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Corridors or Chokepoints – the infrastructure bet driving Ethiopia's future

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Although the Pretoria accord halted open warfare, Ethiopia's political temperature has begun to rise again. Rival factions inside the Tigray People's Liberation Front now contest the authority of the federally backed Interim Administration; analysts warn that internal splits could ignite a fresh insurgency and draw Eritrea back in. In parallel, the Fano militia in Amhara and armed cells in Oromia still refuse full integration into federal forces, leaving Addis Ababa with only partial control over two of the country's most populous regions.

These flashpoints matter because they flank Ethiopia's economic lifeline. A single sabotage on the Addis-Djibouti rail or Berbera highway would choke 90% of the nation's trade within days, eroding investor confidence long before production assets are threatened.

Financial signals are equally telling. The IMF's July review praised tighter policy and lower inflation but warned that a stubborn 15% parallel-market premium and sliding donor inflows could derail reform momentum and complicate debt talks. Any widening of that spread (or fresh delays in multilateral disbursements) would squeeze regional block grants and heighten protest risk in provinces already on edge.

Rebuild and growth pipeline - projects poised to advance

Fresh capital will follow progress, not promises. Four programmes show the clearest path to a shovel or a cheque in the next 24 months.

Addis-Djibouti rail overhaul. The 756-km line that moves nearly all Ethiopian container traffic. The government initially asked for a US$2.6 billion loan from China's Exim to fund the line.

However, the project cost US$14 billion (half of Ethiopia's US$28 billion in foreign debt owed to China across other projects). As a consequence, Addis renegotiated repayments of the loan extending it from 10-30 years.

Berbera corridor. A UAE-backed US$3 billion memorandum of understanding (MoU), signed in June 2025, would extend track from Somalia's deep-water port to Dire Dawa. The final deal hinges on Somalia-Ethiopia security ratification and World Bank environmental clearance. Decisions are pencilled in for early 2026.

LAPSSET rail spur. The Lamu Port–South Sudan–Ethiopia Transport (LAPSSET) Corridor is a US$25 billion infrastructure project aimed at regional integration and economic development across Kenya, Ethiopia and South Sudan. Launched in 2011, it includes a new deep-sea port in Lamu, oil pipelines, railways, highways, airports and a special economic zone. The port (expected to be among Africa's largest) will facilitate cargo and energy exports.

GERD power exports. With all 13 turbines complete as of July 2025, Ethiopian Electric Power targets grid-synchronisation tests this quarter, and a 400 MW firm-supply contract to Kenya, soon after. Successful delivery will double export earnings and anchor rail electrification plans.

Market-opening and incentive landscape: early wins vs window-dressing

A year after the Birr (Ethiopia's currency) was floated, the parallel market premium has dropped from over 100% to about 15%. That progress has stalled, and the IMF warns that donor fatigue could block further improvement. Until local liquidity improves, firms should keep hedging currency risk.

Ethiopia's public debt reached US$68.86 billion by June 2024, or 32.9% of GDP (down from 57.2% in 2019). While these figures signal improved fiscal discipline, challenges persist. Domestic debt now makes up 57.7% of the total, driven by rising issuance of treasury bills and bonds. External debt, at US$28.89 billion, has shifted toward concessional multilateral loans, reflecting a pause on non-concessional borrowing from sources like China.

Debt service remains heavy at US$2.2 billion annually, with external obligations equal to 11.3% of export revenues (above the IMF's 10% risk threshold). Currency risks and poor export performance intensify fiscal strain. Meanwhile, US$7.38 billion in undisbursed loans highlights project delays.

The government is reining in borrowing and pursuing PPPs. Backing from the IMF (US$3.4bn) and World Bank (US$3.75bn) aims to close a US$10.7bn gap by 2028. Ethiopia must expand exports and execute reforms to balance growth with debt sustainability.

Geopolitical chessboard of reconstruction - friends, rivals, spoilers

Dubai-owned DP World is expanding Berbera and marketing a Berbera-to-Addis rail corridor as a cheaper rival to Djibouti, intensifying competition that donors once assumed would boost efficiency but now risks overlapping investments. Simultaneously, Saudi development funds have opened talks with Addis on co-financing logistics and energy schemes, signalling Riyadh's intent to secure stakes in Ethiopia's planned sovereign-port vehicle.

China still holds the purse strings: but with new conditions. Beijing accounts for roughly 30% of Ethiopia's external public debt and chairs the official creditor committee.

Western risk covers inch forward. The Assela wind farm in Ethiopia, developed through the EU's Global Gateway initiative and Denmark's support, has begun feeding clean energy into the national grid. Once fully operational by end-2025, it will generate over 300 GWh annually which is enough to power more than 140,000 households (around 700,000 people). Financed by Denmark via IFU's DSIF and Danske Bank, and constructed by Siemens Gamesa, the project is a key step in Ethiopia's transition to a low-carbon, diversified energy system. It also strengthens EU-Ethiopia ties and supports Ethiopia's Sustainable Development Goals and ambition to become an Eastern African energy hub. In late 2024, the US Development Finance Corporation issued a commitment letter to provide political-risk insurance for African infrastructure up to US$1.5 billion. Although Ethiopia's corridors are candidates, approvals will hinge on robust environmental and social safeguards, an area that donors' flag as vulnerable amid renewed unrest in Amhara.

Kenya needs Ethiopia on LAPSSET to justify its own port and bond financing, while Addis counts on Lamu for fertiliser and future exports. Yet, the route's arid security belt still spooks lenders. Djibouti, for its part, is resisting lower rail-freight tariffs, slowing attempts to rehabilitate the Addis-Djibouti line and forcing Ethiopia to diversify outlets.

Long-term payoff and debt sustainability

Ethiopia's debt workout will decide whether today's construction surge becomes tomorrow's squeeze. Public liabilities are around a third of GDP and remain classed as "in distress" under the G20 Common Framework.

A proposal to restructure the sole Eurobond was rejected by holders in October 2024, freezing market access and stalling wider talks.

The IMF programme imposes hard ceilings but leaves little headroom. Analysis shows that one export-price shock or major security flare-up would push debt-service ratios straight back above risk thresholds, eliminating any buffer. Until commercial creditors sign off, Addis Ababa must fund roughly US$2.2 billion in annual service, mainly from concessional lenders and hard-currency exports, which is a tall order while coffee prices soften and conflict insurance premiums rise. A draft Infrastructure Trust Fund bill (circulated to parliament in July 2025) earmarks 25% of future rail and port user fees for debt service and another 20% for rural electrification, ring-fencing cash before it reaches the general budget. If enacted, the mechanism would channel predictable dollars into external payments and social buy-in simultaneously.

Conclusion – Strategic takeaways

A fragile post-Pretoria peace offers breathing space, yet is constantly tested by factional rifts in Tigray, militia resistance in Amhara and Oromia and the ever-present threat to trade corridors that underpin the economy. Parallel to these security concerns, the government is pushing ahead with headline projects (from rail links to GERD-powered exports), and tentative market reforms that have narrowed the currency premium and opened the door to foreign banks. Gulf investors, Chinese lenders and Western development financiers are all circling, but their commitments will depend on credible governance and enforceable safeguards.

The opportunity is real but comes with conditions. Investment should follow clear milestones like debt deals for the Addis-Djibouti line and environmental approval for the Berbera corridor. Until Ethiopia restructures its debt, it is safer to hedge birr exposure and focus on hard-currency revenues. Returns are possible, but only a disciplined, risk-aware approach will protect investors from future shocks.