

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MARCH 2011

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country rating	<u>S/T business cycle indicator</u>	<u>S/T political indicator</u>	<u>Debt recovery</u> Suggested use of a collection agent is recommended
3C	→/↑	→	

Country rating key - political risks: 1=low, 2=medium, 3=high
Commercial risks: A=low, B=medium, C=high

Credit Guarantee experience

Cover is granted on a limited basis.

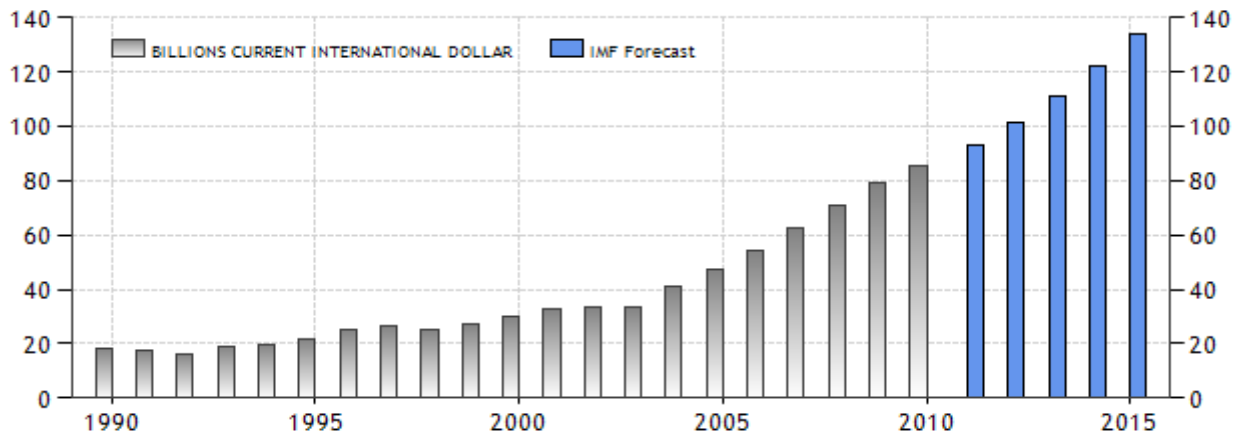
Recent Political Highlights

- Meles Zenawi's Ethiopian People's Revolutionary Democratic Front (EPRDF) won a fourth term in elections in May 2010. EU and US observers said the vote fell short of international standards and the opposition refused to accept the result, alleging the election was not free and fair.

Recent Economic Highlights

- Ethiopia, the birthplace of coffee has a population of about 80 million. Most Ethiopian children work to help support their families, especially in the agricultural sector. The average income in Ethiopia is \$400 a year and many coffee farmers earn even less.
- Ethiopia has created an environment that promotes private investment in the mining sector which has the potential to play a big role in the development of the national economy. The government is seeking investments from Indian companies in the mining sector as the African nation's natural resources remain widely unexplored. Ethiopian Mines Minister Sinkinesh Ejigu has appealed to foreign investors to invest in the mining industry of Ethiopia saying this would be to the mutual benefit of both sides. The minister stated that Ethiopia's mineral and geo-energy resources were yet untouched and unexplored, adding that this provides sufficient potential to accommodate the interest of investors.
- Ethiopia's annual inflation rate soared to 14.5% in December, partially due to steep increases in food prices following currency devaluation. The government is hoping newly imposed price controls will ease consumer pressure. Ethiopia's Central Statistical Agency said inflation had jumped from 10.2% in November to 14.5% last month. A statement said non-food items had gone up nearly 23% while food prices increased by almost 9%. The government devalued the local currency, the birr, by 17% against the dollar in September, significantly raising the price of imported goods. Ethiopia already had a significant trade imbalance, with \$1.2 billion worth of exports against nearly \$7 billion in imports in the most recent year.
- The GDP based on Purchasing Power Parity (PPP) valuation of Ethiopia was reported at \$79 billions in 2009, according to the International Monetary Fund. In 2015, Ethiopia's GDP is expected to be \$134 billion.

ETHIOPIA GDP BASED ON PURCHASING POWER PARITY (PPP) VALUATION OF COUNTRY GDP



source: IMF, TradingEconomics.com

Source: IMF, TradingEconomics.com

- ❑ Price controls on many staple food items ordered by Ethiopia's government in January have reduced grocery bills for many low-income families. Economists are concerned about the long-term effect of the government's price-fixing strategy. Confusion was the order of the day at shops and markets across the *Ethiopian* capital in January. The government surprised businesses by announcing price caps on such items as meat, bread, rice, sugar, powdered milk and cooking oil. Prime Minister Meles Zenawi said the caps were a response to price gouging by merchants taking advantage of global price hikes. Economists and opposition politicians say price controls distort markets and have been repeatedly shown to be counterproductive wherever they have been tried.
- ❑ Canada, through the Canadian International Development Agency (CIDA), is supporting the Agricultural Growth Program, a major national initiative aimed at helping farmers become more productive and better linked to local and regional markets. The Agricultural Growth Program focuses on helping smallholder farmers in 83 districts to cultivate food and deliver their products to market. CIDA's funding of \$18.75 million over five years will benefit an estimated 126,000 households, of which 9,000 are headed by women. Activities will include strengthening organizations that support farmers, and supply systems for seed and livestock breeds, the development of rural infrastructure, and the implementation of better soil and water conservation practices. Agriculture is the dominant sector of the Ethiopian economy, contributing about 45% to the gross domestic product and representing almost 90% of exports and 85% of employment. While the annual agricultural sector growth rate has averaged 10% since 1997, there is still significant potential for improvement. The Agricultural Growth Program will channel investments in rural infrastructure and agricultural services to help smallholder farmers become more productive and better linked to agricultural markets in these high potential areas. CIDA is contributing to the Agricultural Growth Program in Ethiopia, which is also being supported by a number of donors such as the World Bank, USAID, and Spain.
- ❑ Ethiopia (along with Eritrea) is predicted to be the third fastest growing economy in 2011, according to the Economist's "The World in 2011" Publication. The paper said Ethiopia is expected to grow by 10% in the coming year and rank third behind Qatar and Ghana. "A New five-year economic plan will emphasize infrastructure development, industrialization, large scale commercial farming, and small private enterprise. Donor support and worker remittances will keep the national accounts in shape and the economy will grow by 10%", said the report.
- ❑ The Ethiopian Investment Agency released a six month performance report indicating that even though the agency has recently introduced strict criteria to identify genuine investors from fake ones, the country continues attracting a growing number of foreign investors. From July 2010 to December 2010 the agency registered a total of 900 investment projects of which 72% are foreign investors. The 900 investment projects have registered a total of around US\$2 billion at the current exchange rate of which 94% is registered by foreigners.

Latest Trade Developments

- ❑ Major exports: coffee, gold, leather products, live animals, oilseeds
- ❑ Major imports: food and live animals, petroleum, chemicals, machinery, motor vehicles, cereals, textiles
- ❑ Main trading partners: China, Germany, Saudi Arabia, US, Netherlands, Switzerland, Sudan, Belgium and India
- ❑ SA exports to Ethiopia totaled R366m in 2008, R291m in 2009 and year to November 2010 was R243m.
- ❑ SA imports from Ethiopia totaled R43m in 2008, R41m in 2009 and year to November 2010 was R40m.

Researched and compiled by Hlohelo Pule, economic services – Credit Guarantee Insurance