Macro-Economic Reform Program Policy Statement

Following the political change in 2018, the government has been implementing numerous economic reforms. Over the past six years, these reforms have aimed to address longstanding economic structural problems. The main inherited economic challenges include debt burden, inflation, unemployment, slow economic structural change, low sector productivity and competitiveness, poor performance of development projects, and resource mismanagement.

The policy and legal reform processes have brought new hope for the economy to transition to a more stable macroeconomic environment. The first phase of the Home-Grown Economic Reform Program (HGER 1.0), introduced in the 2019 fiscal year, included numerous policy ideas ranging from macro-financial to structural and sectoral. Through the implementation of the HGER 1.0 Ethiopia has achieved significant economic objectives and goals. Despite the remaining reform areas, efforts to correct macroeconomic imbalances, alleviate debt burden, increase domestic production capacity, expand sources of economic growth, create job opportunities, and address structural bottlenecks have yielded positive results. Additionally, the government's ability to collect tax revenue has improved.

Ethiopia has become one of the fastest-growing economies in the world by achieving robust economic growth over the past six years. From 2019 to 2023 fiscal year, Ethiopia's economy registered an average GDP growth rate of 7.1 percent. Consequently, Ethiopia has become a significant player in the African economic landscape and has demonstrated its commitment to achieving the Sustainable Development Goals. The country has built the largest economy in East Africa and the third-largest economy in sub-Saharan Africa.

The recently approved second phase of the Homegrown Economic Reform Program (HGER 2.0) reaffirms the government's commitment to completing the remaining macroeconomic reforms.

This program is built on four pillars:

(1) to establish a modern and sound macroeconomic policy framework that supports and ensures stability, resilience, and sustainability;
(2) to transform investment and trade environment to boost competitiveness through a favorable environment and opportunity that promotes and enhances innovation and entrepreneurship,
(3) to expand productive capacity and productivity growth by increasing investment and unlocking economic growth potentials, and
(4) to improve public sector capability that enhances the government's capacity to ensure quality and efficient service delivery.

Our economic reform agenda will lay the foundation for strong, private sector led, inclusive economic growth and job creation. High and stable economic growth and maintaining single-digit inflation are among the major goals to be achieved during the implementation period of the program.

The reform measures aim to correct foreign exchange distortions, strengthen the financial sector, control inflation, increase tax revenue, improve the efficiency of government investment, ensure the sustainability of government debt, enhance the competitiveness and soundness of the banking sector, and improve the business and investment environment. This comprehensive national effort is set to build a modern and internationally competitive economic system.

Over the past years, there have been significant development cooperation and financing efforts and negotiations for the implementation of our Home-Grown Economic Reform program. These negotiations have been conducted with adequate knowledge and wisdom for outcomes that protect Ethiopia's national interests and improve the lives and livelihoods of our citizens. As a result, it was possible to reach agreements aligned with the main macroeconomic objectives and order of policy reforms set by the government.

This macroeconomic reform endeavor which is within the framework of our Home-Grown Economic Reform program and Mid-term Investment and Development Plan (MDIP) is supported by the International Monetary Fund, the World Bank, and other critical development partners.

Key Objectives and Goals of the Macroeconomic Reform Program:

(1) Correcting foreign exchange distortions and solving the structural balance of payments deficit problems.
(2) Reducing inflation by modernizing the monetary policy framework.
(3) Creating a favorable balance to achieve our national development needs through domestic capacity by solving debt vulnerability and increasing domestic income.
(4) Strengthening the inclusiveness, competitiveness, and soundness of the financial sector.
(5) Build a strong, inclusive, and sustainable economic system by improving government service delivery, addressing climate change, and ensuring food sovereignty.

To achieve the goals outlined above, we have strengthened local institutions and engaged both local and international stakeholders in implementing policy reforms and enhancing transparency. This approach enables our country to capitalize on emerging development finance, business, and investment opportunities associated with the policy reform program. By fostering cooperative partnerships and effective coordination, we create substantial opportunities for the private sector, ensuring the success of our domestic private sector-led development strategy.

Regarding the key measures and anticipated national benefits and outcomes of the macroeconomic reforms, our economic reform program, supported by the International Monetary Fund, the World Bank, and other significant development partners, is projected to deliver substantial benefits and outcomes to our economy.

The primary policy measures and expected national benefits and outcomes of these macroeconomic policy reforms are outlined as follows:

Market-based foreign exchange rate regime: Market-based foreign exchange rate regime is critical to relieving FX shortages, removing constraints to private sector investment and growth, aligning the prices of imported and exported goods and services with market realities. This approach also addresses imbalances in the balance of payments and offers numerous additional benefits.

Interest Rate-Based Monetary Policy Framework: A crucial step in our macroeconomic policy reform is modernizing the monetary policy framework. As part of the National Bank's three-year strategic plan to maintain low and stable inflation, the Bank is focusing on developing a monetary policy system centered on interest rates in its dealings with commercial banks. The National Bank of Ethiopia has already begun implementing this policy reform.

Fiscal Policy Reforms: Our fiscal policy reforms aim to alleviate pressures on public finances. When integrated with the aforementioned monetary policy reforms, these measures will help stabilize the macroeconomy. The primary focus of the fiscal policy reform is to enhance government revenue. Key aspects include improving the effectiveness of government spending and the subsidy system, implementing structural reforms in pension fund systems, increasing the efficiency and competitiveness of state-owned enterprises, and ensuring effective and efficient public debt management. These reforms will enhance budget management efficiency and reduce public debt vulnerabilities. Consequently, our development financing options will expand, creating a favorable environment to meet our national development financing needs domestically.

Development Finance Opportunities and Government Debt Management Reform: As outlined in our memorandum of understanding with the International Monetary Fund, we are undertaking significant debt reform measures through negotiations with our various creditors. Concurrently, this policy reform program will open avenues for Ethiopia to secure new development financing, particularly from the World Bank, other development finance institutions, and bilateral lending organizations. Through the implementation of this macroeconomic reform program, our country stands to receive billions of dollars both directly and indirectly. Additionally, this will enable us to attract further financial support from other development partners who are awaiting the implementation of these macroeconomic reforms.

Finally, the government has established key strategic directions to ensure the efficient and effective implementation of the macroeconomic reform program. The major policy measures outlined are aligned with our long-term and medium-term national development plans. Additionally, the government will develop robust monitoring and support frameworks to safeguard Ethiopia’s national interests and maximize benefits for our citizens. All relevant ministries and governmental institutions will provide the necessary monitoring and support. The government is committed to strong leadership in policy reform to maintain consistency in implementation across all relevant institutions.

On the other hand, the government is enhancing institutional capacity by providing support to key macroeconomic institutions such as the National Bank of Ethiopia, the Ministry of Finance, and the Ministry of Planning and Development. These institutions are crucial for formulating and implementing macroeconomic policies, as well as for monitoring and evaluating their impact. The government will also engage in transparent communication with all stakeholders to mobilize support for its macroeconomic reform program.

In addition, necessary measures will be taken to protect vulnerable members of society from short term negative impacts of the reform. Social safety net programs will be strengthened. In addition, low-income government employees will receive necessary wage subsidies. The government will also partially subsidize fuel price increments.

The macroeconomic reform process will be subject to continuous review and evaluation. The government will make timely, necessary, and predictable policy adjustments based on current information.

Following the macroeconomic reform process, the government will implement active measures to address potential good governance concerns and criminal activities. Additional details regarding the reform will be regularly disclosed by the Ministry of Finance and the National Bank.

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