

CareEdge Global affirms the rating of the Federal Democratic Republic of Ethiopia

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge D' (Unsolicited)

Issuer rating	CareEdge D (Unsolicited)
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Rating Action

CareEdge Global has reaffirmed the Long-Term Foreign Currency rating of '**CareEdge D' (unsolicited)**' for the Federal Democratic Republic of Ethiopia (Ethiopia).

Rationale

The rating reaffirmation reflects Ethiopia's continued default on its coupon payment (USD 33 million) due in December 2023, on its USD 1 billion Eurobond. The government has initiated negotiations to restructure its external debt and has already reached an agreement with official creditors. The next step involves discussions with Eurobond holders to ensure comparability of treatment under the G20's Common Framework (CF).

The credit profile is weighed down by flare ups in regional tensions, which have partially offset some official development assistance. On the external side, low levels of foreign exchange reserves have constrained liquidity. On the fiscal side, the country faces one of the lowest revenue-to-GDP ratios globally and high exposure to contingent liabilities. Further, the country's debt has been deemed unsustainable, leading to a default on a coupon payment of a Eurobond in December 2023.

Nonetheless, Ethiopia's credit profile reflects its potential for growth following the significant macroeconomic reforms under the IMF's programme, approved in July 2024, as well as the implementation of the Homegrown Economic Reform Agenda (HGER). Progress under these respective initiatives could also unlock funding from donors and additional concessional funds.

Recent policy actions have also contributed to modest improvements in the fiscal and external metrics. Revenue mobilization efforts and the gradual removal of fuel subsidies have strengthened the fiscal position, while foreign exchange reforms and export growth have led to a marginal increase in reserves. The government has taken commendable steps toward enhancing debt sustainability, including formalizing a restructuring agreement with official creditors. The government will now have discussions with its Eurobond holder on the restructuring of the USD 1 billion Eurobond to respect the comparability of treatment provision in the G20's CF.

However, the outlook remains cautious, given that there have been flare ups in regional tensions and a decline in official development assistance. Maintaining the reform momentum

will remain key towards enhancing private sector investment and sustained macroeconomic growth momentum.

Upside Scenario

The rating may be upgraded once Ethiopia successfully completes the restructuring of its external debt. Any future rating action will also reflect the country's restructured debt profile and the progress made on macroeconomic reforms.

Economic Structure & Resilience

Ethiopia's economic structure is classified by low-income levels (USD 3,592 in 2024¹, constant PPP per capita terms) and there has been some concentration in export products. Other shortcomings have been the crowding out of the private sector, thereby creating macroeconomic imbalances. Nonetheless, significant progress towards implementing fundamental macroeconomic reforms under the adoption of the HGER plan as well as the commitment under the IMF programme has yielded positive results.

GDP growth increased 8.1% in FY24, from 7.2% in FY23 due to a rebound in the agricultural sector (38% of GDP), following better rainfall. The several government initiatives such as the promotion of wheat irrigation and fertilizer subsidies also supported crop production. Growth in the mining sector was boosted by gold production. The manufacturing sector was supported by increased capacity utilization following easing tensions in the region and electricity production increased due to increased output from the Grand Ethiopian Renaissance Dam (GERD), Africa's largest hydroelectric power plant.

While growth momentum from these sectors is expected to continue in FY25, with growth projected at 7.2%, uncertainty over FX correction in the parallel and official exchange rate markets continues to weigh on sentiment and competitiveness. Over the medium term however, the correction of the parallel and official exchange rate can improve sentiment and enhance competitiveness in the economy, with growth projected to gradually increase to 8% by FY28.

Fiscal Strength

The government successfully implemented the FY25 budget in line with the commitments under the IMF programme and the proposed FY26 budget remains on track towards programme commitments.

Expenditure to GDP increased from 9.5% of GDP in FY24 to 12% of GDP in FY25, following increases in subsidy spending. The government plans to unwind temporary support, with expenditure now being redirected towards growth enhancing development spending and targeted social support. However, there has also been a higher allocation towards the health sector, given the decrease in USAID. As such, expenditure to GDP is projected at 12.6% in

¹ 2024 refers to January 1 to December 2024.

FY26. Revenue to GDP increased to 8.5% in FY25 from 7.3% in FY24. This was on the back of effective revenue mobilisation efforts such as improvements in tax administration, value-added tax (VAT) reform (including the removal of tax exemptions), revised excise duties and a broadening of the tax base. The continued revenue mobilisation efforts may see revenue to GDP increase to 10.2% by FY26. Overall, we project a lower fiscal deficit at 1.7% of GDP in FY26 from 2% in FY24.

Gross general government (GGG) debt spiked in FY25 to 49.8% of GDP, mainly due to the FX liberalization. Nonetheless, GGG debt to GDP is expected to follow a downward trajectory, coming in at below 40% by FY27. Around 40% of the government's debt is externally held, with a USD 1 billion Eurobond and the remainder concessional. The interest to revenue payments have also increased from 8% in FY24 to a projected 12.7% in FY25. Lastly, Ethiopia has significant government guaranteed debt, for state owned enterprises (SOEs) particularly for the sugar, railway, and energy sectors which exposes the government to contingent liability risks (21% of GDP in FY25). Nonetheless, the HGER agenda and commitment to reforms under the IMF programme seeks to address inefficiencies of SOEs.

The government remains in default on their external debt following liquidity constraints, which triggered an application for the G20s debt service suspension initiative (DSSI), enabling debt service suspension agreements with bilateral creditors. Nonetheless, Ethiopia has formalized a debt restructuring agreement with official creditors, securing over USD 3.5 billion in relief under the G20 Common Framework (CF). This brings the country closer towards fiscal stability, through a significant smoothening of Ethiopia's amortization schedule and debt service. The government will now have discussions with the holder of a USD 1 billion Eurobond to respect the comparability of treatment provision in the CF.

External Position & Linkages

The current account deficit (CAD) is expected to narrow to 3.2% of GDP in 2025 from 4.4% in 2024. For 2025 so far, export growth has been driven by gold and coffee exports. Gold exports have benefitted from higher volumes, including reduction of inventories, as producers respond to better price incentives since the FX reform and record high global prices. Coffee exports were aided by a drought impacting Brazil (the largest producer of coffee globally). Services exports and remittances are expected to remain robust following the FX reform.

Overall, there has been a healthy build-up of reserves, with reserves in months of imports projected to increase to 1.4 months in 2025 from 0.7 months in 2024. On the other hand, net foreign direct investment (FDI) flows have been lower, reflective of tensions in the region as well as poor business sentiment. The government has been working on reforms to stimulate FDI. For example, the permit processes and business registration have been simplified, with the Ethiopian Investment Commission being a one-stop-shop. In April 2025, there was an open dialogue between the government and the private sector which highlighted key priorities areas for policy reform. In 2025, FDI is expected to increase to 3.2% of GDP from 1.9% in

2024, mainly due to investment in the mining and energy sectors.

Monetary & Financial Stability

Inflation increased to 32.5% in 2023 following the FX reform. However, it's been on a downward trajectory, coming in at 26.6% in 2024 and a further decline is expected in 2025, with inflation expected at 16.6% and it is projected to enter single-digit territory by 2027. The National Bank of Ethiopia (NBE) has adopted tight monetary policy measures, including, imposing caps on credit growth and removing the practice of monetizing its fiscal deficits completely.

The government has also made progress towards transitioning to an interest-rate based monetary policy framework including using the policy rate as the main instrument to steer inflation toward the central bank's target. This could help strengthen monetary transmission mechanisms over the medium term.

With respect to the banking sector, non-performing loans (NPLs) have declined to 4.3% in Q4 2024 from 5.5% in Q3 2024. However, banks remain heavily exposed to the government, with government loans around 31% of total assets. Encouragingly, lending to SOEs has declined to 4% of total assets.

Institutions & Quality of Governance

Social unrest remains in some of the regions of Ethiopia. Social unrest is also responsible for delays in policy implementation and securing concessional loans. There is limited scope for independent bodies in the policy-making process, and there is no monitoring of government by civil society. Economic and fiscal data are often released with significant delays. On this front, improving the quality of economic statistics is a key priority under HGER. The country's monetary and macro-economic policy has struggled to manage price stability, however, progress towards adopting a new monetary policy framework is underway.

Ethiopia – Select Indicators									
	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic Indicators									
Nominal GDP	USD Billion	92.6	96.6	99.3	119.0	159.8	143.1	125.1	136.2
GDP Per Capita (Constant-PPP)	USD	2,874	2,984	3,103	3,231	3,409	3,592	3,769	3,973
Real GDP Growth	%	9.0	6.1	6.3	6.4	7.2	8.1	7.2	7.1
GFCF/GDP	%	35.3	30.6	28.0	25.3	22.2	20.5	-	-
Gross Domestic Savings/GDP	%	22.1	20.8	18.9	15.2	14.8	14.3	-	-
Exports (G&S)/GDP	%	7.9	7.1	7.6	8.2	6.6	5.6	-	-
Working-Age (15-64) Population (% Share in Total)	%	56.1	56.5	56.8	57.2	57.5	57.7	57.9	58.1
Old-Age (65+) Population (% Share in Total)	%	3.0	3.1	3.1	3.1	3.2	3.2	3.3	3.4
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.5	-2.8	-2.8	-4.2	-2.6	-2.0	-1.7	-2.0
Revenue/GDP	%	12.8	11.7	11.0	8.5	8.2	7.6	9.9	10.3
Expenditure/GDP	%	15.4	14.5	13.8	12.7	10.8	9.5	11.6	12.3
GG Gross Debt/GDP	%	54.7	53.7	53.8	48.9	40.2	34.8	49.8	42.6
GG External Debt (by Creditor)/GG Gross Debt	%	32.8	36.9	36.3	34.9	32.5	42.0	-	-
Interest/Revenue	%	5.2	4.5	7.6	7.7	8.0	8.1	12.7	12.0
External Indicators									
Current Account Balance/GDP	%	-5.3	-4.6	-3.2	-4.0	-2.9	-4.4	-3.2	-3.1
FDI, Net Inflows/GDP	%	2.8	2.5	4.3	2.6	2.1	1.9	3.2	3.0
Foreign Exchange Reserves	USD Billion	-	-	-	1.5	1.0	1.4	3.8	5.0
Import Cover	Months	-	-	-	0.8	0.5	0.6	1.7	2.1
External Debt/GDP	%	30.0	31.0	29.7	24.0	18.1	15.4	30.4	26.6
Monetary and Financial Indicators									
CPI Inflation	%	15.8	20.4	26.8	33.9	32.5	26.6	16.6	12.0
Exchange Rate (Average)	LC per USD	29.1	34.9	43.7	51.8	54.6	57.3	-	-
Non-Performing Loans/Total Gross Loans	%	2.5	3.0	3.5	3.9	4.3	4.3	-	-
Private debt, loans and debt securities/GDP	%	21.1	21.3	19.6	18.7	15.8	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge D	September 29, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge D	October 03, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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