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ETHIOPIA

National Budget Brief

2024/25

KEY MESSAGES

1

The national budget has increased by 64.8 per cent in nominal terms, from ETB 1.2 trillion in 2023/24 to ETB 1.98 trillion in 2024/25. Of the total budget, ETB 582 billion is supplementary budget that was approved to support the implementation of the macroeconomic reforms introduced in July 2024.

Recommendation: Along with a growing budget, focus should be on maximizing the effectiveness and efficiency of public spending.

2

The share of the total national budget allocated in 2024/25 for sectors the government classifies as pro-poor – education, health, road, water and agriculture – is 37.1 per cent, down from 45.2 per cent in 2023/24. The decline in the share of spending on social sectors, mainly education, health and water, will have implications for human capital development.

Recommendation: The government should prioritize budget allocation for social sectors, especially education and health. Efficient budget utilization and spending effectiveness in social sectors should also be given due attention, especially in situations where the government is unable to expand its spending.

3

The share of the budget allocated for capital spending for 2024/25 is 40.8 per cent, which is lower compared to the average share of 48 per cent over the past decade. This decline is driven by increased recurrent expenditure, including debt payments, subsidies, civil servant salary adjustments and emergency assistance.

Recommendation: Domestic resource mobilization, at both the federal and regional levels, should be increased to continue to finance capital projects that are required for improved service delivery.

4

Tax-to-GDP ratio declined from 6.8 per cent in 2023/24 to 6.3 per cent in 2024/25. The newly introduced Medium-Term Revenue Strategy aims to increase the tax-to-GDP ratio to 13.2 per cent by 2027/28, through comprehensive tax policy and tax administration measures.

Recommendation: Tax policy effectiveness assessments, along with strong follow-up on enforcement and administration of required taxes, is needed to ensure the Medium-Term Revenue Strategy is implemented and achieves the set target within the strategy period.

5

The increasing government expenditure for debt repayment, and increased expenditure for humanitarian needs due to conflict and climate shocks, is shrinking the fiscal space for development financing and deprioritizing investments in critical social sectors.

Recommendation: Expanding the fiscal space for social spending should be prioritized, alongside domestic resource mobilization and improved efficiency and effectiveness in government spending, to ensure economic reforms are not undertaken at the cost of children's well-being, which is the foundation for productivity and economic development.

1. MACRO-ECONOMIC OVERVIEW

Despite facing multiple shocks, the Ethiopian government reported an 8.1 per cent economic growth rate for 2023/24 (Figure 1), higher than the IMF's estimate of 6.1 per cent[1] for the same period. In recent years, Ethiopia has grappled with macroeconomic instability driven by overlapping crises, including COVID-19, climate shocks, rising global commodity prices and internal conflicts. While Ethiopia experienced higher economic growth relative to sub-Saharan Africa's average growth rate of 3 per cent in 2024, human development remains low. According to the 2023/24 Human Development Index, Ethiopia ranks 176 out of 193 countries, placing it in the 'low human development' category.[2] Although significant gains have been achieved in reducing the poverty rate in the past few decades, an empirical assessment by UNDP on the impact of shocks in Ethiopia found that poverty increased between 2015 and 2022 due to multiple crises and the rising cost of living.[3]

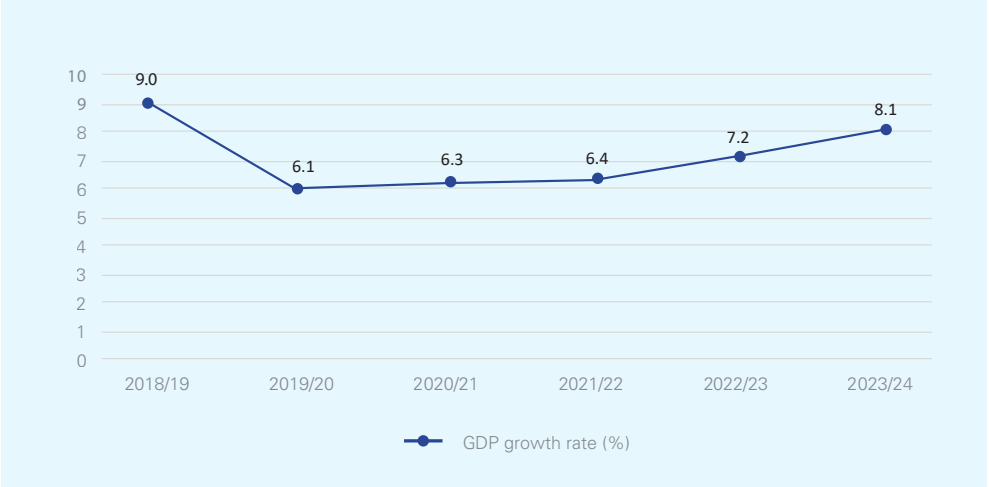


Figure 1:

Real GDP growth (per cent)

Source:

National Planning Commission (2018/19–2023/24)

Economic growth in the fiscal year 2023/24 was predominantly driven by an expansion of the service sector, which accounted for a 40.2 per cent share to GDP. Agriculture followed, with a contribution of 31.8 per cent. The share of the industry sector was 29.1 per cent, a slight increase from the 28.8 per cent contribution in the previous year. The sectoral contributions to GDP have remained largely unchanged in recent years, indicating that structural transformation driven by industrialization has yet to be fully realized. There has been an improvement in the overall export performance, with exports showing a 13.5 per cent growth rate compared to the previous fiscal year. The value of imports has also increased by 13.2 per cent, leading to a 12.9 per cent increase in the resource gap balance compared to the last fiscal year.[4]

1 International Monetary Fund. (2024). The Federal Democratic Republic of Ethiopia: First review under the extended credit facility arrangement, Request for modification of performance criteria, and financing assurances review. Retrieved on 10 March 2025 from https://www.imf.org/en/Publications/CR/Issues/2024/11/04/The-Federal-Democratic-Republic-of-Ethiopia-First-Review-Under-the-Extended-Credit-Facility-557019

2 United Nations Development Programme. (2024). Human development report 2023/2024: Breaking the gridlock. Retrieved on 10 March 2025 from https://hdr.undp.org/content/human-development-report-2023-24

3 United Nations Development Programme. (2022). Crisis, resilience and opportunity: Poverty, human development, and the macro-economy in Ethiopia, 2020-23. Ethiopia Working Paper Series. No 2

4 Ministry of Planning and Development. (2024). National accounts statistics. Unpublished internal document

Table 1:

Selected economic indicators (2023/24)

Note:

Ministry of Planning and Development (MoPD), Ministry of Finance (MoF), International Monetary Fund (IMF)

Indicator	2023/24	Data source
GDP growth rate	8.1%	MoPD (2024)[5]
Share of agriculture sector to GDP	31.8%	MoPD (2024)
Share of industry sector to GDP	29.1%	MoPD (2024)
Share of service sector to GDP	40.2%	MoPD (2024)
Public debt (% of GDP)	32.9%	MoF (2024)[6]
External debt (% of GDP)	13.9%	MoF (2024)
Domestic debt (% of GDP)	19.0%	MoF (2024)
Fiscal deficit (% of GDP)	2.0%	IMF (2024)[7]

Persistently high inflation and low foreign exchange reserves remained major challenges in 2023/24. The average annual rate of inflation for the fiscal year was 26.6 per cent (Figure 2).[8] Food inflation, at 28.1 per cent, was the primary driver of inflation compared to non-food inflation, which stood at 24.3 per cent. Although the inflation rate has shown a decline compared to the previous two years, high inflation continues to impact people's purchasing power, particularly wage earners in urban areas. It is also undermining public investment, as the real value of the public budget is being reduced by the high cost of investment. Some of the contributory factors to the high rate of inflation include price hikes on international goods due to international shocks, increasing money supply growth in the economy to finance fiscal deficit, the depreciation of the Ethiopian Birr (ETB), and supply-related constraints exacerbated by drought and ongoing conflicts in different parts of the country. Another source of macroeconomic instability was declining foreign exchange reserves. The imbalance between exports and imports led to a significant reduction in foreign exchange reserves, which in turn has constrained capital investment and hindered the ability to procure essential imports.

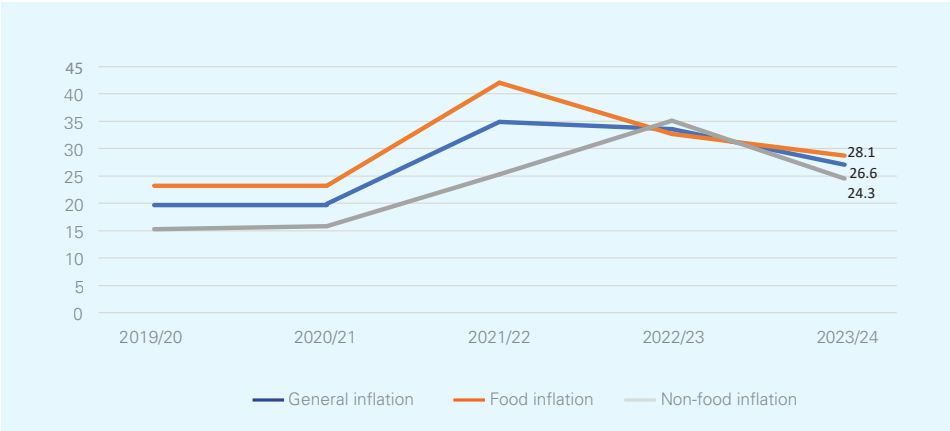
The impact of conflict and climate shock has resulted in a significant increase in government expenditure to meet the growing need for humanitarian assistance in the country. As domestic resource mobilization was insufficient to meet the increasing expenditure demand, the government had to reprioritize expenditure,

Figure 2:

Annual average inflation rate (per cent)

Source:

Ethiopian Statistical Service (2019/20–2023/24)



5 Ibid
6 Ministry of Finance. (2024). Public sector debt - Statistical bulletin - No. 50. Retrieved from https://www.mofed.gov.et/media/filer_public/9b/92/9b9264db-1a2b-4cd5-aa7d-f0307d67b4ce/public_sector_debt_statistical_bulletin_no_50.pdf
7 International Monetary Fund. (2024). The Federal Democratic Republic of Ethiopia: First review under the extended credit facility arrangement, Request for modification of performance criteria, and financing assurances review. Retrieved on 10 March 2025 from https://www.imf.org/en/Publications/CR/Issues/2024/11/04/The-Federal-Democratic-Republic-of-Ethiopia-First-Review-Under-the-Extended-Credit-Facility-557019
8 Ethiopian Statistical Service. (2025). Inflation report on January, EFY 2017. Statistical Bulletin, Issue No. 19/2017. Retrieved from https://www.statsethiopia.gov.et/wp-content/uploads/2023/08/CPI-July-2023-2.pdf

leading to a decline in social sector spending in 2023/24. The influx of internally displaced people (IDPs) fleeing conflict-affected areas and natural shocks require immediate life-saving humanitarian assistance. These shocks have also resulted in the destruction of numerous service-delivering institutions and infrastructure required for basic service delivery. This is expected to increase due to the ongoing conflicts in different parts of the country. All these needs require public budgets that could potentially lead to a widening budget deficit.

Another challenge in the economy is the high debt burden with limited external debt servicing capacity. As of June 2024, total public debt, including publicly guaranteed and non-guaranteed debt, stood at US$68.1 billion, up by 7.5 per cent from US$63.3 billion in June 2023.[9] Of the total debt, US$28.8 billion is external debt, while the remaining US$39.3 billion is domestic debt. The higher share of the total debt, 57.7 per cent, is from domestic sources, mainly from central government concessional borrowing. The total debt as a percentage of GDP is 32.9 per cent, while the external debt-to-GDP ratio is 13.9 per cent. The public sector external debt service payment (including the principal, interest and fees) was US$1.3 billion during the 2023/24 fiscal year. Although the debt-to-GDP ratio is lower than the 40 per cent threshold for developing countries, the low debt servicing capacity remains a challenge. High debt burden coupled with low foreign currency reserves has impacted debt servicing capacity. The external debt servicing-to-export ratio has reached 11.3 per cent, above the threshold of 10 per cent, elevating the country's debt distress level to high risk.[10] As part of the debt restructuring discussions under the common framework, Ethiopia's Official Creditors Committee agreed to suspend all debt service payments from bilateral and private creditors maturing between 01 January 2023 and 31 December 2024.[11] Discussions on further debt restructuring are ongoing as part of the broader IMF-supported debt treatment initiative, which has called for total debt relief of US$3.5 billion under the Common Framework to support the macroeconomic reforms. These macroeconomic instabilities have a detrimental impact on the country's economic development outlook, eroding the confidence of private investors and undermining the real value of public investments.

To meet its goal of ensuring low and stable inflation in the economy, the National Bank of Ethiopia issued a new monetary policy framework in July 2024. The measures to be implemented in the new framework include a move towards an interest-rate based monetary policy regime.[12] Accordingly, the NBE set its initial policy interest rate at 15 per cent. It also introduced monetary policy-related auctions as the primary monetary policy instrument to ensure that interest rates in the interbank market remain close to the policy rate. An electronic platform to facilitate an active and functional 'interbank money market' was among the measures introduced by the NBE to improve liquidity within the banking sector.

In July 2024, Ethiopia implemented a comprehensive macroeconomic reform programme in response to ongoing macroeconomic challenges. The reform programme is designed within the framework of the Homegrown Economic Reform Agenda and the Mid-Term Development and Investment Plan (MDIP), supported by the IMF, the World Bank and other development partners. The macroeconomic policy reform's primary measures include establishing a market-based foreign exchange regime, an interest-based monetary policy framework, fiscal policy reforms, debt management reform, and the establishment of key strategic directions to ensure the efficient and effective implementation of the reform. It is hoped that the reforms will stabilize economic growth, while enhancing revenue, making public expenditure more progressive and amplifying fiscal space for social sectors. To support this reform agenda, a 48-month Extended Credit Facility programme, which provides access to US$3.4 billion, was approved by the IMF in July 2024. Additional financing of US$3.75 billion was secured through budget support from the World Bank.

9 Ministry of Finance. (2024). Public sector debt statistical bulletin. Bulletin no. 50 (2019/20–2023/24). Retrieved on 12 March 2025 from https://www.mofed.gov.et/media/filer_public/9b/92/9b9264db-1a2b-4cd5-aa7d-f0307d67b4ce/public_sector_debt_statistical_bulletin_no_50.pdf
https://www.mofed.gov.et/media/filer_public/3e/be/3ebe0ba1-0ecf-4ec7-87a7-7f0090be5646/final_public_sector_debt_statistical_bulletin_no_46_1.pdf
10 Ibid
11 Ministry of Finance. (2025). Public sector debt portfolio analysis no. 25 (2019/20–2023/24). Retrieved on 10 March 2025 from https://www.mofed.gov.et/media/filer_public/d6/93/d69366bd-0130-4846-9c89-778b32a7f621/public_sector_debt_portfolio_analysis_no_25__2019-20__-_2023-24.pdf
12 National Bank of Ethiopia. (2004). The National Bank announces the launch of a new monetary policy framework. Press release. Retrieved on 12 March 2025 from https://nbe.gov.et/nbe_news/the-national-bank-of-ethiopia-announces-the-launch-of-a-new-monetary-policy-framework/

Since the implementation of the macroeconomic reforms, the ETB has depreciated and the gap between the parallel rate and official exchange rate has narrowed from 96 per cent to around 5 per cent between July and September 2024.[13] An increase in exports has been observed, mainly driven by gold and coffee. There has been an increase in gold exports, as contraband gold is being redirected to formal channels. Additionally, some supply response in coffee has been observed, with exporters increasing coffee exports from their warehouses and shifting sales away from the domestic market. Foreign currency flows from remittances have also increased, largely driven by commercial banks' remittance campaigns. The National Bank continued to tighten monetary policy through measures such as a cap on commercial bank lending and the removal of direct financing by the government from the NBE. The implementation of a tight monetary policy has contributed to the decline of headline inflation from 29.4 per cent in January 2024 to 17.5 per cent in January 2025.

The government of Ethiopia has also started implementing a new Medium-Term Revenue Strategy (2024/25–2027/28), aligned with the country's Ten-Year Development Plan. The strategy outlines a comprehensive set of tax policies and tax administration measures to improve overall domestic resource mobilization. It aims to increase the tax-to-GDP ratio from its low level of 6.3 per cent in 2023/24 to 13.2 per cent by the end of its implementation.[14] The government has indicated that the additional revenue will create a sustainable resource base, enabling an increase in pro-poor spending and capital expenditure by 2 per cent and 1.2 per cent of GDP, respectively, as well as supporting recovery and reconstruction efforts.[15]

Ethiopia has a decentralized public financial management system. The national budget is made up of the budget executed by the federal government and the general-purpose grants (also referred to as block grants) that go to regional governments and city administrations. Responsibility for deciding the general-purpose grant allocation to regional states is constitutionally vested in the House of the Federation (HoF). Federal transfers are made to the regions based on a general-purpose grant distribution formula adopted by the HoF (see Annex 2 for further details).[16] The federal budget consists of capital and recurrent expenditure for the federal government. The regions have their budgets approved by their respective sub-national parliaments, with their resource envelope consisting of the subsidies they receive from the federal government and domestic resources mobilized in their respective regions.

The presentation on the 2024/25 federal government budget in July 2024 outlined key assumptions regarding major macroeconomic indicators. These assumptions form the basis for the formulation of the FY 2024/25 budget. The government forecasts a growth rate of 8.4 per cent for the year 2024/25, while the IMF projects a lower growth rate of 6.5 per cent for 2025. The budget plan aims to reduce inflation from 26.6 per cent to 20.6 per through tight fiscal and monetary policies. The value of goods imported, a key factor in forecasting government revenue from customs duty and taxes, is projected to increase by 9 per cent. It is emphasized that increasing domestic resource mobilization is crucial for ensuring the budget's reliability and sustainability. To achieve this, tax policy and administration reforms will be implemented. This includes the implementation of the Medium-Term Revenue Strategy, which

13 International Monetary Fund. (2024). The Federal Democratic Republic of Ethiopia: First review under the extended credit facility arrangement, Request for modification of performance criteria, and financing assurances review. Retrieved on 10 March 2025 from https://www.imf.org/en/Publications/CR/Issues/2024/11/04/The-Federal-Democratic-Republic-of-Ethiopia-First-Review-Under-the-Extended-Credit-Facility-557019

14 Ministry of Finance. (2024). National Medium-Term Revenue Strategy (NMTRS). Retrieved on 12 March 2025 from https://www.mofed.gov.et/media/filer_public/9f/13/9f13f33f-afdc-41cc-88ae-b8914e96b7ab/nmtrs_final__2024_english_version.pdf

15 International Monetary Fund. (2024). The Federal Democratic Republic of Ethiopia: First review under the extended credit facility arrangement, Request for modification of performance criteria, and financing assurances review. Retrieved on 10 March 2025 from https://www.imf.org/en/Publications/CR/Issues/2024/11/04/The-Federal-Democratic-Republic-of-Ethiopia-First-Review-Under-the-Extended-Credit-Facility-557019

16 The attached HoF equity formula was developed for the period 2017/18–2020/21, when there were only 9 regions and 2 city administrations. When the 2023/24 budget was approved, two additional regions had been established. These newly established regions were part of the Southern Nations, Nationalities and Peoples' Region (SNNPR). The current budget allocation follows the pre-existing formula, but budget allocation for the newly established regions is made by maintaining the share of budget they were getting when they were part of SNNPR.

encompasses revising the VAT tax proclamation and the excise tax system. On the expenditure side, the budget prioritizes debt repayment, mandatory government expenditures, the completion of ongoing projects, fertilizer subsidies, productive safety nets, regional budget support, and the rehabilitation of damaged infrastructure and services. In November 2024, a supplementary budget for the 2024/25 fiscal year, primarily with the IMF's and World Bank's financial support, was approved to assist the implementation of the macroeconomic reform programme.

Key takeaways

- Despite ongoing socio-economic shocks, the Ethiopian government reported an 8.1 per cent economic growth for 2023/24.
- In July 2024, Ethiopia implemented a comprehensive macroeconomic reform programme in response to the ongoing macroeconomic challenges, with the support of the IMF, World Bank and other development partners. Among the reforms is the shift towards a floating exchange rate, which resulted in the depreciation of the ETB against the US$ from ETB 57.5 on 26 June 2024 to ETB 124 on 30 April 2025. The ETB continues to depreciate against the US$.
- The Ethiopian government has developed a new Medium-Term Revenue Strategy (2024/25–2027/28), which is aligned with the country's Ten-Year Development Plan, to enhance domestic resource mobilization.

2. NATIONAL AGGREGATE BUDGET

The following section presents an analysis of the consolidated budget, which is the aggregate of the federal budget and the budgets of regional governments and city administrations. It also includes the supplementary budget that was approved in November 2024 following the introduction of the macroeconomic reforms in July 2024.

Budget trends and priorities

The national budget for Ethiopian fiscal year 2024/25 is ETB 1.98 trillion (Figure 3). This represents a nominal increase of 64.9 per cent compared to the value of ETB 1,200 billion in the previous year. Over the past five years, the budget's nominal average annual growth rate was 33 per cent. In real terms, the 2024/25 budget saw a 40 per cent increase, lower than the nominal growth but marking a reversal of the declining trend in real budget over the past five years. This is primarily attributed to lower inflation in the first half of the 2024/25 fiscal year, mainly driven by the National Bank's strict monetary policy following the macroeconomic reforms. The federal government declared a total budget of ETB 971.2 billion in July 2024, which includes budget for the federal-level government ministries, regional budget subsidies and SDG budget. After the macroeconomic reforms were introduced in July 2024, a supplementary budget of ETB 582 billion, primarily supported by the IMF and World Bank, was approved in November 2024, mainly to help cushion the vulnerable population from the negative impacts of the macroeconomic reforms. The components of this supplementary budget include debt payments, social budget subsidies (such as subsidies for fuel, fertilizer and edible oil), expanding capital projects, social safety net programmes, and salary adjustment for government employees.

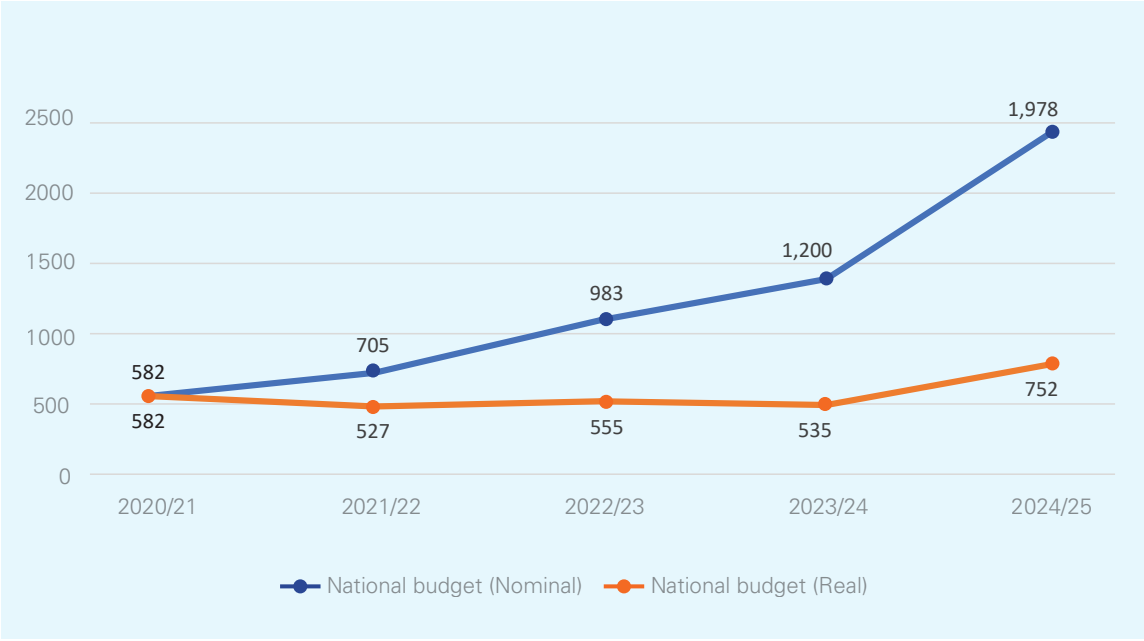


Figure 3:

Nominal and real budget (in billion ETB)

Source:

Data from MoF (2020/21–2024/25)

Note:

Real values are calculated using 2020/21 prices; inflation for 2024/25 calculated using July 2024–January 2025 average inflation rate.

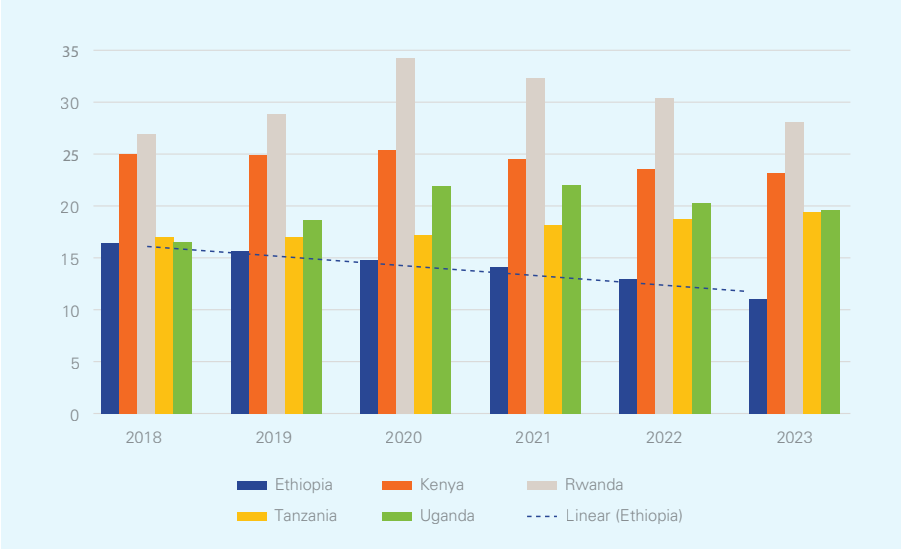
The proportion of the total government budget to GDP has been steadily declining over time. The trend from 2018 to 2023 suggests that the growth of the budget is not keeping pace with the GDP growth (Figure 4). This reflects the nation's limited capacity to mobilize domestic resources. Despite a nominal increase in the government budget in 2023, its share of GDP remains relatively low. The country's budget-to-GDP ratio is notably lower than that of comparable African countries. For instance, in 2023, the share of the public budget to GDP was 27 per cent in Rwanda, 23 per cent in Kenya, and 19 per cent in both Tanzania and Uganda, all considerably higher than Ethiopia's 11 per cent.

Figure 4:

Government budget as a share of GDP (per cent)

Source:

Data from International Monetary Fund (IMF) (2024)[17]



17 IMF. (2024). Public Finances in Modern History database. Government expenditure, percent of GDP. Retrieved on 10 March 2025 from https://www.imf.org/external/datamapper/exp@FPP/USA/FRA/JPN/GBR/SWE/ESP/ITA/ZAF/IND?year=2023

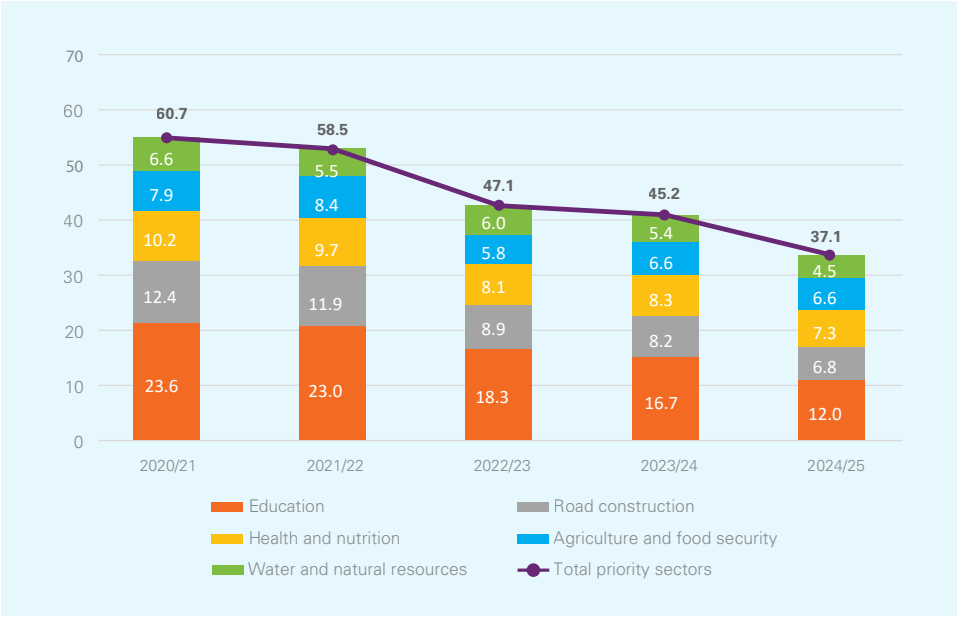
The share of the national budget allocated for sectors the government classifies as pro-poor is 37.1 per cent in 2024/25, down from 45.2 per cent in 2023/24 (Figure 5). The budget share allocated for these priority sectors – education, health, water and natural resources, road construction, and agriculture – has been on a decline over recent years. Compared to 2023/24, the share allocated to these sectors has dropped by 8.1 percentage points, marking the lowest allocation in the past decade. A closer look at the sectors reveals a decline in the share of allocation for education from 16.7 per cent in 2023/24 to 12 per cent in 2024/25. The health sector's share has declined from 8.3 per cent to 7.3 per cent, while the share allocated for water and natural resources has also declined, from 5.4 per cent to 4.5 per cent. Although the budget for these sectors has nominally increased in absolute terms, the declining share implies that the budget priority is shifting away from these sectors. Increasing allocation for debt repayment is observed, with the allocation increasing from 3.2 per cent to 8.9 per cent from 2020/21 to 2024/25 (Figure 6). Additionally, expenditure on emergency assistance and subsidies aimed at mitigating the potential negative impacts of economic reform have further constrained the fiscal space, resulting in a lower share of allocations for social sectors.

Figure 5:

Distribution of budget to selected sectors (per cent of total budget)

Source:

Data from MoF (2020/21–2024/25)



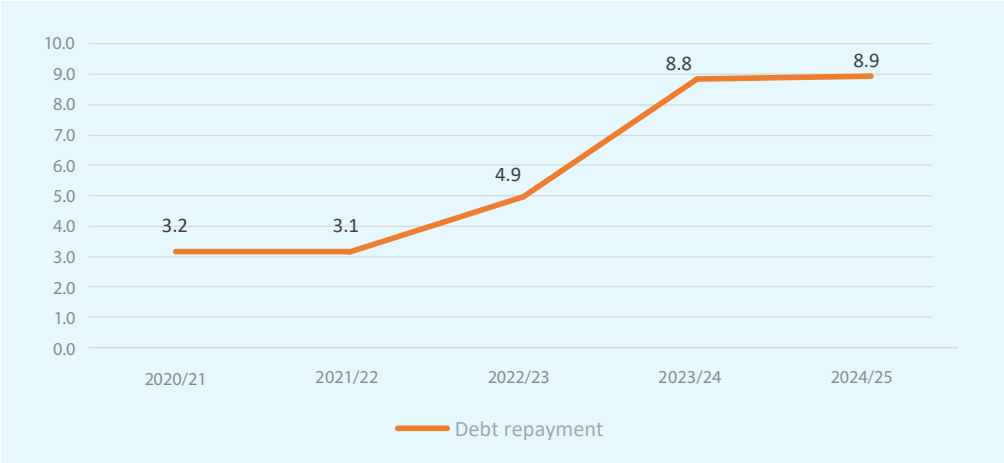


Figure 6:

Share of budget allocated for debt servicing

Source:

Data from MoF (2020/21–2024/25)

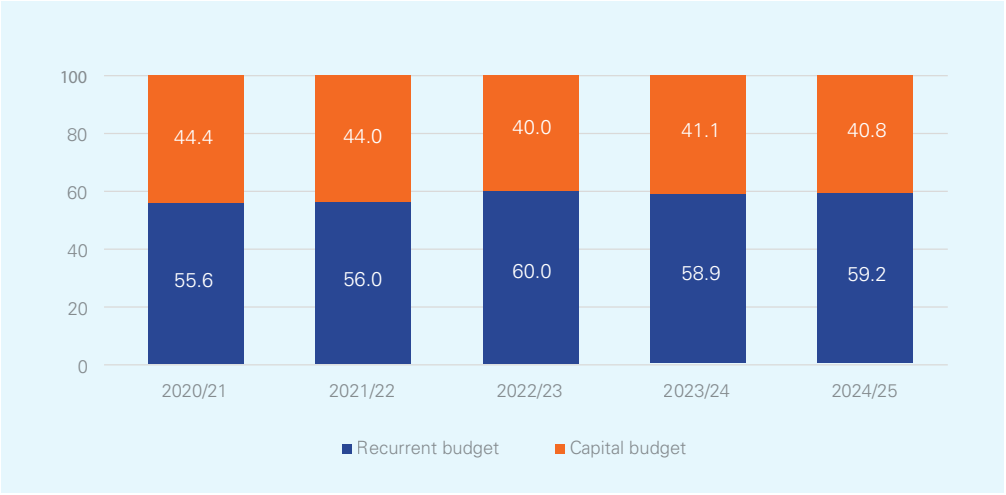
Recurrent expenditure continues to dominate the national government budget. The share of budget allocated for recurrent expenditure is 59.2 per cent in 2024/25, slightly higher than 58.9 per cent in 2023/24 (Figure 7). The increment in recurrent expenditure is driven by the increase in debt servicing, social subsidies and salary increases for civil servants. The share of the budget allocated for capital spending is declining over the years, much lower than the average share of 48 per cent over the past decade. In Ethiopia, where access to social services is still limited, capital budget is crucial for improving both the accessibility and quality of these services. Furthermore, in conflict-affected regions, the destruction of social service-delivering facilities, such as schools and hospitals, necessitates higher capital investment for rebuilding and rehabilitation. The decline in the proportion of growth-enhancing capital expenditure is likely to have an adverse long-term impact on social service delivery and the economy.

Figure 7:

National capital and recurrent budget (per cent of total budget)

Source:

Data from MoF (2020/21–2024/25)



Key takeaways

- The total national budget for Ethiopian fiscal year 2024/25 is ETB 1.98 trillion, which is 64.8 per cent higher than the budget for 2023/24. This is a 40 per cent increase in real terms.
- The significant increase in the national budget is due to the ETB 582 billion supplementary budget, primarily supported by finance from the IMF and World Bank, that was approved after the introduction of the macroeconomic reforms in July 2024. The supplementary budget is mainly to cover additional expenditure for civil servants' salary increments, social subsidies and debt payments.
- The share of the budget allocated for priority sectors (education, health, water and natural resources, road construction, and agriculture) is declining. The 37.1 per cent allocation in 2024/25 is below last year's allocation of 45.2 per cent, and significantly lower than the historical average of 60 per cent over the past decade.
- Unless reversed, the decline in the proportion of growth-enhancing capital expenditure is likely to have an adverse long-term impact on social service delivery and the economy.

Fiscal decentralization and sub-national spending

The share of the national budget going to the regions has declined from 56.7 per cent in 2023/24 to 44.4 per cent in 2024/25 (Figure 8). Basic service delivery, including general education, the construction and management of primary and secondary schools, health posts and health centres, water and sanitation, rural roads, agriculture development and natural resources protection lie under the jurisdiction of regional governments. On the other hand, the federal government is responsible for investing in tertiary-level hospitals, universities, roads, power generation and dissemination, natural resources development and food security, all of which are implemented throughout the country. The share of the government budget allocated for regions has been increasing over the years, except in 2024/25. The increase in the federal government's share of allocated budget is mainly due to the supplementary budget for subsidies and the increase in debt servicing expenditure, which is to be borne by the federal government.

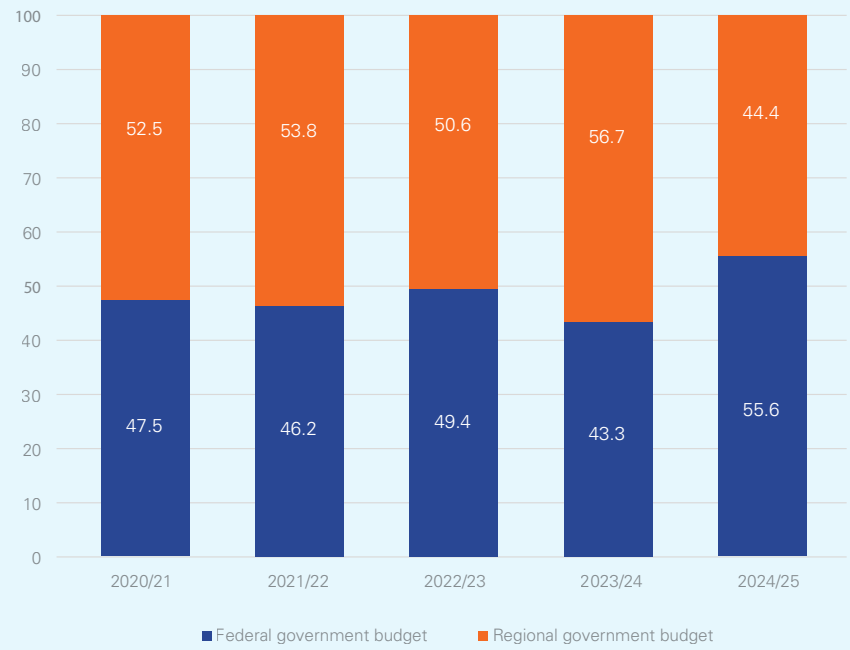


Figure 8:

Federal and regional budget (per cent of total budget)

Source:

Data from MoF (2020/21–2024/25)

In 2024/25, the share of budget allocated for recurrent investments has increased for the federal government compared to previous years (Figure 9). Historically, the share of capital budget allocated at the federal level used to be much higher, as most capital investments were managed by the federal government. The growing expenditure burden for debt servicing and meeting the humanitarian and emergency needs in the country, exacerbated by internal conflicts and climate shocks, has also resulted in a shortage of resources to be allocated for capital expenditure at the federal level. In 2023/24, the federal government announced there will be no new capital projects in the fiscal year due to shrinking fiscal space. The capital budget allocated for 2023/24 was mainly to finalize initiated capital projects. In the current fiscal year, the share of capital expenditure by the federal government declined slightly as a result of the federal government allocating increased recurrent expenditure, including the supplementary budget following the reform in July 2024, to increase financing for debt payments, social subsidies and salary increases for civil servants. As service delivery, which entails covering the salaries of the service delivery workforce, is the responsibility of regions, the share of capital expenditure that is available for covering capital investments is usually lower at regional level. However, for the current fiscal year, the share of capital spending by regions has slightly increased by 1 percentage point. Strengthening resource mobilization by regional governments to increase their capital investment is of paramount importance. The provision of adequate capital budget will ensure improved service delivery through capital investment in primary and secondary schools, and in lower-tier health facilities.

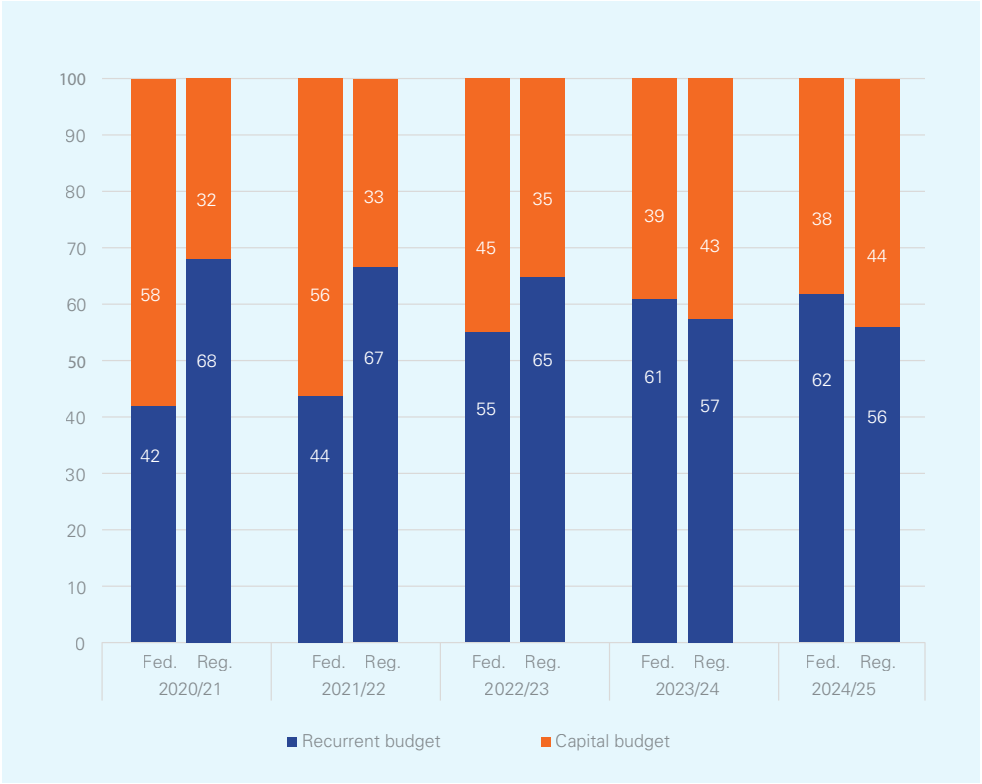


Figure 9:

Capital and recurrent budget at regional level versus federal level (per cent of total capital and recurrent budgets)

Source:

Data from MoF (2020/21–2024/25)

Budget credibility

The national budget for 2023/24 was credible, with only a 5 per cent variation between original budget and actual expenditure (Figure 10). Budget credibility is the proportion of actual expenditure at the end of the fiscal year relative to the budget that was approved at the beginning of the year. In terms of budget components, the budget credibility is higher for recurrent budget compared to capital budget. The budget credibility for recurrent and capital budgets were 94 per cent and 96 per cent, respectively.

Figure 10:

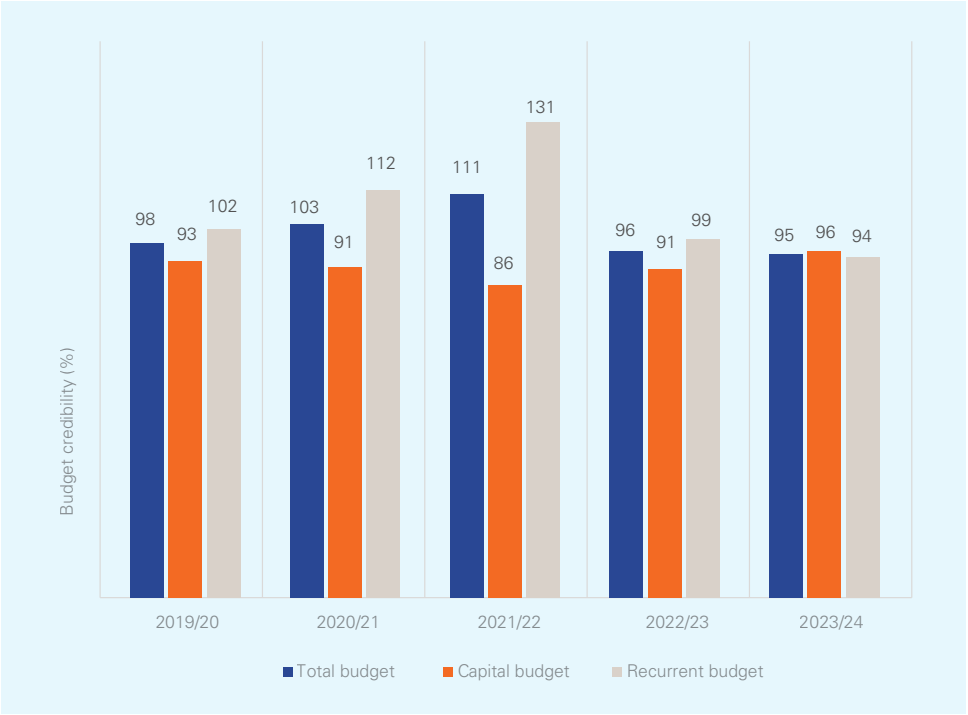
National government budget credibility (per cent)

Source:

Data from MoF (2019/20–2023/24)

Note:

Expenditure data from the MOF's fiscal policy directorate is used to calculate the budget credibility rates.



Key takeaways

- The proportion of budget for the federal government has increased from 43.3 per cent in 2023/24 to 55.6 per cent in 2024/25. The higher share of budget for the federal government is mainly due to the supplementary budget, the significantly higher share of which is to be spent by the federal government.
- The share of federal budget allocated for capital investments is lower for 2024/25 compared to previous years. The decline in the share of capital budget allocation is due to increased recurrent expenditure at federal level for debt payments, subsidies and emergency assistance.

3. FINANCING THE NATIONAL BUDGET

In 2024/25, 75.5 per cent of government revenue needed to finance the national budget is to be generated from domestic revenue. The remainder is to be financed from domestic borrowing (6.4 per cent), external loans (7.2 per cent) and external assistance or grants (10.8 per cent) (Figure 11). The proportion of domestic revenue in total financing has increased by 1 percentage point compared to the previous year. Conversely, the share of domestic borrowing has decreased by 12.7 percentage points. With the introduction of the new monetary policy framework, government borrowing from the central bank is strongly discouraged, a move that is crucial in controlling inflation and ensuring stable interest rates. On the other hand, the share of financing through external borrowing has increased from 3.1 per cent to 7.2 per cent. IMF loans, secured to support macroeconomic reforms and address the foreign exchange shortage, have contributed to the increase in the share of foreign borrowing to finance the deficit. The share of financing from grants has also increased, from 3.3 per cent to 10.8 per cent, mainly driven by budget support and other grants following the macroeconomic reforms. However, sustainable financing can only be achieved through increases in revenue through domestic resource mobilization. Accordingly, the government is giving due attention to boosting domestic resource mobilization at both the federal and regional levels. This effort will be guided by the newly developed Medium-term Revenue Strategy covering the period 2024/25–2027/28. The strategy aims to increase domestic resource mobilization through comprehensive tax policies and tax administration reforms.[18]

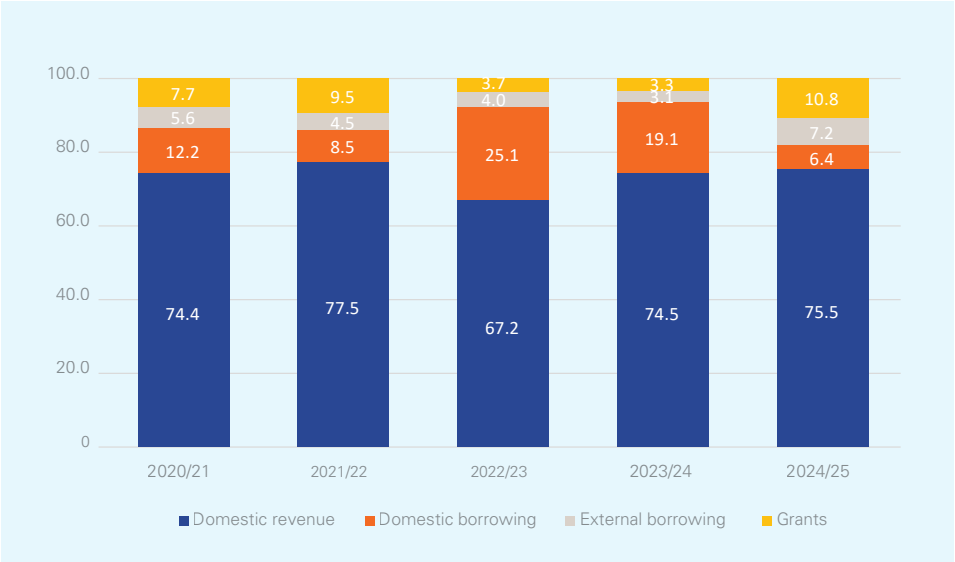


Figure 11:

Sources of government revenue as reflected in the budget (share from total revenue)

Source:

Data from MoF (2020/21–2024/25)

Ethiopia generates most of its domestic fiscal resources from tax, which is expected to finance 83.7 per cent of domestic revenue in 2024/25 (Figure 12). With a large agriculture sector exempt from income tax and a substantial informal sector with unregistered businesses, tax revenue mobilization remains low. Most of the revenue from direct taxes is generated from payroll tax and taxes on the profits of enterprises and individuals. Foreign trade taxes make up the next largest share of total domestic revenue, followed by domestic indirect taxes. The performance of foreign trade, mainly imports, determines the revenue generated from foreign trade taxes. Since the introduction of a floating exchange rate, the ETB has depreciated significantly, resulting in a customs revenue boost, as import valuation has increased with the depreciated ETB. Moreover, efforts are underway to increase non-tax revenue, such as government fees and charges to improve domestic revenue mobilization.

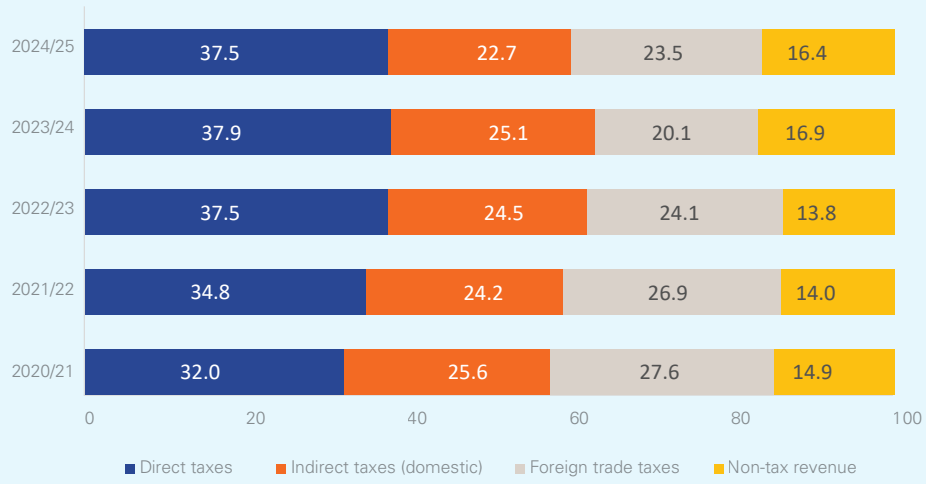
18 Ministry of Finance. (2024). National Medium-Term Revenue Strategy (NMTRS). Retrieved on 12 March 2025 from https://www.mofed.gov.et/media/filer_public/9f/13/9f13f33f-afdc-41cc-88ae-b8914e96b7ab/nmtrs_final__2024_english_version.pdf

Figure 12:

Sources of domestic revenue (percentage of total revenue)

Source:

Data from MoF (2020/21–2024/25)



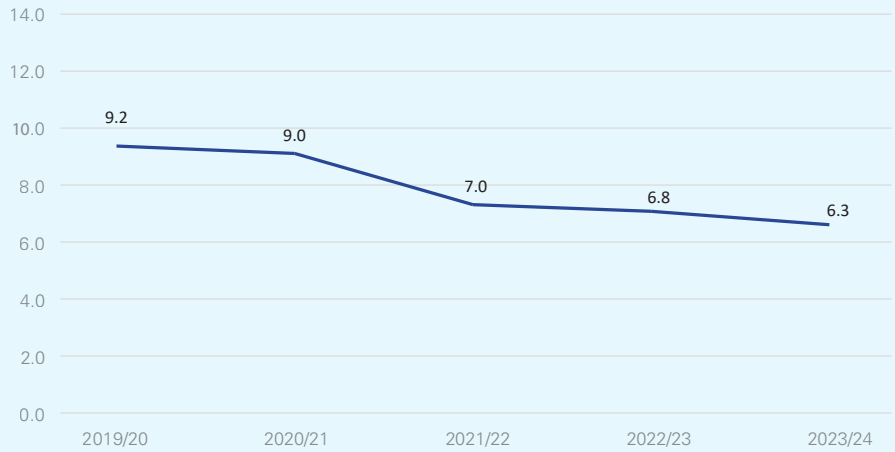
Despite the government's effort to increase domestic resource mobilization, the tax revenue-to-GDP ratio remains low and continues to decline. Tax revenue growth is not keeping pace with GDP growth, indicating that a considerable portion of the economy is not contributing to tax revenue. Not only is the ratio low, but it is also declining – from 9.2 per cent in 2019/20 to 6.8 per cent in 2022/23 and further declining to 6.3 per cent in 2023/24 (Figure 13). This figure is also substantially lower than the 15.6 per cent unweighted average tax revenue-to-GDP ratio of 33 African countries.[19] To reverse this, the government has developed a Medium-term Revenue Strategy aimed at boosting overall domestic resource mobilization and achieving an additional 6.9 per cent in the tax-to-GDP ratio by the end of the strategy period (2027/28). The tax increase is planned to come from tax policy measures (3 per cent), tax administration measures (2.9 per cent) and macroeconomic reforms, including foreign exchange reform (1 per cent).[20] This strategy is developed as part of the broader Ten-Year Development Plan, which envisages raising the tax revenue-to-GDP ratio to 18.2 per cent by 2030.[21]

Figure 13:

Tax-to-GDP ratio (per cent)

Source:

Data from MoF (2019/20–2023/24)



19 OECD. (2021). Revenue statistics in Africa 2023. Retrieved in December 2024 from https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf.
20 Ministry of Finance. (2024). National Medium-Term Revenue Strategy (NMTRS). Retrieved on 12 March 2025 from https://www.mofed.gov.et/media/filer_public/9f/13/9f13f33f-afdc-41cc-88ae-b8914e96b7ab/nmtrs_final__2024_english_version.pdf
21 Planning and Development Commission. (2020). Ten Years Development Plan: A Pathway to Prosperity (2021–2030).

Key takeaways

- The share of domestic borrowing from total government financing has significantly declined in 2024/25, while the share for external borrowing has increased. The increase in external borrowing is partly due to the loan acquired from the IMF through the extended credit facility.
- The tax-to-GDP ratio declined from 9.2 per cent in 2019/20 to 6.8 per cent in 2022/23 and further to 6.3 per cent in 2023/24. The newly introduced Medium-Term Revenue Strategy aims to increase the tax-to-GDP ratio to 13.2 per cent by 2027/28 through comprehensive tax policy and tax administration reforms.

Annex 1: Ethiopia total national on-budget records 2020/21–2024/25

Gregorian Calendar Fiscal Year	2020/21	2021/22	2022/23	2023/24	2024/25
Ethiopian Fiscal Year	**2013**	**2014**	**2015**	**2016**	**2017**
Population (in million)	103.0	105.2	107.3	109.5	111.7
GDP at current market price (in billion ETB)	4,341.4	6,157.5	8,722.3	11,752.1	-
Real GDP growth rate	6.3	6.4	7.2	8.1	8.4
General inflation rate (CPI growth rate)	20.4	33.7	32.5	26.6	17.3*
Exchange rate (period-weighted average)	39.0	48.6	53.3	56.0	-
Financing sources (in million ETB)					
Total financing	**591,564**	**705,030**	**983,116**	**1,200,476**	**1,978,015**
Domestic revenue	440,329	546,275	712,790	932,039	1,493,865
Tax revenue	374,730	469,567	614,207	774,416	1,248,833
Direct taxes	140,803	190,152	267,470	353,003	559,493
Indirect taxes (domestic)	112,548	132,450	174,632	233,824	338,681
Foreign trade taxes	121,379	146,965	172,105	187,589	350,659
Non-tax revenue	65,598	76,707	98,583	157,622	245,033
Grants	45,440	66,850	38,924	41,120	214,091
Grants in kind/earmarked	24,780	28,098	31,265	34,770	83,831
Budget support/CPF/DBS** grant	20,660	38,752	7,659	6,349	130,260
External borrowing	33,350	31,899	6,876	(11,376)	142,805
Domestic borrowing	72,446	60,006	224,526	238,694	127,254
National budget (in million ETB)					
Total national budget	**582,258**	**705,030**	**983,116**	**1,200,476**	**1,978,015**
Total national recurrent budget	323,935	395,113	590,290	706,928	1,171,609
Total national capital budget	258,323	309,918	392,826	493,548	806,406
Total federal government budget	**276,432**	**326,071**	**485,772**	**519,850**	**1,092,560**
Federal government recurrent budget	116,103	142,522	267,659	316,407	675,628
Federal government capital budget	160,330	183,548	218,113	203,443	416,933
Total regional government budget	**305,826**	**378,960**	**497,344**	**680,626**	**885,455**
Regional government recurrent budget	207,832	252,590	322,631	390,521	495,982
Regional government capital budget	97,993	126,369	174,713	290,104	389,473

National poverty-oriented budget (in million ETB)					
Total national poverty-oriented budget	**353,339**	**412,314**	**462,598**	**542,629**	**734,584**
Total national agriculture and food security	45,955	59,422	57,042	78,879	129,849
Total national water and natural resources	38,676	38,469	58,685	65,130	89,643
Total national road construction	72,147	84,105	87,199	98,027	133,610
Total national education	137,192	162,202	180,231	200,422	238,048
Total national health and nutrition	59,369	68,115	79,442	100,172	143,433
National government budget and expenditure (original budget and actual expenditure) (in million ETB)					
National budget					
Original budget	582,258	705,030	983,116	1,200,476	-
Actual expenditure	599,007	785,369	938,904	1,136,314	-
National capital expenditure					
Original budget	258,323	309,918	392,826	493,548	-
Actual expenditure	235,410	267,226	355,707	472,181	-
National recurrent expenditure					
Original budget	323,935	395,113	590,290	706,928	-
Actual expenditure	363,597	518,142	583,196	664,133	-

Source: Data from MoF (2020/21–2024/25)

Notes: * The inflation rate used for reporting on real budget for 2024/25 fiscal year is 17.3 per cent, which is the average inflation rate between July 2024 and January 2025.

** CPF (Country Partnership Framework), DBS (Direct Budget Support).

Annex 2: The Federal General-Purpose Grant Distribution Formula (2017/18–2020/21)

The responsibility for deciding the proportion of the general-purpose grant allocation to the regional states has been constitutionally vested in the House of Federation (HoF) since 1994/95. Federal transfers are distributed based on the relative fiscal gaps of regional states, and the HoF has adopted a grant allocation formula to capture the gaps as accurately as possible. The HoF revises the grant allocation formula periodically, so as to adjust the federal grant allocation to the changes in the socio-economic conditions of each regional state, and a number of formulae have been developed and used since the country adopted fiscal federalism.

In 2017, the HoF adopted a revised grant allocation formula (for use in the following three years) to accommodate the allocation of federal grants to changes in population size, levels of development, revenue collection capacities, employment and poverty, among other factors, across regional states. The new approach to federal transfers is calculated on the basis of representative revenue and expenditure estimates. In this approach, the revenue-raising capacity is estimated using the representative revenue system; the expenditure needs are estimated using the representative expenditure system; and the fiscal gaps are calculated accordingly for each regional state. The grant is therefore distributed based on the relative fiscal gaps of the regional states.

Though there are different approaches used to estimate the revenue-generating capacities of sub-national governments, the federal transfer formula of Ethiopia uses the representative tax system (RTS) to estimate the revenue-generating capacities of each region. This system employs the main tax revenue sources of regional states, including agricultural income tax, land use fee, payroll tax, business income tax, turnover tax, and value-added tax. The current grant allocation formula considers new developments in tax rates, particularly for payroll tax. Improvements have also been made to the previous computation method by using weighted averages, rather than simple average tax rates. Moreover, a new method is followed in the calculation of business income tax and value-added tax, which represents a major departure from the method used in the previous formula.

According to the new grant allocation formula, the expenditure need of each regional state is calculated by taking into consideration the unit of measurement (which is different across each expenditure category), representative expenditure (per unit average expenditure for each expenditure category), and adjustment index (constructed from factors explaining unit cost differentials across sub-national governments). The current grant allocation formula employs a regression approach to estimate the adjustment index for each expenditure category, which was not the case in the previous formula (previously, the adjustment index was subjectively determined by an expert and then finally settled through consultation with the regional governments). The expenditure categories incorporated in the calculation include general services and administration, primary and secondary education, including Technical and Vocational Education and Training (TVET), public health, agriculture and rural development, drinking water development, rural road construction and maintenance, urban development, and micro and small-scale enterprises.

However, in the current grant allocation formula, the lack of adequate and good-quality data on some essential variables of interest have been the most important challenges in estimating the revenue-generating capacities and expenditure needs of regional states. Moreover, it is impossible in this revision to capture some of the concerns raised by regional governments, such as the variation in the quality of public services provided and the efficiency differential across regional states.

As a result of this computation, from 2017/18 to 2020/21, the total amount of the federal general-purpose block grant was divided and transferred as follows: Tigray, 6.03 per cent; Afar, 3.02 per cent; Amhara, 21.6 per cent; Oromia, 35.38 per cent; Somali, 10.32 per cent; Benishangul-Gumuz, 1.54 per cent; Central Ethiopia, Sidama, South Ethiopia, and South West Ethiopia (that in the past formed SNNPR), 20.41 per cent (shared across the four regions); Gambella, 1.1 per cent; Harari, 0.21 per cent; and Dire Dawa, 0.38 per cent. This grant allocation formula is still in use today.

Adapted from: Federal Democratic Republic of Ethiopia House of Federation. (June 2017). The Federal General-Purpose Grant Distribution Formula 2017/18–2019/20.

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This national-level budget brief was produced by Fanaye Tadesse Techane ftechane@unicef.org with guidance and contributions provided by Zeleka Paulos zpaulos@unicef.org. The main objective of this budget brief is to synthesize complex budget and expenditure information so that it is easily understood by stakeholders, to foster discourse, and to inform policy and financial decision-making processes. The analysis presents budget and expenditure that are recorded on-budget by the Ministry of Finance. UNICEF's work on social policy is undertaken under the leadership of Daniel Kumitz.

For further information, contact:

Daniel Kumitz
Chief of Social Policy
UNICEF Ethiopia
dkumitz@unicef.org

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UNECA Compound, Zambezi Building, P.O. Box 1169, Addis Ababa

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