

COUNTRY PROFILE: FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**DATED: JANUARY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	I.L.C. Specified Bank

Recent Political Highlights

- ❑ Meles Zenawi has been since Prime Minister since August 1995 and is now in his third term. The next elections are scheduled for October 2010.
- ❑ Eritrea has accepted a 'virtual demarcation' of its border with Ethiopia and wants Addis Ababa to remove its troops from Eritrean soil but Ethiopia has dismissed the virtual demarcation as invalid under international law. The two nations have been deadlocked over a 1,000km border since a 2002 decision by an independent boundary commission gave the flashpoint town of Badme to Eritrea. The Hague based commission 'virtually' demarcated the border late last year based on the 2002 decision after the two sides failed to come to an agreement. Analysts and diplomats fear an incident along the frontier could spiral out of control and provoke a full-scale war. UN Secretary General Ban Ki-moon is urging the neighbouring states to urgently de-escalate the situation, warning that the continuing military build-up in Ethiopia and Eritrea creates the risk of reigniting hostilities.

Recent Economic Highlights

- ❑ Ethiopia with a population estimated at 76.5 million in 2007 is the second-most populous country in sub-Saharan Africa.
- ❑ The Ethiopian economy is based on agriculture, which contributes 41% of the GDP, 80% of exports and accounts for 80% of the labour force. The major agricultural export crop is coffee, providing 35% of Ethiopia's foreign exchange earnings. Ethiopia's agriculture is plagued by periodic drought, soil degradation, overgrazing, deforestation, high population density, underdeveloped water resources and poor transport infrastructure. In 2005/06, Ethiopia maintained a third consecutive year of high broad-based growth, thanks to a combination of a sustained high agricultural performance and higher and more diversified exports. The IMF estimates GDP at 10% in 2006/07.
- ❑ The government has embarked on a cautious program of economic reform, including privatisation of state enterprises and rationalisation of government regulation. The process is still ongoing and so far the reforms have attracted only meagre foreign investment, and the government remains heavily involved in the economy. The China-Africa Development Fund plans to make its first investments in three months time, allocating an initial \$150 million for the projects in Ghana and Ethiopia.
- ❑ China signed a deal with the African Union to build a \$61m convention Centre at the organisation's headquarters in Addis Ababa. Beijing would fund the project, due to be finished by 2011. Chinese Foreign Minister Yang Jiechi said his country stands committed more than ever to scaling up its multifarious cooperation with Ethiopia based on the principle of mutual benefit. Yang said China's support to Ethiopia will continue to concentrate on Ethiopia's priority areas of development, including agricultural and infrastructural projects. The Indian government has made a commitment to provide a line of credit of up to \$640m to support the sugar industry in Ethiopia. The contract agreement will provide for the expansion and launching of sugar development projects.
- ❑ Ethiopia may build as many as nine hydropower plants over the next ten years, making electricity rather than coffee the Horn of Africa's biggest export. Ethiopia is building five hydropower dams by 2011 with a total generating capacity of 3,150MW and is considering spending €3.2bn on four more. The aim is to increase capacity 11-fold to 9,000MW by 2018, with surplus power exported to neighbouring Kenya, Djibouti and Sudan. Ethiopia will consider a 26-km undersea transmission line for exporting electricity to Yemen via Djibouti.
- ❑ White Nile Ltd, a UK-based oil company, signed a production sharing agreement with the Ethiopian government for a 29,000km² block in the Southern Rift basin in the south west of the country. White Nile plans to begin seismic operations in the fourth quarter of 2008. Ethiopia is seeking bids for exploration rights in four sections of its Ogaden region, where separatist rebels attacked a Chinese-run oil platform last year, killing 74 people, the rebels warned the Chinese not to return. Ethiopia, Africa's biggest coffee grower, is keen to lure investment in its oil and mining industries to diversify the economy.
- ❑ Hundreds of Ethiopians and foreign investors are flooding to the horn nation due to favourable ground Ethiopia created for them. Tax-free loans, land provision and other incentives with cheap labour, power and geography of the country collectively are attracting lots of foreign investors to the horn nation. The fast growing investment is playing a tremendous role in the efforts Ethiopia is adopting to address unemployment and poverty across the nation.

Latest Trade Developments

- ❑ South African exports to Ethiopia amounted R233.2m in 2006 and R206m in the year-to-October 2007. Meanwhile imports from Ethiopia, mainly vegetable products, totalled R24.3m in 2006 and R29.2m in the year-to-October 2007.
- ❑ Main exports: coffee, khat, gold, leather products, live animals, oilseeds and sugarcane.
- ❑ Main imports: food and live animals, petroleum and petroleum products, chemicals, machinery, motor vehicles, cereals and textiles.
- ❑ Major trade partners: China, Germany, Japan, US, Saudi Arabia, Djibouti, Italy and India.