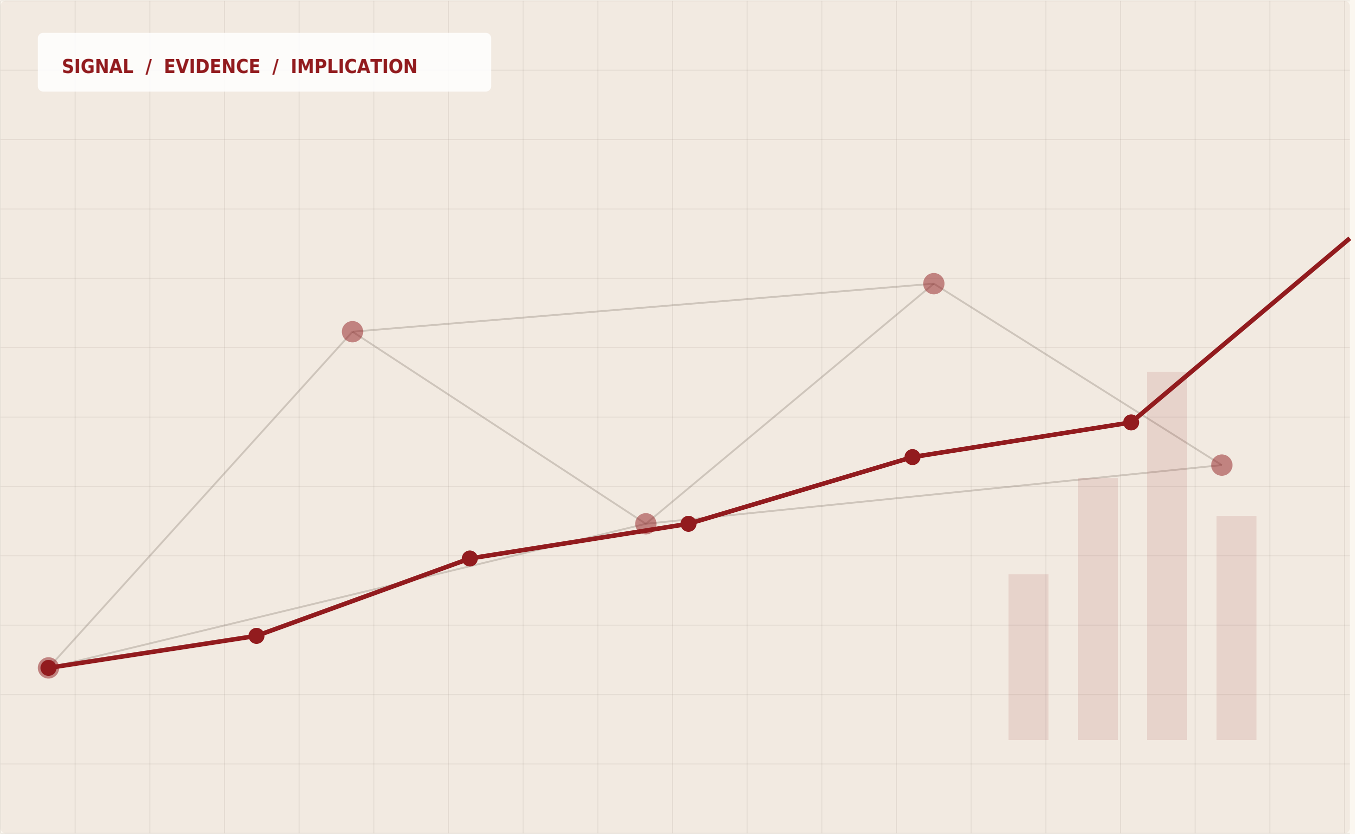
LABOUR / MACRO / INDUSTRY

LABOUR MARKET BRIEF / JULY 2026

The Jobless Growth Paradox

High GDP Growth, Two Million New Workers a Year, and Ethiopia's Formal-Employment Constraint



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PRIMARY-SOURCE INTELLIGENCE

KEY INDICATORS AT A GLANCE

2M **New workers per year** *World Bank; Ethiopia enters market annually*	**73%** **Labour force participation** *CSA 2021 national; 84% men / 62% women*	**3.4%** **Nat. unemployment (ILO est.)** *ILO modelled estimate 2024; World Bank WDI*	**23%** **Urban youth unemployment** *CSA National Labour Force Survey 2021*
19.3% **Youth NEET rate (2021)** *ILO 2023; up from 11.1% in 2013*	**70%** **Share employed in agriculture** *CSA 2021; declining but dominant*	**~25k** **Hawassa IP workers** *As of Aug 2024; Springer Nature study*	**No MW** **Private sector min. wage** *Labour Proclamation 1156/2019; no national floor*

DATA INTEGRITY NOTE *National unemployment rate of 3.4% is the ILO modelled estimate for 2024 (World Bank WDI). Urban youth unemployment of 23% is from the CSA National Labour Force Survey 2021 — the most recent nationally representative survey available; no comparable 2024-2026 survey has been publicly released. NEET rate of 19.3% is from ILO 2023 based on CSA 2021 data. Industrial park employment figures are from named sources with specified dates; aggregate national industrial park employment is estimated, not verified from a single primary source. No national minimum wage applies to the private sector as of June 2026.*

01 THE JOBLESS GROWTH PARADOX: 9% GDP, 2 MILLION NEW WORKERS, NOT ENOUGH FORMAL JOBS

Ethiopia Is Growing Faster Than Almost Any Economy in Africa. It Is Not Creating Formal Jobs Fast Enough to Absorb Its Own Workforce.

Ethiopia's real GDP grew at 9.2% in FY2024/25 and is projected at 9.3% for FY2025/26, among the highest growth rates in sub-Saharan Africa. By standard macroeconomic logic, this should be generating employment. The data suggests otherwise, at least for formal wage employment. The country adds approximately 2 million new workers to the labour market each year, a function of a population where 70% is under the age of 30 and the labour force growth rate (6.2% annually between 2003 and 2018) outpaced even urban population growth (5.7% over the same period, ILO/Brookings 2021). The mismatch between these entry numbers and the formal job creation rate is the defining labour market tension in Ethiopia today.

- **THE HEADLINE UNEMPLOYMENT FIGURE OBSCURES THE REAL PROBLEM:** Ethiopia's ILO-modelled unemployment rate was 3.4% in 2024 (World Bank WDI; ILO modelled estimates). This figure is routinely cited as evidence of a functioning labour market. It is not. In Ethiopia, where 70% of the employed population works in agriculture (CSA 2021), the national unemployment rate is low because smallholder farming and informal self-employment absorb most of the working-age population. These are not formal jobs with wages, contracts, or social protection. The more analytically useful indicators are urban unemployment, which captures the wage employment gap, and the NEET rate, which captures the proportion of youth entirely disconnected from economic activity or education.
- **URBAN UNEMPLOYMENT AND THE YOUTH CRISIS:** The national urban unemployment rate reached 23.1% in 2021 (CSA 2021 Labour Force Survey) — up from 14.95% in 2013, a 54% increase over eight years. Urban youth unemployment is structurally higher: among 15-29 year olds in cities, the rate was 23% in 2021, with female urban youth at 29% compared to 16% for males. The NEET rate — youth not in employment, education or training — rose from 11.1% in 2013 to 19.3% in 2021 (ILO 2023), meaning that nearly one in five Ethiopian youth aged 15-24 was entirely outside the labour market and education system by the most recent survey. This trend is moving in the wrong direction while GDP growth is moving in the right direction. The divergence is the story.

- **THE JOBLESS GROWTH MECHANISM:** Ethiopia's growth has been driven primarily by public investment in infrastructure, expansion of the services sector, and — since 2024 — an export surge concentrated in coffee and gold. Infrastructure construction generates temporary employment but not permanent formal jobs. The services sector in Ethiopia is predominantly informal. Coffee and gold exports generate foreign exchange and nominal income but are not labour-intensive at the processing level in Ethiopia. The economy has been growing, as an Addis Ababa-based economist described in March 2026 (Kulu Media), through "capital-intensive sectors like infrastructure and construction that drive GDP numbers without generating sufficient labour-intensive opportunities." This is the standard definition of jobless growth: GDP rises faster than formal employment.

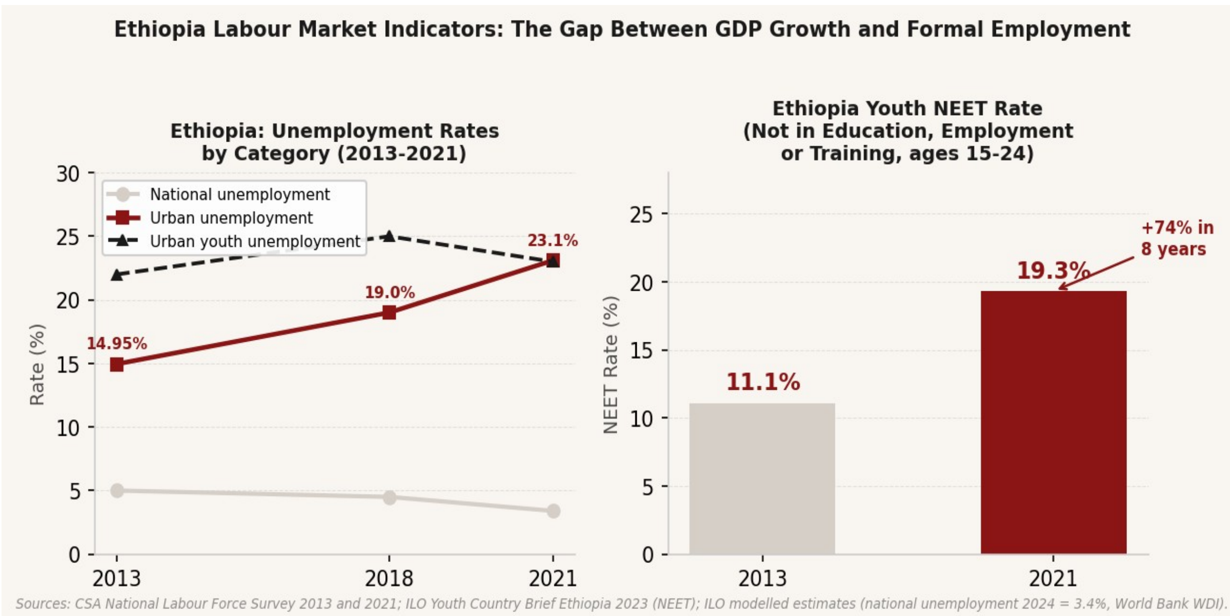

Figure 1: Ethiopia Unemployment Rates by Category (2013-2021) and Youth NEET Rate | Sources: CSA National Labour Force Survey 2013 and 2021; ILO Youth Country Brief Ethiopia 2023; ILO modelled estimates (World Bank WDI)

02 THE STRUCTURAL PICTURE: AGRICULTURE, INDUSTRY, AND THE SHIFT THAT HASN'T HAPPENED

70% of Employment Is in Agriculture. Manufacturing's Share of Urban Wage Employment Has Declined Since Industrial Parks Opened. That Is the Structural Problem Named.

The standard model for structural transformation — the path Ethiopia's government has explicitly targeted through the Homegrown Economic Reform Agenda and a series of Growth and Transformation Plans — is labour migration from low-productivity agriculture to higher-productivity manufacturing and services. Ethiopia has not yet completed this transition. What makes the current period analytically significant is that the transition is happening in some dimensions and stalling in others simultaneously.

- **AGRICULTURE AS THE DOMINANT ABSORBER:** Agriculture employs approximately 70% of Ethiopia's working population (CSA 2021), concentrated in rural smallholder farming. Agricultural employment has been declining as a share of total employment over time, which is structurally expected. The rate of decline is slower than GDP growth in non-agricultural sectors would suggest, because the non-agricultural economy — particularly manufacturing — has not yet generated formal wage jobs at the scale required to absorb the labour being released from agriculture. The practical consequence: labour is shifting from agriculture not to formal manufacturing but to informal urban self-employment and petty trade.

- **INDUSTRIAL PARKS: REAL JOBS, REAL CONSTRAINTS:** Ethiopia's industrial park strategy has created measurable formal employment. Hawassa Industrial Park, the flagship, employed approximately 22,000-25,000 workers as of 2024, predominantly women in the garment and textile sector (84% female as of May 2023, ILO/ILO Gendered Employment Study 2023). The World Bank's Competitiveness and Job Creation Project (2014-2023) supported parks at Bole Lemi II and Kilinto, contributing more than 19,000 jobs with 66% female beneficiaries (World Bank January 2024). These numbers are real. Against 2 million new labour market entrants per year, a total industrial park employment base of approximately 40,000-50,000 workers across all parks nationally (estimates from IPDC; exact current figures not publicly verified) represents a fraction of required job creation. Hawassa was designed for 60,000 jobs at full capacity; as of 2023-24 it employed approximately 40% of its design target.
- **WHY MANUFACTURING'S WAGE EMPLOYMENT SHARE DECLINED:** The World Bank's 2021 Ethiopia Urban Employment study found that despite the opening of industrial parks, manufacturing's share of urban wage employment actually declined between 2014 and 2019. The public sector remained the dominant employer, accounting for one third of all urban wage employment. This is not an industrial park failure per se: it reflects the limited size of the formal manufacturing sector relative to the total urban labour market. Industrial parks generate concentrated formal employment in specific locations, but do not yet constitute a large enough sector to shift aggregate urban employment composition.

> **BENCHMARK ANCHORING**
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> Kenya's manufacturing sector accounts for approximately 9% of GDP and employs roughly 13% of the formal wage workforce (Kenya National Bureau of Statistics 2024). Rwanda's manufacturing-driven employment strategy produced a 15% labour productivity increase between 2020 and 2023 (Rwanda Development Board 2024). Ethiopia's manufacturing sector represents approximately 5-6% of GDP (Ethiopian Statistical Service 2024) and absorbs far less than 10% of formal wage employment. The comparison is not unflattering if the trajectory is moving in the right direction. The concern is whether it is moving fast enough against a 2 million per year entry rate.

03 THE WAGE ENVIRONMENT: NO MINIMUM WAGE, BIRR DEVALUATION, AND REAL INCOME EROSION

Ethiopia Has No National Minimum Wage for the Private Sector. After the Birr Devaluation, Real USD-Equivalent Wages Have Fallen Sharply. That Matters Differently for Employers and Workers.

The absence of a national minimum wage for private sector workers is one of the most significant and least discussed features of Ethiopia's labour market. Labour Proclamation No. 1156/2019 established a Wage Board framework that would periodically determine minimum wages through tripartite negotiation (government, employers, trade unions). As of June 2026, no wage board has been convened and no private sector minimum wage has been set. The civil service minimum was raised to ETB 6,000 per month in September 2025 (from ETB 4,760). The de facto floor in industrial parks — set by sectoral practice rather than law — is approximately ETB 1,500-2,000 per month.

- **THE DEVALUATION'S EFFECT ON WAGES:** When the birr depreciated from ETB 57 to ETB 160 per dollar between July 2024 and May 2026, nominal birr wages stayed flat or rose modestly while USD-equivalent earnings collapsed. A worker earning ETB 2,000 per month at Hawassa Industrial Park in mid-2024 was earning approximately $35 per month at the pre-devaluation rate. At ETB 160 per dollar, the same nominal wage translates to approximately $12.50 per month. For Ethiopian workers spending in birr, the real wage impact depends on domestic inflation — which fell from 26.6% in FY2023/24 to a projected 11.9% for FY2025/26. Real birr wages have been compressed by inflation but not collapsed. For international investors and manufacturers measuring labour costs in USD, Ethiopia has become significantly cheaper relative to 2023 — ETB 1,500/month in garment work is now approximately $9.40/month, among the lowest in global textile manufacturing.

- **WHAT THE WAGE ENVIRONMENT MEANS FOR INVESTORS:** The birr devaluation has restored Ethiopia's labour cost competitiveness in export-oriented manufacturing, particularly garments and textiles, which had become relatively expensive in USD terms during the peg era. Bangladesh, Vietnam, and Cambodia — Ethiopia's primary competitors in garment manufacturing — all operate at higher USD wage costs. For manufacturers sourcing from Ethiopia for Western markets, the devaluation has rebuilt the cost argument. The constraint is not wage cost per se but power reliability, skills depth, and supply chain logistics (as covered in the Week 16 pharma brief and consistent across sectors). Hawassa's reported failure to reach 60,000 employment targets is attributed not to wage issues but to raw material supply constraints and market access limitations for anchor tenants.
- **THE NO-MINIMUM-WAGE RISK:** The absence of a private sector minimum wage creates operational and reputational risk for international brands sourcing from Ethiopian factories. ESG compliance requirements from European and North American retailers increasingly include wage floor verification. A garment manufacturer in Hawassa cannot point to a statutory minimum as the compliance anchor — the de facto sectoral floor is informal and not legally binding. ILO studies have documented worker concerns about real wage levels relative to living costs, with Addis Ababa's cost of living increasing sharply since the birr devaluation. Doctors in May 2025 conducted nationwide protests demanding living wages and unpaid conflict-era salaries (Remote People, 2026), illustrating that even the public sector wage floor has provoked organised resistance.

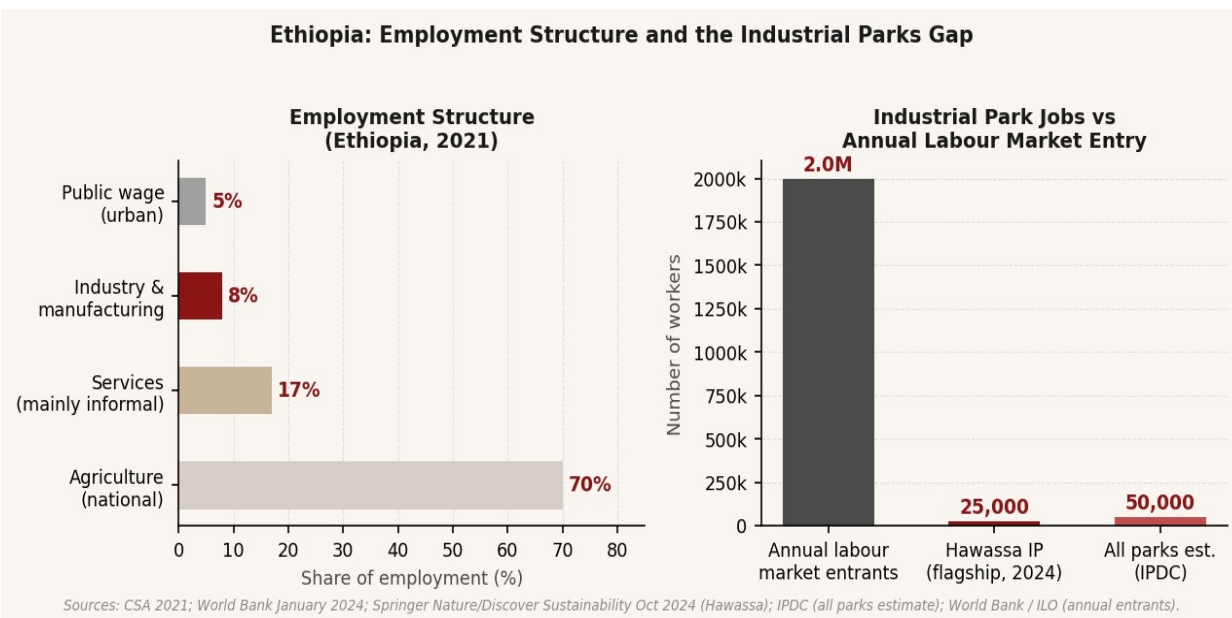

Figure 2: Ethiopia Employment Structure and the Industrial Parks Gap | Sources: CSA 2021; World Bank January 2024; Springer Nature Oct 2024; IPDC; World Bank/ILO (annual entrants)

04 THE SKILLS GAP: WHAT ETHIOPIA'S LABOUR FORCE CAN AND CANNOT DO

2 Million New Entrants Per Year. Agriculture-Concentrated Skills. A TVET System Under Development. The Skills Mismatch That Constrains Every Other Reform.

Ethiopia's labour supply challenge has two dimensions that operate simultaneously. The quantity challenge: 2 million workers per year entering a labour market that cannot absorb them into formal employment. The quality challenge: the skills profile of the available labour force does not match the requirements of the sectors that can absorb them — manufacturing, services, digital economy — because 70% of current employment is agricultural, creating an education and skills pipeline calibrated for rural subsistence rather than industrial work.

- **THE NEET INDICATOR AS A SKILLS SYSTEM SIGNAL:** The NEET rate's rise from 11.1% in 2013 to 19.3% in 2021 (ILO 2023) is the most alarming single labour market indicator in the available data. NEET youth are not building skills through education, not gaining experience through employment, and not yet self-employed in a capacity that generates marketable capability. They are disconnected from every pathway that leads to economic productivity. At 19.3%, nearly one in five Ethiopian youth aged 15-24 falls into this category. The gender dimension is severe: female NEET rates are substantially higher than male across sub-Saharan Africa (ILO Global Employment Trends for Youth 2024 puts the East African female youth NEET rate above 28% vs 13% for males). This represents not only a present-day social cost but a compounding long-term constraint on human capital formation.
- **WHAT TVET CAN AND CANNOT SOLVE:** Ethiopia's National Technical and Vocational Education and Training Strategy (NTVETS) and the Plan of Action for Job Creation (PoA 2020-2025) both identify skills development as a central lever. TVET programs exist and have produced outcomes: the East African TVET Regional Programme found that transport and logistics sector employment rates among TVET graduates rose from 38% to 68%, and 86% of employers found graduates competent (ASPYEE/ILO 2025). These are meaningful results. The constraint is scale: TVET enrollment relative to the 2 million annual entrant cohort remains limited, geographic coverage is uneven, and curriculum alignment with private sector demand lags the pace of economic transformation. Addis Ababa's Employment and Skills Office launched a "Skills-Based Job Creation" drive targeting 30,000 youth placements in 2026 (Kulu Media, March 2026) — a real initiative against an annual entry challenge of 2 million.
- **THE EDUCATION-EMPLOYMENT MISMATCH AT THE TOP:** At the other end of the skills spectrum, the World Bank 2021 Ethiopia Urban Employment study found a tertiary education paradox: labour force participation drops sharply after secondary education completion (as graduates wait for formal employment) and is actually lower among some tertiary-educated groups because formal wage employment at the graduate level is insufficient to absorb output. Growing numbers of degree holders are effectively competing for a formal employment pool that has not grown proportionally. This creates a brain drain dynamic at one end (qualified professionals emigrating for better opportunities) and underemployment at the other (degree holders in informal work below their qualification level).

INVESTOR RELEVANCE

For investors entering Ethiopia, the labour market has three practical dimensions. Labour cost: very competitive in USD terms post-devaluation, among the lowest in global manufacturing for semi-skilled production roles. Labour availability: abundant for general labour and entry-level manufacturing, with specific shortages in technical and managerial roles. Labour quality risk: high turnover at industrial parks (documented at Hawassa), skills gaps in technical production roles, and the absence of a statutory minimum wage creates ESG compliance uncertainty for brands with Western supply chain obligations. The cost argument is strong. The operational readiness of the labour force for complex manufacturing is the constraint that sector strategy must address.

05 EDITOR'S OUTLOOK

9% Growth Is Not Enough If It Does Not Create 2 Million Formal Jobs Per Year. The Labour Market Is the Structural Test That Every Other Reform Must Pass.

THE BOTTOM LINE

Ethiopia's labour market presents a set of paradoxes that are individually explainable and collectively difficult. National unemployment at 3.4% masks urban youth unemployment at 23% and a NEET rate rising toward 20%. GDP growth at 9%+ has not generated proportional formal employment creation. Industrial parks have created real jobs — Hawassa employs approximately 25,000 workers — but at a fraction of design targets and a fraction of the annual labour market entry cohort. The birr devaluation has made Ethiopia extremely cost-competitive for export manufacturing in USD terms, which is the structural advantage that the Kilinto, Bole Lemi, and Hawassa parks are designed to convert into employment. The wage floor for private sector workers is informal, legally unanchored, and a compliance risk for international brands. The demographic arithmetic is relentless: 2 million new workers per year, 70% currently absorbed by agriculture, urban youth unemployment rising, NEET rates rising. The structural transformation from agricultural to manufacturing and services employment is underway but not fast enough. Closing the gap requires not only more industrial parks but a TVET system at scale, a functioning Wage Board, and sectoral strategies that generate labour-intensive formal employment rather than capital-intensive output. For investors: the labour cost advantage is real and significant post-devaluation. The operational labour supply for labour-intensive manufacturing exists in abundance. The technical skills pipeline, the wage regulatory environment, and the formal employment ecosystem surrounding industrial parks require explicit project-level assessment before committing to manufacturing investment at scale.

Sources: CSA Ethiopia National Labour Force Survey 2021 (ILO / World Bank via ILOSTAT); ILO Youth Country Brief: Ethiopia (June 2023); ILO Global Employment Trends for Youth 2024: Sub-Saharan Africa (August 2024); World Bank "Employment in Urban and Rural Ethiopia" (AUS0002202, September 2021); World Bank "The Impact of Creating Jobs and Attracting Investments" (January 2024); Springer Nature / Discover Sustainability "Industrial Promises, Employment Precarity" (October 2024); ILO Gendered Employment Analysis: Hawassa and Bole Lemi (2023); Adroit Associates "The Youth Employment Imperative: Harnessing Ethiopia's Demographic Dividend" (2024); ILO / Brookings "Industries Without Smokestacks: Ethiopia Case Study" (November 2021); Kulu Media "Ethiopia Economy 2026: Growth Surges as Youth Jobs Lag" (March 2026); Playroll "Employer of Record Ethiopia 2026"; Remote People "Minimum Wage in Ethiopia 2026"; LSE Africa at LSE "Ethiopia's Industrial Parks Leave Workers to the Fate of Global Shocks" (January 2024); AERC "The Challenge of Unemployment and Youth Unemployment amidst Fast Economic Growth"; ILO modelled estimates / World Bank WDI (unemployment rate 2024).