

AFRICA RISK CONSULTING

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Ethiopia Summary 26 November 2024

Government reveals plans to raise ETB 900 billion (\$7.39 billion) to pay off debts owed by Ethiopia's state-owned companies to the country's Commercial Bank of Ethiopia (CBE). This comes shortly after United States-headquartered Fitch Ratings, upgrades Ethiopia's Long-Term Local-Currency (LTLC) and Issuer Default Rating (IDR). Government and security forces are accused of forcibly conscripting people into the armed forces to fight in Amhara Region. Somalia refuses to allow Ethiopia to take part in the upcoming AU Support and Stabilisation Mission in Somalia (AUSSOM) amid an ongoing diplomatic fallout between the two neighbouring states.

Government plans bond issuance to pay off state-owned companies' debt...

The government tabled a bill before the **House of People's Representatives** on 5 November proposing that **Ethiopia** issue new bonds to pay off debts owed by Ethiopia's state-owned companies to the country's **Commercial Bank of Ethiopia (CBE)**.¹ The current draft of the bill stipulates that government wants to raise ETB 900 billion (\$7.39 billion) of which ETB 845.4 billion (\$6.95 billion) will be to settle debts owed to the CBE and a further ETB 54.6 billion (\$450m) to recapitalise the state-owned bank.

The CBE has accrued a large volume of non-performing loans as a result of lending money to Ethiopia's state-owned companies. Nearly all the capital planned from the proposed bond issuance will go towards settling the outstanding arrears of five state-owned companies:

- **Ethiopian Electric Power (EEP)** which owes ETB 191 billion (\$1.57 billion);
- **Ethiopian Sugar Corporation (ESC)** which owes ETB 110 billion (\$900m);
- **Ethiopian Railway Corporation (ERC)** which owes ETB 97 billion (\$797m);
- **Ethio Engineering Group (EEG)** which owes ETB 22 billion (\$181m);
- **Ethiopian Electric Utility (EEU)** which is a separate entity from the EEP and owes the CBE ETB 3 billion (\$24.6m).²

These companies accrued this debt to finance new projects as well as to pay off older foreign-denominated debt.³ However, as a state-owned bank, the CBE was under pressure to finance these state-owned companies and received assurances from the government that the loans were secured. As such, the CBE was willing to accept higher levels of risk from these companies. These loans were also accrued during a period in which Ethiopia had a much more relaxed attitude towards debt that was accrued as the country's economy was growing fast enough to ensure that the debt burden remained manageable. However, this came to a halt in December last year when Ethiopia defaulted on its debt repayment leading to a prolonged and difficult period of debt restructuring and fiscal consolidation.

The proposed bonds will be 10-year government Birr-denominated bonds. The finance ministry, the **National Bank of Ethiopia (NBE)** (central bank), and the CBE will determine the interest of the bonds.

Ethiopia currently expects its domestic debt to decline to around 14.8% of real GDP this year with overall debt increasing to 43.6% of GDP. This increase is primarily due to the **United States (US)**

¹ Addis Standard, 5 Nov 2024

² The Reporter, 9 Nov 2024

³ Bloomberg, 15 Nov 2024

dollar-denominated debt accrued under the **International Monetary Fund's (IMF) Extended Credit Facility (ECF)** programme. This proposed new debt will deepen the country's debt burden but will not be viewed as too much of a concern as the federal government is essentially assuming direct responsibility for debt it had guaranteed anyway.

... while Fitch Ratings upgrades Ethiopia's domestic debt

Ethiopia's domestic debt burden is currently viewed as improving in stability. US-headquartered global ratings agency, **Fitch Ratings**, upgraded Ethiopia's **Long-Term Local-Currency (LTLC) Issuer Default Rating (IDR)** to 'CCC+' from 'CCC-' on 25 October.⁴ However, Fitch also affirmed Ethiopia's Long-Term Foreign-Currency IDR at 'RD' (Restricted Default).

It should be noted that a CCC+ rating is still considered highly speculative and sub-investment grade. As such, Fitch Ratings considers Ethiopia's domestic bonds to be a 'substantial credit risk'. However, the upgrade does reflect an increased confidence in Ethiopia's Birr-denominated debt instruments. This is due to easing financing pressures, improved macroeconomic stability, and increased confidence that local-currency obligations will not be included in the ongoing debt restructuring. This is, in part, due to the belief that the country is less reliant on domestic financing due to the ECF funding.

Fitch did issue this upgrade prior to the proposed new bill. As such, it is uncertain as to whether the government's plans to raise an additional \$7.39 billion would have impacted the agency's decision to issue the credit rating upgrade. However, the other two major rating agencies US-headquartered **Moody's** and **S&P Global** are still expected to issue their next assessments in early 2025 by which time the legislature is expected to have approved the new debt issuance.

Security forces accused of forced conscription and arbitrary detentions

Ethiopia's economic situation may be stabilising and even improving; however, the country's security situation remains tenuous with low-level conflicts persisting in the **Oromia** and **Amhara** regions. These ongoing conflicts have placed pressure on the resources and manpower of the **Ethiopian National Defence Force (ENDF)** which has reportedly once again begun forcibly conscripting young men.⁵ Local reports are that security forces are press-gangng youths across the country including in Ethiopia. These men are then transported to military training camps before being deployed, predominantly in Amhara to combat the **Fano** militia fighters.

Young day labourers, migrants from **South Ethiopia**, and individuals from poorer urban areas are believed to be particularly targeted by these conscription operations. Reports further allege that many of these conscription drives are being managed by **Oroma** militia groups aligned with the government.

Allegations of forced conscription have frequently been made in Ethiopia, particularly during the **2020-2022 Tigray War** during which both sides forced men into their armed forces. The government could attempt to pursue legal conscription but this would force the state to acknowledge the severity of the country's security situation. The current system enables the government to forcibly recruit 'volunteers'.

In another development related to the ongoing Amhara conflict, the global humanitarian nongovernmental organisation, **Amnesty International**, released a statement on 6 November accusing the government of committing arbitrary detentions.⁶ Amnesty International reported that thousands of people have been detained without charge in Amhara and held in four makeshift detention camps located in the towns of **Dangla, Seraba (Chilga), Chorisa (Kombolcha), and Shewa Robit**.

⁴ Fitch Ratings, 25 Oct 2024

⁵ Borkena, 29 Oct 2025

⁶ Amnesty International, 6 Nov 2024

Amnesty International and other human rights groups have repeatedly accused the Ethiopian government of committing arbitrary detentions over the past four years. These groups claim that the government routinely use mass arbitrary detention to squash dissent and target, academics, journalists, and rights activists.

Such extrajudicial tactics have done little to improve Ethiopia's security environment and could aid recruitment for anti-government groups. Regardless, it is clear that the security situation in Amhara is not improving. Indicative of this, gunbattles between security forces and fighters belonging to the Fano militia were reported in multiple locations in recent weeks. The worst of these clashes occurred in the **South Wollo** and **North West Gondar**, and the **Giga** area of **Gojjam**.⁷ It is unclear how many fatalities have been incurred in these clashes as the death tolls have not been independently verified but unconfirmed reports indicate that between a few dozen and as many as 200 people have been killed in recent weeks.

The poor security situation appears to have compelled the ENDF to increase its use of drones despite the high levels of civilian casualties incurred in such attacks. On 26 October, a reported 43 people – mostly civilians – were killed in a drone strike on **Arge** village located in **North Gojjam Zone**.⁸ The ENDF's use of drones is causing high-casualty events but their efficacy in combating insurgents is debatable. The high civilian casualties resulting from these attacks will fuel increased resentment towards the ENDF and federal government and bolster support for the Fano militia groups.

Somalia excludes Ethiopia from peacekeeping mission and expels Ethiopian diplomat.

The ENDF may soon have additional troops to address the country's internal conflicts after the Somali government confirmed on 9 November that it would not accept Ethiopian forces being included in the next **African Union (AU)** peacekeeping mission.⁹ The current mission, the **AU Transition Mission in Somalia (ATMIS)** of which the ENDF is a part, is set to conclude on 31 December and be replaced with the **AU Support and Stabilisation Mission in Somalia (AUSSOM)**.

Ethiopia has formed part of the AU's regional force in Somalia since 2006. However, Somalia has stated it no longer wishes to have ENDF troops in its territory due to its ongoing fallout with Ethiopia, related to Ethiopia's controversial 1 January memorandum of understanding (MoU) with the breakaway state of **Somaliland**. Under this MoU, Somaliland will agree to lease Ethiopia a 20km stretch of coastal land on which Ethiopia could develop a commercial port and naval base. In return, Somaliland would secure equity in the commercial port, and more significantly Ethiopia would recognise Somaliland as an independent state.

Somaliland has had de facto independence ever since it broke away from Somalia in 1991 but few international states formally recognise it as an independent state and Somalia still claims Somaliland as its sovereign territory. Accordingly, Somalia viewed the 1 January agreement as a violation of its sovereignty and has even denounced the MoU as an act of aggression.¹⁰ Further underscoring its anger over the MoU, Somalia expelled the Ethiopian ambassador in April.¹¹ On 5 November, Somalia's foreign minister, **Ahmed Moalim Fiqi**, indicated that his government would soon order Ethiopia to relocate its embassy out of the **Villa Somalia** presidential palace.¹² Ethiopia has housed its embassy at the Somali presidency since 2006 as a sign of the particularly close ties between the two countries.

Yet, Ethiopia is also at risk of losing its MoU with Somaliland. The breakaway state held its presidential election on 13 November and elected opposition leader **Abdirahman Mohamed Abdullahi** (known as **Irro**) as its new president.¹³ Although Irro is also committed to pursuing international recognition for Somaliland, he is believed to be less enthusiastic about the MoU with

⁷ Borkena, 8 Nov 2024

⁸ VOA, 12 Nov 2024

⁹ Andalou Agency, 10 Nov 2024

¹⁰ BBC, 2 Jan 2024

¹¹ BBC, 4 Apr 2024

¹² Hiiraan, 5 Nov 2024

¹³ BBC, 19 Nov 2024

Ethiopia. He has, thus far, refused to endorse the agreement and his **Waddani** party has stated that it first needs to study the agreement in detail.

Ethiopia's relationship with Somalia is unlikely to soon recover from this fallout and if the agreement with Somaliland falls through Ethiopia would have sacrificed an important regional relationship and substantial influence for nothing.

Planner

2024 **Addis Ababa (Ethiopia) Africa Union (AU) – Canada** Forum

2024 **(Ethiopia) Horn of Africa** heads of state summit

Chronology

20 Nov 2024 **Addis Ababa (Ethiopia) Fresh Plaza**. Ethiopia records the first export of refrigerated fruit and vegetables to **Europe** marking the start of a potentially lucrative revenue source;

20 Nov 2024 **Addis Ababa (Ethiopia) Ethiopian Herald**. **Japan** and Ethiopia commemorate 70 years of bilateral development cooperation;

20 Nov 2024 **Addis Ababa (Ethiopia) Bloomberg**. Officials at the state-owned power utility, **Ethiopian Electric Power (EEP)**, confirm plans to export power to **Tanzania** via **Kenya**;

19 Nov 2024 **Addis Ababa (Ethiopia) Addis Standard**. The **House of People's Representatives** approves the **Federal Civil Service Bill** which will introduce structural changes to public sector pay scales;

19 Nov 2024 **Addis Ababa (Ethiopia) ENA**. Ethiopia's state minister of foreign affairs, **Mesganu Arga**, meets with the **United States (US)** assistant secretary of state for **East Africa, Sudan, and South Sudan, Vincent D. Spera**, during which the two diplomats confirm their respective countries' commitment to enhancing bilateral ties;

18 Nov 2024 **Addis Ababa (Ethiopia) Andalou Agency**. The defence ministry issues a statement denying claims that a military helicopter crashed near the city of **Bahir Dar**;

16 Nov 2024 **Addis Ababa (Ethiopia) The Reporter**. Officials at the **Ethiopian Securities Exchange (ESX)** believe that at least 100 companies will list on the exchange when it eventually begins trading;

16 Nov 2024 **Addis Ababa (Ethiopia) The Reporter**. The opposition **Ethiopian People's Revolutionary Party (EPRP)** calls on the government to stop the alleged targeting of civilians in drone strikes;

15 Nov 2024 **Addis Ababa (Ethiopia) Borkena**. Three civilians are killed in a suspected drone strike in the **Shoa** area of **Amhara** region;

14 Nov 2024 **Addis Ababa (Ethiopia) Addis Standard**. The central bank, the **National Bank of Ethiopia (NBE)**, introduces new eased regulations allowing exporters to retain up to 50% of the foreign currency they generate;

12 Nov 2024 **Geneva (Switzerland) Addis Standard**. The **United Nations (UN) Human Rights Council (UNHRC)** conducts a review of Ethiopia's human rights practices;

11 Nov 2024 **Addis Ababa (Ethiopia) WHO**. Ethiopian health officials and the **World Health Organisation (WHO)** commence a polio vaccination campaign aimed at immunising 5.6 million children across the **Afar, Amhara, Gambella, and Oromia** regions as well as Addis Ababa;

11 Nov 2024 **Addis Ababa (Ethiopia) ENA**. Ethiopia and **Japan** sign a \$9.6m grant agreement to support an education project in Ethiopia;

9 Nov 2024 **Addis Ababa (Ethiopia)** *The Reporter*. The finance ministry announces that it will end the 'franco valuta' import scheme, which allowed importers to access foreign exchange outside of the banking system before the end of November;

7 Nov 2024 **Bishoftu (Ethiopia)** *ENA*. The **28th Ethio-Djibouti Joint Border Administrations and Commissioners Meeting** is held in **Bishoftu (Oromia region)**;

6 Nov 2024 **Addis Ababa (Ethiopia)** *ENA*. Prime Minister **Abiy Ahmed** hosts **Sierra Leonian** president **Julius Maada Bio** on the sidelines of the **World without Hunger Conference** in Addis Ababa;

6 Nov 2024 **Addis Ababa (Ethiopia)** *ENA*. Prime Minister **Abiy Ahmed** congratulates former **United States (US)** president **Donald Trump** on his re-election;

1 Nov 2024 **Addis Ababa (Ethiopia)** *Borkena*. A landslide kills at least six people in the **Konta** zone in the **Southwest Region**;

31 Oct 2024 **Addis Ababa (Ethiopia)** *Andalou Agency*. Prime Minister **Abiy Ahmed** alleges that some foreign embassies in Ethiopia are participating in the country's currency black market;

31 Oct 2024 **Addis Ababa (Ethiopia)** *VOA*. A landslide kills an estimated nine people in the **Sidama Region**;

30 Oct 2024 **Addis Ababa (Ethiopia)** *Borkena*. Ethiopia signs a EUR 30m (\$31.58m) grant agreement with **Germany's KfW Development Bank** to fund agricultural projects;

29 Oct 2024 **Addis Ababa (Ethiopia)** *ENA*. The legislature approves the recent cabinet appointments announced by Prime Minister **Abiy Ahmed** on 18 October;

26 Oct 2024 **Putrajaya (Malaysia)** *Africa News*. Prime Minister **Abiy Ahmed** meets with his Malaysian counterpart, **Anwar Ibrahim (2022-present)**, in Putrajaya during which the two leaders pledge to enhance bilateral ties;

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