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Ethiopia: An Economy under Reconstruction

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Abstract: Since mid-2024, Ethiopia has embarked on an ambitious and wide-ranging reform agenda, notable for both its scope and the speed of its implementation, leading to a clear improvement in its macroeconomic fundamentals. The crisis-exit reform package, adopted in conjunction with the approval of a program with the International Monetary Fund (IMF) in July 2024, aims to address exchange rate misalignment, the depletion of foreign exchange reserves, the unsustainability of public debt (with external public debt in default), and financial sector vulnerabilities, particularly within the banking system.

The reforms have rapidly yielded positive results, supported by a combination of highly favorable exogenous factors (a strong agricultural harvest, rising international prices for gold and coffee, etc.). Foreign exchange reserves have been swiftly replenished, driven by increased gold exports and financing from the IMF and the World Bank, while exchange rate liberalization has contributed to a marked contraction of the parallel foreign exchange market. Moreover, the conclusion of a debt restructuring agreement with official bilateral creditors (July 2025) has placed Ethiopia's public debt back on a sustainable trajectory, and the financial restructuring of state-owned enterprises has reduced contingent liabilities.

However, several challenges and vulnerabilities remain, and the economy still has limited buffers to withstand potential shocks, whether economic, climatic, or security-related. In particular, the heavy reliance of external balances on the strong performance of gold exports constitutes a source of fragility for the country, as a downturn in global prices or a decline in production could weigh on reserve accumulation. Furthermore, tight fiscal space constrains the financing of development policies. Over the medium term, strengthening the economy's resilience to climate-related and biodiversity-related risks also represents a critical challenge.

Thematic area: Macroeconomics
Geographical area: Ethiopia

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1. An economy emerging from crisis

The large-scale economic reforms implemented from July 2024 have produced positive effects as early as the first year of implementation, supported by a combination of exogenous factors favorable to Ethiopia (an abundant agricultural harvest following seven years of drought, and rising international prices for the country's main export commodities, particularly gold and coffee). While the improvement in macroeconomic fundamentals marks the country's emergence from the economic crisis it had faced over the past five years, some reforms are being implemented progressively, and economic agents are still in the process of adapting to the new monetary and financial framework. Moreover, the economy remains highly sensitive to potential shocks, whether economic, climatic, or security-related.

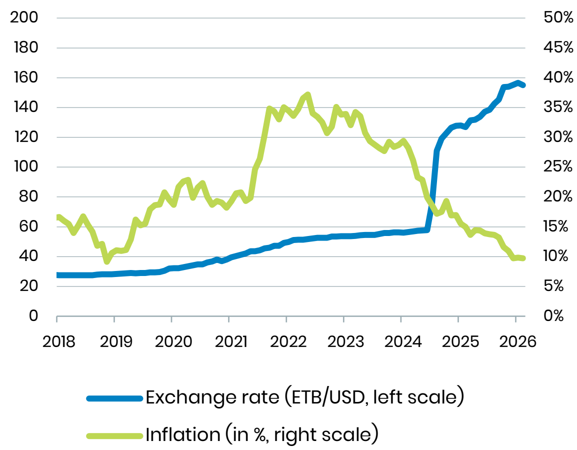
Economic fundamentals in reconstruction

From 2019 through 2024, Ethiopia experienced a period of crisis. The economy was affected by a series of external and domestic shocks (episodes of drought, the COVID-19 pandemic, and the conflict in Tigray), weighing on its growth momentum as well as on its fiscal and external balances. The country faced significant pressures on its external accounts, leading to a gradual depletion of foreign exchange reserves (from more than USD 3 billion in 2020 to less than USD 1 billion in the third quarter of 2023, a level covering less than one month of imports). The suspension of international financing in the context of the Tigray conflict also constrained the coverage of public financing needs, prompting the government to turn to the central bank for monetary advances. This deficit financing fueled inflation, which exceeded 25% from mid-2021 onward. Confronted with difficulties in servicing its external public debt, the authorities requested a debt restructuring from official creditors as early as February 2021, and subsequently defaulted in December 2023 on a coupon payment of their Eurobond (USD 1 billion issued in 2014, maturing in 2024, with a 6.625% coupon). As foreign exchange reserves reached critically low levels, the central bank introduced restrictions on access to foreign currency, limiting its use to certain strategic imports (with essential goods classified into three categories according to their degree of priority). This situation led to the development of a parallel foreign exchange market. By July 2024, the cost of obtaining foreign currency on the parallel market was 96% higher than on the official market.

To restore macroeconomic balances and catalyze international financing, a USD 3.4 billion program with the International Monetary Fund (IMF), spanning four years, was approved in July 2024. In the first year alone, 40% of the total amount was disbursed to address the balance of payments crisis. The program was conditional on prior exchange rate liberalization, which was effectively implemented on the day of its approval. Over the four-year implementation period, the authorities committed to carrying out the reforms set out in their Homegrown Economic Reform 2.0 agenda. These reforms aim to restore macro-financial stability, rebalance the economic model to make it more sustainable, and lay the foundations for private sector-led growth. They are structured around four pillars: (i) macroeconomic reforms; (ii) investment and trade sector reforms; (iii) productive sector reforms; and (iv) public sector reform.

The liberalization of the exchange rate regime, announced on July 29, 2024 with immediate effect, marked a historic shift, as the Ethiopian birr (ETB) had never previously floated. This resulted in a rapid depreciation of the currency (40% over seven days; see Figure 1), with the official exchange rate moving from 57.8 birr per US dollar on July 29 to 99.1 birr per US dollar on August 7.

Figure 1 – Exchange rate and inflation

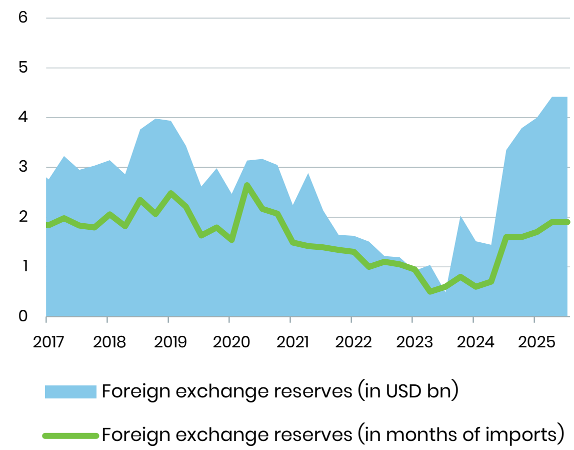


Source: Macrobond, National Bank of Ethiopia (NBE), StatsEthiopia.

This liberalization curbed the parallel foreign exchange market that had previously developed. The gap of nearly 100% observed in July 2024 between the official and parallel exchange rates narrowed to less than 5% by the end of August 2024 and stood below 10% at end-2024. During 2025, however, despite a continued trend depreciation of the exchange rate, a widening gap between the official and parallel rates re-emerged, reaching 19% in December 2025. This resurgence reflects persistent difficulties faced by some economic agents in accessing foreign currency, as well as high liquidity in birr within the economy.

Foreign exchange reserves have been significantly rebuilt (see Figure 2). Supported by the resumption of international financing, a boom in exports, and associated foreign currency inflows, reserves exceeded USD 4 billion at end-December 2025 (close to two months of import cover), their highest level in five years.

Figure 2 – Foreign exchange reserves



Source: IMF, NBE, AFD calculations.

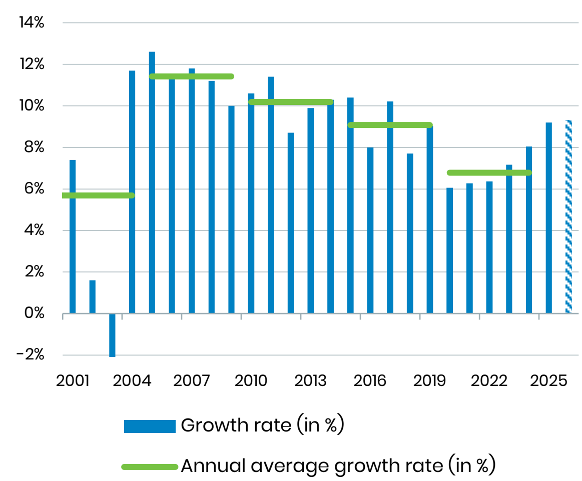
According to the latest IMF forecasts (January 2026), this upward trend is expected to continue, with reserves projected to reach USD 5.5 billion by July 2026 (covering 2.2 months of imports) and potentially USD 7.4 billion by July 2027, corresponding to 2.7 months of import cover. However, further strengthening remains necessary to build resilience against potential shocks. The rebuilding of reserves has enabled a gradual easing of foreign exchange restrictions on current transactions. Since February 2026, following the latest liberalization measures, service exporters are now allowed to retain 100% of their export earnings in foreign currency accounts. Similarly, outward remittances by Ethiopian residents are permitted up to USD 3,000, and investors seeking to repatriate dividends may apply directly to commercial banks upon submission of the required documentation, without central bank approval.

In parallel, significant reforms aimed at modernizing monetary policy have been adopted by the National Bank of Ethiopia (NBE): (i) the introduction of an interest rate-based monetary framework, including a policy rate set at 15%; and (ii) the prohibition of central bank financing of the fiscal deficit. These measures are intended to modernize monetary policy and anchor inflation expectations. Regarding inflation, the risk of a surge following the sharp exchange rate depreciation did not materialize. A tight monetary policy stance (with the policy rate maintained at 15%), a favorable agricultural season, and temporary subsidies on essential goods contributed to containing price dynamics. By end-2024, inflationary pressures remained under control (17% year-on-year, compared with nearly 30% in January 2024), before gradually declining to below 10% in December 2025.

Particular attention has been paid to the social impacts of economic reforms. At the time of exchange rate liberalization, the authorities sought to mitigate adverse social effects. They increased the budget allocated to the Productive Safety Net Program (PSNP), expanding the number of beneficiaries from 6 to 10 million people. In addition, temporary subsidies were introduced for fertilizers and fuel used in public transportation. Within the framework of the IMF-supported program, the authorities committed to implementing these additional expenditures—amounting to approximately 1.5% of GDP—to offset the erosion of purchasing power among the most vulnerable households.

From 2023 onward, following a period of slowdown (with average growth of 6.5% between 2020 and 2023), economic growth regained strong momentum, exceeding 8% (see Figure 3). In fiscal year 2024/2025, growth is estimated at 9.2%, supported by the gradual normalization of foreign currency availability. Growth has been driven primarily by the mining sector (output up by +215%), followed by manufacturing (+10%) and agriculture (+7%). The outlook for fiscal year 2025/2026 also remains favorable, with growth projected at 10.2% by the authorities[2] and 9.3% by the IMF (IMF, 2026).

Figure 3 – Economic growth



Source: IMF, AFD calculations.

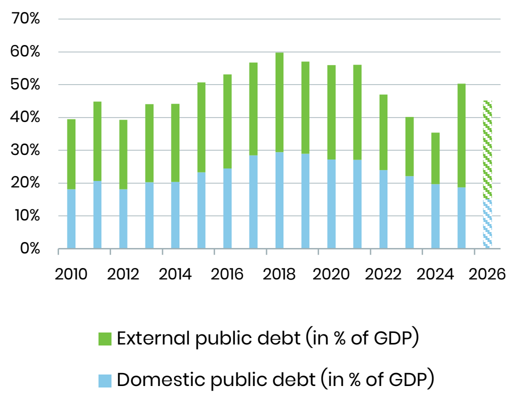
An improved fiscal position

The authorities sought a restrucking-turing of their external public debt, which had become unsustainable. Over the 2010s, public finances deteriorated significantly, and public debt, as a share of GDP, increased by 18 percentage points (see Figure 4). This trend is partly attributable to a policy of public

[2] Forecast by the Office of the Prime Minister, October 2025.

investment in infrastructure, in a context of structurally low public revenues. The situation further worsened due to rising security-related expenditures and declining revenues associated with the Tigray conflict, as well as the suspension of international financing.

Figure 4 – Public Debt



Source: IMF.

Debt unsustainability —stemming from the very high burden of external debt service relative to limited public revenues and foreign exchange inflows—led the authorities to request, in February 2021, a restructuring of external public debt under the G20 Common Framework. This process was conditional on Ethiopia adopting an IMF-supported program, which only materialized in July 2024. In the interim, a suspension of debt service for 2023 and 2024 was granted by Ethiopia's official creditors and, in accordance with the principle of comparability of treatment, the country also defaulted on the coupon payment of its Eurobond in December 2023 (USD 33 million due to bondholders) and on the repayment of the USD 1 billion principal in December 2024.

In July 2025, the agreement on public debt restructuring created new fiscal space. The treatment, covering USD 8.4 billion of external debt owed to official creditors, is expected to reduce debt service by USD 2.5 billion over the next three years (and by more than USD 3.5 billion in total). At the same time, discussions on the restructuring of the Eurobond (USD 1 billion issued in 2014 with a 10-year maturity) have stalled over the extent of the effort required from private bondholders to ensure comparability with that of official creditors. In addition to accepting a nominal haircut on their principal, private creditors have sought to include a value recovery instrument that would allow them to receive additional payments from Ethiopia in the event of favorable export performance over the next decade. Such instruments complicate the assessment of comparability of treatment. As a result, the initial agreement in principle reached between Ethiopia and its private creditors in January 2026 was deemed non-comparable by official creditors. Negotiations between the authorities and private creditors have therefore resumed, even as some creditors have threatened legal action to seek full repayment of amounts due. The calibration of external debt restructuring must, in the short term, restore debt sustainability in a context of high risk of debt distress, and, over the medium term—by the end of the IMF program (end of fiscal year 2027/2028)—reduce the risk of debt distress to a moderate level.

The financial position of state-owned enterprises has been strengthened. Many public enterprises—including the national electricity company (Ethiopian Electric Power), the national railway company (Ethiopian Railway Corporation), and the national sugar company (Ethiopian Sugar Corporation)—had accumulated substantial debts and arrears vis-à-vis the Commercial Bank of Ethiopia (CBE), the country's main public bank. To address this, the Liability and

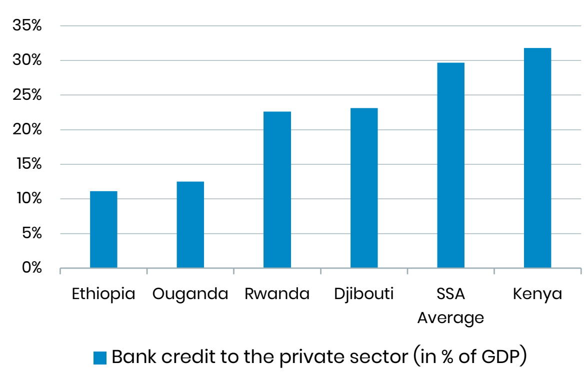
Asset Management Company (LAMC) was established in 2021 with the aim of absorbing unsustainable domestic debt of public enterprises (notably using proceeds from privatizations and the opening of certain sectors to foreign capital to repay these debts). In addition, state-owned enterprises—which still account for a large share of economic activity—have undergone governance rationalization, now overseen by a dedicated financial vehicle (Ethiopian Investment Holding [EIH]), which acts as both a sovereign wealth fund and a state ownership agency. Finally, in July 2024, in order to mitigate any risk of contingent liabilities arising from the banking sector, the government recapitalized the systemic public bank CBE.

Deficit financing practices are evolving. Ongoing fiscal consolidation has contributed to a reduction in the public deficit (-1.5% of GDP in FY 2024/2025 and -1.8% of GDP projected for 2025/2026). At the same time, the Ministry of Finance's deficit financing practices are being reformed. On the one hand, the authorities have committed to no longer relying on central bank advances for public financing; on the other hand, the NBE has lifted the requirement—introduced in 2022—for Ethiopian banks to purchase five-year Treasury bonds (in proportion to the loans they extend). In its place, a domestic debt market is gradually being established: the government now issues Treasury securities to meet its financing needs and publishes its auction calendar on a quarterly basis. As of end-2025, according to the Ministry of Finance's monthly debt bulletin, short- to medium-term instruments (with maturities of 1, 3, or 6 months) were strongly favored, while demand remained more limited for one-year maturities (with a subscription rate of 36% at end-September 2025).

A banking sector undergoing profound transformation

The financial position of the banking sector has improved, and banking practices have been modernized. In 2024, the establishment of an interbank interest rate and a corresponding market for liquidity management purposes, along with the removal of the requirement to purchase Ethiopian Treasury securities, constituted major changes for Ethiopian financial institutions. Sector liberalization has also translated into greater openness to foreign investors: under a June 2025 directive (NBE 2025), foreign banks may now apply for licenses to establish subsidiaries in Ethiopia, and foreign investors are allowed to acquire equity stakes (up to 40%) in Ethiopian banks. Regarding the sector's financial soundness, the recapitalization of the CBE—the country's largest bank—in 2024 restored its capital adequacy ratio to the regulatory minimum of 8%. In addition, the large net open foreign exchange positions held by banks at the time of exchange rate liberalization have gradually narrowed, supported by improved foreign currency availability.

Figure 5 – Bank credit



Source: World Bank.

Bank financing is being reoriented toward the private sector. Banks, traditionally more accustomed to financing the government or intermediating foreign exchange operations, have been encouraged to redirect their lending activities toward private sector borrowers. Bank credit to the private sector stood at 11% of GDP in 2024—one of the lowest levels in East Africa and well below the Sub-Saharan African average of 30% of GDP (see Figure 5). Although a cap on credit growth (raised from 18% to 24%) remains in place, a recent regulation by the National Bank of Ethiopia requires each bank to allocate 10% of its lending to small and medium-sized enterprises (SMEs). Furthermore, the opening of the sector to international banks could support stronger credit growth in favor of the private sector.

Box 1 – A highly fragile security situation

Since 2019, the country has faced a narrowing of civic space, increased restrictions on the media, and an erosion of human rights. Ethiopia's political regime, led by Abiy Ahmed since 2018, is classified as an electoral autocracy by V-Dem Institute (ranked 143rd globally in 2025 in terms of democratic standards). In the upcoming elections (June 2026), Abiy Ahmed is highly likely to be re-elected, given a weakly structured opposition.

Internal conflicts and strained relations with neighboring countries pose significant risks to the country's stability. Domestically, conflicts are ongoing in several regions (Tigray, Amhara, Oromia, Afar), each characterized by distinct dynamics and varying levels of violence. These pockets of instability and internal conflict have resulted in a very high number of internally displaced persons in Ethiopia (estimated at 4.5 million in 2024 by the UN Office for the Coordination of Humanitarian Affairs). In Tigray, while the peace agreement signed in 2022 initially appeared to be progressing as planned, renewed tensions have emerged since February 2025 due to internal divisions within the Tigray People's Liberation Front (TPLF), the main political force governing the region. Since late January 2026, mirroring tensions between Ethiopia and Eritrea, frictions have intensified between the central government and Tigrayan defense forces, which Addis Ababa accuses of receiving support from Eritrea.[3]

Episodes of geopolitical tension with neighboring countries in the Horn of Africa are frequent. For instance, the construction of the Grand Ethiopian Renaissance Dam (GERD) on the Nile—commissioned in September 2025—remains a major source of tension with downstream countries, particularly Egypt. Similarly, Ethiopia's ambition to secure direct access to the sea—beyond its current reliance on Djibouti—has generated frictions with Somalia (which eased in December 2024 following the Ankara Declaration) and is currently fueling tensions with Eritrea (since May 2025).

[3] https://www.lemonde.fr/afrique/article/2026/02/25/pourquoi-l-ethiopie-et-l-erythree-sont-a-nouveau-au-bord-de-la-guerre_6668254_3212.html.

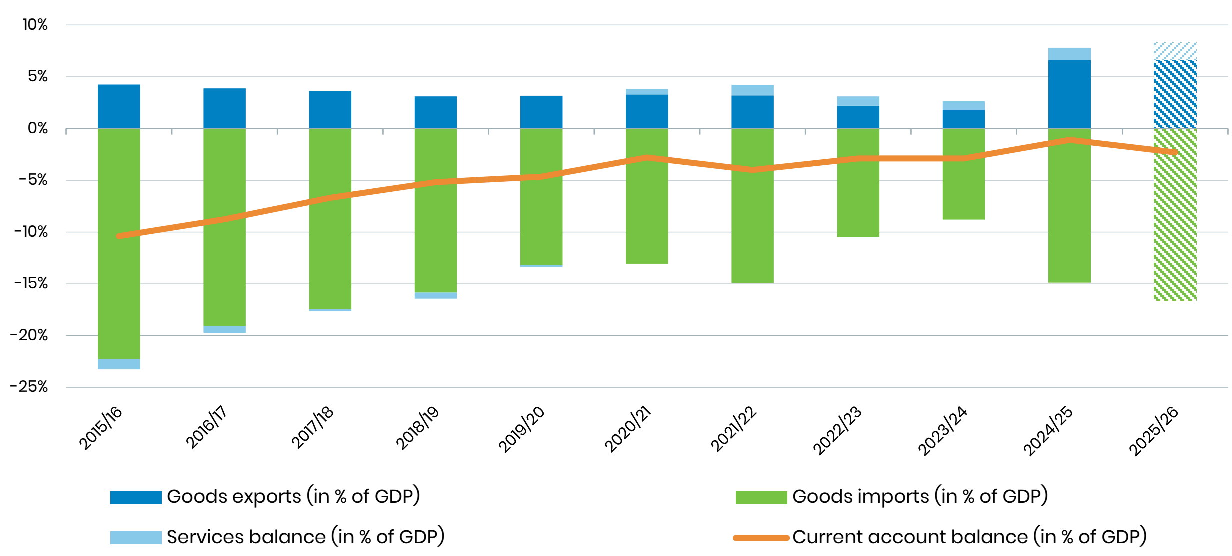
2. The triple vulnerability of heavy reliance on the gold sector, limited fiscal space, and climate and biodiversity risks

Several challenges and vulnerabilities persist, and the economy still has limited buffers to absorb potential shocks. In the short term, external balances appear highly dependent on gold exports, while constrained fiscal space limits the financing of public policies. Over the medium term, climate and biodiversity risks may weigh on the country's development model.

Heavy dependence on the gold sector

The restoration of external balances is closely tied to the surge in gold exports, both in terms of prices and volumes. The current account has returned to near balance after a prolonged period of large deficits (see Figure 6). In fiscal year 2024/2025, goods export revenues exceeded 5% of GDP for the first time in ten years, driven by the strong increase in gold exports. In terms of composition, gold became the leading export commodity, accounting for nearly 40% of the total, ahead of coffee (around 30%) and flowers (7%). This marks a reversal compared with the mid-2010s, when gold ranked only third among export products (11% of exports), behind coffee (around 30%) and oilseeds (17%). The liberalization of the exchange rate regime and the sharp depreciation of the birr that followed (-54% between July and December 2024) removed the constraint posed by an overvalued real effective exchange rate, which had previously weighed on Ethiopian exports. However, other structural constraints persist, particularly in terms of logistics and the business environment. Ethiopia's productive capacity index, calculated by the United Nations Conference on Trade and Development (UNCTAD 2024), although improving over the period 2000–2024, remains at a low level, with the country ranking 170th globally.

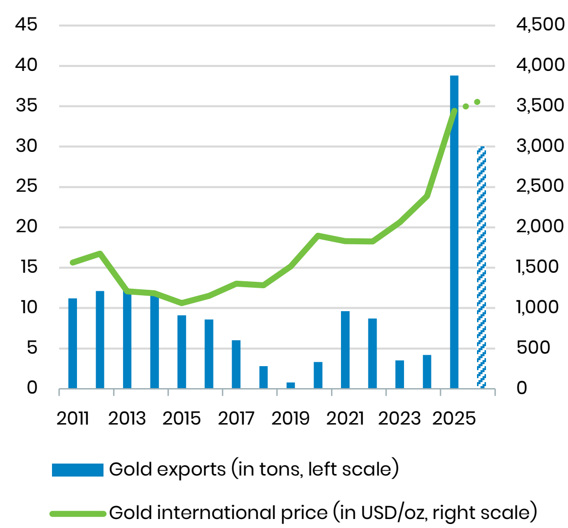
Figure 6 – Current account



Source: IMF, AFD calculations.

Hyper-dependence on the gold sector constitutes a significant vulnerability. The sharp increase in gold production and exports observed in fiscal year 2024/2025 (+800% compared with the previous year; see Figure 7) can be partly explained by: (i) a rechanneling of gold flows toward the NBE, whereas they had previously exited the country through informal channels; (ii) an increase in mining output, supported by rising international prices and the premium paid by the NBE, which acts as the exclusive buyer of output from artisanal mines; and (iii) potentially, the circulation of gold from neighboring countries through Ethiopian trading networks.

Figure 7 – Gold sector



Source: IMF, World Bank.

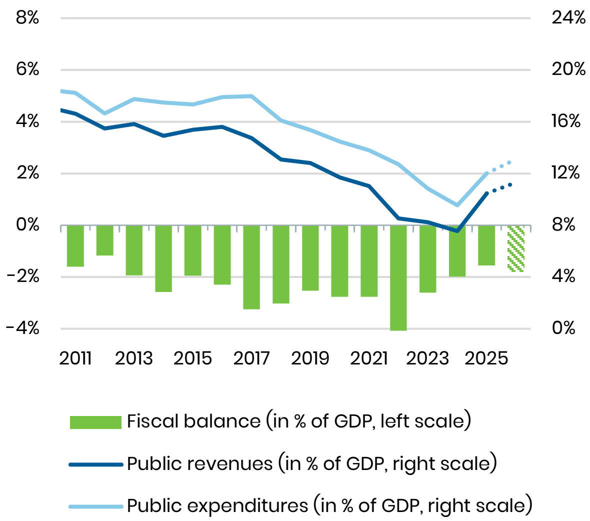
Note on Figure 7: The official unit of measurement for gold prices is the troy ounce (oz), equivalent to 31.10 grams.

With an average annual price of USD 3,400 per ounce in 2025, gold prices increased by 44% compared with 2024, which had already recorded a 16% rise relative to 2023. According to World Bank forecasts (2025a), prices are expected to remain at an average level of USD 3,575/oz in 2026. By the end of January 2026, the price had reached USD 4,750/oz. However, the gold premium policy is not sustainable over the medium term due to its fiscal cost for the NBE. Accordingly, in January 2026, within the framework of the IMF-supported program, the NBE announced that it would gradually phase out this policy and open the market to other buyers in Ethiopia.

Limited fiscal space constraining development financing

Weak public revenues and their sustained erosion between 2015 and 2024 constitute a major constraint for the country. While revenues exceeded 16% of GDP in the early 2010s, they reached their lowest level in fiscal year 2023/2024, at 7.3% of GDP (see Figure 8). This places Ethiopia among the four countries worldwide with the lowest public revenue-to-GDP ratios, just ahead of Yemen, Sudan, and Somalia. According to Nair *et al.* (2025), which analyzes the drivers of this decline, no other country has experienced such a pronounced decrease over the same period. The erosion is primarily attributable to a decline in value-added tax (VAT) revenues (-2 percentage points), customs duties (-1.1 percentage points), followed by corporate income tax (-0.74 percentage points) and personal income tax (-0.36 percentage points). This trend is mainly explained by two factors: (i) changes in the structure of the Ethiopian economy, which since 2015/2016 has been less driven by public investment and characterized by lower import volumes; and (ii) reduced tax compliance.

Figure 8 – Public revenue, expenditure, and fiscal deficit



Source: IMF, World Economic Outlook (WEO).

Recently implemented reforms are beginning to yield results. A comparative analysis of fiscal performance among countries with similar economic and institutional structures suggests that Ethiopia's revenue potential stands at around 17% of GDP (Hegab 2025). The gap with the level of revenue mobilization observed in fiscal year 2023/2024 (6.2% of GDP) is therefore substantial. Several reforms have been introduced since 2024 with the objective of increasing the revenue-to-GDP ratio by 4.4 percentage points by 2028, at a pace of approximately +1 percentage point per year. These measures aim to broaden the tax base and include both tax policy reforms—particularly the rationalization of exemptions—[4] and tax administration reforms, notably through the digitalization of the tax system. The first year of implementation has already seen an effective increase in tax revenues, which reached 7.8% of GDP in FY 2024/2025 and are projected at 9.1% of GDP in FY 2025/2026.

The decline in development aid flows constitutes an additional constraint on the country's social outcomes. The interruption of financing from the United States Agency for International Development (USAID)—of which Ethiopia was one of the largest beneficiaries in Africa (USD 1.3 billion received in 2024)—could weaken the social situation. The government has taken over part of the financing of programs through the national budget, but given its fiscal constraints, it is unable to fully offset these reductions. In December 2025, the announcement of a cooperation agreement with the United States, amounting to USD 1.6 billion over five years and dedicated to the health sector, helped secure funding to strengthen the resilience of the healthcare system. Under this agreement, the United States will provide USD 1.16 billion (including USD 150 million conditional on the achievement of predetermined results in the initial tranches), while Ethiopia has committed to financing the remainder through its national budget. Social challenges remain acute: the World Bank (2025b) estimates the poverty rate (at a threshold of USD 3 per day) at 45% of the population in 2025, compared with 33% in 2016, and food insecurity remains a major concern (the United Nations estimates that 15 million Ethiopians depend on food aid for their survival).

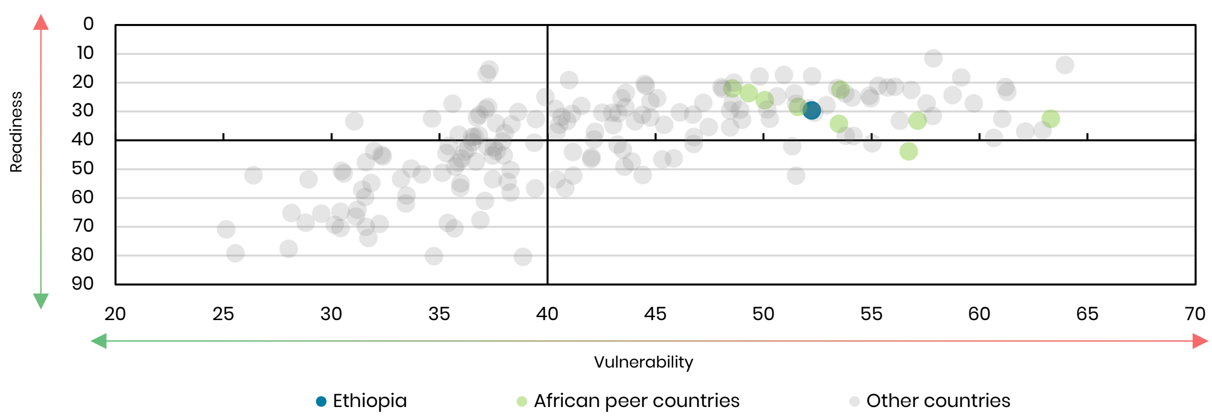
[4] Tax exemptions can no longer be granted by individual ministries. Requests are now centralized within the Ministry of Finance and reviewed by an interministerial committee.

Integrating climate and biodiversity issues: A present and future challenge for the economic model

Ethiopia demonstrates a relatively strong positioning on the international stage with regard to combating climate change and its impacts. The authorities have adopted a proactive approach in implementing national measures for both mitigation and adaptation, thereby standing out internationally: the country hosted the Africa Climate Summit in September 2025 and is set to host the COP32 in 2027. Ethiopia has: (i) adopted a national climate change adaptation strategy as early as 2017, accompanied by an implementation roadmap; (ii) submitted its Nationally Determined Contribution (NDC) 3.0[5] in September 2025, incorporating enhanced ambitions; and (iii) established a long-term strategy since 2021 targeting net-zero emissions by 2060. These commitments are embedded within sectoral strategies, and several flagship programs—such as the Green Legacy initiative—are prioritized by the government.

The NDC 3.0 sets ambitious targets and estimates financing needs at USD 106 billion (USD 66 billion for mitigation actions and USD 40 billion for adaptation). In terms of mitigation, Ethiopia aims to reduce its greenhouse gas emissions by 70.3% by 2035 relative to a business-as-usual scenario.[6] Of this, a 40.7% reduction constitutes an unconditional commitment, while the additional 30 percentage points are contingent on international financing.

Figure 9 – Climate vulnerability and readiness indicators



Source: ND-GAIN, AFD calculations.

[5] Ethiopia thus complied with the submission timeline for its updated Nationally Determined Contribution (set for November 2025, ahead of COP30), whereas 70 countries failed to submit theirs on time.

[6] This represents an increase compared with the target set in the revised 2021 NDC, which aimed for a 68.8% reduction by 2030.

Ethiopia's unconditional commitments and the associated emissions trajectory are assessed by Climate Action Tracker as consistent with the 1.5°C objective, in line with its fair share contribution to global mitigation efforts. At the same time, to strengthen its resilience to climate change, Ethiopia ranks among the largest recipients of international public financing for adaptation over the period 2019–2023 (a total of USD 4.3 billion—6th globally),[7] of which 82% in grants, 16% in concessional loans, and 1% in non-concessional loans.

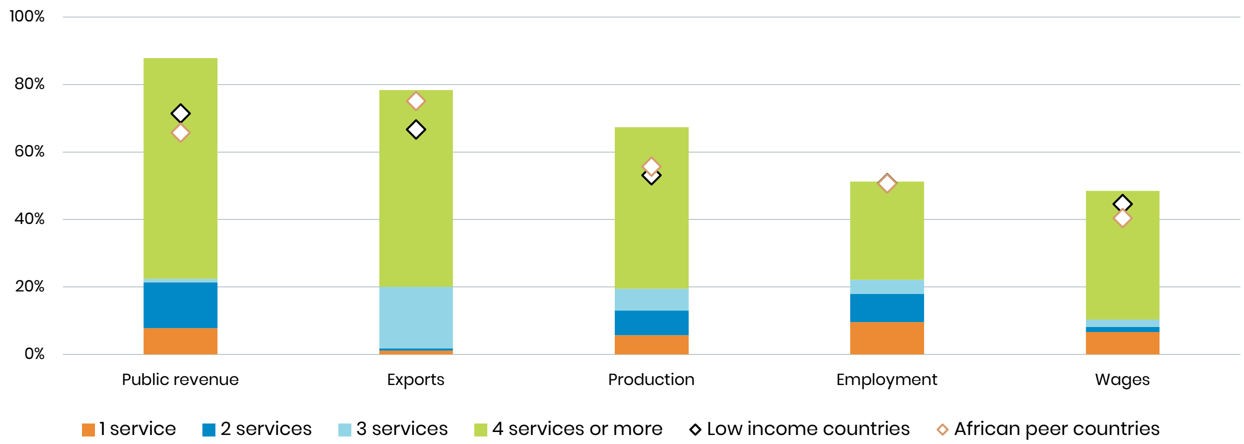
Physical climate risk is high, underscoring the importance of implementing adaptation measures. Ethiopia appears highly exposed to climate change. According to the ND-GAIN index, the country ranks 146th out of 187 in terms of climate vulnerability (see Figure 9). According to the Climate Risk Index (CRI) (Germanwatch 2026), Ethiopia ranks as the 47th most affected country globally over the period 1995–2024. This composite indicator combines human and economic losses resulting from extreme climate events. The main risks relate to increasingly severe droughts, river flooding, and landslides, all of which affect key sectors such as agriculture and forestry that are central to the economy. World Bank (2024) simulations estimate cumulative economic losses from climate change at between 10% and 14% of GDP over the period 2023–2030. By contrast, transition risk is assessed as low, given that Ethiopia is one of the least carbon-intensive economies globally (with a low-carbon energy mix) and its economy is only weakly dependent on industries likely to decline during the low-carbon transition.

Biodiversity conservation issues are critical for the country's economic activity. Ethiopia's territory encompasses two of the world's 36 biodiversity hotspots: the Eastern Afromontane region and the Horn of Africa. While biodiversity remains relatively well preserved, it is nevertheless exposed to multiple risks (Biodev2030 2022). From an economic perspective, the agricultural sector is dominant, accounting for 35% of GDP and nearly 70% of exports (in 2024, prior to the surge in gold exports). However, it is also highly dependent on several ecosystem services (water provision, biomass, flood control, and precipitation regulation), which are at risk of degradation in the event of biodiversity loss. More broadly, nearly 80% of exports and fiscal revenues, and over 60% of total output, are generated by economic activities highly dependent on at least one ecosystem service (see Figure 10).[8] As a result, Ethiopia's exposure to physical biodiversity risk is high.

[7] Database on international public financing for climate change adaptation (2019–2023), FERDI, Clermont-Ferrand, https://ferdi.fr/donnees/base-de-donnees-sur-le-financement-public-international-de-l-adaptation-au-changement-climatique-2019-2023.

[8] See Maurin, Calas, and Godin (2025), and Ehrhart and Vasse (2026) for further details on the methodology and the assessment of economies' exposure to biodiversity-related financial risks.

Figure 10 – Physical biodiversity risk



Source: AFD calculations.

Note on Figure 10: The chart shows the share of each aggregate generated by economic activities highly dependent on one, two, three, or four or more ecosystem services.

To mitigate the financial risks associated with biodiversity loss, the authorities are actively engaged in conservation efforts. A new National Biodiversity Strategy and Action Plan (NBSAP) for 2025–2030 has recently been adopted, setting out 19 targets, including increasing forest cover (target 2), expanding protected areas from 12% to 30% of the national territory (target 3), and extending agroecological practices to at least 25% of agricultural land (target 10). In addition, measures are being implemented to comply with the European Union's sustainability requirements for Ethiopian exports. The entry into force of the European Union Deforestation Regulation, postponed by one year to December 2026, will require certification of exports to ensure that they are not associated with deforestation.

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List of acronyms and abbreviations

CBE	Commercial Bank of Ethiopia
CRI	Climate Risk Index
EIH	Ethiopian Investment Holding
FY	fiscal year
GERD	Grand Ethiopian Renaissance Dam
GDP	gross domestic product
IMF	International Monetary Fund
LAMC	Liability and Asset Management Company
NBE	National Bank of Ethiopia
NBSAP	National Biodiversity Strategy and Action Plan
NDC	Nationally Determined Contribution
PSNP	Productive Safety Net Program
SME	small and medium-sized enterprises
TPLF	Tigray People's Liberation Front
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
VAT	value-added tax

List of figures

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