

SCENARIO OUTLOOK · ETHIOPIA · EAST AFRICA

Ethiopia After the 2026 Election: Continuity, Reform, and the Investor's Map

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A 6–12 month scenario outlook for Ethiopia as the post-election policy direction settles. We map three probability-weighted branches — continuity, escalation, reform surprise — across the variables that matter most to investors: currency reform, external financing, state asset privatization, and internal security. Indicator-based, multi-source, with defined triggers.

KEY FINDINGS

- 01** The base case is policy continuity: gradual FX reform, continued engagement with external creditors, and incremental opening of banking and telecoms. Probability: 55%.
- 02** The investment-relevant fault line is not the election outcome but the pace of birr reform — convertibility discipline determines whether foreign capital can enter and, critically, exit.
- 03** Internal security conditions in parts of Amhara and Oromia remain the principal operational risk for on-the-ground deployments, priced inadequately by desks abroad.
- 04** The reform-surprise branch — faster privatization and fuller convertibility — is underpriced at 15% and would re-rate Ethiopian assets sharply.

The question that matters

Post-election analysis of Ethiopia tends to ask the wrong question. Who governs matters less, for the investor, than what the balance-of-payments constraint permits any government to do. Ethiopia's policy direction is bounded less by ideology than by arithmetic: foreign exchange scarcity, external debt service, and the financing needs of an ambitious reform program.

The investor's question for the next 6–12 months is therefore narrower than the political debate suggests. Will the authorities sustain the FX reform trajectory — moving the birr toward genuine convertibility while holding external financing together — or will scarcity force a retreat toward administrative allocation? Everything else, from banking entry to privatization pricing, hangs off that single variable.

Where the reform program stands

The reform agenda is real and unusually broad: exchange-rate liberalization, monetary framework modernization, state-asset management under a dedicated holding structure, telecoms liberalization with a

second operator active, and legislated opening of banking to foreign participation. Each element has moved further than skeptics expected.

But reform programs are judged by their constraint, not their ambition. The constraint is foreign exchange. Export earnings, remittances, and concessional inflows must cover imports, debt service, and the FX demands of reform itself — new entrants repatriating dividends, privatization proceeds leaving the country. When the arithmetic tightens, governments face a choice between the reform program and short-term stability. The history of African reform episodes is the history of that choice.

Three branches for the next 6–12 months

Base case — continuity (55%): FX reform proceeds gradually with periodic administrative tightening; external financing holds; banking and telecoms opening advances on schedule but slowly; privatization proceeds at managed prices. For investors, this is a study environment, not yet a scale environment: build positions in knowledge, partnerships, and optionality.

Escalation (30%): FX scarcity forces visible retreat — wider parallel-market spreads, longer repatriation queues, selective import compression — with spillovers into inflation and street-level pressure. Security conditions in contested regions deteriorate in step. In this branch, operational exposure should be minimized and entry deferred.

Reform surprise (15%): external financing arrives larger or faster than expected, emboldening the authorities to accelerate convertibility and bring flagship state assets to market at real prices. Ethiopian assets re-rate; early movers capture the discount. This branch is underpriced because it requires believing the arithmetic can be beaten — and occasionally it is.

The internal security variable

Security conditions in parts of Amhara and Oromia are the principal operational risk for investors with physical footprints, and the variable most consistently mispriced by analysis written from abroad. The relevant distinction is between the political-level situation — which national data describes — and the route-and-region-level situation, which determines whether a specific operation functions.

Investors should demand route-level assessment for any physical deployment and treat national-level stability metrics as context, not clearance. This is precisely the class of judgment that requires in-country sources with operational rather than analytical vantage points.

What would change our view

Three observations would move us between branches. First, the trajectory of the parallel-market premium over a full quarter: a narrowing premium is the single most reliable sign that convertibility is becoming real; a widening one is the earliest signal of escalation. Second, the pace of dividend repatriation approvals for existing foreign operators: this is where FX regime intent is revealed in practice rather than proclamation.

Third, the pricing of the next state-asset transaction: managed pricing confirms continuity; market pricing signals the reform-surprise branch.

We assign no weight to official statements unsupported by one of these three observables.

INDICATOR DASHBOARD

INDICATOR	SIGNAL WATCHED	DIRECTION
FX regime	Parallel-market premium vs. official rate	Improving
External financing	Creditor engagement and disbursement pace	Stable
Repatriation practice	Dividend approval queue length	Watch
Banking opening	Foreign licensing pipeline	Improving
Internal security	Route-level disruption frequency, Amhara/Oromia corridors	Watch
Privatization	Pricing method of next flagship transaction	Stable

SCENARIO WEIGHTS

Continuity 55%

Gradual FX reform, external financing holds, incremental opening. Build knowledge and optionality; scale later.

Escalation 30%

FX retreat, repatriation queues widen, security spillovers. Defer entry; minimize operational exposure.

Reform surprise 15%

Financing breakthrough accelerates convertibility and privatization. Early movers capture the re-rating.

TRIGGERS TO WATCH

- Parallel-market premium moves beyond ± 10 pp from current range for a full quarter
- Dividend repatriation queue for foreign operators doubles or clears
- Next flagship state-asset transaction priced at market rather than administratively
- Security disruption on the Addis–corridor routes exceeds one week of continuous interruption

Engage on knowledge, partnerships, and regulated-entry positioning now; defer scale capital until convertibility discipline is demonstrated over two consecutive quarters.

Ethiopia rewards prepared entrants and punishes early scalers.

WHAT WOULD CHANGE OUR VIEW

- Enter only with a defined FX-exit mechanism tested against current repatriation practice
- Any physical deployment requires route-level security assessment, refreshed quarterly
- Acceleration to scale is warranted if the reform-surprise triggers fire — not before

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