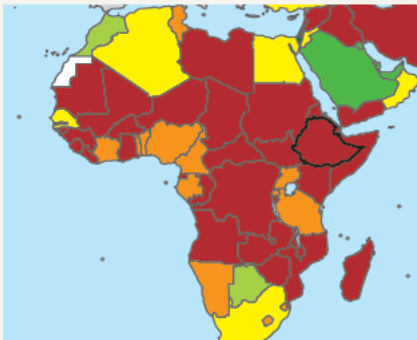


**Basic facts (2021)**

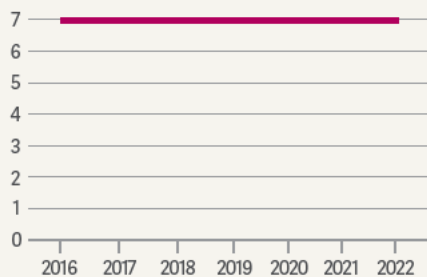
Population: 100 million

GDP, nominal: USD 99 billion

GDP/capita: USD 996



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**

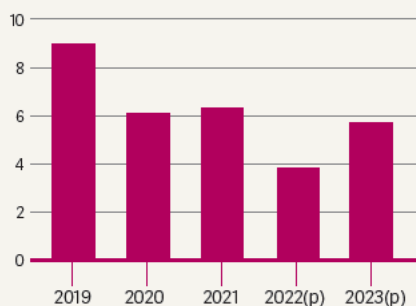
High economic growth rates, averaging a bit more than nine per cent over the past decade, have long been Ethiopia's absolute strength. Growth is driven by large infrastructure investments financed by foreign loans and direct investment. The high rate of growth means that government debt has been able 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. According to the IMF/World Bank, there is a high risk of payment problems, which means that Ethiopia has a zero limit on new loans on commercial terms (non-concessional loans). Ethiopia is an ethnically divided country with several regional conflicts, including in the Tigray region. The country's public institutions are weak, leaving limited capacity to handle high levels of sovereign debt and large external payment obligations.

**The conflict in Tigray continues to impose severe pressure on the economy**

The internal political conflict in the country is in a calmer phase after the federal forces managed to push back the Tigray People's Liberation Front (TPLF) to the Tigray Province. However, the war is far from over and is also in serious danger of spilling over into neighbouring Eritrea. Given the great divide between the Abiy Government and the TPLF, it is currently very difficult to see an immediate peaceful solution to the conflict. Therefore the consequences of the war will be long-term. Ethiopia's government finances and external liquidity are under pressure, particularly from the COVID-19 pandemic and the conflict in Tigray. The war in Ukraine is further aggravating the situation, not the least because more than 10% of Ethiopia's total imports consist of crude oil, the price of which has risen sharply. Furthermore, food prices have a high weight in Ethiopia's inflation index, which will add to the already very high rate of inflation (currently close to 35%). Rising global interest rates and reduced risk appetite will further complicate prospects for external financing, which was already serious given depressed exports and low foreign direct investment inflows. Consequently Ethiopia's foreign exchange reserves continue to decline – currently at just under USD 1.6 billion, which is about one-half of what it was two years ago. In the coming years, the foreign exchange reserves will be equivalent to less than one month's imports, i.e. a critically low level. Foreign exchange reserves are declining despite the fact that Ethiopia has been granted a deferral of debt service payments under the G20's 2020/21 Debt Service Suspension Initiative and has also received liquidity support from the IMF equivalent to about ten per cent of the current international reserves in the form of Special Drawing Rights (SDRs). Economic growth for 2022 is forecast at around 3.8 per cent, which still appears to be optimistic given the intense pressures on the economy and the increasing shortage of hard currency.

In order to manage its public finances, Ethiopia has applied for debt renegotiations under the Common Framework. The request was made almost

## 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

Year	MSEK
2021	100
2020	215
2019	177
2018	164
2017	202

Source: SCB

## EKN:s exposure

Category	MSEK
Guarantees	1 690
Offers	3

a year and a half ago, but due to difficulties in uniting the country's creditors, negotiations have not yet commenced. Ethiopia has large loans to China as well as to private creditors, which complicates the debt renegotiation process. The negotiations may result in loan rescheduling/restructuring as well as outright debt write-offs. As a result of the financial crisis and the conflict in Tigray, the international investment appetite has declined. This means that the privatisations of state-owned companies initiated by Prime Minister Abiy Ahmed will be postponed. The privatisations will provide some support to the treasury in the coming years, but they will be too few and too small in scale to turn around the government's finances. Debt renegotiations will thus become necessary. On the positive side, the structure of Ethiopia's sovereign debt is on relatively favourable terms – about 70 per cent of total debt is made up of concessional loans. This results in relatively low borrowing costs for the State, despite the fact that since 2021 government interest costs have increased significantly as a share of fiscal revenues.

Overall, Ethiopia remains in country risk category 7 (out of 7). An upgrade is very unlikely, considering the prevailing 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. Hard currency liquidity is generally low in the banking system, and the rules and regulations can change rapidly. The state-owned Commercial Bank of Ethiopia controls two-thirds of the financial sector and is generally perceived to have priority over other banks in terms of hard currency. Overall, the business environment has a high degree of state interference where public interests are often prioritised over private ones. The high level of inflation 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 periods (<1 years), EKN may consider public buyers, but then the requirement is a letter of credit or bank guarantee. For banks, normal risk assessment applies with short risk terms and elevated premiums 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. Elevated premium rates apply to companies that meet the requirement.

## EKN:s commitment and experience

EKN's exposure to Ethiopia is among the largest 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

# Ethiopia

electricity transmission line through Addis Ababa. EKN sees a regular flow of letter of credit guarantee transactions in Ethiopia, about ten guarantees per year. There is also demand for letter of credit guarantees with credit terms of over one year. In 2021 EKN issued guarantees in five transactions; in 2020 in 26 transactions, and in 2019 in nine transactions. The payment experience in Ethiopia is generally positive, however a delay in payment on the electricity transmission project was reported in autumn 2019. This was paid after three months, and the reason was stated to be a shortage of hard currency.