Is Ethiopia's Sovereign Debt Sustainable?

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Determining the sustainability of a developing country's public debt is a challenge. This is because most developing countries in general and Sub Saharan Africa (SSA) countries in particular face an undiversified export base, a large share of agriculture in GDP (which itself is characterized by low yields) with large share of labor force in the primary sector, and complex governance and instability problems. Debt management becomes even more complex if the countries in question have persistent current account and budget deficits and low savings and investments rates relative to their GDPs. Most of these countries follow public investment-led growth strategy, with all the dangers for the debt equation to unravel if and when the government-led growth "stumbles or stagnates."[2] Such a scenario worries lending institutions especially when the public investment programs happen to be externally financed.[3] Whenever the IMF and the Work Bank think that the public debt of the debtor countries could be unsustainable, as in the case of Ethiopia now, they raise warning flags.[4] It worries citizens and observers as well since the adverse effects of debt crisis hit hard the poorest segment of the population, often sparking social unrest, which in turn negates some of the economic theories of positive linkages between debt and development.[5] Despite the current optimism about Africa's growth opportunities and the increased appetite of emerging markets by fund managers on the SSA region, according to some estimates[6] about two-thirds of the nations in the developing world are spending a significant portion of their export earnings on external debt repayments.

Although sovereign debts have usually been at the root of many of the financial crises in recent history, scholars allude to the complexity of assessing the sustainability of a nation's public debt and hence the lack of consensus on the most apt approach. The financial economics literature identifies various models and proxies that could be used for the purpose of gauging the sustainability of a country's debt. The commonly used benchmarks to measure the sustainability of a country's debt include, *inter alia*, a country's: (i) debt to GDP ratio; (ii) debt to export ratio; (iii) debt to revenue ratio; (iv) trade balance; (v) the primary fiscal gap; (vi) debt service to budgetary revenue; (vii) interest to GDP ratio; and (viii) interest to domestic budgetary revenue. We make a number of important observations with respect to the sustainability of Ethiopia's public debt by invoking relevant benchmarks and other contextual variables. To make the text readable we have attempted to keep the technical analysis at the minimum.

In late 2010, Ethiopia adopted the Growth and Transformation Plan (GTP 2010-2015) with rather ambitious targets. The plan was supposed to be driven mainly by growth and productivity improvements

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[2] Bloomberg interview with Ken Ohashi, former World Bank's country director for Ethiopia. http://www.bloomberg.com/news/2011-06-08/ethiopia-s-investment-plan-may-be-unsustainable-world-bank-official-says.html.

[3] Addis Fortune, Vol, 15, No. 753, October 5, 2014. http://addisfortune.net/articles/international-monetary-fund-shifts-policy-battleground-to-consolidated-budget/.

[4] See, for example, The Reporter, September 20, 2014: http://www.thereporterethiopia.com/index.php/news-headlines/item/2536-world-bank-requests-ethiopia-to-prepare-for-debt-risks.

[5] See for example "Ethiopia: International Borrowing and Its Consequences", by Professor Daniel Teferra, http://www.ethiomedia.com/15store/4189

[6] One World News quoting Jubilee Debt Campaign, October 10, 2014. http://oneworld.org/2014/10/10/lending-boom-threatens-new-debt-crises-in-poor-countries/.

in the agricultural sector, industrialization and infrastructure development. Whereas the largely foreign aid and concessional financed infrastructural investment has increased remarkably from a weak base, the most decisive aspect of the plan in terms of agricultural-led growth and industrialization is yet to materialize. Apparently, on the basis of limited information that is available in recent years, there is in fact de-industrialization in many parts of Sub-Sahara Africa (SSA), including Ethiopia, in which the manufacturing sector is unable to cope with the fierce competition coming from cheap imports from Asia.[7] Furthermore, the performance of the agricultural sector, both in total output and productivity, continues to be rather weak. The country faces chronic food deficit and its ability to fill the deficiency from global markets is limited.[8] That is why close to 10% of the population has continued to live on donor community supported safety net programs. The agricultural sector is burdened by complex demographic, economic, environmental and political forces depriving the country's household-based agriculture to play a transformative role and contribute to the country's export earnings and pay off the escalating domestic and external debt. This state of the national economy and the challenges facing the agricultural sector have both immediate as well as long term implications regarding the sustainability of external debt in the country.

Globally, the stock of sovereign debt has been increasing and has now reached to levels higher than they have ever been in times of peace. This is particularly true of countries in the Global North although there are significant disparities across countries. For instance, while the average debt to GDP ratio of OECD countries stands at a 112.5 per cent as of 2014, Estonia appears to have kept her house in order sitting at 14.5 per cent. On the same vein, we note of Japan whose stock of sovereign debt is at a staggering 224 per cent of the size of its overall economy. While Japan isn't facing debt crises despite its very high debt-to-GDP ratio, a major culprit behind the recent financial crises in the Euro-Zone has been excessive borrowing by member countries such as Cyprus, Greece, Ireland, Portugal, etc. A plausible explanation for these differing outcomes of sovereign debt burden is partly due to the fact that Japan's public debt is largely denominated in its local currency, and that the country is experiencing the lowest interest rate in the world. On the other hand, most sovereign debt issued by the Eurozone countries are denominated in Euros or U.S. dollars for which the individual countries didn't have the authority to print. Thus, we see that even lower levels of sovereign debt denominated in a foreign currency [or a currency over which a country does not have monetary policy-making power] can create serious problems for the country.

Lately, SSA's ability to access international bond markets has been on the rise – at least a dozen SSAs countries have been able to successfully access international sovereign bond markets in the last decade alone. These countries issued sovereign debts for a number of reasons including: (i) to finance mega and often turnkey projects; (ii) to help attract foreign direct investment; (iii) to provide a benchmark for sovereign, subnational, and corporate issuances; and (iv) to restructure existing public debt. And, the usual precursors to these issuances were obtaining "independent" evaluation of the investment grade of sovereign debts of these governments which is often done by credit rating agencies (CRAs). The donor community tends to tout an SSA country's sovereign debt rating as a process of facilitating inward capital flows. Nonetheless, empirical evidence shows that the relatively low interest rates in the Global North and portfolio diversification opportunities offered by SSA countries to global investors were the primary

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[7] Several economic theories, empirical analyses and disturbing commentaries have already been advanced in regards to the de-industrialization effect of Chinese economic relationship with Africa. Examples include the following links: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20128.pdf; http://www3.qeh.ox.ac.uk/pdf/qehwp/qehwps175.pdf; http://www.voxeu.org/article/has-china-de-industrialised; https://halshs.archives-ouvertes.fr/file/index/docid/636022/filename/SindzingreChinaSSASept11ResAsie.pdf; and http://online.wsj.com/articles/africas-once-promising-sugar-market-struggles-1413821598.

[8] http://www.worldbank.org/en/news/press-release/2014/09/30/ethiopia-to-benefit-from-world-bank-support-for-social-safety-net

incentives driving the increased demand for sovereign debt instruments issued by countries in the region. Many countries in SSA (including Angola, Republic of Congo, Ivory Coast, Gabon, Ghana, Kenya, Namibia, Nigeria, Rwanda, Senegal, Seychelles, South Africa, and Zambia) have been rated which subsequently allowed them to raise funds through the issuance of sovereign debt instruments. However, it is important to note that at present, a number of these SSA countries have already failed to comply with the terms and conditions of the debt or are engaged in rescheduling and restructuring negotiations. For instance, while Ivory Coast and Seychelles have already defaulted on their sovereign debts, Gabon and Ghana (countries with relative strength in export earnings) are struggling to find money for the repayment of their soon to mature Eurobond.

Following the sovereign rating frenzy in the region, in May 2014, Ethiopia also obtained her own rating from major CRAs, which assigned an average sovereign rating of B, implying that the country is a "highly speculative" investment destination and therefore makes the investment security similar to a subprime mortgage. Notwithstanding this, the rating puts Ethiopia on par with Benin, Burkina Faso, Cameron, Mozambique, Rwanda, Seychelles, and Uganda but a notch below Ghana, Kenya, Senegal and Zambia. The reader needs to be cautioned that credit ratings are not stationary. The CRAs may down-grade or up-grade any country's rating should new developments in that country warrant such an action. In fact, in the report where the grading news was issued, Moody's makes the usual disclaimer and suggests the possibility that Ethiopia's sovereign debt rating could go down if there is "acceleration of external debt that does not support growth and if there is an escalation of political and social tensions". Furthermore, the CRAs are notoriously infamous for weighing State Owned Enterprises' (SOEs') debts for which governments grant explicit and implicit surety in revising sovereign debt ratings. Moody's down-grading of South Africa's sovereign debt rating in early 2013 is a case in point. The same agency was warning Kenya to keep an eye on its State Corporations' debt.

Amidst a growing suspicion that Ethiopia would follow the footsteps of other countries in the region and go for a debut in the international capital markets to quench its growing thirst for funding, the government in Addis Ababa was trying to tout the rating exercise as an effort to attract foreign direct investment (FDI). Nevertheless, in a latest turn of events, the authorities, partly motivated by the higher than expected rating and also pressed by the investment resource gaps, are considering issuing Eurobond starting from early 2015. But here, we raise two important issues: (1) What are the benefits and costs associated with Ethiopia's endeavor to access external commercial borrowing? (2) Is Ethiopia's borrowing trajectory sustainable? In what follows, we attempt to explore plausible answers to these important questions.

On the up side, for a developing and landlocked country like Ethiopia which is trapped in a quagmire of mega projects while at the same time facing low capital formation due to its low productivity, low income and low savings, sovereign external debt provides the escape needed to acquire a direly needed funding to complete overdue projects.[9] Other things being equal, accessing external non-concessional commercial funds and completing the electric power, railway, road, telecommunications and other projects could prove to be vitally important. Furthermore, if the commercial debt issuing goes well, with, for example, securitization and use of derivatives to hedge against the escalation of debt servicing costs, the access to external capital markets may potentially encourage the government to reduce its dependence on domestic borrowing and pave the way for domestic enterprises to access international capital markets. In addition to broadening the investor base, a successful issue of Eurobond allows a room for the country to restructure its sovereign debt, should the need arises, and external debt brings with it

9 In a recent appearance at the Ethiopian Parliament, Prime Minster Hailemariam Dessalegn was suggesting that some of the railroad and sugar projects under the GTP would not be completed within originally planned time frame owing to lack of funding.

the effect of disciplining the government's way of managing the economy. Finally, access to the international bond markets may provide benchmarks for determining interest rates for subnational and corporate bonds.

On the downside, the temptation to borrow in foreign currencies from non-concessional sources and relying on weak export sector may prove to be a risky proposition for a number of reasons. Firstly, large bond issues could potentially lead to maturity concentrations, a large pile of debt that may account for a significant percentage of the country's GDP needing to be refinanced at the same time. It is uncertain whether investors would be willing to provide fresh money at that time. Past experience indicates that global investor's investment behaviors in developing country bonds are extremely fragile and sensitive. Secondly, relative to concessional finance,[10] sovereign debts generally involve higher interest rates which tend to be a function of a host of country risk factors[11] (such as political, economic, country/sovereign, exchange rates, etc.). However, on July 7, 2014 Ethiopia was able to borrow from Credit Suisse AG a 12 year bond with 3 years grace period and a 6 year bond at LIBOR 6M + 4.59% and LIBOR +3.75 respectively.[12] Hence, unless there is securitization, lease finance such as the one done for the Ethiopian Airlines, or a possible moral hazard and/or information asymmetry situation in the debt market, it is likely that the yield on Ethiopia's new bond would hover around the rate obtained from Credit Suisse AG. Indeed, according to Reuter's report of October 27, 2014, one day before the release of this commentary, the country was able to obtain new syndicated loan of seven and thirteen years split, aggregating to U.S. $865 at LIBOR +3.75, and supported by export guarantee entities, for a specific railway project.[13] Added to these are underwriting fees, brokerages, commissions, legal services and insurance premiums which will be paid to the international banks and their associates. Ethiopia's proposition to borrow from international capital markets is, therefore, a potential drain on public budgets and on the economy as a whole. The recent default and rescheduling of SSA sovereign debts adds a new upward pressure on the yield. Other things being equal, rising interest rates raise the debt serving obligations of the country. This could eventually lead to the vicious circle of downgrading of the sovereign debt which in turn further exacerbates the cost of borrowing. Thirdly, now that Ethiopia has decided to use international financial markets, it will have to deal with a larger number of creditors and face monitoring from international asset managers.

Economic theory provides little practical guidance on the optimal level of public debt. However, the scanty guidelines available agree on one thing: For developing countries like Ethiopia, high external debt often has immediate consequences for economic performance and financial crises. In their work based of eight (8) centuries of financial data, Reinhart and Rogoff of Harvard University concluded that economic growth in emerging economies suffers once the debt-to-GDP ratio hits a threshold of 60 per cent[14], [15],[16]. Other researches carried out within the specific context of developing and low income countries suggest a much lower (30 – 40 per cent) threshold of debt-to GDP ratios. Obviously, if these results are robust, the implications for developing countries like Ethiopia are important. An examination of Ethiopia's existing public debt relative to its GDP shows that the average figure for the just ended decade hovers around 41 per cent. This average gets lower if we exclude the pre-2006 period, for Ethiopia

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[10] On a positive note, the size of Ethiopia's concessional debt relative to its external debt (66 per cent as at 2012) is comparable to similar low income countries (68 per cent) and higher than is the case for SSA countries (29 per cent). However, the declining trend coupled with the country's recent decision to raise finance using sovereign date could change the picture and deserves closer attention.

[11] https://dspace.lib.uom.gr/dspace/bitstream/2159/15434/3/SamaraStauroulaMsc2012.pdf

[12] Ministry of Finance and Economic Development, Public Sector Debt, Statistical Bulletin No. 13 September 2014.

[13] http://www.reuters.com/article/2014/10/27/ethiopia-loans-idUSL5N0SM4SM20141027

[14] Reinhart, C. and Rogoff, K. (2009a). *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press.

[15] Reinhart, C. and Rogoff, K. (2009b). *Growth in a Time of Debt: American Economic Review, May 2010, pp. 573-78.* http://scholar.harvard.edu/files/rogoff/files/growth_in_time_debt_aer.pdf.

[16] This is a figure similar to the threshold provided for Eurozone countries in the Maastricht Agreement.

received a significant debt relief through the HIPC (highly indebted poor countries) initiative. At any rate, Ethiopia's debt/GDP ratio is lower than the figures that we observe in developed countries and more in tandem with the threshold for developing countries and a similar metric for SSA.

We, however, contend that assessing the sustainability of a country's public debt using the typical debt-to-GDP ratio (as reported in the IMF and other official statistics) underestimates the looming crises that a country actually faces. These statistics, with a blessing from the accounting profession, treats contingent liabilities as "off balance sheet items" unless and until something happens, and hence, fails to take into account the explicit (or implicit) surety that countries provide for the debts amassed by public enterprises. This treatment "window-dresses" the credit standing of countries and allows them to raise debt financing without having to suffer a corresponding increase in debt/GDP ratio. But the recent Euro crises and the series of [forced] bailouts that followed reveals that debts that come with explicit (or implicit) government guarantees could quickly make their way into government's balance sheets in the event that a primary obligor fails to make good on its promises. In what appears to be a recognition of this problem, Eurostat, the statistical unit for the European Union, recognizes a "special case" and takes difference to the accounting profession's stance in situations where the need for governments to make debt service payments on the loan is open and notorious from the outset. In circumstance under which a government enters into a debt guarantee agreement that obliges the government to repay the debts of primary obligors, even though the liability is issued by the SOEs or similar enterprises, it may be right away considered with certainty as an actual government liability, not in the enterprises' liability.[17] In other words, there is reason to add Ethiopia's SOEs and by extension SSA's SOEs' debts into the national balance sheets for an effective and prudent debt management policy.

In recent years, the infrastructural developments that we witness in Ethiopia has been (and are being) financed through external loans. The air transport, telecommunications, rail and sugar projects are being financed by external loans. Some commentators argue that these state monopolies are profitable and hence warrant the incurrence of new external debt.[18] However, it is also important to note that SOEs in Africa and elsewhere are generally and inherently known for their poor financial performance, and hence the call for their privatization. The Ethiopian SOE monopolies might have indeed been "profitable", thanks to the suffocating monopoly power bestowed on to them by the government, and the negative real interest rate they enjoyed by preferential access to artificially cheap and directed credit from local financial institutions. However, such nominal profitability is achieved at high economic cost, poor service quality, and meager varieties to consumers. Furthermore, as is often the case with SSA's SOEs, some of Ethiopia's SOE monopolies are known to be employment shelters for preferred elites and social groups.[19] Secondly, and more importantly, perhaps with the exception of the national airline and shipping lines, the profits of the monopolies are earned from the local market and denominated in the local currency. As a result, they fail to contribute in alleviating the country's foreign exchange shortages and servicing its external debt. Thirdly, Ethiopia depends, just like other SSAs, on commodity exports, whose prices are determined by international markets and policies of trading partners. The closure of sugar estates in many

[17] Buchheit, L. and Gulali, G. (2013), The gathering storm: contingent liabilities in a sovereign debt restructuring.

[18] We thank Professor Tsehai Alemayehu for privately commenting on the draft of this commentary. His piece entitled "The Role of Credit in Ethiopia's Economic Progress" is available at http://www.ethiomedia.com/15store/4198.

[19] For more on this see "Ethnicity, nepotism and employment in public enterprises in Sub Sahara Africa, a theoretical note, by Richard Agesa, African Finance Journal, Volume 2 No. 1, 2000.

parts of Africa, when Ethiopia is starting its new ones, as a result of dumping from China and India, serves as a case in point.[20]

A review of the Government of Ethiopia's recently released public debt statistics shows that about 79% of the external debts of the country are either owed directly by the government or the government is a guarantor to a primary obligor (SOE). The government statistics further indicates that the country's official external debt stands at 14.07 billion US dollars in 2013-2014 and the new loan has made it close to 15 billion. Over the most recent five year period (2009/10-2013/2014), external debt increased by 249%. About 43% of the debt is sourced from concessional lenders, 32% from bilateral (concessional) and from the non-Paris club groups, China being in the top of the list of Ethiopia's lenders. The debt that the country has been accumulating under the Ethiopian Airlines for the procurement and lease of aircrafts, under the Ethiopian Roads Authority (ERA) for the construction of roads and bridges, under the Ethio-telecom for the expansion of telecom infrastructure, under the Ethiopian Electric Power Corporation (EEPCo) for dams, and to finance many other state-owned and ruling party owned enterprises could thus become a "time bomb of contingent liabilities" that could "detonate at any time" should the original obligors fail to make good on their promises. Furthermore, as we alluded earlier, the profitability of these enterprises must be examined in light of the foreign debt burden and their contribution (rather lack of) to revenues from exports. This probably explains why the World Bank's officer, Sri Mulyani Indrawati, expressed her concern that the "current trend of borrowing will definitely create additional risk exposure" to the country.[21]

A review of the World Bank's external debt statistics reveals that Ethiopia's external debt stock hiked by 356 per cent from a low of $2,293.7 million in 2006 (period of debt relief) to a high of $10,462.4 million in 2012. Put differently, the country's external debt stock grew at a compound annual rate of circa 29 per cent during the seven years leading up to 2012 which is a much higher growth rate compared to a 10 per cent growth rate in SSA, and an even much higher growth rate (5 per cent) in other low income countries. A rising sovereign external debt would be less of a problem if it is accompanied by similar growth rates in export earnings and/or flow of inward foreign direct investments (FDI). Unfortunately, Ethiopia's exports grew only by 166 per cent from a low of $2,254.3 million in 2006 to a disappointing high of $6,002.6 million in 2012, gauged by GTP's projections, in particular. The saving grace for Ethiopia is that, her export growth has been better than the timid growth in export earnings registered by SSA and low income countries over the same period (110 per cent for SSA and 66 per cent for low income countries). Unfortunately, however, the inward FDI performance of the country was dismal. Except for the good performance in 2006 and later in 2011, Ethiopia's growth in inward FDI between 2005 and 2012 was virtually negligible. On the upside, although still very small relative to the size of its diaspora community, the steady growth observed in personal transfers and compensation of employees has been increasing.[22] Remittances increased by a stupendous 263 per cent from a low of $172.2 million in 2006 to $624.4 million in 2012.[23] Unlike the Ethiopian case, inward FDI flows in low income countries shot up by 365 per cent from a low of $5,316 million to a high of $24,211.8 million between 2006 and 2012. And, unlike Ethiopia, equity portfolio flows in low income countries has impressively grown. Likewise, inward

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[20] See, for example, this brief Wall Street Journal article: "Africa's Sugar Ambitions Turn Sour." **http://online.wsj.com/articles/africas-once-promising-sugar-market-struggles-1413821598.**

[21] The Reporter, Ibid.

[22] However, this encouragement needs to be tempered by the negative impact on remittance flows resulting from the recent expulsion of Ethiopian migrants, estimated to be 160,000 and counting from Saudi Arabia alone and the many disturbing sides of increased outmigration.

[23] This figure appears understated for other estimates of diaspora remittance put it much higher.

FDI in SSA countries rose by 112% from a low of $17,482.8 million to $37,048.8 million during the same period. Thus, the far from adequate performances in export earnings and inward FDI in Ethiopia should raise warning flags regarding the sustainability of non-concessional external debts.

Another way to look at the sustainability of the country's external debt is to examine the country's external debt to exports ratio. The World Bank's records show that this ratio grew from a low of 101.8 per cent in 2006 to a high of 174.3 per cent by the end of 2012. By taking the inverse of this ratio, we see that the proportion of export earnings to external debt has deteriorated from 98.2 per cent in 2006 to a shocking 57.3 per cent in 2012, and early indications suggest that the ratio has further deteriorated in recent years. To put this in perspective, as of 2012, the external debt to export ratios of SSA and low income countries was about 71.2 per cent and 95.6 per cent, respectively. By taking the inverse again, we see that the proportion of export earnings to external debt of SSA countries is an impressive 140 per cent while that of low income countries is 104.6 per cent. Not only have the SSA and low income countries had better performance in this regard but they also enjoyed a cushion provided by equity portfolio flows which Ethiopia lacked. Research carried out in the context of developing and other low income countries suggests that the ratio of external debt to exports should at most be somewhere between 160-170 per cent. The lesser this ratio, the better it is. The 174.3 per cent that we observe in the case of Ethiopia was just outside the maximum range by the end of 2012. The gap has increased in recent years. Part of the problem is the weak performance of Ethiopia's undiversified export sector. Most of the export earnings, except gold and international air transport services, originate from agricultural products which have been subject to declining prices. Even though most recent data shows modest increase in exports, the rate of growth does not match the growth rate of external debt, and the trade deficit is expected to widen reaching some 8.9 billion dollars.[24] Ethiopia's earnings have been so weak that fuel imports alone absorbed nearly 70 percent of the country's total export earnings. As a result, the economy runs persistent current account deficits. (It stood at $2, 986 million as of 2012). Again, the continuously decreasing proportion of external debt that the country's export earnings is able to cover, the disappointing performance of inward FDI flow, and the non-existent equity portfolio corroborates that the country's external debt stock is nearing a dangerous zone that could stifle growth and trigger debt crises.

Investors' concerns become elevated when they discover the government's track record of fiscal responsibility, debt management, the unreliable and un-transparent nature of the country's statistics, the emerging ownership structure and the complex political and social tensions in the country and in the Horn of Africa region. The evidence showing that some SSAs being already in trouble servicing their external debts has all the vulnerabilities and the adverse consequences of being engulfed in the infamous debt-crisis bandwagon effects. Furthermore, the recent U.S. court ruling against deadbeat Argentina should serve as a wake-up call to Ethiopian and by extension SSA authorities that international financiers will eventually win.[25]

To complicate matters, just three months after the "highly speculative" sovereign debt rating was announced, the World Bank's lead economist in Ethiopia suggested that the local currency is overvalued by about 31% and urged the Government of Ethiopia to consider currency devaluation, even though one of the drawbacks of currency devaluation is to increase a country's debt obligations, a proposal that was criticized by Hassan[26] and Alemayehu.[27] The overvaluation and the over $14 billion external debt might

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[24] http://www.bloomberg.com/news/2014-08-05/ethiopia-s-2013-14-exports-increase-6-on-jump-in-oilseed-sales.html

[25] http://www.newyorker.com/business/currency/argentinas-rational-default

[26] Seid Hassan: "The Devaluation of the Birr: A Layman's Guide, Part 2." http://www.ethiomedia.com/17file/2560.

[27] Tsehai Alemayehu: "The Likely Outcome of a Birr Devaluation." http://www.ethiomedia.com/aug14/4069

have obliged the IMF to produce, on October 3, 2014, a negatively toned report about the sustainability of Ethiopia's debt.[28]

In summary, based on the evidence that is in the public domain, we argue that Ethiopia's and by extension many of the SSA's recent sovereign debts are likely to create problems. The external debt of Ethiopia has returned back to and even surpassed the level it was before the debt-write-offs. Ethiopia's external public debt should be a concern in that its growth rate has been dramatic and has not been matched by a vibrant and diversified export sector. External debt sustainability largely depends on how the new funds are allocated and on the expected foreign exchange earnings capacity of the economy. Many SSA and developing countries were and are in the vicious circles of debt. Hence, even if new loans are made available from non-concessional sources, by way of new issues of Eurobonds and followed by the usual news of "over-subscription", the country should learn to prioritize its resource allocation across projects and design realistic financial plans that could promote sustainable growth and development.

[28] http://www.imf.org/external/pubs/cat/longres.aspx?sk=42384.0.