

ANNUAL PUBLIC SECTOR DEBT PORTFOLIO ANALYSIS

**FOR THE YEAR
2022/23**

NO: 24

Ministry of Finance
Federal Democratic Republic of Ethiopia

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Forward

The principles of public debt management in Ethiopia are enshrined in the Financial Administration Proclamation No. 648/2009 (as amended by Proclamation No. 970/2016) and the Financial Administration Regulations. The legal framework is meant to promote prudent and sound debt management practices for both Federal Government and State-Owned Enterprises with the aim of enhancing public finance effectiveness and transparency in the management of public resources. The 2022/23 Annual Debt Portfolio Analysis is part of the reporting requirement under the country's legal framework. The Debt Management Division (DMD) within the Ministry of Finance is mandated to manage the public debt in the country.

Public debt management is the process of establishing and executing a strategy for managing the public sector's debt to raise the required amount of funding, pursue its cost/risk objectives, and meet any other public debt management goals the government may have set, including developing and maintaining an efficient and liquid market for government and corporate securities.

The Ministry of Finance is the primary agent of the Government of Ethiopia responsible for managing and conducting various cost-risk analyses of the country's public debt portfolios. It prepares, manages, and follows up the country's Medium Term Debt Management Strategy. In addition, it is responsible for the compilation and dissemination of public debt statistics and Annual Public Sector Debt Portfolio Analysis. It also prepares the country's Debt Sustainability Analysis every fiscal year and disseminates it to policymakers for decision.

Hence, this Twenty-fourth Annual Public Sector Debt Portfolio Analysis (DPA) is an annual report prepared by the Debt management division aiming to provide a broader view of the public debt portfolio, dealing with the volume of the public debt and its breakdown, variations in stocks as well as detail analysis of some key debt variables. The current, Twenty-Fourth edition DPA, comprehensively examines the five years' total public debt composition, magnitude and trends from 2018/19 to 2022/23.

Preparation of comprehensive and timely DPA allows the Government and other stakeholders to monitor the evolution of the public sector's debt accumulation and its debt-service obligations over time.

This DPA is considered an essential input for forecasting and compiling other macroeconomic statistics and can serve as an indicator of the sustainability of government and public corporations' policies.

As per the Financial Administration Act, the Government regards this report as a tool for evaluating and managing the risk involved with different debt compositions, facilitating coordination with fiscal and monetary management and enhancing transparency. Furthermore, the Government anticipates that the annual preparation of this debt report will support efforts to meet the government's financing needs and payment obligations at the lowest possible cost consistent, while maintaining a prudent degree of risk.

Apart from providing details of the debt dynamics in 2022/23, this report will also serve as a useful repository of information for the public, academicians, researchers, the media and all other relevant stakeholders. An electronic version of this report is available on the website of the Ministry of Finance, the Debt Management Division. All queries on the contents of the report should be addressed to the Debt Management Division in the Ministry of Finance through the address below.

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Mission Statement Of Debt Management Division

To ensure sound external and domestic debt management by effectively and efficiently co-negotiating and renegotiating external loans, properly administering disbursements and repayments of external and domestic debts, following up of on-lent debts, and designing and updating appropriate debt management strategy of the country.

Acronyms

AfDB	African Development Bank
AfDF	African Development Fund
BADEA	Arab Bank for Economic Development in Africa
CBE	Commercial Bank of Ethiopia
CF	Common Framework
DA	Direct Advance
DBE	Development Bank of Ethiopia
DS	Debt Service
DSSI	Debt Service Suspension Initiative
EAL	Ethiopian Airlines
EEP	Ethiopian Electric Power
EEU	Ethiopian Electric Utility
EIB	European Investment Bank
ESC	Ethiopian Sugar Corporation
ETB	Ethiopian Birr
EUR	EURO
ERC	Ethiopian Railway Corporation
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
ICBC	Investment and Construction Bank of China
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JPY	Japanese Yen
MDRI	Multilateral Debt Relief Initiatives
MoF	Ministry of Finance
NBE	National Bank of Ethiopia
NDF	Nordic Development Fund
OFID	OPEC Fund for International Development
POESSA	Private Organization Employees Social Security Agency
PSSSA	Public Servants Social Security Agency
SOEs	State Owned Enterprises
SDR	Special Drawing Rights
TBs	Treasury Bills

Executive Summary

Following the completion of the HIPC and MDRI initiatives in (or around) YEAR, Ethiopia was able to borrow additional funds from both domestic and external sources to support economic reform and growth. Following that, over the last two decades, Ethiopia has accumulated a large amount of debt. Not only does the total public debt increase in size, but its composition also shifts toward non-concessional government-guaranteed SOE borrowing. This has continued until 2019, and the country's public debt is currently dominated by central government concessional borrowing. This is due to the government's conscious decision to limit non-concessional borrowing and particularly because of the zero non-concessional borrowing in the last four years.

Accordingly, Ethiopia's total public external and domestic debt stock, including publicly guaranteed and non-guaranteed debt, reached USD 63,329.33 million by the end of June 2023, representing 38.8 percent of GDP. This represents an increase from USD 57,381.19 million (46 percent of GDP) at the end of June 2022 and USD 53,826.78 million (56.1 percent of GDP) at the end of June 2019.

Domestic debt in USD showed a 19.2 percent increase from USD 29,428.09 million in 2021/22 to USD 35,080.18 million in 2022/23. Similarly, domestic debt in ETB grew by 25.2 percent from ETB 1,150,078.25 million to ETB 1,915,177.99 million during the same period.

Total public sector external debt was USD 28,249.15 million as of June 30, 2023, up from USD 27,953.10 million as of June 30, 2022. The value of existing external debt increase was relatively minimal between the two periods. The increase in external total public sector debt was approximately USD 296.05 million, or a 1.1 percent increase only. The minimal increase in the stock of external debt can be attributed to two key factors: a relatively lower disbursement from external loan compared to principal payment and fluctuations in the US dollar exchange rate (a stronger US dollar relative to other foreign currencies in June 2023 compared to June 2022)

The United States Dollar (USD) made up 46.1 percent of Ethiopia's external debt stock, followed by the Euro (6.1 percent), Chinese Yuan (1.5 percent), and SDR (44.0 percent), with other currencies making up 2.3 percent of the portfolio. It should be noted that the percentage share of these currencies, out of the external debt portfolio, will be much higher than the above figure if we add their share out of the SDR because the SDR is a basket of currencies made up of five currencies with different weights: USD 41.73 percent, EUR 30.93 percent, Chinese yuan 10.92 percent, Japanese 8.33 percent, and GBP 8.09 percent.

Out of Ethiopia's total external debt outstanding, multilateral agencies, which provide highly concessional loans, held about 54.1 percent, while bilateral creditors had a 27.6 percent share out of the total external debt stock. The remaining portion is owed to Private creditors. Out of private creditors, while commercial banks and suppliers held about 11.2 percent and 3.6 percent, respectively, 3.5 percent is owed to Eurobond holders.

As of June 2023, the stock of treasury bills, long term government bonds, direct advances, and Five-year treasury bonds accounted for approximately 17.9 percent, 34.8 percent, 6.8 percent, and 2.0 percent, respectively, of the total domestic debt. In terms of the domestic debt stock held by SOEs, corporate bonds and long-term loans made up 40.6 percent.

In the 2022/23 fiscal year, the total public debt service payments amounted to USD 2,684.7 million. Out of this, external debt service payments accounted for USD 1,790.13 million, while domestic debt service stood at USD 894.6 million (ETB 48,839.25 million). As a percentage of the total public debt service, the external and domestic debt service payments represented 66.7 percent and 33.1 percent, respectively.

The present value of Ethiopia's total public debt as percentage of GDP was about 56.16 percent in 2018/19, and in 2020 and 2021 it went down to 51 percent of GDP. In the 2022/23 fiscal year, Ethiopia's public debt to GDP ratio showed a remarkable improvement and reached 38.7 percent of GDP, and this is lower than the 40 percent threshold for countries with medium debt-carrying capacity.

The current external debt as a percentage of exports at 182 percent, and this is higher than the 180 percent threshold for countries with a medium debt carrying capacity. The external debt service to export ratio is around 22 percent, exceeding the 15 percent threshold. This is yet another export-related ratio that has been breached, putting the country's debt distress level at high risk. However, all the above figures have improved in subsequent years as a result of a reduction in non-concessional borrowing by SOEs and the improvement in the export sector, as well as continuous GDP growth.

Overall, Ethiopia's present value of total public debt (external plus domestic debt) as a percentage of GDP is approximately 35.1 percent. This puts Ethiopia's public debt comfortably within the World Bank and IMF's benchmark of 55 percent in present value terms as a percentage of GDP.

Even though the volume of debt contracted from commercial sources has decreased as a result of the zero non-concessional borrowing limit, Ethiopia remains at a higher risk of debt distress level. Recently, the Home-Grown Economic Reform and ten-year development plan has been initiated to address the essential difficulties in the spheres of macroeconomic, structural, and sectoral that serve to achieve the required transformation in the economy over the next years. In this sense, careful public debt management and guaranteeing public debt sustainability over the medium term will remain critical tasks of the Ministry of Finance.

As a result, on December 20, 2019, the International Monetary Fund (IMF) Executive Board approved a three-year program for Ethiopia under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) totaling SDR 2.1 billion (about US\$ 2.9 billion), with the goal of helping to reduce external imbalances, contain debt vulnerabilities, lift financial repression, and increase domestic resource mobilization. These two IMF programs, the ECF and EFF, were not successfully implemented, with only USD 309 million being disbursed and the programs expired in September 2021 (ECF) and in December 2022 (EFF).

On the other front, the Government, is taking various measures to improve the debt distress level and contain debt vulnerability. Among others, these include:

- To boost export performance to increase foreign currency earnings,
- To limit non-concessional borrowing by SOE,
- To re-profile some loans borrowed from different creditors to help the country by extending the grace period and maturity of some loans.

Ethiopia is a G20 DSSI eligible country that has signed a Memorandum of Understanding with the Paris Club Secretariat on DSSI related to Paris Club Countries and Non-Paris Club Countries, was not required to make any external debt service payments to its bilateral creditors in accordance with the G20 DSSI during the period (May 1, 2020 - June 30, 2021). It has suspended the central government's external debt service obligations to its bilateral creditors, which amounts to USD 216.0 million, as a DSSI-eligible country. Ethiopia is additionally qualified for grant aid from the IMF's Catastrophe Containment and Relief Trust (CCRT). The relief provided by the CCRT relates to about USD 12,000,000 in IMF debt service that was due by October 13, 2020.

Based on the November 2020 G20 communique on Common Framework (CF), a discussion is ongoing with different development partners. The creditor committee for Ethiopia's CF application was established, but it has not moved forward as expected, thus the country has not benefited from this initiative, which might potentially raise the country's debt distress rating to Moderate risk from High risk.

Cognizant of the debt accumulation problem, the Government of Ethiopia has put in place a Public Private Partnership (PPP) framework to fund infrastructure development, which serves as a catalyst to foster economic growth. To minimize exposure and risks associated with debt accumulation, the government has embraced innovations in financing infrastructure development off the balance sheet without heavily impacting the debt portfolio. Towards this end, the country is working to increase private financing of public investments through the PPP initiatives. This is one of the MoF key strategies to maintain a reduced fiscal deficit and to ensure that debt accumulation remains at prudent rates and that public debt remains within sustainable levels.

In general, the Public Debt to GDP ratio is expected to stabilize in the medium term and gradually come down to acceptable levels as the government implements prudent fiscal policy measures aimed at reducing the fiscal deficits. Moreover, the government's commitment to limiting contracting loans from non-Concessional sources will contribute to this downward trajectory. We expect that all the above-mentioned measures will improve the debt risk rating of the country.

1. Introduction

This Debt Portfolio Analysis objectively evaluates trends and changes in the Central Government's external and domestic debt, as well as SOE's government-guaranteed and non-guaranteed external and domestic debt, as of June 2023. It also highlights the risks, concerns, and challenges associated with debt management, as well as the government's forward-looking strategy for advancing the country's economic and social growth.

Ethiopia is ready to execute a wide range of changes following the launching of its new Home-Grown Economic Reform Agenda, to provide the enabling environment for the economy to grow at a healthy pace and achieve middle-income status. Along with macroeconomic reforms, the government needs to keep an eye on its public debt portfolio considering new difficulties.

Conducting a review of the country's public debt portfolio is an important element of a debt management strategy - which is itself a crucial component of sound economic management. With debt management being a core component of Ethiopia's Public Financial Management (PFM) framework, it is important for the Debt Management Division (DMD) to regularly carry out such a review to monitor, in a continuous and consistent manner, the level of indebtedness of the economy, and ensure an optimum borrowing policy, compatible with the country's economic and financial situation. It will show whether the structure and composition of the country's debt is optimum in terms of maturities, interest rate, exchange rate exposure and other related items. Such a review will also help identify opportunities for improving the debt portfolio, reducing future costs of borrowing and ensuring that the right policies and strategies are taken so that future financing needs to support the country's economic growth and development always remain sustainable.

Against this backdrop, the specific objectives of this exercise include:

to review the debt situation in the light of recent macroeconomic developments,

- to critically examine the debt stock and flows with respect to major creditors and creditor types, major borrower types, commitment and disbursement trends, currency composition and maturity structure of the debt and debt service and
- to propose elements of a strategy that would ensure the pattern and structure of borrowing are compatible with the country's development strategy while taking measures to avoid situations of debt and debt service stress in the future.

In view of this, the central government external debt refers to all external loans contracted between external creditors and Ministry of Finance while government-guaranteed external debt comprises of loans and suppliers' credits contracted by public enterprises, mainly the Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), Sugar Corporation (SC), Ethiopian Railways Corporation (ERC) and Ethiopian Shipping and Logistics Services Enterprises (ESL) guaranteed by MoF.

The non-guaranteed external debt, on the other hand, includes loans contracted by public enterprises, mainly the Ethiopian Airlines (EAL) and Ethio-Telecom without government or government-owned bank guarantee. Domestic debt covers the debt of the central government in forms of government bonds, treasury bills and direct advance from National Bank of Ethiopia. In addition, the assessment covers State Owned Enterprises (SOEs) borrowing from both domestics as well as external sources including on-lent loans transferred to SOEs

The primary governing law for debt management is the Financial Administration Proclamation No. 648/2009 (as amended by Proclamation No. 970/2016) and the Financial Administration Regulations. Accordingly, debt shall be managed in such a manner as to prevent any negative impacts on the general economy, such as creating instability in monetary policy or balance of payments.

Accordingly, this report is issued by the Ministry of Finance in pursuant to section 52 of the Financial Administration law which requires the report to include inter alia:

- Annual government borrowings and debt management operations,
- Guarantee and on lending activities of government,
- Debt management strategy and the rationale for the strategy,
- Debt accumulation trends,
- Outstanding amounts and beneficiaries of the loans and an assessment of the risks associated with the accumulation of debt.

This 2021/22 annual public sector debt report is structured as follows: part 1 introduces the report contents, part 2 looks at the Medium Term Debt Management Strategy and its implementation and initiatives designed to ensure a well-structured portfolio and public debt sustainability, part 3 presents Government borrowings in 2021/22 and debt accumulation trends in public debt, part 4 presents contingent liabilities and on-lending loans, part 5 presents cost and risk analysis of Ethiopia's public and publicly guaranteed debt, and part 6 concludes the report with an outlook and forward-looking. A glossary part 7 is presented at the end of the report to facilitate a greater understanding of this report by the general public.

2. Medium Debt Management Strategy (2016-2020)

The ongoing Home-grown Economic Reform Program needs huge resources, and one of the sources of finance for this may come from borrowings from both external and domestic sources. These borrowing activities need to be guided by an internationally recognized framework for developing a debt management strategy while ensuring that the public debt remains within sustainable levels.

In Ethiopia, there is a clear coordinating mechanism at the political and technical levels as well as legislation and implementation circulars defining the parameters for debt contracting, guarantees and servicing. The existence of a clear legal framework is an important enabling element for formulating a debt management strategy.

The (2016-2020) Medium Term Debt Management Strategy (MTDS), designed by the Ministry of Finance with the technical support of the International Monetary Fund (IMF) and a World Bank, provided a framework for developing an effective public sector debt management strategy that aims to achieve a desired composition of the public sector debt portfolio based on a cost-risk analysis and the government's preferences about the cost-risk trade-off. Although the time framework of the designed strategy elapsed, the borrowing principle have been maintained during 2020/21 ,2021/22 and 2022/23 fiscal years due to the absence of significant changes in debt instruments, borrowing policy, sources of borrowing and related factors.

The strategy had a two-fold objective: firstly, to raise resources through borrowing to meet central government budgetary requirements at minimum cost and prudent level of risk; and secondly) to promote the development of domestic debt markets. Potential sources of financing from abroad were identified by focusing on concessional sources, and strategies were designed to ensure that funding plans are achieved while minimizing the possible impact on the costs and risks of the debt portfolio.

Over the past several years, the 2016-2020 MTDS guided central government's borrowing and providing guarantees to state-owned enterprises in the medium term while providing a path for a sustainable level of debt over the medium term. Accordingly, the Government's fiscal strategies were geared towards maintaining a sustainable level of debt.

Moreover, the government put in place a robust system for monitoring and closely following up a mechanism to maintain the transparency and accountability of public borrowing so that it is possible to ensure that the level of public debt is consistent with the overall fiscal framework, safeguarding macro-economic stability over the medium term.

The implementation of this strategy in the past several years, including 2020 has led to some mixed results in the cost and risk factors associated with the debt portfolio. Accordingly, the Average Time to Maturity (ATM) of the public debt portfolio declined, the share of the debt portfolio requiring re-fixing in one year increased, government exposure to debt denominated in foreign currency also increased and the proportion of debt maturing in a year increased.

The government has been taking appropriate measures to improve the debt situation of the country including curtailing borrowing from non-concessional sources.

3. Medium-Term Debt Management Strategy (2021-2025)

The Ministry intended to design the 2021-2025 Medium Term Debt Management Strategy (MTDS), with the technical support of the International Monetary Fund (IMF) and World Bank, which was scheduled for 2021. However, due to the COVID 19-pandemic and other related obstacles, the Ministry was not able to organize a workshop and formulate the strategy as planned. The Ministry has been exerting maximum effort including discussing with the potential development partners (IMF and World Bank) to organize the workshop to formulate the MTDS. In the same way, it is important to underline that the Ministry has been using the previous MTDS principles in its borrowing activities and fill the budget gap.

The objective of the strategy remains similar as before i.e.: to raise resources through borrowing to meet the central government's budgetary requirements at minimum cost and prudent level of risk, and to promote the development of domestic debt markets.

There is a plan to prepare a Debt Strategy after the implementation of the possible Common Framework at the end of 2024/25.

4. Total Public Sector Debt Portfolio Development in 2022/23

For Fiscal Year 2022/23, the total amount of public and publicly guaranteed debt (including domestic and external) stood at USD 63,329.33 million (ETB 3.5 trillion), or around 38.8 percent of GDP in nominal value terms. Of this, external debt accounted for 17.5 percent of GDP, while domestic debt constitutes 21.4 percent. Tracing back five years to 2018/19, the total amount of outstanding public debt amounted to USD 53,826.78 million (1.6 trillion ETB). Compared to the previous year (2021/22), the overall stock of public sector debt increased by 10.4 percent in 2022/23, and it grew by 17.6 percent compared to 2018/19.

Table 1. Total Public Sector Debt Outstanding

Mn USD

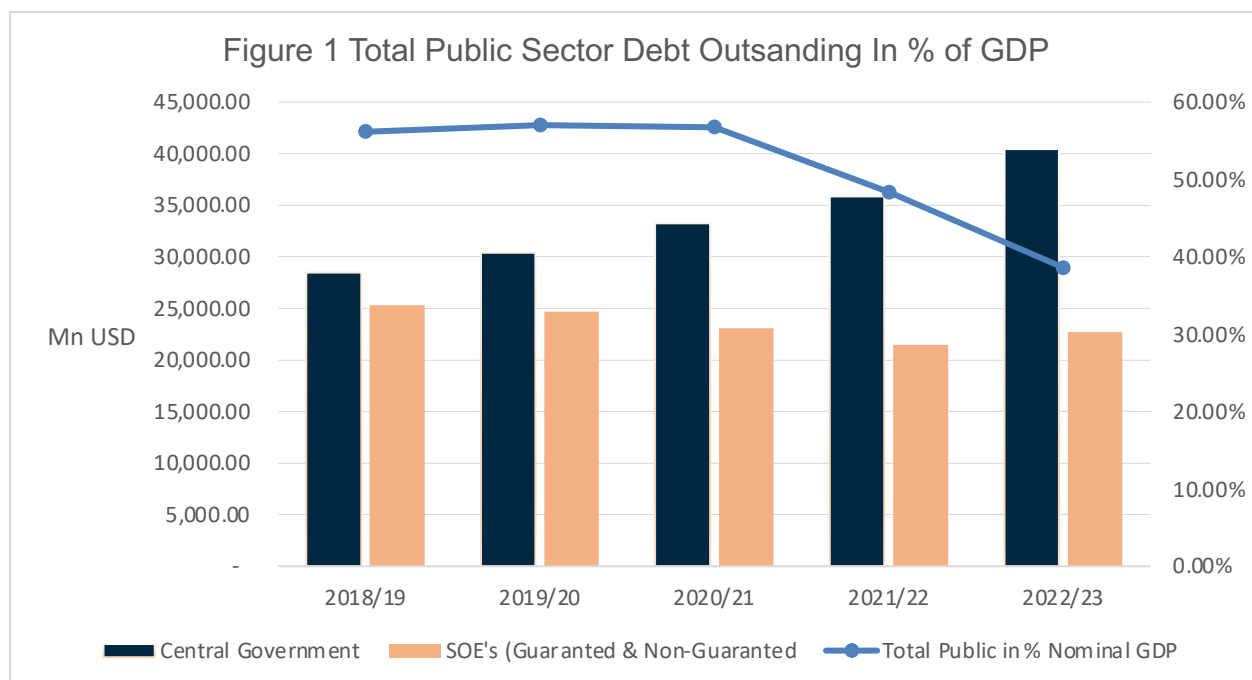
	2018/19	2019/20	2020/21	2021/22	2022/23
Total Public Sector Debt	53,826.78	55,096.53	56,385.74	57,381.19	63,329.33
External Debt	27,075.19	28,827.35	29,470.83	27,953.10	28,249.15
Domestic Debt	26,751.19	26,269.18	26,914.91	29,428.09	35,080.18

Throughout the observation period, the average annual rise in the total stock of public sector debt was 4.2 percent. The biggest increase was observed in 2022/2023, when the Central Government borrowed more money from domestic sources using a variety of instruments, including Treasury Bills, medium-term bonds, and direct advances.

An additional factor influencing the difference in the total public debt stock in USD between 2018/19 and 2022/23 is fluctuations in exchange rates. The amount of external debt in US dollars is impacted by changes in exchange rates between other currencies and the US dollar, while the amount of domestic debt in USD is impacted by changes in exchange rates between the US dollar and the ETB. For instance, there was a USD 296.04 million increase in the external debt stock between 2021/22 and 2022/23; of this amount, USD 44.37 million was attributable to exchange rate variation between the two periods as the USD increased (appreciated against) in value in comparison to other currencies in 2021/22, and this accounts for 15 percent of the difference.

The issuance of market-determined Treasury bills in 2019/20, the issuance of medium-term (five-year) bonds in 2022/23, the conversion of old Treasury bills into three-year Treasury notes that ultimately converted to long-term bonds, the conversion of Direct Advance into a 25-year government bond, the issuance of new Treasury bills, and the the central government/s borrowing in the form of direct advance—which was significantly higher in 2022/2023—have all changed the composition of the domestic debt instrument and the stock. As of June 30, 2023, the shares of external and domestic debt were, respectively, 44.6 and 55.4 percent. The share of external debt stock had been higher in the preceding period, but it had decreased in the last two years. Additionally, the percentage of the Central Government's public debt (External plus Domestic) has increased over the observation period. This can be explained by the fact that, in order to reduce the burden of external debt, SOEs except Ethiopian Airlines—have not borrowed during the last five years due to the "zero non-concessional borrowing limit."

Figure 1 Total Public Sector Debt Outstanding In % of GDP



Over time, the overall amount of outstanding public sector debt—both domestic and foreign—increases, and its composition also varies. Domestic debt as a percentage of GDP is now larger than it was four years ago. The country's debt distress level continues to be high due to the increase in volume, the change in the composition of the total public sector debt, the rise in debt service payments, and the poor performance of the export sector.

Ethiopia's economy has been straining due to both internal and external shocks, such as the COVID-19 Pandemic, internal conflicts, the Russia-Ukraine war and the resulting higher commodity prices, and the significantly limited availability of external financing from development partners. As a result, Ethiopia applied for holistic debt restructuring under the G20 common framework (CF) in February 2021 and is currently in discussions with the IMF to secure a funded programme.

According to the IMF and World Bank Debt Sustainability Framework, there are five indicators that can be used to determine a sovereign's level of debt distress in Low-Income Countries (LIC), of which Ethiopia is one. This involves two liquidity indicators: ratios of external debt service to government revenues and exports, and three solvency indicators: ratios of present value of external debt to GDP, present value of external debt to export, and Present Value of total public debt to GDP.

These indicators are used to determine if a country can service its debt obligations using its current revenues and exports (liquidity) as well as to determine the sustainability of the country's debt burden relative to the size of the economy or export earnings (solvency). Based on these indicators and thresholds, countries are categorized in either of the four debt distress levels: low risk (when there are no breaches of thresholds); moderate risk (when thresholds are breached in risk scenarios); high risk (when thresholds are breached in the baseline scenario); and in debt distress (when a distress event, like arrears or a restructuring, has occurred or is considered imminent).

Due to a rise in external and domestic debt outstanding, particularly an increase in external debt and a shift in its composition toward borrowing from non-concessional sources, Ethiopia's debt distress level increased from moderate risk to high risk in 2017. This deterioration in debt distress level can also be explained in part by the poor performance of the export sector. As export-related debt ratios have been breached since 2017, the country remains at high-risk level until the end of 2022/23.

As shown in the table below, Ethiopian debt sustainability results at the baseline for 2021 show that the PV of External Debt to GDP ratio is around 241 percent, as Ethiopian Debt Carrying Capacity is "medium" and the threshold for this group is 180 percent, and the ratio breached the threshold in the baseline. Another figure that exceeded the threshold is the liquidity ratio, also known as the external debt service to export ratio, which is also related to while the result for Ethiopia is around 24 percent the threshold for Ethiopia's group is 15 percent.

Except for these export-related ratios, the overall result is well below the thresholds. However, because both breaches are in the baseline, the country is classified as a "high" risk debt distress country, and there is a need to make an additional external debt restructuring based on the G20's Common Framework (CF) initiative to become a "moderate" risk country.

Table 2 Debt Ratios

	2017	2018	2019	2020	2021
Nominal External Debt -to-GDP Ratio	28.56	30.63	28.23	26.84	27.16
Nominal Domestic Debt-to-GDP Ratio	27.67	27.9	27.93	24.52	24
Nominal Total Public Debt-to-GDP Ratio	56.23	58.53	56.16	51.36	51.16
PV of External debt-to-GDP ratio	21.9	21.4	19.6	18.6	18.93
PV of External debt-to-Export ratio	280.9	247.9	247.6	244.9	241.7
PV of External debt-to-Revenue ratio	143.9				
External debt service -to-Export ratio	22.2	24.4	24.6	24.5	22
External debt service -to-Revenue ratio	9.1	16.4	16.8	14.2	
PV of Public Debt-to-GDP ratio	46.3	49.7	48.8	47.6	43

The PV of external debt to export ratio significantly improved in 2021 and 2020 compared to 2017. This is due to the debt restructuring of some of the SOE's external debts with Chinese creditors, particularly the Ethiopian railway debt with Chinese creditors. The other reason is that there has not been any non-concessional borrowing, except for EAL, in the last four years which significantly decreased the external debt both in Nominal and NPV terms.

4.1 Total External Debt

This section looks at the trends in the total amount of outstanding external debt, which includes debt held by SOEs and the federal government. Additionally, the overall amount of external debt is split down by key creditors, borrower types, and other variables. It also examines net flows and transfers, responsibilities and payments for repaying external debt, as well as new external commitments.

External Debt Outstanding: Starting at USD 27,075.19 million on June 30, 2019, Ethiopia's total external debt stock increases rapidly to USD 29,470.83 million by June 30, 2021, and then declines to USD 27,953.10 million by the end of June 2022, then it reached USD 28,249.15 million at the end of June 2023. On average, it rises by 4.4 percent per year over the first three years of the observation period, but then decreases by 5 percent in 2021/2022 and rises by 1.1 percent in the final year of the observation period.

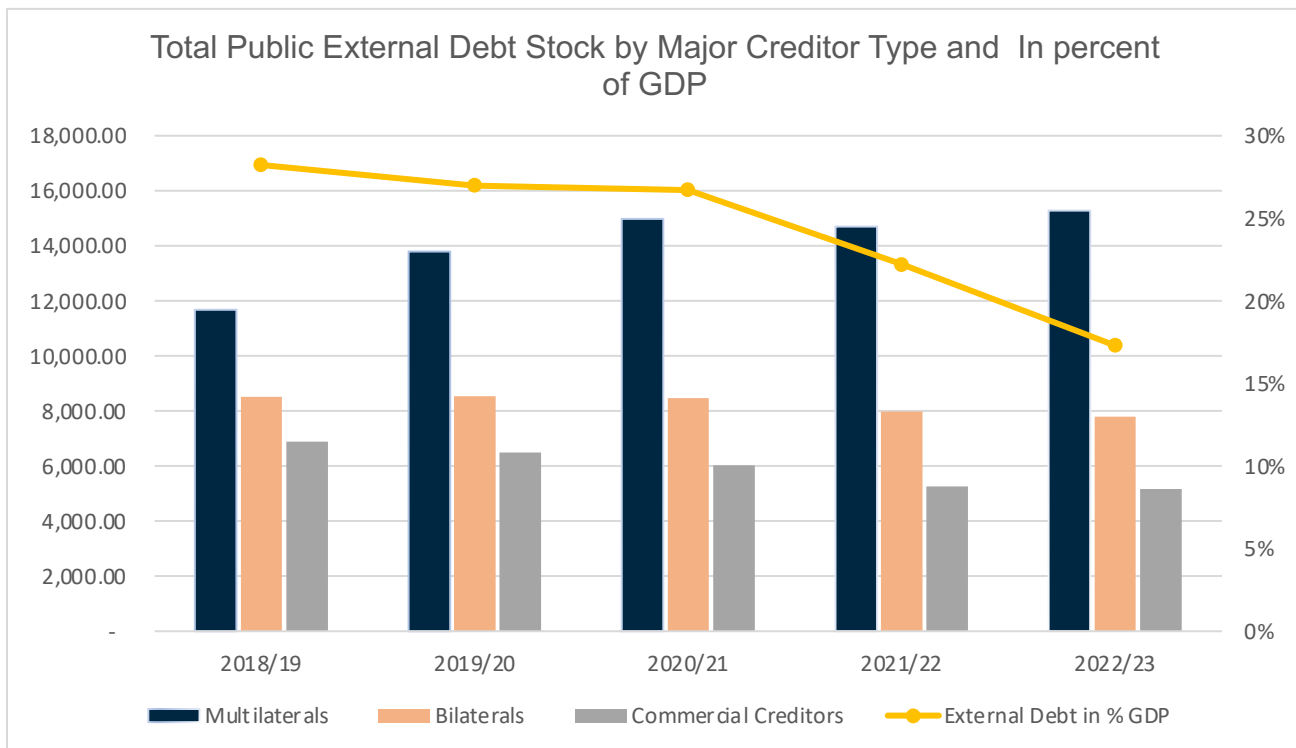
This decline in the external debt in the last two years of the observation period is caused mainly by exchange rate variation, which is the valuation effect of stock valuation between the two periods and stock flow adjustment of the flows between the two periods brought on by the strong USD relative to other currencies. In addition to exchange rate variation, there was also a higher principal external debt payment relative to the disbursement from external sources which resulted in the decline of the external debt stock in 2021/22 and 2022/23 compared to the previous two years (see figure 2 and 3 below).

The other reason for the decline in external debt stock in the final two years is the decline in government-guaranteed external debt, which can be explained in part by a recent government measure to reduce external debt vulnerability by reducing external borrowing from non-concessional sources to fund state-owned enterprise projects. Over the last five years, there have been relatively higher net external resource flows, primarily to the central government, and lower net external resource flows to state-owned enterprise projects.

The external debt as a percentage of nominal GDP ranges between 17 and 28 percent over the observation period, whereas the PV of external debt as a percentage of GDP is now about 17 percent, well below the 40 percent threshold for countries with medium debt-carrying capacity.

4.1.1. External Debt Outstanding by Major Creditors Groups

Ethiopia has historically relied on official sources of financing, or funding from Multilateral and bilateral sources, to finance development projects and programs. Currently, the total stock of public external debt as of June 30, 2023, from official creditors, multilateral and bilateral creditors collectively owed USD 23,081.9 million (81.7 percent) of the total amount of outstanding external debt. Of this amount, USD 15,280.49 million was owed to multilateral creditors, and USD 7,801.40 million was owed to bilateral creditors. Of the total stock of governmental external debt, private creditors, which include commercial banks, suppliers and Euro bond holders??, owed USD 5,167.26 million (18.3 percent). SOEs usually obtain loans from private lenders (commercial banks and suppliers).



As illustrated in Figure 2, while the relative share of bilateral and commercial creditors declined, the share of multilateral creditors climbed significantly between 2018/19 and 2022/23. This change can be attributed to the government’s decision to restrict SoEs from borrowing on non-concessional terms from bilateral and private creditors with its guarantee. Consequently, the relative share of debt owed by SOEs to non-concessional bilateral and private creditors has declined.

Multilateral Creditors: - The stock of external debt owed to multilateral financial institutions, which stood at USD 11,669.68 million in 2018/19, has steadily increased over time, reaching USD 15,280.49 million as of June 30, 2023, a 30.9 percent increase compared to 2018/19 and a 3.9 percent increase over the previous year's stock. This category of external debt now accounts for 54.1 percent of total external debt. IDA remains the largest multilateral creditor, accounting for over 75.9 percent of the multilateral debt and 41.0 percent of the total External debt stock, followed by AfDF/B.

Bilateral creditors: Over the last five years, the stock of bilateral external debt has decreased from USD 8,526.5 million in 2018/19 to USD 7,801.4 million in 2022/23. Chinese policy banks (CDB, Exim-Bank of China, ICBC, and the Chinese government) hold 76 percent of total bilateral debt and 22 percent of total public sector external debt, ranking second only to IDA in terms of external debt portfolio. If we include the stock of Chinese suppliers such as China Electric Power and ZTE, Ethiopia's debt to China exceeds 25 percent of total external public sector debt.

The stock of bilateral debt is decreasing compared to previous years, owing to no borrowing by SOEs from this group on non-concessional terms as a result of the zero non-concessional borrowing limit, and a decrease in disbursement from non-Paris club creditors, particularly policy banks from China, which can be explained by the fact that some ongoing projects are nearing completion, and thus their disbursement is becoming smaller, as the maturities increase.

Creditors of the Paris Club: The debt owed to Paris Club creditors stood at USD 940.83 million as of June 30, 2023. This group's percentage of outstanding debt is relatively small, and it has changed very little during the observation period. Only Italy, France, South Korea, and Japan have provided concessional loans from this group in recent years.

Private Creditors: As of June 30, 2023, the stock of external debt owed to private creditors (commercial banks and suppliers) was USD 5,167.26 million, down from USD 6,879.45 million as of June 30, 2019. As previously stated, only Ethiopian Airlines has borrowed and disbursed from this group of creditors in the last four years, while the others, such as Ethio-Telecom, ERC, ESC, and EEP, have only repaid their debt service to their respective creditors, resulting in a negative net resource flow from these creditors in recent years.

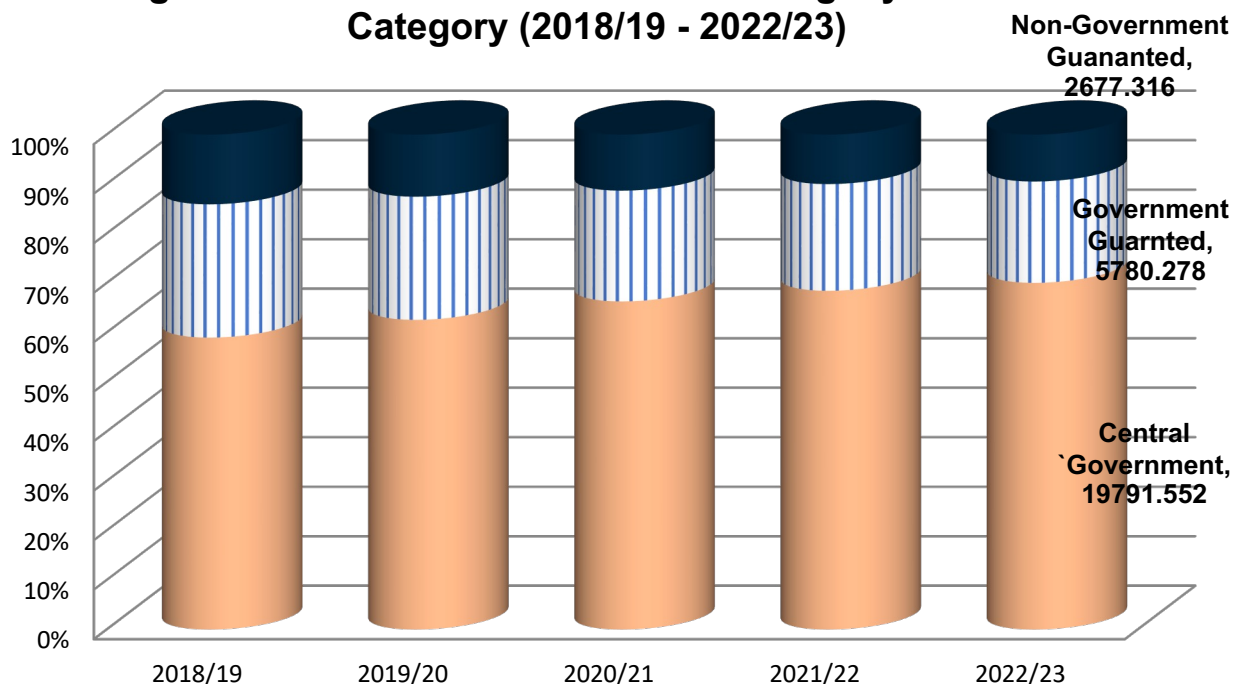
4.1.2. External Debt Outstanding by Borrowers' Category

Ethiopia's external debt is classified into three types of borrowers. The Central Government borrows primarily from its official creditors, namely Multilateral and Bilateral Creditors. Borrowing by SOEs from commercial sources that is government-guaranteed; specifically, borrowing by ERC, EEP, ESC, and others that is guaranteed by the government, and borrowing by EAL and Ethio-Telecom which are not guaranteed by the government.

In 2018/19 the relative share of central government external debt stock was around 59 percent, and by 2022/23, it had risen to 70.1 percent. As seen in the graphs below, there has been a consistent increase over the time except for the final year where it declines compared to the previous year.

The state-owned enterprises EEP, ERC, and ESC borrow money from outside sources with the federal government guaranteeing the loan. As previously stated, the relative share of government guaranteed and non-guaranteed debt has decreased over time due to fewer new external borrowings and less disbursement from existing loans, as well as increased repayment of some of their existing loans.

Figure 3 Total External Debt Outstanding by Borrower Category (2018/19 - 2022/23)

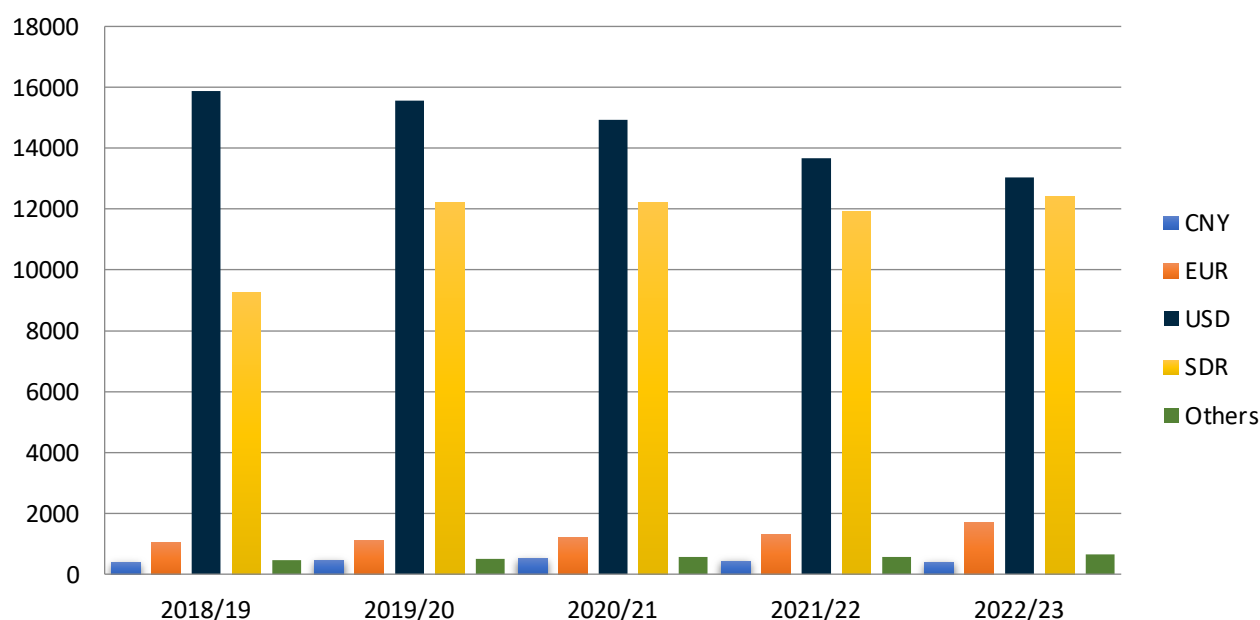


4.1.3. Public Sector External Debt Outstanding by Contracting Currency

External loans are obtained in a variety of currencies and from a variety of creditors. Because the currency composition of any debt portfolio can have a significant impact on a country's debt obligations, borrowing in the right mix of currencies is considered acceptable, reducing exchange rate risks. Countries frequently prefer to match the currency composition of their external debt to that of their foreign earnings and/or reserves in order to mitigate the negative impact of exchange rate volatility.

As a result, in 2022/23, 46.12 percent, 43.797 percent, and 6.11 percent of the total debt outstanding were denominated in USD, SDR, and EURO, respectively, with the remaining 3.8 percent denominated in various currencies such as: -

Figure 4. Public Sector External Debt Outstanding by Currency (MN USD)



Chinese Yuan (CNY), Korean won, Great Britain Pound, and so on. Between 2018/19 and 2022/23, the relative share of SDR denominated loans increased, owing to large disbursements from IDA and the IMF, both of which utilize SDR as a loan currency, while the USD share fell. The share of debt denominated in US dollars fell from 58.6 percent in 2018/19 to around 46.1 percent this year, because fresh borrowing and disbursement for the EEP, ERC, SC, and Ethio-Telecom from non-concessional bilateral and commercial creditors has decreased in recent years, most of their loan currency is denominated in USD.

¹ The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies—the U.S. dollar (43.38%), the euro (29.31%), the Chinese renminbi(12.28%), the Japanese yen (7.59 %), and the British pound sterling(7.44 %).

4.1.4. Terms of Borrowing

Borrowing terms are the maturity period, grace period, and interest rate of a loan. When they are combined, they determine the concession of a loan. In this context, assessing a country's average borrowing terms and costs necessitates an examination of average borrowing terms' evolution.

4.1.4.1. External Debt Outstanding by Interest Rate Composition

It is critical to determine the interest rate structure of the debt portfolio to assess the impact of any interest rate changes. This is especially true for a debt portfolio with a high proportion of variable-rate debt. Variable interest rates tied to market rates, such as LIBOR (currently Replaced by SOFR), may be appealing when base rates are low or expected to fall, but they can also unexpectedly rise in response to changes in economic fundamentals, increasing the debt servicing burden.

As of June 30th, 2023, 75.7 percent of the outstanding loan had a fixed interest rate, 2.41 percent had an interest-free loan, and the remaining 22.1 percent had variable interest rates. It's worth noting that more than 75 percent of SOEs' foreign financing is based on a variable interest rate, particularly LIBOR (SOFR) six months and LIBOR (SOFR) three months with a margin. Similarly, around 97.2 percent of the central government's external debt stock is on fixed interest rate, while only 0.6 percent is on LIBOR (SOFR) 6 months with margin. The majority of EAL's foreign debt is at a three-month Libor plus margin, while other SOEs borrow at a six-month Libor plus margin. As the LIBOR has increased significantly in recent months, SOEs' external debt service payments to their respective creditors have been much higher than they were a year ago and it continue to grow in the following months, it was about 0.25 percent in November 2021 but currently it increases significantly to about 5.1 percent.

Table 3. External Debt Outstanding by Interest rate Composition in Mn USD

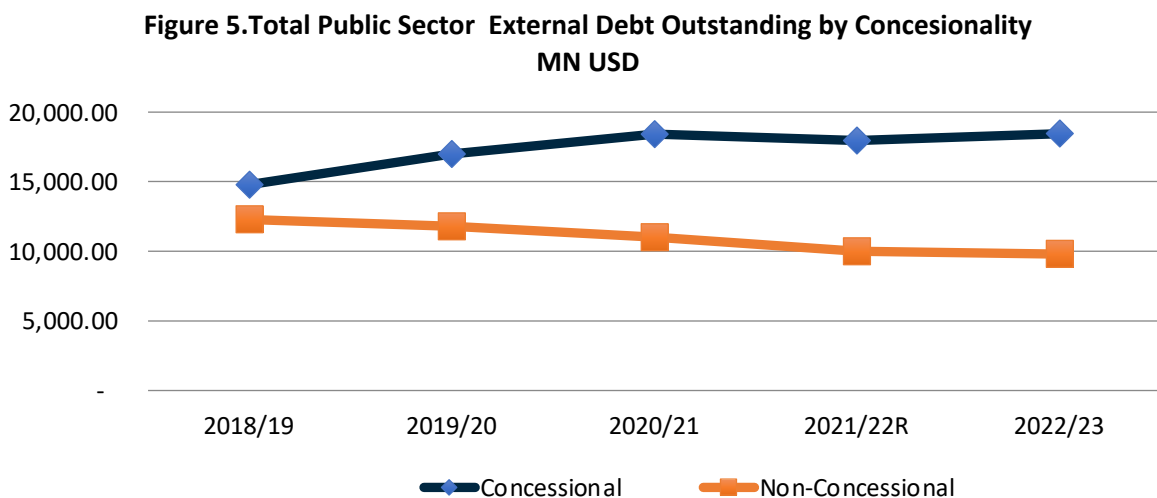
	2018/19		2019/20		2020/21		2021/22R		2022/23P	
	USD	%	USD	%	USD	%	USD	%	USD	%
TOTAL	27,075.06	100.00	28,827.35	100.00	29,470.83	100.00	27,953.09	100.00	28,249.16	100.00
<i>FIXED INTEREST RATE</i>	15,906.15	58.75	19,819.53	68.75	21,447.85	72.78	20,892.38	74.74	21,405.17	75.77
<i>VARIABLE INTEREST RATE</i>	9,629.49	35.57	8,526.03	29.58	7,524.17	25.53	6,563.64	23.48	6,240.07	22.09
<i>INTEREST FREE</i>	276.46	1.02	481.80	1.67	498.81	1.69	497.08	1.78	603.93	2.14
CENTRAL GOV'T	15,973.29	59.00	18,040.94	62.58	19,540.64	66.31	19,130.40	68.44	19,791.57	70.06
<i>FIXED INTEREST RATE</i>	15,648.05	57.80	17,668.71	61.29	19,137.16	64.94	18,700.43	66.90	19,238.63	68.10
<i>VARIABLE INTEREST RATE</i>	44.32	0.16	74.63	0.26	95.59	0.32	111.48	0.40	127.60	0.45
<i>INTEREST FREE</i>	280.92	1.04	297.60	1.03	307.89	1.04	318.50	1.14	425.34	1.51
OTHER PUBLIC SECTOR	11,101.77	41.00	10,786.42	37.42	9,930.19	33.69	8,822.69	31.56	8,457.59	29.94
<i>FIXED INTEREST RATE</i>	1,878.90	6.94	2,150.82	7.46	2,310.69	7.84	2,191.95	7.84	2,166.54	7.67
<i>VARIABLE INTEREST RATE</i>	-	-	8,451.40	29.32	7,428.58	25.21	6,452.16	23.08	6,112.47	21.64
<i>INTEREST FREE</i>	9,222.88	34.06	184.20	0.64	190.92	0.65	178.58	0.64	178.58	0.63

The proportion of external debt with fixed interest rate was 58.75 percent in 2018/19 and has increased to 75.77 percent in 2022/23 as a result of a relatively huge disbursement towards Central government from its multilateral and bilateral creditors, who mostly lends on fixed interest terms as a result the outstanding debt with fixed interest rate has increased, while the share of external debt with floating interest rate declined in the observation period continuously from 35.57 percent in 2018/19 to 22.09 percent, and this can be explained by the reduction in borrowing by SOE's from their creditors with guarantee of the government, the maturity and repayment of existing loans and lesser and lesser disbursement from existing loans. Out of the total debt outstanding in 2022/23, most loans carry interest rates below 2.0 percent.

4.1.4.2 External Debt Outstanding by Concessionality.

The grant element is a traditional measure of loan concessionality that is determined primarily by three factors: the loan's maturity period, grace period, and interest rate. A high grant element is common in loans with longer grace periods and maturities, as well as lower interest rates. According to the IMF, loans with a grant element of 35 percent or more are considered concessional, but the OECD's definition of grant element differs from the IMF's. 35 percent.

During the observation period, not only did the size of the outstanding external debt vary, but its composition also changed significantly. As of 2018/19, concessional debt accounted for 55 percent of total external debt outstanding, while non-concessional debt accounted for roughly 45 percent. Following that, the relative share of concessional debt increased, while non-concessional debt continued to fall. Concessional loans currently account for approximately 65 percent of total external public debt stock, with non-concessional loans accounting for the remaining 35 percent. This could be explained in part by the government's recent decision to reduce borrowing from non-concessional sources for SOE projects guaranteed by the government, as well as the maturity of current loans for principal payments and less disbursements from existing loans. (See below Figure.)



4.1.5. New Commitments from External Sources

Over the last five years, Ethiopia ssectured a total of USD 9,953.15 million in external debt commitments from multilateral, bilateral, and private creditors. Out of this, 51 percent is committed to the central government, while the remaining 49 percent is allocated for SOEs and NBE. The commitment to NBE is from IMF for ECF & EFF out of which only USD 309 million was disbursed.

CREDITOR NAME	2018/19	2019/20	2020/21	2021/22	2022/23
CENTRAL GOVERNMENT	1,832.51	1,439.16	1,620.10	11.23	204.13
MULTILATERAL	1,419.21	931.60	1,458.73	-	197.23
EIB	34.01				
IDA	1,343.20	426.70	1,458.73		197.23
IFAD	-	94.78			
BADEA	20.00				
OFID	22.00				
IMF (for Central Government -RFI)	-	410.12			
BILATERAL	413.30	507.56	161.37	11.23	6.90
NON-PARIS CLUB	-	240.00	-	-	-
SA UDI FUND	-	140.00			
KA LIFA FUND		100.00			
PARIS CLUB	413.30	267.56	161.37	11.23	6.90
GOV. OF FRA NCE (A FD)	95.70				
GOV. OF ITALY	53.60		18.02	11.23	6.90
GOVERNMENT OF JAPAN		88.56			
EXIM-BANK OF KOREA	264.00	179.00			
DANSK S.K B			143.35		
STATE OWEND ENTERPRISE	800.61	3,266.53	363.40	279.52	135.96
MULTILATERAL	-	2,903.71	-	-	-
IMF (for NBE-ECF&EFF)		2,903.71			
PRIVATE CREDITORS	800.61	362.82	363.40	279.52	135.96
ING CAPITAL LLG (USA)	248.37			279.52	
EXPO RT INVESTEC BANK	10.00				
MUFG BANK LTD	272.00				
NA T WEST BANK	270.24				
Eastern and Southern Africa Trade and Development Bank		38.00			
JP MORGAN			275.48		
Air Bus Financial Service			13.21		
BNP BARIBAS FRANCE		269.25			
Export Dev. Of Canada		55.57	74.71		
CITY BANK, NATIONAL ASSOCIATION					135.96
GRAND TOTAL	2,633.12	4,705.69	1,983.50	290.75	340.09

Table 4 New External Debt Commitments by Creditors

MN USD

Approximately 69 percent, 11 percent, and 20 percent of the committed amount over the previous five years, respectively, came from multilaterals, bilateral creditors, and private creditors, according to

According to the table below, which shows the average loan terms for new commitments of external debt over the past five years, the average grant element of the total external debt contracted during that time was roughly 35.96 percent, which is nearly equal to the IMF's 35 percent benchmark. However, the grant element for the central government, which accounts for 51 percent of the total new borrowing from external sources, was approximately 51.69 percent, which is significantly higher than IMF's concessionality benchmark.

Average Loan Terms

Total External Debt		Central Government		Other Public	
Interest Rate (avg. %)	1.24	Interest Rate (avg. %)	0.77	Interest Rate (avg. %)	1.78
Maturity (avg. yrs)	23.08	Maturity (avg. yrs)	33.65	Maturity (avg. yrs)	10.70
Grace Period (avg.yrs)	5.32	Grace Period (avg.yrs)	7.18	Grace Period (avg.yrs)	3.13
Grant Element (avg %)	35.96	Grant Element (avg %)	51.69	Grant Element (avg %)	20.83

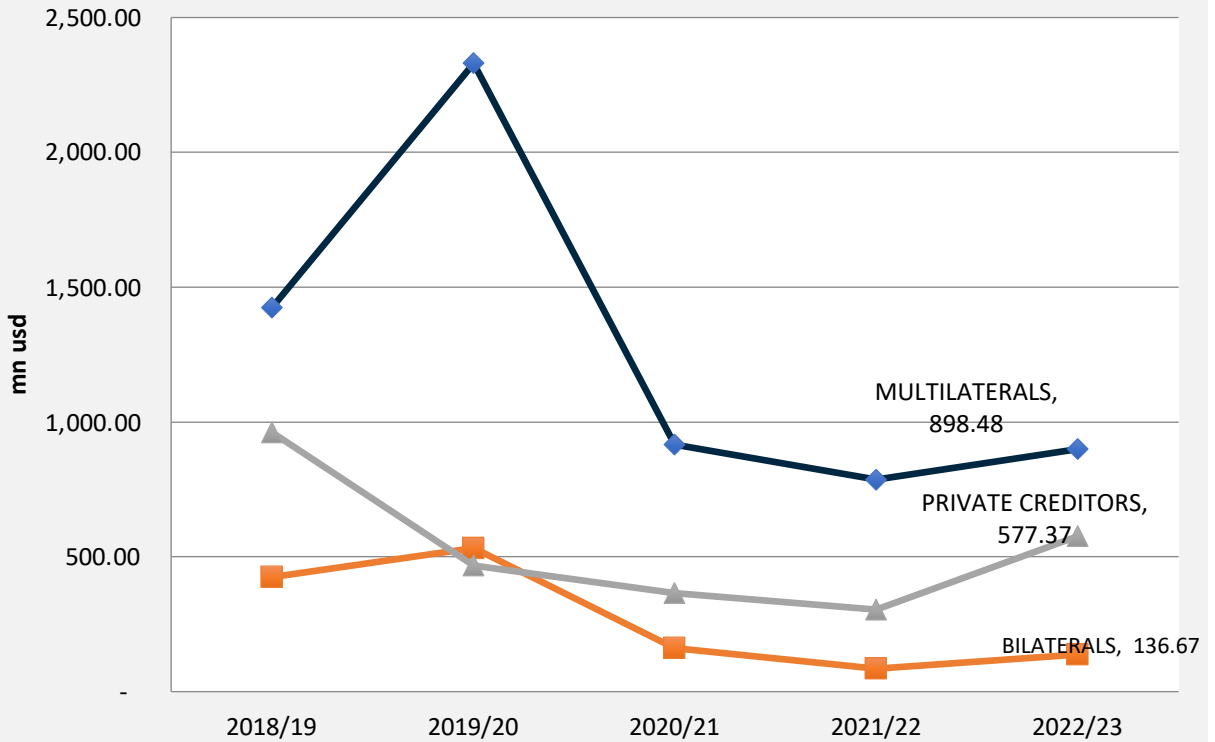
4.1.6. Public Sector External Debt Disbursements in the Perio

Reviewing the disbursement profile is crucial for debt management because it shows the actual inflow of resources as well as how quickly they were expended. Net-flows, which are defined as disbursements less principal repayments in a given period, and net-transfers are defined as disbursements less principal repayment less interest payments plus other charges. These are the two main measures used to track the movement of investment resources. If both variables are positive, the country is said to be a net beneficiary of external resources, and vice versa. Due to high-interest costs, nations with high levels of commercial debt typically have low or negative net resource transfers.

4.1.6.1. Public Sector External Debt Disbursement by Major Creditors

The total disbursement in 2022/23, USD 1,612.52 million (55.7 percent) came from multilateral sources, followed by USD 577.37 million (35.8 percent) from private creditors and USD 136.67 million (8.5 percent) from bilateral creditors. IDA made the largest disbursement in 2022/23, accounting for 47.6 percent of the total, followed by commercial banks with 35.8 percent to EAL.

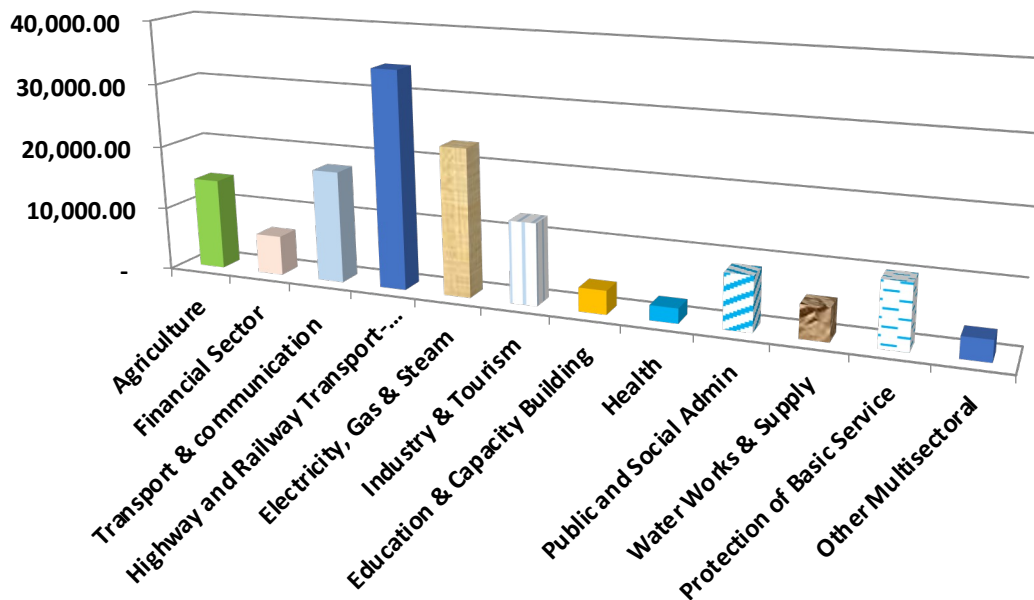
Figure 7. Public Sector External Debt Disbursement by Creditor Type



4.1.6.2. Disbursement by Economic Sector

It is important to analyze the composition of disbursement and debt by economic sector in order to ascertain which economic sectors have received loans and whether they are in line with the nation's development strategy and priorities.

Over the past five years, a significant portion of the resources disbursed have been spent on Highway and Railway Transport infrastructure and Electricity for the . This demonstrates that the inflow of external resources is primarily used for infrastructure development, which is important in order to increase and improve the nation's infrastructure capital.



4.1.7. Public Sector External Debt Undisbursed Balances

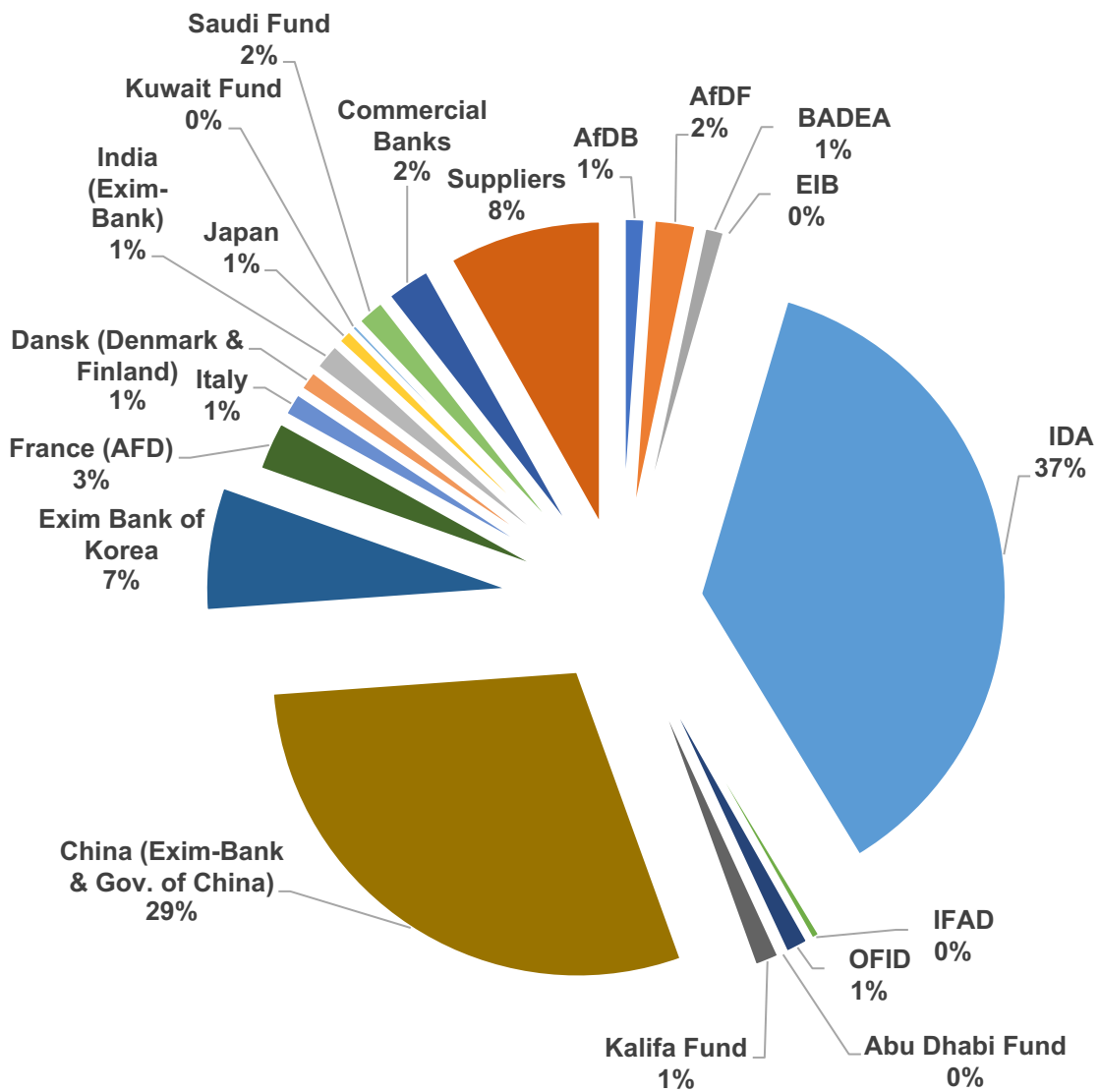
The disbursement rate is influenced by numerous institutional and non-institutional factors (or loan utilization rate). This rate varies according to the use of the borrowed money and the nature of the creditors.

In terms of time spent using money, commodity and program loans frequently disburse quickly. Contrarily, project loans typically have a longer disbursement period.

Delays in loan disbursement can be expensive because they cause the payment of commitment fees on the remaining balance and a delay in the economic benefits of the projects that are being implemented. Therefore, it is crucial for the debt manager to examine loan utilization to ascertain whether the low rate of utilization is caused by actual disbursement issues that call for a solution.

As of the end of June 2023, the undisbursed balance from external loan commitments was USD 7,430.19 million, of which 78.2 percent is from the central government committed amount and the remaining 21.8 percent is from, IDA has very large undisbursed balances from multilateral creditors, totaling USD 2,729.98 million (36.7 percent). The undisbursed amount from various Chinese banks (including Exim-Bank China, CDB, ICBC, and the Government of China) is the second highest among bilateral creditors, totaling approximately USD 2,183.00 million (29.4 percent). Undisbursed balances from creditors such as AfDB, Exim-Bank of China, Exim-Bank of India, Exim-Bank of Korea, and AFD must be closely monitored because project delays financed by these creditors may necessitate additional commitment fee payments.

Total Public Sector External Debt Undisbursed Balance as of 30/06/2023



As previously stated, one consequence of a low overall disbursement rate is delayed project completion and thus delayed economic benefits to the country. Given the relatively low disbursement rate for most creditors, executing agencies will be consulted to investigate the reason for the slow rate at which borrowed resources have been utilized.

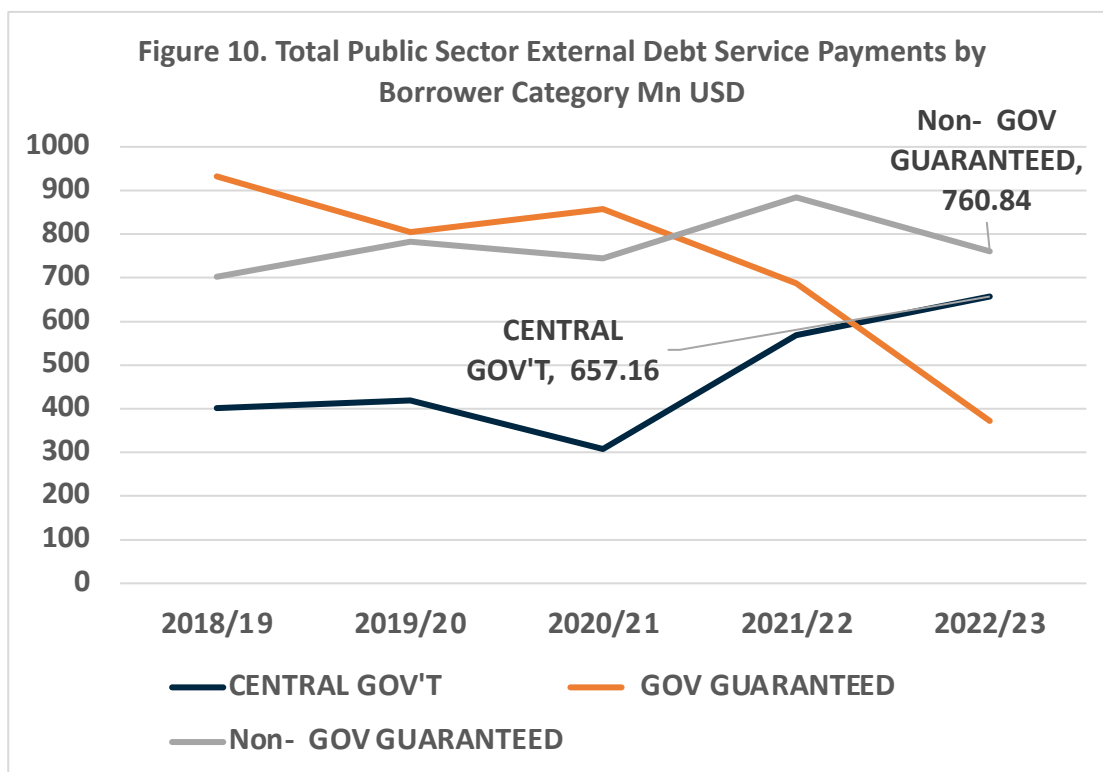
4.1.8. External Debt Service

This analysis has so far concentrated on the evolution of Ethiopia's existing external debt portfolio, as well as inflows and new obligations. This section examines the country's medium-term debt service requirements in relation to existing debt, focusing on recent changes in the country's external debt service profile (and commitments) and the new Debt Service Suspension Initiative (DSSI).

As a result, the total amount of external debt serviced in the last five years was USD 9,882.11 million. The central government pays about USD 2,354.67 million (32.6 percent) of the total external debt service payment to its multilateral and bilateral creditors, as well as interest payments to Eurobond holders, with SOEs paying the remaining 76.2 percent to their respective creditors.

Over the last four years, the total annual payment for servicing the public sector's external debt has not changed significantly but SOE external debt service payments growing much faster than central government external debt service payments.

The total external debt service payment in 2020/21 was lower than it was in the previous two years 2019/20 and 2018/19 as a result of the Debt Service Suspension Initiative (DSSI), which is discussed below. Since most of its external loans have matured, the SOE's payment for servicing its external debt has increased.



Debt Service Suspension Initiative (DSSI)

DSSI is a G20 initiative to assist countries in concentrating their resources to combat the COVID-19 pandemic while also protecting the lives and livelihoods of vulnerable people. In total, 73 countries qualify for a temporary suspension of debt service payments to their official bilateral creditors. The suspension period, which was from May 1, 2020 to end on December 2020, (DSSI1) has been extended until June 20, 2021, (DSSI2). The suspended amount will be paid after a one-year grace period and a maturity period of three years for DSSI1 and five years for DSSI2.

Ethiopia, as an eligible country for the DSSI initiative, suspended external debt service payments only for the central government's bilateral creditors during the period (May 1, 2020 – June 30, 2021), totaling USD 216.0 million. (See Table 5 below)

Table 5. Debt Service Suspension Initiative

			In MN USD
Creditor	DSSI 1	DSSI 2	Total
GRAND TOTAL	112,337.80	104,336.04	216,673.84
AFD-AGN. FRANCE DEV.	4,257.49	3,573.21	7,830.70
ARTIGIAN CASSA (CASSA DEPOSIT) ITALY	18,461.70	9,164.61	27,626.31
EXIM-BANK OF CHINA	52,389.79	63,546.71	115,936.50
EXIM-BANK OF INDIA *	29,488.22	25,041.89	54,530.11
EXIM-BANK OF KOREA	16.56	8.23	24.79
GOVERNMENT OF JAPAN	2.48	2.89	5.37
KUWAIT FUND	6,233.91		6,233.91
SAUDI FUND	1,487.65	2,998.50	4,486.15
* Are scheduled amount the bilateral agreement not finalized			

Common Framework (CF)

The Common Framework (CF) for Debt Treatment is beyond the Debt Service Suspension Initiative (DSSI). The framework aims to address the problem of unsustainable debts faced by many countries in the aftermath of the Covid-19 pandemic. The agreement includes all members of the G20 and the Paris Club, Non-Paris club and commercial creditors.

Since announcing its intention to formally request to join the “Common Framework for debt treatment beyond the DSSI in February, Ethiopia has officially submitted its application and informed Paris-Club and official bilateral creditors of its intention to benefit from the Common Framework. The plan is to reduce Ethiopia’s debt distress burden and reduce it to moderate risk level. To this end, Ethiopia has been fully cooperating with each and every request made by the Paris-Club Secretariat and submitted a detailed debt data deemed important to the process. Moreover, Ethiopia has been engaging with its bilateral creditors to stir up support for its application to benefit from the CF. In September 2021, the Creditor Committee for Ethiopia was established in accordance with the Common Framework for Debt Treatment Beyond the DSSI.

4.1.8.1. Projected External Debt Service Based on Outstanding Debt Only

Ethiopia’s external debt service obligations are expected to rise steadily over the next two years, before the interim debt standstill, from around USD 2.6 billion in 2023/24 to around USD 3.4 billion in 2024/25. This is mainly due to maturing sovereign bonds. Moreover, the contribution of SOE external debt service payments to total external debt service is much higher than that of the central government, but it will decline after about six years, which can be explained by the short-term maturity structure of most SOE borrowing and the absence of non-concessional borrowing by SOE in recent years, except for EAL. In contrast, the central government’s external debt service payments will increase gradually at the start of the projection before increasing sharply in 2024/2025 when the EUROBOND matures, and then it will remain flat for the duration of the projection period.

Chart. 11 Projected External debt servc Payment based only the Existing Dod as at 30/06/2023

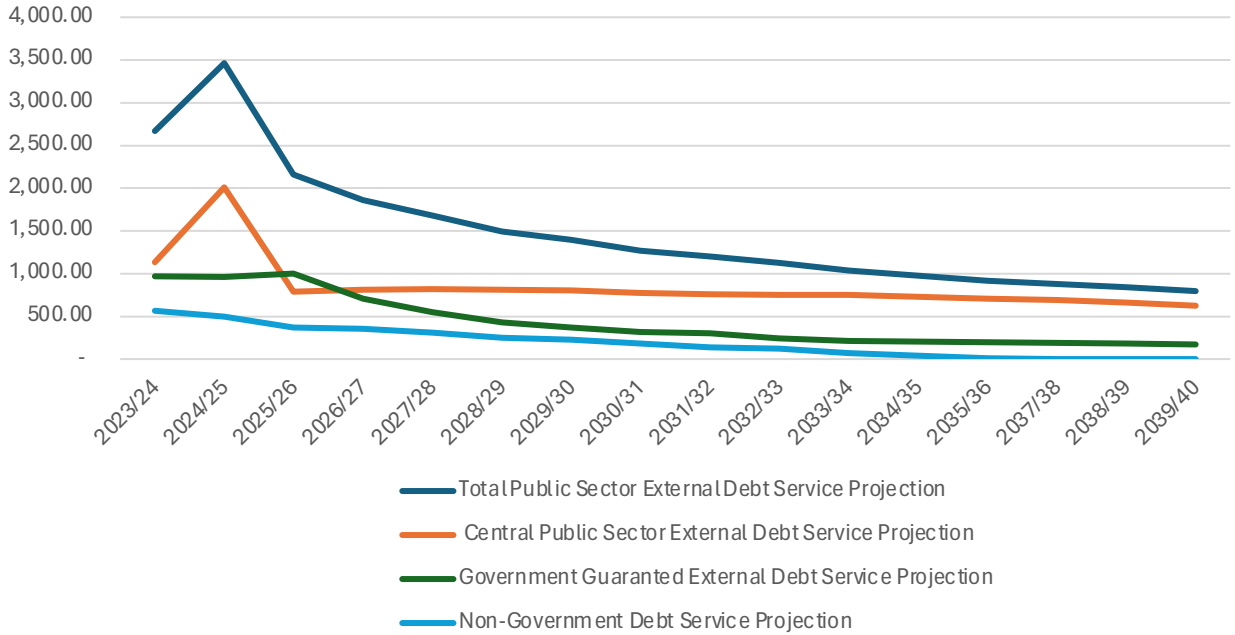
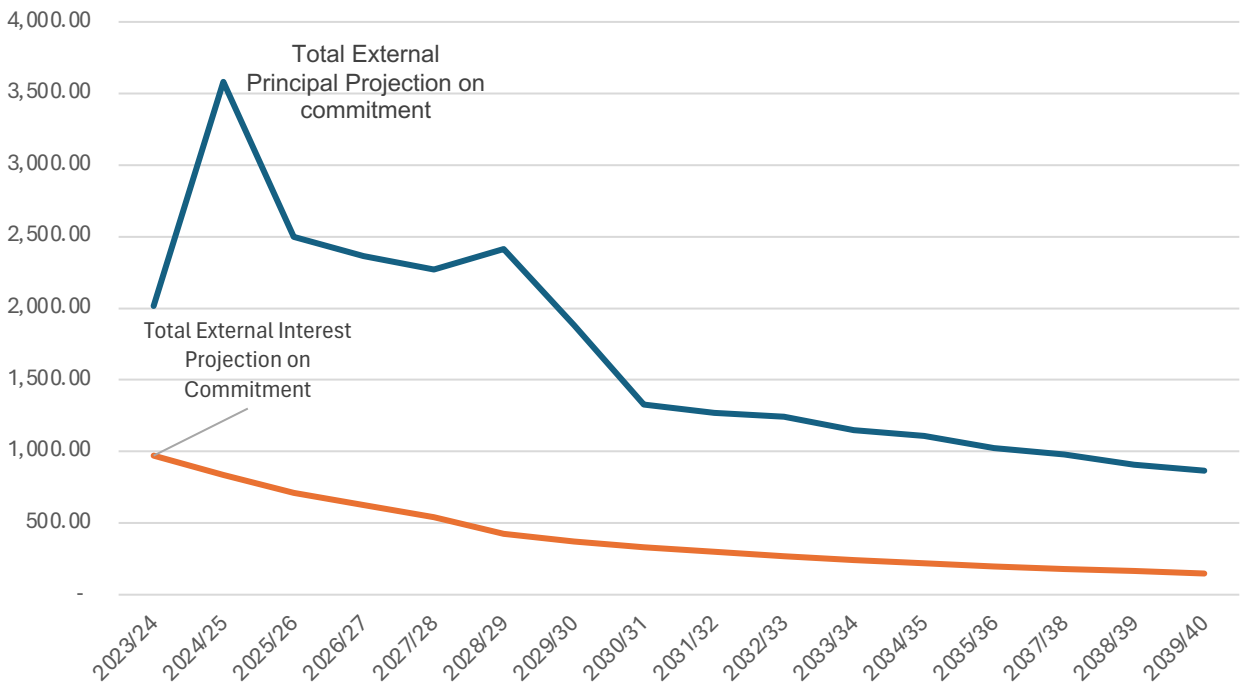


Figure 12. Total Debt Service Projection on Commitment (Assuming the New Disbursement)



4.1.9. Net Resource Flows & Net Transfers

Net Resource Flows (Disbursement minus Principal Payments)

Net resource flow, or gross disbursement less amortization (disbursement minus principal payments), has decreased over the past five years, but it was positive in earlier years and had a greater magnitude. This means that, especially between 2018/19 and 2019/20, external creditor disbursements to projects are significantly higher than matured principal payments to creditors in prior years. The federal government's net resource flows are positive over the period and significantly larger than those of the other public sectors. Net resource flows on behalf of SOEs are decreasing as most current projects are near completion, and several SOEs have started to repay their principal payments. (see table 6 below)

Table. 6 Net Resource flow on public sector External Debt

	2018/19	2019/20	2020/21	2021/22	2022/23
Central Government	1,348.85	2,167.27	891.24	454	404.41
Gov. Guaranteed	-263.8	-42.08	-605.02	-493.82	-259.714
Non-Gov. Guaranteed	320.29	-193.63	-291.15	-512.06	-381.475
Grand TOTAL	1,405.34	1,931.56	-4.93	-551.88	-236.779

Net Resource Transfers (Disbursement minus Principal Payments minus Interest Payments)

Net Resource Transfers (Disbursement minus Principal Payments minus Interest Payments). Like net resource flows, net resource transfer has been dropping over the past five years. The negative values in both the net flows and net transfers in Tables 5 and 6 indicate that the outflows are bigger than the inflows for certain creditors.

Table. 7. Net Resource flow on public sector External Debt

	2018/19	2019/20	2020/21	2021/22	2022/23
Central Government	1,142.54	1,955.42	712.3	229.87	176.379
Gov.Guaranteed	-548.71	-299.47	-807.84	-679.31	-372.131
Non-Gov. Guaranteed	182.14	-331.43	-400.55	-593.53	-470.315
Grand TOTAL	775.97	1,324.52	-496.1	-1,042.97	-666.067

4.2. Domestic Debt

The total domestic debt is comprised of direct advances, Treasury bills, government bonds, Treasury Notes for central government and corporate bonds, as well as long-term loans for SOEs. To fill the budget gap, direct advances, Treasury bills and 5 year Government Bond are being used. Because the domestic loan market is underdeveloped, the government uses Direct Advance (DA), the National Bank of Ethiopia's overdraft facility, as a residual financing option to bridge the budget gap. When the government cannot sell enough Treasury bills to cover its financing needs due to low demand, direct advances are currently a viable option.

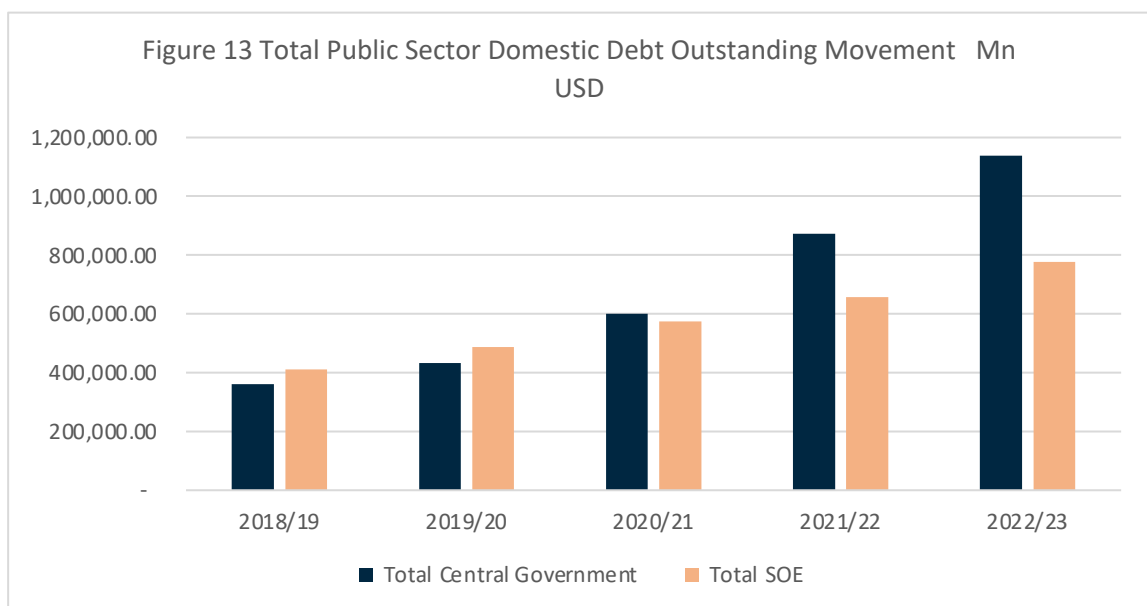
A new market-determined Treasury bill was introduced in December 2019, and the stock of existing Treasury bills that had not yet matured but were issued before December 4, 2019, was converted into three-year Treasury notes. Treasury Bills are auctioned off every two weeks and are available in four maturities: 28 days, 91 days, 182 days, and 364 days.

A new domestic debt instrument has been launched in accordance with Directive No. MFDA/TRBO/001/2022, which compels all commercial banks to purchase a five-year treasury bond at 20 percent of their new loan disbursement. And the stock of this new instrument was around ETB 38,263.20 million as of June 30 2023.

Government Bonds are issued on rare occasions when the government intends to convert short-term central government borrowings, such as Treasury bills and Direct Advances, into long-term bonds, as well as bad debts owed by privatized public enterprises. The government has recently issued bonds to assist government-owned banks such as CBE and DBE in raising capital. The majority of government bonds do not pay interest. SOEs typically borrow long-term loans from CBE and DBE to fund projects and issue corporate bonds to CBE.

4.2.1. Total Domestic Debt Outstanding

Total domestic debt has increased by an average of 26 percent per year, from ETB 773,540.04 million in 2018/19 to ETB 1,915,177.99 million in 2022/23. This debt includes the four instruments of the central government mentioned above as well as bonds and loans issued by SOEs. The average increase in the central government's domestic debt, which increased by 30 percent in 2022/23, was significantly higher than that of SOEs. Currently, 59 percent of the total domestic debt is held by the central government, with SOEs holding the remaining 41 percent. The total stock of domestic debt increased by more than 147.8 percent during the observation period.



4.2.2. Total Domestic Debt Outstanding by Instruments

Domestic debt composition and structure changed over the course of the observation period, the stock of SOE borrowings used to account for the majority of total domestic debt in the earlier two years then after 2020/21 the Central Government stock become the dominant one.

	Total Public Sector Domestic Debt by Instrument Type			MN ETB	
	2018/19	2019/20R	2020/21	2021/22	2022/23 ^R
Grand Total	773,540.04	918,953.77	1,175,939.31	1,530,078.25	1,915,177.99
TOTAL Central Gov.	361,888.33	432,393.66	600,575.43	872,847.64	1,137,335.57
Government Bonds	36,589.03	228,337.10	248,457.92	248,020.49	665,466.05
Medium Term Government Bond (5 yers Bond)					38,263.20
Treasury Notes		149,332.56	147,657.56	147,657.56	-
Treasury Bills	138,034.36	23,724.00	120,959.95	317,669.59	341,869.53
Direct Advance (NBE)	187,264.95	31,000.00	83,500.00	159,500.00	130,000.00
Total SOE	411,651.71	486,560.11	575,363.88	657,230.62	777,842.42

4.2.3. Central Government Domestic Debt Portfolio

Treasury Bills, Direct Advance, Government Bonds, and the newly introduced Treasury Notes are four instruments that the government uses to finance the fiscal deficit and restructure the domestic debt. Typically, a government bond is issued for a specific purpose, such as converting short-term central government instruments into long-term instruments or acquiring bad debt from SOEs during privatization. The first two are short-term instruments used to finance deficits, Treasury bills and Direct Advance. The Treasury Note was introduced to ease the transition from Treasury Bills to Market Determined Treasury Bills by converting the stock of existing Treasury Bills into three-year Treasury Notes.

Direct Advance

When the amount of cash in the central government's treasury account exceeds the amount of cash in the central government's treasury account, the National Bank of Ethiopia's Direct Advance facility is used to cover temporary liquidity concerns or financial shortages that occur. In nominal terms, Direct Advance has increased over the observation period. It increased from ETB 187,246.95 million, and the stock of DA amounted to ETB 192,264.95 million was converted into a 25-year Government Bond in 2019/20 and. The DA stock for 2019/20 was ETB 31,000 million, rising to ETB 159,500 million in 2021/22 and in October 2022 the DA amounted to ETB 236,000 MN was converted into long term bond and finally in June 2023 the new stock of DA rise again to ETB 130,000 MN.

Treasury Bills

Treasury bills are short-term securities that the government auctions off bimonthly to raise funds from the general public. Treasury bills with maturities of 28, 91, 182, and 364 days are currently available for purchase. The most frequent purchasers of the bills are government banks i.e. CBE, the two Social Security Securities Agencies and Private commercial banks. The introduction of market-determined Treasury bills in December 2019 increased the yield on new Treasury bills significantly, and private commercial banks began participating in the auction.

The outstanding balance for Treasury Bills increased from ETB 138,034.36 million in 2018/19, and after the conversion of existing T-Bills in 2019, the stock of Treasury Bills to be around ETB 23,724 million as of June 30, 2020, and it has significantly increased in 2022/23 reaching ETB 341,869.53 million. In 2022/23, 364-day treasury bills accounted for 61 percent of all treasury bills, with 182-day bills accounting for 27 percent, 91-day bills accounting for 10 percent, and 28-day bills accounting for 2 percent. As a result, at the end of fiscal year 2022/23, Treasury Bills accounted for 30 percent of total government domestic debt.

As the weighted average yield of market-determined Treasury Bills improved over time, commercial banks' participation in the Treasury Bills market increased. Currently, commercial banks hold about 43 percent of the total Treasury Bills stock, the largest of which is the Commercial Bank of Ethiopia that holds about 30 percent of total Treasury Bills stock at the end of June 2023. POSSA and PESSA hold the remaining 57 percent.

TREASURY BILLS STOCK WEIGHTED AVERAGE YIELD CURVE (1/07/2022 -30/06/2023)



Government Bonds

Government bonds are long-term debt instruments with maturities of ten years or more that are issued for purposes as opposed to investing or covering a budget deficit. Among the holders of long-term bonds are the Commercial Bank of Ethiopia (CBE), the Development Bank of Ethiopia (DBE), and the National Bank of Ethiopia (NBE).

In 2018/19, there were ETB 36,589.03 million in outstanding government bonds. Over the next four years, this amount rose, reaching ETB 627,202,85 million in 2022/23. The reason for the rise of the Government bond is the conversion of short-term instruments into long term bond.

Treasury Notes

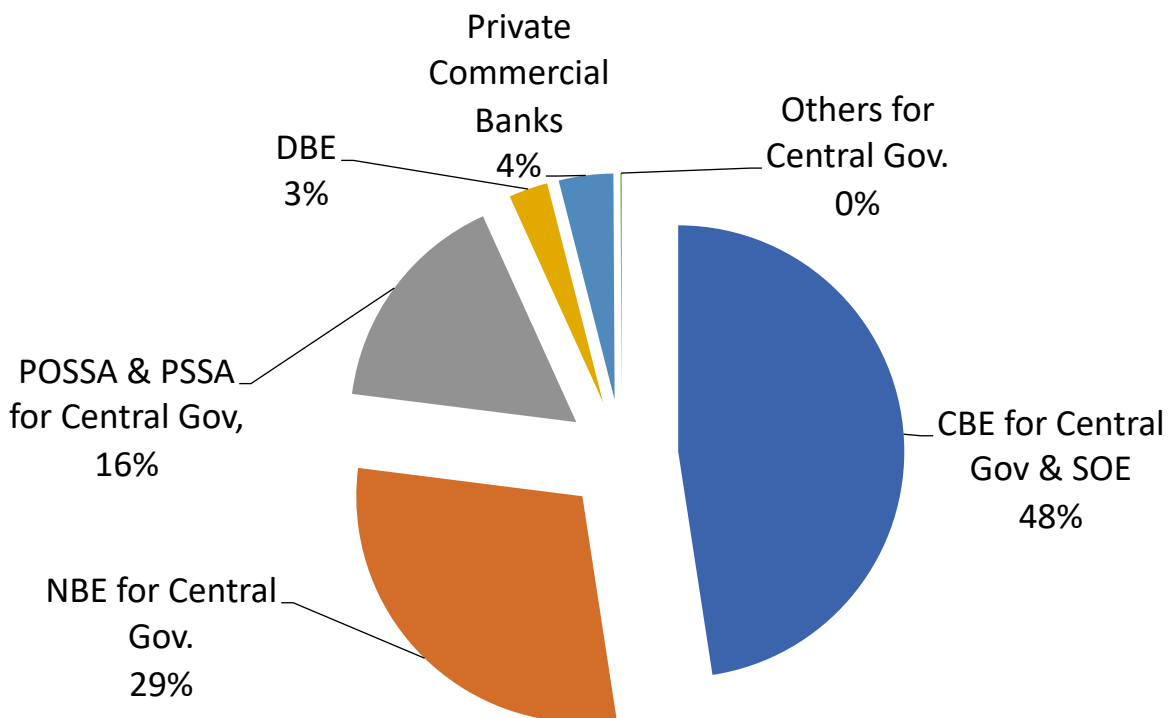
Treasury notes are a new medium-term instrument. As of December 4th, 2019, the existing Treasury Bills, ETB 149,332.56 million were converted into a three-year Treasury Note as part of the transition to the new market-determined Treasury Bills. Most of these note holders are POSSA and PESSA. The Stock of treasury notes at the end of June 30, 2022 was approximately ETB 147,657.56 million which is currently transferred to long term bond.

4.2.4. State Owned Enterprises Domestic Debt Portfolio

State Owned Enterprises (SOE's) borrow from the domestic sources by issuing corporate bonds as well as loans from CBE and/or DBE. Most of these borrowings are made with a government guarantee. They issue corporate bonds and loans mostly to CBE to implement mega projects. The domestic debt outstanding balance of SOEs is ETB 411,651.71 million in 2018/19 and has continuously increased since then to reach ETB 777,842 million in 2022/23. The Stock of SOE includes the domestic debt transferred to the Liability Asset Management Corporation (LAMC) which was established by regulation of the Minister of Council in February 2021. In 2020/21 about ETB 398,694.87 million of the SOE domestic debt was transferred to LAMC, and as of June 30, 2023, the share of LAMC is about ETB 540,183.03 million.

The Corporation's primary focus will be on absorbing and managing the debts of State-Owned Enterprises, as well as managing assets and liabilities and the investment operations of the companies in its portfolio.

Figure 16. Public Sector Domestic Debt Outstanding by Holders as at 30/06/2023



Domestic Debt by Holders

The National Bank of Ethiopia, Social Security Agencies, Development Bank of Ethiopia, Commercial Bank of Ethiopia, and other commercial banks, as well as other non-financial public companies, are the holders of government domestic securities and lenders to SOEs in Ethiopia.

Central Government's Domestic Debt Holders:

The National Bank of Ethiopia: The largest holder of government's domestic debt over the previous five years has been the National Bank of Ethiopia. It represented about 54 percent of the domestic debt of the central government in 2018–19 and 25 percent of all domestic debt; it remained stable for the first two years until 2019–20. However, over the next two years, its relative share steadily decreased to 47 percent and 41 percent of domestic debt held by the central government and 23 percent of all domestic debt in 2021/22. Finally, in 2022/23, its relative share increases to 49 percent of the total government domestic debt and 29 percent of the total public sector domestic debt. In 2019, as stated in the previous pages the Direct Advance stock from the NBE was converted into a 25-year government bond.

The Public Servants Social Security Agency (PSSSA) and Private Organizations Social Security Agency (POSSA): are the second-largest holders of government securities, with short-term treasury bills and the recently issued treasury notes serving as their main claims that finally transferred to long term bond. From ETB 103,857.36 million in 2018/19 to ETB 311,012.04 million in 2022/23, PSSSA & POSSA's claim has increased by 199 percent over the past five years. Although it only accounts for about 16 percent of all domestic debt, it now makes up 29 percent of the total government domestic debt portfolio.

The Commercial Bank of Ethiopia (CBE): CBE held ETB 26,589.66 million in government securities until 2019/20, when the government issued a special bond to boost capital for the bank. However, due to the introduction of new market-determined Treasury Bills in the last three years the share of CBE increases significantly due to its active participation in the Treasury bills auction , currently CBE holds about 30 percent of the ETB 341,869.53 million of total Treasury Bills stock, CBE's holding of central government securities has increased, and its share of the central government domestic debt has increased to 12 percent and 7 percent of that of SOE's.

The Development Bank of Ethiopia (DBE): Its claims are primarily long-term government bonds and treasury bills, but it has stopped trading in treasury bills in recent years. The amount DBE claimed was less than ETB 33,000.00 million until 2019/2020. This is primarily due to their claim on the 364-day Treasury Bills held, which were subsequently converted into Treasury Notes. Currently, the stock central government's of total domestic holdings of DBE increased to ETB 53,550.74 million in 2022–23.

Others: Government insurance firms, other non-financial state entities, and private commercial banks are among the other holders of government securities. Insurance companies and other public enterprises' holdings have decreased over time and are now minimal. The participation of private commercial banks has improved from quarter to quarter with the introduction of market-determined treasury bills and currently it constitutes about 7 percent of government domestic borrowing.

State Owned Enterprises Domestic Debt Holders:

Commercial Bank of Ethiopia for (State Owned Enterprises Bonds and Loans)

Corporate bonds issued by SOE's and loans made to state-owned businesses are primarily held by the Commercial Bank of Ethiopia with the federal government guarantee. The claim by CBE from State Owned Enterprises has increased considerably over the past five years, going from ETB 409,959.90 million in 2018/19 to ETB 777,842 .42 million in 2022/23. If we add up lending to SOEs and the Central government by the bank, it currently holds about 48 percent of total domestic debt.

The Liability and Asset Management Corporation (LAMC)

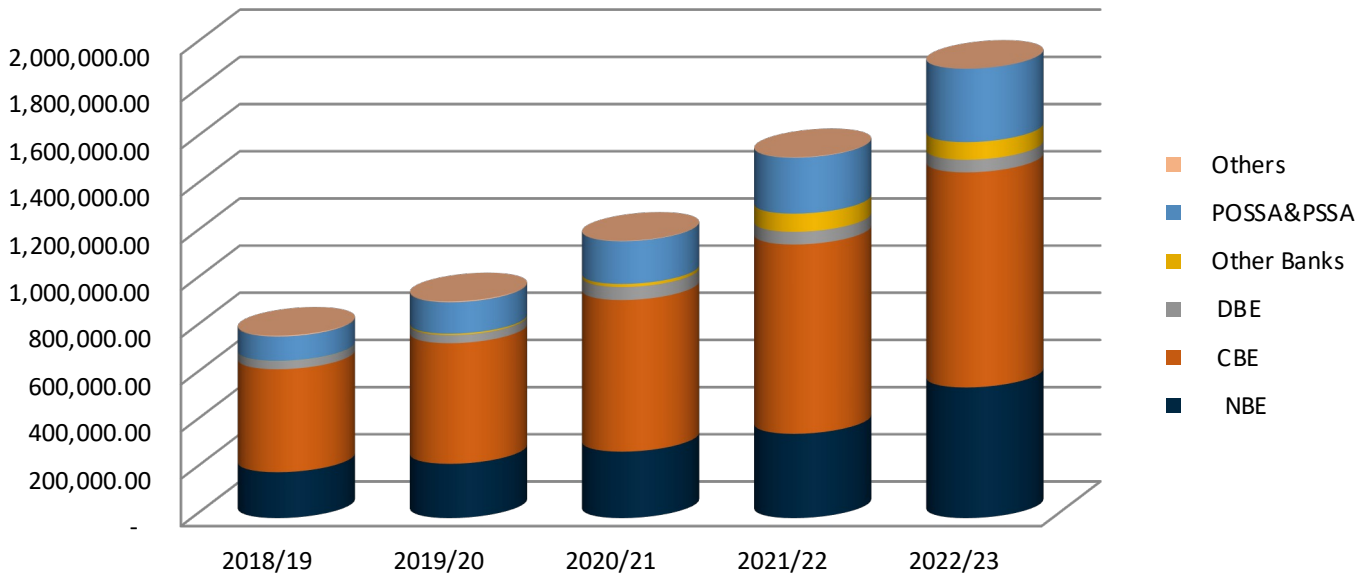
The Liability and Asset Management Corporation (LAMC) was founded by the Council of Ministers regulation No. 483/2021. The corporation is established as a state-owned enterprise, with the Ministry of Finance acting as its supervisory authority. The corporation's objectives include, but are not limited to: -

- Take over the liabilities of public enterprises as per the list it receives from the Ministry of Finance and service such debt using capital to be allocated from the Industrial Development Fund, revenue generated from its business activities and other resources that may become available to it.

- Invest the capital injected by the Government for debt service payment of public enterprises and other resources until it is used for repayment of such loan.

LAMC will assume the Majority of SOE's outstanding domestic debt from Commercial Bank of Ethiopia, stock of domestic debt as of June 30, 2023 was about ETB 540,183 Million.

Figure 17. Domestic Debt Outstanding Share by Holder



4.2.6. Government Domestic Debt Service

The total domestic debt service in 2022/23 was ETB 35,364.44 million, with ETB 34,917.94 million (99 percent) going toward interest repayment and ETB 448.50 million (1 percent) going toward principal payment. ETB 34,886.34 million (98.6 percent) went toward servicing federal government securities total domestic debt, while ETB 480.10 million went toward servicing SOE domestic debt.

While interest payments were made for direct advances, treasury bills, government and SOE bonds, very minimal principal repayments were made for central government and SOE bond holders. Treasury bills and direct advance interest payments have increased yearly.

	2018/19		2019/20		2020/21		2021/22 ^R		30/06/2023 ^P	
	ETB	%	ETB	%	ETB	%	ETB	%	ETB	%
TOTAL DEBT SERVICE	30,643.17	100.00	51,170.83	100.00	20,645.52	100.00	56,221.53	100.00	35,366.44	100.00
TOTAL PRINCIPAL	3,845.37	12.55	13,826.52	27.02	3,033.39	14.69	34,554.63	61.46	448.50	1.27
TOTAL INTEREST	26,797.79	87.45	37,344.31	72.98	17,612.13	85.31	21,666.90	38.54	34,917.94	98.73
CENTRAL GOV. TOTAL	7,830.20	25.55	7,720.10	15.09	17,869.88	86.56	21,635.30	38.48	34,886.34	98.64
PRINCIPAL	516.88	1.69	516.88	1.01	2,574.18	12.47	437.43	0.78	437.43	1.24
Bonds and Notes	516.88	1.69	516.88	1.01	2,574.18	12.47	437.43	0.78	437.43	1.24
Treasury Bills	-	-	-	-	-	-	-	-	-	-
Direct Advance	-	-	-	-	-	-	-	-	-	-
INTEREST	7,313.32	23.87	7,203.22	14.08	15,295.70	74.09	21,197.87	37.70	34,448.91	97.41
Bonds and Notes	5.59	0.02	2,283.90	4.46	10,891.33	52.75	5,589.67	9.94	5,589.67	15.81
Treasury Bills (Discount plus ServiceCharge)	2,247.78	7.34	1,700.30	3.32	3,026.13	14.66	11,919.97	21.20	25,171.01	71.17
Direct Advance	5,059.95	16.51	3,219.02	6.29	1,378.23	6.68	3,688.23	6.56	3,688.23	10.43
SOE TOTAL*	22,812.97	74.45	43,450.73	84.91	2,775.64	13.44	34,586.23	61.52	480.10	1.36
PRINCIPAL	3,328.50	10.86	13,309.64	26.01	459.21	2.22	34,117.20	60.68	11.07	0.03
INTEREST	19,484.47	63.59	30,141.09	58.90	2,316.43	11.22	469.03	0.83	469.03	1.33

5. On-Lending Loans, Guarantees and Contingent Liabilities

Contingent liabilities are potential costs that could be incurred by the government because of future events beyond the government's control. Loan guarantees, warranties, indemnities, uncalled capital, and letters of comfort, as well as those contingencies regarded remote, fall into this category.

The government has also supported SOEs by offering explicit guarantees to make obtaining finance on a much more favorable terms easier. To assist the country's economic development, the government's policy on on-lending and guarantees aims to recover loans provided to SOEs for commercially viable mega projects.

On Lending Loans

Government processes aimed at operationalizing all subsidiary on-lending agreements entered between MoF and SOEs to improve project cash flows toward debt service payment and reduce the debt burden on taxpayers were sometimes initiated in accordance with the Financial Administration Proclamation's implementation. The Ministry of Finance has been contracting loans from both external and local sources for many years, and then lending the proceeds to state-owned firms.

Only the following circumstances apply to on-lending to an SOE:

- The corporation is performing a social project that would be more efficiently executed on behalf of the government.
- It is implementing infrastructure mega projects focusing on the country's potential.
- It has no access to multilateral credits and cannot attract competitive funding; and

As a result, the government has obtained loans from both concessional and semi-concessional sources in recent years and transferred them to certain SOEs to carry out infrastructure projects. As a result, in recent years, the outstanding debt stock for all on-lent loans to SOEs has grown.

Providing Guarantees to SOEs

Some SOEs have been implementing various mega projects that enhance foreign currency earnings as well as supporting the country's economic development endeavor. In support of these objectives, the government has continued to support the SOEs to implement these projects among others by providing guarantees to secure finance from domestic as well as external sources. Nowadays, the volume of SOEs guaranteed debt outstanding has substantially increased thereby putting more risk on the government in the form of contingent liability.

Measures taken to avoid any unforeseen contingent liability occurrences

Recently, to minimize exposure and risks associated with accumulation of SOEs debt, the Government has embraced innovations in financing infrastructure development off balance sheet without impacting heavily on the debt portfolio. Towards this end, Ethiopia has introduced the framework for raising private financing for public investments through the Public Private Partnership (PPP) initiatives.

Accordingly, the initiative will focus on two priority areas namely: the energy and Road sectors. All guarantees and other security instruments provided under the PPP, together with all other contingent liabilities are integrated into the debt management process. To mitigate the contingent liabilities risks, a close follow up mechanism has been established under the PPP Act to provide a good governance framework to manage direct liabilities and contingent liabilities in all phases of the project cycle.

To achieve better outcomes in fiscal risk management, the Ministry of Finance is also placing a lot of emphasis on project financial models, with the view to ensuring manageable project debt repayment mechanisms and to avoid any unforeseen contingent liabilities.

Similarly, the government has issued Public Debt Management and Guarantee Directive to enhance the monitoring system and put in place an organized coordination mechanism to avoid any risks associated with borrowings by SOEs. In addition, various SOEs reforms that aimed at increasing the efficiency and effectiveness of the enterprises and improving their finance and corporate governance are underway. All these concerted efforts by all stakeholders will reduce the occurrence of contingent liabilities.

6. Ethiopia's Public and Publicly Guaranteed Debt Cost and Risk Analysis.

Risk refers to the possibility that the cost of debt will differ from the expected outcome. Unexpected changes in economic variables may arise from changes in interest rates and exchange rates. Market risk, operational risk, and liquidity risk are all risks connected with a public debt portfolio. In this sense, assessing the debt portfolio's risks is crucial because it helps decision-makers to develop forward-looking strategies for the optimum debt structure in terms of maturity, interest rate, and currency rate. In this analysis, the following risk indicators are employed to reflect the exposure of the debt portfolio risk: interest rate risk, refinancing risk, and exchange rate risk.

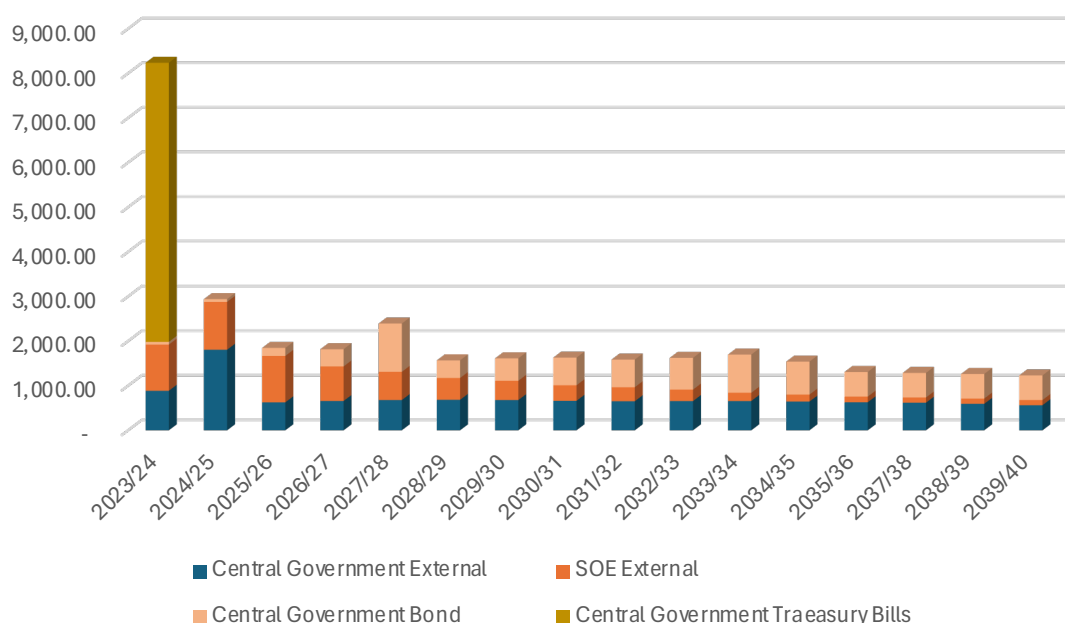
6.1. Refinancing Risk

The risk of refinancing is the likelihood that the loan will be renewed at a higher interest rate (rollover risk). In order to assess Ethiopia's public debt's exposure to refinancing risk, three factors are taken into consideration: the redemption (maturity) profile of the debt, the average time to maturity (ATM), and the debt stock maturing in one year.

Risk Analysis for Refinancing Using the Redemption Profile and debt maturing in one year.

The principal debt service obligation or outstanding debt stock is the amount of the redemption profile. High Principal payments on the debt repayment schedule serve as a sign of a country's vulnerability at a given time, as shown by this indicator. When choosing a repayment schedule for new loans, you can avoid choosing one that coincides with the peaks of the redemption schedule. The redemption profile is helpful in identifying the precise areas of a country's vulnerability, which are indicated by large principal payments in the debt repayment schedule.

Figure 18. Total Public Sector Debt Redemption Profile*



In 2023/24, about USD 8,238.58 million in principal payments (13 percent of total public debt) will be due. This sum excludes direct advances, SOE Bond and includes treasury bills that will be rolled over during the year. If we exclude the treasury bills which have the possibility to roll over, the total amount of principal payment of total public debt is USD 1,982.74 million (3 percent of total public debt outstanding).

External debt principal payments in 2022/23 account for USD 1,921.48 million (24 percent) of total public debt principal payments due this year, with the central government external debt principal payment accounting for only 10.8 percent and SOEs external principal payment for 12.6 percent.

The redemption profile (Figure 18) shows that substantial principal payments occur in the years 2023/24 and 2024/25. This includes the rollover of Treasury bills, as well as the sovereign bond bullet payment due in 2024/25, and the majority of SOEs foreign borrowing maturing between these dates, and the pick in 2027/28 can be partially attributed to the Five-year bond's principal payments.

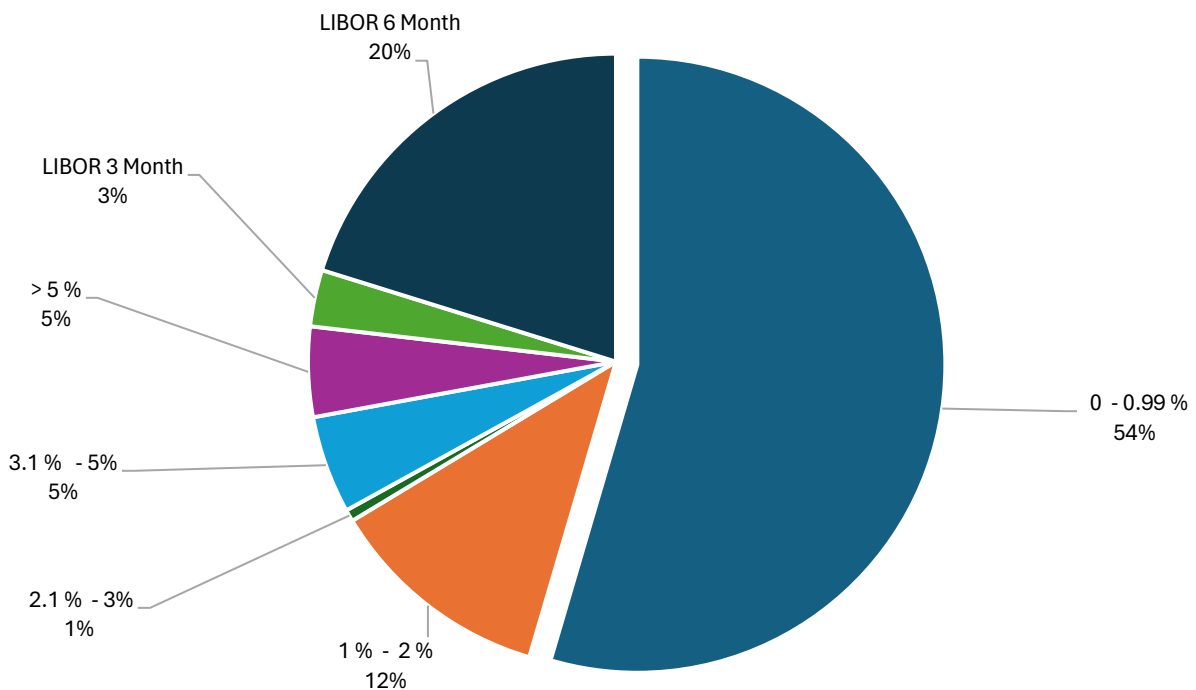
Ethiopia is likely to contract concessional loans for the central government, as shown in the graph above, given the country's debt strategy. As a result, external debt obligations will be repaid over a long period of time.

The difference between the loan's face value and the total of discounted future debt service payments represented as a percentage of the loan's face value is used to determine the loan's concessionality. The loan will be more concessional, and the cost will be cheaper if the grant element is bigger. Official creditors account for most of the central government's external debt, hence concessionality is high.

Costs of Public Debt as measured on weighted average interest rate.

The current weighted average interest rate for the stock of total public sector debt is shown in Table, where the weighted average interest rate for total external debt stock with fixed rate is about 1.5 percent and the weighted average interest rate for total external debt stock with floating rate is 4.15 percent, with the weighted average interest rate for central government external debt stock with fixed rate being about 1.3 percent and the floating rate being 3.17 percent. However, borrowing from external sources by SOEs is relatively more expensive, as they have borrowed at a rate of 2.8 percent for fixed interest borrowing and 4.2 percent for stock with floating rate. Because IDA, AfDB, and official bilateral account for a sizable portion of the central government's external borrowing, its weighted average interest rate is lower than that of others.

Figure 19 . Total Public Sector External debt Weighted Average Interest Rate



The weighted interest rate for SOEs' external debt is higher, particularly for variable-interest-rate borrowing. Because the global financial situation is volatile, the current situation may not last long. In particular, borrowing on variable interest rates based on LIBOR and EURIBOR (Currently SOFR) is expected to rise further, raising the cost of borrowing by SOEs.

As a result, in order to avoid refinancing risks and any unanticipated negative impacts on the country's debt portfolio, the cost and additional conditions of borrowing by SOEs must be closely monitored. The weighted average interest rate on total domestic debt stock is 8.3 percent, 6.6 percent for central government domestic debt, and 9.9 percent for SOE domestic debt.

Refinancing Risk Analysis Using Average Time to Maturity

The debt portfolio's Average Time to Maturity (ATM), also known as Average Residual Life, indicates how long it takes, on average, to rollover or refinance the debt portfolio. The presence of a long ATM in the external debt portfolio suggests that concessional loans are more prevalent and have lower refinancing risk than domestic debt.

A low ATM value indicates that a considerable amount of the debt is due for payment or roll-over in the near future, indicating a significant refinancing risk if resources are insufficient to fulfill or rollover the maturing debt. A higher ATM number indicates that just a tiny portion of the loan will mature soon, indicating a low likelihood of refinancing. In this circumstance, Ethiopia's public external debt portfolio is only slightly vulnerable to refinancing risk, particularly central government external debt, which is largely sourced from multilateral sources and has relatively higher ATM.

As a result, the total public External debt portfolio's average time to maturity is around 13.50 years, and Central Government domestic debt portfolios show 7.4 years, respectively. Because most of the central government external borrowing is secured from official multilateral and bilateral institutions, where the country receives debts with a long-term maturity and on extremely concessional terms, the central government external debt ATM is the highest, at 14.05 years.

		External Debt Total	External Central Gov.	External Debt SOE	Domestic Debt Total	Central Gov. domestic	Domestic Debt SOE	Total Public Sector Debt
Amount In Mn USD		28,249.15	19,791.55	8,457.59	35,080.18	20,832.50	14,247.69	63,329.33
Nominal debt in % USD		17%	12%	5%	21%	13%	9%	39%
PV of Debt as % of GDP		13%	8%	530%	21%	13%	9%	35%
Cost of Debt	Weighted Average Interest Rate (Fixed)	1.6	1.4	2.8		6.06		
	Weighted Average Interest Rate	4.2	3.17	4.2		8.8		
Refinancing Risk	ATM (Years)	13.5	14.05	5.86		7.45		
	Debt Maturing in One Year	5.3	2.6	11		53.7		
Interest Rate Risk	ATR (Years)	10.95	13.62	1.52		7.39		
	Debt Refixing in One Year	25.4	1.6	77		50		
	Floating Rate Date in % of Total	24%	50%	75%		30%		
FX risk		45%						

The ATM for Treasury bills, Treasury notes, and SOE borrowing from domestic and external sources has a slightly shorter maturity period, which could cause issues when refinancing the debt portfolio. According to the analysis above, repaying the external debt will take a long time. When compared to total public debt, the external debt portfolio has less refinancing risk. The average maturity period for central government external debt is 14.04 years, compared to 6 years for State-Owned Enterprises (SOEs).

Interest Rate Risk

i. The portfolio's exposure to variations in market interest rates is referred to as interest rate risk. The following three measures are used to analyze the debt portfolio's interest rate risk exposure:

ii. The ratio of debt that has fixed or floating interest rates in the total portfolio.

iii. Debt that is exposed to interest rate re-fixing within a specific time period. In other words, this refers to maturing debt or variable debt whose interest rate is subject to change within a given period. Maturing debt may be exposed to interest risk if resources are not available to redeem it and thus it has to be rolled over.

iv. Average Time to Re-fixing (ATR), which indicates the average time required to reset the interest rate for the debt portfolio.

The Average Time to Re-fixing (ATR) indicates the exposure of the debt portfolio to changes in interest rates. High ATR will indicate low risk, because this will imply that a relatively low share of the debt will have its interest rates re-set in a short period of time. Conversely, a low value of ATR indicates that a high share of the debt will be re-fixed in the near future, i.e. exposure to risk.

• **Assessment of Interest Rate Risk of Ethiopia's Public Debt**

i. Analysis of Interest Rate Risk of Public Debt Based on Fixed and Floating Rates Mix

The central government's external and domestic debt portfolio is made up of instruments that were contracted on fixed and a relatively low interest rate term. This means that the central government debt is less susceptible to interest rate risk except treasury bills. Adverse interest rate movements on the world market also would not significantly affect the interest payment obligations of the central government's external and domestic debt.

On the other hand, most of the borrowing by SOEs' from external sources is on variable interest rate of 75 percent and this implies that there will be an interest rate risk associated with the external borrowing by SOEs. Overall, a significant proportion of Ethiopia's external loans are highly concessional, with contractual interest rates for these loans set at significantly below the market rates.

ii. Analysis of Interest Rate Risk of Public Debt Based on Exposure to Re-fixing.

Interest rate risk in the public debt is well captured by the proportion of debt subject to interest rate re-fixing within a specified period. Changes in interest rates have an impact on debt servicing costs for both external and domestic debt. As a result, determining the proportion of debt to be re-fixed reveals the extent to which the portfolio is vulnerable to higher funding costs because of higher market interest rates.

Analysis of Ethiopia's external public debt shows that the portfolio is subject to interest rate risk because a relatively larger portion of the total external public debt (20 percent of the total external debt) is contracted in floating interest rate. On the other hand, analysis of domestic debt, particularly treasury bills, shows that the portfolio is subject to high interest rate risk. This is because of the short-duration nature of the Treasury bill. By the end of June 2023, Treasury bill amounting to ETB 341,869 million (USD 6,240.07 million) is expected to be rolled over (the stock of treasury bills in the last two years has been relatively higher compared to the stock in previous three years).

This implies that 30.4 percent of the central government's domestic debt and more than 18 percent of the total domestic debt portfolio is subject to changes in domestic interest rates. A higher proportion of debt that is subjected to re-fixing within one year indicates a high risk of adverse interest rate movements. Excluding domestic debt, interest risk associated with Ethiopia's external debt is relatively lower since 76 percent of the existing debt is not subject to interest rate changes due to fixed interest rates.

iii. Analysis of Interest Rate Risk of Public Debt Based on Average Time to Re-fixing.

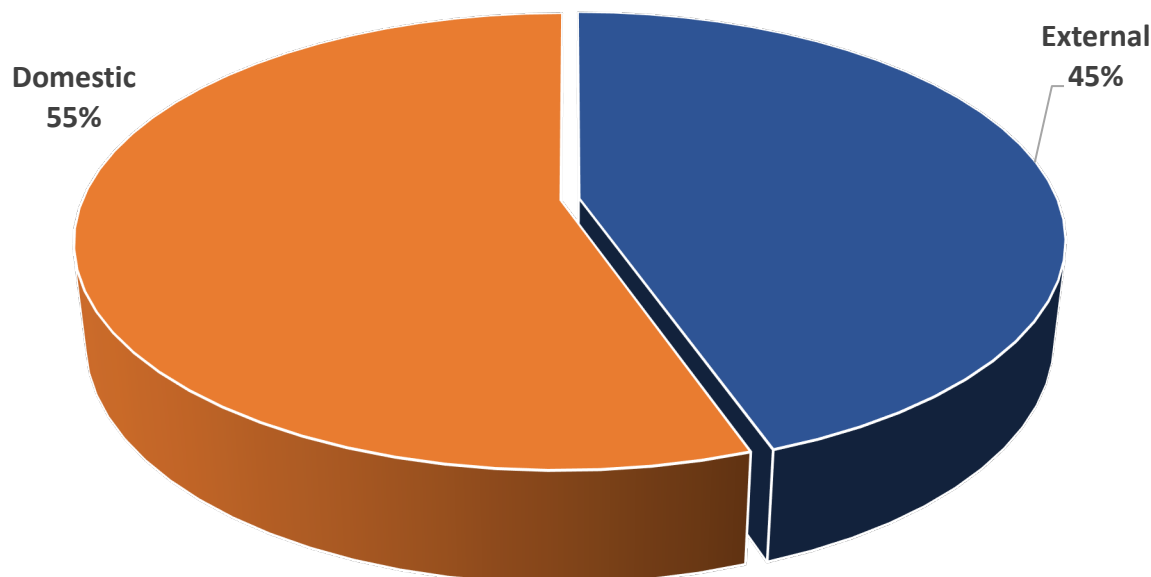
As of June 2023, the ATR for central government external debt is 13.6 years while that of SOEs external debt ATR is 1.5 years. This high value of central government external debt ATR indicates lower interest risk associated with the central government external debt portfolio whereas SOEs external debt has high exposure to interest risk as its ATR is the lowest.

The Central Government's domestic debt is also highly exposed to interest risk. This is confirmed by the lower value of ATR which stands at 7.4 years. This ATR implies that it will take only 7.4 years to re-fix the interest on domestic debt hence domestic debt has a relatively high exposure to interest rate risk. The reason for this lowest ATR for domestic debt is the treasury bills which constitute more than one third of the total domestic debt.

6.2. Exchange Rate Risks

The vulnerability of the debt portfolio to exchange rate movements or the mismatch between the repayment obligations and the sources of foreign exchange rate, is referred to as exchange rate risk. The percentage of external debt in total debt, the currency composition of the debt portfolio, and the degree of currency mismatch between debt service obligations and the composition of foreign exchange for a given country are the three methods for quantifying exchange rate risk in a debt portfolio.

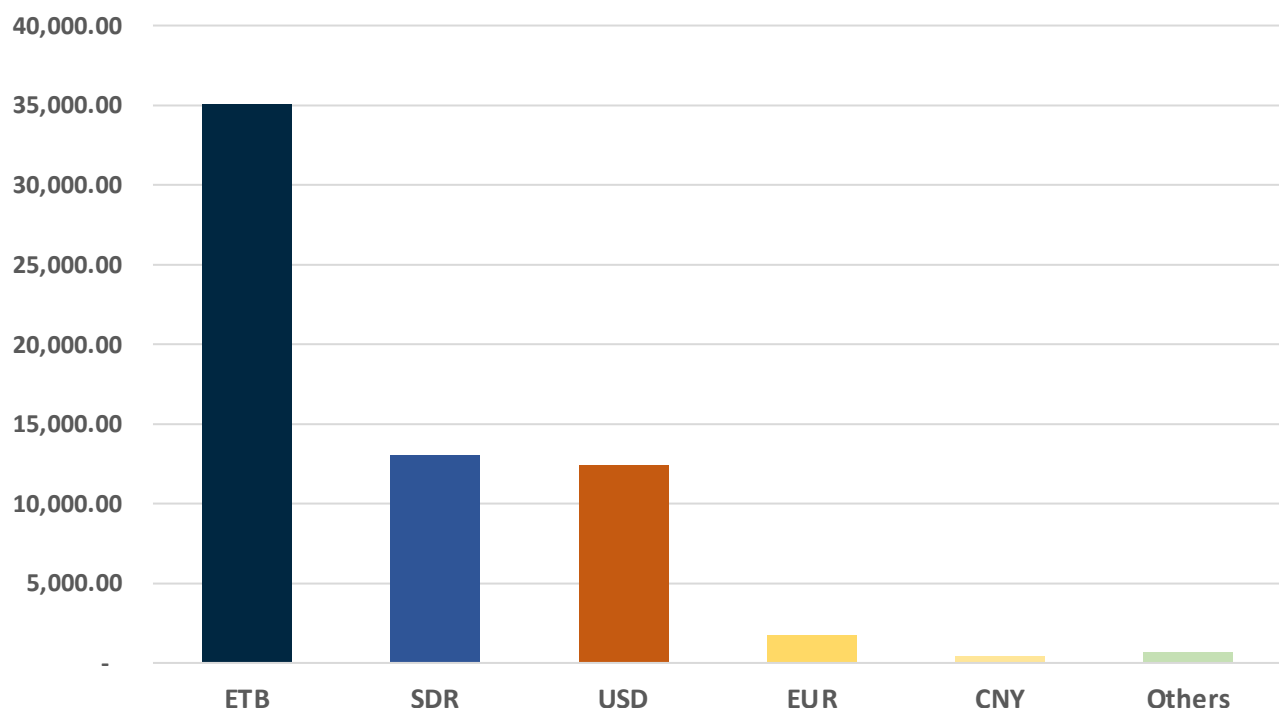
Percentage Share of Total Public sector debt as of June 30/2023



The share of external and domestic debt on total public debt is 45 percent and 55 percent respectively. This ratio measures the dependency on external borrowings for development. The external debt portfolio is exposed to exchange rate risks owing to the adoption of a free-floating exchange rate. Hence any significant depreciation of the Ethiopian Birr against the foreign currencies can substantially contribute to higher debt service payments in local currency terms. As a result, there could be higher debt service payments in the budget than forecasted.

The currency composition of total public debt exhibits minimal exchange rate risk emanating from currency mismatch since most of the external debt service obligations are in United States Dollars whereas all domestic debt service obligations are in Ethiopian Birr. The currency composition of Ethiopia's external debt does not constitute a significant source of external vulnerability since the currency structure closely matches the country's foreign reserves/ earnings.

Figure 20. Currency composition of total Public sector Debt



7. Conclusion

According to the current debt portfolio analysis, the stock of total public sector debt, on average, grows at a rate of 4 percent per year. In 2021/22, public sector external debt decreases compared to the previous two years, and it grew by 10 percent in 2022/23. Over the analysis time horizon, both public sector external debt and domestic debt stock increased, though total external debt fell in 2021/22 compared to the previous two years, which can be explained in part by lower disbursements from external loans. The other reason for changes in total public sector debt is the relative changes in the exchange rate, i.e., the exchange rate variation between USD and other currencies has an impact on external debt stock, particularly in 2021/22, as the USD strengthens against other currencies and SDRs, total external debt in terms of USD declines.

The beneficiaries and the composition of the public debt have changed significantly, in addition to the public sector debt's overall size. The relative share of domestic and external debt held by the central government is rising during the observation period while that held by SOEs is falling. Since the government decided to stop guaranteeing SOE's borrowing from non-concessional sources, most of the debt portfolio has continued to be made up of concessional debt as opposed to non-concessional debt over the past few years.

Currently, both external and domestic debt are dominated by central government borrowing. It is also evident that the share of concessional loans as a total of external debt has increased from 55 percent at end June 2018/19 to 65 percent as of end June 2022/23. This could be explained partly by the recent measure taken by the government towards not borrowing from non-concessional sources for projects undertaken by SOEs which are borrowed by the government guarantee and due to higher borrowing by central government to implement its projects and the reduction of SOEs borrowing in the last three years as the government commitment to improve the debt distress level of the country and as per the non-concessional borrowing limit of the World Bank.

The main areas where the resources were used are energy, sugar, transport, roads, and other projects that support the endeavor of economic development of the country. The accumulation of non-concessional debt may hurt the country's debt sustainability.

As most of the SOEs borrowing is guaranteed by the government, it carries a contingent liability for the government. If any of the SOEs face difficulty in repaying their debt, the government may be called to honor its guarantee, potentially straining budget.

Following the global financial crisis of 2008, variable interest rates like LIBOR and EURIBOR (Currently SOFR) reference rates were low, and SOEs' interest payments to their respective creditors were also relatively low. Since 2022/23, however, the LIBOR rate is increasing rapidly. Consequently, SoEs future interest payments could significantly change due to the upward movement of LIBOR (SOFR) rate.

The government's domestic borrowings is mainly in the form of direct advances and treasury bills, which have high rollover risk. This means that the government will have to roll over, or refinance, the existing treasury bills whenever they mature. Moreover, SOEs borrowing from CBE, which has been transferred to LAMC with the guarantee of the government, has also significantly increased.

Debt is sustainable when a borrower is expected to be able to continue servicing its debts without an unrealistically large correction to its income and expenditure balance. Debt sustainability, thus, reflects a country's solvency, liquidity, and adjustment capacity. Currently the Ethiopia's DSA shows that there is a breach on Export related Solvency and Liquidity ratio's (PV of External debt/Export and External debt service / export), that makes the country debt distress level high.

The public debt dynamics over the last few years appear to have worsened, due to an underperforming external sector indicating some risk on debt sustainability. As the current debt volume is increasing, it is appropriate to evaluate and manage the risk involved in different debt compositions, facilitating coordination with fiscal and monetary management, and enhancing transparency. Accordingly, to improve the existing situation, the government has been taking successive measures including:

- Consistently maintaining the government's decision that SOEs should not borrow from non-concessional sources. This is with the aim of improving the country's debt risk situation.
- Focused central government borrowing exclusively from concessional sources,
- Diversified sources of concessional borrowing including tapping non-traditional sources.
- Taken the necessary measures that enhance foreign currency earnings by investing in the development of industrial zones, attracting FDI inflows and boosting government revenue etc.
- Use the new Public Private Partnership framework to implement strategically important mega infrastructure projects.
- Enhancing the domestic debt market and secondary market, with the objective of introducing bonds with various maturities to replace part of the treasury bills so that the rollover risk of the domestic debt will be minimized.
- Change the short-term debt instruments including direct advances and treasury bills to longer term debt instruments and use other modern financing instruments that help to minimize additional costs and unforeseen risks.

- Exert maximum effort to finalize the Common Framework discussion and negotiations and other related initiatives by approaching the concerned bodies including Bilateral commercial creditors, Paris Clubs secretariat, IMF, World Bank and others to achieve the ongoing objective of improving the current debt distress risk from high to moderate risk.
- Consistently maintain the current external debt services payments on time. This is with the aim of: first, building confidence of multilateral and bilateral creditors to provide additional financial and technical support useful for the country's development endeavors and second, to use the current debt payment practices for robust image building which has a positive impact for the country in various dimensions.
- Undertake debt management capacity building activities in a sustainable manner so that it is possible to enhance analytical capacity to undertake useful analysis, assessments, and studies for decisions by policymakers.

Finally, the Ministry of Finance anticipates that this report will enhance transparency and accountability in public debt management in Ethiopia.

8. GLOSSARY

DEFINITIONS

It is hoped that the following definitions could help the reader to understand the concepts and correctly interpret the figures provided in the various tables. The definitions are taken from:

- 'External Debt Management: An Introduction', by Thomas M. Klein, World Bank Technical Paper No. 245
- 'External Debt Statistics: Guide for Compilers and Users, BIS, ComSec, Eurostat, IMF, OECD, Paris Club Secretariat, UNCTAD, World Bank, 2003'.
- Debt and DMFAS Glossary, UNCTAD, 2008

A

Allocation of a Tranche: All or part of a loan/grant tranche assigned to finance projects or programs.

Amortization: The repayment of principal of a loan spread out over a period of time.

Amortization Schedule: The schedule for the repayment of principal and payment of interest on an ongoing basis.

Arrears: The total of scheduled debt service payments that have fallen due but remain unpaid.

B

Bilateral Creditor: In DMFAS, it refers to a type of creditor in the context of external debt. Official bilateral creditors include governments and their agencies (including Central Bank), autonomous public bodies or official export credit agencies.

Bilateral Debt: Loans extended by a bilateral creditor.

Borrower (debtor): The organization or the entity defined as such in the loan contract which usually is responsible for servicing the debt.

C

Cancellation: An agreed reduction in the undisbursed balance of a loan commitment.

Commercial Credit: In the context of the Paris Club, loans originally extended on terms that do not qualify as official development assistance (ODA) credits.

Commercial Interest Reference Rates (CIRR): A set of currency-specific interest rates for major OECD countries.

Commitment: An obligation to furnish resource of a given amount under specified financial terms and conditions.

Commitment Charge (fee): Charge or fee made for holding available the undisbursed balance of a loan commitment.

Commitment Date: The date on which the commitment occurs.

Concessional Loans: Loans that are extended on terms substantially more generous than market loans.

Concessionality Level: See grant element.

Credit: An amount for which there is a specific obligation of repayment.

Creditor: The organization or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement.

Creditor Country: The country in which the creditor resides.

Currency of denomination or Currency of a Loan: The unit of account in which amounts of indebtedness are expressed in the general/loan agreement.

Currency of Repayment: The unit of account in which a loan is to be repaid.

Currency of Reporting: The unit of account in which amounts are reported to the compiling agency and/or to an international agency compiling debt statistics.

Currency of Transaction: The medium of exchange in which an individual transfer occurs.

Current Maturities: Maturities falling due during the consolidation period of a rescheduling.

D

Debt Relief: Any form of debt reorganization that relieves the overall

Debt Reorganization/Restructuring: Debt reorganization arises from bilateral arrangements involving both the creditor and the debtor that alters the terms established for the servicing of a debt.

Debt Rescheduling: Debt rescheduling refers to the formal deferment of debt service payments and the application of new and extended maturities to the deferred amount.

Debt Service: Refers to payments in respect of both principal and interest.

Debt-Service to Export Ratio: The ratio of debt service (interest and principal payments due) during a year, expressed as percentage of exports (typically of goods and services) for that year.

Debt Sustainability Analysis: A study of a country's medium- to long term debt situation.

Debtor Country: The country in which the debtor resides.

Direct Advance: Government over draft from the Central Bank.

Disbursed Loans: The amount that has been disbursed from a loan but has not yet been repaid or forgiven.

Disbursed and Outstanding Debt (DOD): The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.

Disbursement: The transactions of providing financial resources.

Domestic Currency: It is a legal tender in the economy and issued by the monetary authority for that economy, or for the common currency area to which the economy belongs.

Domestic Debt: Gross domestic debt, at any given time, is the outstanding contractual, and not contingent, liabilities that residents of a country owe to other residents of the country that require payment(s) of interest and/or principal by the debtor at some point(s) in the future.

E

External Debt: Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy.

Euro Inter Bank Offered Rate (EURIBOR): is the rate at which euro interbank term deposits are being offered by one prime bank to another within the European Monetary Union (EMU) zone. Such as Euribor 6 months

F

Face Value: The amount of principal to be repaid (for example, the redemption amount of a bond).

Fixed Interest Rate: A rate of interest that is defined in absolute terms at the time of the loan agreement.

Foreign Currency: A currency other than the domestic currency.

G

Government Bonds: Negotiable securities issued by the government. They are long term obligations issued with maturity of more than 5 years.

Grace Period: The period between the commitment date of the loan and the date of the first principal repayment.

Grant Element: The measure of concessionality of a loan, calculated as the difference between the face value of the loan and the sum of the discounted future debt service payments to be made by the borrower expressed as percentage of the face value of the loan.

Guarantee of a loan: An undertaking usually by a bank or a government agency to pay part or the entire amount due on a debt instrument extended by a lender in the event of nonpayment by the borrower.

H

Heavily Indebted Poor Countries (HIPC): Group of 41 developing countries classified as being heavily indebted poor countries.

HIPC Initiative: Framework for action to resolve the external debt problems of the heavily indebted poor countries that was developed jointly by the IMF and the World Bank and was adopted in 1996.

I

Interest Payments: Payments made in accordance with the contractual terms of a loan that specify the rate of interest that are to be applied, and the way in which the interest is to be computed. The loan may have fixed or variable interest rates.

International Development Association (IDA): IDA, established in 1960, is the concessional lending arm of the World Bank Group.

International Monetary Fund (IMF): Following the Bretton Woods Accords and established in 1945, the IMF is a cooperative intergovernmental monetary and financial institution with 184 member countries.

L

Late Interest Charges: This is the additional interest that may be levied on obligations overdue beyond a specified time.

Line of Credit: An agreement that creates a facility under which one unit can borrow credit from another up to a specified ceiling usually over a specified period of time.

Loan: An agreement in which a lender undertakes to make specified resources available to a borrower. The amount of funds disbursed is to be repaid (with or without interest and late fees) in accordance with the terms of a promissory note or repayment schedule.

Loan Agreement: The legal evidence and terms of a loan.

Loan Guarantee: A legally binding agreement under which the guarantor agrees to pay any or all of the amount due on a loan instrument in the event of nonpayment by the borrower.

London Interbank Offered Rate (LIBOR): The London Interbank Offered Rate for deposits, such as the six-month dollar LIBOR. LIBOR is a reference rate for the international banking markets and is commonly the basis on which lending margins are fixed.

Long-term External Debt: External debt that has a maturity of more than one year.

M

Maturity: The debt service amounts to be paid on a particular date.

Maturity Date (Final): The date on which a debt obligation is contracted to be extinguished.

Maturity Structure: A time profile of the maturities of claims or liabilities.

Medium-Term Debt Management Strategy (MTDS): is a plan that the Government intends to implement over the medium term in order to achieve a desired composition of the Government debt portfolio, which captures the Government's preferences with regard to the cost-risk trade off.

Multilateral Creditors: These creditors are multilateral institutions such as the IMF and the World Bank, as well as other multilateral development banks.

Multilateral Development Banks (MDBs): Another term for international financial institutions, such as the World Bank Group and the regional development banks.

N

Net Flows: From the viewpoint of a loan, the net flow is gross disbursements less principal repayments.

Net Present Value (NPV) of Debt: The nominal amount outstanding minus the sum of all future debt service obligations (interest and principal) on existing debt discounted at an interest rate different from the contracted rate.

Net Resource Transfers: Loan disbursements minus repayments of principal minus service payments during some period.

Nominal Value: The nominal value of a loan instrument is the amount that at any moment in time the debtor owes to the creditor at that moment.

O

Official Creditors: Official creditors are international organizations, governments and government agencies including official monetary institutions.

Official Development Assistance (ODA): Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount).

Official Development Assistance Loans: Loans with a maturity of over one year meeting criteria set out in the definition of ODA, provided by governments or official agencies and for which repayment is required in convertible currencies or in kind.

P

Paris Club: An informal group of creditor governments that has met regularly in Paris since 1956 to reschedule bilateral debts; the French treasury provides the secretariat.

Present Value: The discounted sum of all future debt service at a given rate of interest.

Present Value of Debt-to Exports Ratio (PV/X): Present value (PV) of debt as a percentage of exports (usually of goods and services) (X).

Principal: The provision of economic value by the creditor, or the creation of debt liabilities through other means, establishes a principal liability for the debtor, which, until extinguished, may change in value over time.

Principal Outstanding: The amount of principal disbursed and not repaid.

Principal Repayment Schedule: The repayment schedule of principal by due date and installment amount.

Principal Repayments: The payments which are made against the drawn and outstanding amount of the loan.

Private Creditors: Creditors that are neither government nor public sector agencies. These include private bondholders, private banks, other private financial institutions, and manufacturers' exporters, and other suppliers of goods that have a financial claim.

Program Allocation: A type of direct allocation for which there is a programme to account for it.

Project: A specific set of activities aimed at the development of an economic sector.

Project Allocation: Allocation of a certain amount of a loan which is going to a specific project.

Public Debt: The debt obligation of the public sector.

Public External Debt: The external debt obligation of the public sector.

Publicly Guaranteed Debt: The external obligation of a private debtor that is guaranteed for repayment by a public entity.

Public Sector: The public sector includes the general government, monetary authorities, and those entities in the banking and other sectors that are public corporations.

R

Repayment Period: The period during which the debt obligation is to be repaid.

Rescheduling: See Debt Rescheduling

Rescheduling Agreement: An agreement between a creditor, or a group of creditors, and a debtor to reschedule debt.

S

Service Charges: All charges that must be paid as a price for the loan, such as: interest, commitment fees, management fees.

Service Payments: Amounts actually remitted by the borrower to repay a debt.

Short-term Debt: Debt that has maturity of one year or less.

Spread (Margin): A percentage to be added to some defined base interest rate, such as LIBOR, to determine the rate of interest to be used for a loan.

Stock of Debt: The amount outstanding as of a moment of time.

Supplier Credit: A loan extended by an exporter to finance the purchase of that exporter's goods or contractual services.

T

Tranche: A particular portion of a financial claim or liability with its own specific terms as opposed to the general terms governing the whole claim or liability.

Treasury Bills: Negotiable securities issued by the government. In general these are short term obligations issued with maturity of one year or less. They are traded on a discount bases.

U

Undisbursed Balance: Funds committed by the creditor but not yet utilized by the borrower.

W

Write-off: A financial claim that a creditor regards as unrecoverable and so no longer carries on its books.