Ethiopia's Macroeconomic Growth Narrative: Diversifying the Economy by Harnessing the Potential of Forest Products

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Abstract

Over the past two decades, Ethiopia has achieved an impressive average GDP growth rate of over 7% annually, primarily driven by infrastructure development, agricultural modernization and industrial expansion. Despite this macroeconomic growth shaped by state-led investments, structural reforms and changing global dynamics, the forest sector represents a significant but underutilized opportunity, contributing less than 4% to GDP. The main objective of this paper is to analyse the Ethiopian macro economy by leveraging the potential of forest products. The study utilized secondary data sources from international databases, including the World Bank, IMF, UNCTAD and the African Development Bank. Advanced analytical tools were employed to deepen the analysis and enhance visualization. Additionally, Excel was used for data visualization, creating clear and engaging graphs and interactive dashboards to illustrate key findings. The results indicate that, despite Ethiopia's sustained macroeconomic growth, the forest sector remains underutilized and holds potential for enhancing economic growth and sustainability. Furthermore, international trade in forest products reached $270 billion in 2022, underscoring Ethiopia's untapped potential. By integrating forest

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products into the broader economic framework, Ethiopia can align with global commitments to green growth while addressing local challenges such as unemployment and rural poverty. Effective policy interventions such as public-private partnerships, improved forest governance and incentives for green technologies are essential for ensuring sustainability and profitability in this sector.

Keywords: economic growth, GDP, Ethiopia, inflation, shock, Sub-Saharan Africa.

JEL *classification*: E31, O11, O40, O55.

La narrativa del crecimiento macroeconómico de Etiopía: diversificar la economía aprovechando el potencial de los productos forestales

Resumen

En las últimas dos décadas, Etiopía ha alcanzado una impresionante tasa de crecimiento promedio del PIB superior al 7% anual, impulsada principalmente por el desarrollo de infraestructura, la modernización agrícola y la expansión industrial. A pesar de este crecimiento macroeconómico, impulsado por las inversiones estatales, las reformas estructurales y la cambiante dinámica global, el sector forestal representa una oportunidad significativa, aunque infrautilizada, que contribuye con menos del 4% del PIB. El objetivo principal de este trabajo es analizar la macroeconomía etíope aprovechando el potencial de los productos forestales. El estudio utilizó fuentes de datos secundarios de bases de datos internacionales, como el Banco Mundial, el FMI, la UNCTAD y el Banco Africano de Desarrollo. Se emplearon herramientas analíticas avanzadas para profundizar el análisis y mejorar la visualización. Además, se utilizó Excel para la visualización de datos, creando gráficos claros y atractivos, así como paneles interactivos para ilustrar los hallazgos clave. Los resultados indican que, a pesar del sostenido crecimiento macroeconómico de Etiopía, el sector forestal sigue estando infrautilizado y tiene potencial para impulsar el crecimiento económico y la sostenibilidad. Asimismo, el comercio internacional de productos forestales alcanzó los 270 000 millones de dólares en 2022, lo que pone de relieve el potencial sin explotar de Etiopía. Al integrar los productos forestales en el marco económico general, Etiopía puede alinearse con los compromisos globales de crecimiento verde, a la vez que aborda desafíos locales como el desempleo y la pobreza rural. Intervenciones políticas eficaces, como las alianzas público-privadas, la mejora de la gobernanza forestal y los incentivos para las tecnologías verdes, son esenciales para garantizar la sostenibilidad y la rentabilidad de este sector.

Palabras clave: crecimiento económico, PIB, Etiopía, inflación, impacto, África subsahariana.

Clasificación JEL*:* E31, O11, O40, O55.

1. Introduction

Macroeconomic volatility significantly affects inclusivity and growth. As a result, a lack of inclusion can worsen the impact of economic shocks and contribute to macroeconomic instability (Davoodi et al., 2021). For example, there is evidence of a positive correlation between inequality and macroeconomic instability. Prior to the Global Financial Crisis (GFC) of 2008–2009, many agreed that economic unpredictability, primarily caused by productivity shocks, was a major driver of inequality (Davoodi et al., 2022; Quadrini & Ríos-Rull, 2015). However, causality can also work in the opposite direction. High and rising inequality or a lack of inclusion may lead to economic crises and macroeconomic volatility (Kumhof et al., 2015; Mian & Sufi, 2018). In Ethiopia, comprehensive macroeconomic reforms initiated in 2024 have improved trade, investment, and productivity. These reforms have stabilized inflation and commodity prices, boosted exports —including gold and tantalum— and attracted foreign direct investments worth $1.9 billion (Kraemer-Mbula, 2021).

The next section of this paper examines the research on the factors that have contributed to Ethiopia's improved growth record since 2024. While there is some disagreement in the literature, the rise of macroeconomic stability is a common theme. The analysis includes several stylized facts that describe the recent acceleration of growth from a historical perspective. Much of the debate revolves around whether this growth acceleration has been widespread or concentrated in a few nations, with commodity exporters being a notable example. In this context, the paper also explores the historical development of essential macroeconomic policy variables, including inflation, currency rates, fiscal balances, and external and domestic debt, highlighting the new challenges emerging from significant changes occurring across much of the region. Ethiopia's macroeconomic development story is marked by rapid growth, significant change and ongoing challenges. Since 2004, the country has achieved an impressive average GDP growth rate of approximately 10.5%, significantly surpassing the Sub-Saharan African average of 5.2% (Gebrehiwot, 2022; Geiger & Goh, 2012). This growth has been driven by public investment in infrastructure, agricultural modernization, and a shift towards industrial and service sectors, indicating a gradual transition from an agrarian economy (Gebrehiwot, 2022; Neglo et al., 2021). Ethiopia's economic trajectory has been characterized by sustained growth, fuelled by infrastructure investments and state-led policies. However, it faces challenges such as high inflation, external debt, and limited diversification. Despite its impressive GDP growth in recent decades, Ethiopia grapples with issues like significant inflation, trade imbalances, and an overreliance on external financing. Comparisons with Sub-Saharan African peers reveal disparities in trade-to-GDP ratios and economic resilience, raising concerns about the inclusivity and sustainability of growth. These challenges are exacerbated by regional conflicts, global shocks and structural inefficiencies, limiting Ethiopia's ability to sustain growth and address inequality. The need for a balance between economic growth and job creation highlights the importance of integrated strategies that combine contributions from both the public and private sectors. Therefore, this study aims to address these gaps by examining Ethiopia's macroeconomic trends within the broader Sub-Saharan African context and identifying key insights for inclusive and sustainable economic development.

2. Methodology

This document was compiled based on secondary sources from international databases, including the World Bank, IMF, UNCTAD and the African Development Bank. This review provides a thorough analysis of Ethiopia's economic performance compared to its peers in Sub-Saharan Africa (SSA) and regional averages. It begins by examining key economic policies and historical trends in macroeconomic indicators, identifying significant challenges that influence Ethiopia's development. The study used advanced analytical tools to enhance the depth of analysis and visualization. In addition, Excel will be utilized for data visualization, creating clear and engaging charts, graphs, and interactive dashboards to illustrate key findings. Moreover, a detailed assessment of specific policies evaluates their impacts on economic outcomes. To facilitate a comparative analysis, the study selects peer SSA countries and benchmarks Ethiopia's performance using standardized indicators to ensure accurate comparisons. Additionally, it places Ethiopia's performance within the broader regional context by considering SSA averages and highlighting the effects of regional economic shocks, such as the COVID-19 pandemic and fluctuations in commodity prices. By integrating these methods, the research enhances our understanding of Ethiopia's position in the region and offers data-driven policy recommendations to address identified challenges.

3. Result and Discussion

3.1. Ethiopia's Economic Growth: Historical Overview and Contributing Factors

Ethiopia's economic growth has been a remarkable journey, marked by both resilience and transformation. Over the past two decades, Ethiopia has experienced one of the fastest-growing economies in Africa, with average annual growth rates of around 10%. This growth can be attributed to several interrelated factors that have shaped the nation's economic landscape. Historically, Ethiopia's economy was predominantly agrarian, with agriculture employing more than 70% of the population and accounting for a significant portion of the GDP. However, the shift from a traditional subsistence farming economy to a more diversified one has been crucial.

Key strategies implemented by the government, starting in the early 2000s, aimed at modernizing agriculture through investment in infrastructure, technology, and education, have significantly boosted productivity. The emphasis on industrialization has also played a pivotal role in Ethiopia's economic transformation. The government launched the Growth and Transformation Plan (GTP), which sought to accelerate industrial development by establishing industrial parks, attracting foreign investment, and promoting export-oriented manufacturing. As a result, sectors such as textiles, leather, and agro-processing have seen substantial growth, providing jobs and enhancing exports.

Ethiopia's investment in infrastructure has been another critical factor in its economic success. Significant investments in transportation networks, including roads and railways, as well as energy production, particularly in renewable sources such as hydroelectric power, have laid the groundwork for sustained economic growth. The Grand Ethiopian Renaissance Dam (GERD) is a notable project aimed not only at energy production but also at leadership in regional energy exports. Moreover, demographic trends have contributed to Ethiopia's economic development. With a young and growing population, the country has a dynamic workforce that, when effectively engaged, can drive innovation and growth. However, this also presents challenges in terms of job creation and education, requiring ongoing investment in human capital. Additionally, the political landscape in Ethiopia has undergone significant changes, impacting economic policies and development strategies.

Although challenges remain, including issues of political stability, civil unrest, and regional tensions, efforts to enhance governance and economic reforms have been pivotal in creating a more conducive environment for growth. In summary, Ethiopia's economic growth story is one of substantial progress fuelled by agricultural modernization, industrial development, significant infrastructure investments, and a youthful population. As the country continues to navigate its challenges and opportunities, its ongoing commitment to economic reform and development will be vital in shaping its future trajectory.

3.1.1. Initial Growth (1960–1974)

During this period, Ethiopia experienced moderate economic expansion, with an average annual per capita GDP growth of 4.4%. This growth was primarily driven by advancements in the manufacturing, trade, and communications sectors. However, the country's heavy reliance on agriculture, the poverty faced by subsistence farmers, and ongoing trade deficits financed through external loans constrained overall development (Central Statistical Authority, 2024). The socialist regime that emerged after the 1974 revolution implemented nationalization and centralized economic policies, which disrupted productivity. Political instability, droughts, and famines, combined with high military expenditures, led to stagnation in both agricultural and industrial sectors (World-Bank, 2024). Following the fall of the socialist regime, Ethiopia adopted market-oriented reforms and focused on infrastructure development. From 2005 to 2015, the country enjoyed an impressive average annual GDP growth rate of 10%. Key factors contributing to this growth included investments in transportation, energy and industrial parks, supported by heterodox macroeconomic policies. However, this period was not without criticism due to its reliance on external financing, rising inflation and macroeconomic imbalances (Moller & Wacker, 2017). Despite these advancements, structural inefficiencies, a lack of diversification and a heavy dependence on subsistence agriculture limited the broader impact of government initiatives aimed at boosting economic activity.

3.1.2 From 1990s–Early 2000s: Post-Socialist Recovery

Ethiopia's shift towards a market-oriented economy following the end of the socialist regime served as a crucial catalyst for economic recovery. This transition involved comprehensive structural reforms, including the liberalization of markets and the privatization of state-owned enterprises, aimed at fostering a more dynamic economic environment. Despite these efforts, the pace of progress has been inconsistent. Agriculture, which employs a significant portion of the population and is foundational to the country's economic framework, continues to face challenges in modernizing production methods and diversifying its output. These challenges are particularly pronounced given the sector's importance for food security and employment. The World-Bank (2024), highlights these ongoing struggles, emphasizing the need for targeted investments and policies that can revitalize agricultural practices and ensure sustainable growth for Ethiopia's economy.

3.1.3 From 2005–2015: Infrastructure-Led Growth

From 2005 to 2015, the Ethiopian economy experienced remarkable growth driven by significant infrastructure development. This strategic focus on building essential facilities not only stimulated economic progress but also established a solid foundation for sustainable development. During this decade, Ethiopia underwent a significant economic transformation, achieving an average annual GDP growth rate of over 10%.

The government adopted a developmental state model that prioritized public investment in infrastructure, including roads, energy, and industrial parks. These investments laid the groundwork for industrialization and the expansion of the service sector. While this approach supported sustained economic growth, it heavily depended on external financing, which resulted in inflationary pressures and increased vulnerability to debt (Moller & Wacker, 2017).

3.1.4 Post-2015: Slowing Growth amidst Challenges

Despite ongoing growth, Ethiopia's economic momentum began to slow after 2015 due to a range of challenges. Rising external debt, political instability and regional conflicts have hindered progress. Recent policy shifts have focused on transitioning the economy toward a more inclusive and private-sector-driven growth model, though results have been mixed. Efforts to address macroeconomic imbalances and attract foreign investment have become crucial for sustaining long-term growth (World-Bank, 2024).

4. Historical and Modern Policy Responses in Ethiopia: A Research Analysis

4.1. Historical responses

4.1.1 (1970s and 1980's): Centralized and Reactive Measures

Under Ethiopia's socialist regime (1974–1991), policy responses to external shocks were largely centralized, reflecting the state-controlled economic framework. During severe droughts and famines, such as the catastrophic 1984–85 famine, the government prioritized relief efforts over long-term development. Nationalization of land and businesses reduced private sector resilience, further exacerbating the economic impact of external shocks. These centralized measures addressed immediate crises but undermined structural economic transformation.

4.1.2 1990s: Liberalization and Stabilization

The transition to a market-based economy in the 1990s marked a significant policy shift. Ethiopia implemented structural reforms, including trade liberalization and fiscal stabilization, to recover from decades of socialist policies. In response to shocks such as the 1998–2000 war with Eritrea, the government sought international assistance to stabilize the economy. Measures included fiscal discipline, currency adjustments and the promotion of private-sector participation to diversify the economy (Geda et al., 2017).

4.2. Modern Policy Responses (2000s and Beyond)

4.2.1 Drought and Climate-Related Shocks

In response to the persistent challenges posed by recurrent droughts, Ethiopia launched the **Productive Safety Net Program** (PSNP) in 2005. This innovative program is designed to provide essential food or cash transfers to households that are most vulnerable to food insecurity, helping to sustain their basic needs during periods of crisis. In addition to direct support for these households, the program has also spurred significant investments in irrigation systems and the development of climate-resilient crops. These initiatives aim to reduce the agricultural sector's dependence on erratic rainfall and enhance the overall resilience of communities to climate-related shocks, ensuring a more sustainable and secure agricultural future (Kassaw & Worku, 2024).

4.2.2 Economic Crises and Global Commodity Price Fluctuations

Ethiopia took proactive measures to tackle the inflationary pressures resulting from significant global increases in fuel and food prices. The government implemented a series of adjustments to its monetary policy, including strategic devaluations of the Ethiopian birr. These devaluations aimed to bolster the competitiveness of Ethiopian exports on the international market, making them more attractive to foreign buyers (Majid Nelson, 2024). In addition to these monetary strategies, Ethiopia has been working to reduce its dependence on traditional exports, notably coffee, which has historically been a cornerstone of its economy. To diversify its export portfolio, the country has invested in the development of industrial parks that facilitate manufacturing and promote various sectors. This initiative aims not only to create jobs but also to encourage the production and export of non-traditional goods, such as textiles and cut flowers, thereby broadening its economic base and enhancing resilience against external shocks.

4.2.3 COVID-19 Pandemic

During the COVID-19 pandemic, Ethiopia implemented various fiscal and monetary measures to address economic disruptions. These measures included direct cash transfers to vulnerable households, temporary tax relief for businesses, increased spending on public health and securing international loans to compensate for revenue losses. While these actions helped cushion the economy, challenges remained in sustaining growth.

4.2.4 Geopolitical and Conflict-Related Shocks

The government's peace-building initiatives, exemplified by the historic 2018 peace agreement with Eritrea, aimed not only to stabilize the border region but also to create a conducive environment for economic recovery and development. This landmark accord marked the end of a two-decade-long state of conflict and tension, fostering hope for increased cooperation and trade between the two nations. Concurrently, Ethiopia embarked on extensive external debt negotiations to address its mounting financial liabilities. These debts were primarily a consequence of ambitious infrastructure investments, which included expansive road construction, energy projects and urban development programs, all crucial for supporting the country's rapid growth. However, these efforts were further complicated by the lingering effects of internal strife and regional instability, which had strained the economy and hampered sustainable progress.

4.2.5 Limitations and Challenges

Despite these proactive measures, Ethiopia faces significant challenges in fully mitigating shocks. Delayed implementation, resource constraints, and heavy reliance on external financing leave the economy vulnerable to global market fluctuations and debt sustainability issues. Real GDP growth in sub-Saharan Africa, including Ethiopia, has been uneven, reflecting broader regional challenges. According to recent IMF projections, growth in the region is expected to rise from 3.4% in 2023 to 3.8% in 2024 and further to 4.0% by 2025. While some countries like Côte d'Ivoire and Rwanda maintain robust growth, others, such as South Africa and Ghana, struggle with structural issues and policy uncertainties. This analysis underscores Ethiopia's evolving policy landscape, highlighting the balance between short-term crisis management and long-term economic development amid persistent challenges and external vulnerabilities.

5. Comparative Ethiopia economic vs. selected sub-Saharan countries

Economic growth in Sub-Saharan Africa is showing some resilience despite uncertainty in the global economy and restricted fiscal space. Regional growth is expected to reach 3.5% in 2025 and further accelerate to 4.3% in 2026-2027. This growth is mainly due to increased private consumption and investments as inflation cools down and currencies stabilize. The median inflation rate in the region declined from 7.1% in 2023 to 4.5% in 2024.

In 2025, the Ethiopian economy is projected to grow at a faster rate than the overall growth of Sub-Saharan Africa (SSA). While SSA's growth is expected to reach 3.5% in 2025, Ethiopia's GDP is projected to grow by 6.6% (International Monetary Fund [IMF], 2025). However, both regions face challenges, with Ethiopia struggling with inflation and debt while SSA faces slower growth due to global uncertainty.

Ethiopia, for instance, is encountering a protracted recovery, primarily driven by persistent inflationary pressures and significant disruptions stemming from ongoing conflicts in various regions. These challenges have hindered economic stability and growth, contributing to a complex environment for investment and development. In contrast, oil-exporting nations such as Nigeria are reaping the benefits of escalating global energy prices, which have bolstered their economies. However, these countries are not without their own hurdles; they continue to grapple with entrenched policy inefficiencies and governance challenges that impede their full economic potential. Overall, regional growth is being bolstered by a downward trend in inflation rates and a gradual stabilization of fiscal and monetary policies, signalling a more conducive environment for economic activity. Nevertheless, the outlook remains clouded by several downside risks. These include potential political instability that could disrupt governance and economic progress, climate-related events that pose threats to agricultural productivity and food security, and broader global economic challenges that could affect trade and investment flows across the region.

Table 1

GDP of sub-Saharan some African Countries

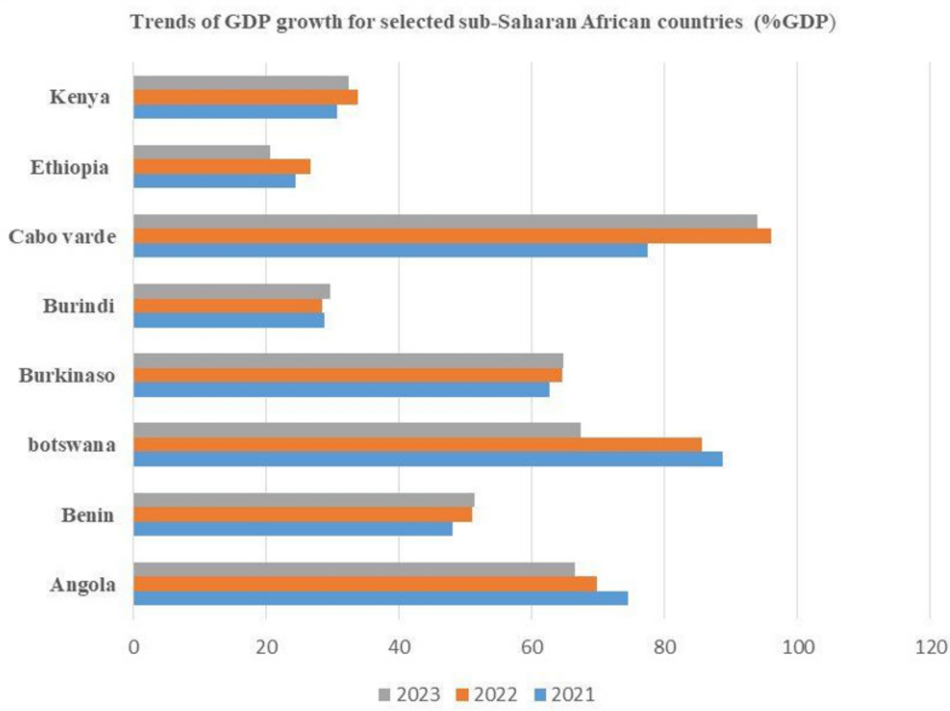
Sub-Saharan country	2023	2024	2025
Angola	3.4	3.8	4
Benin	5.8	6	6
Botswana	3.2	3.6	4.6
Burkina Faso	3.6	5.5	5.8
Burundi	2.7	4.3	5.4
Cabo Verde	4.8	4.7	4.7
Ethiopia	7.2	6.2	5.8
Kenya	5.5	5	5.3
Malia	4.5	4	4.5

Source: World Bank data base (2025).

The graph of Figure 1 presents real GDP growth projections for selected sub-Saharan African countries from 2023 to 2025. It clearly illustrates trends over time, showing that some countries, such as Ethiopia and Benin, are expected to maintain strong growth, while others, like Angola and Kenya, are anticipated to see more modest improvements. Ethiopia is projected to experience a declining growth trend, starting at 7.2% in 2023 and decreasing to 5.8% by 2025. Although this represents a decline, Ethiopia's growth rate still remains above the average for most sub-Saharan countries listed, indicating its relatively strong economic performance. Benin, on the other hand, is expected to show consistent and robust growth, maintaining a rate of 6% from 2024 to 2025, thereby positioning itself as a leading performer in the region. Burkina Faso also demonstrates significant improvement, with its growth projected to increase from 3.6% in 2023 to 5.8% by 2025, matching Ethiopia's growth rate by that year. Countries like Angola and Botswana have more modest growth rates, with Angola projected to reach 4% and Botswana 4.6% by 2025. Ethiopia's growth remains significantly higher than these countries, highlighting its stronger economic momentum. Historically, Ethiopia has experienced an impressive average GDP growth rate of 8% from 2000 to 2011, driven by advancements in agriculture and a burgeoning service sector (Cornia & Martorano, 2016). The country has shifted from a predominantly agricultural economy to one that includes significant contributions from the construction and energy sectors (Shiferaw, 2017).

Figure 1

Trends of GDP growth projections for selected sub-Saharan African countries



Source: World data bank (2024).

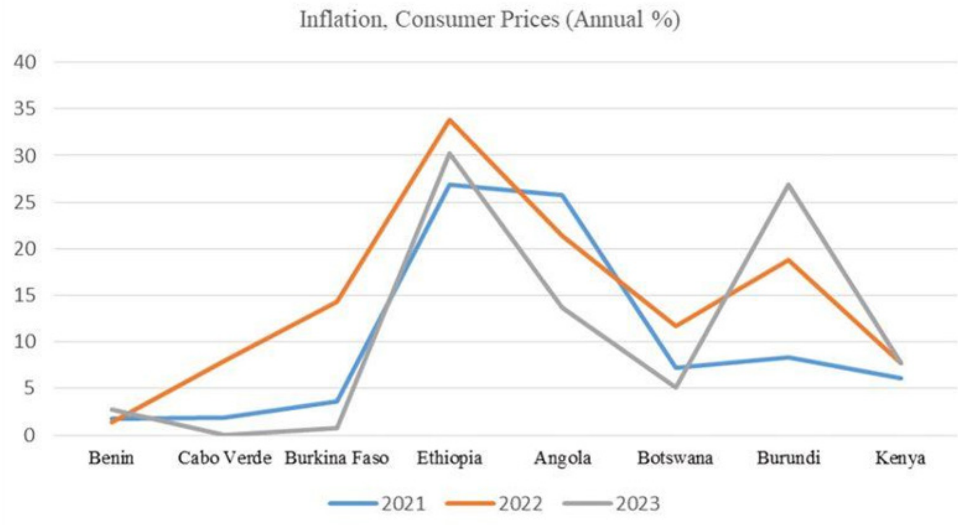
The trade-to-GDP ratio in Ethiopia, situated within the broader context of sub-Saharan Africa, offers valuable insights into the relationship between trade and economic growth. Various studies suggest that trade openness positively influences economic growth, and Ethiopia's participation in regional trade agreements, such as COMESA, may affect its trade dynamics. A table listing performance metrics for several sub-Saharan countries, including Ethiopia, from 2021 to 2023 reveals that Ethiopia has the lowest trade values among all listed countries for each of these years. For example, in 2023, Ethiopia's trade value was 20.585 billion dollars, while Burundi, the next-lowest country, had a value of 29.593 billion dollars. Ethiopia's trade values declined from 24.345 billion dollars in 2021 to 20.585 billion dollars in 2023, indicating a downward trend. This decline suggests potential challenges in the country's economic performance compared to its peers. In contrast, countries like Botswana and Cabo Verde generally perform well, achieving trade values significantly higher than Ethiopia's. For instance, Cabo Verde reached a value of 95.976 billion dollars in 2022. Although Angola and Kenya have also seen a decline in their trade values in recent years, their levels remain much higher than those of Ethiopia. On the other hand, Burundi and

Burkina Faso, which are closer to Ethiopia in trade values, have maintained steadier or slightly improving trends, unlike Ethiopia's declining performance.

A 1% increase in the trade-to-GDP ratio is associated with a 0.5% boost in short-term economic growth and a cumulative long-term effect of about 2% on GDP per capita (Brueckner & Lederman, 2015). Ethiopia's trade liberalization efforts, particularly through the Common Market for Eastern and Southern Africa (COMESA), are expected to promote economic growth, even though there may be some initial welfare losses due to unfavourable terms of trade (Amogne & Hagiwara, 2021). Additionally, the relationship between trade and economic growth is influenced by the levels of corruption in the country. Studies have shown that while exports have a positive impact on growth, corruption can obstruct this relationship (Osabohien et al., 2022). Therefore, Ethiopia's institutional framework is crucial for maximizing the benefits of trade liberalization, suggesting that stronger institutions could amplify the positive effects of trade on economic growth (Dobuzinskis, 2023).

Figure 2

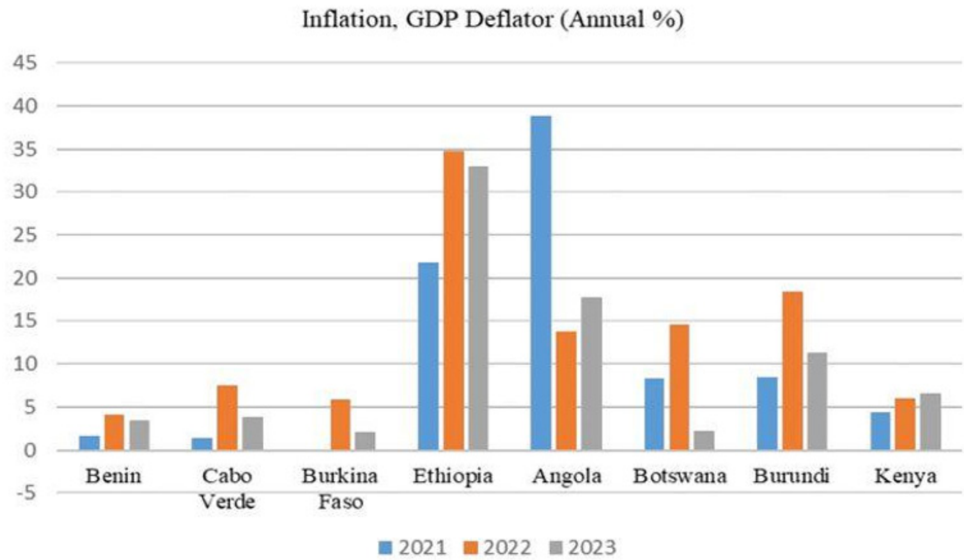
SSA Countries Inflation, Consumer Prices from 2021-2023 (Annual %)



Source: World Bank (2025).

Figure 3

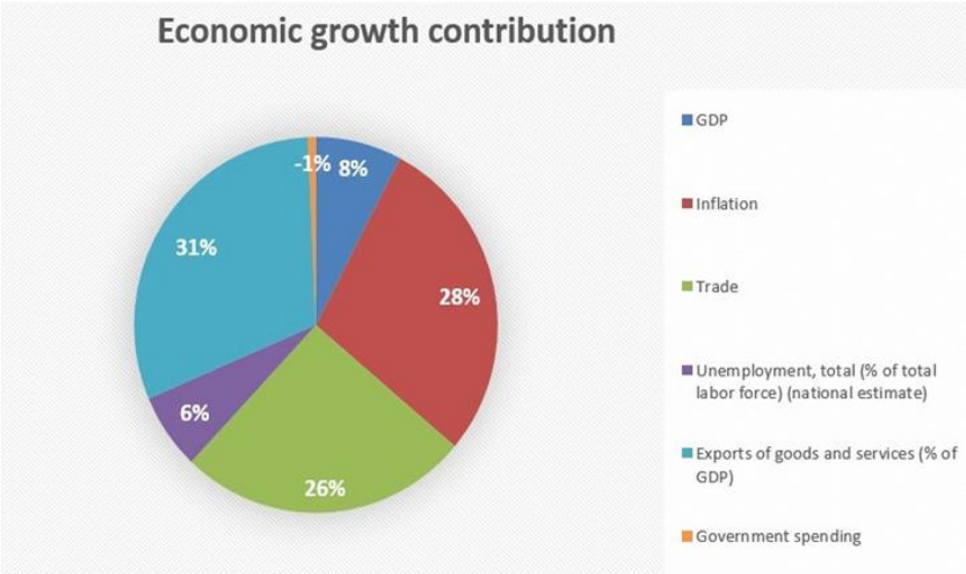
The rate of inflation and GDP deflator among Some of SSA countries



Source: World Bank data set (2024).

Recent findings indicate that domestic demand pressures and global economic conditions increasingly influence inflation in Sub-Saharan Africa (SSA), with Ethiopia being a notable example (Nguyen et al., 2015). Ethiopia has consistently experienced high inflation rates in both consumer prices and the GDP deflator. In 2022, inflation peaked at 33.89% for consumer prices and 34.67% for the GDP deflator, reflecting ongoing macroeconomic pressures. However, in 2023, Burundi surpassed Ethiopia by recording the highest consumer price inflation at 26.94%. This surge is attributed to economic instability and supply chain disruptions. Angola has also demonstrated significant volatility, especially in its GDP deflator, which reached an extraordinary 38.82% in 2021 before stabilizing. Conversely, Cabo Verde and Botswana have managed to maintain relatively lower inflation rates, indicating more stable economic conditions and effective monetary policies during this period. This comparison underscores the diverse economic dynamics and challenges faced by countries in Sub-Saharan Africa. The effectiveness of monetary policy in controlling inflation remains limited, as supply shocks often overshadow monetary factors (JarzĄBek, 2024; Nguyen et al., 2015).

Figure 4
Ethiopian economic growth contribution



Source: World Bank (2025).

The chart illustrates Ethiopia's economic growth data, showcasing several indicators: GDP, inflation, trade, unemployment, exports and government spending, over the years 2021, 2022 and 2023. Below is a detailed explanation of each element in the chart within its economic context: The GDP bar is relatively low compared to the other indicators, suggesting that economic growth may have been modest or constrained during these years. Recent GDP growth in Ethiopia has been influenced by factors such as investment in infrastructure, political challenges and conflicts, and fluctuations in agricultural production. Inflation rates are significantly higher across all three years, with a peak in 2022 (indicated in red). This trend reflects Ethiopia's recent economic conditions, which include currency devaluation, rising import costs due to global inflation, supply chain disruptions and food insecurity. Trade values remain consistent across the years but are relatively high compared to GDP. Ethiopia's trade performance has often been characterized by a trade deficit, driven by higher imports than exports. The country relies heavily on exports like coffee, gold and horticulture. Agriculture remains central to Ethiopia's economy, with coffee as a major export. However, the government is promoting a green revolution aimed at enhancing productivity among smallholders (Rohne Till, 2021).

Despite recent economic growth, about 26% of the population in Ethiopia lives on less than one dollar a day, indicating persistent poverty (Mohajan, 2013). Although Ethiopia exhibits promising growth, it remains one of the poorest nations in Sub-Saharan Africa, facing challenges such as high infant mortality rates and political instability, which could impede long-term development efforts (Mohajan, 2013). Ethiopia's economic growth, primarily driven by agriculture and infrastructure development, has surpassed that of many other Sub-Saharan countries since 2004. This success can be attributed to strategic partnerships, particularly with China, and policies that support light manufacturing and the service sector, setting it apart from other regional economies. Ethiopia's distinctive state-led development model emphasizes structural transformation, industrialization and agricultural advancements, contrasting with the diverse economic strategies employed across the region (Gruber, 2023).

Unemployment levels in Ethiopia appear low according to the chart, which may be due to challenges in reporting or a significant emphasis on informal employment. However, structural issues persist, particularly youth unemployment and underemployment. Exports in Ethiopia are the smallest among all indicators, reflecting the country's limited industrial base and reliance on a few key exports. Additionally, high logistics costs and global price volatility for primary commodities pose further challenges. Although Ethiopia's GDP growth has consistently surpassed the Sub-Saharan average, unemployment rates remain high, especially among the youth. This indicates a disconnect between economic growth and job creation (Geda et al., 2017). An Auto-Regressive Distributed Lag (ARDL) analysis reveals a long-term relationship between economic growth and unemployment, suggesting that the benefits of growth have not effectively reached those in need of jobs (Bekele, 2020). While Ethiopia's growth is noteworthy, other Sub-Saharan countries may experience different dynamics in unemployment due to varying economic structures and policies. For example, some nations have successfully leveraged their growth to create jobs. This indicates that Ethiopia could benefit from targeted interventions to better align economic growth with employment outcomes (World-Bank, 2024).

Government spending demonstrates a consistent trend across all years, reflecting the country's commitment to development projects, such as infrastructure and energy. However, a heavy reliance on external financing may raise concerns about debt sustainability. In Sub-Saharan Africa, government spending growth varies significantly among countries, influenced by factors such as institutional quality, expenditure efficiency and sectorial allocation. The relationship between government expenditure and economic growth is complex, with evidence indicating both positive and negative impacts depending on the context and type of spending. Studies suggest a long-term relationship between government expenditure and economic growth in Sub-Saharan Africa, highlighting the importance of effective allocation towards education and health for income growth (Onyango et al., 2021; Owusu-Mensah et al., 2023; Sama et al., 2025). In low-income countries, increased government spending has been shown to accelerate economic growth, although the efficiency of that spending remains a concern (Das, 2022). Conversely, some research points to an inverse relationship between productive government expenditure and economic growth, particularly when financed by non-distortionary tax revenue (Owusu-Mensah et al., 2023).

6. Contributing Factors to Episodic Nature of Growth

Ethiopia's economic history has experienced significant transformations, characterized by frequent changes in policy and structure. Initially, the country operated under an imperial economic model, where wealth and resources were concentrated among the monarchy and a small elite. This system relied heavily on agriculture, with a feudal structure that limited innovation and broader economic development. The benefits of economic activity were not widely shared, leading to disparities that would later fuel discontent. With the overthrow of Emperor Haile Selassie in 1974, Ethiopia shifted dramatically towards a socialist economic model under the Derg regime. This transition involved nationalizing key industries, land reforms and the implementation of central planning. While the intent was to promote equality and improve living standards for the masses, the socialist policies often resulted in economic inefficiency, bureaucratic stagnation and widespread famine during the 1980s. The attempt to control the economy centrally led to a lack of incentives for productivity and innovation, exacerbating the country's challenges. Following the downfall of the Derg in 1991, Ethiopia pivoted again, this time towards a market-oriented economy. The government adopted policies aimed at liberalizing the economy, encouraging private investment and fostering a more entrepreneurial environment. While this shift spurred economic growth and development in various sectors over the past few decades, it also brought about challenges. The rapid changes created uncertainty in the market and many sectors struggled to adapt to the new economic dynamics. Moreover, the frequent policy shifts often disrupted long-term planning and investment. Businesses faced a continuously evolving regulatory landscape, which sometimes stifled confidence and hindered economic stability. These transitions also left many citizens grappling with the impacts of such rapid changes, leading to social tensions and unrest in various regions. In summary, Ethiopia's economic history has been marked by a series of significant shifts from an imperial model to socialism and finally to a market-oriented approach. Each transition brought its own set of challenges and disruptions, complicating the path toward sustainable long-term development and progress. The need for a balanced approach that considers both economic growth and social equity remains crucial for the country's future.

6.1. Unlocking Economic Opportunities in Forest Products

Expanding Ethiopia's forest product sector presents a significant opportunity for bolstering job creation, diversifying exports and enhancing climate resilience. Currently, the forest industry is a vital source of employment for over 3 million individuals, predominantly within informal sectors such as charcoal production, small-scale timber processing and gathering non-timber forest products (NTFPS). This sector, however, remains largely untapped in terms of its potential for economic growth. In contrast, countries like Kenya and Ghana have effectively harnessed their forestry resources, with timber exports constituting up to 10% of their total export earnings. These nations have implemented strategies that focus on sustainable practices, which not only preserve their ecosystems but also enhance economic performance. Ethiopia can learn from these models by promoting sustainable forestry management practices that encourage reforestation and the responsible harvesting of wood products. Furthermore, investment in value-added products such as high-quality furniture, paper and other finished goods can significantly increase the economic benefits derived from the forest sector. Additionally, facilitating market access for an array of NTFPS, including honey, gum and medicinal plants, can create new revenue streams and encourage local entrepreneurship. By fostering partnerships with private sector stakeholders, enhancing infrastructure for processing and distribution, and implementing effective training programs, Ethiopia can revitalize its forest industry, ensuring it contributes to sustainable development and the well-being of its communities while also mitigating the effects of climate change.

6.2. The contribution of forest product for Ethiopian micro economic development

Ethiopia has established itself as one of the fastest-growing economies in Africa, boasting an impressive average GDP growth rate of over 7% annually for the past two decades. This remarkable growth can be primarily attributed to key sectors such as agriculture, construction and services, which have all played vital roles in driving economic development. However, the contribution of the forest sector remains significantly undervalued, despite its considerable potential for further enhancing the economy. On a global scale, forest products typically contribute about 1% to the GDP of many developing economies, with even greater effects observed in nations that prioritize sustainable resource management and conservation practices. In Ethiopia, effectively integrating forest products and services into the broader macroeconomic framework could substantially bolster the nation's green growth strategy. This alignment not only presents an opportunity for economic diversification but also complements Ethiopia's commitments to international agreements, including the Paris Agreement aimed at combating climate change, as well as the Sustainable Development Goals (SDGS) focused on fostering sustainable development. By leveraging its forest resources more strategically, Ethiopia can position itself as a leader in sustainable economic practices while also improving livelihoods and environmental health.

6.3. Ethiopia's Macroeconomic Growth and Forest Sector Integration

Ethiopia has become one of the fastest-growing economies in Africa, with an average GDP growth rate exceeding 7% annually over the past two decades. Key drivers of this growth include agriculture, construction and services. However, the forest sector's contribution to the economy remains undervalued, despite its significant potential. Worldwide, forest products account for approximately 1% of GDP in many developing economies, with a more pronounced impact in countries that prioritize sustainable resource management. For Ethiopia, incorporating forest products into the macroeconomic framework can enhance its green growth strategy, aligning with international commitments such as the Paris Agreement and the Sustainable Development Goals (SDGs). Ethiopia's forest coverage is about 15% of its total land area, a figure that reflects the country's reforestation and afforestation efforts, particularly through initiatives like the Green Legacy Campaign. However, this sector contributes less than 4% to the national GDP, which is relatively low compared to global averages. In many countries forest-related industries, such as timber, non-timber forest products (NTFPS) and ecosystem services, play a much more significant role in the economy. According to data from the FAO (Food and Agriculture Organization), the global trade in forest products reached $270 billion in 2022. This presents a target that Ethiopia could aim for by making strategic investments in forest management and developing its value chains.

To maximize the contribution of the forest sector to Ethiopia's macroeconomic growth, effective policy interventions are essential. Key steps include establishing public-private partnerships, improving forest governance, and incentivizing the adoption of green technologies. Ethiopia can learn from countries like Brazil, which have successfully balanced sustainable forest management with economic growth. Additionally, integrating forest products into Ethiopia's industrial parks and export zones can enhance value addition and increase global competitiveness. By unlocking the potential of this sector, Ethiopia can boost its GDP while promoting sustainable growth and ensuring that its natural resources contribute fairly to national development.

Ethical Implications of this Research

The research into Ethiopia's macroeconomic trends has significant ethical considerations. Understanding and presenting the drivers and impacts of economic policies should emphasize inclusivity, equity and sustainability. The following points outline the ethical implications: Macroeconomic analyses must ensure they account for how policies affect marginalized groups, including low-income households, rural communities and small-scale farmers. Recommendations should advocate for reducing inequality and enhancing access to resources for these populations. Ethical research necessitates accurate and transparent use of data, especially when influencing policy decisions. Misrepresentation or selective data usage could lead to flawed conclusions and adverse outcomes for the population. Benchmarking Ethiopia's performance against Sub-Saharan peers must remain free from regional or historical biases. The study should avoid framing conclusions in ways that unfairly benefit specific groups or stakeholders. The recommendations should prioritize long-term sustainability, balancing economic growth with environmental protection and social equity, especially in light of climate-related vulnerabilities and dependence on agriculture. Where possible, policymaking informed by this research should involve the input of those directly affected; ensuring decisions reflect the needs and aspirations of local communities.

7. Conclusion

Ethiopia's economic growth has seen significant accelerations mainly due to state-driven infrastructure projects. However, deep-rooted structural and policy inconsistencies hinder consistent progress, highlighting the need for balanced strategies involving both public and private sectors. While Ethiopia's economic revival is noteworthy, concerns remain about its sustainability, particularly due to heavy reliance on state investments and foreign financing. The economy has exhibited variable growth patterns, marked by rapid development followed by stagnation, influenced by internal and external factors such as policy shifts and global economic conditions. To mitigate risks from shocks like droughts and price fluctuations, Ethiopia should diversify its economy beyond agriculture, investing in manufacturing and services. Implementing sound monetary and fiscal policies is crucial for stabilizing inflation, alongside investments in transportation, energy and digital infrastructure to foster industrialization. Developing climate-resilient agricultural practices, addressing rural-urban disparities and improving credit access for smallholders will strengthen resilience to shocks. Furthermore, enhancing domestic revenue through tax reforms and improving public expenditure efficiency is essential to reduce reliance on external financing.

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