INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/318

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

November 2024

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

In the context of the Request of an Arrangement Under the Extended Credit Facility, 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.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 18, 2024, following the discussions that ended on September 26, 2024, 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 October 7, 2024.
- **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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 24/383

IMF Executive Board Completes the First Review Under the Extended Credit Facility (ECF) Arrangement for Ethiopia

FOR IMMEDIATE RELEASE

- The IMF Board completed the first review under the Extended Credit Facility (ECF) for Ethiopia, allowing the authorities to draw the equivalent of about US$340.7 million (SDR 255.6 million). The ECF was approved by IMF Board in July 2024 and forms part of a US$10.7 billion support package from development partners and creditors for Ethiopia.
- The Ethiopian authorities have shown strong commitment to their homegrown economic reform program. Implementation of ECF-supported reforms is advancing well.

Washington, DC – October 18,2024: The Executive Board of the International Monetary Fund (IMF) completed today the first review of the 48-month Extended Credit Facility (ECF) for Ethiopia. The Board's decision allows for an immediate disbursement of about US$340.7 million (SDR 255.6 million), which will help Ethiopia meet its balance of payments needs. The completion of the review brings total disbursements under the arrangement to about US$1.363 billion.

Ethiopia's 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) is aimed at supporting the authorities' Homegrown Economic Reform Agenda (HGER) to address macroeconomic imbalances and lay the foundations for private sector led growth.

All quantitative performance criteria and four out of five structural benchmarks for the first review have been met. The emergency liquidity assistance framework has been finalized prior to Board approval with a slight delay from end-September target date.

The implementation of the authorities' economic program, including the transition to the new exchange rate regime, has been commendable. The spread between the formal and parallel market exchange rates has narrowed to low levels, with little sign of disruption to the broader economy. The supply of foreign exchange is picking up, helping alleviate acute foreign exchange shortages. Nonetheless, some unmet foreign exchange demand persists as economic agents are still adjusting to the new FX regime.

Steady implementation of the HGER reform plan will be key to macroeconomic stability and stronger economic growth. Continued tight monetary policy and elimination of monetary financing of the government will be key to durably reducing inflation. Expanding social safety nets is critical to mitigating the impact of reforms on vulnerable people. Maintaining momentum on domestic revenue mobilization and structural reforms in the SOE sector is essential to creating sufficient space for social and developmental capital spending.

The authorities continue their efforts to restore debt sustainability. Financing assurances and adjustment efforts are consistent with IMF policy requirements and program parameters.

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

700 19th Street NW
Washington, DC 20431
USA

“Ethiopia’s program under the ECF has made a solid start, and the transition to a more flexible exchange rate has progressed well. Transitional one-off arrangements to address the foreign exchange (FX) backlog from past fuel imports are in place, relying principally on market participants with an additional contribution from the National Bank of Ethiopia (NBE). As economic agents adjust to the new FX regime, reform momentum and clear communication will need to continue to ensure a fully successful and sustained switch to a floating exchange rate.

“Continuing to restrict NBE’s FX interventions and additional policy measures to support FX market development will be critical to enhance market efficiency and deepening. Prudent macroeconomic policies, including continued tight monetary policy and the elimination of monetary financing of government deficits are essential to reducing imbalances and shoring up macroeconomic stability.

“Implementation of the early stages of the authorities’ monetary policy reforms and the shift to an interest-rate based regime has been encouraging, including the steady uptake of NBE open market operations. The authorities should step up efforts to improve monetary policy transmission, including by enhancing treasury bill market functioning. Close supervision and enforcement of net open position regulations for banks will help address financial sector vulnerabilities.

“The authorities have embarked on ambitious and comprehensive tax mobilization reforms, which will be guided by the recently approved National Medium-Term Revenue Strategy. The new VAT law further streamlines exemptions, expands the revenue base, and strengthens administration and compliance framework. Sustained tax revenue mobilization reforms are critical for creating sufficient space for social and development spending needs. The authorities are implementing plans to expand the targeted social safety net (PSNP), which will deliver cost-effective and efficient support to vulnerable people and mitigate the social impact of the FX reform.

“Amendments to the law governing the NBE tabled in Parliament include important improvements to the NBE’s mandate, functions, and powers. Robust lender-of-last resort provisions and legal safeguards to central bank autonomy and governance will also be important.

Continued steps to secure debt treatment is crucial to restore debt sustainability. The progress made on debt restructuring negotiations under the Common Framework is welcome. The authorities are working to reach an agreement on debt treatment with official creditors by the time of the second program review. Negotiations with commercial creditors should follow on comparable terms. The authorities plan to develop a debt management strategy with Fund technical assistance.”

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

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
			Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output								
Real GDP growth (%)	6.4	7.2	6.1	6.5	7.1	7.7	8.0	7.8
Prices								
Inflation - average (%)	33.9	32.5	26.6	25.0	16.7	12.2	10.4	9.6
General government finances								
Revenue (% GDP)	8.1	7.9	7.5	8.4	9.8	10.9	11.3	11.5
Expenditure (% GDP)	12.7	10.8	9.9	11.5	12.4	13.4	13.7	14.0
Fiscal balance, including grants (% GDP)	-4.2	-2.6	-2.0	-1.7	-2.1	-2.0	-2.0	-2.0
Public debt (% GDP)[1]	48.9	40.2	34.7	43.6	39.1	36.0	33.6	31.6
Money and Credit								
Broad money (% change)	27.2	26.6	14.1	28.4	28.3	30.6	22.1	21.0
Credit to private sector and state-owned enterprises (% change)	18.9	24.1	9.7	-14.3	37.9	40.1	24.2	21.1
Balance of payments								
Current account (% GDP)	-4.0	-2.8	-2.4	-4.4	-3.3	-2.5	-2.1	-1.9
FDI (%GDP)	2.6	2.1	1.6	2.7	3.2	2.9	3.0	3.0
Reserves (in months of imports)	0.8	0.5	0.7	1.4	2.1	2.6	3.5	3.6
External debt (% GDP)	24.0	18.1	15.4	28.9	26.8	24.5	22.5	19.7
Exchange rate								
Real effective exchange rate (% change, end of period, depreciation –)	10.1	24.0	…	…	…	…	…	…

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.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

October 7, 2024

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. The Board approved Ethiopia's request for a four-year arrangement under the Extended Credit Facility (ECF arrangement) in July 2024 to support the authorities' program aimed at addressing macroeconomic imbalances, restoring external debt sustainability, and laying the foundation for high, private sector-led growth. The transition to a market-determined exchange rate has been progressing well with a significant narrowing of the spread between the parallel and official market rate and no signs of significant inflationary pressures, albeit the supply of foreign exchange (FX) to the market has picked up more slowly than anticipated with some unmet demand persisting. With economic agents still adjusting to the new FX regime, persistent uncertainty, and seasonal lows in export earnings, it is too early to draw definitive conclusions on the full effects of the exchange rate reform.

Policy discussions. The first review of the ECF focused on: (i) developments in the foreign exchange market, and exchange market policies and reforms; (ii) maintaining a tight monetary policy stance while improving the Treasury bill market functioning; (iii) advancing ongoing revenue mobilization and SOE reform efforts to ensure fiscal sustainability; (iv) strengthening social safety nets to mitigate the impact of reforms on vulnerable households; and (v) progress in enforcing Net Open Position (NOP) position limits to contain FX risks in the financial sector and stimulate FX markets.

Program performance. Program performance has been in line with program commitments and all quantitative performance criteria (QPCs) were met, with an overperformance in the net international reserves target. Four out of five structural benchmarks (SBs) were met. The SB on the Emergency Liquidity Assistance framework was missed but is expected to be implemented in October, after incorporating feedback from IMF staff. Staff support the modification of the end-December 2024 QPC, the end-March 2025 IT, and the end-June 2025 QPC on net international reserves to lock in a part of the overperformance and resetting the SB on finalizing the NBE audit from end-December 2024 to end-January 2025 to allow time for completion.

Outlooks and risks. While tightening policies and adjustment will constrain economic activity in the near term, policy reforms are expected to support higher growth and continued easing of inflation over the medium term. Key downside risks include persistent inflation or depreciation expectations, security risks or social unrest, policy slippages and commodity price volatility.

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

Discussions took place in Addis Ababa in September 17–26, 2024. The mission held discussions with Minister of Finance Ahmed Shide, Governor of the National Bank of Ethiopia Mamo E. Mihretu, and other senior officials. The staff team comprised of Messrs. Piris Chavarri (Head), Lee, Tulin; Mses. Daly, Garimella (all AFR); Messrs. Dielmann (SPR), Hegab (FAD), Gurhy, (MCM), Rasmussen (IMF Resident Representative in Addis Ababa), and Messrs. Abiy Hailu and Woldeyes (local economists). 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.

CONTENTS

CONTEXT 5

PROGRAM PERFORMANCE 5

RECENT DEVELOPMENTS 6

OUTLOOK AND RISKS 11

POLICY DISCUSSIONS 12

A. Monetary Policy 12

B. Exchange Rate Policy 13

C. Fiscal Policy 15

D. Debt 16

E. Financial Sector 16

PROGRAM MODALITIES 17

STAFF APPRAISAL 19

BOX

1. Assessment of Exceptional Access Criteria and Policy Safeguards on High Combined Credit 19

TABLES

1. Selected Economic Indicators, 2020/21–2028/29 23
2a. General Government Financial Operations, 2020/21–2028/29 (Millions of birr) 24
2b. General Government Financial Operations, 2020/21–2028/29 (Percent of GDP) 25
3a. Monetary Survey and Central Bank Accounts, 2020/21–2028/29 (Millions of birr) 26
3b. Monetary Survey and Central Bank Accounts, 2020/21–2028/29 (In percent of GDP) 27

4a. Summary Balance of Payments, 2020/21–2028/29 (In millions of U.S. dollars) 28
4b. Summary Balance of Payments, 2020/21–2028/29 (In percent of GDP) 29
5. Financial Soundness Indicators of the Banking Sector 30
6. External Financing Requirements and Sources, 2023/24–2027/28 31
7. Access and Phasing Under the Extended Credit Facility 32
8. Indicators of Fund Credit, 2023/24–2038/39 33
9. Quantitative Performance Criteria and Indicative Targets, June 2024–September 2025 34
10. Structural Benchmarks 35
11. Debt Composition 37

ANNEXES

I. Risk Assessment Matrix 38
II. Letter of Intent 40
Attachment I. Memorandum of Economic and Financial Policies 42
Attachment II. Technical Memorandum of Understanding 66

CONTEXT

1. Ethiopia has made a strong start in implementing deep and comprehensive macroeconomic reforms. A decisive move to a more flexible exchange rate has eliminated the large exchange rate overvaluation, the source of deep, long-standing macroeconomic distortions and protracted balance of payment vulnerabilities. With strong ownership and political commitment to reforms, the authorities have made significant steps to modernize monetary policy, mobilize domestic revenue, enhance social safety nets, and anchor financial stability.

2. A 48-month ECF program with access of 850 percent of quota (SDR 2,555.95 million) was approved in July 2024 to support the authorities' reform agenda. The arrangement supports the authorities' Homegrown Economic Reform (HGER) Agenda to address macroeconomic imbalances, restore external debt sustainability, and lay the foundations for higher, inclusive, and private sector-led growth. Key program policies include: (i) moving to a market-determined exchange rate to help address external imbalances and relieve foreign exchange (FX) shortages; (ii) combating inflation through modernizing the monetary policy framework, eliminating monetary financing of the budget, and reducing financial repression; (iii) creating space for priority public spending through mobilizing domestic revenues; (iv) restoring debt sustainability, including through securing timely debt restructuring agreements with external creditors; and (v) strengthening the financial position of state-owned enterprises to tackle critical macro-financial vulnerabilities. The program is monitored on a quarterly basis for the first and second review to maintain close engagement during heightened uncertainty.

PROGRAM PERFORMANCE

3. Performance to date has been in line with program commitments. All applicable quantitative performance criteria (PCs) and indicative targets (IT) for August 16, 2024, were met. There was overperformance in the accumulation of net international reserves (NIR), limited FX intervention, and no new provision of advances from the National Bank of Ethiopia (NBE) to the government (Text Table 1)**.**

4. The authorities have met four out of five end-September structural benchmarks (SBs) (Table 10). They have already implemented the first quarterly electricity tariff increase under the multi-year plan. A medium-term revenue strategy has been adopted by the Council of Ministers and published. The NBE has communicated with banks not in compliance with the regulatory threshold on FX net open position (NOP) limits and instructed developing time-bound action plans for compliance. Audited financial statements for SOEs have been completed and published. The authorities expect to finalize and implement the emergency liquidity assistance directive upon inclusion of comments from IMF staff. In addition, the FY2021/22 onsite audit of the NBE has been finalized. Selection of an external auditor for the audit of the FY2022/23 financial statements is close to being finalized, with the publication of the 2022/23 audited financial statements now expected in January-2025 (one month delayed, structural benchmark).

Text Table 1. The Federal Democratic Republic of Ethiopia: Quantitative Performance Criteria and Indicative Targets, June–August 2024

(in millions of Ethiopian Birr, unless otherwise indicated)

	end-Jun 2024	Aug. 16, 2024		
	Initial level	Program target	Actual	Status
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/	150,000	N/A	N/A	N/A
Net international reserves (floor, cumulative change since previous June, US$ millions) (end-Jun 2024 is for initial level)	793	630	1328	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
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10895	Met
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
Accumulation of external payment arrears by the general government, the NBE and public enterprises (ceiling, US$ millions)		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) 2/	747,485	N/A	N/A	N/A
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) 4/	9,000	N/A	N/A	N/A
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
Memorandum items:				
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	791			
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	627			
Gross privatization proceeds (US$ millions, cumulative since previous June)	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/ 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).

RECENT DEVELOPMENTS

5. **The authorities adopted a more flexible exchange rate regime in late July 2024.** This entailed abolishing distortive current account controls, comprehensively revising FX regulations, ad implementing a real-time reporting system. Specific subsequent measures include:

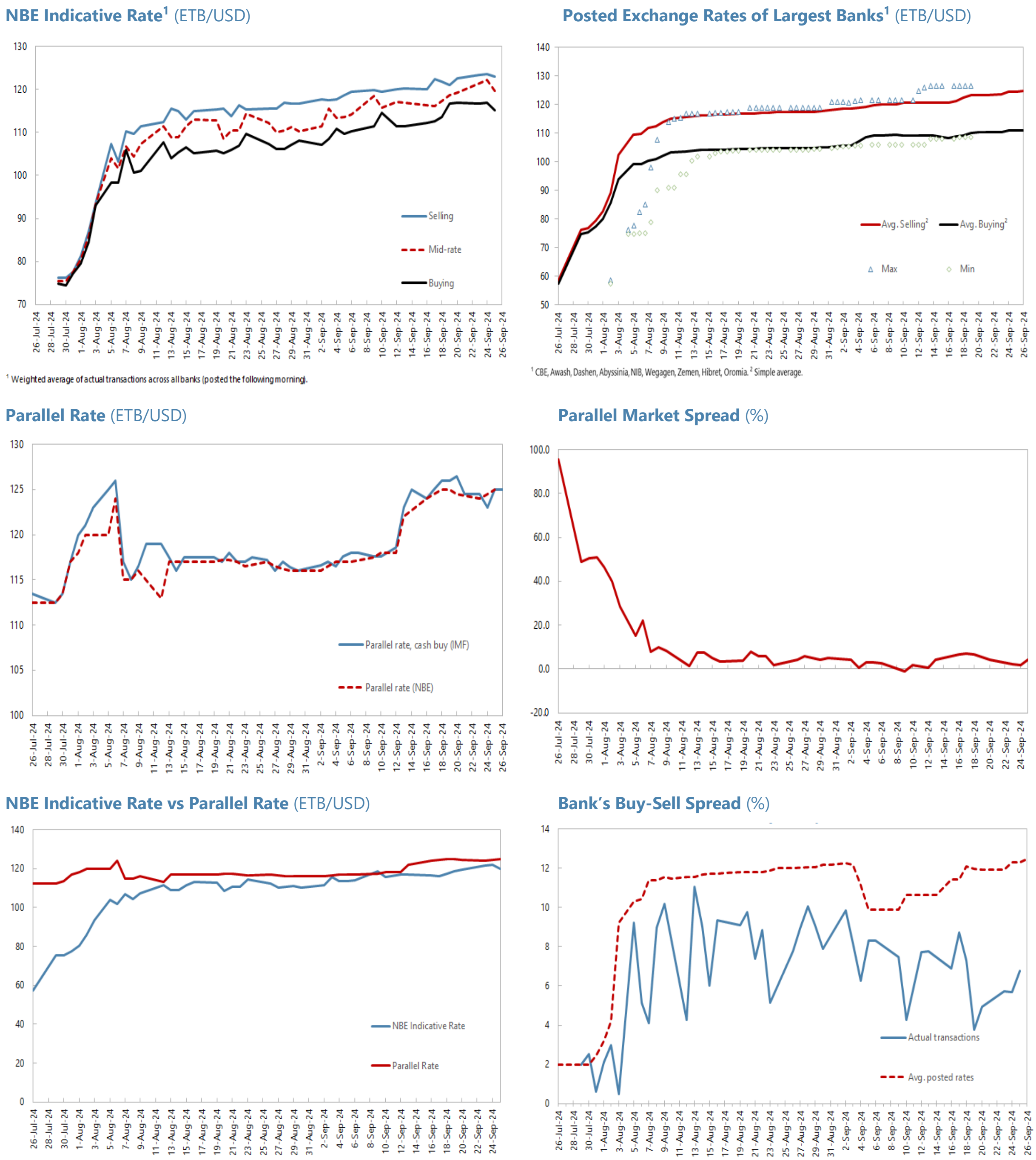
- The prohibition on importing 38 specific items was lifted;
- The requirement for foreign exchange (FX) surrender shifted entirely from the NBE to commercial banks;
- The requirement for importers to open letters of credit (LCs) with banks was eliminated and the special regime for specified importers ("Franco Valuta") was removed;

- The NBE started accepting applications for independent foreign exchange bureaus;
- The NBE issued a directive instructing banks to reflect all FX transaction fees in their bid-offer spreads, significantly improving market transparency;
- The NBE replaced the previous practice of offering a fixed, substantial premium above the official exchange rate by offering NBE's daily indicative selling rate combined with moderate premium to locally mined gold sold to the central bank and allowed large-scale gold producers to retain half of the FX generated from gold exports for up to three months, a two-month extension from the previous limit.

6. **The exchange rate more than doubled, the former "official rate" moving from 57.8 birr per US dollar on July 26 to an indicative rate of 119.2 on September 20, but market liquidity has not responded as strongly as anticipated (Figure 1).** NBE publishes an indicative rate daily before the market opening of the following day; this rate is a daily transaction-weighted average mid-point of interbank transactions and bank-client transactions. The parallel market spread to the indicative rate collapsed from 96 percent to around 5 percent over the same period. The reform substantially corrects real exchange rate overvaluation (estimated at 52 percent in 2022/23 for the previous official exchange rate based on the previous external sector assessment). Nonetheless, FX market liquidity is still limited: reflected by a wide bid-offer spread and a lack of activity in the interbank FX market as banks prefer to close their NOPs and satisfy own-client demand. Activity in the parallel market has reportedly also declined, suggesting a generalized "wait-and-see" may be prevalent. There is also a seasonal low in export flows, with the main coffee harvest export season beginning in October. In early September, NBE launched an awareness initiative on remittance, and several banks launched holiday campaigns to attract remittance flows with a "gift," resulting in strong inflows. In some cases, banks transacted at FX rates above the prevailing parallel market rate.

7. **Net FX sales by the NBE amounted to US$ 521 million following the program's approval.** In an effort to aid in price discovery and improve FX market functioning, the NBE auctioned US$ 30 million to banks on August 7th. The aggregate weighted average rate for all successful bids was 107.9 Birr per US dollar. The NBE allocated US$ 491 million to the CBE for settling LCs related to fuel imports since program approval, within the US$670 million expected. FX sales were within anticipated amounts up to August 16. By August 16, 2024, FX reserves increased to US$3.6 billion from US$1.4 billion at the end of June 2024, bolstered by financial support from the IMF and the WB and reflecting higher than projected gold export proceeds (NBE has a legal monopsony on the purchase of domestic gold production). Lower-than-projected sales of FX by the NBE and stronger gold exports in July and August 2024 contributed to the overperformance in meeting the August 16 NIR target.

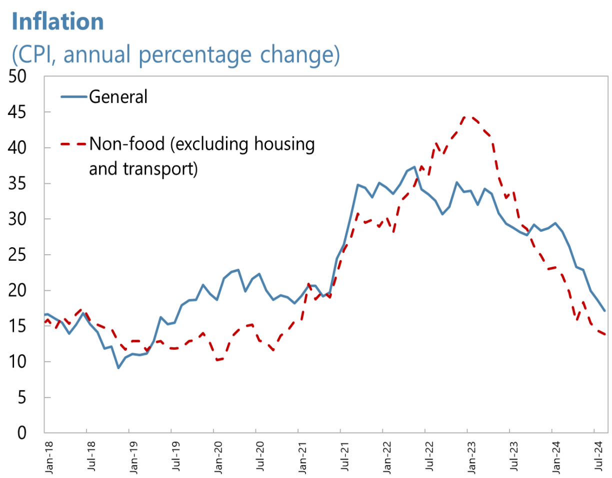
Text Figure 1. The Federal Democratic Republic of Ethiopia: Exchange Rate Developments

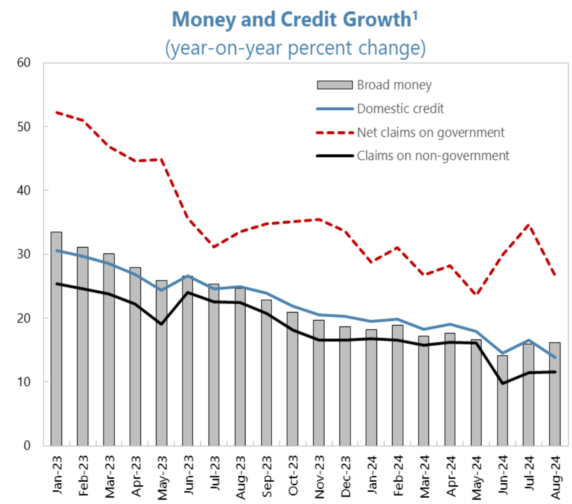


Source: NBE and IMF Staff

8. Inflation was lower than expected in July and August 2024 (Text Figure 2). Headline inflation declined to 17.2 percent supported by easing food price inflation (particularly staples) and the impact of the cap on credit growth (¶18). Anecdotal reports of sharp price increases in select imported items in Addis Ababa following the exchange rate reform (e.g. cooking oil), have not yet led to indications of widespread price pressures. Nonetheless, local authorities in Addis Ababa took measures to address perceived unwarranted price hikes and hoarding of goods, including temporary shop closures, while the Federal government imported 50 million liters of edible oil and US$20 million in sugar to boost supply and reduce price pressures, in line with measures to mitigate the social impact of the reforms foreseen in the Fund-supported program.

Text Figure 2. The Federal Democratic Republic of Ethiopia: Inflation, Money, and Credit Growth

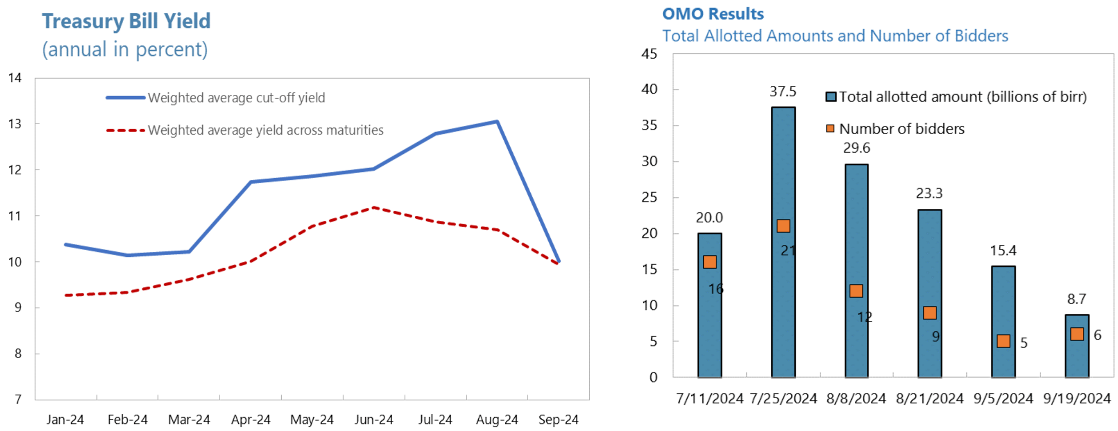




[1] Claims on non-government includes claims on public enterprises. Domestic credit, net claims on government, and claims on non-government exclude impact of July 2024 CBE recapitalization.

9. **The authorities have been implementing regular open market operations (OMOs) to absorb excess liquidity.** From July-September 2024, the authorities conducted six bi-weekly full-allotment liquidity absorbing OMOs at the 15 percent policy rate, amounting to 135 billion Birr (0.9 percent of GDP) with an average of 12 bidders per operation. Several banks have also utilized the NBE's overnight lending facility. Meanwhile, although the authorities have committed to allowing Treasury bill rates to move to market clearing interest rates, transmission from monetary policy to Treasury bill rates has been limited with weighted average issuance yields remaining around 10–11 percent, well below the monetary policy rate. Banking sector participation has been limited. Total Treasury bill issuance from July-September 2024 amounted to 64.1 billion Birr against a target issuance amount of 137.5 billion Birr (Text Figure 3). Average saving deposit rates remain unchanged at 8 percent and lending rates continue to average around 14.8 percent.

Text Figure 3. The Federal Democratic Republic of Ethiopia: Treasury Bills and Open-Market Operations



10. Monetary conditions remained tight through end-August. Broad money growth was 17 percent y/y, well below inflation, and domestic credit growth (excluding the impact of the CBE recapitalization) slowed to 13.8 percent y/y (Text Figure 3). As a precautionary measure in the immediate period after the exchange rate reform, the authorities renewed the 14 percent cap on growth in commercial bank lending in place since August 2023. The cap has significantly tightened financial conditions and put downward pressure on inflation, as evidenced by reports of declined credit requests, difficulties sourcing the Birr counterpart needed to open new LCs, and the stability of the parallel market exchange rate. NBE advances totaled 1.0 percent of GDP in 2023/24 significantly reduced from 2.4 percent in 2022/23 but slightly higher (0.2 ppt of GDP) than anticipated at the time of the program request. There has been no further monetary financing through NBE advances. The government utilized the Cash Flow Facility at the NBE, a new standard short-term facility with constrained access and periodic repayment requirements (MEFP ¶23), in the first days of July (0.1 percent of GDP), which was repaid within 30 days. Claims on non-government were contained by tight controls on SOE borrowing and the cap on bank credit growth. While the share of liquid assets to total assets in the banking system remains above the regulatory 15 percent, the situation across banks remains mixed and the overall ratio of excess reserves or cash to deposits remained low at 0.8 percent.

11. Preliminary fiscal outturns in 2023/24 were in line with expectations. The fiscal deficit fell to 2.0 percent of GDP in 2023/24, down from 2.6 percent of GDP in 2022/23. The 2023/24 overall deficit, capital spending, and NBE net advances were each 0.2 percent of GDP higher than expected at the time of program approval. General government spending is estimated to have been cut from 10.8 to 9.8 percent of GDP to reduce deficit financing needs, resulting in substantial fiscal tightening. General government tax revenue are expected to decline further, from 6.8 to 6.3 percent of GDP.

12. The authorities are implementing fiscal and SOE sector reforms. They have made progress in implementing the first steps of the revenue mobilization reform (VAT and excise) approved in July. Given compilation lags, no data for 2024/25 fiscal outturns was available. The authorities are finalizing a supplementary budget reflecting the impact of the reforms and consistent with the Fund-supported program. Implementation of measures to support the vulnerable population via the Productive Safety Net Program (PSNP) is underway and an adequate budgetary allocation for PSNP has been reflected in the supplementary budget proposal. The authorities raised fuel prices upwards by 5 percent on July 10, 2024, which will contribute to closing the price gap resulting from foreign exchange reform and will implement the fuel subsidy scheme to smooth the impact of exchange rate reform on final consumers during a transition period through the supplementary budget. To tackle critical macro-financial vulnerability stemming from the SOE sector, the government adopted a 4-year electricity tariff adjustment plan, with quarterly price adjustment that commenced from September.

OUTLOOK AND RISKS

13. Growth is expected to slow before strengthening in the medium-term as gains from macroeconomic reforms firm up (Text Table 2). Tight financial conditions and uncertainty as economic agents adapt to the new economic environment will temporarily constrain economic activity. However, the benefits of comprehensive reforms, external debt treatment, resumption of external financing, and greater domestic stability are expected to raise growth to 7.5–8 percent in the medium term. Following the effects of recent exchange rate reform, inflation is expected to peak around 29 percent in mid to late-2025 (lower than anticipated at program approval, reflecting better-than-expected outcomes at the end of 2023/24, with a more delayed impact of exchange rate passthrough), before moderating to around 16 percent by 2025/26. The first-round impact of devaluation on headline consumer price inflation is expected to be limited given the low share in private consumption expenditure of imports occurring at the official exchange rate prior to reform. Inflation projections also reflect planned fuel and energy price increases (MEFP ¶46). Continued tight financial conditions and the end of monetary financing of fiscal deficits will help reduce inflation, while the temporary fiscal spending package will help cushion the socioeconomic impact of the reforms. Revenue mobilization and reforms to strengthen the financial position of SOEs will create space for sustainable priority spending. The current account deficit is projected to rise as FX availability improves (allowing satisfaction of some previously repressed import demand) before stabilizing at close to two percent of GDP in 2027/28.

14. The outlook is subject to downside risks, stemming from potential social discontent, security challenges, and regional conflicts. The baseline scenario is predicated on successful program execution and swift progress in implementing the external debt treatment. Potential exchange rate pressures could generate volatility and impact volumes and market development. Persistent inflation and depreciation expectations could require a stronger policy reaction, while social pressures, policy slippages, or delays in reform implementation are downsides 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. Intensifying regional spillovers from regional conflicts also pose risks to the outlook.

Text Table 2. The Federal Democratic Republic of Ethiopia: Selected Economic Indicators

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
				ECF	Proj.	ECF	Proj.	Projections			
				In percent change, unless otherwise mentioned							
GDP at constant prices (at factor cost)	6.3	6.4	7.2	6.1	6.1	6.5	6.5	7.1	7.7	8.0	7.8
Consumer prices (period average) [1]	20.2	33.9	32.5	26.9	26.6	30.1	25.0	16.7	12.2	10.4	9.6
Consumer prices (end of period) [1]	24.5	34.2	29.3	22.9	19.9	31.1	29.4	13.5	10.9	9.7	9.4
External sector											
Exports of goods and services (U.S. dollars, f.o.b.)	10.9	22.8	3.3	3.9	5.7	7.9	8.1	12.5	17.1	16.8	6.9
Imports of goods and services (U.S. dollars, c.i.f.)	2.3	24.9	-1.4	1.9	1.8	8.7	8.5	5.9	10.6	11.9	6.8
				In percent of GDP, unless otherwise mentioned							
External current account balance, including official transfers	-2.8	-4.0	-2.8	-2.6	-2.4	-4.3	-4.4	-3.3	-2.5	-2.1	-1.9
Government finances											
Overall fiscal balance, including grants (cash basis)	-2.8	-4.2	-2.6	-1.7	-2.0	-1.7	-1.7	-2.1	-2.0	-2.0	-2.0
Total financing (including residuals and excluding net acqusition of assets)	2.8	4.2	2.6	1.7	2.0	1.7	1.7	2.1	2.0	2.0	2.0
External financing	0.7	0.1	0.3	0.2	0.2	1.3	1.3	-0.2	0.3	0.3	-0.4
Domestic financing	2.1	4.3	2.5	1.5	1.9	0.8	0.8	1.5	1.7	1.7	2.4
Primary fiscal balance, including grants	-2.2	-3.5	-2.0	-1.1	-1.1	-0.6	-0.6	-0.6	-0.6	-0.9	-0.9
Public debt [2]	56.1	48.9	40.2	34.4	34.7	42.9	43.6	39.1	36.0	33.6	31.6
Domestic debt	27.1	24.8	22.1	19.1	19.3	14.5	14.8	12.3	11.5	11.1	11.9
External debt (including to the IMF)	29.0	24.0	18.1	15.4	15.4	28.3	28.9	26.8	24.5	22.5	19.7
Gross official reserves (in millions of U.S. dollars)	2,866	1,495	1,026	1011	1,429	2793	3,126	5,273	7,259	10,343	11,602
(months of prospective imports of goods and nonfactor services)	1.5	0.8	0.5	0.5	0.7	1.2	1.4	2.1	2.6	3.5	3.6

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.

POLICY DISCUSSIONS

A. Monetary Policy

15. The monetary policy stance remains restrictive helping to anchor inflation and exchange rate expectations with the objective of ensuring price stability in the medium term. Consistent with the authorities' adoption of an interest rate-based monetary policy framework, they committed to raise the monetary policy rate to be positive in real terms by the first quarter of 2025 and move away from quantitative constraints on bank lending. Rate increases will likely be required later in the year to reach positive real interest rates (MEFP ¶25) and ahead of the ending quantitative restrictions unless inflation expectations continue to decline rapidly. Continued close monitoring of inflation and exchange rate developments and clear NBE communication on policy objectives and actions will be critical to anchor expectations. The authorities should stand ready to accelerate the pace of monetary policy rate rises to anchor expectations as needed. Continuing to avoid monetary financing of the fiscal deficit through direct advances remains an essential condition for low inflation and the success of the new monetary policy framework.

16. Further measures are needed to promote better market functioning, price discovery, and to address persistent undersubscription in Treasury bill auctions. The two pension funds (that have few alternative investment options) and CBE purchased over 80 percent of Treasury bill issuance during July-September 2024, although a few smaller banks have started to increase their holdings. While Treasury bill rates are now in theory allowed to move freely to market clearing interest rates, the continued demand from the pension funds at deeply negative real interest rates, the practice of allowing CBE to include Treasury bills in their reserve requirement calculation and the historical precedent of NBE rejecting auction bids above 10 percent has resulted in limited participation from the banking sector. The authorities recognize the need for increased banking sector participation and committed to ensure market participants understand the new rules of the Treasury bill market (MEFP ¶22). Timely publication of Treasury bill auction results and publishing a fixed issuance calendar will help increase transparency and predictability and are important first steps in developing the local currency bond market. In this regard, the authorities will end the requirement for commercial banks to purchase 5-year Treasury bonds at the end of this fiscal year (new structural benchmark, end-June 25) and rely solely on market- based financing thereafter. The authorities also stand ready to explore additional measures to improve banking sector participation, that could potentially include bringing forward the removal of requirements for banks to purchase government securities and DBE bonds, and fully eliminating the eligibility of CBE to include Treasury bills in its reserve requirement calculation.

17. Further development of the monetary policy framework is proceeding (MEFP ¶20). The deployment of a central securities depository (CSD) (end-December SB), a review of the reserve requirement framework with a view to simplifying banking sector liquidity management, and improvements to monetary policy analytical capacity will all be important to support the implementation of the framework aligned to the evolving monetary policy stance. Continued efforts to develop the inter-bank money market, including the launch of an online trading platform in November 2024, will support money market and local currency bond market development, and improve banking sector efficiency and treasury management practices.

B. Exchange Rate Policy

18. The transition to a more flexible exchange rate supported by IMF technical assistance has progressed well, although the FX supply response has been slower than anticipated. The exchange rate has converged to a level similar to the pre-reform parallel market rate, with tight monetary conditions contributing to stability. Remittance platforms also offer similar exchange rates. The parallel market premium to NBE's daily published indicative rate has narrowed and stabilized at around 5 percent. However, FX market liquidity is limited, with wide bid-offer spreads and no activity in the interbank FX market. The competition for attracting remittances has intensified during the Ethiopian new year holiday period, with many banks offering a premium or "gift" as an incentive and others increasing their market rates closer to the parallel market rate and narrowing their bid-offer spread. The NBE has launched an awareness campaign about remittances aligned with the new FX regime, including a new mobile app providing information and connections with banks for transfers and loan products, targeted at the diaspora community.

19. Transitional one-off arrangements are needed to address FX demand for the legacy LCs issued for fuel imports in the pre-program period. These LCs were issued by CBE, while FX liquidity to settle them was provided by NBE, drawing on surrender requirements. A total of US$3.1 billion of legacy LCs that were issued in the pre-FX reform period mature in the first year of the program, of which US$2.5 billion remain outstanding, while US$179 million remains available from the US$670 million originally budgeted for this purpose under the program. While CBE and private banks will cover the majority of the remaining stock, the large total has created uncertainty and may have limited participation in an already thinner-than-expected FX market. To the extent that market participants cannot source the requisite foreign exchange, the NBE will provide FX to settle legacy fuel payments by allocating higher than expected proceeds from gold export, up to a maximum of US$600 million. NBE's maximum possible contribution of US$1.3 billion accounts for 40 percent of the US$3.1 billion of pre-reform LCs. NBE will allocate the additional resources either via auction and/or directly to CBE at the prevailing market exchange rate. NBE have committed to providing no additional resources subsequently (MEFP ¶16), and NIR targets have been raised (paragraph 30) to ensure part of the overperformance in reserves build up from gold and other sources is saved. With respect to LCs opened after program approval and maturing in 2024/25 and 2025/26, the NBE proposes a burden sharing agreement exclusively between CBE and private commercial banks, broadly reflecting their FX market share. After 2025/26, there will be no special arrangement.

20. The NBE continues policy efforts to support FX market development and foster a more price elastic FX supply response:

- NBE will remove the requirement for exporters to surrender FX they are entitled to retain if it is not used after one-month, by end-October 2024. This will help exporters to better manage FX liquidity, risks, and the import of necessary inputs. The authorities reiterated their commitment to phase out surrender requirements by the end of the program, at a pace determined by the development of FX market liquidity.
- NBE is enhancing monitoring of the FX market and enforcement of the new FX directive, through establishing and implementing an internal monitoring manual, strengthening both off-and-on-site inspections and establishing a dedicated task force on banks compliance with the Foreign Exchange Market Operation Code of Conduct. This will ensure that all FX transactions are properly reported and reflected in the indicative exchange rate. NBE continues to disseminate information on the new FX regime and directive, e.g., through publishing an extensive "frequently asked questions" planned for November 2024.
- In September 2024, NBE issued a circular instructing banks not in compliance with the regulatory NOP threshold to provide plans to ensure full compliance by end-June 2025 (end-September 2024, structural benchmark). Banks are expected to provide plans to NBE by end-December 2024. With IMF technical assistance, NBE will strengthen the measurement of NOPs to better capture FX risk profiles, revise the NOP prudential regulation, ensure adequate enforcement and redesign the call report to collect more granular information.
- NBE is conducting an FX market survey covering both banks and the real sector to identify impediments to efficient FX market functioning and deepening. With technical support from the IMF, the authorities plan to complete the survey by end-2024. Additional policy measures are expected based on the survey results.

21. NBE will continue to restrict FX intervention to managing disorderly market conditions, at their discretion, and clearly communicate policy intentions if intervention is judged necessary. Any FX intervention will be conducted via public auction following NBE's FX auction guidelines. Auction results will be published on NBE's website immediately after the closing of the auction.

C. Fiscal Policy

22. Revenue mobilization efforts are advancing as planned. The draft national medium-term revenue strategy (NMTRS) incorporates key program-supported revenue mobilization reforms, including VAT, excise, corporate taxes, presumptive income taxes, and property taxes. Revenue yields are to come primarily from tax policy reforms. NMTRS was adopted by the Council of Ministers and published (SB, end-September 2024). The new VAT Proclamation approved in Parliament in July 2024: (i) legislatively reduces exemptions; (ii) limits zero-rating for VAT purposes to only exported and re-exported items; (iii) expands the scope for voluntary registration; and (iv) clarifies the respective revenue collecting mandates of the Federal and regional governments. The removal of VAT exemptions implemented via a Directive in July was carried over into the new VAT Proclamation. Revised alcohol and tobacco excise rates have been implemented, and the excise stamp regime will be implemented on selected items including on tobacco and imported sprits from October. With import duties now calculated based on the NBE's indicative daily exchange rates, customs revenue received a substantial boost. A customs directive was issued requiring all customs branches to adjust declaration rates to the current exchange rate, including for goods registered before the exchange rate liberalization. A TADAT mission was conducted in August, earlier than originally envisaged, and will inform tax administration reform priorities.

23. A Supplementary Budget for FY2024/25 in line with program parameters is expected to be adopted in early October. The supplementary Budget reflects the package of measures to mitigate the inflationary and socio-economic impact of the exchange rate reform. A total spending package of about 1½ percent of GDP will be implemented in 2024/25.[1] Measures to expand social protection through the PSNP have been taken, including adjusting benefit levels for inflation impacts in September 2024 for urban beneficiaries and January 2025 for rural beneficiaries. The government has imported cooking oil and sugar to manage price spikes ahead of the Ethiopian New Year, in line with the fiscal envelope under the program. Initial steps to implement the transitional fuel price subsidy have been taken with the creation of a technical team to manage budget transfers to EPSE and advise on fuel price adjustment and replenishment of the Fuel Price Stabilization Fund. Lower international prices for imported fuels are expected to help replenish accumulated deficits in the fuel price stabilization fund faster than originally planned.

24. SOE reforms are proceeding in line with expectations. Audited IFRS based financial statements for key SOEs have been published (structural benchmark, end-Sept 2024). The first quarterly increase in the electricity tariff has been implemented (structural benchmark, end-Sept 2024) in line with the multi-year plan approved by the Council of Ministers in June 2024. Together with the upfront increase of about 20 percent, the quarterly tariff increases will cumulate to about 80 percent over the next 12 months, which will contribute to restoring financial sustainability of the

[1] See IMF Country Report 2024/253 Annex IV and MEFP ¶37.

power sector. Further, with adoption of the new VAT Proclamation, public utilities (water and electricity) have now been brought into the VAT regime (with consideration for low-income and vulnerable groups), which further supports fiscal sustainability. Power utilities have notified the regulator on the intention to seek a tariff adequacy review and ensure cost recovery.

D. Debt

25. Staff assess that sufficient assurances regarding the debt restructuring needed to restore debt sustainability are in place. Financing assurances for the official sector debt treatment are derived from the Common Framework process including the Paris Club. The authorities are committed to working toward reaching an agreement in principle with official creditors by the time of the second review and with bondholders as soon as feasible after that.

26. The authorities are actively engaging with Eurobond holders on the need for debt restructuring on comparable terms to the official creditors. Staff assess that the authorities are making good faith efforts to agree terms with Eurobond holders. Discussions with bondholders were held in December 2023, an update call in May 2024, and a debt restructuring proposal was submitted in July 2024. The authorities held a global-investors call on October 1, 2024, to update Eurobond holders on the latest macroeconomic developments and the debt restructuring discussion with the OCC.

27. There have been no changes in the macroeconomic framework that require revising the amount of debt relief needed at this stage. The authorities are in talks with prospective lenders concerning the loan terms for the Koysha dam project.[2] These terms are broadly in line with the assumption in the latest DSA.

E. Financial Sector

28. Continued enforcement of NOP limits will be important to contain exchange rate related financial risks and stimulate activity in the FX market. Considering the legacy of pre-exchange rate reform requirements, enforcement builds on the recently issued order to banks to develop plans to ensure full compliance with the NOP regulation by June 2025. The authorities have designed a new report to collect more granular data on the subcomponents of on and off-balance sheet FX positions and developed a new monitoring system to support daily enforcement of NOP limits. Ensuring compliance will also encourage banks to trade when close to NOP limits, supporting FX market development.

29. Reforms to ensure CBE can operate successfully as a fully commercially oriented bank continue. Building on the recapitalization in July 2024, the authorities are developing operational and governance reforms in the context of the World Bank Financial Sector Support Program lending operation (MEFP ¶47). Key reforms include reorienting the operating model of CBE by setting a

---

[2] The authorities requested an exemption from the zero-limit on new non-concessional borrowing for this project (see IMF Country Report 2024/253, Box 1).

commercial mandate issued by Ethiopian Investment Holdings and updating its strategic plan; reforming the governance framework, including the composition of CBE's board; reviewing CBE's public service obligations; and performing an updated Asset Quality Review.

PROGRAM MODALITIES

30. The following modifications to program conditionality are being proposed:

- Modifications of the end-December 2024, the end-March 2025 and the end-June 2025 NIR targets to lock in part of the overperformance observed on August 16, 2024 and establishment of ITs for end-September 2025 (Table 9). The end-June 2025 NIR target is raised by US$ 300 million corresponding to about half of overperformance in meeting the August 16 NIR target. An increase in near-term target is warranted by Ethiopia's vulnerabilities and heightened uncertainty around outlook. The targeted level of FX reserves by the end of the program remains unchanged.
- Modification of the test date for the SB on the finalization and publication of audited financial statements for 2021/22–2022/23 of the NBE from end-December 2024 to end-January 2025 (Table 10);
- Addition of four new structural benchmarks on the publication of budget implementation (end-April 2025), the termination of mandatory purchase of T-bonds by commercial banks (end-June 2025), requiring EPSE to remit federal fuel taxes (December 2025), and the submission of the FY2025/26 draft budget (end-June 2025).

31. Adequate financing assurances are in place. The World Bank disbursed US$1.5 billion of budget support in August 2024 and provided firm commitments of another US$1 billion of budget support by July 2025. With this commitment, as well as the progress towards debt restructuring through Credible Official Creditor Process under the Common Framework, there are firm commitments for the next twelve months and good prospects for financing the remainder of the program. 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 1).

32. Ethiopia's capacity to repay 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 18.8 percent of exports, 68.4 percent of FX reserves, and 1.9 percent of GDP. Debt service to the Fund is projected to peak at 2.4 percent of exports, 7.4 percent of FX reserves, and 0.2 percent of GDP. Risks to capacity to repay rise towards the end of the ten-year horizon when repayments to the Fund peak and rescheduled debt service payments recommence. Such risks are mitigated by reforms to address external imbalances and the reserve accumulation envisaged under the program.

33. Enterprise risks to the Fund remain significant, with mitigants. High uncertainty around the outlook (complexity of the reform agenda, data limitations, and the fragile socio-economic environment) will continue to pose enterprise risk. Outcomes after the initial reforms and program performance to date in line with commitments mitigate risks. Strong program implementation and decisive policymaking to swiftly recalibrate policies, if needed, will be essential to maintain domestic and external confidence.

34. An update safeguards assessment mission was conducted in September 2024. Preliminary findings indicate that progress on safeguards recommendations is proceeding slowly in a constraining legal environment. Advancing on long-overdue recommendations from the 2020 safeguards assessment, the NBE has adopted an external auditor selection and rotation policy and is expected to appoint a new external auditor for five-years, following a competitive bid process, starting with the audit of the FY2022/23 financial statements. The NBE's audited financial statements for FY2021/22 were finalized and published in September 2024, and the FY2022/23 will be finalized and published by end-January 2025 (modified Structural Benchmark). The mission discussed the need to make further progress on other safeguards recommendations, including in the areas of financial reporting, internal audit, and foreign reserves management.

35. Draft amendments to the NBE Proclamation submitted to Parliament introduce important improvements on the NBE's mandate, functions, and powers but depart from leading practices in critical areas related to central bank autonomy and governance. Based on Fund TA, the NBE prepared draft amendments to the NBE Proclamation, with respect to the mandate, decision-making structure (internal checks and balances and collegial decision-making), external audit, and transparency. Notwithstanding this, critical gaps remain in the key areas of autonomy and governance. The draft Proclamation also allows for emergency liquidity assistance to be provided without collateral. Further engagement with the authorities will continue to identify scope for improvements with a view to meeting the Structural Benchmark (end-December 2024).

36. As the OCC has provided financing assurances, arrears to other official bilateral creditors are deemed away. Ethiopia has pre-HIPC era arrears to Libya, Russia, and the former Republic of Yugoslavia, totaling about US$525 million as of June 2023, which are deemed away. Furthermore, there are about US$15 million in external arrears to commercial creditors from the former Czechoslovakia, India, Italy, and the former Yugoslavia, all pre-dating the 1990s, and authorities are making best efforts to resolve these arrears.

37. The financing assurances review indicates policy requirements are met. The Lending into Arrears, Lending into Official Arrears and non-tolerance of arrears policies are met with respect to external arrears, adequate safeguards remain in place for the further use of the Fund's resources in light of progress made in debt restructuring, and adjustment efforts are not undermined by developments in creditor-debtor relations.

38. An Article VIII mission was held on September 12–23, 2024 and authorities are currently reviewing the preliminary findings. All of the identified Article VIII measures were introduced pre-approval of the ECF arrangement and thus have no program implications. With the Article VIII mission, staff has verified that following the prior action to liberalize the foreign exchange market implemented by the authorities, the National Bank of Ethiopia has eliminated regulatory controls on setting the exchange rate (thereby allowing the market to determine exchange rate).

Staff's assessment when finalized will establish a clear baseline on outstanding measures going forward for the purpose of program monitoring. Adjustment and eventual elimination of the 2.5 percent commission on most FX transactions within the program period will be aligned with the impact on NBE's income and capital position. The authorities have committed and will take steps to eliminate this measure during the program period.

Box 1. Assessment of Exceptional Access Criteria and Policy Safeguards on High Combined Credit

The ECF arrangement for Ethiopia includes exceptional access under the PRGT and triggers the Policy Safeguards on High Combined Credit (PS-HCC) due to Ethiopia's outstanding obligations to the 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 Poverty Reduction and Growth Trust (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 CF, 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 extremely low reserves, FX shortages, exchange rate overvaluation, 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 CF 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 consistent with reaching debt sustainability and covering the financing gap under the program.
- *Criterion 3 (income criterion for presumed blending):* At about 74 percent of the IDA Operational Cut-off, 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):* The authorities' established commitment to program implementation, as demonstrated by frontloaded policy adjustments implemented so far, provides a sufficient basis for a favorable assessment of a strong prospect of success. The implementation of prior actions 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.

STAFF APPRAISAL

39. The program has made a strong start. The transition to a more flexible exchange rate has progressed well, with the exchange rate converging to the pre-reform parallel market rate and the parallel market premium falling to a low and relatively stable level of around 5 percent. With strong market participation in OMOs, monetary policy reforms have successfully made a critical first step. Tight monetary conditions are contributing to stability, and inflation has declined through August 2024. Accumulation of FX reserves has exceeded expectations. Passage of the VAT law and implementation of the related directive, as well as the excise stamp regime, have put revenue mobilization plans underway. All performance criteria for this review were met, as were four of five structural benchmarks. The SB on the emergency liquidity assistance directive was missed but is expected to be finalized in early October 2024, incorporating staff comments.

40. The FX market has made a relatively smooth transition to the new regime. While bid-ask spreads remain wide, they have fallen, with differentiated behavior across banks and evidence of competition for remittance and business FX flows. However, sporadic reports of delays or lack of availability of FX persist, and the questions remain about the market's ability to absorb "big ticket" demands, such as that for payments of deferred LCs for fuel imported prior to the FX reform. Limitations to the near-term FX supply response include a seasonal low in export receipts, uncertainty that may be generating depreciation expectations that deter some market participants, and structural features of the market limiting transparency or creating frictions. Staff view the authorities' proposal to address the FX overhang from past fuel imports, relying principally on market participants, but also including an additional contribution from the NBE provided at the market exchange rate as appropriate to reduce uncertainty and allow more time for market deepening. Staff strongly welcome complementary reforms to strengthen FX supply and further liberalize the market, and the authorities' commitment that no further interventions will be made above the maximum committed, and once the legacy of pre-reform LCs is settled. An increase in the NIR target for end-December 2024, end-March 2025 and end-June 2025 will ensure some of the overperformance in reserves is saved, in line with program objectives.

41. Early implementation of monetary policy reforms has been encouraging. The policy stance should remain tight. The widespread uptake of the NBE's OMOs has absorbed substantial liquidity, demonstrated interest in attractive assets to manage liquidity, and established the first rung in an effective transmission mechanism. Banking sector liquidity has tightened as lending recovers in line with seasonal export activity, and under the constraint of the cap on lending growth. With inflation still high, the authorities should meet the commitment to reach a positive real policy interest rate in the first quarter of 2025 to help to ensure price stability and keep exchange rate expectations anchored. Given interest rates are now the primary tool to signal the policy stance, removal of the lending cap, along with carefully sequenced policy rate increases, will be important to support the new policy framework. A rise in Treasury bill rates to yields at least in line with the monetary policy rate is needed to ensure that the transmission mechanism and government debt markets continue to develop. Enhanced communication with market participants can help ensure new market rules are well understood, but additional measures such as advancing the removal of Treasury bill eligibility for reserve requirements may also be needed.

42. Tax revenue reforms are proceeding as planned. The NMTRS was approved and published in September 2024, laying out the targets and key areas for policy changes to raise revenue in line with objectives over the program period. To ensure efficient implementation of the authorities' revenue raising plans, inter-ministerial committees have been established, reporting on a regular basis to the senior political leadership. Passage of the new VAT law and adoption of a new

VAT directive will generate substantial savings from the elimination of exemptions and zero-ratings, and excise tax reforms are being implemented.

43. A supplementary budget will be approved in October. The budget is in line with program assumptions and reflects the measures to mitigate the impact of reform on the vulnerable population. Staff urge the authorities to fully utilize the budget agreed for PSNP. With the benefit of lower international prices for imported fuels, staff recommend using the savings to reduce accumulated deficits in the fuel price stabilization fund more quickly, restoring buffers in case of future shocks, while still preserving a moderate pace of price increases for final consumers. Staff welcome the prudent and timely use made by the authorities of part of the resources for importing key commodities to avoid price spikes under the program.

44. Steps to securing a debt treatment and restoring debt sustainability continue. Engagement with both official creditors and private (Eurobond) creditors are proceeding. With the exception of Koysha, the authorities are not borrowing non-concessionally, carefully evaluating all new concessional debt before taking on commitments, while strengthening debt management.

45. Maintaining momentum on financial sector reforms will continue to strengthen financial stability. The recapitalization of CBE has put the bank on a sound footing. Steadily reducing the legacy of FX obligations incurred as a consequence of past policy decisions will be an important next step to reducing vulnerabilities, particularly legacy LCs for fuel. Ongoing governance and operational reforms for CBE in the context of the World Bank's Financial Sector Strengthening Program, will help ensure it can operate as a commercially oriented institution, with clearly defined public service obligations. Risk management practices will also continue to be strengthened, CBE's balance sheet structure will help contain lending. Private banks have made substantial progress in reducing their net open positions, and many have now reached balanced or moderately long positions. Close supervision and enforcement of regulations will ensure both that risks are kept within manageable bounds and encourage interbank FX trading.

46. Structural reform continues in the SOE sector. A significant step forward has been taken with the publication of IFRS audited reports for the key firms. The announcement of a plan for tariff increases in electricity, protecting the smallest consumers, is a critical step in the financial strengthening of the electricity sector, while the recapitalization of CBE has enabled treatment of the sector's heavy debt burden. Sustained efforts to bring EEP to operational balance are needed if the authorities' ambitious access to electricity plans are to become reality. Staff welcomes news of progress in restarting discussions for sale of sugar sector assets.

47. The update safeguards assessment found progress, albeit slow. Staff welcome the recent progress made in strengthening audit policy and selecting an auditor and look forward to the publication of delayed audits for FY 2022/23 in the coming months. With the draft NBE Proclamation already embedding progress, discussions continue on scope to address critical gaps with respect to autonomy and governance.

48. Staff support the completion of the first review under the ECF arrangement. All performance criteria have been met. The authorities present a strong set of policies and structural reform measures in the attached LOI and MEFP, demonstrating the commitment to achieve the objectives of the Fund-supported program. Staff supports the completion of the financing assurances review as well as the modifications of the end-December 2024, the end-March 2025, and the end-June 2025 NIR targets. Staff also supports the modification of target date of the SB on "The NBE to finalize and publish audited financial statements for 2021/22–2022/23".

Table 1. The Federal Democratic Republic of Ethiopia: Selected Economic Indicators, 2020/21–2028/29[1]

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Prel.	ECF	Proj.	ECF	Proj.	Projection			
	In percent change, unless otherwise mentioned										
National income and prices											
GDP at constant prices (at factor cost)	6.3	6.4	7.2	6.1	6.1	6.5	6.5	7.1	7.7	8.0	7.8
GDP deflator	21.8	34.7	32.9	26.7	26.4	25.8	25.1	17.4	12.6	11.0	9.6
Consumer prices (period average) [1]	20.2	33.9	32.5	26.9	26.6	30.1	25.0	16.7	12.2	10.4	9.6
Consumer prices (end period) [1]	24.5	34.2	29.3	22.9	19.9	31.1	29.4	13.5	10.9	9.7	9.4
External sector											
Exports of goods and services (f.o.b.)	10.9	22.8	3.3	3.9	5.7	7.9	8.1	12.5	17.1	16.8	6.9
Imports of goods and services (c.i.f.)	2.3	24.9	-1.4	1.9	1.8	8.7	8.5	5.9	10.6	11.9	6.8
Export volume (goods)	12.6	2.5	-17.3	2.0	6.9	1.7	0.4	13.9	21.1	17.7	10.9
Export volume (goods and services)	3.2	11.0	-3.2	7.7	8.8	7.3	5.0	10.7	11.0	9.2	5.5
Import price index (percent change)	3.6	16.5	4.3	-4.1	-3.6	-0.2	-0.6	-2.1	-1.4	-1.2	-1.2
Terms of trade (goods and services, deterioration –)	3.7	-5.0	2.2	0.6	0.7	0.7	3.6	3.9	7.0	8.2	2.5
Nominal effective exchange rate (end of period, depreciation –)	-24.1	-8.6	6.9	...	...	...	...	...	...	...	...
Real effective exchange rate (end of period, depreciation –)	-10.2	10.1	24.0	...	...	...	...	...	...	...	...
Money and credit											
Claims on nongovernment [2]	21.9	18.9	24.1	12.0	9.7	21.2	-14.3	37.9	40.1	24.2	21.1
Broad money	29.9	27.2	26.6	14.4	14.1	30.3	28.4	28.3	30.6	22.1	21.0
Base money	7.2	37.2	32.0	3.3	-1.1	23.9	27.9	26.2	19.1	18.6	18.7
Velocity (GDP/broad money)	3.22	3.59	4.02	4.70	4.70	4.90	4.94	4.88	4.56	4.50	4.40
	In percent of GDP, unless otherwise mentioned										
Financial balances[3]											
Gross domestic savings	19.0	15.2	14.8	13.9	14.2	10.4	11.9	14.4	16.8	17.8	17.4
Public savings	1.6	-0.4	1.1	1.7	1.7	1.0	1.0	2.4	3.0	3.3	3.5
Private savings	17.4	15.6	13.7	12.2	12.5	9.4	10.9	12.1	13.8	14.5	13.9
Gross domestic investment	28.0	25.3	22.2	19.7	19.9	20.1	21.6	23.4	25.0	25.4	24.7
Public investment	7.5	6.4	5.6	4.2	4.1	3.7	5.3	5.8	6.2	6.7	6.4
Private investment	20.5	19.0	16.6	15.4	15.9	16.4	16.3	17.6	18.8	18.8	18.3
Resource gap	-9.1	-10.1	-7.4	-5.8	-5.7	-9.7	-9.6	-9.0	-8.2	-7.7	-7.3
External current account balance, including official transfers	-2.8	-4.0	-2.8	-2.6	-2.4	-4.3	-4.4	-3.3	-2.5	-2.1	-1.9
Government finances											
Revenue	10.2	8.1	7.9	7.3	7.5	8.3	8.4	9.8	10.9	11.3	11.5
Tax revenue	9.0	7.1	6.8	6.3	6.3	7.3	7.3	8.7	9.8	10.2	10.4
Nontax revenue	1.3	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.1
External grants	0.8	0.4	0.4	0.4	0.4	1.4	1.3	0.6	0.5	0.4	0.4
Expenditure and net lending	13.8	12.7	10.8	9.4	9.9	11.3	11.5	12.4	13.4	13.7	14.0
Fiscal balance, including grants (cash basis)	-2.8	-4.2	-2.6	-1.7	-2.0	-1.7	-1.7	-2.1	-2.0	-2.0	-2.0
Total financing (including residuals and excluding privatization)	2.8	4.2	2.6	1.7	2.0	1.7	1.7	2.1	2.0	2.0	2.0
External financing	0.7	0.1	0.3	0.2	0.2	1.3	1.3	-0.2	0.3	0.3	-0.4
Domestic financing	2.1	4.3	2.5	1.5	1.9	0.8	0.8	1.5	1.7	1.7	2.4
Public debt [4]	56.1	48.9	40.2	34.4	34.7	42.9	43.6	39.1	36.0	33.6	31.6
Domestic debt	27.1	24.8	22.1	19.1	19.3	14.5	14.8	12.3	11.5	11.1	11.9
External debt (including to the IMF)	29.0	24.0	18.1	15.4	15.4	28.3	28.9	26.8	24.5	22.5	19.7
Overall balance of payments (in millions of U.S. dollars)	-41	-2,639	-809	-91	328	-1,816	-1,909	44	335	780	1,298
Gross official reserves (in millions of U.S. dollars)	2,866	1,495	1,026	1,011	1,429	2,793	3,126	5,273	7,259	10,343	11,602
(months of prospective imports of goods and nonfactor services)	1.5	0.8	0.5	0.5	0.7	1.2	1.4	2.1	2.6	3.5	3.6
Net international reserves (in millions of U.S. dollars, program definition)	1,922	271	-269	...	...	...	...	...	...	...	...
GDP at current market prices (billions of birr)	4,341	6,158	8,722	11,676	11,649	15,844	15,709	19,904	24,333	29,282	34,646.4

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 (NBE).

[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. The Federal Democratic Republic of Ethiopia: General Government Financial Operations, 2020/21–2028/29[1]

(Millions of birr)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Actual			ECF	Proj.	ECF	Proj.	Projections			
Total revenue and grants	478,888	525,736	717,149	901,105	914,598	1,525,795	1,537,102	2,067,874	2,772,031	3,440,453	4,144,220
Revenue	444,583	499,043	685,021	857,904	871,391	1,311,704	1,327,216	1,958,301	2,653,556	3,314,154	3,994,420
Tax revenue	388,763	436,753	595,135	737,578	739,341	1,152,827	1,147,014	1,729,967	2,374,424	2,978,245	3,596,971
Direct taxes	173,965	206,825	265,385	355,331	345,522	443,378	436,349	711,573	974,541	1,192,392	1,432,883
Indirect taxes	214,798	229,927	329,749	382,247	393,819	709,449	710,665	1,018,395	1,399,883	1,785,853	2,164,088
Domestic indirect taxes	108,160	98,617	161,197	210,076	215,280	362,044	359,338	534,016	753,808	1,008,333	1,248,480
Import duties and taxes	106,638	131,310	168,553	172,171	178,539	347,405	351,328	484,379	646,075	777,520	915,608
Nontax revenue	55,819	62,290	89,887	120,326	132,049	158,877	180,202	228,333	279,132	335,909	397,448
Grants	34,305	26,693	32,128	43,201	43,207	214,091	209,886	109,574	118,475	126,299	149,801
Program grants	10,747	0	2,426	0	0	130,260	127,787	12,920	14,993	16,270	17,490
Project grants	23,558	26,693	29,701	43,201	43,207	83,831	82,099	96,654	103,483	110,030	132,311
Total expenditure and net lending (cash basis)	599,007	781,789	943,881	1,099,597	1,151,470	1,795,116	1,804,113	2,475,912	3,258,682	4,026,091	4,837,149
Recurrent expenditure [2]	363,597	518,302	588,122	664,815	681,799	1,238,198	1,225,267	1,558,608	1,989,379	2,442,213	2,905,009
Defense spending	37,092	102,617	82,825	50,000	71,122	80,430	80,430	110,038	134,519	161,881	191,538
Poverty-reducing expenditure [3]	176,979	208,540	234,055	281,983	281,325	488,766	484,574	764,247	980,988	1,204,136	1,438,984
Education	107,513	127,506	145,117	174,833	174,425	296,563	294,020	447,061	573,848	704,384	841,763
Health	40,665	47,267	53,596	64,571	64,421	116,540	115,541	197,641	253,692	311,400	372,134
Agriculture	21,850	23,282	26,288	31,671	31,597	57,160	56,670	90,476	116,135	142,552	170,355
Natural resources	5,051	7,779	6,928	8,347	8,327	14,158	14,037	22,411	28,766	35,310	42,196
Roads	1,899	2,706	2,126	2,561	2,555	4,344	4,307	6,658	8,546	10,490	12,536
Interest payments	24,001	38,513	54,544	71,759	68,888	177,469	172,945	227,390	287,352	370,374	439,357
Domestic interest and charges	16,563	26,602	41,557	61,406	56,774	149,814	144,330	183,774	235,776	306,618	363,896
External interest payments [4]	7,438	11,911	12,987	10,353	12,114	27,654	28,614	43,616	51,576	63,756	75,461
Other recurrent expenditure	125,525	168,632	216,699	261,073	260,464	491,533	487,318	456,934	586,520	705,822	835,130
Capital expenditure	235,410	263,488	355,759	434,782	469,671	556,918	578,846	917,304	1,269,303	1,583,878	1,932,140
Central treasury	186,923	216,570	284,022	356,486	374,225	409,066	434,048	743,751	1,071,428	1,373,215	1,686,855
External project grants	23,558	26,693	29,701	43,201	43,207	83,831	82,099	96,654	103,483	110,030	132,311
External project loans	24,929	20,224	42,036	35,095	52,239	64,022	62,700	76,900	94,392	100,633	112,974
Overall balance											
Including grants	-120,119	-256,054	-226,733	-198,492	-236,872	-269,320	-267,011	-408,038	-486,651	-585,638	-692,928
Excluding grants	-154,424	-282,747	-258,860	-241,693	-280,079	-483,412	-476,897	-517,612	-605,126	-711,938	-842,729
Financing	142,064	265,726	243,253	198,492	236,872	269,320	267,011	408,038	486,651	585,638	692,928
Net external financing	29,818	3,295	29,010	18,665	18,670	204,293	200,073	-39,953	77,444	81,095	-122,801
Gross borrowing [5]	26,804	20,224	51,843	35,095	35,104	303,770	297,494	76,900	197,778	187,120	112,974
IMF budget support						65,256	63,908	0	0	0	0
Project loans	24,929	20,224	42,036	35,095	35,104	64,022	62,700	76,900	94,392	100,633	112,974
Budget support	1,875	0	9,807	0	0	174,493	170,887	0	103,386	86,486	0
G20 Debt Service Suspension Initiative	8,009	0	0	0	0	0	0	0	0	0	0
Amortization, due	-4,995	-16,929	-22,833	-16,430	-16,434	-207,538	-203,249	-122,264	-141,578	-203,224	-235,775
Net domestic financing [6]	89,426	262,431	214,243	179,828	218,202	127,260	127,885	298,254	409,207	504,544	815,729
Banking system	34,862	206,614	141,729	89,914	109,101	29,260	29,260	144,384	204,603	252,272	407,865
Nonbank sources	54,564	55,817	72,514	89,914	109,101	98,000	98,625	153,870	204,603	252,272	407,865
o/w gross advances from NBE	51,625	61,201	189,543	95,000	111,129	0	0	0	0	0	0
o/w T-bills and T-bonds	88,378	201,230	24,700	84,828	107,074	127,260	127,885	298,254	409,207	504,544	815,729
o/w Other (incl. net deposit withdrawal)	-50,577	0	0	0	0	0	0	0	0	0	0
Privatization proceeds	22,820	0	0	0	0	0	0	88,791	0	0	0
Other below-the-line operations [7]	-21,945	-9,673	-16,521	0	0	-62,233	-60,947	60,947	0	0	0
Residual gap						108,061	105,828	5,411	21,244	97,199	0
CBE recapitalization											
Total debt outstanding				870,000	870,000	870,000	870,000	870,000	870,000	745,714	621,429
Debt service				0	0	78,300	78,300	78,300	78,300	229,628	202,702
Amortization				0	0	0	0	0	0	124,286	124,286
Interest (included in the budgetary central government)				0	0	78,300	78,300	78,300	78,300	105,342	78,416
Total net financing (budgetary plus CBE recap. amortization)				198,492	236,872	269,320	267,011	408,038	486,651	709,924	817,214

Sources: Ethiopian authorities and IMF staff estimates and projections.

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

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

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

[4] External interest and amortization are presented after HIPC debt relief from the World Bank and the African Development Bank.

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

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

[7] Negative amounts signify overfinancing. Net FY2024/25 overfinancing reflects expected timeline of DPO2 disbursement.

Table 2b. The Federal Democratic Republic of Ethiopia: General Government Financial Operations, 2020/21-2028/29[1]

(Percent of GDP)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Actual			ECF	Proj.	ECF	Proj.	Projections			
Total revenue and grants	11.0	8.5	8.2	7.7	7.9	9.6	9.8	10.4	11.4	11.7	12.0
Revenue	10.2	8.1	7.9	7.3	7.5	8.3	8.4	9.8	10.9	11.3	11.5
Tax revenue	9.0	7.1	6.8	6.3	6.3	7.3	7.3	8.7	9.8	10.2	10.4
Direct taxes	4.0	3.4	3.0	3.0	3.0	2.8	2.8	3.6	4.0	4.1	4.1
Indirect taxes	4.9	3.7	3.8	3.3	3.4	4.5	4.5	5.1	5.8	6.1	6.2
Domestic indirect taxes	2.5	1.6	1.8	1.8	1.8	2.3	2.3	2.7	3.1	3.4	3.6
Import duties and taxes	2.5	2.1	1.9	1.5	1.5	2.2	2.2	2.4	2.7	2.7	2.6
Nontax revenue	1.3	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Grants	0.8	0.4	0.4	0.4	0.4	1.4	1.3	0.6	0.5	0.4	0.4
Program grants	0.2	0.0	0.0	0.0	0.0	0.8	0.8	0.1	0.1	0.1	0.1
Project grants	0.5	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4
Total expenditure and net lending (cash basis)	13.8	12.7	10.8	9.4	9.9	11.3	11.5	12.4	13.4	13.7	14.0
Recurrent expenditure [2]	8.4	8.4	6.7	5.7	5.9	7.8	7.8	7.8	8.2	8.3	8.4
Defense spending	0.9	1.7	0.9	0.4	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Poverty-reducing expenditure [3]	4.1	3.4	2.7	2.4	2.4	3.1	3.1	3.8	4.0	4.1	4.2
Education	2.5	2.1	1.7	1.5	1.5	1.9	1.9	2.2	2.4	2.4	2.4
Health	0.9	0.8	0.6	0.6	0.6	0.7	0.7	1.0	1.0	1.1	1.1
Agriculture	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.5	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	0.1	0.1
Roads	0.0	0.0	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	0.6	0.6	1.1	1.1	1.1	1.2	1.3	1.3
Domestic interest and charges	0.4	0.4	0.5	0.5	0.5	0.9	0.9	0.9	1.0	1.0	1.1
External interest payments [4]	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Other recurrent expenditure	2.9	2.7	2.5	2.2	2.2	3.1	3.1	2.3	2.4	2.4	2.4
Capital expenditure	5.4	4.3	4.1	3.7	4.0	3.5	3.7	4.6	5.2	5.4	5.6
Central treasury	4.3	3.5	3.3	3.1	3.2	2.6	2.8	3.7	4.4	4.7	4.9
External project grants	0.5	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4
External project loans	0.6	0.3	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Overall balance											
Including grants	-2.8	-4.2	-2.6	-1.7	-2.0	-1.7	-1.7	-2.1	-2.0	-2.0	-2.0
Excluding grants	-3.6	-4.6	-3.0	-2.1	-2.4	-3.1	-3.0	-2.6	-2.5	-2.4	-2.4
Financing	3.3	4.3	2.8	1.7	2.0	1.7	1.7	2.1	2.0	2.0	2.0
Net external financing	0.7	0.1	0.3	0.2	0.2	1.3	1.3	-0.2	0.3	0.3	-0.4
Gross borrowing [5]	0.6	0.3	0.6	0.3	0.3	1.9	1.9	0.4	0.8	0.6	0.3
IMF budget support						0.4	0.4	0.0	0.0	0.0	0.0
Project loans	0.6	0.3	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3
Budget Support	0.0	0.0	0.1	0.0	0.0	1.1	1.1	0.0	0.4	0.3	0.0
G20 Debt Service Suspension Initiative	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization, due	-0.1	-0.3	-0.3	-0.1	-0.1	-1.3	-1.3	-0.6	-0.6	-0.7	-0.7
Net domestic financing [6]	2.1	4.3	2.5	1.5	1.9	0.8	0.8	1.5	1.7	1.7	2.4
Banking system	0.8	3.4	1.6	0.8	0.9	0.2	0.2	0.7	0.8	0.9	1.2
Nonbank sources	1.3	0.9	0.8	0.8	0.9	0.6	0.6	0.8	0.8	0.9	1.2
o/w gross advances from NBE	1.2	1.0	2.2	0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w T-bills and T-bonds	2.0	3.3	0.3	0.7	0.9	0.8	0.8	1.5	1.7	1.7	2.4
o/w Other (incl. net deposit withdrawal)	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0
Other below-the-line operations [7]	-0.5	-0.2	-0.2	0.0	0.0	-0.4	-0.4	0.3	0.0	0.0	0.0
Residual gap						0.7	0.7	0.0	0.1	0.3	
CBE recapitalization											
Total debt outstanding				7.5	7.5	5.5	5.5	4.4	3.6	2.5	1.8
Debt service				0.0	0.0	0.5	0.5	0.4	0.3	0.8	0.6
Amortization				0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Interest (included in the budgetary central government)				0.0	0.0	0.5	0.5	0.4	0.3	0.4	0.2
Total net financing (budgetary plus CBE recap. amortization)				1.7	2.0	1.7	1.7	2.1	2.0	2.4	2.4
Memorandum items :											
Primary fiscal balance, including grants	-2.2	-3.5	-2.0	-1.1	-1.4	-0.6	-0.6	-0.9	-0.8	-0.7	-0.7

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] Excluding special programs (demobilization and reconstruction).

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

[4] External interest and amortization are presented after HIPC debt relief from the World Bank and the African Development Bank.

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

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

[7] Negative amounts signify overfinancing. Net FY2024/25 overfinancing reflects expected timeline of DPO2 disbursement.

Table 3a. The Federal Democratic Republic of Ethiopia: Monetary Survey and Central Bank Accounts, 2020/21–2028/29

(Millions of birr)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
		Actual		ECF	Proj.	ECF	Proj.		Projections		
					I. Depository Corporation Survey						
Monetary survey											
Net foreign assets	-812	-111,428	-160,098	-262,628	-245,300	-410,162	-348,644	-155,942	15,919	405,652	587,432
Central bank	-43,907	-134,219	-191,423	-295,505	-288,909	-563,258	-527,993	-352,235	-193,828	183,119	353,037
Commercial banks	43,095	22,791	31,325	32,877	43,609	153,096	179,349	196,293	209,747	222,532	234,395
Net domestic assets	1,349,078	1,826,738	2,330,946	2,746,639	2,723,192	3,646,467	3,529,137	4,237,699	5,315,350	6,101,526	7,286,804
Domestic credit [1]	1,481,844	1,930,622	2,444,436	2,758,665	2,797,752	3,232,045	3,379,647	4,191,046	5,367,185	6,440,915	7,741,557
Claims on government (net) [2]	214,269	422,864	573,676	663,686	745,541	692,946	1,620,118	1,764,502	1,968,725	2,220,597	2,629,067
Claims on nongovernment	1,267,575	1,507,758	1,870,760	2,094,978	2,052,211	2,539,099	1,759,529	2,426,544	3,398,461	4,220,318	5,112,489
Public enterprises	603,517	692,126	779,194	849,502	781,894	982,253	285,909	466,629	654,580	927,661	1,161,301
Private sector	664,059	815,631	1,091,566	1,245,477	1,270,317	1,556,846	1,473,620	1,959,915	2,743,881	3,292,657	3,951,188
Broad money	1,348,266	1,715,310	2,170,848	2,484,011	2,477,892	3,236,305	3,180,493	4,081,757	5,331,270	6,507,178	7,874,235
Money	437,392	588,016	706,142	812,640	822,499	1,032,661	1,026,848	1,301,311	1,672,245	2,031,491	2,446,147
Currency outside banks	133,621	173,383	211,637	255,097	205,441	297,559	229,180	271,487	317,013	373,784	435,688
Demand deposits	303,771	414,633	494,505	557,543	617,057	735,102	797,668	1,029,824	1,355,232	1,657,708	2,010,459
Quasi money	910,874	1,127,294	1,464,706	1,671,370	1,655,393	2,203,644	2,153,644	2,780,447	3,659,025	4,475,686	5,428,088
Savings deposits	816,380	1,016,049	1,315,260	1,499,114	1,461,904	1,976,531	1,902,662	2,456,418	3,232,608	3,954,098	4,795,508
Time deposits	94,494	111,245	149,446	172,256	193,489	227,113	250,982	324,028	426,416	521,589	632,580
Central bank											
Net foreign assets	-43,907	-134,219	-191,423	-295,505	-288,909	-563,258	-527,993	-352,235	-193,828	183,119	353,037
Foreign assets	125,860	79,820	56,154	57,481	82,159	365,203	451,433	755,241	1,027,841	1,517,010	1,717,160
Foreign liabilities	169,767	214,038	247,577	352,986	371,069	928,462	979,427	1,107,476	1,221,669	1,333,891	1,364,123
Net domestic assets	308,209	496,717	669,895	789,656	762,133	1,175,317	1,133,313	1,116,194	1,103,620	895,857	927,956
Domestic credit	301,662	371,039	566,123	661,123	673,576	573,598	564,565	461,411	450,980	244,731	444,605
Government (net)	245,019	326,216	521,300	616,300	632,253	616,300	632,253	632,253	632,253	632,253	632,253
Other items (net)	6,547	125,678	103,772	128,533	88,557	601,719	568,748	654,782	652,641	651,126	483,351
Reserve money	264,302	362,499	478,472	494,151	473,223	612,059	605,319	763,959	909,793	1,078,976	1,280,993
Currency outside banks	133,621	173,383	211,637	255,097	205,441	297,559	229,180	271,487	317,013	373,784	435,688
Commercial bank reserves	130,681	189,116	266,835	239,054	267,782	314,500	376,139	492,472	592,780	705,193	845,305
Cash in vault	30,088	34,828	42,679	45,420	51,855	59,755	72,740	95,237	114,635	136,374	163,470
Reserve deposit	100,593	111,346	127,177	143,739	143,739	162,397	162,397	182,696	205,534	231,011	289,978
					(Annual percentage change, unless otherwise indicated)						
Monetary survey											
Net foreign assets	-90.2	13617.2	43.7	64.0	53.2	56.2	42.1	-55.3	-110.2	2448.2	44.8
Net domestic assets	29.0	35.4	27.6	17.8	16.8	32.8	29.6	20.1	25.4	14.8	19.4
Domestic credit 1	25.9	30.3	26.6	12.9	14.5	17.2	20.8	24.0	28.1	20.0	20.2
Claims on government (net) [2]	56.3	97.4	35.7	15.7	30.0	4.4	117.3	8.9	11.6	12.8	18.4
Claims on nongovernment	21.9	18.9	24.1	12.0	9.7	21.2	-14.3	37.9	40.1	24.2	21.1
Public enterprises	11.0	14.7	12.6	9.0	0.3	15.6	-63.4	63.2	40.3	41.7	25.2
Private sector	33.8	22.8	33.8	14.1	16.4	25.0	16.0	33.0	40.0	20.0	20.0
Broad money	29.9	27.2	26.6	14.4	14.1	30.3	28.4	28.3	30.6	22.1	21.0
Money	21.3	34.4	20.1	15.1	16.5	27.1	24.8	26.7	28.5	21.5	20.4
Quasi money	34.5	23.8	29.9	14.1	13.0	31.8	30.1	29.1	31.6	22.3	21.3
Memorandum items:											
Base money growth	7.2	37.2	32.0	3.3	-1.1	23.9	27.9	26.2	19.1	18.6	18.7
Nominal GDP growth	28.7	41.8	41.7	33.9	33.6	35.7	34.9	26.7	22.2	20.3	18.3
Excess reserve deposit (billions of birr)	31,976	22,206	66,804	37,609	33,241	49,033	96,808	130,516	127,147	139,481	161,137
Percent of deposits	2.6	2.1	3.4	1.7	1.5	1.7	3.3	3.4	2.5	2.3	2.2
Money multiplier (broad money/reserve money)	5.10	4.73	4.54	5.03	5.24	5.29	5.25	5.34	5.86	6.03	6.15
Velocity (GDP/broad money)	3.05	3.59	4.02	4.70	4.70	4.90	4.94	4.88	4.56	4.50	4.40
Currency-deposit ratio	0.110	0.112	0.108	0.114	0.090	0.101	0.078	0.071	0.063	0.061	0.059
Birr per U.S. dollar (end of period)	43.7	52.0	54.6	…	…	…	…	…	…	…	…
Nominal GDP (millions of birr)	4,108,684	6,157,538	8,722,308	11,676,013	11,648,770	15,844,489	15,708,608	19,904,296	24,332,543	29,281,911	34,646,424

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. The Federal Democratic Republic of Ethiopia: Monetary Survey and Central Bank Accounts, 2020/21–2028/29

(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Actual			ECF	Proj.	ECF	Proj.	Projections			
				Percent of GDP							
Monetary survey											
Net foreign assets	0.0	-1.8	-1.8	-2.2	-2.1	-2.6	-2.2	-0.8	0.1	1.4	1.7
Central bank	-1.1	-2.2	-2.2	-2.5	-2.5	-3.6	-3.4	-1.8	-0.8	0.6	1.0
Commercial banks	1.0	0.4	0.4	0.3	0.4	1.0	1.1	1.0	0.9	0.8	0.7
Net domestic assets	32.8	29.7	26.7	23.5	23.4	23.0	22.5	21.3	21.8	20.8	21.0
Domestic credit [1]	36.1	31.4	28.0	23.6	24.0	20.4	21.5	21.1	22.1	22.0	22.3
Claims on government (net) [2]	5.2	6.9	6.6	5.7	6.4	4.4	10.3	8.9	8.1	7.6	7.6
Claims on nongovernment	30.9	24.5	21.4	17.9	17.6	16.0	11.2	12.2	14.0	14.4	14.8
Public enterprises	14.7	11.2	8.9	7.3	6.7	6.2	1.8	2.3	2.7	3.2	3.4
Private sector	16.2	13.2	12.5	10.7	10.9	9.8	9.4	9.8	11.3	11.2	11.4
Broad money	32.8	27.9	24.9	21.3	21.3	20.4	20.2	20.5	21.9	22.2	22.7
Money	10.6	9.5	8.1	7.0	7.1	6.5	6.5	6.5	6.9	6.9	7.1
Currency outside banks	3.3	2.8	2.4	2.2	1.8	1.9	1.5	1.4	1.3	1.3	1.3
Demand deposits	7.4	6.7	5.7	4.8	5.3	4.6	5.1	5.2	5.6	5.7	5.8
Quasi money	22.2	18.3	16.8	14.3	14.2	13.9	13.7	14.0	15.0	15.3	15.7
Savings deposits	19.9	16.5	15.1	12.8	12.5	12.5	12.1	12.3	13.3	13.5	13.8
Time deposits	2.3	1.8	1.7	1.5	1.7	1.4	1.6	1.6	1.8	1.8	1.8
Central bank											
Net foreign assets	-1.1	-2.2	-2.2	-2.5	-2.5	-3.6	-3.4	-1.8	-0.8	0.6	1.0
Foreign assets	3.1	1.3	0.6	0.5	0.7	2.3	2.9	3.8	4.2	5.2	5.0
Foreign liabilities	4.1	3.5	2.8	3.0	3.2	5.9	6.2	5.6	5.0	4.6	3.9
Net domestic assets	7.5	8.1	7.7	6.8	6.5	7.4	7.2	5.6	4.5	3.1	2.7
Domestic credit	7.3	6.0	6.5	5.7	5.8	3.6	3.6	2.3	1.9	0.8	1.3
Government (net)	6.0	5.3	6.0	5.3	5.4	3.9	4.0	3.2	2.6	2.2	1.8
Other items (net)	0.2	2.0	1.2	1.1	0.8	3.8	3.6	3.3	2.7	2.2	1.4
Reserve money	6.4	5.9	5.5	4.2	4.1	3.9	3.9	3.8	3.7	3.7	3.7
Currency outside banks	3.3	2.8	2.4	2.2	1.8	1.9	1.5	1.4	1.3	1.3	1.3
Commercial bank reserves	3.2	3.1	3.1	2.0	2.3	2.0	2.4	2.5	2.4	2.4	2.4
Cash in vault	0.7	0.6	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Reserve deposit	2.4	1.8	1.5	1.2	1.2	1.0	1.0	0.9	0.8	0.8	0.8
Nominal GDP (millions of birr)	4,108,684	6,157,538	8,722,308	11,676,013	11,648,770	15,844,489	15,708,608	19,904,296	24,332,543	29,281,911	34,646,424

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. The Federal Democratic Republic of Ethiopia: Summary Balance of Payments, 2020/21–2028/29

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

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
	Actual			ECF	Proj.	ECF	Proj.	Projections			
(Millions of U.S. dollars, unless otherwise indicated)											
Current account balance [1]	-3,169	-5,134	-4,635	-5,945	-5,520	-6,078	-6,205	-4,734	-3,989	-3,685	-3,801
Excl. official transfers [1]	-4,538	-6,270	-5,729	-7,084	-6,659	-7,479	-7,608	-6,300	-5,641	-5,385	-5,552
Trade balance	-10,671	-13,991	-13,512	-13656	-13,440	-15,127	-14,807	-15,216	-15,779	-16,684	-17,635
Exports of goods	3,617	4,101	3,618	3,560	3,754	3,641	3,882	4,496	5,742	7,229	8,124
Imports of goods	-14,288	-18,092	-17,130	-17,216	-17,194	-18,768	-18,689	-19,712	-21,521	-23,913	-25,760
Services (net)	587	1,213	1,399	1535	1,535	1,850	1,850	2,300	2,400	2,521	2,537
Exports	4,895	6,350	7,174	7,650	7,650	8,450	8,450	9,380	10,505	11,750	12,166
Imports	-4,308	-5,137	-5,775	-6,115	-6,115	-6,600	-6,600	-7,080	-8,105	-9,229	-9,630
Income (net) [1]	-572	-574	-413	-934	-934	-1,052	-1,052	-864	-867	-853	-833
Private transfers (net)	6,118	7,082	6,798	5,971	6,180	6,850	6,401	7,481	8,605	9,630	10,380
Official transfers (net) [1]	1,369	1,136	1,093	1139	1,139	1,401	1,403	1,566	1,652	1,700	1,751
Capital account balance [1]	3,467	1,975	2,929	4,040	4,029	3,407	3,434	4,686	4,663	5,615	6,222
Foreign direct investment (net, incl. privatization)	3,970	3,308	3,428	3,363	3,352	3,700	3,727	4,671	4,711	5,493	6,148
Other investment (net) [1]	-504	-1,333	-499	676	676	-293	-293	15	-48	122	74
Federal government	706	274	1,944	405	405	137	137	940	612	353	687
Disbursements [1]	973	616	2,372	1,090	1,090	1,855	1,855	1,830	1,532	1,435	1,900
Amortization [1]	-267	-343	-429	-685	-685	-1,718	-1,718	-890	-920	-1,082	-1,214
Other public sector [1,2]	-1,070	-1,668	-860	844	844	-430	-430	-925	-660	-230	-613
Disbursements	420	291	541	2,536	2,536	914	914	300	319	545	212
Amortization [1]	-1,490	-1,959	-1,401	-1,692	-1,692	-1,345	-1,345	-1,226	-979	-775	-825
Private sector borrowing (net)	153	0	0	0	0	0	0	0	0	0	0
Other (net)	-293	62	-1,583	-572	-572	0	0	0	0	0	0
Errors and omissions	-339	520	897	0	0	0	0	0	0	0	0
Overall balance	-41	-2,639	-809	-1906	-1,491	-2,671	-2,771	-48	674	1,930	2,421
Financing	41	2,639	809	*1,906*	1,491	2,671	2,771	48	-674	-1,930	-2,421
Central bank (net; increase –)	238	1,371	469	-197	-615	-134	-40	-1,689	-1,526	-2,643	-1,298
Reserves (increase –)	244	1,371	469	15	-403	-1,781	-1,696	-2,148	-1,986	-3,084	-1,259
Liabilities (increase +)	-6	0	0	-212	-212	1,647	1,656	459	459	441	-39
IMF credit (net)	-6	0	0	-212	-212	1,647	1,656	459	459	441	-39
of which: IMF Rapid Financing Instrument (RFI)	…	…	…	…	…	…	…	…	…	…	…
SDR allocation	0	397	0	0	0	0	0	0	0	0	0
Prospective donor financing	0	0	0	0	0	1,500	1,500	1,000	700	550	0
of which: grants	*0*	*0*	*0*	0	0	*1,000*	1,000	*0*	*0*	*0*	*0*
Exceptional Financing	488	720	475	*2,103*	2,106	*1,905*	1,911	737	152	164	-1,123
Debt service restructuring [3,4]	250	663	475	*2,103*	2,106	1,905	1,911	737	152	164	-1,123
G20 Debt Service Suspension Initiative [3]	231	57	0	*0*	0	0	0	0	0	0	0
IMF CCR Trust debt relief [5]	7	1	0	0	0	0	0	0	0	0	0
Commercial banks (net; increase –)	-685	548	-135	0	0	-600	-600	0	0	0	0
(Annual percentage change, unless otherwise indicated)											
Memorandum items :											
Exports of goods	21.1	13.4	-11.8	-1.6	3.7	2.3	3.4	15.8	27.7	25.9	12.4
Imports of goods	2.9	26.6	-5.3	0.5	0.4	9.0	8.7	5.5	9.2	11.1	7.7
Services exports	4.4	29.7	13.0	6.6	6.6	10.5	10.5	11.0	12.0	11.9	3.5
Services imports	0.4	19.2	12.4	5.9	5.9	7.9	7.9	7.3	14.5	13.9	4.3
Private transfers	18.0	15.7	-4.0	-12.2	-9.1	14.7	3.6	16.9			
Exports of goods and services (percent of GDP)	7.6	8.2	6.6	5.4	5.5	8.9	9.0	9.6	10.0	10.3	9.8
Imports of goods and services (percent of GDP)	-16.7	-18.3	-14.0	-11.2	-11.2	-18.6	-18.4	-18.6	-18.2	-18.0	-17.1
Trade balance (percent of GDP)	-9.6	-11.0	-8.3	-6.5	-6.5	-11.1	-10.8	-10.5	-9.7	-9.0	-8.5
Private transfers (net, percent of GDP)	5.5	5.6	4.2	2.9	3.0	5.0	4.7	5.2	5.3	5.2	5.0
Gross official reserves (millions U.S. dollars)	2,866	1,495	1,026	1,011	1,429	2,793	3,126	5,273	7,259	10,343	11,602
(Months of following year's imports of goods and services)	1.5	0.8	0.5	0.5	0.7	1.2	1.4	2.1	2.6	3.5	3.6

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Excludes prospective donor financing and/or exceptional financing.

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

[3] Staff estimates.

[4] Represents standstill agreement with official bilateral creditors as for debt service falling due in CY2023 and CY2024 (staff estimate).

[5] Currently available on debt service to the Fund falling due until January 10, 2022. Subsequent relief is contingent on availability of financing for the Trust.

Table 4b. The Federal Democratic Republic of Ethiopia: Summary Balance of Payments, 2020/21–2028/29

(In percent of GDP)

	2020/21	2021/22	2022/23	2023/24		2024/25		2025/26	2026/27	2027/28	2028/29
		Actual		ECF	IMF Staff	ECF	IMF Staff		Projections		
				(Percent of GDP, unless otherwise indicated)							
Current account balance [1]	-2.8	-4.0	-2.8	-2.8	-2.7	-4.5	-4.5	-3.3	-2.4	-2.0	-1.8
Excl. official transfers [1]	-4.1	-4.9	-3.5	-3.4	-3.2	-5.5	-5.5	-4.4	-3.5	-2.9	-2.7
Trade balance	-9.6	-11.0	-8.3	-6.5	-6.5	-11.1	-10.8	-10.5	-9.7	-9.0	-8.5
Exports of goods	3.3	3.2	2.2	1.7	1.8	2.7	2.8	3.1	3.5	3.9	3.9
Imports of goods	-12.8	-14.3	-10.5	-8.2	-8.3	-13.8	-13.6	-13.7	-13.2	-13.0	-12.5
Services (net)	0.5	1.0	0.9	0.7	0.7	1.4	1.3	1.6	1.5	1.4	1.2
Exports	4.4	5.0	4.4	3.7	3.7	6.2	6.2	6.5	6.4	6.4	5.9
Imports	-3.9	-4.1	-3.5	-2.9	-2.9	-4.8	-4.8	-4.9	-5.0	-5.0	-4.7
Income (net) [1]	-0.5	-0.5	-0.3	-0.4	-0.4	-0.8	-0.8	-0.6	-0.5	-0.5	-0.4
Private transfers (net)	5.5	5.6	4.2	2.9	3.0	5.0	4.7	5.2	5.3	5.2	5.0
Official transfers (net) [1]	1.2	0.9	0.7	0.5	0.5	1.0	1.0	1.1	1.0	0.9	0.8
Capital account balance [1]	3.1	1.6	1.8	1.9	1.9	2.5	2.5	3.2	2.9	3.0	3.0
Foreign direct investment (net, incl. privatization)	3.6	2.6	2.1	1.6	1.6	2.7	2.7	3.2	2.9	3.0	3.0
Other investment (net) [1,2]	-0.5	-1.1	-0.3	0.3	0.3	-0.2	-0.2	0.0	0.0	0.1	0.0
Federal government	0.6	0.2	1.2	0.2	0.2	0.1	0.1	0.7	0.4	0.2	0.3
Disbursements [1]	0.9	0.5	1.4	0.5	0.5	1.4	1.4	1.3	0.9	0.8	0.9
Amortization [1]	-0.2	-0.3	-0.3	-0.3	-0.3	-1.3	-1.3	-0.6	-0.6	-0.6	-0.6
Other public sector [1]	-1.0	-1.3	-0.5	0.4	0.4	-0.3	-0.3	-0.6	-0.4	-0.1	-0.3
Disbursements	0.3	0.2	0.3	1.9	1.8	0.6	0.6	0.2	0.2	0.3	
Amortization [1]	-1.2	-1.2	-0.7	-1.2	-1.2	-0.9	-0.9	-0.8	-0.6	-0.4	
Private sector borrowing (net)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (net)	-0.3	0.0	-1.0	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.3	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.0	-2.1	-0.5	-0.9	-0.7	-2.0	-2.0	0.0	0.4	1.0	1.2
Financing	0.0	2.1	0.5	0.9	0.7	2.0	2.0	0.0	-0.4	-1.0	-1.2
Central bank (net; increase –)	0.2	1.1	0.3	-0.1	-0.3	-0.1	0.0	-1.2	-0.9	-1.4	-0.6
Reserves (increase –)	0.2	1.1	0.3	0.0	-0.2	-1.3	-1.2	-1.5	-1.2	-1.7	-0.6
Liabilities (increase +)	0.0	0.0	0.0	-0.1	-0.1	1.2	1.2	0.3	0.3	0.2	0.0
IMF credit (net)	0.0	0.0	0.0	-0.1	-0.1	1.2	1.2	0.3	0.3	0.2	0.0
of which: IMF Rapid Financing Instrument (RFI)	…	…	…	…	…	…	…	…			
SDR allocation	0.0	0.3	0.0	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	0.0	0.0	1.1	1.1	0.7	0.4	0.3	0.0
of which: grants	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.7*	0.7	*0.0*	0.0	0.0	0.0
Exceptional Financing	0.4	0.6	0.3	1.0	1.0	1.4	1.4	0.5	0.1	0.1	-0.5
Debt service restructuring [3]	0.2	0.5	0.3	1.0	1.0	1.4	1.4	0.5	0.1	0.1	-0.5
Reprofiling of external sovereign deposits at NBE, 2020			*0.3*	*0.1*	*0.1*	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0
Standstill agreement with Official Bilateral Creditors [4]		*0.0*	*0.0*	*0.9*	*0.9*	*0.6*	*0.6*	*0.1*	-0.2	-0.6	
Other restructuring (incl. pros. G20 CF)	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.8*	*0.8*	*0.4*	0.3	0.7	0.0
G20 Debt Service Suspension Initiative (DSSI) [3]	*0.2*	*0.0*	*0.0*	0.0	*0.0*	0.0	*0.0*	*0.0*	0.0	0.0	0.0
IMF CCR Trust debt relief [5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	N.A.	N.A.
Commercial banks (net; increase –)	-0.6	0.4	-0.1	0.0	0.0	-0.4	-0.4	0.0	0.0	0.0	0.0
Gross official reserves	2.6	1.2	0.6	0.5	0.7	2.1	2.3	3.7	4.4	5.6	5.6

Sources: Ethiopian authorities and IMF staff estimates and projections.

[1] Excludes prospective donor financing and/or exceptional financing.

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

[3] Staff estimates.

[4] Represents standstill agreement with official bilateral creditors as for debt service falling due in CY2023 and CY2024 (staff estimate).

[5] Currently available on debt service to the Fund falling due until January 10, 2022. Subsequent relief is contingent on availability of financing for the Trust.

Table 5. The Federal Democratic Republic of Ethiopia: Financial Soundness Indicators of the Banking Sector

(Percent, unless otherwise indicated)

	Jun-21	Jun-22	Jun-23	Mar-24	Jun-24
Capital adequacy					
Capital to Risk-Weighted Assets	15.2	16.3	14.7	15.7	15.4
Capital to Assets	6.9	7.5	7.8	8.4	8.2
Asset quality					
NPLs to Total Loans [1]	3.5	3.9	3.6	4.7	3.9
NPLs Net of Provisions to Capital	6.0	-4.7	14.7	15.7	15.4
Earning and profitability					
Return on Assets	1.9	2.4	2.0	1.7	2.0
Return on Equity[2]	26.6	32.6	25.7	21.5	24.6
Liquidity					
Liquid Assets to Total Assets	15.5	21.0	19.3	16.4	17.8
Liquid Assets to Total Deposits	20.5	27.1	24.3	20.7	22.4

Sources: National Bank of Ethiopia

[1]Reported NPLs exclude non-performing government-guaranteed SOE debts, and are not adjusted for the results of the 2021 CBE AQR.

[2]The average capital used to calculate the ROE excludes retained earning and profit & loss.

Table 6. The Federal Democratic Republic of 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
	ECF	Proj.	ECF	Proj.	Projections			(FY2024/25-27/28)
External financing requirement	**9,692**	**9,684**	**13,146**	**13,189**	**10,620**	**9,582**	**10,403**	**43,794**
Current account deficit, excl. official transfers	7,117	6,692	7,479	7,608	6,300	5,641	5,385	24,934
Federal government amortization	685	685	1,718	1,718	890	920	1,082	4,610
Other public sector amortization[1]	1,692	1,692	1,345	1,345	1,226	979	775	4,325
Repayments to Fund	212	212	223	223	56	57	75	411
Change in gross reserves (increase +)	-15	403	1,781	1,696	2,148	1,986	3,084	8,914
Change in commercial bank reserves (increase +)	0	0	600	600	0	0	0	600
External financing sources	**6,417**	**6,406**	**6,469**	**6,496**	**6,151**	**6,562**	**7,473**	**26,682**
Foreign direct investment, excl. privatization	3,363	3,352	3,700	3,727	4,021	4,711	5,493	17,952
External loans to Federal government	1,090	1,090	1,855	1,855	1,830	1,532	1,435	6,652
Other public sector external borrowing	2,536	2,536	914	914	300	319	545	2,079
Other (net, incl. change in commercial banks' NFA)	-572	-572	0	0	0	0	0	0
Financing gap (need for financing +)	**3,275**	**3,278**	**6,676**	**6,693**	**4,468**	**3,020**	**2,930**	**17,112**
Expected financing	**3,275**	**3,278**	**2,257**	**2,265**	**2,308**	**1,313**	**550**	**6,436**
Official transfers	1,139	1,139	1,401	1,403	1,566	1,652	1,700	6,322
Privatization proceeds	0	0	0	0	650	0	0	650
Reprofiling of external sovereign deposits at NBE, 2020 [2]	288	288	0	0	0	0	0	0
Standstill agreement with Official Bilateral Creditors [3]	1,815	1,819	856	862	92	-339	-1,150	-536
Accumulation of arrears	33	33						
Residual gap	**0**	**0**	**4,419**	**4,428**	**2,161**	**1,707**	**2,379**	**10,675**
IMF	0	0	1,870	1,879	515	516	516	3,425
Disbursements	0	*0*	1,870	*1,879*	*515*	*516*	*516*	3,425
Prospective debt restructuring	0	0	1,050	1,050	646	491	1,313	3,500
Prospective budget support	0	0	1,500	1,500	1,000	700	550	3,750
Memorandum items:								
Gross official reserves (millions U.S. dollars)	1,011	1,429	2,793	3,126	5,273	7,259	10,343	
(Months of following year's imports of goods and services)	0	0.7	1.2	1.4	2.1	2.6	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 Represents standstill agreement with official bilateral creditors as for debt service falling due in CY2023 and CY2024 (staff estimate).

Table 7. The Federal Democratic Republic of 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. The Federal Democratic Republic of Ethiopia: Indicators of Fund Credit, 2023/24–2038/39[1]

(In millions of SDR unless stated otherwise)

	2023/24	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
Fund obligations based on existing credit																
(In millions of SDR)																
Principal	7.5	165.4	41.8	41.8	55.1	28.4	34.2	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)	0.0	9.0	3.4	2.6	1.8	1.1	0.3	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)	7.5	174.4	45.1	44.4	57.0	29.5	156.0	300.3	377.0	453.7	587.9	313.1	210.9	134.2	57.5	0.0
Principal	7.5	165.4	41.8	41.8	55.1	28.4	155.7	300.3	377.0	453.7	587.9	313.1	210.9	134.2	57.5	0.0
PRGT	0.0	0.0	26.7	26.7	40.1	13.4	148.1	300.3	377.0	453.7	587.9	313.1	210.9	134.2	57.5	0.0
EFF	7.5	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
RFI	0.0	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
Charges and interest (excl. obligations to SDR department)	0.0	9.0	3.4	2.6	1.8	1.1	0.3	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	7.5	174.4	45.1	44.4	57.0	29.5	156.0	300.3	377.0	453.7	587.9	313.1	210.9	134.2	57.5	0.0
In millions of U.S. dollars	10.0	231.9	60.2	59.3	76.3	39.5	209.0	402.4	505.1	607.9	787.7	419.5	282.5	179.8	77.1	0.0
In percent of general government revenue	0.1	2.0	0.4	0.3	0.4	0.2	0.8	1.3	1.5	1.6	1.9	0.9	0.6	0.3	0.1	0.0
In percent of exports of goods and services	0.1	1.9	0.4	0.4	0.4	0.2	1.0	1.7	1.9	2.0	2.4	1.1	0.7	0.4	0.2	0.0
In percent of total external debt service	0.7	6.7	2.0	1.9	1.9	1.0	5.6	14.3	17.2	20.1	27.3	14.4	10.6	7.3	3.1	0.0
In percent of gross international reserves	0.7	7.4	1.1	0.8	0.7	0.3	1.6	2.6	2.7	3.0	3.4	1.6	1.0	0.6	0.2	0.0
In percent of GDP	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	2.5	58.0	15.0	14.8	18.9	9.8	51.9	99.9	125.4	150.9	195.5	104.1	70.1	44.6	19.1	0.0
Outstanding Fund credit (end of period)																
In millions of SDRs	366.7	1,607.1	1,948.7	2,290.4	2,618.6	2,590.2	2,434.6	2,134.3	1,757.2	1,303.6	715.7	402.6	191.7	57.5	0.0	0.0
In millions of U.S. dollars	488.2	2,137.7	2,598.3	3,061.1	3,508.5	3,470.5	3,261.9	2,859.5	2,354.4	1,746.5	958.9	539.4	256.8	77.1	0.0	0.0
In percent of general government revenue	3.2	21.0	19.0	17.6	17.1	14.8	12.3	9.7	7.2	4.8	2.4	1.2	0.5	0.1	0.0	0.0
In percent of exports of goods and services	4.3	17.3	18.7	18.8	18.5	17.1	15.0	11.8	8.9	5.9	2.9	1.5	0.6	0.2	0.0	0.0
In percent of total external debt	1.4	5.7	6.6	7.5	8.3	8.4	8.0	7.0	5.8	4.3	2.3	1.3	0.6	0.2	0.0	0.0
In percent of gross international reserves	34.2	68.4	49.3	42.2	33.9	29.9	25.1	18.3	12.8	8.6	4.2	2.1	0.9	0.2	0.0	0.0
In percent of GDP	0.2	1.6	1.8	1.9	1.9	1.7	1.4	1.1	0.8	0.6	0.3	0.1	0.1	0.0	0.0	0.0
In percent of quota	121.9	534.4	648.1	761.7	870.8	861.4	809.6	709.8	584.4	433.5	238.0	133.9	63.8	19.1	0.0	0.0
PRGT	44.4	511.9	630.6	749.2	863.3	858.9	809.6	709.8	584.4	433.5	238.0	133.9	63.8	19.1	0.0	0.0
EFF	27.5	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
RFI	50.0	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)	-7.5	1,240.4	341.6	341.6	328.3	-28.4	-155.7	-300.3	-377.0	-453.7	-587.9	-313.1	-210.9	-134.2	-57.5	0.0
Disbursements	0.0	1,405.8	383.4	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
Repayments and repurchases	7.5	165.4	41.8	41.8	55.1	28.4	155.7	300.3	377.0	453.7	587.9	313.1	210.9	134.2	57.5	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)	871.4	1,327.2	1,958.3	2,653.6	3,314.2	3,994.4	4,669.6	5,447.3	6,314.4	7,362.7	8,489.0	9,766.8	11,195.5	12,856.4	14,626.2	16,564.4
Exports of goods and services (billions of U.S. dollars)	11.4	12.3	13.9	16.2	19.0	20.3	21.7	24.2	26.5	29.8	33.3	37.2	40.7	44.7	49.1	53.7
Total debt service (millions of U.S. dollars)																
Gross international reserves (billions of U.S. dollars)	1.4	3.1	5.3	7.3	10.3	11.6	13.0	15.6	18.4	20.4	23.1	25.9	29.3	32.2	35.6	40.6
In months of prospective imports	0.7	1.4	2.1	2.6	3.5	3.6	3.7	4.2	4.4	4.5	4.7	4.8	5.0	5.0	5.2	5.5
Nominal GDP (billions of U.S. dollars)	208.2	137.2	144.3	163.1	184.4	206.4	229.5	255.7	282.6	312.7	344.6	379.5	416.6	456.8	499.9	545.4
SDR per U.S. dollar (period average)	0.8	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
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 in June.

[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. The Federal Democratic Republic of Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024–September 2025

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

	end-Jun 2024	Aug. 16, 2024			end-Sep 2024			end-Dec 2024			end-Mar 2025			end-Jun 2025			end-Sep 2025 (proposed)
	Preliminary. Initial level	Program target	Actual	Status	Program target	Program target	Proposed	Prog. Request	Program target	Proposed	Prog. Request	Proposed	Proposed	Prog. Request	Program target	Proposed	Indicative target
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/]	150,000	N/A	N/A	N/A	42,000	43,000	42,000	69,000	70,000	69,000	95,000	97,000	95,000	106,000	109,000	106,000	76,000
Net international reserves (floor, cumulative change since previous June, US$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	600	500	400	500	500	300	500	400	100	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)	384,000	N/A	N/A	N/A	86,000	85,000	86,000	192,000	189,000	192,000	347,000	341,000	347,000	578,000	569,000	578,000	120,000
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10895	Met	0	0	0	0	0	0	0	0	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	0	0	0	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	0	0	0	0	0	0	0	0
Indicative targets																	
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) [2/]	747,485	N/A	N/A	N/A	37,000	(148,000)	37,000	74,000	(296,000)	74,000	110,000	(444,000)	110,000	147,000	(592,000)	147,000	50,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [4/]	9,000	N/A	N/A	N/A	6,500	6,800	6,500	22,100	23,400	22,100	33,200	35,100	33,200	51,400	54,200	51,400	12,000
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	2,000	2,000	2,500	2,500	2500	2,750	2,750	2,750	3,000	3,000	3,000	N/A
Memorandum items:																	
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	791				211	211	211	421	421	421	632	632	632	842	842	842	201
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	627				1,638	1,638	1,638	1,775	1,775	1775	1,913	1,913	1,913	2,050	2,050	2,050	391
Gross privatization proceeds (US$ millions, cumulative since previous June)	0				0	0	0	0	0	0	0	0	0	0	0	0	163

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/ 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. The Federal Democratic Republic of Ethiopia: Structural Benchmarks

(modified SBs in bold text)

Measure	Rationale	Board Approved Target Date	Proposed New Target Date	Status
1. Council of Ministers to adopt and publish a medium-term revenue strategy (drawing on FAD TA) specifying tax policy and revenue administration compliance measures with a clear timeframe.	Strengthen tax revenue mobilization	End-September 2024		Met
2. NBE to issue an order to all banks not in compliance with the regulatory threshold on net open position to develop plans to ensure full compliance with the regulation by end-June 2025.	Support financial sector stability	End-September 2024		Met
3. Publish IFRS-based and audited financial statements for 2022/23 for Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), and Ethiopia Petroleum Supply Enterprise (EPSE); and for 2021/22 for Ethiopian Sugar Corporation (ESC), Ethiopian Railway Corporation (ERC), Ethiopian Engineering Group (EEG), and Ethiopian Construction Works (ECW).	Strengthen SOE finances and reduce vulnerability to corruption	End-September 2024		Met
4. NBE to implement an emergency liquidity assistance framework for financial stability purposes provided at the discretion of NBE to viable (solvent) banks with adequate collateral and a funding plan to recover the liquidity situation of the bank.	Strengthen financial crisis and stability framework and support monetary policy implementation	End-September 2024		Not Met
5. Implement the first quarterly electricity tariff increase under the multi-year plan as approved by the Council of Ministers in June 2024.	Strengthen SOE finances	End-September 2024		Met
6. **The NBE to finalize and publish audited financial statements for 2021/22–2022/23**.	Update and modernize governance of the NBE	End-December 2024	End-January 2025	Reset

Table 10. The Federal Democratic Republic of Ethiopia: Structural Benchmarks (concluded)

Measure	Rationale	Board Approved Target Date	Proposed New Target Date	Status
7. 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		
8. 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		Proposed
9. 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		Proposed
10. 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		Proposed
11. Council of Ministers to submit 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		Proposed

Table 11. The Federal Democratic Republic of Ethiopia: Debt Composition
(In millions of US dollars, unless otherwise specified)

Creditor Profile	At end-June 2023
Total debt	64,240
External	28,897
Multilateral Creditors	15,269
IMF	709
World Bank	11,589
AfDB/AfDF	2,198
Others	773
o/w IFAD	410
Bilateral official creditors 1/	10,531
Paris Club	1,853
Non-Paris Club	8,678
Commercial creditors 2/	3,097
Domestic	35,343
Memo Items:	
Collateralized debt	0
Nominal GDP (in ETB millions)	8,722,308
End-of-period exchange rate (ETB per US$)	55
Multilateral and Collateralized debt	
Multilateral Creditors	15,269
Percent of external debt	53
Percent of GDP	9.6
IMF and WB	12,298
Percent of external debt	43
Percent of GDP	7.7
AfDB/AfDF	2,198
Percent of external debt	8
Percent of GDP	1.4
Others	773
Percent of external debt	2.7
Percent of GDP	0.5
Collateralized debt	0
Percent of external debt	0
Percent of GDP	0

Sources: Ethiopian authorities; and IMF staff estimates and projections.
1/ Includes pre-HIPC arrears waiting to receive HIPC comparable treatment.
2/ Includes loans backed by China export credit agency.

Annex I. 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 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.
Adverse weather events, including worsening of 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.
Fallout from dispute with Somalia over status of Somaliland and Ethiopia's quest for sea access.	**L**	**M.** Regional instability, resurgence of Al-Shabab terrorism.	Resolving differences through peaceful negotiation.
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.
External Risks 1/			
Intensifying spillovers from regional conflicts. Escalation or spread of regional conflict(s) or terrorism disrupt trade, remittances, tourism, FDI and financial flows, payment systems, and increase refugee flows.	**H**	**M.** Lower demand for Ethiopia's main exports, trade flow disruptions, 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.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most 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.

External Risks (continued)[1/]			
Source of Risk	**Relative Likelihood**	**Impact if Realized**	**Policy Response**
Commodity price volatility. Supply and demand fluctuations cause recurrent commodity price volatility, external and fiscal pressures and food insecurity, cross-border spillovers, and social and economic instability.	**H**	**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.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary systems, and lower growth.	**H**	**L/M.** Lower demand for exports, weaker trade deficit and debt sustainability. Reduction in remittances from diaspora, FDI, creditor cooperation, and financial support from international community.	Accelerate reforms enhancing export competitiveness. Adopt and maintain a more flexible exchange rate policy.
[1/] Based on the July 26, 2024, update of the Global Risk Assessment Matrix.			

Annex II. Letter of Intent

Addis Ababa, October 7, 2024

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, is advancing well. The historic steps taken over the past few months to establish a modern interest-rate based monetary policy framework and a market-determined exchange rate have gone smoothly. The exchange rate in the formal market has adjusted to largely eliminate the gap with the parallel market, with little disruption to the broader economy. The acute shortages of foreign exchange that previously existed have started to ease. Businesses and consumers are finding it easier to source the goods they need, helping the economy expand.

Following the success of the recent reforms, we are pushing ahead with our IMF-supported program to address macroeconomic imbalances and promote private sector-led growth. The objectives of our economic program are 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 supports our recently released HGER2.0 (Homegrown Economic Reform Agenda 2.0), which updates the original HGER 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.

The next steps in our economic program include: (i) executing our fiscal plans for FY2024/25, including pro-poor spending, in line with the program, per the supplementary budget that will be presented to parliament in early October; (ii) implementing the National Medium Term Revenue Strategy that was published late-September; (iii) supporting the development of the FX market, including through enforcement of the new foreign exchange market directive, prudential regulation on banks' net open position, and the gradual phase-out of surrender requirements; (iv) moving ahead with the transition from quantitative controls on credit to interest rate-based monetary policy, including making the monetary policy rate positive in real terms (based on six month ahead projected inflation) in the first quarter of 2025; and (v) supporting development of 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 255.60 million for completion of the first review of the ECF arrangement. As part of this first program review, we also request (i) a modification of the end-December 2024, the end-March 2025 and the end-June 2025 net international reserves QPCs/IT to lock-in part of the overperformance of the target observed on August 16, 2024; (ii) a modification in completion date for the structural benchmark for publication of NBE audits; and (iii) completion of the financing assurances review.

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, October 7, 2024

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, significant internal displacement, and food insecurity. 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. The recently released HGER2.0 (2023/24-25/26) 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 now being opened to foreign investment. We have also made progress in strengthening the institutional and regulatory framework, with new central bank, banking, investment, trade, procurement, and public enterprise laws already enacted or close to finalization. A securities exchange is about to be launched.

5. Real GDP growth has remained resilient but has moderated in recent years. Growth rose from 6.4 in 2021/22 to 7.2 percent in 2022/23, above sub-Saharan African averages, but down from average growth of 9 percent prior to 2019. The Cessation of Hostilities Agreement in November 2022, strong performance in transport services and hotels following the pandemic, and strong agricultural production due to favorable rains and initiatives to increase irrigated crop production have supported the recovery. Growth in industry has suffered from supply bottlenecks (particularly in construction) and foreign exchange shortages.

6. Inflation has fallen but remains high. Inflation peaked at 37 percent in May 2022, but has since declined to 17 percent as of August 2024, supported by decisive measures by the NBE to reduce inflation since 2023, including limiting monetary financing of fiscal deficits and growth in credit to the private sector.

7. Balance of payments (BOP) pressures continue to be challenging. Over recent years, domestic conflict, application for debt treatment under the G20 Common Framework (CF), and external shocks such as the war in Ukraine, led to a significant decline in external financing. The trade deficit remains widened, with a low and narrow export base, and the structural demand for imports is high. Remittance flows are showing a strong recovery. International reserves stand at 1.7 months of coverage as at end of August 2024.

8. Government spending has been cut to reduce deficit financing needs, with declining revenues and little external support. The general government deficit fell to 2.0 percent of GDP in 2023/24, down from 2.6 percent of GDP in 2022/23 and a peak of 4.2 percent in 2021/22, as peace brought a decline in defense spending and capital spending was constrained. Grants stood at 0.4 percent of GDP in 2023/24, down from an average of 1 percent of GDP during the pre-conflict years. General government tax revenues continued their long-term decline, falling to 6.3 percent of GDP in 2023/24, a critically low level that jeopardizes public service delivery, poverty reduction, and capacity to finance large public investment and post-conflict reconstruction needs.

9. Reforms of SOEs are underway. 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 stems from past lending to these SOEs by the systemic state-owned Commercial Bank of Ethiopia (CBE). Operating losses and failure to service debt resulted in CBE evergreening these loans, as sovereign guarantees were not made effective. The equivalent of about 6.2 percent of GDP in such legacy loans, including overdue interest, had been taken over by the federally owned Liability and Asset Management Corporation (LAMC) by 2022/23. After LAMC made repayments on these debts with resources from the sale of telecom and mobile money licenses, SOE reform and privatization plans were affected by the domestic conflict, and no additional repayments were made, incurring substantial new arrears to 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 (see Section H). The total amount of bonds provided was Birr 900 billion (7.7 percent of GDP) of which Birr 55 billion was for the capital increase.

10. The NBE has maintained a tight monetary policy. To reduce inflation, monetary financing was reduced to 0.8 percent of GDP in 2023/24 and eliminated entirely from the start of 2024/25, with the introduction of the new short-term Cash Flow Facility. A 14 percent cap on annual growth in commercial bank credit to the private sector was introduced in August 2023 and remains in place. The introduction of a new monetary policy framework and the operationalization of OMOs has further supported our tight monetary policy stance. Since July, the NBE has conducted regular open market operations (OMOs) at the policy rate of 15 percent, and banks have utilized the new overnight standing facility to meet liquidity needs. While market-determined term deposit rates have shown a modest increase over the past year, interest rates remain well below inflation.

11. Debt levels have continued to fall. 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 16 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 35 percent in 2023/24.

B. Objectives of the Program

12. Our economic reform agenda provides a foundation for strong, inclusive, and private sector-led growth. We envision a return to high and stable growth and single digit inflation 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 foreign exchange (FX) shortages and long-term balance of payments (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 have adopted a flexible exchange rate regime, eliminated distortive current account controls, and switched surrender requirements from the NBE to commercial banks. The exchange rate was floated on July 29, 2024. This entailed a comprehensive overhaul of FX regulations and accompanying preparations, such as a real-time FX reporting system**.** Supporting policy actions followed, including lifting of the ban on the import of 38 items; the relaxation of restrictions on the Franco Valuta import scheme; accepting applications for independent foreign exchange bureaus; the introduction of a directive to instruct banks to reflect all FX transaction fees in their posted bid-offer rates; the elimination of the practice of offering a fixed premium above the official exchange rate to locally mined gold sold to NBE and allowing large-scale gold producers to retain half of the FX generated from gold exports for up to three months, a two-month extension from the previous limit.

15. The switch to a flexible exchange rate regime has proceeded well. The exchange rate has converged to levels close to the pre-reform parallel market rate, with tight monetary conditions contributing to stability. The sharp depreciation substantially corrected real exchange rate overvaluation. The parallel market spread to the indicative rate (calculated as the weighted average exchange rate of banks' FX transactions) collapsed. While the FX supply response has been positive and liquidity conditions in the market are gradually improving although bid-offer spreads remain high and the interbank FX market remains inactive. The banking sector's FX short position remains large, mainly reflecting a large stock of letters of credit (LCs) for fuel imports. NBE conducted a special FX sale auction on August 7th, 2024 to banks to aid in price discovery. Since the IMF program approval and up to end of September, the NBE allocated US$ 491 million to the CBE for settling letters of credit (LCs) related to fuel imports.

16. Transitional arrangements to address the legacy of LC related to pre-exchange rate reform fuel imports are in place. To resolve the exchange market "overhang" of the large fuel-related liabilities that NBE would have formerly settled and to ensure the smooth importation of fuel in FY2024/25 and FY2025/26, we have adopted the following arrangements:

- **In line with the market determination of the exchange rate, CBE and private banks will remain primarily responsible for settling all LCs**. On an exceptional basis, NBE will provide an amount additional to the original budget of US$670 million for settling fuel-related LCs. To the extent that market participants cannot source the requisite foreign exchange, NBE will provide forex funds to settle legacy fuel payments by allocating higher-than-expected gold receipts (relative to the baseline forecast of US$400 million in FY2024/25) to a maximum amount of US$600 million. NBE's intervention would be made either via auction and/or directly to CBE at the prevailing market rate.

- **CBE and commercial banks will be exclusively responsible for settling new LCs issued after the exchange rate reform, including those that mature in FY2024/25 and FY2025/26.** We expect CBE and commercial banks will split the financing obligation broadly in line with their FX market shares. NBE will not provide further FX support. All transactions between and EPSE and banks will be conducted at freely negotiated rates. If EPSE can get a better price from a bank that has already filled its contribution, it will be allowed to do so without prejudice to the overall agreement. After FY2025/26, there will be no special arrangement.

17. We continue to take measures to ensure a sustained switch to a flexible exchange regime with liberalized current account transactions. These measures will support the supply response to the FX reform, improve intermediation and market functioning in the FX market:

- The requirement for exporters to surrender non-surrendered FX after one-month will be removed by end-October 2024. This will help exporters to better manage the import of necessary inputs and FX risks. We will completely phase out surrender requirements by the end of the program, at a pace determined by the development of FX market liquidity.
- Monitoring of the FX market and enforcement of the new FX directive will be enhanced. NBE will implement an internal monitoring manual, strengthen both off-and on-site inspections and establish a dedicated task force with special focus on ensuring that authorized banks are complying with the Foreign Exchange Market Operation Code of Conduct. This will ensure that all FX transactions are properly reported and reflected in the indicative exchange rate. We will continue our efforts to improve understanding of the FX directive including posting FAQs on NBE's website by end-November 2024.
- An Article VIII assessment was completed. We are currently reviewing the findings and will monitor the identified pre-IMF program official actions that may yet give rise to MCPs. Phasing out of the NBE exchange commission will be aligned with due regard to NBE's operating balances, given that the commission accounts for a large portion of NBE's income.
- In September 2024, NBE issued a circular instructing banks not in compliance with the regulatory NOP threshold to provide plans to ensure full compliance by end-June 2025 (end-September 2024, structural benchmark). Banks are expected to provide plans to NBE by end-December 2024. With IMF technical assistance we will further strengthen the measurement of NOPs to better capture banks' FX risk profiles, revise the NOP prudential regulation and ensure adequate enforcement and redesign the call report to collect more granular information.
- We are conducting an FX market survey covering both banks and the real sector to identify impediments to efficient FX market functioning and deepening. With technical support from the IMF, we expect to complete the survey by end-2024. Additional policy measures are expected based on the survey results.

18. Intervention in the foreign exchange market will be limited to stemming disorderly market conditions. 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 NBE's FX auction guidelines. Auction results will be published on NBE website immediately after the closing of the auction.

D. Monetary Policy

19. 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. NBE has prepared a governance framework for monetary policy that will be implemented alongside enactment of the NBE establishment proclamation. A monetary policy committee (MPC) is being established and will recommend the policy stance to the Board of the NBE and approve all instruments and guidelines relating to the implementation of monetary policy; the MPC will play an advisory role until it assumes its formal role as set out in the amended NBE establishment proclamation. To prepare the transition to the interest rate-based monetary policy framework, NBE has also: (i) published operational guidelines, including for implementing open-market operations and the collateral framework; (ii) enhanced coordination with the Ministry of Finance (MoF), supplementing weekly with daily liquidity forecasts; and (iii) developed a comprehensive and transparent communication strategy for all stakeholders.

20. NBE established an interest rate-based monetary policy, beginning open market operations in July 2024. On July 9, 2024, we announced a target policy rate of 15 percent, the mid-point between the standing lending and deposit facility rates, 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 conducted regular full allotment Open Market Operations (OMOs) at the policy rate to align banking sector liquidity with the monetary policy stance. In July 2024, we issued an Interbank Money Market Directive, which aims to encourage the banking sector to manage its liquidity more efficiently. This will be supported by the launch of an inter-bank money market trading platform in November 2024. The money market and our monetary policy measures will also be supported by the deployment of a central securities depository (CSD) by end-December 2024. We merged banks' payment and settlement accounts with their reserve accounts in August 2024 and are reviewing the calculation for reserve requirement maintenance periods to ensure more efficient liquidity management in the banking sector. Finally, we have implemented an emergency liquidity assistance framework to provide temporary liquidity to solvent banks facing strains (SB, end-September 2024).

21. We will continue to tighten monetary policy as needed to anchor exchange rate and inflation expectations with the objective of ensuring price stability. We will discuss the monetary policy stance, including banking sector liquidity conditions, at an MPC meeting in October 2024, and consider our current usage of various quantitative tools, including the banking sector credit cap and level of the reserve requirement. We will rely first and foremost on interest rates to signal the policy stance, and as such will seek to end quantitative restrictions on bank lending. Further increases to interest rates will be implemented with the objective of achieving a positive real policy rate in the first quarter of 2025, based on six-month ahead projected inflation, which is expected to increase as passthrough from the recent exchange rate depreciation is realized. We will maintain a close dialogue with the IMF on monetary policy setting, consulting as needed if inflation deviates from the baseline projection, standing ready to take additional monetary policy measures to manage inflation expectations as needed.

22. We will take further steps to improve T-bill market functioning and price discovery, so as to increase domestic resource mobilization and strengthen monetary policy transmission. Although T-bill rates are allowed to move freely to the market clearing rate and new internal auction procedures were implemented in July 2024 to promote better market functioning, auctions have remained undersubscribed with interest rates well below the monetary policy rate. Acknowledging the need for significantly increased banking sector participation in the T-bill market, we will enhance communication with market participants to ensure the rules of the T-bill market are well understood, including the absence of restrictions on bids. We stand ready to consider additional measures such as advancing the commitment to remove the eligibility of T-bills toward meeting the reserve requirement for CBE (currently at least 50 percent in December 2024 with fully elimination by end-2025), should T-bill rates continue to remain well below the monetary policy rate.

23. We have eliminated monetary financing of fiscal deficits, ending a key driver of inflation. 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 draft 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) will also 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. With technical assistance from the IMF, we developed comprehensive draft legal amendments to the NBE Proclamation, which have been submitted to parliament (structural benchmark, end-December 2024). These amendments present important improvements in many respects (NBE's mandate, autonomy, decision-making structure, accountability, external audit, and transparency), and will undergo public hearing with parliamentary approval expected by March-2025. The tender for the external audit of NBE financial statements was refloated in early August to allow more time for suitably well-qualified bidders to comply with tender's technical and international practice requirements. With auditor selection close to being finalized, NBE is on track to publish financial statements for 2021/22 and 2022/23 (modified structural benchmark, end-January 2025). Amendments to the NBE proclamation will ensure there is a legal basis for NBE to be audited by a qualified audit firm with the requisite expertise to conduct IFRS-based audits and experience in auditing central banks.

25. An assessment of NBE's capital will be undertaken. To ensure that NBE has adequate capital to attain its policy objectives and operate independently, we have requested IMF technical assistance to assess the level of capital needed for NBE to effectively fulfill its mandate. This assessment could inform the amount and instrument used for recapitalization if needed with the NBE proclamation providing a legal basis.

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 0.7 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. A Supplementary Budget for FY2024/25, in line with program commitments, will be adopted in early October. The supplementary budget includes a spending package consistent with the 1½ percent of GDP of measures agreed within the program to mitigate the inflationary and socio-economic impact of the FX reform. The overall deficit, excluding budget grants, will temporarily widen by 0.5 percent of GDP in 2024/25, in line with program targets. To sustain fiscal policy aligned with program targets, the Council of Ministers will submit draft FY2025/26 budget for Federal Government to Parliament (Structural Benchmark, end-June 2025).

29. Durably raising domestic revenues is essential to increase space for social and capital spending (QPC). Over the medium-term, a 4-percentage point rise in the tax-to-GDP ratio to 10.2 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, and help meet recovery and reconstruction needs. We have adopted a revised Medium-Term Fiscal Framework for 2024/25-27/28 in line with fiscal strategy for reaching this goal. 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.

30. We have embarked on comprehensive tax reforms. We have formed a National Tax Reform Taskforce consisting of Ministers and State Ministers from Ministry of Finance, Ministry of Revenue, Ministry of Planning and Development and Commissioner of Customs Commission headed by a senior macroeconomic advisor to the Prime Minister and a National Tax Reform Technical Committee with representatives from the Ministry of Finance, the Ministry of Revenue, and the Customs Commission to provide leadership and secure comprehensive and synchronized implementation and monitoring of tax policy and tax administration reform. The National Medium-

Term Revenue Strategy (NMTRS), developed in consultation with the IMF, has been adopted by Council of Ministers and published (SB, end-September 2024). The NMTRS will guide tax reforms, considering economic growth and the distributional impact of the tax system over the course of the program. Revenue yields will come primarily from tax policy reforms at first, with gains from tax administration reforms setting in over time.

31. We have taken strong tax policy measures that will generate revenues of 0.8 percent of GDP in 2024/25, including:

- Rollout of the excise stamp regime is on track. In July, we issued directives on excise stamp management and increased specific rates by accumulated inflation since 2020 on alcohol and tobacco. The excise stamp tender evaluation is underway and on track to be completed by mid-October. The stamp regime is expected to be fully implemented (including a digital tracing system) by April-2025.
- The new VAT Proclamation was adopted by Parliament and has become fully effective. The new VAT regime maintains a uniform 15 percent tax rate, expands the scope of the VAT net (expected revenue yield of 0.5 percent of GDP), limits zero-rating for VAT purposes to only exported and re-exported items, improves VAT registration efficiency, and clarifies revenue collection mandates of the Federal and regional governments. Exemptions less targeted to the poor, which were removed under the July Directive, were carried over under the new VAT law. With the introduction of VAT on public utilities, MoF has issued a new Directive establishing the VAT-exempt thresholds for domestic electricity and water consumption by low-income and vulnerable groups, in line with program commitments.
- A customs directive was issued requiring all customs branches to adjust declaration rates to the current exchange rate, including for goods registered before the exchange rate liberalization.
- Implementation of the new Real Estate Property Tax Proclamation is on track to yield 0.1 percent of GDP in FY2024/25, with plans for advance rollout by the largest cities in FY2024/25 and nationwide implementation (at least 0.3 percent of GDP) by FY2026/27, as legally mandated.

32. We are committed to strengthening tax and customs administration and improving compliance. Our efforts will 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 specific actions and timelines as specified in 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 2024 TADAT assessment was concluded in August, earlier than expected, which will inform tax administration reform priorities. We will publish the finalized report by end-November. We will continue to work closely with capacity development partners to specify new policies by June-2025, to: (i) raise revenue through agricultural sector taxation while ensuring efficiency and fairness by keeping farmers with low incomes below the taxable threshold,

(ii) revise the income tax proclamation covering personal income tax, corporate income tax, and double taxation agreements, in line with objectives of NMTRS, and (iii) streamline and reduce tax revenue losses from the proliferation of tax incentives and tax holidays across a range of economic sectors. 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 FY2024/25 Budget contains a spending package of 1½ percent of GDP that will help mitigate the adverse social impact of FX reform. Our fiscal response stands on four pillars:

- **We have prioritized expanding the existing targeted social safety net (PSNP) as the most cost-effective, direct, and efficient way of providing support to vulnerable people**. We have raised urban PSNP benefits by 20.7 percent in September and could consider an additional increase depending on price developments. We have activated a PSNP shock response facility that will deliver two months of cash benefits to beneficiaries. We are stepping up efforts to expand PSNP coverage to new beneficiaries. The upcoming January adjustments to rural PSNP will include raising benefits based on recent price trends. In addition, we are significantly increase resources for the livelihood enhancement component of the program. The budgetary allocation for PSNP, effected in the supplementary budget, increases from about 0.1 to 0.5 percent of GDP per year (indicative target, IT). The social safety project financing by the World Bank (0.2 percent of GDP) will co-finance PSNP and help cover the funding gap of the existing PSNP5 over the next 18 months.
- **We have implemented temporary direct subsidies on select food items and medicines to accommodate adequate and timely expansion of PSNP.** This has cushioned the immediate consumer price impact of FX reform, despite the inefficiencies of untargeted schemes. The Ethiopian Trading Business has imported cooking oil and sugar to manage price spikes ahead of the Ethiopian New Year for domestic distribution at subsidized prices. The subsidy budget is capped at 0.2 percent of GDP and fully recognized in the supplementary budget. The federal government has limited increments to the cost of pharmaceutical products and medicines at public health centers and dispensaries to 25 percent with a budgetary allocation for pharmaceutical subsidies. These subsidies will be phased out entirely by June-2025. We will refrain from direct price controls.
- **We are providing temporary, time bound, and gradually declining fuel subsidies to partially address the large impact of FX reform on households.** Following the July-2024 5 percent price hike across all products, prices have remained unchanged, as the subsidy component was some 10 percentage points lower than expected due to favorable international fuel prices, which offset the fiscal impact from the two months of forgone pump price adjustment. New subsidies that emerged due to Birr-denominated price setting will be removed in the near term. Initial steps to implement the transitional fuel price subsidy have been taken with the creation of a technical team to manage both budget transfers to EPSE and advise on fuel price adjustment. To smooth the impact of price

increases on the public, we have adopted the plan to raise fuel prices by 5 percent per month to close the price gap resulting from FX reform by early 2025. We will continue to provide targeted fuel subsidies for public transportation that will cushion the impact for vulnerable households across the country. The supplementary budget caps the fuel subsidy at 0.5 percent of GDP in FY2024/25, almost half of which will be allocated to rebuild the fuel price stabilization buffers. To cap public transport subsidy costs at 0.1 percent of GDP and mitigate leakages, we will continue to rely on the current targeting mechanisms and digital solutions (rebates through mobile payment and digital wallets) and limit eligibility to city and regional public bus transportation.

- **We will increase fertilizer subsidies to 0.4 percent of GDP.** Even though under-fertilization remains among the most important factors behind relatively low production yields in wheat and other cereals, addressing suppressed fertilizer demand at the current price subsidy level would be prohibitively expensive (in terms of fiscal and additional external financing needs). The EABC has floated international competitive bids for fertilizer supply in line with program parameters. Increasing the budgeted fertilizer subsidy from the current level of 0.2 percent of GDP to 0.4 percent of GDP will suffice to retain the existing subsidy level for farmers. We will reduce fertilizer subsidy costs to 0.3 percent of GDP by FY2025/26.
- **We have announced an increase in salaries for public sector employees, prioritizing low wage earners that fell significantly below poverty line**. The wage increase will benefit 2.3 million federal and regional civil service workers, regional and federal police, and defense forces, 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, in line with the spending envelope under the program. This increase in salaries will partly restore wage erosion and protect low-wage workers in the public sector from the rise in the cost of living. The lowest-paid employees, who were earning salaries well below the poverty line, will receive a 300 percent increase, while increases for the highest earners will be capped at below 5 percent.

34. We will settle legacy fuel subsidy debt and prevent the reemergence of similar liabilities. Fuel subsidy reform since December-2021 eliminated about 1 percent of GDP in extrabudgetary fiscal costs and helped reduce the large stock of subsidy related public debt. Our plan is to continue increasing fuel pump prices to above cost parity to clear the subsidy debt (at 90 billion Birr as of end-September 2024) and rebuild a surplus at the Fuel Price Stabilization Fund and to eliminate the fuel price subsidy net of taxes by end-2025. 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 letters of credit (LCs) for future fuel purchases. FX revaluation losses were estimated at 130 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 its sufficient Birr liquidity, EPSE 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 our expenditure on the Productive Safety Nets Program. The increased budgetary envelope for the PSNP will help to expand coverage of the food insecure and poorest households, building robust infrastructure for shock response and humanitarian disaster support. We will work with development partners to strengthen targeting mechanisms, update and improve poverty assessment metrics, and pursue regular program evaluations with a view to strengthening effectiveness and credibility of our poverty reduction programs. As the cost-of-living shock abates, we will concentrate PSNP on durable livelihood improvement to reduce poverty.
- **Public investment:** Promoting sustainably financed growth-enhancing investment in public infrastructure is one of our main priorities. We adopted the Public Investment Proclamation (2020), and notwithstanding the freeze on the start of new investment projects, took steps to strengthen the public investment framework, focusing on project-level pre-screening tools. 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. 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.
- **Reconstruction:** Our Resilient Recovery and Reconstruction (3RF) planning framework lays out how we aim to address reconstruction needs following the war in Tigray. Given the large cost, estimated at close to US$20 billion, and limited budgetary resources, we will leverage contributions from development partner and the private sector, including via public-private partnerships, to mobilize resources. So far, donor projects and a multi-donor trust fund have received contributions of more than US$335 million. Given the large remaining financing needs, interventions will have to be carefully prioritized and to a large extent rely on private funding.

36. We will enhance transparency and accountability in the management of public finances. In FY2024/25, Ministry of Finance will start the publication of a mid-year review on the implementation of the Federal Government budget and a quarterly budget execution report (Structural Benchmark, April-2025). The ongoing rollout of the integrated financial management information system (IFMIS) will also facilitate preparation of the mid-year review report (a 2019

Public Expenditure and Financial Accountability report recommendation) analyzing economic development, consolidated budget performance against commitments, cash flow, near-term fiscal risks, and proposed policy responses. The publication of all these documents will include making them available on the ministry's website.

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. In addition, fuel taxes (VAT and excise) will be recognized as government tax revenues starting in FY2025/26. Ministry of Finance will issue instruction to Ethiopian Petroleum Supply Enterprise to start remitting all federal fuel taxes to the Ministry of Revenue by December 2025 (Structural Benchmark, June-2025). The introduction of public sector obligations (PSO) framework, supported by the World Bank, will be an important step toward a comprehensive disclosure of quasi-fiscal activities and managing fiscal risks.

F. Public Debt

38. Supported by the financing provided by the IMF-supported program, we will work toward reaching an agreement in principle with official creditors by the time of the second review and with bondholders in parallel. Subsequently, memoranda of understanding (MoUs) will specify: (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, if necessary; (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. An active engagement with Eurobond holders continues seeking a restructuring on comparable terms to the official creditors. We held a global investor call on October 1, 2024, to update Eurobond holders on the latest macroeconomic developments and the debt restructuring discussion with the Official Creditor Committee (OCC).

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 the creditors have consented 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) except for the Koysha dam project 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). Details of all new contracted loans will be communicated to the IMF.

41. We are in talks with prospective lenders concerning the loan terms for the Koysha dam project. Efforts continue to mobilize concessional borrowing. 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 the 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:

- Eliminating monetary financing of public deficits, and addressing the capital position of NBE comprehensively, including the stock of government debt.
- We intend to phase out the mandatory purchase of 5-year treasury bonds by financial institutions by repealing the Treasury Bond Purchase Directive No.MFAD/TRBO/001/2022 by end-June 2025 (structural benchmark, end-June 2025). In 2024/25, we will require banks to purchase 55 billion Birr of 5-year T-bonds at 9 percent interest (minimum savings rate plus 2 percent). Thereafter, we intend to develop the market for longer-dated government securities exclusively through market-based mechanisms.
- We will propose a sustainable funding strategy for the Development Bank of Ethiopia (DBE) by the third review and the requirement that financial institutions purchase DBE bonds will be removed before the fifth review of the program. In the interim, the yield on newly issued DBE bonds will be aligned to the yield of the most recent Treasury bond at time of issuance.
- We implemented a voluntary exchange of the stock of T-bills held by Public Servants Social Security Agency and the Private Organizations Employees' Social Security Administration as at the end of June 2024 (266.4 billion birr) for a 13-year Special Bond paying 9 percent interest with a three year grace period, that (i) better matches duration of the pensions funds' assets and liabilities; (ii) protects pensioners through returns expected to keep pace with medium-term inflation; and (iii) provides substantial debt service relief to the Treasury.
- For all other purposes, 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, including the T-bill exchange noted above.

43. We are strengthening debt management and transparency. We will develop a medium-term debt management strategy by the end of FY2024/25, with capacity development support as needed. We are enhancing the comprehensiveness and transparency of our debt disclosures by publishing in the public debt bulletin government guaranteed DBE bonds.

G. State-Owned Enterprise Policy

44. We have strengthened oversight and governance of the SOE sector. The creation of two entities holding the state's interests in SOEs (the Public Enterprise Holding and Administration Agency, PEHAA 2018, and Ethiopian Investment Holdings, EIH, 2022 have substantially modernized and centralized SOE oversight and fiscal risk management:

- **PEHAA and EIH have made progress in addressing long delays in submitting audited accounts by SOEs and improved IFRS compliance**. The 2022/23 IFRS-based and audited financial statements for three critical SOEs, and the 2021/22 accounts for another four[1], have been published (SB, end-September 2024).
- **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 2025.
- **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, we will establish a dedicated SOE Directorate tasked with central SOE oversight function and a clear mandate vis-à-vis EIH and PEHAA. 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. The 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

[1] The 2022/23 audited accounts will be published for Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), and Ethiopia Petroleum Supply Enterprise (EPSE), while Ethiopian Sugar Corporation (ESC), Ethiopian Railway Corporation (ERC), Ethiopian Engineering Group (EEG), and Ethiopian Construction Works (ECW) will publish 2021/22 audited accounts.

transparent budgetary disclosure of and compensation for non-commercial services. EIH and PEHAA, in their role as commercially oriented shareholders on behalf of the state, will continue to perform a key function in pressing for cost efficiency, good governance, and transparency for the sector. 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 mid-September (structural benchmark, end-September 2024). New tariffs provide for strong upfront improvement to the financial viability of power utilities, by delivering an over 50 percent increase in domestic sale revenue this fiscal year. Average tariffs will increase by 80 percent over the next 12 months, 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. 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 in July 2024, we will implement reforms to ensure that CBE can function as a commercially oriented and viable financial institution with clearly specified public obligations in a competitive financial sector. The World Bank's Financial Sector Strengthening Project is supporting the restructuring and recapitalization of CBE. With its support, we will:

- Reorient the operating model of CBE by setting a commercial mandate for CBE issued by EIH that sets long-term commercial expectations for the operation of CBE, and update CBE's strategic plan based on this mandate.
- Reform the governance framework of CBE 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 through the NBE as independent supervisor, strict adherence to prudential regulations and directives.
- Review CBE's public policy obligations in the context of SOE policy. Maintaining tight financial controls and a cautious lending model will be important as the risk management framework is being strengthened.
- MoF and CBE will revise the memorandum of understanding on guaranteed lending to ensure that restructuring of guaranteed debts follows the regulations on debt restructuring by the second review.

48. 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 NPLs, including with public entities, and appropriate recognition of non-performing guarantees. We are also upgrading our capital framework (Basel II/III) with the support of Fund TA.

49. The entry of new banks and the development of capital markets will help to improve access to finance and the allocation of credit. Thirteen new banks have entered the market since September 2021, increasing competition. We will enhance banking regulation and supervision to strengthen: (i) measurement of FX exposures, interest rate, and funding risks and (ii) stress testing. We will review and update the regulatory framework for licensing, and for mobile money institutions.

50. We are developing the capital markets. Formalizing existing over-the-counter markets in equities and debt securities will provide alternative sources of funding for firms, enhance risk sharing and support innovation—but this is likely a longer-term endeavor. The market 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. ESX is expected to become operational by November 2024, providing the first formal exchange for secondary market debt securities and equities.

- 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 of tax The ECMA has effectively engaged 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

51. Tangible progress in reforming the business environment has been made under HGER, but gaps remain. The Commercial Code, enacted in 1960, was revised in 2021, including with respect to insolvency procedures and protection of the rights of minority shareholders. Sixty previously closed sectors and sub-sectors (e.g., logistics and telecom) have been opened to both domestic and foreign investment. 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 of the sector. Finally, a national ID is being rolled out which will provide the basis for increasing financial inclusion and public service delivery.

52. 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.

53. 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.

J. Economic Statistics

54. 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 revising the legal framework for statistics with a view to submitting it to the Council of Ministers by end-June 2025. We are preparing a rebasing of the national accounts to base year 2025/26 by December 2026. We will also conduct a diagnostic of national account statistics using the IMF Data Quality Assessment Framework by June 2026, with the support of Fund technical assistance. We will produce and publish annual and quarterly GDP by production and by expenditure after the rebasing. Other priority areas include aligning data presentation with BPM6 for external sector statistics, price indices and government finance statistics.

K. Risks and Contingencies

55. The authorities 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; rising import costs due to new international commodity price increases; and potentially social unrest associated with higher inflation. An abrupt slowdown of global growth also presents a risk via its adverse effects on exports and potentially remittances. 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

56. 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.

57. The program will be monitored by the IMF's Executive Board. Progress in implementation of the policies under this program will be evaluated through another quarterly review in 2024 (end-September test date), then moving to semi-annual reviews of the quantitative performance criteria (end-June and end-December), indicative targets, and structural benchmarks, as presented in Table 1 and Table 3, 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 December 10, 2024. 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.

58. 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.

59. 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.

60. 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.

61. Accordingly, the government is requesting Board approval of the policies set forth in the MEFP, and disbursement of the second loan installment, totaling SDR 256 million, out of a total four-year arrangement of SDR 2,556 million.

Table 1. The Federal Democratic Republic of Ethiopia: Quantitative Performance Criteria and Indicative Targets, June 2024 – September 2025

(In millions of Ethiopian birr, unless otherwise indicated)

	end-Jun 2024	Aug. 16, 2024			end-Sep 2024			end-Dec 2024			end-Mar 2025			end-Jun 2025			end-Sep 2025 (proposed)
	Preliminary. Initial level	Program target	Actual	Status	Program target	Program target	Proposed	Prog. Request	Program target	Proposed	Prog. Request	Proposed	Proposed	Prog. Request	Program target	Proposed	Indicative target
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/]	150,000	N/A	N/A	N/A	42,000	43,000	42,000	69,000	70,000	69,000	95,000	97,000	95,000	106,000	109,000	106,000	76,000
Net international reserves (floor, cumulative change since previous June, US$ millions) (end-Jun 2024 is for initial level)	793	630	1328	Met	500	600	500	400	500	500	300	500	400	100	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)	384,000	N/A	N/A	N/A	86,000	85,000	86,000	192,000	189,000	192,000	347,000	341,000	347,000	578,000	569,000	578,000	120,000
Net NBE claims on the general government (ceiling, cumulative change since previous June) (end-June 2024 for initial level)	632,253	0	-10895	Met	0	0	0	0	0	0	0	0	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	0	0	0	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	0	0	0	0	0	0	0	0
Indicative targets																	
Gross claims on public enterprises by commercial banks (ceiling, cumulative change since previous June) (end-Jun 2024 is for initial level) [2/]	747,485	N/A	N/A	N/A	37,000	(148,000)	37,000	74,000	(296,000)	74,000	110,000	(444,000)	110,000	147,000	(592,000)	147,000	50,000
Government Contributions to Productive Safety Net Programme cash transfers (floor, cumulative sum of contributions since the beginning of the current fiscal year) [4/]	9,000	N/A	N/A	N/A	6,500	6,800	6,500	22,100	23,400	22,100	33,200	35,100	33,200	51,400	54,200	51,400	12,000
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	2,000	2,000	2,500	2,500	2500	2,750	2,750	2,750	3,000	3,000	3,000	N/A
Memorandum items:																	
Official external grants disbursed to the government (US$ millions, cumulative since previous June)	791				211	211	211	421	421	421	632	632	632	842	842	842	201
Official external loans disbursed to the government (US$ millions, cumulative since previous June)	627				1,638	1,638	1,638	1,775	1,775	1775	1,913	1,913	1,913	2,050	2,050	2,050	391
Gross privatization proceeds (US$ millions, cumulative since previous June)	0				0	0	0	0	0	0	0	0	0	0	0	0	163

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/ 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. The Federal Democratic Republic of Ethiopia: Structural Benchmarks

(modified SBs in bold text)

Measure	Rationale	Board Approved Target Date	Proposed New Target Date	Status
1. Council of Ministers to adopt and publish a medium-term revenue strategy (drawing on FAD TA) specifying tax policy and revenue administration compliance measures with a clear timeframe.	Strengthen tax revenue mobilization	End-September 2024		Met
2. NBE to issue an order to all banks not in compliance with the regulatory threshold on net open position to develop plans to ensure full compliance with the regulation by end-June 2025.	Support financial sector stability	End-September 2024		Met
3. Publish IFRS-based and audited financial statements for 2022/23 for Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), and Ethiopia Petroleum Supply Enterprise (EPSE); and for 2021/22 for Ethiopian Sugar Corporation (ESC), Ethiopian Railway Corporation (ERC), Ethiopian Engineering Group (EEG), and Ethiopian Construction Works (ECW).	Strengthen SOE finances and reduce vulnerability to corruption	End-September 2024		Met
4. NBE to implement an emergency liquidity assistance framework for financial stability purposes provided at the discretion of NBE to viable (solvent) banks with adequate collateral and a funding plan to recover the liquidity situation of the bank.	Strengthen financial crisis and stability framework and support monetary policy implementation	End-September 2024		Not Met
5. Implement the first quarterly electricity tariff increase under the multi-year plan as approved by the Council of Ministers in June 2024.	Strengthen SOE finances	End-September 2024		Met
6. **The NBE to finalize and publish audited financial statements for 2021/22–2022/23**.	Update and modernize governance of the NBE	End-December 2024	End-January 2025	Reset

Table 2. The Federal Democratic Republic of Ethiopia: Structural Benchmarks (concluded)

Measure	Rationale	Board Approved Target Date	Proposed New Target Date	Status
7. 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		
8. 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		Proposed
9. 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		Proposed
10. 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		Proposed
11. Council of Ministers to submit 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		Proposed

Attachment II. Technical Memorandum of Understanding

Addis Ababa, October 7, 2024

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.

I. 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:

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

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)*. For the purpose of evaluating inflows of foreign grants and budget support loans and other direct financing of the general government, the program exchange rate used will be **1 U.S. dollar = Birr 57.0504**, which is the rate prevailing on May 31, 2024.

II. 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).

III. 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. 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.

IV. 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, the general government, 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. 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 FY2024/25 is capped at US$300 million. The total upward adjustment to the floor on cumulative change in NIR target for FY2024/25 is capped at US$150 million.

V. 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.

VI. 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 7th or 8th of the following Gregorian calendar month.

VII. 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.

---

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

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 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). Concessionality 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

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

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.

The Federal Democratic Republic of 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.

VIII. 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.

IX. 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.

X. 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.

XI. 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.

The Federal Democratic Republic of Ethiopia: External Borrowing Plan for 2024/25

(Programmed Contracted Debt)

PPG external debt	Volume of new debt in 2024/25		PV of new debt in 2024/25 (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.

XII. 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.

XIII. 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).

XIV. 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.

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 five business days of end of each week
Net domestic assets of the NBE	NBE	Monthly within six weeks of the end of each month
Reserve Money	NBE	Monthly within six weeks of the end of each month
Net claims on the general government	MOF/NBE	Monthly within six weeks of the end of each month
Regional government's fiscal data	MOF	Quarterly within twelve weeks of the end of each month
Domestic Arrears incurred by the government	MOF	Monthly within six 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 six 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 six 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 six 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 six weeks of the end of each month
Consumer Price Index	NBE	Monthly within six weeks of end of each month
National Accounts, annual	NDPC	Within three weeks of any revision or data release
Composite Indicator of Economic Activity (quarterly) and underlying indicators	NBE	Within six weeks of the end of each quarter
Consolidated Budget Report of Federal and Regional Government	MOF	Quarterly within twelve weeks of end of each quarter
Monetary Survey	NBE	Monthly within six weeks of end of each month

Information	Provider	Periodicity and Due Date
NBE's outstanding credit to private commercial banks, CBE and DBE	NBE	Monthly within two 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 eight 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 eight weeks of the end of each quarter.
T-Bill and T-bond auction details	NBE	Bi-weekly, within five business days of each auction/placement
T-bill and T-bond purchases and outstanding stocks by institution.	NBE	Quarterly, within eight 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 five 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 five business days of end of each week
Weekly US$ amount of trade volume, in interbank market and foreign exchange bureaus, respectively	NBE	Weekly, within five business days of end of each week

Information	Provider	Periodicity and Due Date
Daily data underlying the FX benchmark calculation	NBE	Weekly, within five 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 five business days of end of each week
Gross international reserves	NBE	Weekly, within five business days of end of each week
Foreign exchange cash flows	NBE	Monthly, within ten business days of end of each month
BoP data: exports, imports, services, transfers, and capital and financial account transactions	NBE	Monthly, within six weeks of end of each month
Detailed international trade data on goods exports and imports by commodities	NBE	Monthly, within four weeks of end of each month
Imports by type of institutions (e.g., state-owned enterprises or government, and private sector)	NBE	Monthly, within four 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 four 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 six 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 six 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 six 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.

Statement by the Executive Director, Mr. Willie Nakunyada, and by the Advisor of the Executive Director, Mr. Mawek Tesfaye Mengistu, on The Federal Democratic Republic of Ethiopia October 18, 2024

I. Introduction

1. Our Ethiopian authorities appreciate the candid discussion with staff during the first Extended Credit Facility (ECF) review mission. They appreciate the Fund's continued strong support in close collaboration with other development partners.

2. The Ethiopian authorities have embarked on comprehensive reforms to address long-standing economic challenges supported by the IMF's ECF program approved on July 29, 2024. They have taken bold reform measures, including transitioning to an interest rate-based monetary policy, adopting a market-determined exchange rate regime, strengthening financial sector resilience, removing less targeted subsidies, and tax reforms, while protecting the most vulnerable. They continue to underline their reform credentials and, in some cases, exceeding expectations, reflecting the authorities' strong commitment, well-sequenced reform measures, extensive preparatory work, and effective execution. Going forward, the authorities are determined to consolidate initial reform gains to durably address persistent macroeconomic imbalances, deepen market development, and further build confidence. As such, they recently released their second Home-Grown Economic Reform Agenda (HGER 2.0) whose objectives are supported by the ECF program, with special focus on ensuring macroeconomic stability, fostering a conducive investment climate, boosting productivity across key sectors, and building an efficient civil service.

II. Program Performance

3. The program performance was strong, with all quantitative performance criteria (QPCs) and indicative targets (ITs), being met. The target for the accumulation of net international reserves (NIR) was exceeded by a significant margin, while there was limited foreign exchange intervention by the NBE and no new monetary financing of the budget deficit. The authorities have requested a modification of the end-December 2024 and end-June 2025 QPC, and end-March IT on net international reserves to save part of the overperformance.

4. All five structural benchmarks (SBs) set for end-September 2024 were implemented, one with a slight delay. The SB regarding the implementation of the emergency liquidity assistance framework was approved by the NBE's Board on October 8, 2024, and the directives were issued on October 15, 2024. The authorities implemented the first quarterly electricity tariff increase under the multi-year plan on September 11, 2024. Additionally, the Council of Ministers adopted the National Medium-Term Revenue Strategy (NMTRS - 2024/25-2027/28) already published on the Ministry of Finance's website. The National Bank of Ethiopia (NBE) has issued a circular to banks that are not in compliance with the regulatory threshold for the net open position (NOP), requiring full compliance by the end of June 2025. Audited financial statements for key state-owned enterprises (SOEs) have been completed and published. Furthermore, regarding end-December SB, NBE is on track to publish audited financial statements for 2021/22 and 2022/23 by the end of January 2025, with only a one-month delay. Further, four new SBs have been agreed upon for April-June 2025, aimed at further strengthening fiscal transparency, fostering financial liberalization, and ensuring that fiscal targets are

consistent with program objectives. **Considering the strong program performance and commitment to reforms, the authorities seek the Executive Directors' support in completion of the first ECF review, and associated requests.**

III. Recent Economic Developments and Outlook

5. Economic growth is expected to remain strong at 6.1 percent in 2023/24[1], despite a moderation from the 7.2 percent growth recorded in 2022/23. The strong growth performance has been broad-based, largely benefitting from a favorable agricultural season. At the same time, the industrial sector performance has strengthened on the back of the peace dividend, with strong growth anticipated in both medium and large manufacturing industries. The services sector is also registering a strong post-pandemic rebound, alongside strong growth observed in telecommunications and air transport services. Looking ahead, near-term growth is expected to moderate due to tight global financial conditions and short-term tradeoffs of the macroeconomic reforms. However, in medium-term, growth is projected to pick up to around 8.0 percent as the benefits of reforms take hold. Nevertheless, the outlook remains dominated by risks from spillovers from regional conflicts and volatile commodity prices. Importantly, the authorities' proven track record of reform implementation should provide further growth impetus.

6. Inflation continued its steady decline from a peak of 37 percent in May 2022 to 17.2 percent in August 2024. This ongoing disinflationary trend reflects tight fiscal and monetary policies pursued by the authorities, alongside supply-side improvements, while the full effects of recent macroeconomic reforms—including the impact of exchange rate realignment and adjustments to administratively determined prices—are yet to fully materialize. Although these adjustments are expected to lead to transitory spikes in inflation, the increase in prices is anticipated to occur at a slower pace than initially expected. In the medium-term, a gradual disinflation path towards single digits is expected. Meanwhile, the current account deficit is forecasted to widen from 2.6 percent in 2023/24 to 4.4 percent of GDP in 2024/25, driven by higher imports due to improved foreign exchange supply. That said, gross official reserves which stood at USD 1.4 billion (0.7 months of prospective import coverage) at the end of 2023/24, were USD 418 million higher than expected at the time of program approval and are expected to increase to USD 3.1 billion (1.4 months of import coverage) in 2024/25, still higher than initially anticipated, reflecting strong export performance.

IV. Fiscal Policy and Debt Management

7. The authorities are diligently advancing their revenue-led fiscal consolidation plan. They have established a ministerial-level National Tax Reform Taskforce (NMTRS) to spearhead implementation of tax revenue enhancing reforms. The recently adopted NMTRS details specific tax policies and administrative measures is geared at achieving their ambitious tax revenue target. Strong upfront tax policy and administrative measures have already been implemented and are expected to yield an additional 1.0 percent of GDP in 2024/25, in line with their goal of increasing the tax-to-GDP ratio by 4.0 percentage points by the end of the program period. To support this, Parliament has enacted a breakthrough new VAT proclamation that aims to broaden the tax base, significantly

[1] Latest data from the authorities indicates that real GDP growth for 2023/24 was 8.1 percent, outperforming the expected 6.1 percent growth. The agriculture, industry, and service sectors are estimated to have grown by 7.0 percent, 9.2 percent, and 7.7 percent, respectively.

streamline exemptions, and clarify the mandates of federal and regional governments, with an anticipated revenue yield of 0.5 percent of GDP. This proclamation, among others, introduces VAT on electricity and water while protecting vulnerable populations through a VAT exemption threshold. Additionally, as the full rollout of the excise stamp regime is set for April 2025, a directive on excise stamp management has been implemented, along with increased specific rates on alcohol and tobacco to adjust for inflation since 2020, thereby boosting revenue. Significant gains are also expected from the implementation of the Real Estate Property Tax Proclamation as well as customs duties due to the new exchange rate regime. Concurrently, the authorities are committed to strengthening tax administration including by leveraging digitalization. They have completed the TADAT assessment earlier than expected, which will inform their reform priorities. Relatedly, they allocated a budget for the Integrated Tax Administration System to help modernize and strengthen their tax administration efforts. Their efforts also focus on enhancing taxpayer registration, e-filing, compliance risk management, centralized incentive mechanisms, and tax audit efficiency.

8. The authorities' fiscal policy will continue to prioritize critical social and capital spending while gradually phasing out untargeted subsidies. A Supplementary Budget for 2024/25 has been presented to the Council of Ministers for adoption. It includes a fiscal package amounting to 1.5 percent of GDP, aimed at mitigating the effects of exchange rate reforms on the most vulnerable populations. In September 2024, they raised benefits for urban Productive Social Safety Net Programs (PSNP) by 20.7 percent and plan to increase benefits for rural PSNP beneficiaries in January 2025. Additionally, the PSNP's shock response facility has been activated, delivering two months of cash benefits, while resources for livelihood enhancement have been significantly increased. Additional measures to protect the most vulnerable includes temporary direct subsidies for selected food items and medicine, an increased fertilizer subsidy, and salary increments for public sector employees, prioritizing low wage earners.

9. To further cushion the impact of foreign exchange reform on cost of living, temporary and gradually declining fuel subsidies have been introduced. The first fuel pump price increase was implemented in October 2024, with the ultimate goals of eliminating the subsidy in a gradual manner within one year. The comprehensive and well-planned fiscal package increases public support for the reform measures. Looking ahead, the authorities plan to focus their fiscal policy on supporting inclusive growth through increasing spending in priority sectors—health, education, and social safety nets—to levels above the pre-pandemic levels. Concurrently, they are committed to enhancing public financial management, improving cash management, and managing fiscal risks from SOEs. This includes the full rollout of an Integrated Financial Management Information System (IFMIS), the introduction of a public sector obligations (PSO) framework and increasing transparency by publishing mid-year budget reviews and quarterly budget execution reports.

10. The authorities remain commitment to refrain from contracting non-concessional loans and avoiding externally financed new investments by SOEs. Consequently, external public debt declined from 29.0 percent of GDP in 2020/21 to 15.4 percent of GDP in 2023/24. They are determined to restore debt sustainability and aim to achieve a moderate level of debt distress by the end of the program period. In this vein, they are closely engaging with both official bilateral and commercial creditors to reach an agreement in principle on the terms of the debt treatment that aligns with program parameters by the time of the second ECF review. Their latest engagement with Eurobond holders took place on October 1, 2024, during a global investor call, where they updated investors on recent macroeconomic developments and called for their strong support. They reaffirmed their

commitment to avoid contracting non-concessional loans while continuing to evaluate the implications of any new concessional debt before making commitments. Additionally, they are engaging with prospective lenders for the *Koysha* dam project to ensure that loan terms align with program parameters. Looking ahead, with the support of the Fund's technical assistance, they plan to develop a medium-term debt management strategy to enhance debt management practices. Further, the authorities are cognizant of the need to develop a T-bills market as a primary source of deficit financing going forward, leveraging on the envisaged shift towards greater financial liberalization. To this end, they plan to further enhance auction transparency and began awareness creation to encourage increased participation in T-bills auctions.

V. Monetary, Exchange Rate, and Financial Sector Policies

11. The authorities reaffirmed their resolve to maintain a tight monetary policy stance to anchor expectations and ensure price stability. In this connection, base money growth declined from 32.0 percent in 2022/23 to a contraction of 1.1 percent in 2023/24. Their restrictive policy stance, which includes limits on the NBE credit to the government and restrictions on credit to the private sector, has supported the steady decline in inflation. The authorities are determined to maintain this restrictive policy stance, to counter near-term inflationary pressures. To this end, they will continue to explore a mix of policy tools, including quantitative measures, while adhering to their commitment to transition to an interest rate based monetary policy framework. Concurrently, the NBE is advancing its modernization of the monetary policy framework. Since the introduction of interest-rate based monetary policy framework, the NBE has conducted seven liquidity-absorbing biweekly Open Market Operations (OMO) until October 3, 2024, with strong participation from banks at a fixed policy rate of 15 percent. Additionally, banks are utilizing standing facilities offered by the NBE, which set at ±3 percent around the policy rate, supporting efficient liquidity management. In July 2024, the NBE issued an interbank money market directive and expects the establishment of a central securities depository (CSD) by December 2024, alongside the launch of an interbank money market trading platform, further accelerating the modernization of monetary policy operations and the development of the money market.

12. The new flexible exchange rate regime is progressing smoothly, achieving significant success in reducing the parallel market premium from around 100 percent at the time of the reform to about 5 percent. The foreign exchange supply response has been positive, albeit slower than expected, with increasing remittances and export receipts. Key reforms—such as eliminating distortive current account controls, removing the surrender requirement to the NBE, consolidating foreign exchange directives, relaxing the Franco Valuta import scheme, lifting bans on selected import items, restricting non-transparent pricing by banks, and reforming gold purchases by the NBE—have supported the foreign exchange market's development and contributed to early successes. On October 2, 2024, the NBE granted licenses to five non-bank independent foreign exchange bureaus and plans to lift the requirement for exporters to submit non-surrendered foreign exchange after one-month by the end of October 2024 giving further impetus for the development of the FX market. Further, the NBE will continue strengthening monitoring and enforcement of foreign exchange directives while working on communication to improve market participants' understanding of the new regime. The authorities are planning to conduct a market survey to identify any impediments to efficient market functioning, while reviewing IMF's Article VIII mission recommendations. They have also prepared a detailed plan to settle the legacy letters of credit (LCs) related to fuel imports and renewed their commitment to market financing for future fuel imports. That said, they remain determined to limit foreign

exchange intervention solely to addressing disorderly market conditions. Meanwhile, the authorities remain committed to increasing foreign reserve coverage to 3.5 months of prospective imports by the end of the program period.

13. Safeguarding financial sector stability continues to rank high on the authorities' agenda. To this end, the NBE issued several directives aimed at enhancing financial sector stability and strengthening good governance in July 2024. They revised directives on asset classification and provisioning to align with international best practices. Significant reforms are also underway at the largest publicly owned bank, the Commercial Bank of Ethiopia (CBE), including efforts to restructure and recapitalize the bank with support from the World Bank under their Financial Sector Strengthening Project (FSSP). To this end, government injected Birr 900 billion through the issuance of bonds to address problematic legacy SOE loans and strengthen the bank's capital position, including to withstand losses associated with foreign exchange reforms. The authorities reaffirm their commitment to steadfast reforms at CBE, ensuring the bank is set on a sound commercial footing, has enhanced governance, and clearly defined public sector obligations. Additionally, the NBE is upgrading the sector's capital framework to align with Basel II/III recommendations, also benefiting from Fund TA.

VI. Structural Reforms

14. Our authorities recognize the importance of far-reaching structural reforms alongside macroeconomic reforms designed to support their objective of achieving higher, sustainable, and inclusive private sector-led growth. Towards this end, they are committed to sustaining their efforts to improve the business environment by creating an improved legal and regulatory framework, gradually liberalizing previously closed sectors, implementing targeted economic sector reforms, advancing regional and global trade integration, and increasing access to finance. The expected launch of the Ethiopian Securities Exchange alongside the roll-out of the National Digital ID is anticipated to enhance private sector investment and increase financial inclusion. At the same time, the authorities will press ahead with SOE reforms by strengthening transparency and addressing governance vulnerabilities. Public sector obligations of SOEs will be clearly defined and costed, while the privatization agenda will continue. Reforms in the power sector will also be sustained, including the multi-year tariff increase plan by Ethiopian Electricity Power (EEP) towards cost recovery levels. At the same time, the authorities are diligently working to strengthen the NBE's autonomy and governance. To this end, NBE's amended proclamation has been tabled for parliamentary consideration, benefiting from IMF staff's feedback, while the authorities recently completed IMF's Safeguard Assessment and they look forward to leveraging its recommendations.

15. Recognizing Ethiopia's susceptibility to climate shocks, the authorities have placed the climate agenda at the center of the authorities' reform initiatives. The recent landslide following heavy rains in July 2024, which led to loss of lives and destruction of property, is another reminder of Ethiopia's vulnerability to recurrent climate shocks. As such, the authorities are working diligently to enhance climate adaptation and mitigation to meet their ambitious Nationally Determined Targets. To this end, they continue their reforestation campaign and have embarked on a deliberate tree planting exercise during this year's rainy season under their flagship Ethiopia's Green Legacy Initiatives. Nevertheless, given significant financing needs, they call on development partners to support these efforts. They are also reviewing the IMF's C-PIMA and World Bank's CCDR recommendations to inform their policy priorities.

VII. Conclusion

16. The Ethiopian authorities are making determined efforts to sustain the reform momentum, building on the early successes achieved through the implementation of landmark reforms. They reaffirm their commitment to the objectives of the ECF arrangement and are prepared to timely implement appropriate contingent measures. They are dedicated to strengthening the flexible exchange rate system, durably entrench price stability, and restore external debt sustainability. They also plan to intensify their domestic resource mobilization efforts to create space for critical social and development spending, and steadfastly implement structural reforms to support strong, sustainable, and inclusive growth. The authorities appreciate the support of the Fund and other development partners in their ambitious reform agenda. They seek the Executive Directors' support in completion of the first review under the ECF arrangement, considering the strong program performance and their commitment to stay the course on reform implementation. Furthermore, they underscore that the success of their reform efforts hinges on expedited debt treatment, as well as continued financial and technical assistance from development partners. Accordingly, they seek their creditors' support to provide timely debt treatment consistent with program parameters.