

This note reviews the recently passed Government Budget for the 2020-21 fiscal year. Notable aspects of the budget include: (1) the Government's expectations of still-strong growth this year (8.5% for GDP, 4.5% for imports); (2) the planned 20% increase in tax revenue, supported in part by higher indirect taxes (e.g. excises); and (3) the substantial spending increases/allocations dedicated for roads, health, education, debt service, irrigation, and security. With regards to the budget deficit, though a record Birr 126bn (\$3.6bn) of government borrowing is planned this year, we find that Ethiopia will still show the lowest post-Corona budget deficit—relative to GDP—among Africa's 10 largest economies; however, we expect the surge in domestic borrowing will bring higher interest rates to the Treasury Bill market over the course of the year.

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- New Budget:** The Ethiopian Parliament approved on July 7, 2020 a federal government budget with planned expenditure of Birr 476bn (12% of GDP) for the 2020-21 fiscal year (**Table 1**). Around 75 percent of government spending is to be covered by revenue and grants (Birr 305bn in revenue and Birr 46bn in grants), while roughly a quarter of total expenditure (Birr 126bn or 3.1% GDP) will require new borrowing from foreign and domestic lenders.
- Assumptions:** The Budget assumes 8.5 percent GDP growth (which would make Ethiopia's economy among the world's fastest growing), inflation of 9.8 percent, revenue growth of 20 percent, and import growth (critical for customs receipts) of 4.5 percent. These projections are not unrealistic, in our view, though we expect somewhat slower growth and higher inflation—thus leaving the budget assumptions close to our nominal GDP expectations.
- Financing:** Of the total Birr 126bn needed to cover the budget deficit, Birr 48bn (\$1.3bn) is to be met by foreign borrowing. For the remaining Birr 78bn, a mix of domestic borrowing (from the central bank, commercial banks, and pension funds) and exceptional, one-off sources (e.g privatization) is to be utilized; the precise mix among these four financing sources is not fully specified and somewhat uncertain. Even if the deficit were covered solely by new borrowing (with no use of privatization proceeds), we don't expect debt ratios to deteriorate this year given strong growth in nominal GDP.
- Policy priorities:** The combination of high allocations for growth-promoting public investments (roads, education, health, irrigation, security) alongside only a modest deficit deterioration relative to GDP (especially in a post-COVID, cross-country context) reveals a policy stance that is clearly sensitive to macro stability concerns while still firmly developmental in its orientation.

Ethiopia's Top 10 Budget Expenditures

Sector or Ministry	Birr bns
1 Roads	58.8
2 Education	56.8
3 Debt service	37.0
4 Health	18.7
5 Defence	16.5
6 Irrigation	16.1
7 Agriculture	15.3
8 General Services	12.8
9 Justice & Security	10.4
10 Organs of State	7.4

Post-COVID Budget Deficits in 2020 Africa's 10 Largest Economies

Ranked by deficit in % of GDP

1 Ethiopia	-3.1%
2 Tanzania	-3.8%
3 Nigeria	-4.1%
4 Angola	-6.0%
5 South Africa	-6.8%
6 Morocco	-7.1%
7 Egypt	-7.7%
8 Kenya	-8.9%
9 Ghana	-9.6%
10 Algeria	-14.9%

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Revenue assumptions and outlook

- **Trends and Growth:** Revenue this year is projected to rise by around 20 percent vs last year's budget targets (Birr 350 vs Birr 290bn), propelled in part by a near 20 percent expansion in nominal GDP (8.5% real growth, 9.8% year-average inflation) (**Table 2**).¹ The Corona-related slowdown in certain sub-sectors will certainly impact revenue performance for the first half of the fiscal year and thus limit tax collections from business profits and import taxes; however, as we've noted before, the sub-sectors most affected by the Corona pandemic are not a very large share of GDP and some of the anticipated impacts (in exports, industrial park activity, etc) have not been as severe as initially feared. Moreover, tax policy changes such as increased rates on excise taxes (**see Appendix 1**) as well as continued tax administration measures (including a recent amnesty that's likely to bring businesses back into the tax net) will also contribute to the anticipated revenue growth. Perhaps most important, the on-going depreciation of 15-20 percent on a year-on-year basis will boost the Birr value of many fx-denominated revenue sources including trade taxes (customs duty, import VAT, excise tax, and import surtaxes) as well as external grants (of which \$1.3bn is anticipated for the fiscal year).² Considering all of the above, and given that the assumed revenue increase is roughly in line with nominal GDP (both around 20 percent), the revenue targets appear reasonable and realistic in our view.

Spending allocations and composition

- **Trends and Growth:** The spending increase planned for the new fiscal year amounts to a 23 percent rise in nominal terms from last year's budget figure (Birr 476bn vs Birr 387bn) (**Table 3**). In real terms, the planned expenditure for this year will amount to a modest 3 percent increase, reversing last year's real decline in government expenditure.
- **Budget expenditure:** Per the classifications of the federal budget document, Ethiopia's total government spending of Birr 476bn is split across four categories: (1) current spending; (2) capital spending; (3) subsidies to regions; and (4) support for the Sustainable Development Goals or SDGs. The first two items, collectively amounting to Birr 294bn, are items spent directly by the federal government and can be further broken down into the following main federally administered spending items (**Tables 4 and 5**):

¹ We think it may be more realistic to expect real GDP growth of 6 percent this fiscal year alongside inflation of around 12-14 percent on a year-average basis; though based on a different composition, this still leads to similar growth in nominal GDP (~20%) as used in the budget and thus a nominal GDP level of Birr 4.08 trillion for this fiscal year versus Birr 3.43 trillion last year.

² An estimated 40 percent of 'Revenue & Grants' is linked to the exchange rate and thus tends to rise in line with the rate of depreciation. This reflects the large role of grants (Birr 26bn budgeted last year) and trade taxes (Birr 102bn last year), relative to total budgeted revenue and grants of Birr 299bn last year.

- **Roads** constitute the largest federal government spending item, with Birr 58.8bn being allocated this year for a total of 284 new roads, 72 road rehabilitations, and 5 new bridges.
 - **Education** holds the second highest spending allocation, at Birr 56.8bn, with funding in this line-item allocated to 47 federally-administered universities for an average allocation of around Birr 1.2 billion per university.
 - **Debt service:** Allocations to cover external as well as internal debt are the budget's third largest spending item at Birr 37bn, indicative of the cumulative impact of deficit-related borrowing over the past decade; the largest component of this line-item (Birr22bn) covers repayments on external debt.
 - **Health** is the fourth largest budget item, at Birr 18.7bn, which is a significant 46 percent increase (COVID-related) from last year.
 - **Defence** has been allocated Birr 16.5bn this fiscal year, 5th largest overall and up 10 percent from last year's levels.
 - **Two economic sectors**—irrigation development and agriculture/rural development—have the 6th and 7th largest budgetary allocations, with funds dedicated to specific new projects in those fields as well as for the implementing agencies and institutes in these productive sectors.
 - **Justice and Security:** At Birr 10.4bn and up 29 percent from last year, security and justice related allocations make up the 9th largest government expenditure item, roughly in line with its relative ranking in recent years.
 - **General Government Services and Organs of State:** These administrative and federal institutions deliver key state functions and received the 8th and 10th largest allocations in the budget, or Birr 20bn taken collectively. Notable institutions include federal ministries, agencies, commissions as well as Parliament and the Offices of the President and Prime Minister.
- **Spending shifts and priorities:** Relative to spending levels from two years ago, federal government budgeted expenditure is up 43 percent overall, from Birr 205bn to 294bn. Within this overall increase, the following sub-components have exceeded the average growth in federal expenditure, pointing to shifts in policy preferences towards these specific areas (**Table 6**):
 - **Water Resources & Energy:** Up 74%, or Birr 12.3bn to 21.5bn
 - **Health:** Up 73% from Birr 10.8bn to 18.7bn, reflecting particularly COVID-19 related increases this year.
 - **Debt service:** Up 64% from Birr 22.5bn to 36.9bn, reflecting rising debt and commitments to avoid arrears.
 - **Justice and Security:** Up 54% from Birr 6.8bn to 10.4bn.
 - **Roads:** Up 51% from Birr 38.9bn to 58.8bn.

Budget deficit and its financing

The planned deficit of near Birr 126bn is a record high in nominal terms but, at 3.1 percent of GDP, is not substantially above deficit ratios seen in recent years. Indeed, relative to GDP, a deficit of 3.1 percent is similar to the average budget deficit outturn over the past five years (3 percent of GDP) and not much above the ten-year average (2.4 percent of GDP) (**Table 7**). Moreover, viewed from a cross-country perspective, and at a time when countries across the globe are showing a significant deterioration in budget deficits to combat COVID-19, we find that Ethiopia's deficit this year will be the lowest—relative to GDP—among Africa's 10 largest economies (**Table 8**).

The external borrowing planned to cover the deficit is on the order of \$1.3bn or Birr 48bn. Per the budget document, the largest sources of external funding are the World Bank, the African Development Bank, China Exim Bank and a few other lenders. To the extent that potential delays or shortfalls are encountered in these anticipated foreign loans (such as the apparent hold on recent World Bank funding), the overall external funding envelope may fall short of the budgeted figures. Such shortfalls are typically addressed by holding back on similar/corresponding expenditure items in the budget, which will prevent any worsening of the deficit but of course at the cost of cutbacks to affected programs.

Assuming the planned external borrowing target is met, an additional Birr 78bn of funding is still required and anticipated from a combination of domestic borrowing and exceptional privatization related inflows. Were this amount to be covered solely by domestic financing, the implied Birr 78bn of new borrowing would be the highest ever domestic financing usage over the past 20 years (Birr 78bn vs a previous peak of Birr 59bn in 2017-18). Relative to GDP, the domestic borrowing requirement of near 2.0 percent of GDP this year would be notably higher than the 1.3 percent of GDP average seen over the past 20 years (**see Appendix 2**). Whether the large increase in domestic borrowing can be accommodated depends on trends in three major domestic financing sources (**Table 9**):

- **Commercial banks:** The commercial banking system (including CBE) held Birr 1,043 bn in deposits as of June 2020, or a 16 percent growth from year-ago levels. With similar (or slightly lower) growth likely for the new year, deposit levels should reach close to Birr 1,200bn by end-June 2021, implying that the Birr 78bn in government borrowing would be equivalent to around 7 percent of outstanding bank deposits. Relative to the *incremental* deposit growth for the fiscal year (Birr 147bn), however, the government's financing need is equivalent of 50 percent of new bank deposits—a significant crowding out of funds (for the private sector) were the government to rely primarily on bank deposits for fulfilling its domestic borrowing

requirement. Under Ethiopia's current set of financing tools and instruments, bank deposits are channelled to government lending via banks' participation in the Treasury Bill Market or through direct lending by CBE to the Federal Government.

- **Central bank credit:** Based on MOFEC debt data, government borrowing from the central bank amounted to Birr 212 bn as of end-2019, comprised mostly of direct advances from the NBE to the government (Table 9). Were the full Birr 78bn in new domestic financing secured solely from the central bank (a very inflationary form of deficit financing), this would imply a 36 percent growth in the rate of central bank lending to the government—a high rate of growth whether seen in nominal or real terms.
- **Non-bank funding (Pension Funds):** Government borrowing via T-Bills issued to non-banks (mainly to pension funds) amounted to Birr 153bn as of end-2019, and Birr 78bn in new borrowing would imply a 50 percent increase from the recent outstanding stock. Annual net new purchases of T-Bills by pension funds were in the range of Birr 15- 20bn in recent years, implying that at most one quarter of the budget's domestic borrowing requirement would be covered if relying solely on *incremental* pension fund assets.
- **Privatization (exceptional financing):** Given the progress now taking place in the Government's privatization program, especially in the telecom sector, a potential financing source this year will be the proceeds from the partial sale of ethio telecom and from the issuance of two new telecom licenses. The allocation of these proceeds to the Government budget can cover part of the Birr 78bn domestic borrowing requirement, though this is not automatic and straightforward as privatization proceeds might also be directed towards the telecom company's debt repayments or recapitalization needs. Considering this year's pressing financing situation, it is likely that some share of privatization proceeds will be channelled to the government budget. Indeed, the IMF staff report of May 2020 shows projections of up to Birr 44bn (\$1.2bn) in privatization funds being directed to help fund the budget deficit, though the exact allocations from this source will likely be determined only once the privatization is complete and the magnitude of proceeds clearly known.

While the precise mix among the above domestic/exceptional financing sources thus remains uncertain, some combination of all of the above four options is likely to be pursued by the Government so as to avoid an excessive reliance on any single source. The composition of financing shown in the Government-IMF program (per the May 2020 IMF Staff Report) points to a roughly 28%-42%-30% split among external-domestic-privatization financing

sources for what was then projected to be a Birr 146bn deficit this year. Using the latest July 2020 budget figures (a Birr 126bn deficit), and applying a similar split would imply Birr 35bn-53bn-38bn in financing from external/domestic/privatization sources for this year. Such a split seems plausible and would imply at least Birr 53bn of domestic financing this year, or Birr 18bn each from NBE, from banks, and from non-banks, if divided evenly among these three domestic funding sources (**Table 10**).

A notable consequence of the surge in domestic borrowing will be the need for Government to significantly boost auction volumes in the Treasury Bill market. Since its launch in December 2019, the T-Bill market (in which commercial banks lend to Government by buying 28-day or 91-day Bills) has provided an estimated net Birr 12bn in funding to the Government as of end-June 2020 (**Table 11**).³ Interest rates in this market have risen to a range of 6 to 8 percent in the first half of 2020, from rates of around 1 to 3 percent prior to the current system of T-Bill auctions. Given the domestic borrowing requirements noted earlier, and taking into account the early trends seen from the three most recent auctions in July 2020, the Government will likely make allotments of as much as Birr 20-25bn (on a net basis) for the T-Bill market this fiscal year. As banks will be asked to buy a larger share of their loanable resources, and given the opportunity costs of those funds (derived ultimately from public deposits), we expect interest rates will trend higher and likely reach near double-digit levels (around 10 percent), bringing them closer to the rates that banks currently charge/receive for their least risky loans.⁴

Finally, with respect to debt impacts, the recent decline seen in government debt ratios is likely to continue despite this year's larger deficit. With nominal GDP rising by around 20 percent in Birr terms, the Government has the capacity to take on several percent of GDP in net new debt without a deterioration in debt ratios. By our calculations, Government debt—excluding SOEs—should decline slightly to 33 percent of GDP by June 2021, compared to an estimated 35 percent of GDP outturn at the end of last year (**Table 12**).

³ As shown in Table 11, total gross issuance for both types of T-bills was Birr 17.8bn up to June 2020, though after accounting for estimated redemptions (given the short 28-day and 91-day maturities), we estimate the net outstanding issuance at around Birr 12 bn as of end-June 2020.

⁴ A Birr 20bn to 25bn net purchase of T-Bills by banks this fiscal year would roughly double banks' total exposure to government debt, as their outstanding lending to Government stood at Birr 26bn as of end-2019. The projected exposure of Birr 46bn to 51bn as of end-June 2021 would amount to only 2.2 percent of bank deposits; for perspective, this figure would still be lower than the peak stock of NBE Bills held by banks, which was around Birr 95bn at end-2019.

Conclusion

In sum, while appearing highly expansionary at first glance, this year's Government Budget can arguably be seen as quite disciplined considering Ethiopia's still-positive growth outlook and if viewed from a cross-country perspective. When placed against Ethiopia's past record, the domestic borrowing requirement this year is exceptionally large in nominal terms and will no doubt absorb a significant share of loanable funds that might have otherwise gone to the private sector. However, given the exceptional circumstances at hand—including the need to make large allocations for COVID-related health/economic support, elections, and security—the effective diversion of domestic funds towards such public sector priorities is understandable. Moreover, with the budget deficit held at just 3.1 percent of GDP, policy-makers have not succumbed to dangerously loose fiscal policies, which might have further aggravated risks of even higher inflation and debt distress. The combination of large allocations for growth-promoting public investments (roads, education, health, irrigation, security) alongside only a modest deficit deterioration relative to GDP appears to have struck the right balance in our view—and also reveals a policy stance that is clearly sensitive to macro stability concerns while also firmly developmental in its orientation.

TABLE 1: Overview of FY 2020-21 Budget and Recent Years' Performance

	FY 2018-19		FY 2019-20		FY 2020-21
	Budget	Actual	Budget	Estimate	Budget
Key Macro Assumptions					
GDP growth	11.1%	9.0%	9.0%	6.0%	8.5%
Inflation (year-average)	8.0%	12.6%	9.6%	19.9%	9.8%
Nominal GDP	2,620	2,696	3,227	3,427	4,082
Nominal GDP growth	19.0%	22.5%	19.7%	27.1%	19.1%
Depreciation rate	6.3%	7.2%	6.0%	12.3%	...
Import growth	9.7%	-0.9%	10.9%	-2.0%	4.5%
<i>In Birr bns:</i>					
Revenue and Grants	254.3	344.9	289.8	270.0	350.0
Revenue	235.2	311.3	253.0	240.0	304.5
Tax Revenue	211.1	268.5	224.8	...	271.7
Non-Tax Revenue	24.1	42.9	28.2	...	32.8
Grants	19.1	33.6	36.8	30.0	45.5
Expenditure	380.8	413.1	387.0	371.0	476.0
<i>By functional classification</i>					
Current expenditure	125.4	115.5	109.5	125.0	133.3
Capital expenditure	113.8	114.4	130.7	110.0	160.3
Subsidies to Regions	135.6	177.2	140.8	130.0	176.4
SDGs contribution	6.0	6.0	6.0	6.0	6.0
<i>By spending level</i>					
Federal Govt expenditure	239.2	229.9	240.2	235.0	293.7
Regional Govt expenditure	141.6	183.2	146.8	136.0	182.4
Deficit	51.8	68.2	97.2	101.0	126.0
Foreign Financing	19.1	35.4	40.3	45.0	48.0
Domestic financing	32.7	36.3	56.8	56.0	78.0
<i>In Percent GDP</i>					
Revenue and Grants	9.7%	12.8%	9.0%	7.9%	8.6%
Revenue	9.0%	11.5%	7.8%	7.0%	7.5%
Tax Revenue	8.1%	10.0%	7.0%	...	6.7%
Non-Tax Revenue	0.9%	1.6%	0.9%	...	0.8%
Grants	0.7%	1.2%	1.1%	0.9%	1.1%
Expenditure	14.5%	15.3%	12.0%	10.8%	11.7%
Current expenditure	4.8%	4.3%	3.4%	3.6%	3.3%
Capital expenditure	4.3%	4.2%	4.0%	3.2%	3.9%
Subsidies to Regions	5.2%	6.6%	4.4%	3.8%	4.3%
SDGs contribution	0.2%	0.2%	0.2%	0.2%	0.1%
Deficit	2.0%	2.5%	3.0%	2.9%	3.1%
Foreign Financing	0.7%	1.3%	1.2%	1.3%	1.2%
Domestic financing	1.2%	1.3%	1.8%	1.6%	1.9%
Nominal GDP	2,620	2,696	3,227	3,427	4,082

Source: MOFEC and Cepheus Research for estimated figures

Table 2: Revenue Trends and Budget Assumptions

Revenue	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 Estimate	2020/21 Budget
Total Revenue and Grants	199,639	243,672	269,106	287,562	344,937	270,000	350,000
Revenue	186,619	230,657	256,629	269,648	311,317	240,000	304,500
Tax revenue	165,313	189,717	210,136	235,300	268,457	...	271,700
Direct taxes	60,154	71,127	81,410	97,646	115,858	...	...
Indirect taxes	105,158	118,590	128,725	137,583	152,600	...	...
Domestic indirect taxes	52,368	55,867	62,523	67,172	77,774	...	...
Import duties and taxes	52,790	62,723	66,202	70,411	74,826	...	...
Non-tax revenue	21,306	40,940	46,493	34,418	42,860	...	32,800
Grants	13,020	13,014	12,477	17,913	33,619	30,000	45,500
Growth rates	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Estimate)	2020/21 Budget
Total Revenue and Grants	26.3%	22.1%	10.4%	6.9%	20.0%	-21.7%	29.6%
Revenue	27.7%	23.6%	11.3%	5.1%	15.5%	-22.9%	26.9%
Tax revenue	24.2%	14.8%	10.8%	12.0%	14.1%	...	...
Direct taxes	27.9%	18.2%	14.5%	19.9%	18.7%	...	...
Indirect taxes	22.1%	12.8%	8.5%	6.9%	10.9%	...	...
Domestic indirect taxes	29.3%	6.7%	11.9%	7.4%	15.8%	...	...
Import duties and taxes	15.8%	18.8%	5.5%	6.4%	6.3%	...	...
Non-tax revenue	63.2%	92.2%	13.6%	-26.0%	24.5%	...	...
Grants	9.4%	0.0%	-4.1%	43.6%	87.7%	-10.8%	51.7%
Percent of GDP	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20 (Estimate)	2020/21 Budget
Total Revenue and Grants	15.4%	15.5%	14.7%	13.1%	12.8%	7.9%	8.6%
Revenue	14.4%	14.7%	14.0%	12.2%	11.5%	7.0%	7.5%
Tax revenue	12.7%	12.1%	11.5%	10.7%	10.0%	...	6.7%
Direct taxes	4.6%	4.5%	4.4%	4.4%	4.3%	...	...
Indirect taxes	8.1%	7.6%	7.0%	6.2%	5.7%	...	...
Domestic indirect taxes	4.0%	3.6%	3.4%	3.0%	2.9%	...	...
Import duties and taxes	4.1%	4.0%	3.6%	3.2%	2.8%	...	...
Non-tax revenue	1.6%	2.6%	2.5%	1.6%	1.6%	...	0.8%
Grants	1.0%	0.8%	0.7%	0.8%	1.2%	0.9%	1.1%
Composition							
Total	100%	100%	100%	100%	100%	100%	100%
Revenue	93%	95%	95%	94%	90%	89%	87%
Tax revenue	83%	78%	78%	82%	78%	...	78%
Direct taxes	30%	29%	30%	34%	34%	...	...
Indirect taxes	53%	49%	48%	48%	44%	...	...
Domestic indirect taxes	26%	23%	23%	23%	23%	...	...
Import duties and taxes	26%	26%	25%	24%	22%	...	...
Non-tax revenue	11%	17%	17%	12%	12%	...	9%
Grants	7%	5%	5%	6%	10%	11%	13%

Source: NBE, MoFEC and Cepheus Research for 2019/20 estimates

TABLE 3A: Budget Expenditure in FY 2020-21 by Main Categories

Description	2017-18	2018-19	2019-20	2020-21	% of Total
	<i>Outturn</i>	<i>Outturn</i>	<i>Budget</i>	<i>Budget</i>	
Total Expenditure	354.2	413.1	387.0	476.0	100.0%
<i>Growth rate: nominal terms</i>	29.1%	7.4%	2.0%	23.0%	...
<i>Growth rate: real terms</i>	22%	-3.6%	-8.0%	3.1%	...
By Budget Summary Presentation	354.2	413.1	387.0	476.0	100.0%
Federal Government Expenditure	197.9	229.9	240.2	293.7	61.7%
<i>Recurrent Expenditure</i>	100.7	115.5	109.5	133.3	28.0%
<i>Capital Expenditure</i>	97.2	114.4	130.7	160.3	33.7%
Subsidies To Regions	149.3	177.2	140.8	176.4	37.0%
Sustainable Devpt Goals Allocation	7.0	6.0	6.0	6.0	1.3%
By Economic/Functional basis	354.2	413.1	387.0	476.0	100.0%
Economic	68.7	82.1	93.2	113.5	23.8%
Social	69.5	82.5	68.0	80.7	17.0%
General	38.9	44.7	38.6	47.1	9.9%
Other Sectors	20.8	20.6	40.2	52.4	11.0%
Subsidies To Regions	149.3	177.2	140.7	176.4	37.0%
Sustainable Devpt Goals Allocation	7.0	6.0	6.0	6.0	1.3%

Source: MOFEC Budget document and Cepheus Research computation for growth rates

Table 3B: Subsidies to Regions Planned for FY 2020-21

	<u>Regional Subsidy</u>	<u>% of Total</u>	<u>SDGs</u>	<u>% of Total</u>
Oromia	59.4	34%	2.1	34%
Amhara	37.3	21%	1.3	22%
SNNPR	27.8	16%	1.0	16%
Somalia	17.2	10%	0.6	10%
Tigray	10.4	6%	0.4	6%
Sidama	6.9	4%	0.2	4%
Afar	5.2	3%	0.2	3%
Addis Ababa	3.9	2%		0%
B/Gumuz	3.2	2%	0.1	2%
Gambela	2.3	1%	0.1	1%
Dire Dawa	1.5	1%	0.1	1%
Harari	1.3	1%	0.0	1%
TOTAL	176.4	100%	6.0	100%

Source: MOFEC Budget document

TABLE 4: Ethiopia's Top 10 Federal Government Expenditure Line-items, FY 2020-21

Top 10 Federal Govt Expenditure Items	Birr bns	Notes
1 Ethiopian Roads Authority	58.8	For 284 new roads, 72 road rehabilitations, and 5 new bridges
2 Education	56.8	For 47 public universities, with average of Birr 1.1bn per university
3 Debt service	37.0	For external debt service (22bn) and domestic debt service (15bn)
4 Health	18.7	Health sector allocation, up 46 percent from last year's figure
5 Defence	16.5	Defense sector allocation, up 10 percent from last year's figure
6 Irrigation Development Commission	16.1	Allocations for 42 irrigation projects, average of Birr 380mn each
7 Agricultural and Rural Development	15.3	Allocation mainly to Ministry of Agriculture's operations/initiatives
8 General Government Services	12.8	Allocations federal institutions, ministries, agencies, commissions
9 Justice and Security	10.4	Allocations for Federal Police, Prisons, Courts, and legal institutions
10 Organ of State	7.4	Allocations for Parliament, Election Board, Offices of PM/President
Top 10 Federal Expenditure items	249.8	
Other Federal Expenditure items	43.8	
Total Federal Govt Expenditure	293.7	
Subsidies to Regions	176.4	
SDG funds to Regions	6.0	
GRAND TOTAL Budgetary Expenditure	476.0	

Source: Cepheus Research compilation based on MOFEC budget document details.

Table 5: Federal Government Expenditure Allocation--By Detailed Line-items, Birr bns

Total Expenditure by detailed government department/agency/unit									
	2018	2019	2020	Birr change		2018	2019	2020	Birr change
Total Federal Govt Expenditure	205.3	240.2	293.7	53.47					
1 Administration and General	35.48	38.67	47.11	8.44	2 Economy	75.7	93.3	113.5	20.2
1.1 Organ of State	3.33	4.43	7.38	2.95	2.1 Agricultural and Rural Development	13.98	14.55	15.31	0.76
Ministry of Peace	...	0.58	3.29	2.71	Ministry of Agriculture	12.25	12.59	13.10	0.51
Office of the National Election Board	0.41	2.54	2.59	0.05	Ethiopian Agricultural Research Institute	0.80	0.85	0.90	0.06
Palace Administration	0.68	...	0.72	...	Environment, Forest and Climate Change Commission	0.07	0.08	0.20	0.11
House of The People's Representatives	0.32	0.31	0.38	0.07	Ethiopian Institute of Bio-Diversity	0.10	0.16	0.15	(0.01)
Office of the Prime Minister	0.13	0.14	0.21	0.08	Ethiopian Environment and Forest Research Institute	0.12	0.33	0.10	(0.23)
Office of the Auditor General	0.10	0.09	0.10	0.00	The National Institute for Control and Eradication of Ts	0.08	0.08	0.08	(0.01)
House of the Federation	0.07	0.04	0.04	0.00	Agricultural Transformation Agency	0.13	0.08	0.07	(0.01)
Office Of The President	0.03	0.03	0.03	0.00	Veterinary Drug and Animal Feed Administration and (	0.06	0.07	0.07	0.00
Council of Constitutional Inquiry	0.02	0.02	0.02	0.00	Ethiopian Coffee and Tea Development and Marketing	0.16	0.17	0.07	(0.10)
Ministry Of Federal and Pastoral Development Affairs	1.58	...	...	...	Federal Cooperative Agency	0.05	0.05	0.06	0.00
1.2 Justice and Security	6.77	8.06	10.41	2.35	Ethiopia Commodity Exchange Authority	0.05	0.05	0.05	0.00
Federal Police Commission	2.60	3.15	4.62	1.47	Ethiopian Agricultural Research Council Secretariat	0.03	0.04	0.04	0.01
Federal Prison Administration	0.99	1.11	1.31	0.20	Ethiopian Horticulture and Agricultural Investment Aut	0.07	...	-	...
Federal Courts	0.41	0.66	0.97	0.31	2.2 Water Resources & Energy	12.34	17.5	21.5	3.9
Information Network Security Agency	1.03	1.05	0.86	(0.19)	Irrigation Development Commission	11.69	14.17	16.10	1.93
National Intelligence and Security Service	0.61	0.42	0.73	0.31	Water Development Commission	0.21	1.86	4.21	2.34
Federal Attorney General	0.57	0.60	0.70	0.10	Basins Development Authority	0.13	0.64	0.51	(0.13)
Emigration, Citizenship and Vital Events Agency	0.08	0.45	0.44	(0.02)	Ministry of Water, Irrigation and Energy	...	0.52	0.41	(0.10)
Documents Authentication and Registration Office	0.12	0.14	0.17	0.03	National Meteorology Agency	0.16	0.14	0.13	(0.01)
Federal Ethics And Anti-Corruption Commission	0.07	0.07	0.10	0.04	Water Technology Institute	...	0.19	0.05	(0.13)
Transfer	0.04	0.04	0.10	0.06	Ethiopian Energy Authority	0.02	0.03	0.03	0.01
Ethiopian Human Right Commission	0.07	0.07	0.10	0.02	Water Development Fund	0.01	0.02	0.02	0.00
Institution of The Ombudsman	0.06	0.06	0.08	0.02					-
Justice and Legal System Research and Training Institi	0.05	0.07	0.08	0.00	2.3 Trade and Industry	1.29	2.11	2.48	0.37
Agency for Civil Society Organization	0.05	0.05	0.07	0.01	Ministry of Trade and Industry	0.21	0.37	0.98	0.61
Agency For Refugee and Returnee Affairs	...	0.06	0.05	(0.02)	Textile Industry Development Institute	0.26	0.60	0.47	(0.14)
Financial Intelligence Center	0.03	0.03	0.04	0.01	Metals Industry Development Institute	0.10	0.21	0.21	(0.00)
Federal Tax Appeal Commission	0.02	0.02	0.02	0.00	Leather Industry Development Institute	0.10	0.13	0.15	0.03
1.3 Defense	15.00	15.00	16.50	1.50	Public Enterprises Holding and Administration Agency	0.10	0.10	0.10	0.00
Ministry of National Defense	15.00	15.00	16.50	1.50	Chemical and Construction Inputs Industry Developmer	0.09	0.10	0.10	0.00
1.4 General Service	10.38	11.18	12.83	1.65	Ethiopian Investment Commission	0.06	0.09	0.10	0.01
Ministry of Revenue and Customs Authority	2.49	3.23	4.35	1.11	Federal Small and Medium Manufacturing Industry De	0.07	0.07	0.08	0.01
Ministry of Foreign Affairs	2.98	3.00	3.09	0.09	Ethiopian Standards Agency	0.11	0.23	0.07	(0.16)
Ministry of Innovation and Technology	0.94	1.11	1.26	0.15	Food, Drink and Pharmaceutical Industry Development	0.06	0.06	0.06	0.00
Ministry of Finance	1.13	1.23	1.18	(0.06)	Ethiopian Meat and Dairy Industry Development Institi	0.06	0.06	0.06	0.00
Central Statistics Agency	1.27	0.56	0.57	0.02	Ethiopian Kaizen Institute	0.04	0.04	0.04	0.00
Ethiopian Space Science and Technology Institute	0.12	0.18	0.26	0.08	Trade Practice and Consumers' Protection Authority	0.04	0.04	0.04	0.00
Geospatial Information Institute	...	0.16	0.23	0.07	Ethiopian National Accreditation Office	0.01	0.01	0.02	0.00
Diaspora Agency	...	0.23	0.23	(0.00)	2.4 Mines	0.21	0.18	0.18	(0.00)
Technology and Innovation Institute	0.03	0.14	0.22	0.07	Geological Surveys of Ethiopia	0.14	0.12	0.11	(0.00)
Meles Zenawi Leadership Academy	0.30	0.31	0.20	(0.11)	Ministry of Mines & Petroleum	0.08	0.07	0.07	0.00
Ethiopian Biotechnology Institute	0.14	0.16	0.19	0.03	2.5 Transport and Communication	2.54	2.29	3.04	0.75
Republican Security Force	...	0.14	0.17	0.03	Maritime Affairs Authority	0.71	0.87	1.54	0.68
Civil Service Commission	...	0.18	0.17	(0.01)	Transport Authority	0.68	0.71	0.78	0.07
Ethiopian News Agency	0.15	0.11	0.15	0.04	Ethiopian Civil Aviation Authority	0.36	0.36	0.37	0.01
Policy Study Institute	0.08	0.09	0.10	0.01	Ethiopian Press Agency	0.14	0.15	0.19	0.04
Ethiopian Communications Authority	...	...	0.07	...	Ministry of Transport	0.10	0.18	0.13	(0.05)
Job Opportunity Creation Commission	...	0.04	0.07	0.04	Insurance Fund Administration Agency	0.02	0.03	0.04	0.01
Planning and Development Commission	0.05	0.05	0.05	0.00	Ministry of Communication and Information Technolog	0.53	...	...	...
National Metrology Institute of Ethiopia	0.04	0.04	0.05	0.01	2.6 Urban Development and Construction	45.33	56.59	70.99	14.40
Ethiopian Broadcast Authority	0.16	0.05	0.05	0.00	Ethiopian Roads Authority	38.92	46.70	58.82	12.12
The Accounting and Auditing Board of Ethiopia	0.04	0.04	0.04	0.00	Ministry of Urban and Construction	3.22	5.91	6.53	0.61
Public Procurement and Property Disposal Service	0.01	0.02	0.03	0.01	Federal Urban Job Creation and Food Security Agency	2.54	3.32	4.83	1.51
Ethiopian Radiation Protection Authority	0.03	0.03	0.03	0.00	Construction Project Management Institute	0.28	0.35	0.37	0.03
Ethiopian Intellectual Property Office	0.02	0.02	0.03	0.00	Federal Urban Land & Land Related Property Registrat	0.19	0.12	0.25	0.13
Public Procurement and Property Administration Agen	0.02	0.02	0.02	0.00	Construction works Inspection Authority	0.12	0.12	0.12	0.00
Grand Renaissance Dam Coordination Project Office	0.02	0.03	0.01	(0.01)	Integrated Infrastructure Development Coordinating A	0.06	0.06	0.07	0.00
Ethiopian Foreign Relation Strategic Studies Institute	0.01	0.01	0.01	0.00	Road Fund Office	0.01	0.01	0.01	(0.00)
Ministry of Public Service and Human Development	0.21	...	-	...					

Source: MOFEC budget document

Table 5: FY 2019-20 Federal Government Expenditure, detailed allocations (Birr bns)

	2018	2019	2020	Birr change		2018	2019	2020	Birr change
3 Social	58.46	68.01	80.69	12.68					
3.1 Education	43.31	50.56	56.80	6.23	3.2 Culture and Sport	3.48	3.75	3.53	(0.22)
Addis Ababa University	1.98	2.22	2.59	0.37	Sport Commission	2.68	2.87	2.64	(0.22)
Bahir Dar University	1.60	1.90	2.14	0.24	National Archive and Library Agency	0.16	0.19	0.22	0.04
Jimma University	1.56	1.77	1.92	0.15	Ministry of Culture and Tourism	0.09	0.14	0.15	0.02
Mekele University	1.48	1.74	1.90	0.17	Ethiopian Wildlife Conservation Authority	0.12	0.13	0.14	0.01
Hawassa University	1.43	1.68	1.84	0.16	Authority for Research and Conservation of Cultural He	0.10	0.21	0.11	(0.10)
Gonder University	1.43	1.65	1.81	0.16	Ethiopian Youth Sports Academy	0.12	0.07	0.08	0.01
Haramaya University	1.31	1.56	1.72	0.16	Catering and Tourism Training Institute	0.05	0.06	0.06	0.01
Addis Ababa Science and Technology University	1.07	1.22	1.66	0.44	Athlete Tirunesh Dibaba Sport Training Center	...	0.04	0.05	0.01
Arba Minch University	1.23	1.44	1.59	0.16	Ethiopia National Theater	0.03	0.04	0.05	0.01
Dilla University	1.20	1.33	1.43	0.10	Ethiopia National Anti-Doping Office	0.01	0.01	0.02	0.01
Ministry of Science and Higher Education	4.99	6.12	1.39	(4.73)	3.3 Health	10.84	12.79	18.71	5.92
Jigjiga University	1.04	1.22	1.36	0.14	Ministry of Health	8.89	10.62	15.87	5.25
Medewollabo University	1.03	1.21	1.34	0.13	St. Paul Hospital Millennium Medical College	1.33	1.50	1.59	0.08
Ambo University	1.08	1.20	1.30	0.10	All Africa Leprosy, Tuberculosis and Rehabilitation Training Center	...	...	0.40	0.40
Wellega University	1.02	1.15	1.26	0.12	Ethiopian Health Insurance Agency	0.18	0.19	0.33	0.14
Wolayita Sodo University	1.02	1.13	1.24	0.11	Ethiopian Food, Drug and Health Care Administration #	0.21	0.23	0.28	0.05
Ministry of Education	...	...	1.23	...	Saint Peter Specialized Hospital	...	...	0.25	0.25
Axum University	0.95	1.06	1.18	0.13	3.4 Labor and Social Affairs	0.24	0.32	0.88	0.56
Wollo University	0.97	1.07	1.17	0.09	Ethiopian Public Health Institute	0.13	0.14	0.21	0.07
Adama Science and Technology University	1.03	1.08	1.16	0.08	Eka Kotebe Mental and General Hospital	...	...	0.17	...
Debre markos University	0.96	1.07	1.15	0.08	Amanuel Mental Specialized Hospital	...	...	0.15	...
Mizan/Teppi University	1.01	1.07	1.14	0.07	Ministry of Labor and Social Affairs	0.06	0.10	0.11	0.01
Arsi University	0.84	0.98	1.12	0.14	Ministry of Women, Children and Youth Affairs	0.05	0.08	0.10	0.02
Debre Tabor University	0.75	0.90	1.10	0.20	National Blood Bank Service	0.08	0.08	0.10	0.02
Semera University	0.94	1.01	1.09	0.08	National HIV/AIDS Prevention & Control Secretariat	0.02	0.02	0.04	0.01
Wachemo University	0.86	0.98	1.08	0.10	3.5 Prevention and Rehabilitation	0.72	0.73	0.77	0.04
Welkite University	0.86	0.99	1.07	0.08	National Disaster Risk Management Commission	0.08	0.73	0.77	0.04
Adigrat University	0.83	0.96	1.07	0.11	The Strategic Food Reserve Agency	0.64	...	...	...
Metu University	0.84	0.99	1.07	0.08	4 Others	35.67	40.23	52.38	12.15
Debrebirhan University	0.90	0.98	1.05	0.07	4.1 Transfer	5.64	0.90	2.04	1.14
Woldiya University	0.77	0.94	1.05	0.11	Ethiopian Electric Power	...	0.30	1.00	0.70
Bule Hora University	0.79	0.93	1.01	0.08	Ethiopian Broadcasting Corporation	...	...	0.50	...
Dire Dawa University	0.86	0.94	1.01	0.06	Public Service Employee Transport Service Enterprise	0.10	0.27	0.28	0.00
Assosa University	0.73	0.86	0.94	0.09	Ethiopian Airports Enterprise	0.37	0.30	0.20	(0.10)
Kebridehar University	0.15	0.25	0.83	0.58	Tourism Ethiopia	...	...	0.04	...
Debank University	0.15	0.25	0.79	0.54	Ethiopian Patriotic Association	0.01	0.01	0.01	-
Gambella University	0.53	0.62	0.76	0.13	Ethiopian Academy of Sciences	0.05	0.01	0.01	-
Bonga University	0.15	0.25	0.74	0.49	Ethiopian Red Cross Association	0.01	0.01	0.01	-
Raya University	0.15	0.25	0.74	0.48	Industrial Parks Development Corporation	5.10	...	...	...
Mekdela Amba University	0.15	0.25	0.73	0.48	4.2 Debt	22.51	25.22	36.98	11.76
Dembi Dolo University	0.15	0.25	0.71	0.46	External Debt	14.25	15.41	21.51	6.10
Selale University	0.19	0.26	0.71	0.45	Internal Debt	8.26	9.81	15.48	5.66
Werabe University	0.15	0.25	0.69	0.44	4.3 Contingencies	7.52	14.11	13.36	(0.75)
Injibara University	0.15	0.25	0.69	0.43	Provision For Salary and Operating Expenditure	6.51	13.10	12.35	(0.75)
Oda Bultum University	0.19	0.27	0.68	0.41	Commitments	1.00	1.00	1.00	-
Jinka University	0.15	0.25	0.67	0.42	Provision For Bank Charges	0.01	0.01	0.01	-
Ethiopian Civil Service University	0.48	0.51	0.51	0.00					
Federal Technical Vocational Education and Training A#	0.28	0.31	0.49	0.18					
National Educational Assessment and Examination Age	0.44	0.46	0.44	(0.02)					
Federal Technical Vocational Education and Training In	0.40	0.44	0.33	(0.10)					
Higher Education Relevance and Quality Agency	0.04	0.04	0.05	0.00					
Higher Education Strategy Center	0.05	0.04	0.04	...					

Source: MOFEC budget document

Table 6: Growth in Large Federal Government Expenditure Items

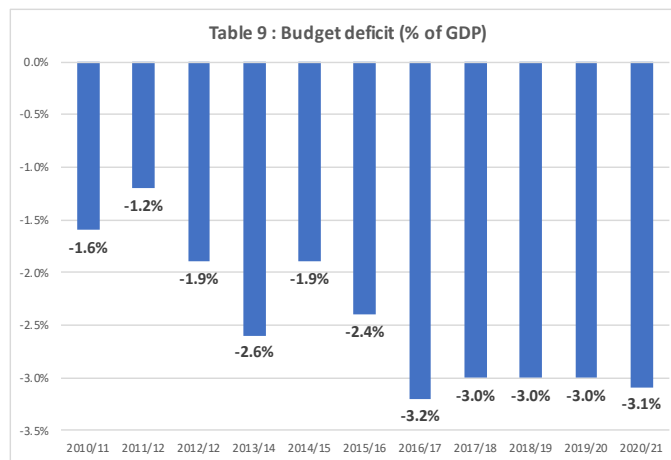
Ranked by highest growth rate

Federal Govt Spending Item	Two-year Percent change	FY 2020-21 Allocation
1 Water Resources & Energy	74%	21.5
2 Health	73%	18.7
3 Debt service	64%	37.0
4 Justice and security	54%	10.4
5 Roads	51%	58.8
Total Federal Govt Spending	43%	293.7
6 Education	31%	56.8
7 General Services	24%	12.8
8 Defence	10%	16.5
9 Agriculture	9%	15.3

Source: MOFEC Budget document and Cepheus Research compilation

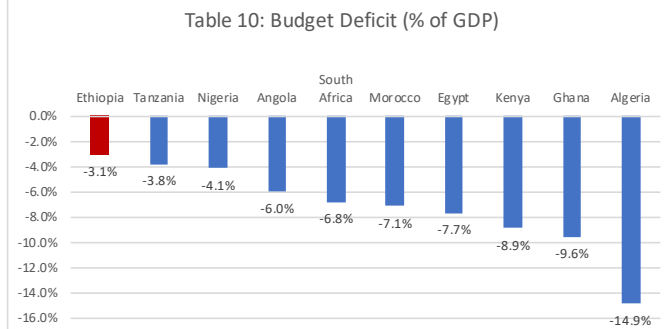
*Covers Federal Govt Expenditure items of at least Birr 10bn; 2020-21 vs 2018-19 budgets

Table 7: Budget Deficits (% of GDP) in Ethiopia: A Ten-Year Perspective



Source: MoFEC

Table 8: Budget Deficits in 2020 in Africa's 10 Largest Economies (% of GDP)



Source: IMF World Economic Outlook, April 2020, Ethiopia Budget data, and Renaissance Capital

Table 9: Budget Borrowing Requirement in a Macroeconomic Context

Government borrowing requirement, FY 2020-21, Birr bns	126.0
<i>In percent of GDP</i>	3.1%
Foreign borrowing:	48.1
International Development Association (World Bank)	11.7
World Bank (non-IDA)	2.6
African Development Bank	2.0
China EXIM Bank	1.9
Other foreign lenders	30.0
Domestic borrowing:	77.9
From National Bank of Ethiopia	...
From Commercial Banks	...
From Pension Funds and Others (via T-Bills)	...

Indicators of Domestic Financing Availability, in Birr bns:

1 Total Domestic Financing stock, as at end-2019	1,372
Government borrowing	397
<i>o/w Bank loans</i>	49
<i>o/w NBE loans (gross basis)</i>	197
<i>o/w Bonds held by banks</i>	32
<i>o/w Bonds held by NBE</i>	7
<i>o/w Bonds held by non-banks</i>	112
State enterprises borrowing	469
<i>o/w Bank loans</i>	128
<i>o/w NBE loans</i>	-
<i>o/w Bonds held by banks</i>	341
<i>o/w Bonds held by NBE</i>	-
Private sector borrowing	506
<i>o/w Bank loans</i>	444
<i>o/w MFI loans</i>	62
2 Banking system deposits, as at end June 2020	1,043
<i>o/w CBE deposits</i>	596
<i>o/w private bank deposits</i>	447
3 Central bank credit to government, as at end Dec 2019	212
<i>o/w Direct advance to government</i>	205
<i>o/w Government bonds held by central bank</i>	7
4 T-Bills (held mostly by Pension Funds), as at end Dec 2019	85
<i>o/w 91-day T-Bills</i>	82
<i>o/w 364-day T-Bills</i>	2
<i>o/w All other T-Bills</i>	1

Source: MoFEC Budget document and Debt Bulletin, NBE Quarterly Bulletin, and Cepheus Research compilation

Table 10: Government Domestic Debt, As of End-December 2019

Government Domestic Debt Stock, Birr bns	390.8	100%
<i>By instrument, Birr bns</i>	390.8	100%
Bonds (Above one-year maturity)	228.6	58%
Treasury Bills (Below one-year maturity)	150.2	38%
Direct Advances from NBE (gross basis)	12.0	3%
<i>By lender, Birr bns</i>	390.8	100%
National Bank of Ethiopia (NBE)	211.5	54%
Commercial Bank of Ethiopia (CBE)	26.5	7%
Other sources (mostly pension funds)	152.8	39%

Source: Cepheus Research compilation based on MOFEC Debt Bulletin of December 2019

Table 11: Government Treasury Bill Auctions: Dec 2019 to July 2020

T-Bills of 28 Days Maturity	4-Dec	18-Dec	1-Jan	15-Jan	29-Jan	12-Feb	26-Feb	11-Mar	25-Mar	8-Apr	22-Apr	6-May	20-May	3-Jun	17-Jun
Bids Offered, Birr mns	250	200	100	100	100	100	100	100	306	100	100	100	100	100	160
Bids Received, Birr mns	239	240	80	100	100	100	100	100	306	200	100	100	140	40	324
Bids Accepted, Birr mns	226	200	80	100	100	100	100	100	306	200	100	100	140	40	324
Bid-cover ratio, %	106%	120%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cut-off price, Birr cents	99.00	99.60	99.10	99.53	99.50	99.46	99.46	99.48	99.51	99.51	99.60	99.60	99.60	99.54	99.43
Cut-off yield, %*	13.17%	5.24%	11.84%	6.16%	6.55%	7.08%	7.1%	6.8%	6.4%	5.2%	5.2%	5.2%	5.2%	6.0%	6.9%
Weighted average Price	99.42	99.60	99.33	99.53	99.50	99.46	99.5	99.5	99.5	99.6	99.6	99.6	99.6	99.5	99.5
Weighted average Yield	7.65%	5.24%	8.79%	6.16%	6.55%	7.08%	7.1%	6.8%	6.4%	5.8%	5.2%	5.2%	5.2%	6.0%	6.9%
<i>Cumulative gross issues:</i>	226	426	506	606	706	806	906	1,006	1,312	1,512	1,612	1,712	1,852	1,892	2,216
T-Bills of 91 Days Maturity	4-Dec	18-Dec	1-Jan	15-Jan	29-Jan	12-Feb	26-Feb	11-Mar	25-Mar	8-Apr	22-Apr	6-May	20-May	3-Jun	17-Jun
Bids Offered, Birr mns	250	300	400	400	400	400	400	400	1,090	1,000	2,000	2,000	2,000	2,068	2,978
Bids Received, Birr mns	200	420	492	560	494	560	572	400	1,090	1,823	2,200	3,235	2,432	1,990	4,470
Bids Accepted, Birr mns	190	300	400	400	400	400	400	400	1,090	1,823	2,200	3,235	1,432	590	2,320
Bid-to-cover ratio, %	105%	140%	123%	140%	124%	140%	143%	100%	100%	100%	100%	100%	170%	337%	193%
Cut-off price, Birr cents	98.00	98.86	97.50	98.62	98.00	98.25	98.3	98.8	98.6	98.6	97.5	97.0	96.9	98.4	98.0
Cut-off yield, %*	8.19%	4.63%	10.29%	5.61%	8.19%	7.14%	6.9%	5.1%	5.9%	5.9%	7.0%	12.4%	12.7%	6.0%	6.6%
Weighted average Price	98.41	98.86	98.30	98.62	98.21	98.25	98.3	98.8	98.7	98.7	98.3	98.0	98.1	98.5	98.0
Weighted average Yield	6.47%	4.63%	6.94%	5.61%	7.32%	7.14%	6.0%	5.1%	5.2%	5.3%	7.0%	8.2%	7.8%	6.0%	6.6%
<i>Cumulative gross issues:</i>	190	490	890	1,290	1,690	2,090	2,490	2,890	3,980	5,803	8,003	11,238	12,670	13,260	15,580
<i>Total gross cumulative issuance</i>	416	916	1,396	1,896	2,396	2,896	3,396	3,896	5,292	7,315	9,615	12,950	14,522	15,152	17,796

Source: NBE website and Cepheus Research compilation

Table 12: Total Government Debt, as of end-2019 and Projected at June 2021

	Dec-19	Jun-20	Jun-21	Dec-19	Jun-20	Jun-21
	<u>Actual</u>	<u>Estimate</u>	<u>Projection</u>	<u>Actual</u>	<u>Estimate</u>	<u>Projection</u>
	<i>Birr bns</i>	<i>Birr bns</i>	<i>Birr bns</i>	<i>% GDP</i>	<i>% GDP</i>	<i>% GDP</i>
Total Government Debt, Birr bns	1,149.4	1,213.6	1,340.3	33.5%	35.4%	32.8%
<i>By creditor</i>						
Domestic Government debt	390.8	420.8	498.8	11.4%	12.3%	12.2%
National Bank of Ethiopia	211.5	...	...	6.2%	...	...
Commercial Bank of Ethiopia	26.5	...	...	0.8%	...	...
Other domestic lenders	152.8	...	...	4.5%	...	...
External Government debt	758.6	792.8	841.5	22.1%	23.1%	20.6%
Multilateral creditors	387.1	...	...	11.3%	...	...
Bilateral creditors	263.8	...	...	7.7%	...	...
Private creditors	107.7	...	...	3.1%	...	...
<i>Memo items:</i>						
Nominal GDP, Birr bns	...	...	...	3,426.7	3,426.7	4,082.3

Source: Cepheus Research compilation based on MOFEC Debt Bulletin of December 2019 and FY 2020-21 Budget Document. Figures above are not Public Sector debt, i.e., SOE debt is excluded. Thus, figures are for Govt and Govt-Guaranteed debt. Estimates for June 2021 assume Birr 78bn net new domestic borrowing this year and reflect FY 2020-21 GDP estimate

Appendix 1: Tax Rates in Ethiopia as of FY 2020-21

Type of Taxes	Tax rates
PERSONAL INCOME TAXES*	
Income tax from employment	
Monthly salary 0 to 600	0%
Monthly salary 601 to 1,650	10%
Monthly salary 1,651 to 3,200	15%
Monthly salary 3,201 to 5,250	20%
Monthly salary 5,251 to 7,800	25%
Monthly salary 7,801 to 10,900	30%
Monthly salary 10,900 and above	35%
Income from rental income	
Monthly rental income 0 to 1,800	Exempt
Monthly rental income 1,801 to 7,800	10%
Monthly rental income 7,801 to 16,800	15%
Monthly rental income 16,801 to 28,200	20%
Monthly rental income 28,201 to 42,600	25%
Monthly rental income 42,601 to 60,000	30%
Monthly rental income over 60,000	35%
Income from business income	
Monthly business income 0 to 1,800	Exempt
Monthly business income 1,801 to 7,800	10%
Monthly business income 7,801 to 16,800	15%
Monthly business income 16,801 to 28,200	20%
Monthly business income 28,201 to 42,600	25%
Monthly business income 42,601 to 60,000	30%
Monthly rental income over 60,000	35%
Dividend tax	10%
BUSINESS TAXES	
Corporate income tax	30%
Turn over tax	2-10%
Customs duties	0-35%
Withholding tax	2%
Capital gains tax	30%
VALUE-ADDED TAX (VAT)	15%
EXCISE TAXES	
Vehicles	100-500%
Perfumes and toilet waters	100%
Fireworks	100%
Fats and Oils	30-50%
Alcoholic drinks	30-40%
Any Sugar, excluding molasses	20-30%
Human hair and wigs	40%
Fuel, oil and lubricants	30%
Chocolate, cocoa etc	30%
Tobacco and tobacco products	20-30%
Textile and products	8-30%
Flour and soft drinks	25%
Salt	25%
Non Alcoholic drinks	15-25%
Asbestos and products	20%
Precious and semi-precious stones	20%
Artificial flowers	10%
Video decks	10%
Tyres	5%

Source: ERCA, MoFEC, Federal Negarit Gazeta no.34. Selected excise tax products shown.

*Rates represent the marginal tax rate, applicable for income above threshold

APPENDIX 2: Ethiopia's Fiscal Performance over the Past 20 Years

<i>Ethiopian Fiscal Year</i>	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Prel	Prel
	In Million Birr																			
Revenue and Grants	12,663	15,549	11,757	13,681	18,769	20,568	23,818	32,613	41,631	56,197	72,775	91,955	117,846	139,297	165,008	193,967	234,264	254,108	287,562	344,936
Domestic Revenue	9,983	10,636	10,431	11,699	12,959	15,436	19,150	21,132	30,001	39,714	53,574	70,286	100,862	118,633	141,553	177,790	205,650	238,733	269,648	311,317
o/w:																				
Tax revenue	6,130	6,906	7,858	8,194	10,466	12,026	13,730	16,764	22,567	27,874	41,291	59,035	85,919	99,769	124,783	148,553	175,911	192,647	235,229	268,457
Grants	2,680	4,913	1,327	1,982	5,810	5,132	4,668	11,481	11,630	16,482	19,201	21,669	16,985	20,664	23,454	16,177	28,614	15,375	17,914	33,619
Expenditure	17,341	16,991	17,398	17,799	21,479	24,350	31,329	35,071	46,747	61,263	78,767	96,968	133,587	163,012	191,523	227,564	282,151	329,415	354,205	413,106
Recurrent	13,707	11,592	11,117	11,407	12,939	13,487	16,298	17,146	23,014	26,144	31,530	41,149	55,180	65,288	77,711	108,704	149,862	178,048	210,470	238,157
o/w:																				
Defense	6,816	3,642	2,892	2,538	2,494	2,560	2,648	2,564	3,899	3,773	3,955	4,619	6,337	6,529	7,042	8,767	9,183	11,318	12,814	15,605
Debt service	1,211	1,070	996	1,017	1,104	1,089	1,090	1,204	1,118	1,383	1,578	2,605	2,404	3,139	3,807	5,339	7,231	8,673	11,571	13,526
Capital	3,634	5,399	6,281	6,392	8,540	10,863	15,031	17,925	23,733	35,118	47,237	55,819	78,406	97,724	113,812	118,859	132,289	151,367	143,735	174,949
Total Poverty sector	4,761	5,623	7,352	8,698	10,206	13,554	17,199	21,181	28,844	41,180	53,937	66,613	93,108	115,079	134,010	153,093	173,289	207,018	209,811	243,588
Education	1,638	2,178	2,714	3,776	4,457	4,516	6,221	7,757	9,678	12,073	15,423	22,255	29,790	36,040	39,662	54,987	66,349	88,459	88,661	102,816
Health	578	651	798	888	837	1,490	1,507	2,492	4,084	4,515	6,810	7,824	10,346	12,487	15,870	21,137	23,451	25,593	31,829	38,382
Water	400	443	599	474	833	1,085	1,266	1,535	2,008	2,537	3,942	4,763	8,094	11,127	15,479	14,003	19,490	21,761	21,295	23,446
Agriculture	1,046	1,084	1,393	1,426	1,691	3,976	4,908	5,221	6,247	11,569	12,361	10,690	15,603	19,771	20,971	21,997	25,853	33,414	28,702	37,626
Road	1,099	1,267	1,849	2,133	2,388	2,486	3,298	4,176	6,828	10,486	15,401	21,080	29,276	35,654	42,028	40,968	38,144	37,791	39,324	41,318
Overall Balance incl grants	(4,677)	(1,442)	(5,641)	(4,118)	(2,710)	(3,782)	(7,511)	(2,458)	(5,116)	(5,066)	(5,992)	(5,013)	(15,740)	(23,715)	(26,516)	(33,596)	(47,887)	(75,307)	(66,643)	(68,169)
Financing	4,677	1,846	6,612	4,773	2,982	3,782	7,561	2,502	5,116	5,066	5,992	5,013	15,740	23,715	26,516	33,596	47,887	75,307	66,643	68,169
External (net)	1,039	3,305	5,447	4,360	2,471	1,881	2,617	2,234	2,153	4,627	7,727	9,606	10,789	16,783	19,854	18,541	26,570	27,689	28,135	35,402
Domestic (net)	4,975	54	1,717	1,516	1,709	(605)	2,735	2,454	4,867	2,098	(308)	(2,853)	7,448	7,383	8,422	19,705	28,897	43,690	50,447	36,324
GDP in Birr millions	65,986	67,351	65,895	72,703	85,800	105,415	130,334	170,281	245,836	332,060	379,135	515,079	747,327	866,921	1,060,814	1,297,961	1,568,097	1,832,786	2,200,120	2,696,223
Financing, % GDP	7.1%	2.7%	10.0%	6.6%	3.5%	3.6%	5.8%	1.5%	2.1%	1.5%	1.6%	1.0%	2.1%	2.7%	2.5%	2.6%	3.1%	4.1%	3.0%	2.5%
External net, % GDP	1.6%	4.9%	8.3%	6.0%	2.9%	1.8%	2.0%	1.3%	0.9%	1.4%	2.0%	1.9%	1.4%	1.9%	1.9%	1.4%	1.7%	1.5%	1.3%	1.3%
Domestic net, % GDP	7.5%	0.1%	2.6%	2.1%	2.0%	-0.6%	2.1%	1.4%	2.0%	0.6%	-0.1%	-0.6%	1.0%	0.9%	0.8%	1.5%	1.8%	2.4%	2.3%	1.3%

Source: NBE and Cepheus Research compilation