DEBT MANAGEMENT DIRECTORATE
MINISTRY OF FINANCE
FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

ANNUAL PUBLIC SECTOR
DEBT PORTFOLIO ANALYSIS
FOR THE YEAR 2021/22

NO. 23

Total Public Sector debt Stock and Public sector debt Service Payment Movement

DEBT MANAGEMENT DIRECTORATE
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 management of public resources. The 2022 Annual Debt Portfolio Analysis is part of the reporting requirement under the legal framework of the country. The Debt Management Directorate (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 meets any other public debt management goals the government may have set, such as enhancing debt monitoring and management of the country including developing and maintaining an efficient and liquid market for government and corporate securities.

The Ministry of Finance is the primary agent of 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 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 to the policy makers for decision.

Hence, this Twenty-third Annual Public Sector Debt Portfolio Analysis (DPA) is an annual report prepared by the Debt Management Directorate 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-Third editions, comprehensively examines the five years’ total public debt composition, magnitude and trends beginning from 2017/18 to 2021/22.

Preparation of comprehensive and timely DPA allows Government and other users 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 for compiling other macroeconomic statistics and serve as an indicator of the sustainability of government and public corporations’ policies.

The Government is considering this report in line with the Financial Administration Act, as a tool for evaluating and managing the risk involved with different debt compositions; facilitating coordination with fiscal and monetary management; and enhancing transparency. In addition, the Government is expecting through this action of preparing annual debt report will support efforts that aim for the government’s financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk.

Similarly, the report will not only provide details of the debt dynamics in 2021/22 but will also serve as a useful repository of information for public, academicians, researchers, the media and all other relevant stakeholders. An electronic version of this report is available on the website of Ministry of Finance in PDF format and in Debt Management Directorate. All queries on the contents of the report should be addressed to the Debt Management Directorate in the Ministry of Finance through the address below.

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Mission Statement

Of

Debt Management Directorate

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, follow up of on-lent debts, designing and updating appropriate debt management strategy of the country.
### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<td>AfDF</td>
<td>African Development Fund</td>
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<td>BADEA</td>
<td>Arab Bank for Economic Development in Africa</td>
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<td>CBE</td>
<td>Commercial Bank of Ethiopia</td>
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<td>CF</td>
<td>Common Framework</td>
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<td>DA</td>
<td>Direct Advance</td>
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<td>Development Bank of Ethiopia</td>
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<td>Debt Service</td>
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<td>Debt Service Suspension Initiative</td>
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<td>Ethiopian Electric Utility</td>
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<td>European Investment Bank</td>
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<td>ESC</td>
<td>Ethiopian Sugar Corporation</td>
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<td>ETB</td>
<td>Ethiopian Birr</td>
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<td>EUR</td>
<td>EURO</td>
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<td>Ethiopian Railway Corporation</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
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<td>ICBC</td>
<td>Investment and Construction Bank of China</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>International Monetary Fund</td>
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<td>Japanese Yen</td>
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<td>MDRI</td>
<td>Multilateral Debt Relief Initiatives</td>
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<td>Ministry of Finance</td>
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<td>OPEC Fund for International Development</td>
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<td>Private Organization Employees Social Security Agency</td>
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<td>Public Servants Social Security Agency</td>
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<td>State Owned Enterprises</td>
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<td>SDR</td>
<td>Special Drawing Rights</td>
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<td>TBs</td>
<td>Treasury Bills</td>
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EXECUTIVE SUMMARY

Following the completion of the HIPC and MDRI initiatives, 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, a large amount of debt has accumulated. As a result, not only does the total public debt increase in size, but its composition shifts toward non-concessional SOE borrowing until 2019, but it is currently dominated by central government concessional borrowing due to the government's non-concessional borrowing limit, particularly the three years of zero non-concessional borrowing.

Accordingly, Ethiopia's total public external and domestic debt stock, including publicly guaranteed and non-guaranteed debt, reached USD 57,342.09 million by the end of June 2022, representing 50.3 percent of GDP, up from USD 56,417.81 million at the end of June 2021, i.e. about 51 percent of GDP, and USD 49,384.38 million 58.53 percent of GDP at the end of June 2018.

Domestic debt in USD rose 9.3 percent to USD 29,428.09 million in 2021/22 from USD 26,914.91 million in 2020/21, while domestic debt in ETB rose 30 percent to ETB 1,530,078.25 million from ETB 1,175,939.31 million. Its increase in USD terms was relatively moderate in comparison to previous years due to relatively higher ETB depreciation against USD, but the increase in USD terms in 2021/22 was due to the effect of new domestic debt issuance outweighing the exchange rate effect of USD against ETB.

Total public sector external debt was USD 27,914.00 million as of June 30, 2022, down from USD 29,502.90 million as of June 30, 2021. The quantity of existing external debt decreases considerably between the two periods. The decrease in external total public sector debt is approximately USD 1,588.89 million, or it decreases by more than 5%. One of the main causes of this decrease in debt stock can be explained by USD exchange rate variation, which is as a result of a relatively stronger USD against other foreign currencies.
during June 2022 compared to June 2021 resulted in a reduction in debt stock in terms of USD, which is approximately USD 1,037.0 million, or about 65 percent of total debt.

Total public sector external debt was USD 27,914.00 million as of June 30, 2022, down from USD 29,502.90 million as of June 30, 2021. The quantity of existing external debt decreases considerably between the two periods. The decrease in external total public sector debt is approximately USD 1,588.89 million, or it decreases by more than 5%. One of the main causes of this decrease in debt stock can be explained by USD exchange rate variation, which is as a result of a relatively stronger USD against other foreign currencies during June 2022 compared to June 2021 resulted in a reduction in debt stock in terms of USD, which is approximately USD 1,037.0 million, or about 65 percent of the reduction. Another factor causing the debt stock to decrease this year was a negative net flow of USD 551.9 million as a result of total principal payments of USD 1,639.12 million and disbursements made during the period of USD 1,087.23 million, where principal payment is greater than new disbursements made during the period.

Out of Ethiopia’s total external debt outstanding, multilateral agencies which provide highly concessional loan held about 52.65 percent while bilateral creditors have 28.45 percent share out of the total debt stock and the remaining owed by Private creditors. Out of private creditors commercial banks and suppliers held about 11.08 percent and about 4.23 percent respectively while Eurobond held 3.58 percent.

As of June 2022, the stock of treasury bills, government bonds, direct advances, and treasury notes accounted for approximately 20.76 percent, 16.21 percent, 10.42 percent, and 9.65 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 42.95 percent.

The United States Dollar (USD) made up 49.17 percent of Ethiopia's external debt stock, followed by the Euro (4.62 percent), Chinese Yuan (1.66 percent), and SDR (42.77 percent), with other currencies making up 1.78 percent of the portfolio. The percentage share of these currencies out of the external debt portfolio is 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.

The total public debt service payments in 2021/22 was USD 3,211 million with external debt service standing at USD 2,130 million while domestic debt service was at USD 1,081 million. As a percentage of the total public debt service, external and domestic debt service were 626 percent and 34 percent respectively.

Total public debt in percent of GDP was about 58 percent in 2017/18 and 56.16 percent in 2018/19, and it went down in the 2020 and 2021 to 51 percent of GDP and currently it is about 50 percent of GDP. The current external debt as a percentage of export was at 242 percent, while the criterion for Ethiopia is 180 percent, indicating that this ratio is over the threshold for Ethiopia. The external debt service to export ratio, which is around 22 percent, but the threshold is 15 percent, is another export related ratio that has 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 total public debt (external plus domestic debt) is comfortably within the World Bank and IMF's benchmark of 55 percent in present value terms as a percentage of GDP. Similarly, Ethiopia's present value of total public debt as a percentage of GDP is approximately 43 percent. Overall, Ethiopia's total public debt (external plus domestic debt) is comfortably within the World Bank and IMF's benchmark of 55 percent in present value terms as a percentage of GDP. Similarly, Ethiopia's present value of total public debt as a percentage of GDP is approximately 43 percent.

Despite the fact that the volume of debt contracted from commercial sources has decreased as a result of the zero non-concessional borrowing limit, the government remains at a higher risk of debt distress level. Recently, the Home-Grown Economic Reform and ten years 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 where not successfully implemented, With the ECF expiring in September 2021 and the EFF expiring in December 2022. The two Facilities only disbursed USD 309 million.

On the other front, the Government, to improve the debt distress level and to contain debt vulnerability, takes various measures which include among others:

- 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.

As G20 Finance Ministers and Central Bank Governors convening meeting and provided Communiqué on 15 April 2020 to health interventions, and help the private sector continue to operate and sustain jobs. work collaborate to address the COVID 19 pandemics. Accordingly, G20 countries have agreed and decided to take broad, fast action to help developing countries including Ethiopia strengthen their pandemic response, increase disease surveillance, and improve public debt.

Ethiopia, 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 of central governments 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 amount 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
$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 undergoing 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.

Similarly, Ethiopia, cognizant of debt accumulation, has put in place a Public Private
Partnership (PPP) framework to fund infrastructure development as a catalyst to foster
economic growth. To minimize exposure and risks associated with debt accumulation the
government has embraced new innovations in financing infrastructure development off
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 reduction of the fiscal deficits to ensure
that debt accumulation remains at prudent rates and that public debt remains within
sustainable levels.

In general, Public Debt to GDP ratio is expected to stabilize in the medium term and come
down gradually as the government implements prudent fiscal policy commitments aimed at
reducing the fiscal deficits as well as limiting contracting loans from non-Concessional
sources to implement strategically important projects. We expect that all the above-
mentioned measures will improve the debt risk rating of the country.
1. Introduction

Debt Portfolio Analysis objectively evaluates trends and changes in Central Government external and domestic debt, as well as SOE government-guaranteed and non-guaranteed external and domestic debt, as of June 2022. 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, in order 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 a core component of Ethiopia’s Public Financial Management (PFM) framework, it is important for the Debt Management Directorate (DMD) to regularly carry out such a review to monitor on 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. In particular, 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 ensure that the right policies and strategies are taken so that future financing needs to support the Home-Grown Economic Reform Agenda always remain sustainable.

Against this backdrop, the specific objectives of this exercise have been:

- 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 all along taking measures to avoid situations of debt and debt service stress in the future.

In view of that, 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.

The ongoing Home-grown Economic Reform Program needs huge resources. Accordingly, one of the sources to finance from both, external and domestic sources. These borrowing activities need to be guided by 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 contraction, guarantees and servicing. The existence of a clear legal framework is an important enabling element for formulating a debt management strategy.

As noted, 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 team 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 that reflects a cost-risk analysis and captures the government’s preferences about the cost-risk trade-off. Although the time framework of the designed strategy elapsed, we maintained the borrowing principle in 2021 and 2022 fiscal years because there is no any change in debt instruments, borrowing policy, sources of borrowing and the likes.

As remembered, the objective of the strategy was two-fold: to raise resources through borrowing to meet central government budgetary requirements at minimum cost and prudent level of risk; and to promote the development of domestic debt markets. Potential sources of financing from abroad were identified by focusing from 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.

This MTDS guided the past several years central government borrowing and providing guarantee to state owned enterprises in the medium term while providing a path for
sustainable level of debt over the medium term. Accordingly, the Governments’ fiscal strategies were geared towards maintaining a sustainable level of debt.

Moreover, the governments have put in place a robust system for monitoring and closely following up mechanism to maintain the transparency and accountability of public borrowing so that it is possible to ensure the level of public debt is consistent with the overall fiscal framework aimed at 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 costs and risks factors associated with the debt portfolio. Accordingly, the Average Time to Maturity (ATM) of the public debt portfolio declined, the share of 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)

To design the (2021-2025) Medium Term Debt Management Strategy (MTDS), by the Ministry of Finance with the technical support of the International Monetary Fund (IMF) and a World Bank team was scheduled in 2021. However, because of Covid 19 -pandemic it was not possible to undertake a workshop and formulate the strategy. As soon as the risk of Covid 19 endemic reduced the strategy will be formulated.

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 a World Bank team was scheduled in 2021. Covid 19 -pandemic and other related obstacles make the Ministry not to undertake a workshop and formulate the strategy. The Ministry has been exerting the 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 to borrow and fill budget gap.

The objective of the strategy remains similar as before i.e.: to raise resources through borrowing to meet central government budgetary requirements at minimum cost and prudent level of risk; and to promote the development of domestic debt markets.
4. Total Public Sector Debt Portfolio Development in 2021/22

Total public and publicly guaranteed debt for FY 2021/22 was USD 57,342.09 million, or approximately 50.3 percent of GDP (in Nominal Value terms), with 24.5 percent external and 25.8 percent domestic debt. Looking back five years, total public debt outstanding (external and domestic) was USD 49,384.38 million (1.3 trillion ETB) in 2017/18, and it has risen to USD 57,342.09 million (2.9 trillion ETB) in 2021/22, representing a 2% increase over the previous year and a 16.0 percent increase overall.

Table 1. Total Public Sector Debt Outstanding

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<tr>
<td>Total Public</td>
<td>49,384.38</td>
<td>53,826.78</td>
<td>55,159.10</td>
<td>56,417.81</td>
<td>57,342.09</td>
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<td>Sector Debt</td>
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<td>External Debt</td>
<td>25,811.49</td>
<td>27,075.59</td>
<td>28,889.92</td>
<td>29,502.90</td>
<td>27,914.00</td>
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<tr>
<td>Domestic Debt</td>
<td>23,572.89</td>
<td>26,751.19</td>
<td>26,269.18</td>
<td>26,914.91</td>
<td>29,428.09</td>
</tr>
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The average annual increase in total public sector debt stock during the observation period was 3.8 percent. The largest increase was seen in 2018/19, when there was a larger disbursement from external sources to Central government and non-government guaranteed debt, particularly to EAL, and the stock of domestic debt also increased because of a new domestic bond issuance to raise CBE capital and higher borrowing by SOEs from CBE.

Exchange rate fluctuations also have an impact on the difference in total public debt stock in USD between 2017/18 and 2021/22. Exchange rate variations of other currencies
against the US dollar affect the stock of external debt in US dollars, whereas exchange rate variations of the US dollar against the ETB affect the stock of domestic debt in USD. For example, the difference in external debt stock between 2020/21 and 2021/22 decreased by USD 1,588.89 million, of which USD 1,037 million is due to exchange rate variation between the two periods as the USD strengthens relative to other currencies, i.e., exchange rate variation accounts for 65% of the difference. (See tables 5 and 6 in Public Sector Debt Statistical Bulletin No.42.)

The domestic debt instrument stock composition has changed as a result of the issuance of market-determined treasury bills in 2019/20, as well as the conversion of old treasury bills into three-year treasury notes and the conversion of Direct Advance into a 25-year government bond, and the issuance of new treasury bills and borrowing from the central government in the form of direct advance was significantly higher in 2021/22. External debt was 52% of total public sector debt in 2017/18, and it falls to 49% by the end of 2021/22, while domestic debt rises to 51%.

As the total amount of outstanding public sector debt, both external and domestic, grows over time, so does its composition changes through time. Currently, the share of domestic debt is higher than in the previous four years. The total public sector debt service payment has increased significantly as well, as shown in the graph below, with the exception of 2020/21, when the debt service payment for external creditors decreases compared to the previous year due to the Debt Service Suspension Initiative (DSSI), which suspends central government debt service payment to its bilateral creditors. Domestically, as a result of various SOE reform programs including the establishment of new Liability Asset Management Corporation (LAMC) the SOE debt service payments to CBE have been decreased.

As a result of this increase in magnitude, the shift in the composition of the overall public sector debt, and the rise in debt service payments, combined with poor external sector performance, the country's debt distress level remains high.
Five indicators can be used to assess a sovereign's debt distress level in Low Income Countries (LIC), of which Ethiopia is one, according to the IMF and World Bank Debt Sustainability Framework: two liquidity indicators, external debt service to exports and external debt service to government revenues, three solvency indicators, present value of external debt to GDP and present value of external debt to export, and Present Value total public debt to GDP.

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 breached the thresholds since 2017 and the country remains at high risk until the end of 2021/22.

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

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

Various Article IV mission report

The PV of external debt to export in 2021 and 2020 improved from 2017. This is due to the debt restructuring of some of the SOE’s external debts with Chinese creditors, particularly the Ethiopian rail way debt with Chinese creditors, and the other reason is that there has been no non-concessional borrowing, with the exception of EAL in the last four years which significantly decrease the external debt both in Nominal and NPV terms.
4.1 Total External Debt

This section looks at trends in the amount of outstanding External debt, which includes debt held by SOEs and the central government. It also breaks down the overall amount of external debt by key creditors, borrower types, and other variables. It also examines new external commitments, as well as net flows and transfers, external debt service obligations and payments.

**External Debt Outstanding:** - Ethiopia's total external debt stock, which was USD 25,811.49 million on June 30, 2018, steadily rises to USD 29,502.90 million by June 30, 2021, before falling to USD 27,914.00 million at the end of June 2022. It increases by 5% annually on the average for the first three years but drops by 5% in the final year of the observation period. This difference 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 which result in the decline of the external debt in 2021/22 (see figure 2 and 3 below).

The decline in external debt stock in the final year is due to 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 nominal external debt as a percentage of GDP ranges between 24.5 and 28 percent over the observation period, whereas the PV of external debt as a percentage of GDP is now about 17%, well below the country’s 40 percent benchmark.
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, 2022, from official creditors, multilateral and bilateral creditors collectively owed USD 22,640.28 million (81.1%) of the total amount of outstanding external debt. Of this amount, USD 14,697.81 million was owed to multilateral creditors, and USD 7,942.47 million was owed to bilateral creditors. Of the total stock of governmental external debt, private creditors, which include commercial banks and suppliers, owed USD 5,273.72 million (18.9%). SOEs usually obtain loans from private lenders (commercial banks and suppliers).

![Figure 2 Total External Debt by Major Creditor Group](image)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MULTILATERALS</td>
<td>10,496.46</td>
<td>11,669.68</td>
<td>13,783.58</td>
<td>14,985.22</td>
<td>14,697.81</td>
</tr>
<tr>
<td>BILATERALS</td>
<td>8,597.81</td>
<td>8,526.46</td>
<td>8,606.79</td>
<td>8,486.26</td>
<td>7,942.47</td>
</tr>
<tr>
<td>PRIVATE CREDITORS</td>
<td>6,717.23</td>
<td>6,879.45</td>
<td>6,499.55</td>
<td>6,031.42</td>
<td>5,273.72</td>
</tr>
</tbody>
</table>

Figure 2 shows that while the relative share of bilateral and commercial creditors declined, the relative share of multilateral creditors climbed significantly between 2017/18 and 2021/22. This is due to the fact that borrowing from non-concessional sources of bilateral...
and private creditors has decreased in recent years as the government restricts borrowing with its guarantee from these sources, resulting in a decline in their relative share of SOE debt, which is primarily owed to non-concessional bilateral and private creditors.

**Multilateral Creditors:** - The stock of external debt owed to multilateral financial institutions, which stood at USD 10,496.46 million in 2017/18, has steadily increased over time, reaching USD 14,697.28 million as of June 30, 2022, a 40% increase over the previous five years and a 2% decrease over the previous year's stock. The decline in the stock of Multilateral creditor is primarily due to exchange rate variation, specifically the relatively strong USD, particularly against SDR and EUR. This category of external debt now accounts for 52.65% of total external debt. In terms of volume, IDA continues to lead the multilateral creditors, accounting for over 75 percent of the group and 39.5 percent of the whole External debt stock, followed by AfDF and AfDB.

**Bilateral creditors:** - Over the last five years, the stock of bilateral external debt has decreased from USD 8,597.81 million in 2017/18 to USD 7,942.47 million in 2021/22. 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 them 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, we get more than 25% 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 810.33 million as of June 30, 2022. This group's percentage of outstanding debt is small, and it
has changed very little during the observation period. Only Italy, France, South Korea, and Japan have provided concessional loans to the group's official creditors in recent years.

**Private Creditors:** - As of June 30, 2022, the stock of external debt owed to private creditors (commercial banks and suppliers) was USD 5,273.72 million, down from USD 6,717.23 million as of June 30, 2018. 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. 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 EthioTelecom which are not guaranteed by the government.

In 2017/18 the relative share of central government external debt stock was around 57 percent, and by 2021/22, it had risen to 68 percent. As seen in the graphs below, there has been a consistent increase over the time except 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.
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 2021/22, 49.17 percent, 42.77 percent, and 4.62 percent of the total debt outstanding were denominated in USD, SDR, and EURO, respectively, with the remaining 3.44 percent denominated in various currencies such as:

![Figure 3 Total External Debt By borrower Category](image)

<table>
<thead>
<tr>
<th>Central Government</th>
<th>Gov.Guaranteed</th>
<th>Non-Gov. Guaranteed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017/18</td>
<td>14,750.63</td>
<td>7,563.75</td>
</tr>
<tr>
<td>2018/19</td>
<td>15,973.32</td>
<td>7,290.08</td>
</tr>
<tr>
<td>2019/20</td>
<td>18,032.82</td>
<td>7,242.40</td>
</tr>
<tr>
<td>2020/21</td>
<td>19,502.25</td>
<td>6,665.21</td>
</tr>
<tr>
<td>2021/22</td>
<td>19,018.81</td>
<td>6,102.41</td>
</tr>
</tbody>
</table>
Chinese Yuan (CNY), Korean won, Great Britain Pound, and so on. Between 2017/18 and 2021/22, the relative share of SDR\(^1\) 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 60.8 percent in 2017/18 to around 49.17 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.

### 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 concessional of a loan. In this context, assessing

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\(^1\) 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 %).
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, 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, 2022, 74.50 percent of the outstanding loan had a fixed interest rate, 1.71 percent had an interest-free loan, and the remaining 23.79 percent had variable interest rates. It's worth noting that more than 75% of SOEs' foreign financing is based on a variable interest rate, particularly LIBOR six months and LIBOR three months with a margin. Similarly, around 99.51 percent of the central government's external debt stock is on fixed interest rate, while only 0.3 percent is on LIBOR 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 0.2 percent in November 2021 but currently it increases significantly to about 2.1 percent in June 2022 and it is expected to rise in the coming period.
Table 3. External Debt Outstanding by Interest rate Composition in Mn USD

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>%</td>
<td>USD</td>
<td>%</td>
<td>USD</td>
</tr>
<tr>
<td>TOTAL</td>
<td>25,811.49</td>
<td>100.00</td>
<td>27,075.59</td>
<td>100.00</td>
<td>28,889.92</td>
</tr>
<tr>
<td>FIXED INTEREST RATE</td>
<td>15,906.15</td>
<td>61.62</td>
<td>17,526.92</td>
<td>64.73</td>
<td>19,816.99</td>
</tr>
<tr>
<td>VARIABLE INTEREST RATE</td>
<td>9,629.49</td>
<td>37.31</td>
<td>9,267.76</td>
<td>34.23</td>
<td>8,596.77</td>
</tr>
<tr>
<td>INTEREST FREE</td>
<td>276.46</td>
<td>1.07</td>
<td>280.92</td>
<td>1.04</td>
<td>476.16</td>
</tr>
<tr>
<td>CENTRAL GOVT</td>
<td>14,750.63</td>
<td>57.15</td>
<td>15,973.33</td>
<td>59.00</td>
<td>18,032.83</td>
</tr>
<tr>
<td>FIXED INTEREST RATE</td>
<td>14,441.27</td>
<td>55.95</td>
<td>15,648.09</td>
<td>57.79</td>
<td>17,666.24</td>
</tr>
<tr>
<td>VARIABLE INTEREST RATE</td>
<td>32.90</td>
<td>0.13</td>
<td>44.32</td>
<td>0.16</td>
<td>74.63</td>
</tr>
<tr>
<td>INTEREST FREE</td>
<td>276.46</td>
<td>1.07</td>
<td>280.92</td>
<td>1.04</td>
<td>291.96</td>
</tr>
<tr>
<td>OTHER PUBLIC SECTOR</td>
<td>11,060.86</td>
<td>42.85</td>
<td>11,102.27</td>
<td>41.00</td>
<td>10,857.10</td>
</tr>
<tr>
<td>FIXED INTEREST RATE</td>
<td>1,464.28</td>
<td>5.67</td>
<td>1,876.83</td>
<td>6.94</td>
<td>2,150.75</td>
</tr>
<tr>
<td>INTEREST FREE</td>
<td>-</td>
<td>-</td>
<td>184.20</td>
<td>0.64</td>
<td>190.92</td>
</tr>
<tr>
<td>VARIABLE INTEREST RATE</td>
<td>9,596.58</td>
<td>37.18</td>
<td>9,223.44</td>
<td>34.07</td>
<td>8,522.15</td>
</tr>
</tbody>
</table>

The proportion of external debt with fixed interest rate was 61.62 percent in 2017/18 and has increased to 74.50 percent in 2021/22 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 37.31 percent in 2017/18 to 23.79 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 2021/22, most loans carry interest rates below 2.0%.
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% 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 2017/18, concessional debt accounted for 53% of total external debt outstanding, while non-concessional debt accounted for roughly 47%. Following that, the relative share of concessional debt increased, while non-concessional debt continued to fall. Concessional loans currently account for approximately 64 percent of total external public debt stock, with non-concessional loans accounting for the remaining 36 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 Figure.)
4.1.5. **New Commitments from External Sources**

Over the last five years, the total external debt committed from multilateral, bilateral, and private creditors was USD 12,913.89 million of which 55 percent is the share of central government and the remaining 45 percent is for SOEs to finalize the implementation of various ongoing projects.

The majority of multilateral commitments (about 47 percent) came from IDA and ADF on extremely concessional terms, while the majority of bilateral commitments came from Exim-Bank of China's concessional and non-concessional windows. Private creditors' external debt commitments, on the other hand, are primarily from Chinese suppliers and commercial creditors of EAL.
External new loan commitments in 2019/20 were higher than in the previous and preceding two years. In general, new commitments have declined from a high of USD 3,300.82 million in 2017/18 and USD 4,705 million in 2019/20 to a low of USD 290.75 million in 2021/22, owing in part to government measures to limit SOE non-concessional borrowing through government guarantees. Throughout the observation period, there was a significant drop in new commitments by SOEs from their non-concessional bilateral, commercial, and supplier's creditors. The IMF's increased commitment of USD 3.1 billion for the Extended Credit Facility (ECF), Extended Fund Facility (EFF), and Rapid Financial Instrument (RFI) programs helps to explain the relatively large commitment in 2019/20.

Approximately 66%, 13%, and 21% of the committed amount over the previous five years, respectively, came from multilaterals, bilateral creditors, and private creditors, according to Table 4. With a total new commitment of nearly USD 5 billion over the previous five years—or about 39% of all new external commitments—IDA has been the nation's most significant development partner. Of course, the Paris club creditor's contribution is approximately 7% under ODA terms, while the AfDF contribution is roughly 1%. This indicates that, over the past five years, grants element comprising more than 50% of highly concessional sources have accounted for nearly 47% of new borrowings.
## Table 4 New External Debt Commitments by Creditors

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CENTRAL GOVERNMENT</td>
<td>2,165.87</td>
<td>1,832.51</td>
<td>1,439.17</td>
<td>1,620.10</td>
<td>11.23</td>
</tr>
<tr>
<td>MULTILATERAL</td>
<td>1,831.02</td>
<td>1,419.21</td>
<td>931.61</td>
<td>1,458.73</td>
<td>0.00</td>
</tr>
<tr>
<td>ADB</td>
<td>86.77</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>EIB</td>
<td>34.01</td>
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<td></td>
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</tr>
<tr>
<td>IDA</td>
<td>1,744.25</td>
<td>1,343.20</td>
<td>426.70</td>
<td>1,458.73</td>
<td></td>
</tr>
<tr>
<td>IFAD</td>
<td>94.78</td>
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<td></td>
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<tr>
<td>BADEA</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OFID</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMF (for Central Government -RFI)</td>
<td></td>
<td></td>
<td>410.124</td>
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<tr>
<td>BILATERAL</td>
<td>334.85</td>
<td>413.30</td>
<td>507.56</td>
<td>161.37</td>
<td>11.23</td>
</tr>
<tr>
<td>NON-PARIS CLUB</td>
<td>251.28</td>
<td>0.00</td>
<td>240.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>GOVERNMENT OF CHINA</td>
<td>84.28</td>
<td>0</td>
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<tr>
<td>SAUDI FUND</td>
<td>0</td>
<td>0</td>
<td>140</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXIM-BANK OF CHINA</td>
<td>167</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOV. OF POLAND</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>KALIFA FUND</td>
<td></td>
<td></td>
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<td>100</td>
<td></td>
</tr>
<tr>
<td>PARIS CLUB</td>
<td>83.57</td>
<td>413.3</td>
<td>267.56</td>
<td>161.37</td>
<td>11.23</td>
</tr>
<tr>
<td>GOV. OF FRANCE (AFD)</td>
<td>83.57</td>
<td>95.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOV. OF ITALY</td>
<td>53.6</td>
<td>18.02</td>
<td>11.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GOVERNMENT OF JAPAN</td>
<td></td>
<td></td>
<td>88.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXIM-BANK OF KOREA</td>
<td></td>
<td>264</td>
<td>179</td>
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<td></td>
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<tr>
<td>DANSK S.K B</td>
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<td>143.35</td>
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<tr>
<td>STATE OWEND ENTERPRISE</td>
<td>1,134.95</td>
<td>800.61</td>
<td>3,266.53</td>
<td>363.40</td>
<td>279.52</td>
</tr>
<tr>
<td>MULTILATERAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADB</td>
<td>0</td>
<td>0</td>
<td>2,903.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMF (for NBE-ECF&amp;EFF)</td>
<td></td>
<td>2,903.71</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BILATERAL</td>
<td>171.22</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>NON-PARIS CLUB</td>
<td>171.22</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>CHINA DEVELOPMENT BANK</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXIM-BANK OF CHINA NON-CONCESSIONAL</td>
<td>171.22</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INDUSTRIAL AND CONSTRUCTION BANK OF CHINA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PARIS CLUB</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PRIVATE CREDITORS</td>
<td>963.73</td>
<td>800.61</td>
<td>362.82</td>
<td>363.40</td>
<td>279.52</td>
</tr>
<tr>
<td>BANK OF CHINA LIMITE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CREDIT SUISSE AG</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHINA ELECTRIC POWER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNICREDIT</td>
<td>402.76</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TD SECURITIES (USA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANK HAPPOALIN B.M. (ISRAEL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STANDARD BANK OF SOUTH AFRICA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STANDARD CHART BANK(GB &amp; AIRLAND)</td>
<td></td>
<td></td>
<td>120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>THE EXPORT PK</td>
<td>125</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CREDIT AGRICOL TOKYO(JAPAN)</td>
<td>144.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPORT NOVUS AVATION(UAE)</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ING CAPITAL LLG(USA)</td>
<td>121.43</td>
<td>248.37</td>
<td></td>
<td>279.52</td>
<td></td>
</tr>
<tr>
<td>EXPORT INVESTECH BANK</td>
<td>35</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MUFG BANK LTD</td>
<td></td>
<td>272</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NAT WEST BANK</td>
<td>0</td>
<td>270.24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern and Southern Africa Trade and Development Bank</td>
<td></td>
<td></td>
<td>38</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JP MORGAN</td>
<td></td>
<td></td>
<td></td>
<td>275.48</td>
<td></td>
</tr>
<tr>
<td>Air Bus Financial Service</td>
<td></td>
<td></td>
<td></td>
<td>13.21</td>
<td></td>
</tr>
<tr>
<td>BNP BARIBAS FRANCE</td>
<td>269.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Dev. Of Canada</td>
<td>55.57</td>
<td>74.71</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>3,300.82</td>
<td>2,633.12</td>
<td>4,705.70</td>
<td>1,983.50</td>
<td>290.75</td>
</tr>
</tbody>
</table>
According to the graph 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 34.8%, which is nearly equal to the IMF's 35 percent benchmark. However, the grant element for the central government, which accounts for 55% of the total new borrowing from external sources, was approximately 51.95%, which is significantly higher than the IMF's concessionality benchmark.

**Figure 6. Average Loan Terms of External Debt New Commitment 2017/18 - 2021/22**

<table>
<thead>
<tr>
<th></th>
<th>Avg. Interest Rate %</th>
<th>Avg. Maturity Period Yrs</th>
<th>Avg. Grace Period Yrs</th>
<th>Avg. Grant Element %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Public sector</td>
<td>1.44</td>
<td>5.43</td>
<td>7.30</td>
<td>18.80</td>
</tr>
<tr>
<td>Central Government</td>
<td>24.29</td>
<td>34.75</td>
<td>0.84</td>
<td>35.45</td>
</tr>
<tr>
<td>SoEs External Debt</td>
<td>2.15</td>
<td>11.17</td>
<td>3.24</td>
<td>51.95</td>
</tr>
</tbody>
</table>

### 4.1.6. Public Sector External Debt Disbursements in the Period

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, which are defined as disbursements less principal repayment less interest payments plus
other charges, 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

It was significantly less than any of the years in the previous four years' disbursement from external sources in the form of external debt, totaling around USD 1,087.22 million for the years 2021/2022.

Of the total disbursement in 2021/22, USD 773.39 million (71.13 percent) came from multilateral sources, followed by USD 18.89 million (1.74 percent) from bilateral creditors and USD 294.95 million (27.13 percent) from commercial banks and suppliers. IDA made the largest disbursement in 2021–2022, accounting for 61.40 percent of the total, followed by commercial banks with 27.13 percent to EAL.

To support the implementation of the Homegrown Economic Reform Plan (HERP), maintain macroeconomic stability, and raise living standards, the IMF disbursed approximately USD 309.24 and 410.88 million in 2019/20 through Extended Credit Facility (ECF) and Extended Fund Facility (EFF) programs and for Rapid Financial Instrument (RFI) to deal with the urgent balance of payments need to handle the immediate impact of the COVID 19.
4.1.6.2. Disbursement by Economic Sector

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

As a result, spending on transportation and communication accounted for the largest portion of resources disbursed over the past five years, with EAL and EthioTelecom receiving about 21.5 percent of that total. Next came spending on electricity, gas, and steam (17 percent), infrastructure spending on highway and railroad transport (12.6%), agriculture (9.4%), the financial sector (10.8%), etc.
This demonstrates that the inflow of external resources is primarily used for infrastructure development 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 a debt manager to examine loan utilization to ascertain whether the low rate of utilization is caused by actual disbursement issues that call for solution.

As of the end of June 2022, the undisbursed balance from external loan commitments was USD 9,449.49 million, of which 72.27 percent is from the central government committed amount and the remaining 38.23 percent is from SOE and NBE (IMF loans for EFF Programs which will expires in December 2022). IDA has very large undisbursed balances from multilateral creditors, totaling USD 3,269.93 million (35 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 2,165.82 million (23 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.
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 9,677.74 million. The central government pays about USD 2,055.49 million (21.2 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 78.8 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.
In 2021/22, total external debt service payments were USD 2,130.21 million, with USD 1,639.12 million (77 percent) going to principal and USD 491.09 million going to interest and commission (23 percent). The external debt service in terms of ETB has increased significantly due to a relatively higher ETB devaluation versus the USD in 2021/22.
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>
<thead>
<tr>
<th>Creditor</th>
<th>DSSI 1</th>
<th>DSSI 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRAND TOTAL</td>
<td>112,337.80</td>
<td>104,336.04</td>
<td>216,673.84</td>
</tr>
<tr>
<td>AFD-AGN. FRANCE DEV.</td>
<td>4,257.49</td>
<td>3,573.21</td>
<td>7,830.70</td>
</tr>
<tr>
<td>ARTIGIAN CASSA (CASSA DEPOSIT) ITALY</td>
<td>18,461.70</td>
<td>9,164.61</td>
<td>27,626.31</td>
</tr>
<tr>
<td>EXIM-BANK OF CHINA</td>
<td>52,389.79</td>
<td>63,546.71</td>
<td>115,936.50</td>
</tr>
<tr>
<td>EXIM-BANK OF INDIA *</td>
<td>29,488.22</td>
<td>25,041.89</td>
<td>54,530.11</td>
</tr>
<tr>
<td>EXIM-BANK OF KOREA</td>
<td>16.56</td>
<td>8.23</td>
<td>24.79</td>
</tr>
<tr>
<td>GOVERNMENT OF JAPAN</td>
<td>2.48</td>
<td>2.89</td>
<td>5.37</td>
</tr>
<tr>
<td>KUWAIT FUND</td>
<td>6,233.91</td>
<td></td>
<td>6,233.91</td>
</tr>
<tr>
<td>SAUDI FUND</td>
<td>1,487.65</td>
<td>2,998.50</td>
<td>4,486.15</td>
</tr>
</tbody>
</table>

* are scheduled amount the bilateral agreement not finalized
Common Framework (CF)

“Common Framework (CF) for Debt Treatments 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 application and informed Paris-Club and official bilateral creditors of its intention to benefit from the Common Framework to reduce its debt distress burden and reduce it to moderate risk and has been fully cooperating with every and each request made by the Paris-Club Secretariat submitted a detailed debt data deemed important to the process. Ethiopia has been engaging with its bilateral creditors to stir up support to its application to benefit from the CF in. 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

External debt service is expected to rise steadily over the next two years, from around USD 2.1 billion in 2022/23 to USD 2.2 billion in 2023/24, and then to around USD 3.4 billion in 2024/25 due to maturing sovereign bonds. 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 increase gradually at the start of the projection before increasing sharply in 2024–2025 when the EUROBOND matures, and then they remain flat.
Assuming that the committed and undisbursed amounts are disbursed over the next few years, total estimated external debt service (Principal plus Interest) will rise from USD 2.3 billion in 2022/23 to USD 4.1 billion in 2024/25 due to maturing sovereign bonds, and subsequently fall as shown in Figure 16 below.
FIGURE 12. PROJECTED EXTERNAL DEBT SERVICE PAYMENT BASED ON COMMITMENT (INCLUDING PROJECTED DISBURSEMENT)

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 2017/18 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 near completion, and several SOEs have started to repay their principal payments. (see table 6 below)

<table>
<thead>
<tr>
<th></th>
<th>Table 6 net Resource Flow On Public External Debt</th>
<th>Mn USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>1,655.87</td>
<td>1,348.85</td>
</tr>
<tr>
<td>Gov.Guaranteed</td>
<td>629.61</td>
<td>(263.80)</td>
</tr>
<tr>
<td>Non-Gov. Guaranteed</td>
<td>68.93</td>
<td>320.29</td>
</tr>
<tr>
<td>Grand TOTAL</td>
<td>2,354.40</td>
<td>1,405.34</td>
</tr>
</tbody>
</table>
Net Resource Transfers (Disbursement minus Principal Payments minus Interest Payments)

Transfers of Net Resources (Disbursement minus Principal Payments minus Interest Payments). Net transfer is the difference between net flows and interest and commission payments (Disbursement minus Principal Payments minus Interest Payments). Like net resource flows, net resource transfer has been dropping over the past five years. The negative amount in both the net flows and net transfers in Tables 5 and 6 indicates that the outflows are bigger than the inflows for certain creditors.

<table>
<thead>
<tr>
<th></th>
<th>Table 7 net Resource Transfer on Public External Debt</th>
<th>Mn USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government</td>
<td>1,460.91</td>
<td>1,142.54</td>
</tr>
<tr>
<td>Gov. Guaranteed</td>
<td>479.95</td>
<td>(548.71)</td>
</tr>
<tr>
<td>Non-Gov. Guaranteed</td>
<td>(32.35)</td>
<td>182.14</td>
</tr>
<tr>
<td>Grand TOTAL</td>
<td>1,908.51</td>
<td>775.97</td>
</tr>
</tbody>
</table>
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 and Treasury bills 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 to bridge the budget gap. When the government cannot sell enough Treasury bills to cover the budget financing shortfall 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.

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 24.3 percent per year, from ETB 642,646.47 million in 2017/18 to ETB 1,530,078.25 million in 2021/22. 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 45 percent in 2021/22, was significantly higher than that of SOEs. A total of 57 percent of domestic debt is held by the central government, with SOEs holding the remaining 43 percent. The total stock of domestic debt increased by more than 138
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. With the exception of the last two years, when it was roughly 57 percent and 52 percent of total domestic debt respectively, the stock of SOE borrowings used to account for the majority of total domestic debt.
### Table 8. Domestic Debt Outstanding by Instrument Type

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total</td>
<td>642,646.47</td>
<td>773,540.04</td>
<td>918,953.77</td>
<td>1,175,939.31</td>
<td>1,530,078.25</td>
</tr>
<tr>
<td>Total Central Government</td>
<td>300,918.85</td>
<td>361,888.33</td>
<td>432,393.66</td>
<td>600,575.43</td>
<td>872,847.64</td>
</tr>
<tr>
<td>Government Bonds</td>
<td>37,140.35</td>
<td>36,589.03</td>
<td>228,337.10</td>
<td>248,457.92</td>
<td>248,020.49</td>
</tr>
<tr>
<td>Treasury Notes</td>
<td>-</td>
<td>-</td>
<td>149,332.56</td>
<td>147,657.56</td>
<td>147,657.56</td>
</tr>
<tr>
<td>Treasury Bills</td>
<td>111,513.56</td>
<td>138,034.36</td>
<td>23,724.00</td>
<td>120,959.95</td>
<td>317,669.59</td>
</tr>
<tr>
<td>Direct Advance (from NBE)</td>
<td>152,264.95</td>
<td>187,264.95</td>
<td>31,000.00</td>
<td>83,500.00</td>
<td>159,500.00</td>
</tr>
<tr>
<td>Total SOE</td>
<td>341,727.62</td>
<td>411,651.71</td>
<td>486,560.11</td>
<td>575,363.88</td>
<td>657,230.62</td>
</tr>
<tr>
<td>SOE CORPORATE BONDS</td>
<td>241,148.91</td>
<td>302,754.66</td>
<td>363,600.45</td>
<td>146,582.43</td>
<td>200,555.12</td>
</tr>
<tr>
<td>SOE Loans</td>
<td>100,578.72</td>
<td>108,897.05</td>
<td>122,959.65</td>
<td>30,086.58</td>
<td>35,975.50</td>
</tr>
<tr>
<td>Transferred to LAMAC (Principal plus interest Arrears)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>398,694.87</td>
<td>420,700.00</td>
</tr>
</tbody>
</table>

### 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 reduce 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 152,264.95 million in 2017/18 to ETB 187,264.95 million in 2018/19, and the stock of DA amounted to ETB 192,264.95 million was converted into a 25-year Government Bond in 2019/20. The new DA stock for 2019-20 is ETB 31,000 million, rising to ETB 159,500 million in 2021/22.

**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 and DBE, insurance companies, the Social Security Securities Agency, and other non-financial public institutions. 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 111,513.56 million in 2017/18 to ETB 138,034.36 million in 2018/19, and after the conversion of existing T-Bills, the stock of Treasury Bills to be around ETB 23,724 million as of June 30, 2020, and it is now significantly increasing to ETB 317,669.59 million. In 2021/22, 364-day treasury bills accounted for 61 percent of all treasury bills, with 182-day bills accounting for 25 percent, 91-day bills accounting for 12 percent, and 28-day bills accounting for 2 percent. As a
result, at the end of fiscal year 2021/22, Treasury Bills accounted for 20.8 percent of total government domestic debt.

As of June 30, 2022, there were ETB 317,669.59 million in TBills stock, a 163 percent increase from the total as of June 30, 2021. About ETB 196,709.64 million worth of TBills with various maturities were net issued during the previous year. The majority of the increase from June 2021 to June 2022, when compared to the prior year, was brought on by relatively higher issuances of 364-day Tbills, followed by 182 days. The following graph illustrates how over the past five years, net borrowing from the Central Bank of Ethiopia in the form of direct advances has generally followed the same pattern as Treasury Bills.

The introduction of new market-determined treasury bills raises the weighted average yield of Treasury Bills, which was less than three percent prior to December 2019. As a result of the introduction of the new T-Bills in the last four quarters of the current fiscal year, as
shown in Figure 15. Below, the average weighted yield for the stock of 364 days T-Bills was approximately 8.74 percent, while the average weighted yield for the stock of 91 days T-Bills was approximately 9.02, 182 days 9.05, and 28 days was approximately 8.31 percent.

As the weighted average yield of market-determined Treasury Bills improved over time, commercial banks' participation in the Treasury Bills increased. Currently, commercial banks held about 62 percent of the total Treasury Bills stock, the largest of which is the Commercial Bank of Ethiopia that held about 37 percent of total Treasury Bills stock at the end of June 2022, with POSA and PESSA holding the remaining 38 percent.

Figure. 15 TREASURY BILLS STOCK WEIGHTED AVERAGE YIELD CURVE (1/7/2021 - 30/06/2022)

Since December 4, 2019 New Treasury bills with market determined discount rate is introduced
**Government Bonds**

Government bonds are long-term debt instruments with maturities of ten years or more that are issued for particular 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 2017/18, there were Birr 37,140,35 million in outstanding government bonds. Over the next four years, this amount rose, reaching ETB 248,020,49 million in 2021/22.

**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. The majority of these note holders are POSSA and PESSA. The current stock of treasury notes is approximately ETB 147,657.56 million.

4.2.4. **State Owned Enterprises Domestic Debt Portfolio**

State Owned Enterprises (SOE’s) borrows from the domestic sources by issuing corporate bonds as well as loans from CBE and/or DBE. Most of these borrowings are made with government guarantee. They issue corporate bonds and loans mostly to CBE to implement mega projects. The domestic debt outstanding balance of SOEs is ETB 341,727.62 million in 2017/18 and has continuously increase since then to reach ETB 658,031 million in 2021/22. 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.

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.
4.2.5 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 Domestic debt Holders:-

The National Bank of Ethiopia: The largest holder of domestic government debt over the previous five years has been the National Bank of Ethiopia. It represented about 53% of the domestic debt of the central government in 2017–18 and 25% of all domestic debt; it remained stable for the first three years until 2019–20. However, over the next two years, its relative share has steadily decreased, reaching 41 percent of domestic debt held by the central government and 23 percent of all domestic debt in 2021/22. In 2019, as stated in the previous pages the Direct Advance stock from the NBE was converted into a 25-year government bond, and Direct Advance now makes up about 10% of all domestic debt. Its holdings are primarily in the form of direct advance.

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. From ETB 78,261.56 million in 2017/18 to ETB 237,447.86 million in 2021/22, PSSSA & POSSA's claim has increased by 203 percent over the past five years. Although it only accounts for about 16 percent of all domestic debt, it now makes up 27% of the total government domestic debt portfolio.

The Commercial Bank of Ethiopia (CBE): CBE held ETB 26,522 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 two years the share of CBE increases significantly due to its active participation in the Treasury bills auction, currently CBE holds about 37 percent of the ETB 317,670 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 17%.

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 of total domestic central government holdings of DBE increased to ETB 53,811 million in 2020–21 and in 2021/22 as a result of a special bond to raise the bank's capital.

**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.

**State Owned Enterprises Domestic Debt Holders:**

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

Corporate bonds 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 339,986.43 million in 2017/18 to ETB 657,230 million in 2021/22. If we add up lending to SOEs and the Central government by the bank, it currently holds about 52% of total domestic debt.

**The Liability and Asset Management Corporation (LAMC)**

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

- Takeover 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 a portion of SOE’s outstanding domestic debt from Commercial Bank of Ethiopia, stock of domestic debt as of December 31, 2020.

**Figure 17. Domestic Debt Outstanding Share by Hlders**

**4.2.6. Government Domestic Debt Service**

The total domestic debt service in 2021/22 was ETB 56,221.53 million, with ETB 34,554.63 million (61.46%) going toward principal repayment and ETB 21,666.90 million (38.54%) going toward interest. ETB 21,635.30 million (38.48 percent) went toward servicing federal government securities total domestic debt, while ETB 34,117.20 million went toward servicing SOE domestic debt (61.8 percent).
While interest payments were made for direct advances, treasury bills, government and SOE bonds, principal repayments were made for various central government and SOE bond holders. Treasury bill and direct advance interest payments have increased yearly.

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<thead>
<tr>
<th>Table 10 Public Sector Domestic debt service Payment</th>
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5. On-Lending Loans, Guarantees and Contingent Liabilities

Contingent liabilities are potential costs that could incurred by the government as a result 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 support SOEs by offering explicit guarantees to make obtaining finance on 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 potentials;
- It has no access to multilateral credits and cannot attract competitive funding; and
- It is implementing infrastructure mega projects focusing on the country's potentials.

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 earning as well as supporting the economic development endeavor of the country. In support of these objectives, the government has continued to support the SOEs to implement these projects among others by providing guarantee 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 contingent liability.
**Measures undertaken to avoid any unforeseen contingent liability occurrences**

Recently, to minimize exposure and risks associated with SOEs debt accumulation the Government has embraced new 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 energy sector and Road sector. 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 was established under the PPP Act to provide good governance framework to manage direct liabilities and contingent liabilities in all phases of the project cycle.

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

Similarly, the government has issued Public Debt Management and Guarantee Directive in order to enhance monitoring system and putting in place an organized coordination mechanism to avoid any risks associated with the borrowing by SOEs. In addition, various reforms of SOEs towards finance and corporate governance are underway to increase efficiency and effectiveness of the enterprises. All these concerted efforts by all stakeholders will reduce the occurrence of contingent liability.

Risk refers to the possibility that the cost of debt will differ from the expected outcome. Unexpected changes in economic variables such as interest rates and currency exchange rates are to blame. 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, as the case may be, 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.
In 2022/23, about USD 12,068.83 million in principal payments (21 percent of total public debt) will be due. This sum excludes direct advances and includes treasury bills that will be rolled over during the year and the treasury notes which will mature in the coming one
year. If we exclude the treasury bills and the treasury notes which have the possibilities to roll over, the total amount of principal payment of total public debt is USD 3,119.16 million (5 % of total public debt outstanding).

External debt principal payments in 2022/23 account for USD 1,470.54 million (46%) of total public debt principal payments due this year, with the central government external debt principal payment accounting for only 11.62 percent and SOEs external principal payment for 34.11 percent.

In 2021/22 and 2022/23, the total domestic debt principal payment accounts for 75 percent of the total public debt principal due. (Central Government domestic debt principal payments account for 40 percent of total debt principal payments, while SOEs account for 35 percent.) For these two years, total external debt principal payments account for 25 percent of total debt principal payments, with central government external debt principal payments accounting for only 7 percent. Because the majority of domestic debt (excluding Direct Advance) is in the form of short-term Treasury bills and Treasury notes, which were converted from treasury bills in 2019, the principal payment for the first two years, 2021/22 and 2022/23, demonstrates how central government external debt is characterized by low rollover/refinancing risk, whereas domestic debt is characterized by high rollover risk.

The central government domestic debt principal payment due in 2022/23 and 2023/24, including treasury bills but excluding Direct advance, is approximately USD 6,234.67, accounting for 65.2 percent of total domestic debt principal payment and 49.2 percent of overall public debt principal payment. This explains the central government's short-term domestic debt, which is generally in the form of treasury bills and notes with maturities of less than or equal to two years and is rolled over as it matures. As a result, the domestic debt portfolio, particularly that of the central government, is extremely vulnerable to refinancing risk.

The redemption profile (Figure 18) shows that substantial principal payments occur in the years 2022/23, 2023/24, and 2025. This includes the rollover of Treasury bills and Treasury notes in the first two years (2021&2022), as well as the sovereign bond bullet payment.
due in 2025, as well as the majority of SOEs foreign borrowing maturing between these dates.

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 11, 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.

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 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 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 roll-over 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 debt portfolio's average time to maturity is around 12.8 years, with the external and domestic debt portfolios showing 13.4 years and 6.1 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 14.04 years.
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).
Total domestic debt has an average time to maturity of 6.1 years, assuming direct advances are converted to 15-year bonds with a 10-year grace period. This means that before repayment or rollover, Central Government domestic debt takes 7.3 years and SOE domestic debt takes 4.6 years.

**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 external and domestic debt portfolio is made up of instruments which were contracted on fixed and relatively on a 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 external and domestic debt.

On the other hand, the majority of borrowing by SOEs’ from external source is on variable interest rate 75 percent and this implies that there will be an interest rate risk associated with the external borrowing by SOE’s. Overall, a significant proportion of the 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 as a result of higher market interest rates.

Analysis of Ethiopia’s external public debt shows that the portfolio is subject to interest rate risk because relatively a larger portion of the total external public debt (24 percent 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 as a result of the short-duration nature of the Treasury bill. By the end of June 2022 Treasury bill amounting to ETB 317,670 million (USD 6,110 million) is expected
to be rolled over (the stock treasury bills this year is relatively higher compared to the previous four years stock).

This implies that 36.4 percent of the central government domestic debt and more than 20 percent of 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 high risk to adverse interest rate movements. Excluding domestic debt, interest risk associated with Ethiopia’s external debt is relatively lower since 74.5 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 2022, the Average Time to Re-fixing (ATR) of Ethiopia’s public debt was 8.5 years. Thus, it will take an average of 8.5 years to re-fix the interest rates of the portfolio. The ATR of the external debt stands at 10.9 years which imply that it will take, on average, 10.9 years to reset the interest rate of the external debt portfolio.

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

The total domestic debt is also highly exposed to interest risk. This is confirmed by a lower value of ATR which stands at 6.2 years. This ATR implies that it will take only 6.2 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 risk, 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.

The share of external and domestic debt on total public debt is 49 percent and 51 percent respectively. This ratio measures the dependency on external borrowings for development. The external debt portfolio is exposed to exchange rate risks owing to adoption of 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 with foreign reserves/ earnings.

![Figure 20. Currency Composition of Total Public Sector Debt June 30, 2022](https://example.com/currency-chart.png)
7. Conclusion

According to the current debt portfolio analysis, the stock of total public debt grows at a rate of 4% per year, but in the final year of the observation period, 2021/22, public sector external debt decreases compared to the previous two years. 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 disbursements for infrastructure development and upgrading. The other reason for changes in total public sector debt is the relative changes in exchange rate, i.e., the exchange rate variation between USD and other currencies has an impact on external debt stock. Particularly in 2022, 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, the majority 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 53 percent at end June 2017/18 to 64 percent as of end June 2022, this could be explained partly by the recent measure taken by the government towards not borrowing from non-concessional sources for projects undertaken by SOE which are borrowed by the government guarantee and due to higher borrowing by central government to implements 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 debt structure of the public debt has also changed towards concessional sources, as all the borrowing by SOEs from external non-concessional source is from commercial banks and suppliers and its stock is declining in the last three years. The accumulation of non-concessional debt might have a negative impact on the debt sustainability of the country.

As most of the SOEs borrowing is with the guarantee of the government, it is a contingent liability for the government and if any of the SOEs are unable to repay their debt service the guarantee might be called and have a negative impact on the government budget.

Following the global financial crisis of 2008, variable interest rates like LIBOR and EURIBOR reference rates were low, and SOEs' interest payments to their respective creditors were also relatively low. However, because the LIBOR rate is currently increasing more quickly, their future interest payments could significantly change due to the LIBOR rate's upward movement.

The borrowings of the government from domestic source is mainly in the form of direct advance and treasury bills which has high rollover risk, that is the government need to rollover the existing treasury bills whenever they mature. The borrowing of the SOEs from CBE 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.

The public debt dynamics over the last few years appear to have worsened, due to external sector poor performance indicating some risk on debt sustainability. As the current debt volume is increasing at increasing rate, 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 taken subsequent measures including:
• Maintaining in a sustainable manner the decision of the Government the SOEs not to borrow from non-concessional sources so that it is possible to improve the debt risk situation of the country including adhering to the decision of the World Bank and IMF,
• Focused central government borrowing exclusively from concessional sources,
• Diversified sources of concessional borrowing including focusing on non-traditional sources,
• Taken the necessary measures that enhance foreign currency earnings by investing in the development of industrial zones, attract FDI inflow and boost government revenue etc.,
• Use the new Public Private Partnership framework to implement strategically important mega infrastructure projects,
• Enhancing domestic debt market and secondary market, with the objective to 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 helps to minimize additional costs and unforeseen risks,
• Exert the maximum efforts 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,
• Maintain sustainably the current external debt services payments on time practices to first build confidence of multilateral and bilateral creditors to provide additional financial and technical support useful for the country’s development endeavors and second use the current debt payment practices for robust image building which has positive impact in various dimensions for the country,
• 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 policy makers decisions.

Finally, it is the expectation of the Ministry of Finance that this report will enhance transparency and accountability of 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:

- 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.

**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 s): 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.
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.

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.

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.

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.

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.

**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.

**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.