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Prime minister Hailemariam Desalegn (2012-present) returns from meeting his Egyptian counterpart, President Abdel Fattah Al-Sisi (2014-present), in Cairo but tensions over the Grand Ethiopian Renaissance Dam (GERD) persist. Egypt reportedly deploys military forces to Eritrea as dispute threatens to escalate. The International Monetary Fund (IMF) publishes a positive economic outlook for Ethiopia, though warns of economic vulnerabilities from Ethiopia's external imbalances and inadequate reserve buffers. The government releases Oromo Federalist Congress (OFC) chairman Merera Gudina from prison under its amnesty for imprisoned politicians. However, violent clashes in Oromia and Amhara Regional States highlight political tensions.

Regional tension increases over Grand Ethiopian Renaissance Dam

Despite the visit of the prime minister, **Hailemariam Desalegn** (2012-present), to **Cairo** between 17 and 19 January, tensions between **Egypt** and **Ethiopia** over the \$5 billion 6,400 MW **Grand Ethiopian Renaissance Dam (GERD)** persist.¹ There is a remote possibility that Egypt will launch a long-range strike targeting the GERD which lies in **Benishangul-Gumuz Regional State**.² Hailemariam sought to downplay tensions during his visit, telling the Egyptian government that,

*"The people of Ethiopia did not, nor will ever, subject Egyptians to danger. We will not hurt your country in any way and will work closely together to secure the life of the people of the **Nile Basin** and take them out of the cycle of poverty."*³

Following the visit, however, Hailemariam rejected an Egyptian proposal that the **World Bank** could arbitrate in the stalled tripartite technical talks between the two governments and the other riparian state, **Sudan** (see *ARC Briefing Ethiopia January 2018*).⁴ The Egyptian government had proposed the World Bank arbitrate as a "neutral and decisive [party] devoid of political interpretation and manipulation".⁵ In an indication of the political sensitivities around the GERD, the Ethiopian government harassed journalists who covered the story:

*"After I filed a story which stated that Egypt has proposed for the World Bank to mediate the two countries, I was summoned to the foreign ministry office and asked why I wrote about a 'tension' between the two countries and told 'there is no proposal' that Egypt presented about a mediating role by the World Bank. In fact, they later admitted about the proposal about the World Bank but it clearly showed the tension the two countries are getting into."*⁶

Hailemariam subsequently said in an interview with state-owned **Ethiopian News Agency** that he is not opposed to external intervention in the talks, but "seeking professional support is one thing; transferring it to an institution is another thing."⁷ However, this stance reportedly angered the Egyptians. Egyptian foreign minister **Sameh Shoukry** called his Ethiopian counterpart, **Workneh**

¹ ENA, 20 Jan 2018.

² Source, security analyst, East Africa.

³ New York Times, 21 Jan 2018.

⁴ Reuters, 22 Jan 2018.

⁵ Reuters, 22 Jan 2018.

⁶ Source, journalist, Addis Ababa.

⁷ Reuters, 22 Jan 2018.

Gebeyehu, to register his government's displeasure.⁸ The Ethiopian News Agency subsequently removed the Hailemariam interview from its website.⁹

Hailemariam claimed that the Egyptian government is not receiving accurate information about the impact of the GERD.¹⁰ Egypt claims the dam will negatively impact its share of the **Nile's** water, jeopardising 20% of its arable land.¹¹ President **Abdel Fattah Al-Sisi** (2014-present) called for the completion of all relevant technical studies before work on the GERD continues, saying he has "*extreme concern*" about the GERD.¹²

The tension between Ethiopia and Egypt is becoming a regional concern. There are reports that Egypt has deployed military forces, backed by the **United Arab Emirates (UAE)**, to **Eritrea**.¹³ The Egyptian forces reportedly include heavily armoured vehicles.¹⁴ Sudan has reportedly deployed forces to a garrison in **Kassala State**, which shares a border with Eritrea.¹⁵

*"Sudanese news outlets reported the troops were deployed in anticipation of a possible influx of Eritrean refugees to Sudan's border but many interpreted it as a measure to counter a possible threat from Egypt which is on bad terms with Sudan, both because of the GERD and the contested Hala'ib Triangle territory which both countries claim as their own."*¹⁶

The Ethiopian government is unlikely to suspend work on the GERD which is approximately 63% complete. The government is banking on regional electricity exports as a key source of hard currency.¹⁷ Additionally, an improved electricity supply to industrial and manufacturing parks will increase exports (see below).¹⁸ The GERD is also politically protected as its development is overseen by **Debretsion Gebremichael**, chairman of the politically powerful **Tigrayan People's Liberation Front (TPLF)** and a former deputy prime minister. The TPLF is a member of the ruling **Ethiopian People's Revolutionary Democratic Front (EPRDF)**.

Despite the increased security tension, a diplomatic solution remains possible. Egyptian and Sudanese officials held meetings on the sidelines of the **African Union** ordinary assembly in **Addis Ababa** which ran between 22 and 29 January and agreed to form a political committee to continue discussions.¹⁹

A diplomatic rather than military solution remains the most likely outcome due to the variety of benefits that the GERD offers the riparian states – electricity exports and improved seasonal water management. It is likely that the initial technical study will be completed in the next month or so, which may conclude that improvements in Egypt's management of its water supplies could offset any losses from the GERD. The committee formed on the sidelines of the African Union summit reinforces the idea that the solution to the dispute is political rather than purely technical.

IMF board offers positive outlook for Ethiopia but warns of vulnerabilities

The **International Monetary Fund (IMF)** executive board published its Article IV consultation with Ethiopia on 17 January.²⁰ The IMF's outlook for Ethiopia is broadly positive, though it warns of

⁸ Source, journalist, Addis Ababa.

⁹ Source, journalist, Addis Ababa.

¹⁰ Reuters, 22 Jan 2018.

¹¹ Reuters, 22 Jan 2018.

¹² AP, 22 Jan 2018.

¹³ Source, journalist, Addis Ababa.

¹⁴ Source, journalist, Addis Ababa.

¹⁵ Source, journalist, Addis Ababa.

¹⁶ Source, journalist, Addis Ababa.

¹⁷ Source, academic, UK.

¹⁸ Source, academic, UK.

¹⁹ Suna, 29 Jan 2018.

²⁰ www.imf.org

economic vulnerabilities from Ethiopia's external imbalances and inadequate reserve buffers.²¹ The IMF noted that Ethiopia has recorded average annual growth of over 10% during the last decade on the back of state-led investments in the agriculture and infrastructure sectors.²² The growth rate in 2016/2017 was 9% as the agriculture sector rebounded from the acute drought of 2015/2016.²³ Recent growth has been on the back of an expansion in industrial activity due to continued investments in infrastructure and manufacturing. The IMF projects that growth will remain high, at approximately 8.5%, in 2017/2018 due to continued recovery in the agriculture sector, increased manufacturing activity, and the coming online of infrastructure.²⁴ This compares to projections that the World Bank published in January of 8.2% growth in 2018, and 7.8% in 2019.²⁵ The IMF expects growth to remain at approximately 8% in the medium term, supported by continued expansion in exports and investment, and improved financial inclusion under the second **Growth and Transformation Plan (GTP II)**. Continued growth has positively impacted the poverty rate, which decreased from 44% in 2000 to 23.5% in 2015/2016.²⁶ The IMF board commended "*Ethiopia's impressive record of human development improvements*".²⁷

The IMF, however, noted that export growth has not increased despite government support for the manufacturing parks development programme overseen by the TPLF's **Arkebe Oqubay**.²⁸ Foreign direct investment (FDI) growth was 27.6% due to investments in the new industrial parks and privatisation inflows. The IMF described government policy and financial support for the manufacturing parks as "*the preconditions for an export expansion and transition to private sector-led growth*".²⁹ The lack of change in export growth was due to the low price of global agricultural commodity prices as exports by volume increased.³⁰ The government earned \$2.9 billion in export revenue in the 2017 financial year, compared to its target of \$4 billion.³¹ International reserves at end-2016/17 stood at \$3.2 billion, representing only 1.8 months of prospective import cover.³² While export revenues remained unchanged, the current account deficit decreased from 9.1% of GDP in 2015/2016 to 8.2% of GDP in 2016/2017.³³ This was due to decreased drought-related imports and decreased public sector capital goods imports.³⁴

The IMF board welcomed the **National Bank of Ethiopia (NBE)** (central bank) 15% currency devaluation in October that reduced overvaluation and will increase the competitiveness of exports.³⁵ The IMF further welcomed the NBE's interest rate rise that accompanied the currency devaluation in an effort to mitigate exacerbating existing inflationary pressures.³⁶ Despite this, the IMF concluded that Ethiopia's external imbalances and inadequate reserve buffers were its key economic risks.³⁷ The IMF therefore called on the NBE to further tighten its monetary policy if inflationary pressures increase, to abolish exchange restrictions, and to adopt a more flexible exchange rate framework to further increase export diversification and competitiveness.³⁸

²¹ www.imf.org

²² www.imf.org

²³ www.imf.org

²⁴ www.imf.org

²⁵ Financial Services Monitor Worldwide, 11 Jan 2018.

²⁶ www.imf.org.

²⁷ www.imf.org.

²⁸ www.imf.org.

²⁹ www.imf.org.

³⁰ www.imf.org.

³¹ Reuters, 10 Oct 2017.

³² www.imf.org.

³³ www.imf.org.

³⁴ www.imf.org.

³⁵ www.imf.org.

³⁶ FBC, 10 Oct 2017.

³⁷ www.imf.org.

³⁸ www.imf.org.

The IMF welcomed finance ministry efforts to cut external borrowing by the government and by state-owned enterprises.³⁹ The IMF noted that this government strategy had delivered tangible results in cutting outstanding non-concessional commercial debt since its implementation in October 2016. The general government deficit including, that of state-owned enterprises, was 3.4% of GDP in 2016/2017.⁴⁰ The IMF noted that the government had set out further consolidation policies in its 2017/2018 budget speech and was targeting a budget deficit of 2.5% of GDP.⁴¹ However, due to Ethiopia's vulnerable external position, the IMF called on the government to maintain policies that continue to limit borrowing.⁴²

The IMF made a series of additional policy recommendations. The IMF called on the government to accelerate tax administration reforms to improve domestic revenue mobilisation.⁴³ The IMF welcomed plans to improve the management and oversight of state-owned enterprises, and called on the government to adopt public-private partnerships in critical infrastructure projects.⁴⁴ The IMF advocated a more accurate and effective system of budgetary, monetary, and financial data collation and publication to improve public sector financial reporting. In the banking sector, the IMF welcomed plans to develop indirect monetary policy instruments and promote an active inter-bank market, and called on the government to strengthen the anti-money laundering and counter-terrorism financing (AML/CTF) regulatory framework, and monitor the increase in non-performing loans.⁴⁵ More broadly, the IMF board concluded that,

*"Continued efforts to improve the business climate, promote financial inclusion, and improve governance will also be important."*⁴⁶

The IMF overview of the export sector is particularly significant as the Ethiopian government continues to channel state and private financing into industrial and manufacturing parks. The currency devaluation will provide a short-term boost to export growth. However, longer-term sustainable growth will depend on economic diversification and additional efforts to combat inflation while protecting private sector access to capital.

Government begins to release imprisoned politicians

Authorities released opposition **Oromo Federalist Congress (OFC)** chairman **Merera Gudina** from prison on 17 January.⁴⁷ Merera is the highest-profile beneficiary of the government's amnesty for imprisoned politicians (see *ARC Briefing Ethiopia January 2018*). Attorney general **Getachew Ambaye** had publicly announced the pardon of Merera and 527 other prisoners two days earlier.⁴⁸ It is unclear how many of the other prisoners were released. Getachew provided further details about the parameters of the government's amnesty programme. Getachew clarified that the amnesty does not cover individuals suspected of involvement in acts that led to deaths or serious injury, or damage to infrastructure, or those involved in "*conspiracy to dismantle the constitutional order by force*".⁴⁹ Security forces arrested Merera in December 2016 after he returned to Ethiopia from testifying in front of the **European Parliament** about the government's crackdown on the initial outbreak of anti-government protests in the **Oromia Regional State**.⁵⁰ The government alleged that Merera had links

³⁹ www.imf.org.

⁴⁰ www.imf.org.

⁴¹ www.imf.org.

⁴² www.imf.org.

⁴³ www.imf.org.

⁴⁴ www.imf.org.

⁴⁵ www.imf.org.

⁴⁶ www.imf.org.

⁴⁷ The Ethiopian Herald, 17 Jan 2018.

⁴⁸ The Ethiopian Herald, 17 Jan 2018.

⁴⁹ The Ethiopian Herald, 17 Jan 2018.

⁵⁰ The Reporter, 21 Jan 2018.

to terrorist groups and what it described as “*anti-peace groups*”⁵¹ in breach of the October 2016 state of emergency. Merera’s release subsequently became a long-standing demand of **Oromo** protesters.⁵² Following his release, Merera called on the EPRDF to begin “*honest negotiations*”⁵³ with the opposition. Merera warned of further political violence if the government does not open political space for the opposition and create employment opportunities for young Ethiopians.⁵⁴

Political tensions persist despite the government’s recently announced political reform programme. On 20 January, federal security forces and state special security forces opened fire, killing at least six people at a religious festival marking the Ethiopian Orthodox Tewahedo festival of Timkat (Epiphany) in **Weldiya (Amhara Regional State)**.⁵⁵ A member of the security forces was also killed during the violence.⁵⁶ The clashes were reportedly triggered when the crowds that had been singing religious songs began singing anti-government songs and throwing stones.⁵⁷ Weldiya was relatively unaffected during the summer 2016 anti-government protests in Amhara.⁵⁸ However, following the killings, protesters allegedly blocked roads around the town and burned a number of locally owned businesses.⁵⁹ On 23 January, security forces allegedly killed at least three protesters in **East Shewa Zone (Oromia)** during demonstration demanding an end to state violence.⁶⁰ On the same day, thousands of demonstrators protested in **Gurage Zone (Southern Nations, Nationalities, and Peoples’ Regional State)** over failure of government to deliver a long-promised hospital.⁶¹

The release of Merera days before the security crackdown in Weldiya is why the opposition and non-governmental organisations (NGO) were sceptical about the validity of Hailemariam’s promised political reforms. The release of the political prisoners is unlikely to end Ethiopia’s political tensions, unless accompanied by meaningful political reforms. It is unlikely that the EPRDF will embark on any such reforms before the local elections in May, which the EPRDF will dominate.

Planner

March 2018 (**Ethiopia**) *Horn Affairs*. **Ethiopian People’s Revolutionary Democratic Front (EPRDF)** to hold congress;

2018 (**Ethiopia**) *Addis Fortune*. Local elections;

Chronology

29 Jan 2018 **Addis Ababa (Ethiopia)** *SUNA*. Ethiopia, **Egypt** and **Sudan** agree to form joint political committee to reach consensus on the **Grand Ethiopian Renaissance Dam (GERD)**;

24 Jan 2018 **Addis Ababa (Ethiopia)** *Egypt Independent*. The foreign minister, **Workneh Gebeyehu**, commits to resolving GERD dispute with Egypt through dialogue;

23 Jan 2018 **Amhara (Ethiopia)** *Press release*. The **United Nations** calls for investigation into death of seven people during clashes between protesters and security forces in **Weldiya**;

23 Jan 2018 **Oromia (Ethiopia)** *Addis Standard*. Security forces allegedly kill at least three protesters in **East Shewa Zone** during demonstrations over state violence;

⁵¹ FBC, 1 Dec 2016.

⁵² Deutsche Welle, 17 Jan 2018.

⁵³ Deutsche Welle, 17 Jan 2018.

⁵⁴ AFP, 17 Jan 2018.

⁵⁵ Addis Standard, 21 Jan 2018.

⁵⁶ Reuters, 22 Jan 2018.

⁵⁷ Addis Standard, 21 Jan 2018.

⁵⁸ Source, security analyst, Ethiopia.

⁵⁹ United Nations News Centre, 22 Jan 2018.

⁶⁰ Addis Standard, 23 Jan 2018.

⁶¹ Addis Standard, 23 Jan 2018.

- 23 Jan 2018 **SNNPR (Ethiopia)** *Addis Standard*. Thousands protest failure of government to deliver promised hospital;
- 23 Jan 2018 **Addis Ababa (Ethiopia)** *AFP*. Opposition **Oromo Federalist Congress (OFC)** chairman **Merera Gudina** calls for negotiations between the opposition and the government;
- 22 Jan 2018 **Addis Ababa (Ethiopia)** *Reuters*. Prime minister **Hailemariam Desalegn** rejects possibility of **World Bank** mediation over **Grand Ethiopian Renaissance Dam**;
- 20 Jan 2018 **Amhara (Ethiopia)** *The Reporter*. Seven people die in clashes between protesters and security forces during religious procession in Weldiya;
- 20 Jan 2018 **(Ethiopia)** *VOA*. The **United Nations Commission on Human Rights** calls on government to release all political prisoners;
- 18 Jan 2018 **(Ethiopia)** *AP*. **Egypt** president **Abdel Fattah Al-Sisi** expresses his “*extreme concern*” over the GERD;
- 17 Jan 2018 **Addis Ababa (Ethiopia)** *Ethiopian Herald*. Authorities release imprisoned OFC chairman Merera;
- 15 Jan 2018 **Addis Ababa (Ethiopia)** *Ethiopian Herald*. Attorney general **Getachew Ambaye** says government has identified 528 prisoners for release under amnesty programme;
- 12 Jan 2018 **(Ethiopia)** *Press release*. The **International Monetary Fund (IMF)** concludes Article IV consultation with Ethiopia, estimating growth of 9% in 2016/2017 and 8.5% in 2017/2018;
- 12 Jan 2018 **Addis Ababa (Ethiopia)** *BBC*. Court sentences 30 members of opposition group **Ginbot 7** to prison sentences of between 15 and 18 years;
- 11 Jan 2018 **(Ethiopia)** *Financial Services Monitor Worldwide*. The **World Bank** projects growth of 8.2% in 2018 and 7.8%;
- 11 Jan 2018 **Border (Ethiopia)** *Xinhua*. **Sudan** and Ethiopia agree to deploy a joint security force to manage border insecurity between the **Blue Nile State** (Sudan) and **Benishangul-Gumuz Regional State**;
- 4 Jan 2018 **Addis Ababa (Ethiopia)** *Press release*. NGO **Human Rights Watch** raises concerns about the government’s pledge to release political prisoners;