IMF-supported program. Relevant areas of reform engagement and this DSA include the strengthening of the financial sector (with a focus on the Commercial Bank of Ethiopia); improving fiscal and SOE financial transparency and reporting; revenue mobilization; and broader structural reforms to improve the growth and export environment.

13. This DSA makes the following assumptions on external and domestic financing and debt servicing:

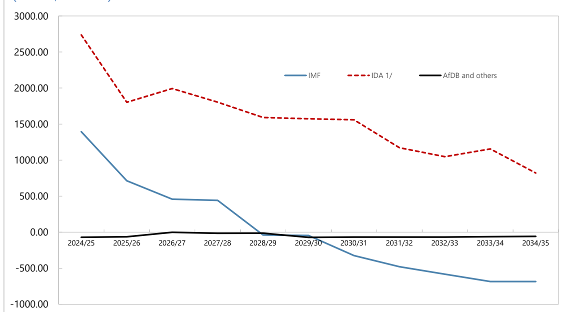
- New debt projections add to debt outstanding as of end-June 2024. All bilateral sovereign deposits at NBE including the recent deposits from a non-OCC country are categorized as debt, as these deposits have been used to meet BOP needs, and in line with the treatment in the past. No contracting or guaranteeing of new non-concessional external loans is assumed during the duration of the arrangement, with one exception: the authorities have requested an exemption from the zero-limit on non-concessional borrowing for the macro-critical Koysha Hydroelectric Dam project (US$950 million).[9] It is assumed that non-concessional loans to complete Koysha will be contracted in FY2025/26, with a frontloaded disbursement schedule to reflect large, upfront insurance and guarantee payments. The ECF includes a present value-based indicative target on overall external borrowing that is consistent with the authorities' borrowing plan and debt sustainability (text table 4).
- The overall IDA project financing envelope is expected to reach about US$1.8 billion by 2027/28. Most of IDA envelope is assumed to be in loans, consistent with the LIC-DSF guidance that

[9] The authorities could not mobilize concessional financing to finalize the Koysha dam project despite sustained efforts. The project is critical for generating export revenues, rural electrification, and meeting climate change policy goals and is already two-thirds complete.

regular credit terms on IDA lending should be assumed in all years for which grant finance has not already been committed.[10]

- The pre-restructuring debt service schedule is updated, based on outstanding debt as of end-June 2024 and a new reconciliation between the authorities' financial advisors and the OCC secretariat.

Ethiopia: Net External Financing from IFIs
(In US$ million)



Sources: IMF staff projections.
1/ Includes project grants

- A residual financing gap of US$10.8 billion during the program period is assumed. Reserve adequacy would be brought to 3.5 months of import coverage by the end of the program. The Fund would contribute about US$3.4 billion to fill the gap. Besides IMF financing, the remaining gap is assumed to be financed by US$3.8 billion of budget support from the World Bank, and US$3.6 billion of debt relief from bilateral creditors including the OCC and private external creditors, proxied by the issuance of a net present value neutral bond. The World Bank disbursed US$1.5 billion of budget support in August 2024 and is expected to disburse US$1 billion of budget support (US$650 million of grants and US$350 of loan) between July 2025 and June 2026. No assumption on the parameters and modality of the needed debt treatment is made as current DSA continues to be based on pre-restructuring debt service schedule.

Text Table 4. Ethiopia: External Borrowing Plan for FY2025/26[1]

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2025/26		PV of new debt in 2025/26 (program purposes)	
	USD million[1]	Percent	USD million[1]	Percent
By sources of debt financing	**4,900**	**100**	**2,856**	**100**
Concessional debt, of which[2]	**3,950**	**81**	**1,906**	**67**
Multilateral debt	3,600	73	1,683	59
Bilateral debt	350	7	224	8
Non-concessional debt, of which[2]	**950**	**19**	**950**	**33**
Semi-concessional[3]	-	-	-	-
Commercial terms[4]	950	19	950	33

[1] Contracting and guaranteeing of new debt. The present value of debt is calculated using the terms of individual loans and applying the 5 percent program discount rate

[2] Debt with a grant element that exceeds a minimum threshold. This minimum is typically 35 percent, but could be established at a higher level.

[3] Debt with a positive grant element which does not meet the minimum grant element.

[4] Debt without a positive grant element. For commercial debt, the present value would be defined as the nominal/face value.

- For domestic debt, the program balances phasing out of non-market-based financing of the public sector and maintaining fiscal sustainability:
    - In July 2024, the authorities issued 899 billion Birr of 13-year government securities to write off all CBE claims on LAMC (580 billion birr) and fully provision nonperforming SOE exposures (263 billion birr) and bring CBE's capital adequacy ratio to the regulatory minimum monetary financing of fiscal deficits has been eliminated starting in FY2024/25.
    - The mandatory purchase of 5-year treasury bonds at sub-market interest rates by commercial banks will be phased out by end-June 2025, with an intention to develop the

[10] World Bank financing projections are based on assumptions, and actuals will depend on IDA replenishment, country performance, and other operational factors that determine country IDA allocations. IDA allocations and terms could significantly change because of adjustments to the IDA Grant Allocation Framework in new IDA cycles.

market for longer-dated government securities.

  - The requirement that financial institutions purchase DBE bonds will be removed before the fifth review of the Fund program.
  - A voluntary exchange of the current stock of T-bills held by Public Servants Social Security Agency and the Private Organizations Employees' Social Security Administration for 13-year securities was conducted in July 2024. The exchange provides debt service relief to the Treasury and an instrument that better matches the pension funds' asset and liability durations.
  - Direct advances from the NBE totaling 242 billion Birr at end-June 2024 have been converted into a long-term bond with a maturity of 25 years and an interest rate of 3 percent.

- In the future, domestic financing needs will be covered by market-oriented instruments. The government's net domestic financing is projected to shift predominantly to T-bills with market-determined interest rates, while SOEs are assumed to issue medium to long-term bonds. Real interest rates have risen to positive levels, consistent with the phasing out of financial repression under an interest rate-based monetary policy framework. With the support of TA from the IMF and the World Bank Group, authorities' efforts to strengthen debt management and broadening the uses of T-bills and bonds continue: a new issuance framework is being developed; an issuance calendar was adopted; regular engagement with market participants has been initiated; A review of the regulatory treatment of T-bills and bonds for banks' capital and liquidity purposes is planned. Before the transition to fully market-based instruments is complete, the lower costs associated with legacy domestic debt instruments paying sub-market interest rates and the pension funds' voluntary conversion of short-term debts into longer-term bonds provides significant real debt service relief to the government.

D. Country Classification

14. Ethiopia's debt carrying capacity is weak, due fundamentally to the decline in FX reserves. The Composite Indicator (CI)—based on the IMF April 2025 World Economic Outlook projections and the World Bank's 2023 Country Policy and Institutional Assessment (CPIA) score that was published in July 2024—stands at 2.51, which corresponds to a weak signal. Ethiopia's debt carrying capacity was downgraded to "weak" in October 2022 after two consecutive weak signals driven by low FX reserves and a slight decline in CPIA.

E. External Debt Sustainability Analysis

Baseline

15. Public and publicly guaranteed (PPG) external debt is expected to decline over the projection period, but three indicators consistently breach their indicative thresholds. The debt service-to-revenue ratio and the two exports-linked external debt ratios present protracted breaches, reflecting two main factors: (i) high and bunched debt service from SOE investment projects and repayment of the US$1 billion Eurobond that fell due in December 2024; and (ii) the low level of exports. Finally, the PV of debt-to GDP ratio remains well below its indicative threshold for the entire projection period (Figure 1).

Standardized Stress Tests

16. The standard stress tests highlight vulnerabilities to export shocks. Adverse shocks to exports would exacerbate external debt servicing pressures and difficulties in financing external and domestic needs (Figure 1). In the case of the two exports related indicators that consistently breach the thresholds, the breaches become larger. Implementation of FX reforms, building FX reserves, and materialization of upside risks to exports from a better-than-expected response to reforms or the impact of faster global growth, would help strengthen external debt sustainability. The debt service-to-revenue ratio experiences larger and persistent breaches under a one-time exchange rate depreciation shock, which points to risks of devoting significant amount of revenue to external debt service at the expense of cutting priority spending under a sharp depreciation scenario.

Text Table 5. Ethiopia: Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.260	1.26	50%
Real growth rate (in percent)	2.719	7.112	0.19	8%
Import coverage of reserves (in percent)	4.052	16.933	0.69	27%
Import coverage of reserves^2 (in percent)	-3.990	2.867	-0.11	-5%
Remittances (in percent)	2.022	4.105	0.08	3%
World economic growth (in percent)	13.520	2.973	0.40	16%
CI Score			2.51	100%
CI rating			Weak	

New framework			
	Cut-off values		
Weak	CI <	2.69	
Medium	2.69	≤ CI ≤	3.05
Strong	CI >	3.05	

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

F. External Debt Sustainability Analysis

Baseline

17. Public and publicly guaranteed (PPG) external debt is expected to decline over the projection period, but three indicators consistently breach their indicative thresholds. The debt service-to-revenue ratio and the two exports-linked external debt ratios present protracted breaches, reflecting two main factors: (i) high and bunched debt service from SOE investment projects and repayment of the US$1 billion Eurobond that fell due in December 2024; and (ii) the low level of exports. Finally, the PV of debt-to GDP ratio remains well below its indicative threshold for the entire projection period (Figure 1).

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18. The standard stress tests highlight vulnerabilities to export shocks. Adverse shocks to exports would exacerbate external debt servicing pressures and difficulties in financing external and domestic needs (Figure 1). In the case of the two exports related indicators that consistently breach the thresholds, the breaches become larger. Implementation of FX reforms, building FX reserves, and materialization of upside risks to exports from a better-than-expected response to reforms or the impact of faster global growth, would help strengthen external debt sustainability. The debt service-to-revenue ratio experiences larger and persistent breaches under a one-time exchange rate depreciation shock, which points to risks of devoting significant amount of revenue to external debt service at the expense of cutting priority spending under a sharp depreciation scenario.

19. Indicators of market financing risks remain elevated. The EMBI spread is at distressed levels, well beyond the LIC-DSF benchmark of 570 basis points. The relatively contained external financing needs lead to a moderate rating for market financing risks under the LIC DSF. A return to market access is unrealistic at current spreads and is neither foreseen by the authorities nor necessary to meet external financing needs. Market financing risks are currently assessed as moderate per the mechanical risk rating under the LIC DSF (below the LIC DSF benchmark of 14 percent of GDP for signaling market-financing pressures) (Figure 5). Gradual consolidation of the public sector including SOEs, along with deepening of financial markets through the opening of banking sector to foreign investors and the growth of pension funds, can mitigate domestic financing pressures.

G. Public Debt Sustainability Analysis

Baseline

20. The present value of overall public debt/GDP ratio is projected to steadily decline, with breaches only in 2024/25 and 2025/26. As public sector consolidation takes hold and the external debt situation improves with continued restraint on borrowing, the PV of public debt/GDP ratio will stay below the applicable threshold throughout the projection period (with a one-off breach discounted). Gross financing needs are projected to average around 6 percent of GDP during the program period through 2027/28 (below the LIC-DSF benchmark of 14 percent of GDP) and stabilize at around 9 percent of GDP by

2033/34. This need is expected to revert to normal levels, alongside an anticipated increase in the real cost of new domestic borrowing over the medium to long term. Should downside risks of public sector balances lead to larger fiscal needs in the near term, the authorities' commitment to consolidation during the Fund-supported program would help contain the risks to public debt. The PV of public debt-to-revenue also remains on a downward trend.

Standardized Stress Tests

21. Overall public debt is susceptible to the materialization of contingent liabilities. The PV debt/GDP ratio rises to 44 percent in 2025/26 under combined contingent liabilities shock but remains below the threshold from 2028/29 onwards.

22. Risks from Ethiopian Airlines appear negligible in the near term The airline, which is excluded from the DSA, adjusted well to the COVID shock with support from a strong balance sheet at the beginning of the crisis and active measures, including changes in business focus to cargo. This operational shift allowed the company to achieve record profitability. The authorities have conveyed that Ethiopian Airlines does not intend to seek government support.

H. Risk Rating and Vulnerabilities

23. Ethiopia's debt is assessed to be unsustainable, mainly due to protracted breaches of exports-related external debt indicators. Following a missed Eurobond interest payment in December 2023, the country is in debt distress. There are protracted breaches in exports-related debt vulnerability indicators. Due to macroeconomic forecast revisions, the magnitude of these breaches is smaller compared to the second review DSA, while the duration is similar.

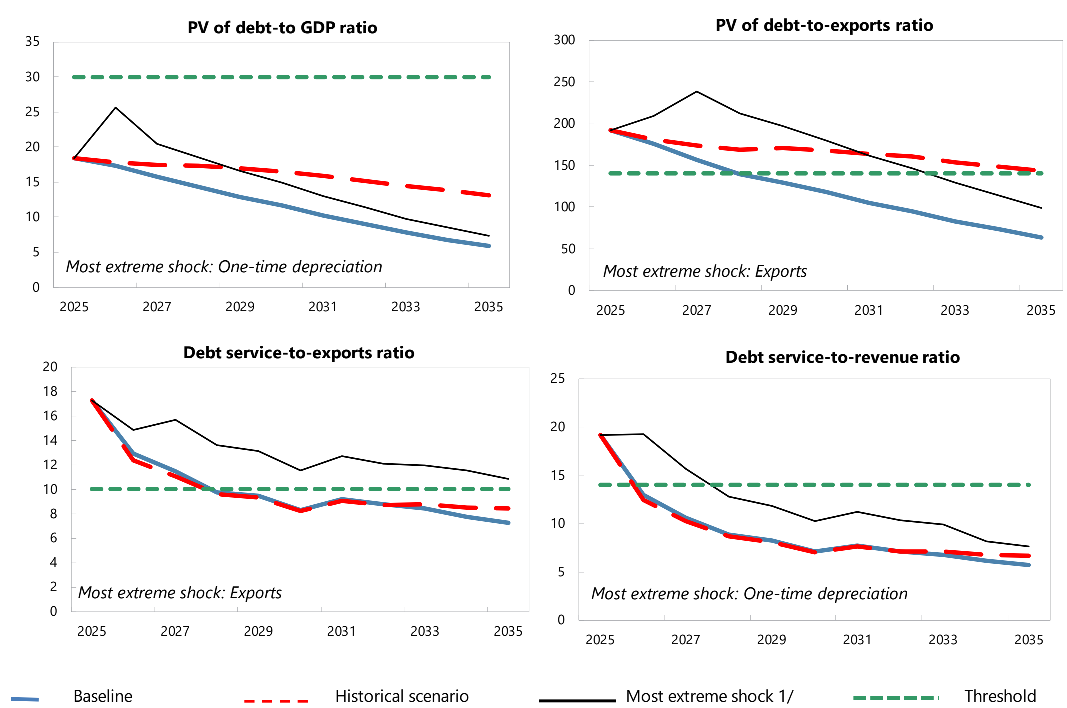
24. Successful completion of debt treatment and implementation of the reform agenda would restore debt sustainability and allow exit from debt distress. Ethiopia's DCC is classified as weak, because of low reserves and recent modest declines in the CPIA. In relation to the debt thresholds for weak DCC, there are protracted breaches of the two exports-related indicators and of the debt service to revenue ratio, indicating both liquidity and solvency pressures. The PV of external debt to GDP ratio remains below the threshold for the entire projection period in both the baseline and the most extreme shock scenario. All remaining external debt burden indicators exceed their thresholds for a protracted period under both the baseline and the most extreme shock scenario, with stress tests indicating vulnerabilities to export and depreciation shocks. The combination of prudent macroeconomic policies, including a sustained move to market clearing exchange rate and export diversification, fiscal and debt conditionality, improved SOE governance, and the debt treatment would all contribute towards reducing debt vulnerabilities. A drawn-out debt restructuring process would however slow the reduction in debt vulnerabilities.

25. An external debt treatment is needed for Ethiopia to close financing gaps over the program period and to help achieve a moderate risk of debt distress by the end of the requested Fund-supported program. To close the BOP financing gap, required debt relief during the program period (2024/25–2027/28) amounts to about US$3.6 billion. To bring Ethiopia's risk of debt distress to "moderate" over the medium term, debt relief would need to bring the three binding external debt burden indicators below the thresholds (140 for PV of debt-to-exports ratio, 10 for debt service-to-exports ratio and 14 for debt service to revenue) by the end of the program period and remain so over the DSA projection horizon.

26. A Memorandum of Understanding with official creditors is expected to be agreed in the near term. An agreement in principle (AIP) with the OCC on terms for a debt treatment consistent with program objectives was reached on March 21, 2025. An AIP with external commercial creditors is expected to follow. The authorities are making good faith efforts to reach an agreement with their external commercial creditors on terms comparable to the OCC terms, and consistent with program parameters.

27. The post-restructuring DSA incorporating the illustrative debt treatment indicates that the debt vulnerability rating is expected to improve to moderate risk of debt distress by the end of program (July 2028). The illustrative scenario is based on the AIP with the OCC for official bilateral claims and the authorities' latest debt treatment scenario for the other commercial creditors' claims. All indicators fall under the thresholds starting in 2027/28 (2028 in the figure below). The PV of debt-to-exports and the debt service to export ratios reach the thresholds in the last year of the program, with no "buffers", reflecting balanced risks to the macroeconomic outlook, while indicators in the baseline remain comfortably below thresholds in the post-program period. Following the supplement to the 2018 guidance note on the LIC-DSF, the official sector debt treatment will be only incorporated in the baseline after a memorandum of understanding is agreed by the OCC and the authorities.

Text Figure 1. Ethiopia: The Illustrative Debt Restructuring Scenario, 2025(2024/25)–2035(2034/35)



I. Authorities' Views

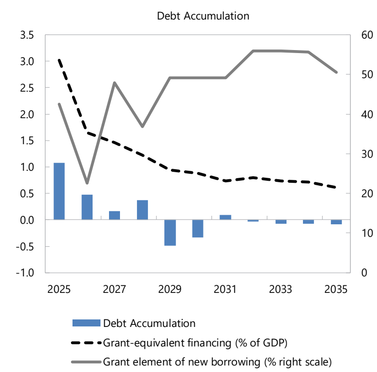
28. The authorities broadly agreed with the overall assessment of the country's debt sustainability. Debt sustainability is expected to be restored through a debt restructuring, development partner support, and the reforms contemplated under the Fund-supported program. The authorities are committed to further improve debt management.

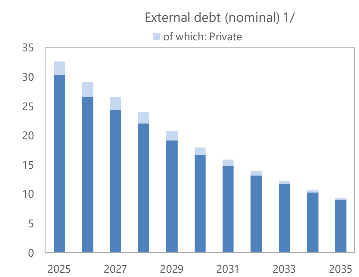
Table 1. Ethiopia: External Debt Sustainability Framework, 2022–2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
External debt (nominal) 1/	25.8	19.5	16.5	32.7	29.1	26.6	24.0	20.7	17.9	9.3	4.5	27.9	19.4
of which: public and publicly guaranteed (PPG)	24.0	18.1	15.4	30.4	26.6	24.3	22.1	19.2	16.7	9.1	4.4	25.7	18.0
Change in external debt	-5.6	-6.3	-3.0	16.2	-3.5	-2.5	-2.5	-3.3	-2.8	-1.4	-0.4		
Identified net debt-creating flows	-2.4	-5.1	-3.3	-3.1	-2.5	-2.2	-2.8	-2.4	-2.0	-0.9	-0.4	-1.0	-1.9
Non-interest current account deficit	3.6	2.6	2.7	1.8	2.0	2.1	1.5	1.8	2.0	2.0	2.1	5.1	2.0
Deficit in balance of goods and services	10.1	7.4	6.2	9.5	8.7	7.9	6.8	6.5	6.4	5.5	4.3	12.6	6.8
Exports	8.2	6.6	5.6	11.7	11.0	10.7	11.0	11.0	11.1	10.8	10.5		
Imports	18.3	14.0	11.8	21.2	19.7	18.5	17.8	17.5	17.5	16.3	14.8		
Net current transfers (negative = inflow)	-6.5	-4.8	-3.5	-7.7	-6.7	-5.8	-5.2	-4.7	-4.5	-3.5	-2.2	-7.4	-4.8
of which: official	-0.9	-0.7	-0.5	-1.9	-1.6	-1.1	-1.0	-0.9	-0.9	-0.8	-0.8		
Other current account flows (negative = net inflow)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Net FDI (negative = inflow)	-2.6	-2.1	-1.9	-3.2	-3.0	-2.9	-3.0	-3.0	-3.1	-2.5	-2.3	-3.3	-2.9
Endogenous debt dynamics 2/	-3.4	-5.5	-4.1	-1.7	-1.5	-1.4	-1.3	-1.2	-1.0	-0.5	-0.2		
Contribution from nominal interest rate	0.5	0.3	0.2	0.3	0.7	0.6	0.6	0.5	0.4	0.1	0.0		
Contribution from real GDP growth	-1.8	-1.4	-1.2	-2.0	-2.1	-2.0	-1.9	-1.6	-1.4	-0.6	-0.2		
Contribution from price and exchange rate changes	-2.1	-4.4	-3.1	...	...	...	...	...	...	...	...		
Residual 3/	-3.2	-1.3	0.3	19.3	-1.1	-0.4	0.2	-0.9	-0.8	-0.4	0.1	0.0	1.2
of which: exceptional financing	0.2	0.2	0.0	2.3	3.3	0.8	1.0	0.0	0.0	-0.2	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	11.5	21.1	19.8	17.6	15.8	13.5	11.6	5.9	2.7		
PV of PPG external debt-to-exports ratio	...	...	206.6	180.1	180.0	164.6	143.4	122.0	104.8	54.8	25.9		
PPG debt service-to-exports ratio	14.7	10.7	7.5	5.6	36.6	15.3	15.9	14.7	11.9	5.6	2.3		
PPG debt service-to-revenue ratio	15.0	8.9	5.8	7.7	37.7	15.2	15.8	14.3	11.4	5.1	1.9		
Gross external financing need (Million of U.S. dollars)	3170.6	2201.8	3058.1	-415.7	4492.3	1748.4	1073.1	1366.9	1179.5	1195.7	525.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	7.2	8.1	7.2	7.1	7.7	8.0	7.8	7.5	6.5	5.5	7.9	7.3
GDP deflator in US dollar terms (change in percent)	7.1	20.5	18.7	-44.4	1.6	5.3	5.1	5.6	5.4	6.9	3.1	6.1	1.0
Effective interest rate (percent) 4/	1.7	1.5	1.1	0.9	2.3	2.4	2.4	2.2	2.1	1.5	0.9	1.9	1.9
Growth of exports of G&S (US dollar terms, in percent)	22.8	3.3	8.1	25.5	2.3	10.3	17.2	13.9	13.5	13.0	8.3	6.4	13.6
Growth of imports of G&S (US dollar terms, in percent)	24.9	-1.4	7.8	7.3	1.2	6.9	8.8	12.1	13.1	12.1	8.1	5.2	10.0
Grant element of new public sector borrowing (in percent)	...	...	...	42.4	22.6	47.9	36.8	49.2	49.2	50.5	50.7	...	46.8
Government revenues (excluding grants, in percent of GDP)	8.1	7.9	7.3	8.5	10.2	10.7	11.1	11.4	11.5	11.8	12.7	11.1	11.1
Aid flows (in Million of US dollars) 5/	549.6	602.9	590.2	3537.5	2821.9	3051.1	2912.6	2812.1	2916.5	3675.3	6288.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.0	1.6	1.5	1.2	0.9	0.9	0.6	0.5	...	1.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	66.8	33.8	58.9	48.4	65.4	67.4	71.9	80.2	...	63.0
Memorandum items:													
PV of external debt 7/	...	...	12.5	23.3	22.3	19.9	17.8	15.1	12.9	6.2	2.8		
In percent of exports	...	...	225.4	199.3	202.7	186.3	161.1	136.2	116.2	57.3	26.3		
Total external debt service-to-exports ratio	18.7	13.4	11.1	8.5	39.2	18.2	18.6	17.2	14.0	6.8	2.4		
PV of PPG external debt (in Million of US dollars)			24093.5	26364.5	26954.4	27179.6	27755.4	26891.8	26230.9	25559.9	27934.2		
(PVt-PVt-1)/GDPt-1 (in percent)				1.1	0.5	0.2	0.4	-0.5	-0.3	-0.1	0.0		
Non-interest current account deficit that stabilizes debt ratio	9.2	8.9	5.7	-14.3	5.5	4.6	4.1	5.1	4.8	3.4	2.5		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. Presented on fiscal year basis (e.g., 2020 referes to fiscal year ending in June 2020).

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

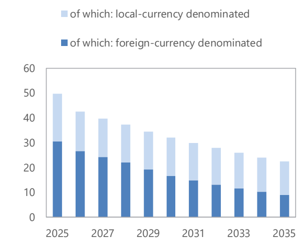
Table 2. Ethiopia: Public Sector Debt Sustainability Framework, 2022–2044

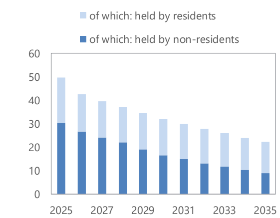
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2044	Historical	Projections
Public sector debt 1/	48.9	40.2	34.8	49.8	42.6	39.7	37.2	34.5	32.1	22.4	18.4	51.4	33.3
of which: external debt	24.0	18.1	15.4	30.4	26.6	24.3	22.1	19.2	16.7	9.1	4.4	25.7	18.0
Change in public sector debt	-7.3	-8.7	-5.4	15.0	-7.2	-2.9	-2.5	-2.7	-2.4	-1.7	-0.2		
Identified debt-creating flows	-8.1	-10.6	-7.2	-2.7	-4.2	-2.3	-2.0	-1.9	-1.7	-1.1	-0.1	-5.0	-1.9
Primary deficit	3.7	2.2	1.6	1.5	0.1	0.8	0.8	0.5	0.3	-0.2	0.1	2.4	0.4
Revenue and grants	8.5	8.2	7.5	10.4	10.9	11.2	11.5	11.8	12.0	12.2	13.1	11.9	11.7
of which: grants	0.4	0.4	0.3	1.9	0.7	0.5	0.5	0.5	0.5	0.4	0.4		
Primary (noninterest) expenditure	12.3	10.4	9.2	11.9	11.0	12.0	12.3	12.3	12.3	12.0	13.2	14.3	12.1
Automatic debt dynamics	-11.9	-12.8	-8.8	-4.5	-4.3	-3.1	-2.8	-2.4	-2.0	-0.9	-0.2		
Contribution from interest rate/growth differential	-10.7	-8.9	-6.6	-4.5	-4.3	-3.1	-2.8	-2.4	-2.0	-0.9	-0.2		
of which: contribution from average real interest rate	-7.4	-5.6	-3.6	-2.2	-1.0	-0.1	0.2	0.3	0.4	0.6	0.8		
of which: contribution from real GDP growth	-3.4	-3.3	-3.0	-2.3	-3.3	-3.1	-2.9	-2.7	-2.4	-1.5	-1.0		
Contribution from real exchange rate depreciation	-1.1	-3.9	-2.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (liquid financial asset)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.9	1.9	1.8	17.6	-3.0	-0.6	-0.6	-0.8	-0.7	-0.6	-0.1	4.1	0.8
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	31.1	42.7	36.2	33.4	31.2	29.0	27.2	19.3	16.7		
PV of public debt-to-revenue and grants ratio	...	...	411.9	410.0	333.5	297.4	270.8	245.7	226.2	157.8	127.6		
Debt service-to-revenue and grants ratio 3/	47.9	59.7	54.0	25.5	63.4	46.5	56.9	64.2	71.0	70.6	48.2		
Gross financing need 4/	7.8	7.1	5.7	4.5	7.0	6.0	7.3	8.1	8.8	8.4	6.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.4	7.2	8.1	7.2	7.1	7.7	8.0	7.8	7.5	6.5	5.5	7.9	7.3
Average nominal interest rate on external debt (in percent)	1.8	1.5	0.9	0.8	2.4	2.3	2.3	2.2	2.0	1.4	0.9	1.9	1.8
Average real interest rate on domestic debt (in percent)	-23.6	-22.2	-16.3	-11.3	-6.4	-1.1	0.5	1.4	2.8	4.7	6.4	-11.5	0.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.4	-17.7	-13.8	...	...	...	...	...	...	...	...	-2.7	...
Inflation rate (GDP deflator, in percent)	33.3	32.2	24.7	17.9	15.2	10.5	9.4	9.3	8.4	9.2	5.1	18.2	10.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.4	-9.2	-4.9	39.7	-1.6	18.4	10.5	7.8	7.5	6.5	6.2	1.6	10.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	11.0	10.9	7.0	-13.5	7.3	3.7	3.3	3.2	2.7	1.5	0.2	9.6	1.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based. Presented on fiscal year basis (e.g., 2020 referes to fiscal year ending in June 2020).

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

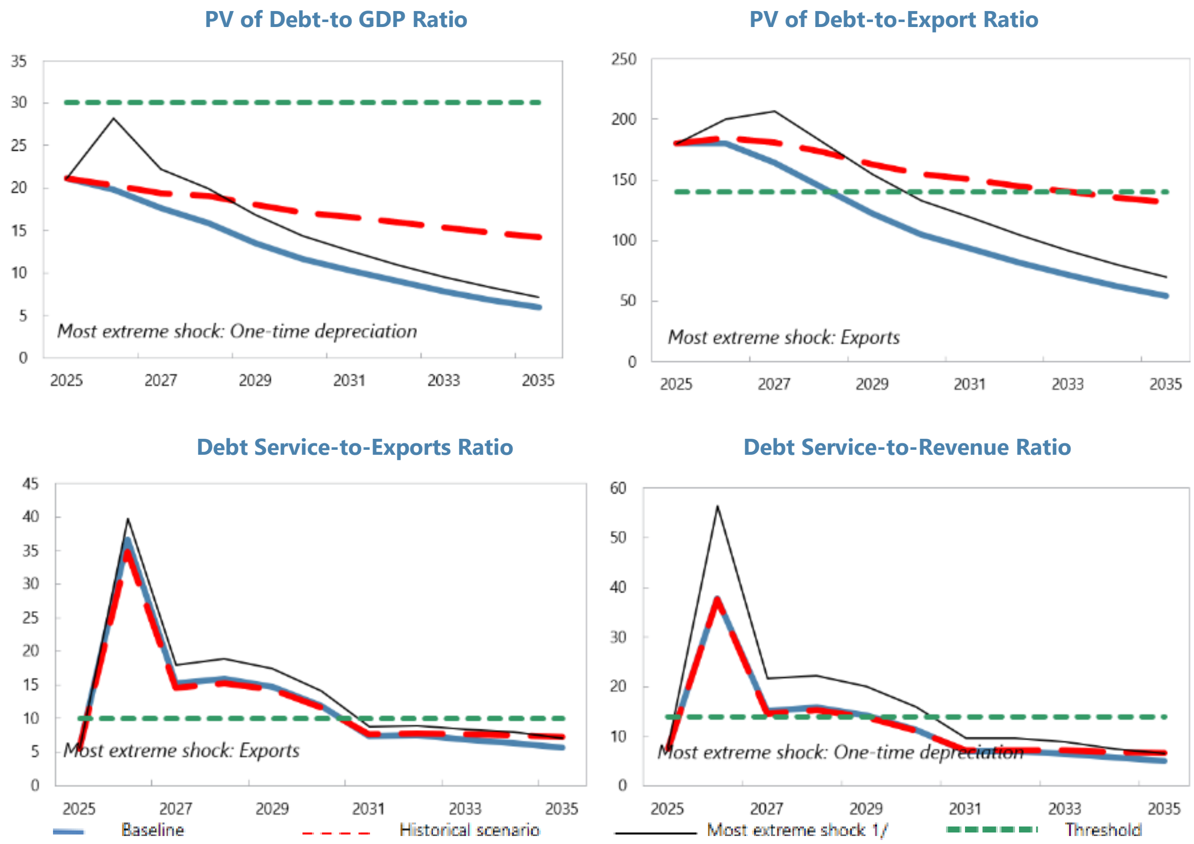
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Ethiopia: Indicators of Public and Publicly Guaranteed External Debt



Customization of Default Settings

	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*

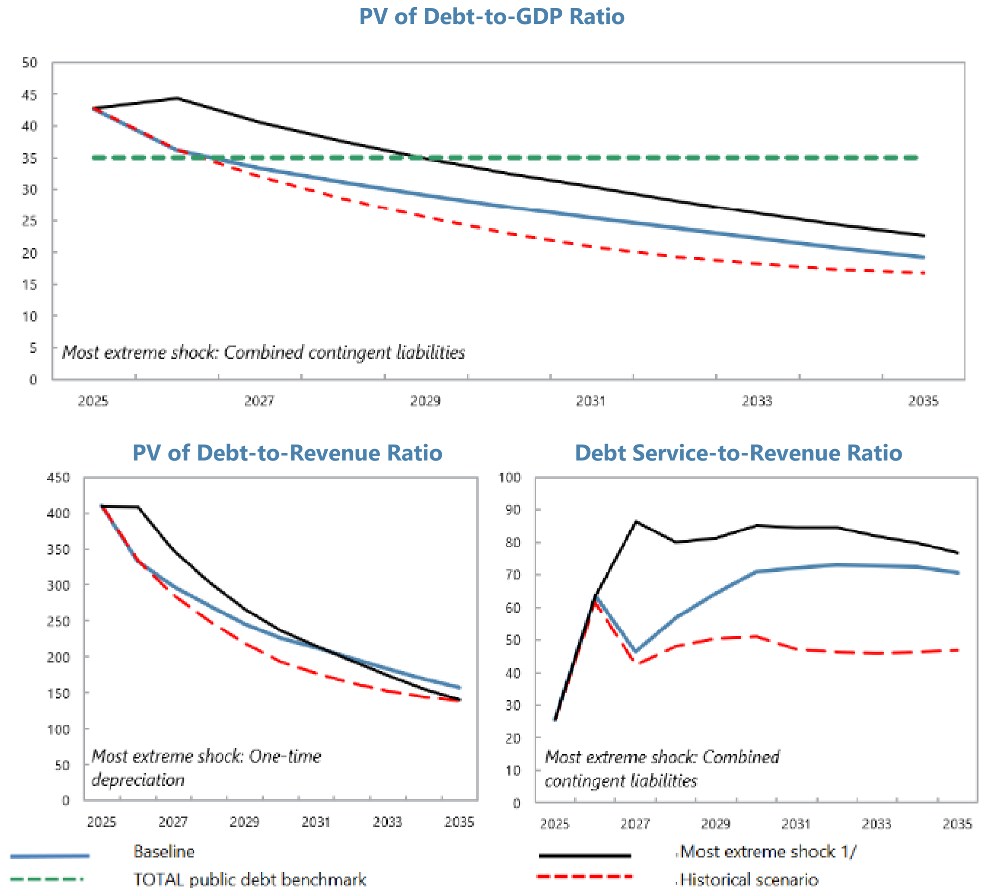
	Default	User Defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Ethiopia: Indicators of Public Debt

(In percent)



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	20%	30%
Domestic medium and long-term	25%	25%
Domestic short-term	55%	45%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.0%	1.0%
Avg. maturity (incl. grace period)	32	32
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.7%	4.7%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4.6%	4.6%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Ethiopia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2025–2035

(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
	PV of debt-to GDP ratio										
Baseline	21	20	18	16	14	12	10	9	8	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	21	20	19	19	18	17	17	16	16	15	15
B. Bound Tests											
B1. Real GDP growth	21	20	18	17	14	12	11	9	8	7	6
B2. Primary balance	21	20	20	18	16	14	12	11	10	9	7
B3. Exports	21	20	19	17	15	13	11	10	9	8	7
B4. Other flows 3/	21	22	21	19	16	14	13	11	10	9	7
B5. Depreciation	21	28	22	20	17	14	13	11	10	8	7
B6. Combination of B1-B5	21	22	21	19	16	14	12	11	9	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	21	21	20	18	16	14	13	12	10	9	8
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	21	22	20	18	15	13	11	10	9	8	7
Threshold	30	30	30	30	30	30	30	30	30	30	30
	PV of debt-to-exports ratio										
Baseline	**180**	**180**	**165**	**144**	122	105	94	82	72	63	55
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**180**	**185**	**181**	**173**	**163**	**155**	**152**	**147**	**143**	139	135
B. Bound Tests											
B1. Real GDP growth	**180**	**180**	**165**	**144**	122	105	94	82	72	63	55
B2. Primary balance	**180**	**184**	**183**	**162**	**141**	123	111	99	88	78	69
B3. Exports	**180**	**200**	**207**	**181**	**155**	134	119	105	92	80	70
B4. Other flows 3/	**180**	**196**	**196**	**172**	**148**	129	115	102	90	78	68
B5. Depreciation	**180**	**180**	**146**	127	107	91	81	70	61	53	47
B6. Combination of B1-B5	**180**	**200**	**182**	**172**	**148**	128	114	101	89	77	68
C. Tailored Tests											
C1. Combined contingent liabilities	**180**	**194**	**184**	**165**	**144**	128	116	105	94	85	76
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	**180**	**180**	**165**	**144**	123	105	93	82	71	62	55
Threshold	140	140	140	140	140	140	140	140	140	140	140
	Debt service-to-exports ratio										
Baseline	6	**37**	**15**	**16**	**15**	**12**	7	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	6	**35**	**15**	**15**	**14**	**12**	8	8	8	8	7
B. Bound Tests											
B1. Real GDP growth	6	**37**	**15**	**16**	**15**	**12**	7	7	7	6	6
B2. Primary balance	6	**37**	**16**	**17**	**15**	**13**	8	8	8	7	6
B3. Exports	6	**40**	**18**	**19**	**17**	**14**	9	9	8	8	7
B4. Other flows 3/	6	**37**	**16**	**16**	**15**	**12**	8	8	8	7	7
B5. Depreciation	6	**37**	**15**	**16**	**14**	**12**	7	7	7	6	5
B6. Combination of B1-B5	6	**38**	**17**	**18**	**16**	**13**	8	8	8	8	7
C. Tailored Tests											
C1. Combined contingent liabilities	6	**37**	**16**	**16**	**15**	**12**	8	8	7	7	6
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	6	**37**	**15**	**16**	**15**	**13**	8	8	7	6	5
Threshold	10	10	10	10	10	10	10	10	10	10	10
	Debt service-to-revenue ratio										
Baseline	8	**38**	**15**	**16**	**14**	11	7	7	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	8	**38**	**15**	**15**	14	11	7	7	7	7	7
B. Bound Tests											
B1. Real GDP growth	8	**41**	**16**	**17**	**15**	12	7	7	7	6	5
B2. Primary balance	8	**40**	**16**	**17**	**15**	12	8	8	7	7	6
B3. Exports	8	**40**	**15**	**16**	**15**	12	7	7	7	6	6
B4. Other flows 3/	8	**40**	**16**	**16**	**15**	12	7	7	7	7	6
B5. Depreciation	8	**56**	**22**	**22**	**20**	**16**	10	10	9	7	7
B6. Combination of B1-B5	8	**41**	**16**	**17**	**15**	12	8	8	7	7	6
C. Tailored Tests											
C1. Combined contingent liabilities	8	**40**	**15**	**16**	**15**	12	7	7	7	6	5
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	8	**40**	**15**	**16**	**14**	12	8	8	7	6	5
Threshold	14	14	14	14	14	14	14	14	14	14	14
Memorandum item:											
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Ethiopia: Sensitivity Analysis for Key Indicators of Public Debt, 2025/2035

(In percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	**43**	**36**	33	31	29	27	25	24	22	21	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**43**	**36**	32	29	26	23	21	19	18	17	17
B. Bound Tests											
B1. Real GDP growth	**43**	**37**	**36**	34	32	30	29	27	26	24	23
B2. Primary balance	**43**	**39**	**39**	**36**	33	31	29	27	25	23	22
B3. Exports	**43**	**37**	35	32	30	28	26	25	23	21	20
B4. Other flows 3/	**43**	**38**	**37**	34	32	30	28	26	24	22	21
B5. Depreciation	**43**	**44**	**39**	35	31	28	26	23	21	19	17
B6. Combination of B1-B5	**43**	**36**	**35**	32	30	28	26	24	22	20	19
C. Tailored Tests											
C1. Combined contingent liabilities	**43**	**44**	**41**	**38**	35	32	30	28	26	24	23
C2. Natural disaster	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
C3. Commodity price	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**	**...**
C4. Market Financing	**43**	**36**	33	31	29	27	25	24	22	21	19
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	410	333	297	271	246	226	212	197	183	169	158
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	410	334	287	250	218	193	176	162	151	143	138
B. Bound Tests											
B1. Real GDP growth	410	343	316	292	268	250	238	225	212	200	189
B2. Primary balance	410	357	344	311	281	258	241	224	207	191	177
B3. Exports	410	338	309	281	255	234	220	204	189	175	162
B4. Other flows 3/	410	350	328	298	270	248	232	216	200	184	170
B5. Depreciation	410	408	349	304	266	236	215	194	174	156	140
B6. Combination of B1-B5	410	333	312	281	252	230	214	197	180	165	152
C. Tailored Tests											
C1. Combined contingent liabilities	410	408	361	327	295	270	253	234	216	200	185
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	410	334	298	271	246	226	212	197	183	169	157
Debt Service-to-Revenue Ratio											
Baseline	26	64	47	57	64	71	72	73	72	72	70
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	26	62	42	48	50	51	47	46	45	45	45
B. Bound Tests											
B1. Real GDP growth	26	65	50	62	71	79	81	82	83	83	81
B2. Primary balance	26	64	60	75	76	80	80	81	79	78	76
B3. Exports	26	64	47	57	64	71	72	73	73	72	71
B4. Other flows 3/	26	64	47	57	64	71	72	73	73	73	71
B5. Depreciation	26	69	52	61	66	71	69	70	69	68	66
B6. Combination of B1-B5	26	61	48	63	66	70	71	71	71	70	68
C. Tailored Tests											
C1. Combined contingent liabilities	26	64	86	80	81	85	84	84	82	80	77
C2. Natural disaster	...	...	...	...	...	...	...	...	...	...	...
C3. Commodity price	...	...	...	...	...	...	...	...	...	...	...
C4. Market Financing	26	64	47	57	64	71	73	73	73	72	70

Sources: Country authorities; and staff estimates and projections.

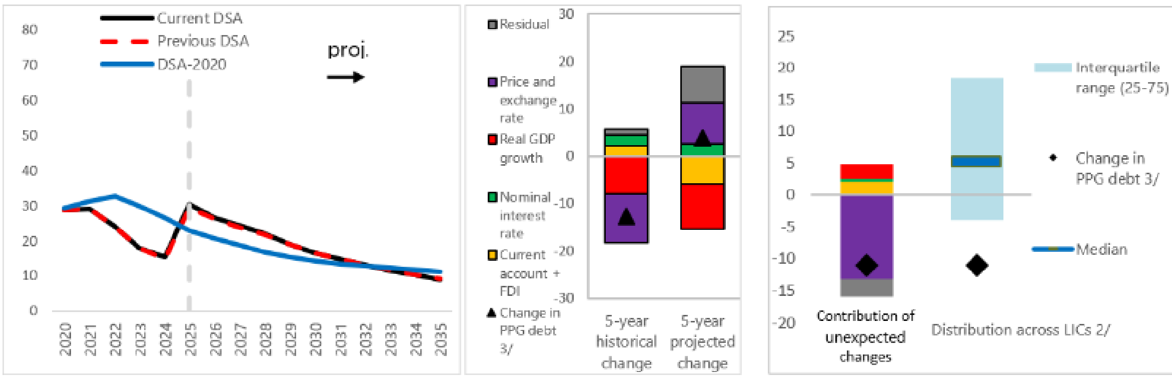
1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

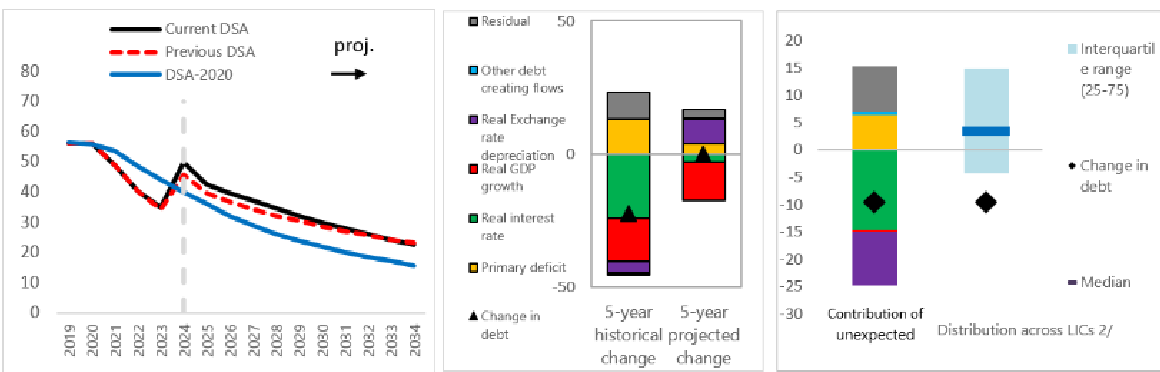
Figure 3. Ethiopia: Drivers of Debt Dynamics—Baseline Scenario, External Debt

Gross Nominal PPG External Debt (In Percent of GDP, DSA Vintages) | **Debt-Creating Flows** (Percent of GDP) | **Unexpected**[1] (Past 5 Years, Percent of GDP)



Public Debt

Gross Nominal PPG External Debt (In Percent of GDP, DSA Vintages) | **Debt-Creating Flows** (Percent of GDP) | **Unexpected**[1] (Past 5 Years, Percent of GDP)



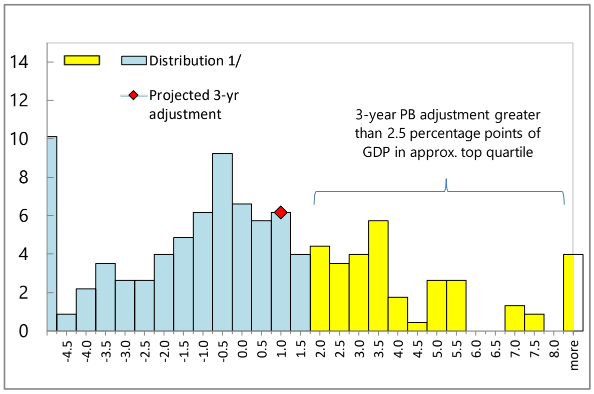
[1] Difference between anticipated and actual contributions on debt rations.

[2] Distribution across LICs for which LIC DSAs were produced.

[3] Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

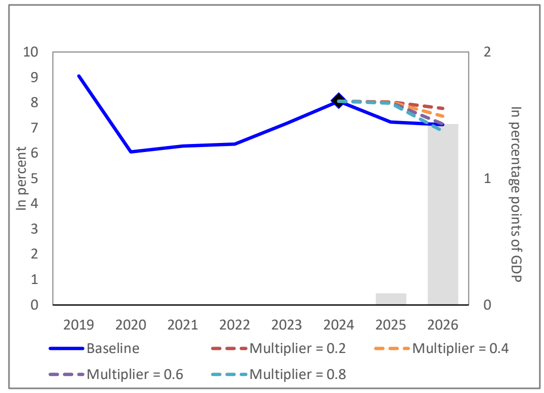
Figure 4. Ethiopia: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

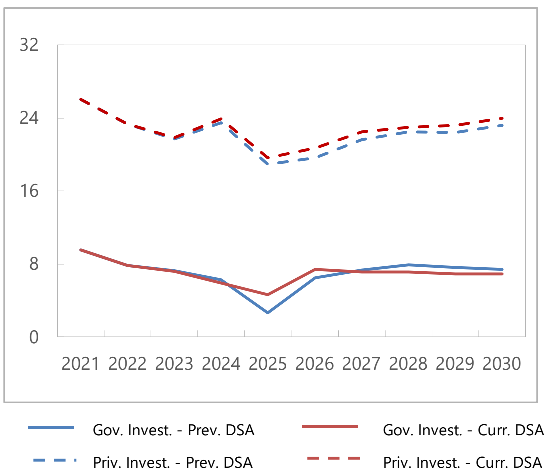
Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates

(percent of GDP)



Contribution to Real GDP growth

(percent, 5-year average)

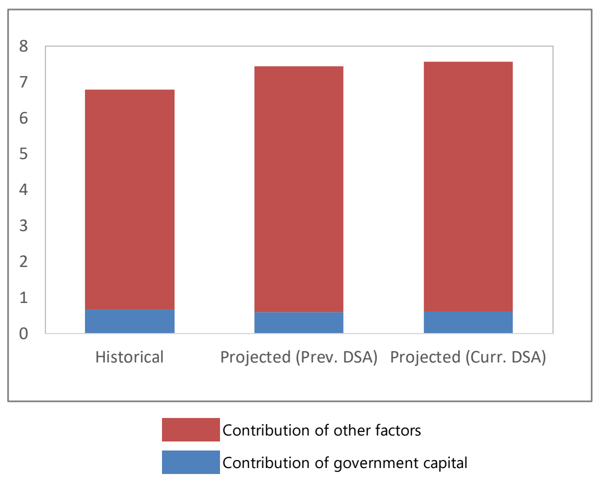
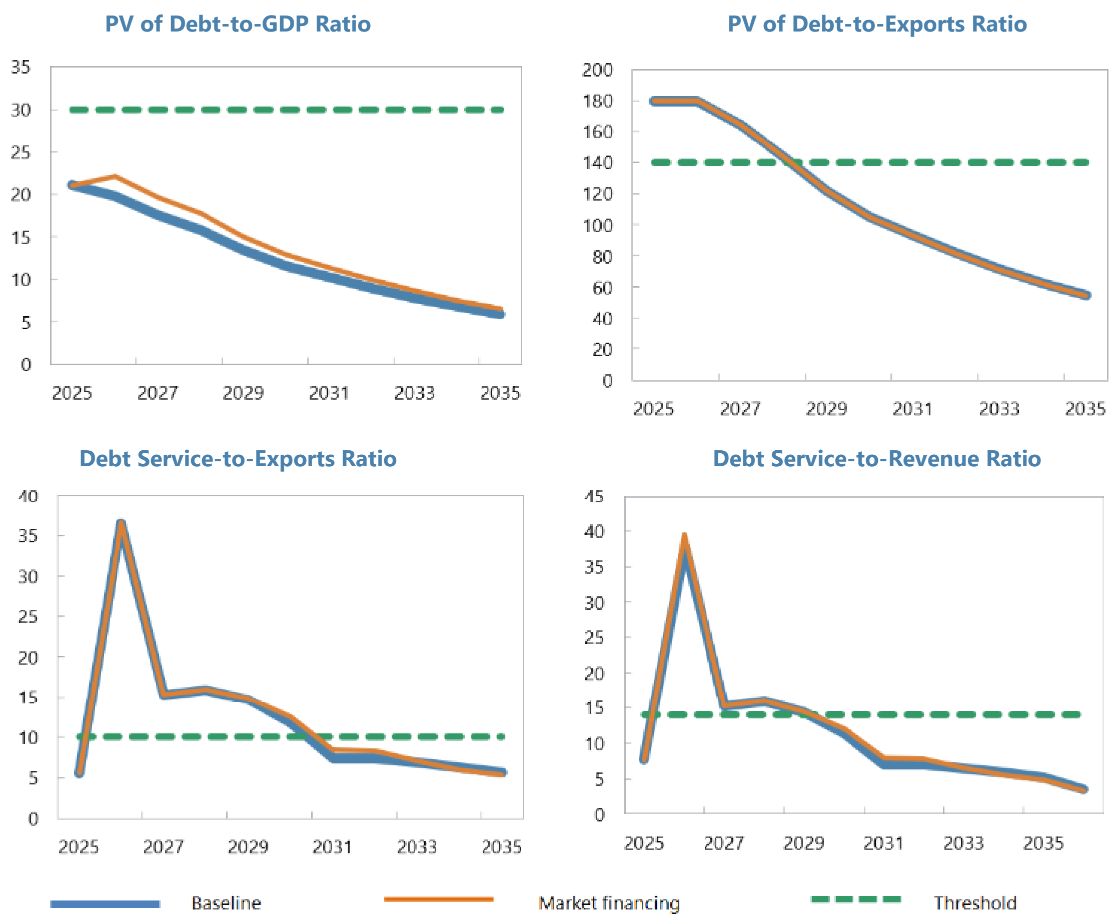


Figure 5. Ethiopia: Market Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	7	2994
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

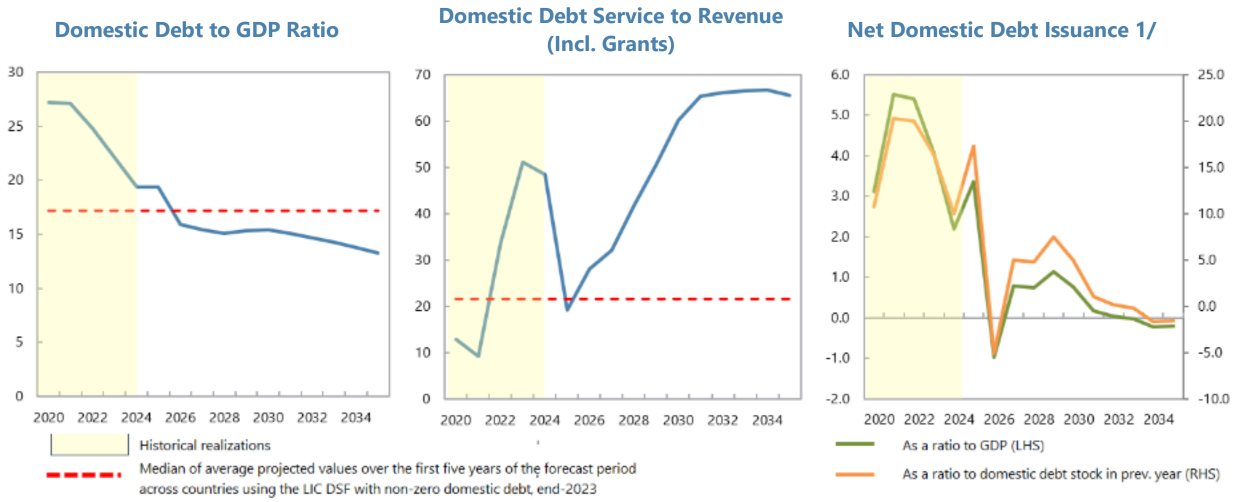
1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond as of May 20th, 2025.



Sources: Country authorities; and staff estimates and projections.

Figure 6. Ethiopia: Indicators of Domestic Public Debt, 2020–2035

(in Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	31%
Short-term	69%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.7%
Avg. maturity (incl. grace period)	6
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	4.6%

Sources: Country authorities and staff estimates and projections

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments, and domestic amortization. It excludes short-term debt that was issued and matured within the calendar year.

INTERNATIONAL MONETARY FUND

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

June 13, 2025

Prepared by The African Department
(In collaboration with other departments)

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RELATIONS WITH THE FUND

(As of April 30, 2025)

Membership Status: Joined: December 27, 1945 — Article XIV

General Resources Account:	**SDR Million**	**% Quota**
Quota	300.70	100.00
IMF's holdings of currency (holdings rate)	406.03	135.03
Reserve Tranche Position	7.51	2.50

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	416.14	100.00
Holdings	6.42	1.54

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
Emergency Assistance[1]	37.59	12.50
Extended Arrangements	75.18	25.00
ECF arrangements	1,347.69	448.18

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul 29,2024	Jul 28, 2028	2,555.95	1,214.05
EFF	Dec 20, 2019	Dec 19, 2022	751.75	90.21
ECF	Dec 20, 2019	Sep 19, 2021	1,202.80	133.64

Overdue Obligations and Projected Payments to Fund [2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	65.99	41.76	55.13	28.40	41.76
Charges/Interest	11.62	14.39	13.85	13.32	12.76
Total	77.61	56.15	68.98	41.71	54.52

Implementation of HIPC Initiative:	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	November 2001
Assistance committed	

[1] Emergency assistance may include ENDA, EPCA, and RFI.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

by all creditors (US$ million)[3]	1,982.20
of which: IMF assistance (US$ million)	60.85
(SDR equivalent in millions)	45.12
Completion point date	April 2004
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	45.12
Interim assistance	10.28
Completion point balance	34.84
Additional disbursement of interest income[4]	1.54
Total disbursements	46.66

Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR million)[5]	112.07
	Financed by: MDRI Trust	79.66
	Remaining HIPC resources	32.41
II.	Debt Relief by Facility (SDR million)	

		Eligible Debt	
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	112.07	112.07

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Apr 30, 2020	8.56	8.56
N/A	Oct 02, 2020	4.50	4.50
N/A	Apr 01, 2021	0.47	0.47
N/A	Oct 06, 2021	0.24	0.24
N/A	Dec 15, 2021	0.24	0.20

[3] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[5] The MDRI provided 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Exchange Rate Arrangement

Ethiopia's de jure exchange rate arrangement is floating. The de facto exchange rate arrangement is classified as other managed.

Ethiopia continues to avail itself of the transitional arrangements under Article XIV, but it does not maintain restrictions under Article XIV.

Ethiopia maintains the following exchange restrictions and multiple currency practices inconsistent with Article VIII, Section 2(a) of the IMF's Articles of Agreement: (i) exchange restriction arising from the imposition of hard ceilings on access to and use of FX for travel purposes; (ii) exchange restriction arising from the prohibition of access to and use of FX for the purposes of cross-border payment of moderate family remittances; (iii) exchange restriction arising from the restriction imposed on the access to and use of FX for the repatriation of backlog dividends; (iv) an exchange restriction and two MCPs arising from the commission of 2.5 percent levied on the NBE's exchange transactions (using a lagged exchange rate not in line with the MCP policy) with the government for external payments, and on exchange transactions by banks and their clients; (v) exchange restriction arising from the tax clearance certificate requirement for repatriation of dividend and other investment income; and (vi) exchange restriction arising from the requirement to provide a clearance certificate from the NBE to obtain import permit.

Since the January 2025 Board date, breaches of the Fund's policy on multiple currency practices (MCPs) have continued to occur in relation to: (i) the application of a 2.5 percent exchange commission on bank-client foreign exchange transactions, which gave rise to an MCP on October 31, 2024, with 25 breaches recorded through May 23, 2025, the most recent of which occurred on May 21, 2025; and (ii) the 2.5 percent commission applied by the National Bank of Ethiopia on its foreign exchange sales to the government for external payments, which gave rise to an MCP on November 1, 2024, with 18 breaches recorded through May 23, 2025- the most recent of which was observed on March 10, 2025.

These restrictions are expected to be lifted during the ECF program period.

Safeguards Assessment

The National Bank of Ethiopia (NBE) was subject to an update safeguards assessment in October 2024, conducted in connection with the ECF arrangement approved by the IMF Executive Board in July 2024. The assessment found that progress in implementing recommendations from the 2020 assessment has been slow, but positive developments include adoption of an external auditor selection and rotation policy, the appointment in November 2024 of a new external auditor for five years, and resumption of publication of the audited financial statements. Key recommendations include the need to strengthen proficiencies in financial reporting, internal audit, and risk management, and to establish stronger controls to ensure accuracy of program monetary data. The assessment also noted that the governance arrangements provided in the new NBE Proclamation deviate from leading practices on central bank autonomy.

The NBE is making progress in implementing the recommendations of the 2024 assessment. The 2022/23 audited financial statements prepared by the new auditor were published in early April 2025. Guided by the new legislative framework, the work program of the NBE's Board includes setting up internal audit and reserve management committees and strengthening capacity in financial reporting, internal audit, and risk management functions.

Article IV Consultation

The last Article IV consultation was concluded on December 20, 2019.

Resident Representative: Tobias Rasmussen was appointed as IMF Resident Representative to Ethiopia in July 2023.

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July 1, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND FINANCING ASSURANCES REVIEW—SUPPLEMENTARY INFORMATION

Approved By
Mr. Costas Christou (AFR) and Mr. Bjoern Rother (SPR)

Prepared by the African Department.

This supplement provides an update on recent program developments since the issuance of the staff report on June 18, 2025. This update does not alter the thrust of the staff appraisal.

1. Prior Actions. Staff assess that the two prior actions for the Third Review of the Extended Credit Facility (ECF) have been met. On June 25, the NBE shared with IMF staff the plan agreed with CBE to close its on-balance sheet NOP to comply with the prudential limit by end-2025, with at least half of the position above the limit as of end-April 2025 to be closed by end-September 2025. As reported in the staff report, the NBE has also started posting all banks' fees and commissions for FX transactions with clients on the NBE's website.[1]

[1] Summary of Banks' Foreign Exchange Related Fees and Charges - National Bank of Ethiopia.

Statement by the Executive Director, Mr. Regis O. N'Sonde, and by the Advisor of the Executive Director, Mr. Mawek Tesfaye Mengistu, on The Federal Democratic Republic of Ethiopia July 2, 2025

I. Introduction

1. On behalf of the Ethiopian authorities, we would like to express our sincere appreciation to the IMF Executive Board, Management, and staff for their continued support of the country's macroeconomic reform agenda. The authorities highly value the constructive discussions held with staff during the combined 2025 Article IV consultation and third review mission under the Extended Credit Facility (ECF) arrangement. The authorities also extend their gratitude to their creditors—particularly their Official Creditor Committee (OCC) co-chairs, China and France—and to other development partners for their valuable financial and technical support. They welcome staff's candid assessment of Ethiopia's recent macroeconomic progress, acknowledge the medium-term challenges and risks identified, and broadly agree with the policy recommendations.

2. Since taking office in 2018, Prime Minister Abiy Ahmed's administration has initiated an economic reform agenda to transition Ethiopia's growth model from public-led to private sector-led growth while addressing legacy macroeconomic vulnerabilities. However, the onset of the COVID-19 pandemic, internal conflict, recurrent climate shocks, and a decline in external financing significantly slowed the pace of reforms and deepened macroeconomic imbalances. Over the past year, nonetheless, reform momentum has regained strength, guided by the authorities' second Homegrown Economic Reform Agenda (HGER 2.0, 2023/24–2027/28) and supported by the IMF ECF arrangement approved in July 2024. Transformative reforms have been implemented, including the transition to a market-determined exchange rate, and macroeconomic outcomes so far have exceeded expectations, with stronger-than-anticipated growth, faster disinflation, and solid export performance.

3. The authorities remain firmly committed to recalibrating policies as needed to meet their reform objectives and have reaffirmed their focus on rebuilding policy buffers and strengthening national capacity, particularly amid heightened global uncertainties and declining external financing. Simultaneously, the Ethiopian National Dialogue Commission is engaging various segments of society to discuss ways to foster harmony, peace, and stability in the country. That said, the authorities emphasize the continued importance of financial and technical support from their development partners to sustain reform momentum. In this context and given the strong program performance, **they seek Executive Directors' favorable consideration of the 2025 Article IV consultation, the completion of the third review under the ECF arrangement, the approval of the financing assurances review, and the associated requests.**

II. Program Performance

4. **Program performance has remained strong for the third consecutive review.** All quantitative performance criteria (QPCs) for the third review were met while all indicative targets (ITs) for end-December 2024 and all but one ITs for end-March 2025 were observed. The four

QPCs—covering the general government net primary balance, accumulation of net international reserves, federal government tax revenue, and National Bank of Ethiopia (NBE)'s net credit to the general government—were met with large margins. Similarly, the ITs related to commercial banks' gross claims on public enterprises, government contributions to cash transfers under the Productive Safety Net Programs (PSNP), and the present value of external new debt were met comfortably. Moreover, and consistent with the program commitments, the authorities confirm that no new non-concessional external debt has been contracted or guaranteed, and that no external payment arrears have been accumulated.

5. **The implementation of structural benchmarks (SBs) continues to progress well.** The Ministry of Finance (MoF) met April 2025 SB by publishing reports on a mid-year review of the federal government budget implementation and a budget execution for the first two quarters of FY2024/25. The NBE finalized its audited financial statement for 2022/23 on March 28; however, it narrowly missed the end-March 2025 SB deadline, as publication on the NBE's website occurred on April 4, 2025. Further, the authorities have implemented most of the agreed SBs for end-June and committed to five new SBs to be implemented between September and December 2025, aimed at enhancing tax revenue mobilization, supporting foreign exchange market development, improving transparency in State-Owned Enterprises (SOEs), and strengthening the anti-money laundering and countering the financing of terrorism (AML/CFT) framework. The NBE has published all banks' fees and commissions related to FX transactions on its website and agreed with the Commercial Bank of Ethiopia (CBE) on a plan to close its on-balance sheet net open position (NOP) by end-December 2025 to ensure compliance with prudential limits, thereby **fulfilling the two prior actions for this review.**

III. Recent Macroeconomic Development and Outlook

6. **The economy sustained robust growth, with real GDP expanding by 8.1 percent in FY2023/24 and projected to grow by 7.2 percent in FY2024/25 and 7.1 percent in FY2025/26, surpassing earlier forecasts.** The authorities project an even higher growth rate of 8.4 percent in FY2024/25 on the back of strong performances in manufacturing, exports, and construction, alongside the accelerated realization of benefits from ongoing macroeconomic reforms. Looking ahead, growth is expected to remain robust at around 8 percent, as the economy fully capitalizes on structural and macroeconomic reforms to unlock its potential.

7. **Inflation has steadily declined from a peak of 30 percent in June 2023 to 13.6 percent in March 2025, with a slight rise to 14.4 percent in May 2025.** This disinflation trend reflects tight monetary and fiscal policies combined with supportive supply-side factors, despite significant depreciation of the Birr. Inflation is projected to continue easing, supported by prudent policy measures, with headline inflation expected to fall to around 10 percent in the near term and stabilize around 6–7 percent in the medium term.

8. **On the external sector front, the current account deficit for FY2024/25 is expected to increase to 3.2 percent of GDP, slightly higher than the 2.9 percent recorded in FY2023/24, but**

lower than the 4.4 percent projected during the second review. This improved revision reflects stronger-than-expected export performance, notably in coffee and gold, which is expected to more than offset the increase in imports driven by improved FX availability. Over the medium term, the current account deficit is projected to decline modestly and stabilize at around 2 to 2¼ percent of GDP. Meanwhile, gross official reserves are expected to rise—from US$1.4 billion (0.6 months of import coverage) by the end of FY2023/24 to US$3.8 billion (1.7 months of coverage) by the end of FY2024/25. As a core objective of the program, international reserves are projected to reach US$10.2 billion (3.5 months of import coverage) by the end of the program period.

9. **A primary fiscal deficit of 0.5 percent of GDP is expected in FY2024/25 and throughout the program period.** Tax revenue has been strong, while spending execution—particularly in the social sector has gained momentum in the second half of the fiscal year. Aligned with their ambitious revenue targets, the authorities are on track to achieve a 1.2 percentage point increase in the tax-to-GDP ratio in FY2024/25. This improvement is driven largely by tax policy reforms, expected to contribute 0.9 percentage points of GDP. The implementation of VAT and excise tax reforms alongside strengthened tax administration and exchange rate reforms has constituted the most impactful set of measures. The authorities reiterated their commitment to rationalizing lower-priority current and capital expenditures to preserve the overall fiscal balance for the whole year, while safeguarding targeted social spending.

10. **The authorities acknowledge downside risks to the outlook, including a potential further decline in official development assistance and continued vulnerability to climate shocks.** At the same time, they underscore the upside potential for growth stemming from ongoing macroeconomic and structural reforms. Nonetheless, they reaffirm their commitment to adjusting policies as needed to mitigate the impact of downside risks, while continuing to strengthen domestic capacity and enhance economic resilience amid heightened global uncertainties.

IV. Near- and Medium-Term Policy Priorities

4.1. Fiscal Policy and Debt Management

11. **The authorities are committed to advancing their revenue-led fiscal consolidation efforts to create space for critical social and development spendings, while safeguarding fiscal sustainability.** In this context, the Council of Ministers has submitted a draft FY2025/26 Federal Government budget to Parliament which underpinned by ambitious revenue targets and prioritizes critical public investment and targeted social protection. This effort will continue over the medium term to contain the overall budget deficit at around 2.0 percent of GDP.

12. **The implementation of the authorities' National Medium-Term Revenue Strategy (NMTRS 2024/25–2027/28) is progressing well, and the next phase of revenue-enhancing reforms is underway.** Capitalizing on landmark VAT and excise tax reforms already implemented, the authorities aim to increase tax revenue by 1.7 percentage points of GDP in FY2025/26, maintaining a cumulative target of a 4-percentage points rise over the program period. As part of the planned tax policy reforms, the authorities advanced work to amend the Income Tax Proclamation in

September 2025. Proposed amendments include introducing a minimum alternative tax to curb evasion; raising withholding tax rates on deposit interest income, royalties, and gambling winnings; simplifying the presumptive tax regime to improve fairness and compliance; introducing an inheritance and donation tax; and revising the personal income tax schedule to correct bracket creep. The authorities are committed to rationalizing the tax incentive system by halting the issuance of new incentives under the existing regime, while simultaneously developing a new rules-based framework for granting tax incentives to support investment. Other key reform areas include the introduction of a flat tax on inheritance and donations, the early rollout of the new Real Estate Property Tax Proclamation in largest cities, rollout of the excise stamp regime, and a review of annual motor vehicle ownership fees.

13. **The authorities are working diligently to strengthen tax administration, recognizing it as a critical reform area for translating tax policy reforms into higher revenue yield.** To this end, they have developed a comprehensive revenue administration reform plan to prioritize key reform areas, including those identified areas in the recent TADAT assessment. Priority reforms include enhancing taxpayer registration, expanding e-filing and digitalized self-assessment, and strengthening compliance risk management. They are also in the final stages of procuring an Integrated Tax Administration System to harness digitalization in support of a more effective tax administration. In line with their commitment to transparency, the authorities have published the latest TADAT report on the Ministry of Revenue's website.

14. **Protection of the most vulnerable is a priority in the authorities' reform agenda.** In this regard, the draft FY2025/26 budget allocates 0.3 percent of GDP to their flagship Productive Safety Net Programs (PSNP). Additionally, in response to declining external assistance, authorities have allocated an extra 0.15 percent of GDP budget to the Ministry of Health and are establishing a national fund to build long-term national capacity to respond to shocks. Concurrently, they are phasing out less targeted subsidies, including those on fuel and edible oil, while retaining subsidies for public transport and fertilizer. **Pump prices on petrol and diesel are expected to reach full cost recovery by end-December 2025**, marking landmark success in one of the most well-designed reform measures. **In the medium term, the authorities plan to increase pro-poor spending and capital expenditure to their pre-pandemic levels.** At the same time, they are working to strengthen public finance and investment management. In this regard, the FY2025/26 budget includes remitting fuel taxes to the government budget and financing the Road Fund through the budget process. In parallel, efforts are underway to establish a centralized public investment database supported by an IT system while completion of ongoing public projects will be prioritized.

15. **The authorities are making steadfast efforts to restore debt sustainability, in line with their goal of achieving a moderate risk of debt distress rating by the end of the program period.** They are actively engaging with their creditors to finalize debt treatment in line with program parameters, having reached an Agreement in Principle (AIP) with their Official Creditor Committee (OCC) on key debt treatment terms in March 2025. Subsequently, they have advanced discussions with their OCC and expect to reach an agreement on a Memorandum of Understanding (MoU) within a few days, which will set out the agreed parameters. The authorities will then initiate bilateral

engagements with all creditors to reach agreements consistent with the MoU. They have also maintained close engagement with their private creditors, providing regular updates on macroeconomic developments and outlook, and are committed to reaching debt treatment agreements adhering to the principles of comparability of treatment. Furthermore, the authorities reiterate their commitment to resolving longstanding external arrears and refraining from non-concessional external borrowing. Concurrently, they are developing a medium-term debt management strategy, strengthening the capacity of the Debt Management Division at the Ministry of Finance, and supporting the development of the domestic debt market to address debt vulnerability.

4.2. Monetary, Exchange Rate, and Financial Sector Policies

16. **The authorities are committed to maintaining tight monetary and financial conditions to support a steady decline in inflation.** In this regard, NBE has maintained the policy rate at 15 percent, achieving a positive real policy rate for the first time. At the same time, they are advancing reforms to modernize monetary policy framework and strengthen NBE's institutional capacity. As part of this effort, the authorities are working to fully implement the new NBE Proclamation enhancing the bank's governance and transparency. The transition toward an interest rate-based monetary policy framework is also progressing well—evidenced by steady growth in the interbank money market, regular open market operations (OMOs), and a stronger monetary transmission mechanism. They remain committed to sustaining reform momentum by phasing out quantitative credit restrictions and adjusting policy stance as needed to anchor inflation and exchange rate expectations.

17. **The authorities have reaffirmed their commitment to a market-determined exchange rate**. While recognizing the need for further efforts to deepen the FX market, they emphasized that the transition to the new regime has yielded better-than-expected outcomes, including a stronger FX supply response, correction of real exchange rate misalignment, and a contained impact on inflation. They are closely monitoring FX market developments and proactively implementing measures to improve market efficiency and reduce incentives to use the parallel market. Recent actions, alongside the two completed prior actions, include raising caps on advance payments for imports and on foreign exchange usage for travel, as well as revising the NBE's NOP directives and the methodology for calculating the daily indicative rate to align with international best practices. They will continue conducting special FX sale auctions using proceeds from gold export overperformance to further boost market confidence and FX supply. The authorities remain committed to implementing additional measures as needed, including through continued engagement with market participants and ongoing market development studies. That said, apart from gold over performance-related auctions, they reiterate their commitment to limit FX market interventions to only addressing disorderly market conditions. They are also working to address longstanding exchange restrictions.

18. **Fostering financial sector stability remains a core pillar of the authorities' reform agenda.** In this connection, they have implemented comprehensive reforms at the state-owned largest bank, CBE, including through support from the World Bank's Financial Sector Strengthening Project (FSSP). Similarly, a strategic plan for the Development Bank of Ethiopia (DBE) is being finalized,

featuring a revised business model with a market-based funding strategy and plans to phase out the mandatory purchase of DBE bonds by financial institutions by December 2025. That said, the NBE is enhancing the regulatory and supervisory framework, with implementation of Pillar 1 requirements under the Basel II framework for selected banks on track for December 2025. To further foster financial stability, efforts are underway to enhance lending practices, strengthen risk management, enhance resilience to climate risks, and reinforce the resolution framework.

4.3. Structural Reforms and Climate Agenda

19. **The authorities are making notable progress in improving the business environment and fostering private sector growth.** Their policy priorities include strengthening legal and regulatory frameworks, promoting good governance, deepening trade integration, and increasing the efficiency of public service delivery. In this context, they are accelerating the WTO accession process, and opening the banking, logistics, retail and wholesale trade, and telecom sectors to foreign investment. Several reforms to facilitate doing business—such as improved access to finance and land rights—have also been implemented. Interest from foreign banks to enter the Ethiopian market has begun to emerge, following the approval of the new Banking Business Proclamation by Parliament in February 2025, which allows entry of foreign banks into Ethiopian market. To identify and systematically address business environment challenges, they are actively engaging with private investors, including through a Public-Private Dialogue (PPD) platform.

20. **SOE reform agenda is advancing steadily, with significant achievements in improving governance, transparency, and financial sustainability.** The establishment of Ethiopian Investment Holding (EIH) has modernized SOE operations and enhanced oversight and fiscal risk management by acting as a commercially oriented shareholder on behalf of the government. SOEs have begun adopting International Financial Reporting Standards (IFRS), and publishing audited financial statements while the MoF enhanced its oversight role in managing fiscal risks. The legal framework governing SOEs is also being upgraded to assess and disclose public sector obligations, including introducing a transparent dividend policy, and providing clear guidance on investment planning and financing. Reforms in the electricity sector—notably the implementation of a multi-year tariff adjustment—are yielding results, with Ethiopian Electric Power (EEP) expected to achieve a positive net income this year, ahead of earlier forecast. Similarly, the Ethiopian Railway Corporation recently launched a new cargo container transport service to bolster its financial position, while additional efforts are underway to improve infrastructure management and operations, including through increased private sector participation. Concurrently, direct negotiations are underway with potential investors to privatize eight sugar factories.

21. **Several other far-reaching structural reforms are underway to support strong and inclusive economic growth.** Notable progress has been made in expanding financial inclusion including through leveraging digitalization and accelerating the rollout of the National Digital ID. That said, the authorities are also intensifying efforts to combat corruption and strengthening AML/CFT framework while preparing for the upcoming Eastern and Southern African Anti-Money Laundering Group mutual evaluation. Parliament recently passed an Asset Recovery Proclamation

aimed at reclaiming illicitly acquired assets and preventing corruption. In addition, a National AML Committee has been established to identify vulnerabilities and prioritize reform areas. Progress on the beneficial ownership registry is also advancing as planned, with completion expected on by September 2025. Furthermore, the authorities reiterated their commitment to improve coverage, timeliness and quality of economic data to support informed policymaking, including through the effective utilization of IMF capacity development support.

22. **The Ethiopian authorities have set an ambitious climate agenda, recognizing that building resilience to climate shocks is essential for ensuring food security and strengthening macroeconomic stability.** Their climate adaptation and mitigation strategies are articulated in their Climate Resilient Green Economy (CRGE) Strategy. To inform and guide reforms, the authorities have completed the IMF's Climate Public Investment Management Assessment (C-PIMA) and the World Bank's Country Climate and Development Report (CCDR). They have also expressed interest in accessing the IMF's Resilience and Sustainability Facility (RSF) to further advance their climate agenda—with the support of additional climate financing—and reinforce economic resilience.

V. Conclusion

23. The Ethiopian authorities' homegrown reform agenda is progressing well, and they have reaffirmed their commitment to staying the course and recalibrating policies as needed to achieve the objectives of the ECF program. They outlined their policy priorities for the upcoming period, which include advancing the implementation of the revenue mobilization strategy, continuing to support the development of the foreign exchange market, further modernizing the monetary policy framework, fostering the development of the domestic debt market, finalizing debt treatment negotiations, and implementing structural reforms to address barriers to private sector growth while advancing their ambitious climate agenda. Against this backdrop and strong program performance, **the authorities seek the Executive Directors' support for the completion of the 2025 Article IV consultation and the third review under the ECF arrangement, along with other associated requests.**