

Abstract

This study examines the impacts of alternative sectoral drivers on economy wide growth, structural change and household welfare in Ethiopia. We use sectoral growth accounting approach and vector autoregressive model that incorporates exogenous variables in order to calibrate the induced sectoral total factor productivity growths. We then introduce the calibrated sectoral total factor productivity in the dynamic computable general equilibrium model that uses the Social Accounting Matrix 2006. We find that economic openness, imported capital goods and service, and service liberalization are the positive drivers and enablers of sectoral total factor productivity for agriculture, industry and service sector respectively. The simulation results show that openness induced agricultural total factor productivity highly improves the welfare of households as compared to other growth scenarios. The liberalization induced total factor productivity in the service sector is also more efficacious in terms of enhancing the growth rate of the economy. The imported capital goods induced industrial total factor productivity is also better in fostering structural change of the economy. However, the broad-based growth option that combines the induced total factor productivity of all sectors enables the economy to achieve more sustainable growth, rapid structural change and welfare gain at the same time. In all options, the country will not cross the threshold level of middle income country status by 2025. The study therefore suggests the need to undertake a series of economic policy revisions and launch industrialization-centered broad-based growth strategies. This is also need for the government to be actively involved particularly in the area of manufacturing. We also recommend that foreign trade openness, service trade liberalization, and imported capital goods and services should receive special attention for driving sectoral total factor productivity. We

also recommend that the government gives more emphasis to enhancing total factor productivity to complement factor accumulation in search of perpetual growth and economic transformation.