

Ethiopia

Ethiopia is expected to continue on its fast growth track. It recorded average growth of above 10% over the past five years. In 2011, growth is expected to again reach 10% before decelerating slightly to just below 9% in 2012.

Impressive economic growth has put the country on track to reach most of the Millennium Development Goals (MDGs) by 2015. The poverty rate has fallen from almost 39% in 2005 to around 32% in 2010.

Ethiopia is pursuing opportunities for growth and development with new partners such as China, India and Turkey, but needs to exercise caution while adopting a strategy to maximise the benefits.

In 2010, Ethiopia continued to register the fast growth as it has for the last five years. Gross domestic product (GDP) growth in 2010 (2009/10) remained strong at 8.8%. Growth is driven by the service sector (14.5%), followed by the industrial (10.2%) and agricultural (6%) sectors. Except for a rebound in fishing, the rest of the agricultural sub-sectors remained fundamentally unchanged from their levels in 2009. The service sector's leading role is due to hotels and restaurants, financial intermediation, public services and real estate. The country continues to struggle with the macroeconomic challenges of high inflation and very low international reserves. The government's five-year Growth and Transformation Plan was launched in 2010/11. If it is successful, the prospects for 2011 and 2012 are likely to be as positive as in 2010. The plan calls for the agriculture sector to become the major source of economic growth. Industrial growth will also be given particular attention. The government intends to promote industrialisation through increased exports and import substitution. The economy is projected to grow at an average annual rate of 10% in 2011. The agriculture sector is expected to grow by 8.1% while industry and services are expected to show an average annual growth of 20 and 11% respectively during the planned five-year period of the government.

In 2010, although growth remained strong, macroeconomic management was problematic because of the rising level of inflation and a sharp depreciation of the national currency. The government managed to contain inflation through a combination of monetary instruments, i.e. the contraction of credit and money supply growth. The government devalued the national currency by 20% in 2010 with the aim of boosting exports and raising the level of external reserves. The government intends to use monetary policy to keep inflation below 10% starting in 2011 and through the duration of its five-year plan.

Following a drop in merchandise exports in 2009 due mainly to the global economic crisis hitting demand for key traditional export commodities, exports began to bounce back slowly in 2010. Imports remained strong in 2010 at 27.2% of GDP. The government projects this figure will grow to between 30 and 35% of GDP per annum by 2015. The result is a large trade and balance-of-payment deficit. The current account balance is expected to worsen from about minus 6.4% of GDP in 2010/11 to minus 11.9% in 2011/12.

The private sector is confronted with a number of challenges including: *i)* a poor business environment; *ii)* a poorly performing judicial system that fails to address property rights and weak corporate governance; *iii)* a relatively undeveloped financial system; and *iv)* a challenging macroeconomic environment. The government has attempted to address some of these issues by passing a competition law, setting up a public-private partnership forum and attempting to control inflation in 2010. However, the large devaluation in 2010 and the introduction of price controls on 18 goods designated as "basic" at the beginning of 2011 have led to confusion in the market.

The election held in May 2010 was generally peaceful. The ruling EPRDF claimed to win all but two seats in parliament – thus controlling 99% of the Parliament. Many in the opposition have complained about the lack of political space and intimidation of their supporters by the government. Political tensions in the region remain high because of insecurity in Somalia and the uncertainty associated with the future relations of North and South Sudan following the secession of South Sudan, with which Ethiopia enjoys friendly relations so far. The Ethiopian-Eritrea border dispute remained unresolved in 2010.

Despite limited success in institutionalising democratic governance, the Ethiopian government demonstrated impressive achievements in social and human development as government spending on education, health, agriculture and roads grew at an exemplary rate. In 2010/11, Ethiopia has made significant progress towards achieving the Millennium Development Goals (MDGs). In 2004/05, 38.7% of Ethiopians (about 30 million people) were poor. The figure has gone down to about 32.3% in 2009/10 and is expected to fall further to 31.0% in 2010/11. The decline in rural poverty since 1995/96 is substantial. Ethiopia is also on the right track in relation

to education. Given the trend in the 1990s and the recent performance, conservative estimates show that this particular goal is achievable by 2015. However, this success may have come at the expense of quality in education. Ethiopia also appears to be on track to achieve gender parity in primary school enrolment by 2015. The country is also on track with regard to the health related MDGs such as maternal and child mortality, as well as HIV-AIDS and malaria prevention and treatment.

Table 1: Macroeconomic indicators

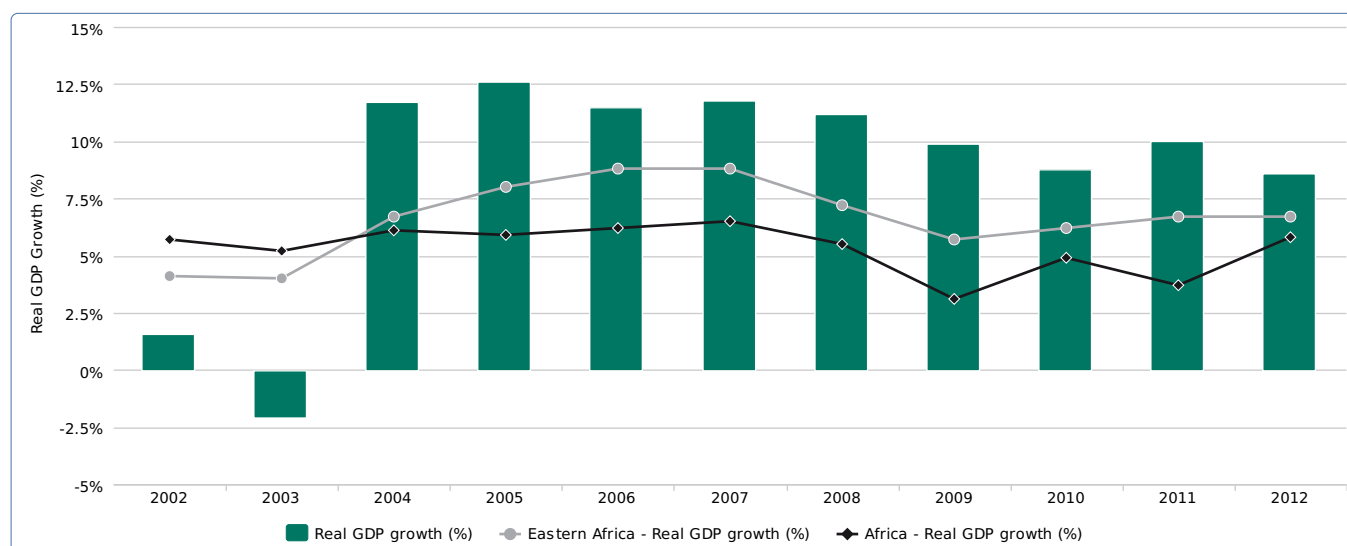
	2009	2010	2011	2012
Real GDP growth	9.9	8.8	10	8.6
CPI inflation	36	11.2	17.6	14.3
Budget balance % GDP	-0.9	-2.3	-3.5	-4.1
Current account % GDP	-5	-6.6	-6.4	-11.9

Source: National authorities' data; estimates (e) and projections (p) based on authors' calculations. Fiscal year July (n-1)/ June (n)

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 1: Real GDP growth (E)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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