

Ethiopia: Policies for productivity growth and structural transformation

*G-24 Technical Group Meeting,
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Outline of presentation

- Country context
- Reorientation in political and economic strategies
- Challenges
- Growth and transformation plan
- Promising trends towards transformation
- Some strategies to support structural transformation

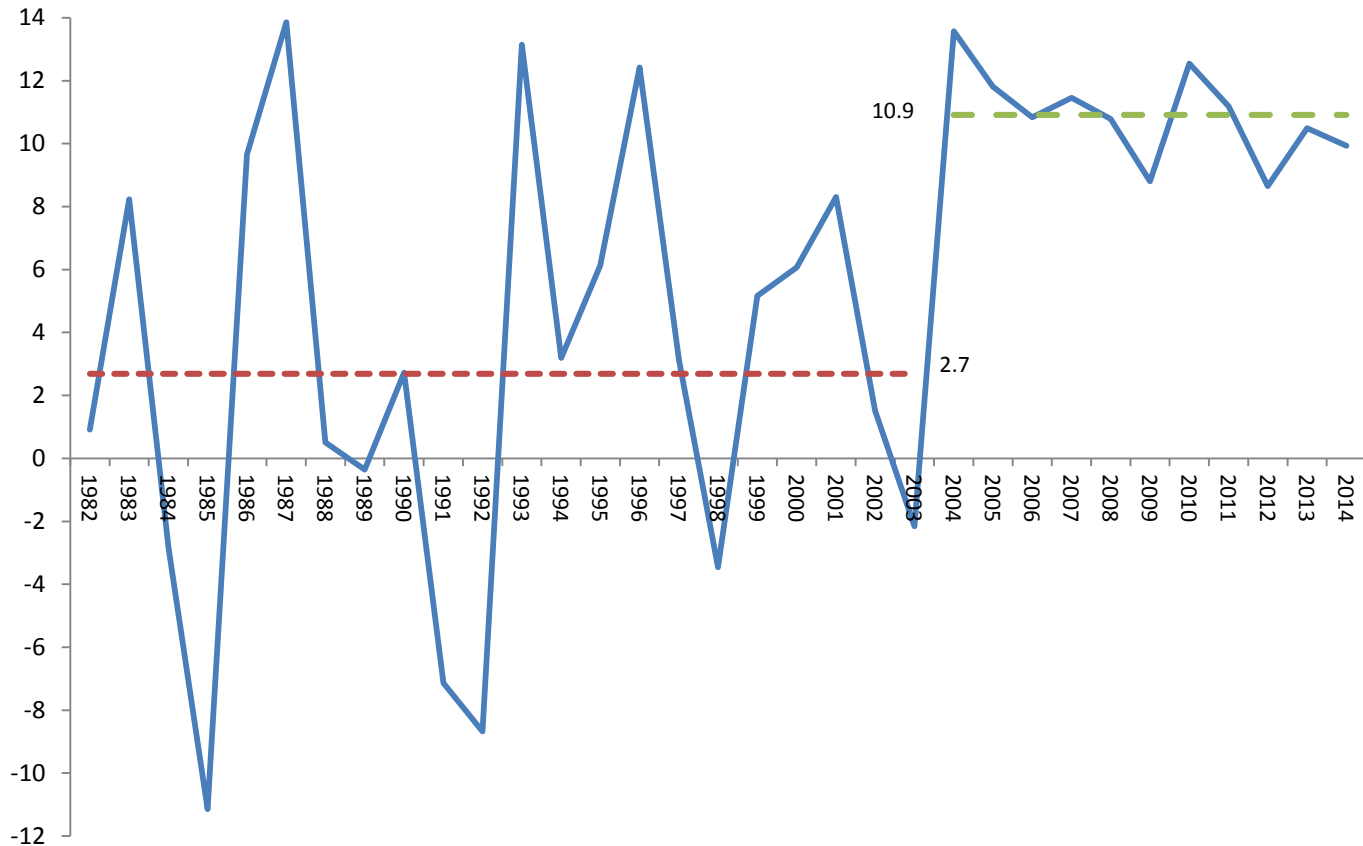
Country context

- Ethiopia:
 - Population close to 96 million
 - Close to 80 ethnic groups and languages
 - Population predominantly rural, about 80%
 - Land area of 1.1 km²
 - Diverse agroecological zones
 - Bordering with Eritrea, Sudan, South Sudan, Kenya, Somalia and Djibouti

Reorientation in political and economic strategies

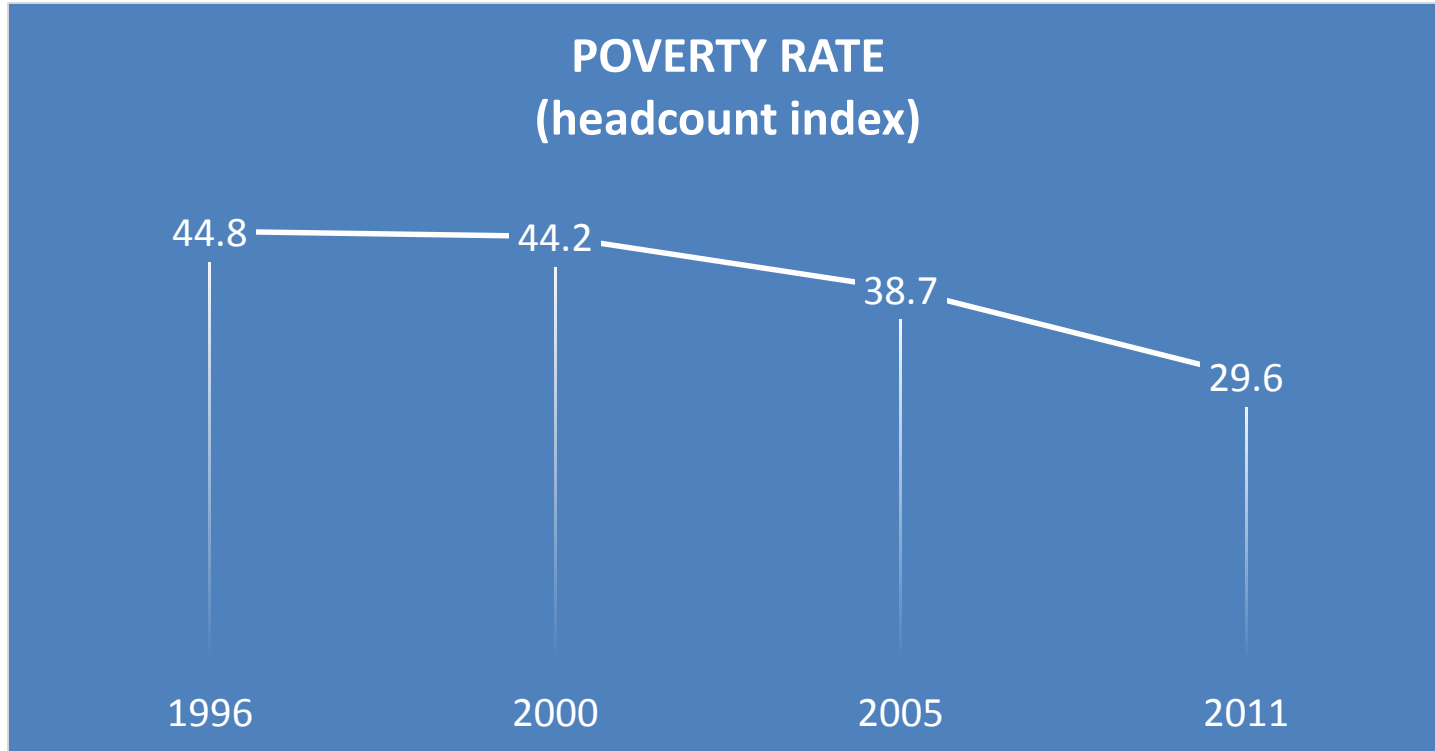
- Early 1990s an important watershed
 - Adoption of federal government structure
 - Market oriented reforms
- Major change in public sector focus
 - Increased emphasis on agriculture
 - A big push to address service delivery gap
 - Focus on infrastructure building
 - Rebalance budget towards more capital expenditure
 - Raise domestic resource mobilization

Ethiopia - Real GDP Growth



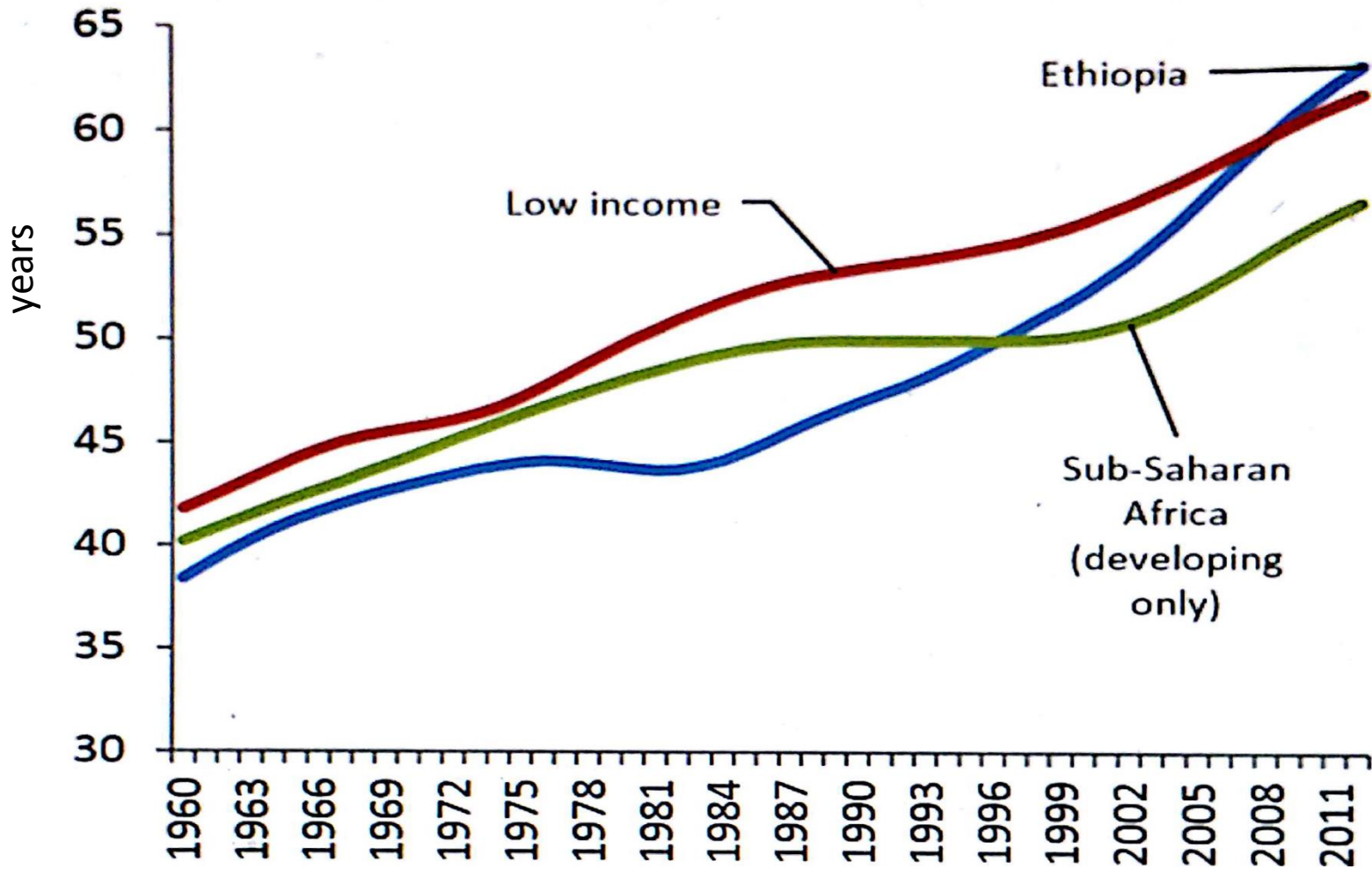
Source: World Bank, Ethiopia Great Run, 2015

Poverty has declined continuously



World Bank: 2014

Trends in average life expectancy



Challenges

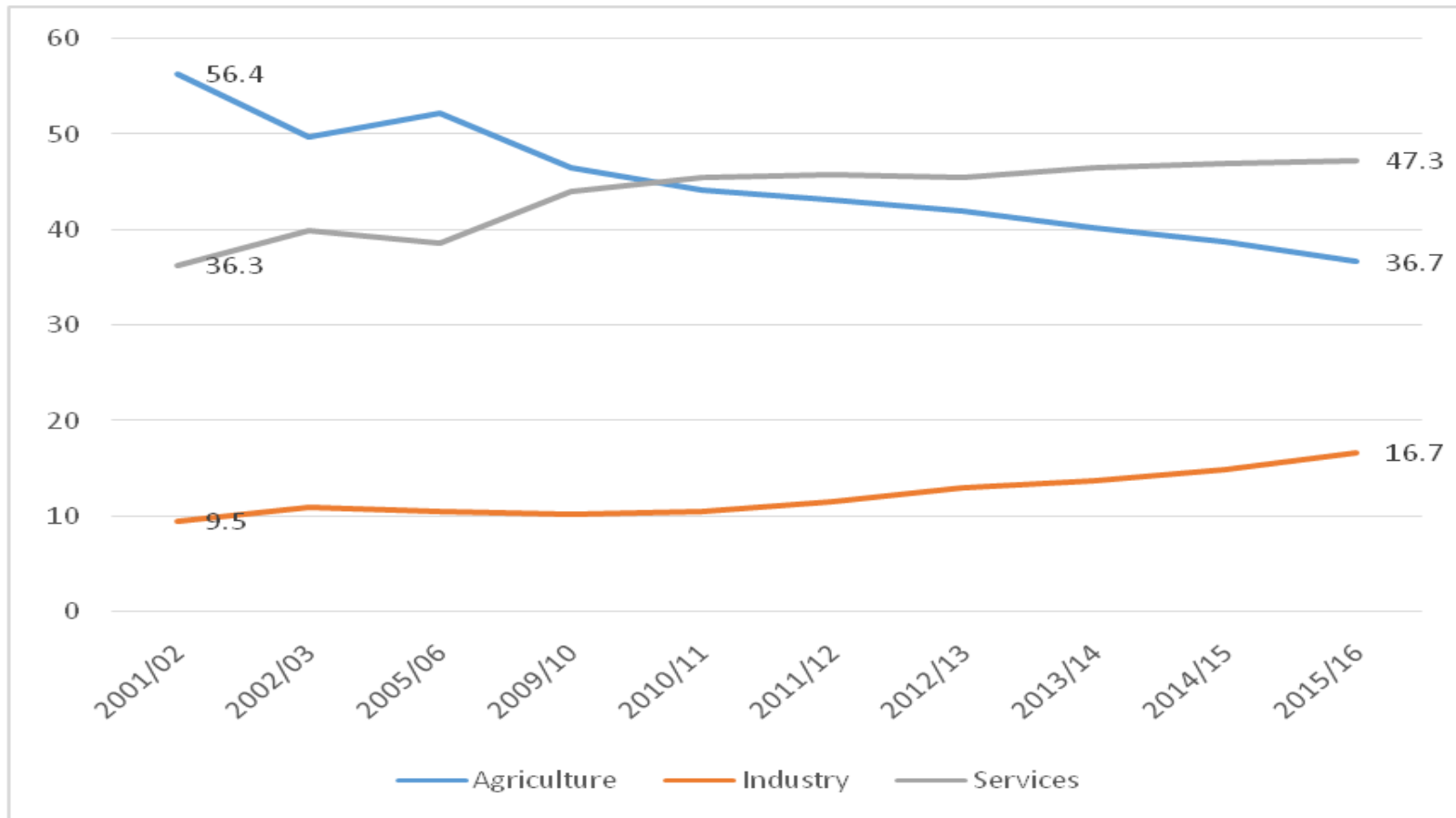
- Predominantly agriculture and low productivity
- Quality of social services is low
- Implementation capacity limitations
- Inflation
- Current account imbalance
- Quality and adequacy of infrastructure
- Financing

Growth and transformation plan

- GTP is based on the vision to become a lower middle-income country by 2025
 - Sustain the rapid, broad based and equitable economic growth and development;
 - Enhance the quality, productivity and competitiveness of productive sectors;
 - Support the transformation of the domestic private sector, including construction capacity;
 - Manage the on-going rapid urbanization to support transformation;
 - Accelerate human development and technological capacity;
 - Promote good governance, public sector capacity and public participation;
 - Promote women and youth empowerment;
 - Build climate resilient green economy.

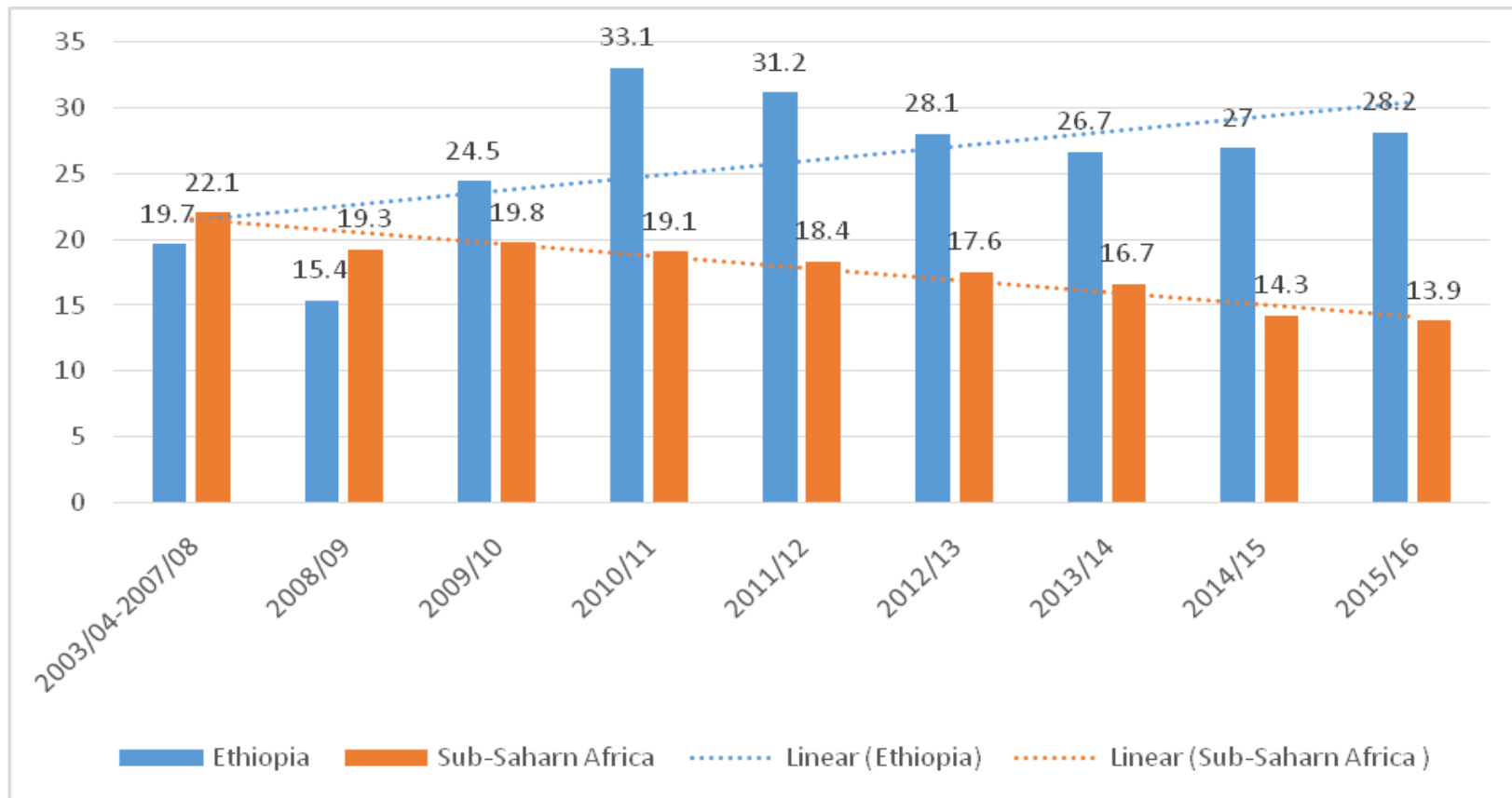
Promising trends towards transformation

GDP by Major Industrial Classification at Constant Basic Prices (% of GDP)



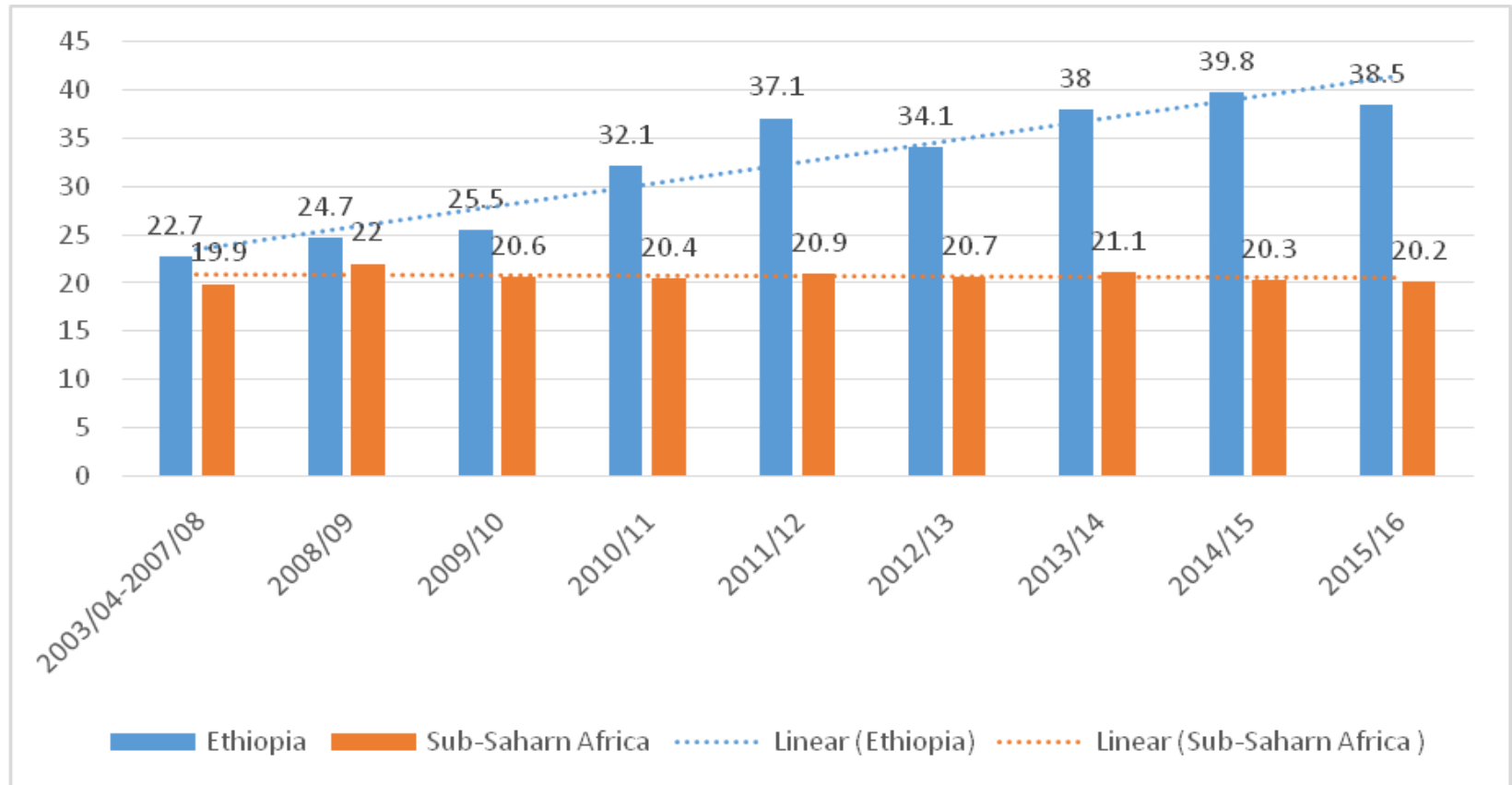
Source: National Planning Commission

Ethiopia and SSA Gross National Saving (in percent of GDP)



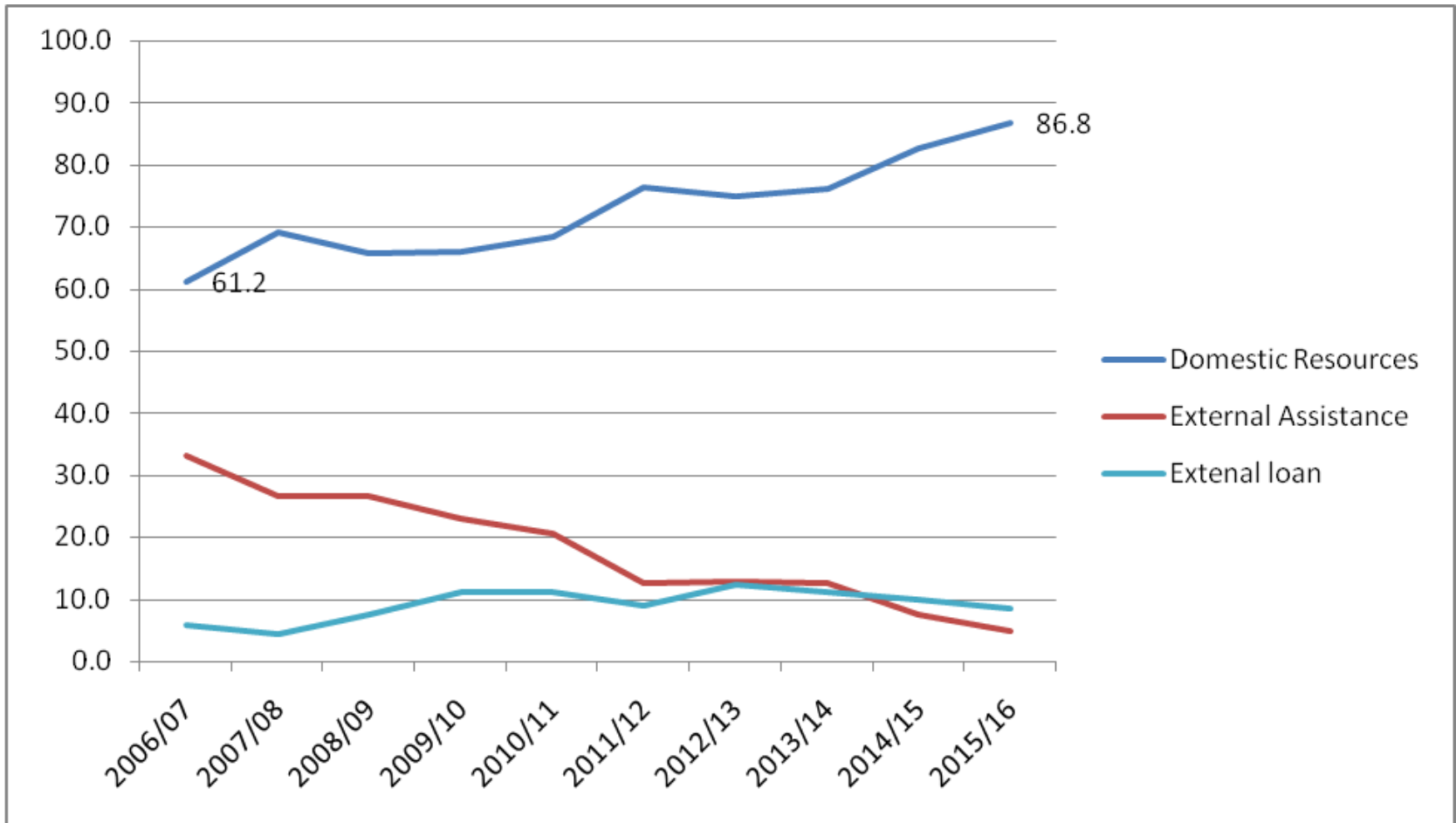
Source: IMF: Sub Saharan Africa; Regional Economic Outlook; April 2016

Ethiopia and SSA Total Investment (Percent of GDP)



Source: IMF: Sub Saharan Africa; Regional Economic Outlook; April 2016

Sources of Government Budget



Source: Ministry of Finance and Economic Cooperation

Some strategies to support structural transformation

Key:

- manufacturing expansion,
- export diversifications with emphasis on high value exportable

- **Increase in the share of manufacturing industry**
 - The manufacturing share of GDP is projected to pick up from 5.2% in 2015/16 to 8.0% by 2019/20
 - Priority is given for export-oriented manufacturing-led industrialization
 - To reach this goal, private investment in primarily export-oriented light manufacturing will be aggressively promoted
- **Increase in the share of merchandise export in GDP**
 - Rapid merchandise export will support the foreign exchange generation capacity of the country

Ethiopia Continues to Develop its Large Energy Potential to Support Rapid Economic Growth and Exports

- **Ethiopia has huge hydropower potential estimated at 45,000 MW**
 - currently utilized only at about 10%
- **Ethiopia also benefits from important geothermal (10,000 MW total capacity) and wind (1,350 GW total capacity) resources potential**
- **The completion of two major energy projects under GTP I and II will allow Ethiopia's energy supply to exceed domestic demand and generate export capacity over the next years**
 - Currently Ethiopia exports energy to Sudan and Djibouti
 - In the coming 4 years export revenues are expected to reach c. US\$1 billion per year, once the electricity grid to East Africa is completed.
 - Ethiopia has already signed power purchase agreements with neighbouring countries including Kenya

Industrial Parks Development is Key for Ethiopia to Become Africa's Light Manufacturing Hub

- Industrial parks are essential to effectively and timely absorb the inflow of huge investment into the manufacturing industry
 - **Industrial parks are expected to solve the problem of lack of value chain and will add value to raw products destined for export**
 - **Duty-free access to the U.S and EU market** provides opportunities for the investors in the park to expand, in particular in the apparel industry
 - **The construction of 10 industrial parks in different corridors of the country will be finalized in 2017 under GTP II**
 - The development of Industrial parks will be based on international best practices
 - **Industrial parks will be dedicated to specific sectors** such as textile & apparel, leather & leather products, agro-processing, etc.

Addis Ababa-Djibouti Electric Rail Provides Improved Railroad Access to the Sea

- **The line covers 656 km with 19 stations from Addis Ababa to the port of Djibouti (Red Sea)**
 - The railway is designed to both freight and passenger transportation
 - Speeding at 120 km / hour
 - It is the first train in Africa to use 100% renewable energy
- **The project will facilitate export-import businesses,**
 - Around 90% of Ethiopian export-import items are carried via the Ethio-Djibouti route
 - Transportation time to the port will be reduced from two days to a eight hours

Thank you for your attention