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Federal Democratic Republic of Ethiopia
OFFICE OF THE PRIME MINISTER

PMO Editorial
April 2021

Cementing Ethiopia's economic success story: Mid-way through the Economic Reforms

It's close to 18 months since the launch of the Home-Grown Economic Reform (HGER) agenda in September 2019. During the reform period, the economy exhibited a notable departure from the past decade's public investment-led economic model, clear signs of improved private sector confidence, and an enormous resilience in the face of the COVID -19 pandemic. All of these were achieved despite multiple shocks including a global economic downturn and domestic political upheavals. It's often hard to comprehend the counterfactual – 'if it was not for the bold measures the government took to reverse the looming macro-economic instabilities' or where the notable reforms would have taken the economy if it was not for the effects of the COVID-19 pandemic. But, those of us tuned to the Ethiopian economy know too well the downward trajectory the economy has endured since 2016 – from growth to exports, debt distress and financial sector instabilities.

In the first year of the reform period, the government took quick and coordinated macro-financial measures to arrest the looming macro-financial instabilities and reversed the economy's downward spiral to achieve a 6.1% growth rate in the face of COVID-19. Limits were put on external borrowing and imprudent public investments were halted to reign expansionary fiscal and monetary policy; less costly forex resources were mobilized to address the forex shortage. The debt to GDP ratio improved from 58% to 52%, while the share of non-concessional loans to total disbursements decreased from 50% in 2018 to 28% in 2020; this coupled with debt reprofiling measures keeps the economy on track to achieve a 'moderate risk' of debt distress by the end of 2023/24. Exports also picked-up (growing by 12%) after close to a decade of stagnant performance and a decreasing trend since 2015.

The reforms across the macro, structural and sectoral pillars of the agenda advanced fundamental changes to ensure sustained macro-economic stability and unlock the private sector's growth potentials. The fundamental goals of our economic policy remained – growth, infrastructure development, and job creation. Yet, we are now keener on inclusion, unlocking the potential of the private sector, and decent jobs. Our investment and financing strategy made a notable shift from public to private investment and from debt to equity financing. At the core of this shift is ensuring that the public sector reigns its expansionary investments and provides a policy and regulatory environment to promote private investment.

A change in the financing landscape and increasingly market-based allocation of resources was seen as a critical first step in the reform agenda. Notable measures have been taken in this line. Financial repression measures that facilitated cheaper financing to the public sector projects at the cost of more efficient private sector projects have been terminated. The 27% NBE bill was repealed in November 2019 within three-months of the reform period. The government is now competing with the private sector to raise funds from the market via the introduction of competitive markets for T-bills. These measures are ensuring the sustainability of the fiscal policy and the private sector's improved access to finance. Private sector access to credits increased by 80% since 2018, while its share from the total credits extension increased to 64 % during the reform period.

Creating a conducive, transparent, and predictable economic institutions for investment and business is at the top of the current reforms. The government is committed to improve the investment climate for all actors from micro and small enterprises to multinationals to exploit their innovative ideas and resources.

Policy and legal frameworks that no-longer fit the economic context of the country are being revised to ensure the institutionalization of the reform measures. The key investment and trade laws of the country underestimated the potential of the private sector and constrained its activates. For instance, until last week, trade was still regulated by the 1960 imperial commercial code, which limited trade activities and blundered robust corporate governance practices. The commercial code has now been revised to meet the needs of the dynamic private sector. Similarity, the existing public enterprises law (PE), was prepared in 1992 to guide the shift from a planned to a mixed economy; it remains to underestimate and constrain the potential of the private sector by placing the SOEs to drive key sectors of the economy. In line with the private sector focus of the reforms, the new PE law, in its final stages of approval, exposes the SOEs to private sector corporate and governance discipline and lays the ground for competitive neutrality of SOEs. The revised investment law opens several sectors to domestic and foreign private investors, while listing select economic sectors and activities as fully or partially restricted to foreign investment. The afore-mentioned measures are aimed to improve the experience of investors in the country and attract new firms to enter the expanding Ethiopian market.

Sectoral and structural reforms are introducing market fundamentals and improving the productivity and competitiveness of the economy, with a strong focus on private sector engagement. The national Agricultural and Rural Development policy (1994) is being revised with a focus to allow the private sector play its role in transforming the sector; while scaling back the monopoly of the government in key agriculture services. Private actors are already stepping up to improve the accessibility of inputs and commercialization of the sector. Last week, the Minister of Agriculture entered into a PPP agreement with private enterprises to improve pest surveillance and locust response and livestock quarantine service provisions. Through a coordinated government-private sector engagement, wheat and edible oil import substitution measures are showing notable promise, with wheat imports expected to be substituted by the end of the reform period.

Reforms across the structural pillars including in investment climate and logistics sector are keeping us on track towards the goal of joining the top 100 countries in the global doing business ranking. More than 80+ administrative and legal reforms including digitalization of business procedures have cut the financial and time cost of doing business. Logistics sector reforms, including the establishment of a single window, improvements in the Djibouti port and new services in Tajoura port have reduced the transit and transport time by close to half.

In this transition, there is an unequivocal understanding that markets alone cannot facilitate sustainable modes of economic growth. The economic reforms are aimed to correct any imbalance that arose in the past decade's rapid growth – not an economic revolution with foresworn ideas. The government continues to proactively address gaps to both sustain the growth and address imbalances. It pioneers untapped opportunities to release new potentials and de-risks opportunities for the private sector.

The state and private actors are ever coming together to chart the path towards prosperity. A high-level Economic Advisory Council has been established to challenge and provide guidance to the government's economic policy-making. The investment board, led by the Prime Minister, now includes members of the private sector to heed their vital voices in decision making.

Investment prospects are growing exponentially in scope and diversity, from oil and gas to tourism, FinTech, manufacturing, and agriculture. Ethiopia's untapped oil and gas reserves are now ready to enter the market, close to 40 years after the discovery of natural gas in Eastern Ethiopia. Through a gas commercialization agreement with the Chinese POLY-GCL Petroleum Investments, natural gas exports are expected to commence within the next three years with the capacity to generate up to 6bn USD. The government is taking the lead to expose the country's tourism potential as seen in new parks in Addis Ababa – Unity, Entoto, and Sheger parks—which provide a prevue of the country's historical, cultural, and eco-logical attractions. These private and public investments offer a glimpse of the government's determination to unlock the immense potential in new economic sectors.

With transparent and market-based economic institutions and a political commitment to the reforms, the completed and up-coming reforms are expected to lead to substantial shifts in the economy by the end of the reform period. The capital market establishment, expected by end of the current fiscal year, will unlock and diversity the sources of finance in the economy. The capital markets will stamp our plan to shift from debt to equity financing. Both SOE and private companies will be able to attract domestic and foreign equity investors. Liberalization across the major economic sectors, such as telecom and logistics, and the bold reforms to improve the ease of doing business, will boost the competitiveness of the economy and unlock investment opportunities. The fast-tracked completion of the WTO negotiation and the AFCTA accession will contribute to a rules-based trading system and improve access to markets.

The Home-Grown Economic Reform agenda is the government's approach to drive and deepen economic development through a stronger private sector, transparent and predictable policy and regulatory frameworks, and a committed government to unleash and exploit new sources of growth. In its medium-term achievements, the reform measures have set the macro-economy on a stable path, unleashed notable new potentials, and increased the confidence of the private sector in the potential of the Ethiopian economy. The reform outcomes have laid the foundation for the implementation of the new ten-year development plan to sustain the achievements of the past and guide the transformation of the economy to become a beacon of African prosperity.

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