MACRO-FISCAL PROFILE

ETHIOPIA

May 2016

Key Indicators	
Population (2014)	97 million
Population growth (2014)	2.5%
GDP per capita (2014, current USD)	$574
Average population growth rate (2010–14)	2.6%
Government revenue as % of GDP (2015)	15.4%
Country income classification	Low

Source: World Bank, 2015; AEO, 2015.

Country Policy and Institutional Assessment Ratings (1 = low, 6 = high), 2014	National	Mean SSA
Efficiency of revenue mobilization	4	3.5
Equity of public resource use	4	3.3
Fiscal policy	3	3.1
Macroeconomic management	3.5	3.5
Quality of budgetary and financial management	4	3.1

Source: World Bank, 2014.

Macroeconomic Forecasts					
Indicator	2013	2014 (est.)	2015 (proj.)	2016 (proj.)	2020 (proj.)
Real GDP growth	9.8%	10.3%	8.7%	8.1%	7.5%
Real GDP per capita growth	7.2%	7.8%	6%	6.2%	–
CPI inflation	13.5%	8.1%	7.7%	10.4%	8.5%
Budget balance % GDP	-1.9%	-2.6%	-2.8%	-2.8%	-2.5%
Current account % GDP	-5.9%	-8.0%	-12.8%	-9.4%	-6.3%

Source: AEO, 2015; IMF, 2015.

Figure 1: GDP per Capita Growth

Source: AEO, 2015.
LIC = low-income country.

Overview

Over the past 15 years, Ethiopia has achieved a significant economic turnaround. During this period of unprecedented growth, it has seen its economic output more than triple, from US$9 billion to US$31 billion (constant 2005 dollars). Coupled with a sharp decline in fertility rates (from 6.5 to 4.5 births per woman) and population growth between 2000 and 2014, income per capita has risen steeply. In addition, the government's commitment to an equity-oriented policy has led to a significant reduction in poverty. Continued prospects for economic growth remain strong, although external performance is an area of concern. The country's balance of trade is estimated at -18.5%, with oil accounting for a large share of imports. A sharp decline in the price of coffee—Ethiopia's primary export that generates about 25-30% of the country's export earnings—in international markets has led to a decline in exports as a share of gross domestic product (GDP) (Figure 2). However, Ethiopia has a relatively low dependence on commodity exports—16% of GDP comes from natural resource rents. This insulates Ethiopia somewhat from the slowing of global markets, which has pushed the International Monetary Fund (IMF) to adjust global growth projections downward by 0.2% for 2016 and 2017 (IMF, 2015; World Bank, 2015; NASDAQ, 2015).

Political Economy

Ethiopia exhibits somewhat poor economic management but adequate financial management. The government makes sporadic fiscal policy and macroeconomic management efforts to address macroeconomic imbalances, and implements ad hoc policies to manage shocks and, on occasion, price stability. It often is unable to keep public wages constant in real terms and provide sufficient public goods to support medium-term growth. A significant amount of revenue is collected through personal income tax and a value-added tax. Tax administration is good, and the cost of revenue generation has been reduced. Public expenditures generally are aligned with poverty-reduction priorities. Policies and priorities are reflected broadly in the budget; however, annual expenditure still deviates from the actual budget. Delays continue in the preparation of public accounts.

GDP and Economic Growth

Ethiopia is one of the poorest countries in the world, but has experienced broad-based growth over the last decade. Between 2004 and 2014, GDP per capita grew by nearly 8% annually, more than doubling from US$149 to US$315 in constant dollars (Figure 1).

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Figure 2: End of Day Commodity Futures Price Quotes for Coffee

Source: NASDAQ, 2015.

Real GDP growth passed 10% in 2014 but was projected to taper off slightly in 2015 and 2016. Prospects for per capita income growth remain strong, particularly with continued declines in the fertility and population growth rates.

Moderate public investment and growing private investment are expected to keep prospects for economic growth strong. The IMF estimates GDP growth at 7.5–8% in the medium term. The budget deficit increased by only 0.2 percentage points from 2014 to 2015, and Ethiopia's external debt remains well below the average for sub-Saharan Africa (SSA) (Figure 4). However, the ratio of public debt to GDP is expected to increase with implementation of the country's second Growth and Transformation Plan (IMF, 2015; AEO, 2015).

Government Revenue and Expenditure

Public expenditure in Ethiopia has been restrained by low revenues, which total just 15.4% of GDP (Figure 3). Although total revenue has declined from 16.6% in fiscal year (FY) 2010/11 (primarily due to the decline of external grants from 3.2 to 1.1% of GDP), tax revenues have grown slightly over that period, from 11.5 to 12.3%. Revenues rely heavily on import duties and taxes, which make up 27% of the total, a proportion similar to that of direct taxes (Figure 5).

Public expenditure has declined similarly, from 18.2 to 16.8%, which in part has helped to keep Ethiopia's budget deficit low, at just 1.4% of GDP. More than half of total expenditure is dedicated to the accumulation of capital assets (Figure 6). The government also has focused on poverty-reduction programs, which account for 19% of expenditure. A relatively small share of expenditure is dedicated to salaries and benefits for public servants (IMF, 2015; AEO, 2015).

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Figure 3: Government Revenue and Expenditures (2015)

Source: AEO, 2015.
LIC = low-income country.

Figure 4: Government Borrowing (2015)

Source: AEO, 2015.

Figure 5: Revenue (FY 2014/15 est.)

Source: IMF, 2015.

Figure 6: Expenditure (FY 2014/15 est.)

Source: IMF, 2015.

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