

BEST'S COUNTRY RISK REPORT

Ethiopia CRT-5

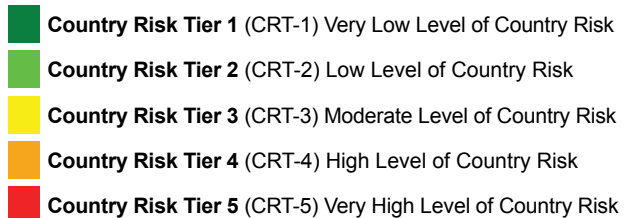
August 22, 2018

Region: Sub-Saharan Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Ethiopia, a CRT-5 country, has a very high level of economic, political, and financial system risk.
- Ethiopia is one of sub-Saharan Africa's fastest developing economies, growing 10.9% in 2017. Medium-term growth is forecast in the 8.0%-8.5% range. Although the economy is mainly agriculturally based, the construction industry and government investment in infrastructure have made substantial gains that have fueled recent growth. Over time, these investments should help make the economy more diverse and globally competitive. Additionally, there are plans to explore the hydropower sector.
- The majority of countries in Sub-Saharan Africa are categorized as CRT-5, the exceptions being Mauritius at a CRT-3 and South Africa at CRT-4.



Regional Summary: Sub-Saharan Africa

- Africa's growth prospects are expected to improve slightly on rising domestic demand, stronger global growth, a recovery in agricultural production, and modestly increasing commodity prices. However, economic growth continues to lag population growth, making any significant progress towards human development goals difficult.
- The region faces several headwinds that limit potential, including political uncertainty, challenging business environments that erode investor confidence, fiscal pressures, high debt, poverty, growing numbers of refugees, corruption, inadequate infrastructure, and an unstable security environment.
- The IMF estimates that about 40% of the region's low-income countries have a high risk of debt distress or are already in debt distress. A large share of the region's sovereign debt is denominated in foreign currency, and an appreciating dollar/euro would lead to larger debt burdens.
- Inflationary pressures have subsided owing to monetary policy, increasing foreign exchange reserves, and growing exchange rate flexibility.

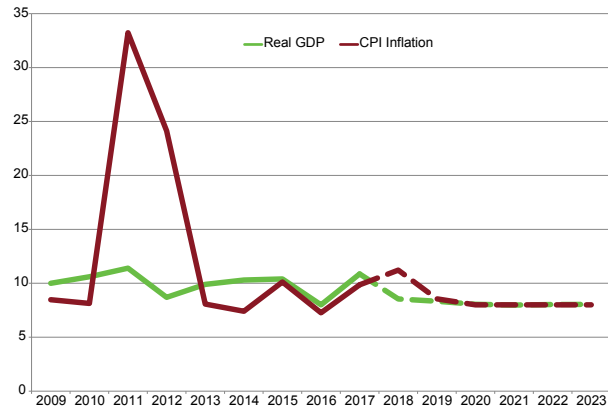
Vital Statistics 2017		
Nominal GDP	USD bn	80.87
Population	mil	92.7
GDP Per Capita	USD	873
Real GDP Growth	%	10.9
Inflation Rate	%	9.9
United Nations Estimates		
Literacy Rate	%	49.1
Urbanization	%	20.4
Dependency Ratio	%	82.1
Life Expectancy	Years	62.6
Median Age	Years	17.9
Insurance Statistics		
Insurance Regulator	National Bank of Ethiopia	
Premiums Written (Life)	USD mil	15
Premiums Written (Non-Life)	USD mil	299
Premiums Growth (2016 - 2017)	%	6.3
Regional Comparison		
	Country Risk Tier	

Ethiopia	CRT-5
Kenya	CRT-5
Tanzania	CRT-5
Gabon	CRT-5
Egypt	CRT-5
Nigeria	CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Growth (%)



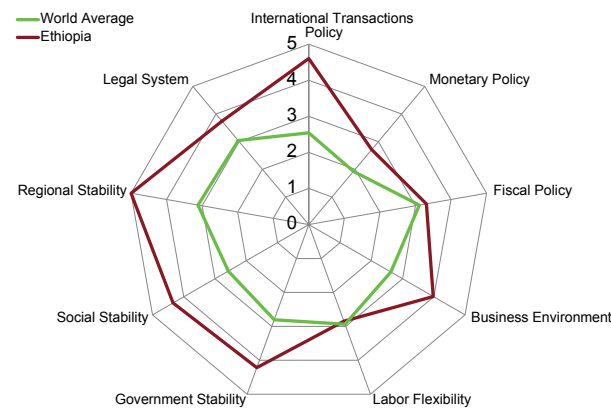
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Very High

- Agricultural, particularly subsistence farming, remain the cornerstone of Ethiopia's economy, accounting for around 40% of GDP, 80% of exports, and 85% of the workforce.
- The government has said it would like to liberalize its economy, but it still maintains state control over many key industries. The IMF has recommended privatization of the energy and telecommunications sectors, but this proposal has been resisted, as it would threaten the government monopoly in these industries.
- Additional headwinds include high levels of bureaucracy, insufficient infrastructure, low levels of human capital development, shortages of hard currency, the potential for labor strikes and government protests, all of which could affect the business operating environment.
- Ethiopia has one of sub-Saharan Africa's lowest GDPs per capita, approximately USD870 in 2017. To help combat poverty, in 2015 the government introduced its second five-year development plan, the Growth and Transformation Plan, aimed at improving infrastructure and rural housing.

Political Risk Summary

Score 1 (best) to 5 (worst)

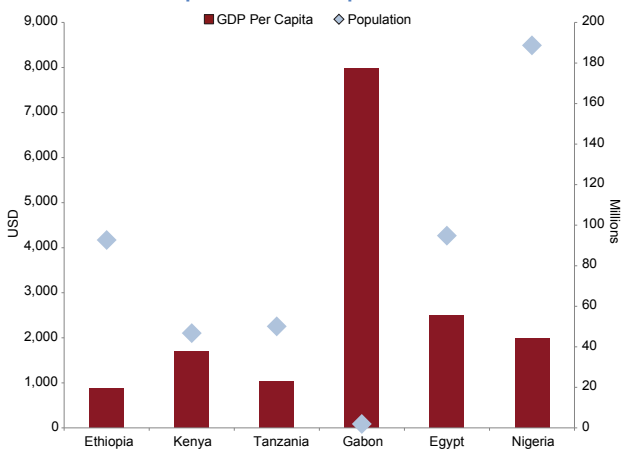


Source: A.M. Best

Political Risk: Very High

- Politics in Ethiopia is dominated by the People's Revolutionary Democratic Front (EPRDF), comprised of four different regional and ethnic parties. Historically, the most influential of the four is the Tigrayan People's Liberation Front (TPLF), which dominates the economy and military.
- In April 2018, the parliament approved as the country's new prime minister Abiy Ahmed, who is a member of a rival group, the Oromo People's Democratic Organization (OPDO). The previous prime minister resigned owing to protests.
- The government has announced two states of emergencies since October 2016. The first one lasted 10 months; the second one was issued on February 2018 and is scheduled to end in August 2018.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very High

- Ethiopia's insurance regulator is the National Bank of Ethiopia through the Insurance Council and an Insurance Controller's Office.
- The National Bank of Ethiopia devalued the currency, the birr, by 15% relative to USD in October 2017 and has tightened monetary policy.
- External debt levels are growing. According to the IMF, approximately USD1.5 billion in debt payments will come due in fiscal year 2017/2018. The recent budget has been more restrictive, but social needs remain substantial.
- The banking system seems relatively stable, due to a low level of non-performing loans, at 2.6%, and sufficient levels of capitalization.