

Ethiopia's 10-month war has come at a huge human cost, with thousands killed, millions displaced and many in desperate need of assistance.

But that's not the only damage being done to Africa's second most populous nation - the war has incurred a huge economic cost, too, that could take years to repair.

In the capital Addis Ababa, 26-year-old Tigist, who didn't want her full name to be used, says her monthly expenses have doubled for two reasons: the war that broke out in the northern region of Tigray in November and the coronavirus pandemic.

"Before Covid and the conflict, I would pay 1,000 birr [about \$22; £16] each month for groceries. Now I spend 2,000 birr," she says. "Things are more expensive now - phones, food and clothes."

Official statistics show the cost of basic consumer goods has indeed gone up in Ethiopia - they were on average around a quarter more expensive in July than a year earlier.

Tigist is working as a supermarket cashier to support her family. She's responsible for the food shopping while her brother covers the rent.

"Also, the dollar exchange has not been good," she adds. "Last year, for \$1 you would get 35 birr, now you get 45."

Faisal Roble, a US-based analyst who specialises in the Horn of Africa, says that spending on the war effort "has really negatively impacted Ethiopia's capacity to access dollars", and has caused the exchange rate to deteriorate.

It is not clear how much the war has cost but Trading Economics forecasts military expenditure will reach \$502m (£365m) by the end of the year, up from \$460m last year.

Last week, UN secretary general Antonio Guterres said the conflict had "drained over a billion dollars from the country's coffers".

Prior to the global pandemic and the war, Ethiopia's economy was one of the fastest-growing in the region, expanding by an average of 10% a year in the decade to 2019,

according to the World Bank.



Image source: BBC

While Tigist is referring to the official rate available in banks, the birr has fallen even further in the informal market, Mr Roble says, and has now reached 67 birr against the dollar.

He adds that business owners in the country are nervous about the worsening security situation as the war spreads beyond Tigray and into the neighbouring regions of Afar and Amhara.

Many are draining their accounts and taking their cash to money traders on the border with the self-declared republic of Somaliland, and that's forcing the birr's value to drop even lower, Mr Roble says.

Banks shut in Tigray

The civil war started when the party in power in Tigray, the Tigray People's Liberation Front (TPLF) attacked federal military bases in November, amidst an escalating feud with Prime Minister Abiy Ahmed over the dissolution of the ruling coalition and the

postponement of elections.

Since then, Ethiopia's military - as well as its Eritrean allies, state police forces and local militias - have fought a bloody war against Tigrayan fighters.

Both sides have been accused of committing atrocities, including rape and mass civilian killings.

Tigray has been without basic services, including telecommunications and banks, since the federal government instigated a blockade on it in June, after the rebels recaptured the regional capital Mekelle.

More than 400,000 people in Tigray are already living in famine-like conditions, while aid distribution has been stifled and electricity and fuel supplies are dwindling, pushing prices up.

Mekelle resident Filmon Berhane told BBC Tigrinya that food and rent have recently skyrocketed.

"There is no money as all the banks are closed and government offices are not paying salaries," he said.

Mobile phone auction hit

Internationally, the war is having a huge impact on Ethiopia's reputation as a place to invest, says economist Irmgard Erasmus from the NKC African Economics consultancy group.

"If your consumers are under severe pressure from high inflation, you don't see consumer-driven growth as we see in the US or the Eurozone," she says.

"Generally, that leaves foreign investment to really drive growth, and it's exactly this that's being attacked by reputational risk."

Ms Erasmus points to the recent liberalisation of Ethiopia's telecoms sector, which originally attracted interest from a number of providers, including South African telecoms giant MTN.

In the end though, only one company successfully bid for either of the two telecoms licences on offer, a consortium led by Kenya's Safaricom which pledged \$850m.

While rules that initially restricted new license holders from operating a mobile money system dampened investor interest, industry sources say the Tigray conflict also weighed heavily on investors' minds.



Image source: BBC

Pressure to end war

Ethiopia's overall economic growth for this year is forecast to slow significantly from 6% in 2020 to just 2% in 2021 - the lowest level in almost two decades, according to the IMF.

The country imports about \$14bn of goods per year, while it exports just \$3.4bn.

Also worrying economic observers is Ethiopia's national debt, which some expect to reach \$60bn this year, or nearly 70% of GDP.

"This is a conservative estimate," says Ms Erasmus, adding Ethiopia's military spend could be higher than forecast, and it has taken on unreported debt in the past.

While the US has imposed some visa restrictions on Ethiopians involved in the war, and withheld some spending, so far, the international community has been reluctant to exert maximum economic pressure on the government, or cut generous aid programmes. Around

a quarter of the population live below the national poverty line, and the average yearly income is just \$850 per person.

“There is clearly scope for ratcheting up the sanctions if Prime Minister Abiy, who won the Nobel Peace prize in 2019, does not deescalate the conflict,” says Witney Schneidman a non-resident fellow with the Brookings think-tank in Washington.

The Biden administration's dilemma, says Mr Schneidman, is to put enough pressure on Mr Abiy to end the war without isolating Ethiopia completely.

“All tools are on the table, but you've got 110m people, you can't make the nation a pariah, it's too important, too strategic,” he says.

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