

9.2% Real GDP growth 2024/25 (official); IMF 9.2% for 2026	~\$130 bn Nominal GDP 2025; fell in \$ after the float	~\$990 GDP per head 2025 (IMF); low income	~70% Workers in agriculture (World Bank)	−0.9% Current account % of GDP 2025 (−5.3% in 2019)
15.1% CPI Aug 2026; peak ~34% (2022)	1.8 m New labour-market entrants each year	~136 m Population 2025; Africa's 2nd largest	~32% Poverty at \$2.15/day 2021 (27% in 2016); Gini ~0.31–0.35	57 → 164 Birr per \$: before July 2024 float → Oct 2026

STRUCTURE OF THE ECONOMY

	% OF GDP (2020 EST.)	% OF JOBS (2013 EST.)
Agriculture	35.8	72.7
Industry	24.5	7.4
Services	37.0	19.9

- Industry's share grew through construction (dams, roads, housing); factories added little → Lewis-model shift only partly happened.
- AD mix:** public investment-led (I and G) funded by state banks and foreign loans; exports small → trade deficits, dollar shortages.
- Developmental state:** state owns land, largest bank, airline; plans growth; opening up since 2018.

MAIN INDUSTRIES

- Agriculture:** teff, maize, wheat, livestock; rain-fed, drought-prone.
- Coffee:** Africa's largest producer; record ~\$2.6 bn (2024/25).
- Gold:** ~\$3.5 bn exports (2024/25) after the float cut smuggling.
- Ethiopian Airlines:** state-owned, Africa's largest airline; ~\$6 bn revenue.
- GERD:** 5,150 MW hydro dam, >\$5 bn, inaugurated Sep 2025.
- Industrial parks:** Hawassa garments; hit by AGOA loss (2022).

GROWTH STORY: TURNING POINTS

1974–91 Derg: command economy; 1983–85 famine	2004–19 ~10% growth a year (official), public investment	2010 Growth & Transformation Plan; GERD begun 2011	2016 Hawassa Industrial Park; Djibouti railway opens
2020–22 Tigray war: ~3 m displaced; AGOA lost 2022	Dec 2023 Default on \$1 bn Eurobond	Jul 2024 Birr floated (57 → ~106 in a week); IMF \$3.4 bn	2025 GERD opens; inflation ~13%; growth 9.2%

Why the model hit limits: investment funded by debt and money creation; exports grew too slowly to repay dollar loans; war, COVID and drought.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Debt distress	Default Dec 2023	External debt
Currency collapse	57 → 164 birr per \$	Exchange rates
Inflation	~34% (2022); 15.1% (Aug 2026)	Monetary financing
Conflict	Tigray: ~3 m displaced	LRAS, development
Drought	15 m rely on food aid	Supply shocks, aid
Jobs	1.8 m entrants a year	Demographic dividend
Small exports	Coffee, gold, flowers	Primary dependency
Low incomes	GDP/head ~\$990	Measuring development

INEQUALITY & DEVELOPMENT

- National-line poverty 39% (2004) → 24% (2016): one of Africa's fastest falls.
- At \$2.15 a day: 27% → 32% (2016–21): war, COVID, drought, inflation.
- Gini ~0.31–0.35: low, as most people are poor smallholders.
- HDI 0.492 (2022), 176th of 193.
- Productive Safety Net Programme; large aid recipient.
- \$ GDP/head fell ~\$1,500 → ~\$990 (2023–25) due to the float.

State-led or market-led? For: growth, poverty fall, GERD, airline. Against: default, inflation, few factory jobs, small exports.

CLASSIC CHAINS USING ETHIOPIA

Developmental state: state directs saving and loans to infrastructure → lower transport and power costs → productivity ↑ → LRAS ↑ → rapid growth from a low base.

Default: dollar debt grows faster than exports → dollar shortage → cannot pay interest → default → borrowing costs ↑, investment ↓.

Float: birr floats → official rate meets market rate → exporters use banks instead of the black market → FX supply ↑ → rationing ends; but import prices ↑.

A · DATA RECALL (1 MARK EACH)

1. Official growth, average 2004–2019: _____
2. Birr per \$ before the July 2024 float: _____
3. Month and year of the debt default: _____
4. Share of workers in agriculture: _____
5. Inflation peak (2022, approx.): _____
6. Size of the 2024 IMF programme: _____
7. GDP per head in 2025 (approx.): _____
8. Capacity of the GERD: _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

ETHIOPIA EVIDENCE	LETTER	CONCEPT
1. Central bank lent directly to government		A. Developmental state
2. State plans and directs credit to priority sectors		B. Depreciation / market-clearing rate
3. Birr falls from 57 to 106 per \$ in a week		C. Monetary financing → inflation
4. US removes duty-free AGOA access		D. Negative externality across borders
5. Egypt fears less Nile water from the GERD		E. Protectionism / trade restriction
6. Dollar GDP per head falls while real GDP grows		F. Limits of GDP at market exchange rates

C · COMPLETE THE CHAINS

1. Public investment in roads and power → _____ → productivity rises → _____
2. Foreign debt grows faster than exports → _____ → _____.
3. War spending financed by the central bank → _____ → _____.

D · EXAM-STYLE QUESTIONS

Extract. Until July 2024 the birr was fixed at about 57 per US dollar; the black-market rate was more than double. Floated with IMF support, it fell to about 106 per dollar within a week. Inflation fell from 30% (2023) to about 13% (2025) after the central bank stopped lending to the government. The current account deficit narrowed from 4.2% of GDP (2024) to 0.9% (2025).

(5 marks) With reference to the extract, explain one reason why the current account deficit narrowed after the birr was floated.

(8 marks) Examine two reasons why Ethiopia defaulted on its external debt in 2023.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate whether a state-led approach is the most effective strategy for development in a low-income country such as Ethiopia.

ARGUMENTS FOR (WITH ETHIOPIA EVIDENCE)	ARGUMENTS AGAINST / LIMITS
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. About 10% a year (accept 9–11%)
2. About 57
3. December 2023
4. About 70%
5. About 34% (accept 30–35%)
6. \$3.4 bn (Extended Credit Facility)
7. About \$990 (accept about \$1,000)
8. 5,150 MW

B · MATCHING

1 → C · 2 → A · 3 → B · 4 → E · 5 → D · 6 → F

C · CHAINS

1. Lower transport and energy costs for firms → LRAS shifts right / faster growth.
2. Shortage of foreign currency → cannot pay interest/principal → default; borrowing costs rise, investment falls.
3. Money supply rises → excess demand / demand-pull inflation (and weaker birr on the black market).

D · EXAM-STYLE GUIDANCE

5 marks: Define the current account or depreciation (1). Use the extract: birr from 57 to ~106 per dollar; deficit from 4.2% to 0.9% of GDP (1–2). Chain: depreciation → exports cheaper in foreign currency, imports dearer → export revenue ↑, import spending ↓ → deficit narrows (2). Alternative: with the official rate close to the market rate, exporters (e.g. gold) sell through official channels instead of smuggling → recorded exports rise.

8 marks: Knowledge/application: heavy foreign borrowing for dams, rail, the airline and state firms; exports (coffee, flowers) too small to earn the dollars; overvalued birr and dollar shortages; Tigray war, COVID and drought cut revenue. Analysis: chain from debt growing faster than exports → dollar shortage → missed \$33 m coupon. Evaluation (2 points for full marks): debt/GDP was moderate (~40%), so the currency mismatch mattered more than the level; restructuring under the Common Framework was slow; default may free resources for recovery.

E · 25-MARK PLAN: POINTS TO LOOK FOR**For a state-led approach**

- ~10% growth a year 2004–19 (official).
- National-line poverty 39% → 24% (2004–16).
- Markets would not have built GERD, rail, rural roads.
- Ethiopian Airlines: a successful state firm.
- China and South Korea used similar models.

Against / limits

- Default (2023) and inflation ~34% (2022).
- Credit and dollars rationed away from private firms.
- Few factory jobs; exports small.
- Government failure: debt-funded projects, poor data.
- Shift to markets since 2024 (float, IMF, telecoms opening).

Judgment: state-led investment can launch growth from a very low base, but sustaining it needs exports, private investment and stable money. Sequencing matters: Ethiopia stayed state-led too long. Compare China, Vietnam and Kenya.