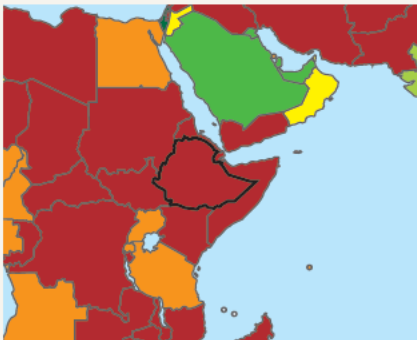


Basic facts (2022)

Population: 104 million

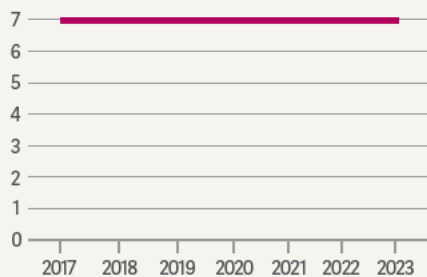
GDP, nominal: USD 120,4 billion

GDP/capita: USD 1 156



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.
- + The external debt consists largely of concessional loans.

Weaknesses

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

High economic growth, low external liquidity

High economic growth rates, averaging a little over 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, on the other hand, is dominated by extensive external financing needs and low external liquidity. One primary reason is the weak export sector, which accounts for less than ten per cent of GDP. The consequence is a large current account deficit, weak hard currency earnings and a high debt service ratio. According to the IMF/World Bank, there is a high risk of debt distress, which means that Ethiopia has a zero limit on new loans on commercial terms. 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 public debt and large external payment obligations. In addition, the large agricultural sector, especially coffee production, is vulnerable to climate change. The low level of income and weak institutions mean limited capacity to prevent risks such as droughts, floods and fires. Energy is supplied almost exclusively through hydropower, which means limited need for adjustment in terms of energy sources.

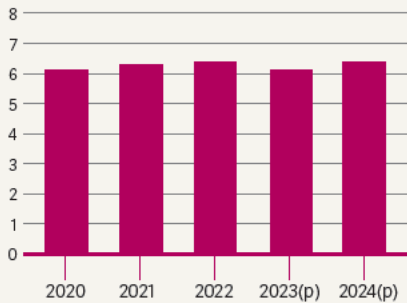
Time is running out for Ethiopia

According to official statistics, the Ethiopian economy is expected to grow by just over six per cent per year from 2023-2025, which seems unlikely given the economic crisis the country is going through. Although inflation is on a downward trend, it is still around 30 per cent in 2023. The Ethiopian Birr is expected to continue to lose value against the USD in the coming years, which can be seen not least in the parallel market. In the parallel market, the Birr is traded at about half of the official exchange rate (50 Birr/USD vs 100 Birr/USD).

Several years of a strong dollar, normalised oil prices, high public debt and a faster recovery in imports than exports are putting severe currency pressure on most sub-Saharan countries. In Ethiopia, the shortage of hard currency has increased from an already pressured level. In the coming years, international reserves are expected to represent only about two weeks of imports, i.e. a very critical level. Compared to 2020, international reserves have more than halved, from just over USD 3 billion USD to just under USD 1.5 billion in 2022. The underlying problem is Ethiopia's weak hard currency earnings, which, combined with the central bank's currency interventions and the country's large import needs, means a chronic shortage of hard currency. In 2021-2022, the cost of oil imports nearly doubled due to high oil prices and a stronger USD vs Birr. Due to the increasingly severe shortage of hard currency, EKN introduced a requirement for letters of credit as a means of payment for corporate risks in June 2023.

The government has applied for an IMF programme and debt renegotiation, but due to the conflict in Tigray and the complicated composition of creditors, there is no agreement after almost 2.5 years of low-intensity negotiations. Ethiopia has large loans to China as well as private creditors. The problem in government finances is external liquidity, rather than solvency. Government debt is expected

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

to fall below 40 per cent of GDP in 2023, i.e. a moderate level for country risk category 7. In addition, the structure of Ethiopia's public debt is favourable, about 70 per cent of the total debt consists of loans on favourable terms. This means relatively low borrowing costs for the government, even though public interest costs have risen markedly over the past five years due to currency depreciation. The slow pace of debt renegotiations poses an obvious risk to the Ethiopian Government. Every month without additional liquidity erodes international reserves and damages confidence in the Ethiopian economy which, in the absence of a strong export sector, is highly dependent on foreign direct investment. Foreign direct investment almost halved in 2022 and is expected to continue declining both in absolute amounts and as a share of GDP in the coming years. Maintaining some confidence in the economy is also important in view of privatisations initiated by President Abiy Ahmed, not least within banking and telecoms. The government is trying to attract investors back, but as long as macro figures and the business environment are underperforming, interest will probably be limited. In addition, the slow pace of debt renegotiations risks exacerbating the situation in public finances, which means that a more comprehensive renegotiation may ultimately be required.

The risk development in Tigray province is currently cautiously positive after a peace agreement was signed in November 2022. The peace agreement is considerably more far-reaching than anticipated and to date has been honoured by both parties. Within months of the signing of the peace agreement, disarmament of the TPLF began and control of Tigray province was handed over to the federal government. Since March 2023, the TPLF is no longer designated as a terrorist organisation. However, despite the positive developments in the Tigray conflict, the domestic political situation remains fragile. Unrest has occurred in both Amhara and Oromia, and there are a number of potential conflicts within the country that risk coming to the surface. The Oromo Liberation Army (OLA) has the capacity to carry out attacks near the capital, although the group is poorly centralised and organised. In addition, the civil war in Sudan is considered to be having a destabilising effect within the region. For years now, there has been a conflict between Sudan and Ethiopia over the al-Fashaga region.

Overall, the assessment for Ethiopia remains country risk category 7 (out of 7). The outlook is stable.

Business environment

Lack of hard currency liquidity is a key obstacle for companies and banks. All hard currency allocation is done through the central bank NBE. Each bank has an assigned limit as well as a priority list of sectors. Companies are required to directly exchange 70 per cent of hard currency earnings with NBE, but in addition, 10 per cent must be exchanged with the bank. Companies are therefore only allowed to keep 20 per cent of hard currency earnings. There is no interbank market for currency. 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 bureaucracy is extensive, and corruption is high in a global perspective. In Transparency International's Corruption Perception Index, Ethiopia was placed 94 out of 180 countries, i.e., a middle position. The high level

Swedish export to Ethiopia

	MSEK
2022	240
2021	100
2020	215
2019	177
2018	164

Source: SCB

EKN:s exposure

	MSEK
Guarantees	1 587
Offers	4

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 periods (<1 year) with public buyers, a letter of credit or bank guarantee is required. For banks, elevated premiums apply for long risk periods. EKN no longer accepts direct risks on companies. A letter of credit (confirmed or unconfirmed) is required when companies are buyers.

EKN:s commitment and experience

Ethiopia is among the countries in sub-Saharan Africa with EKN's largest outstanding guarantees. Sovereign transactions 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, dominate the exposure. EKN also sees a regular flow of letter of credit transactions, about ten letter of credit guarantees per year. The payment experience in the letter of credit guarantee is good – no delays or claims in recent years. In terms of sovereign risks, a delay was recorded in the electricity transmission project in autumn 2019, which was settled after three months. The reason was hard currency shortages and hard currency prioritisation at the central bank.

Due to Covid-19, Ethiopia has requested a deferral of its foreign payments under the G20 Debt Service Suspension Initiative (DSSI) and debt renegotiation under the Common Framework. There is a high risk that government-guaranteed transactions will be covered by the debt renegotiation. During the period 1992-2004, Ethiopia had five Paris Club agreements. All of them have involved debt cancellation.