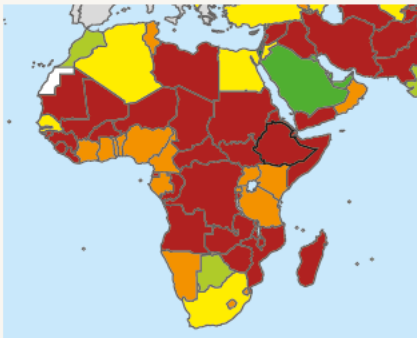


**Basic facts (2020)**

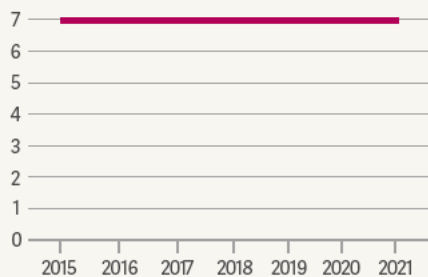
Population: 97 million

GDP, nominal: USD 96 611 million

GDP/capita: USD 994



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

**Country classification history**

Source: EKN

**Strengths**

- + High average growth rate
- + Robust inflow of foreign direct investment via major infrastructure investments.
- + Foreign debt consists largely of concessional loans.

**Weaknesses**

- The economy is one-sidedly dependent on the agricultural sector.
- The weak export sector provides low external liquidity
- Weak public finances

**High growth, low external liquidity**

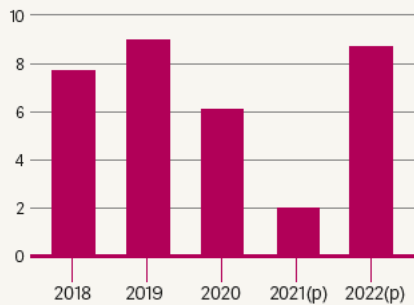
High economic growth rates, averaging a bit more than nine per cent over the past decade, have long been Ethiopia's absolute strength. Growth is driven by large infrastructure investments financed by foreign loans and direct investment. The high rate of growth means that government debt has been able to be kept at an admittedly high, but relatively stable level in relation to GDP. The risk picture is on the other hand dominated by extensive external financing needs and low external liquidity. One primary reason is the weak export sector, which accounts for less than 10% of GDP. The consequence is large current account deficits, weak hard currency earnings, and a high debt service ratio. As a consequence, the country is classified by the IMF and the World Bank as having a "high risk of debt distress" and the country has a zero limit on new commercial loans, known as non-concessional loans. Ethiopia is an ethnically divided country with a variety of regional conflicts, including in the Tigray region. The country's public institutions are weak, leaving limited capacity to deal with high government debt and large external payment commitments.

**Debt renegotiations means a difficult 2021**

The COVID-19 pandemic is negatively affecting the economy due to reduced export revenues and increased governmental spending. Nevertheless, the economy grew by approximately six per cent in 2020, which is among the best growth rates in the world. However the greatest challenge is likely to come in 2021, when the central government enters loan renegotiations and growth is expected to slow to around 2 per cent. The coronavirus crisis has had the greatest negative effect on external liquidity. As a result of a sharp decline in exports, the debt service ratio has increased to 35 per cent, and international reserves now cover less than half of external financing needs.

International funding provides a certain measure of support to the economy. The IMF has granted an emergency loan in the amount of USD 411 million for increased costs related to the coronavirus pandemic, plus has an ongoing IMF programme worth approximately USD 2.7 billion over three years (2019-2022). The IMF's decision to allocate additional Special Drawing Rights (SDRs) to the world's economies means liquidity support for Ethiopia equivalent to approximately 10 per cent of the current international reserves. In addition, the country has been granted a suspension and deferral of debt service payments under the G20 Debt Service Suspension Initiative (DSSI), which provides some relief in terms of the country's payment commitments in 2020/2021. The structure of Ethiopia's government debt is relatively advantageous in that it consists largely of loans with favourable conditions, about 70 per cent of the total debt. This means low costs for the State, the central government's interest costs represent only about 3 per cent of the State's budgeted revenues. The high rate of growth is likely to return after a temporary slump in 2020/21, which will provide support for the public finances. Ethiopia's prime minister since 2018, Abiy Ahmed, has opened the door to private investment in the country and has begun privatising state-owned enterprises, which is also expected to provide some support to the Treasury in the coming years. Nevertheless, in January 2021, the country was forced to apply for a more extensive debt renegotiation with the Paris Club,

## GDP growth (fixed prices, % per annum)



Source: IMFWEQ, Macrobond

## Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

## Swedish export to Ethiopia

	MSEK
2020	215
2019	177
2018	164
2017	202
2016	443

Source: SCB

## EKN:s exposure

	MSEK
Guarantees	1 617
Offers	42

China, and private bondholders, under the Common Framework. The renegotiation may include both loan rescheduling and regular cancellations of debt.

In the short term, the primary risks remain in the low external liquidity. The armed conflict in the Tigray province has tarnished the government's reputation and risks having far-reaching negative consequences both in terms of foreign investment and financial support. In response, the United States has decided to not grant visas to a number of Ethiopian and Eritrean government representatives and reduced its financial and security support to Ethiopia. The country's political capital is in danger of being further eroded as a consequence of the government's decision to postpone the presidential elections until June 2021 and severely restrict transparency and the international community's understanding of the situation. This is a serious situation given that direct investment and loans finance most of Ethiopia's considerable current account deficit. Overall, EKN stands by country risk category 7/7 for Ethiopia. An upgrade is very unlikely considering the current situation.

## Business environment

Severe currency shortages, onerous tax administration and licensing requirements are perceived as serious obstacles to business and investment in Ethiopia. The National Bank of Ethiopia, the country's central bank, has delegated much of the administration of hard currency to local banks, however companies are still required to exchange a significant share of their hard currency income with the NBE. State-owned Commercial Bank of Ethiopia currently controls two-thirds of the financial sector. Overall, the business environment has a high degree of state interference where public interests are often prioritised over private ones. In the World Bank's Ease of Doing Business Index, Ethiopia ranks 159th out of 190 countries globally, i.e. a very low ranking. The high level of inflation, currently a bit over 20 per cent, poses another challenge for businesses and banks.

## EKN:s policy

Due to the poor financial situation of the state and restrictions on sustainable lending, EKN does not cover long-term payment risks on public buyers. For short risk terms (<1 year), EKN may consider public buyers, but then the requirement is a letter of credit guarantee or bank guarantee. For banks, normal risk assessment applies with short risk terms, while premiums are elevated for longer terms. Due to the limited availability of hard currency, only direct risks are assessed on companies that have their own hard currency earnings or where external support is available.

## EKN:s commitment and experience

Ethiopia is one of EKN's largest exposures in sub-Saharan Africa. Most guarantees consist of sovereign risks for deliveries to projects for the expansion of the rail network in northern Ethiopia, as well as the construction of an electricity transmission line through Addis Ababa. EKN sees a regular flow of letter of credit guarantee transactions in Ethiopia, about ten letters of credit guarantees per

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year. There is also demand for letter of credit guarantees with credit terms of over one year. EKN issued guarantees in 17 transactions in 2020, nine transactions in 2019 and eleven transactions in 2018. The payment experience in Ethiopia is generally positive, however a delay on the electricity transmission project was reported in autumn 2019. This was paid after three months and the reason was stated to be a lack of hard currency.