

Ethiopia's 2025-26 Budget Review

Macro Research Ethiopia

On July 3, 2025, the Ethiopian Parliament approved a total budget of Birr 1.92 trn (~ \$14.6bn) for the 2025/26 fiscal year. This marks a 34% nominal increase from the previous year's budget of Birr 1.4trn, which included a mid-year supplementary allocation of Birr 463bn. After adjusting for the projected inflation rate of 11.9% by end-June 2026, the real growth of the national budget is estimated at approximately 22.5%, reflecting a notable expansion in fiscal space and public spending capacity. This significant increase signals the government's optimism regarding improved revenue performance, with total tax and non-tax revenues projected to grow by 60% in nominal terms. In addition, external borrowing is expected to rise to Birr 139 bn.

- **Revenue:** Total revenue for the 2025/26 fiscal year is projected to reach Birr 1.2trn, representing a 60% increase compared to the previous year. Of this, tax revenue is expected to account for approximately 89%, with the remaining portion generated from non-tax and capital revenues. To support this substantial increase, the government has introduced a series of new tax policy measures effective from the start of the fiscal year. These include amendments to the income tax law, the introduction of a 15% VAT and excise tax on fuel, rollout of property tax across regions, motor vehicle circulation tax. These measures form part of the broader fiscal consolidation agenda under the IMF-supported program.
- **Expenditure:** Total government expenditure for the 2025/26 fiscal year is projected at Birr 1.92 trn—a 34% increase from the previous year. The budget is allocated primarily to recurrent expenditure (61%), followed by capital investment (22%), subsidies to regional states (16%), and 1% allocated to Sustainable Development Goal (SDG) programs.
- **Spending allocation:** Out of the total Birr 1.92trn budgeted expenditure for the 2025/26 fiscal year, debt servicing remains the single largest spending category, accounting for 24% of the total budget — equivalent to Birr 463.4bn. This highlights the growing weight of public debt obligations on Ethiopia's fiscal position and spending priorities. A closer breakdown shows that 35% of this debt servicing budget will go towards domestic debt repayments, with domestic debt now accounting for about 58% of total public debt as of June 2024. This reflects the government's increasing dominance on domestic borrowing such as

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Ethiopia's Approved Budget at a Glance

	Birr bn	% GDP
Revenue and Grants	1,510.9	7.8%
Revenue	1,228.5	6.4%
Grants	46.9	0.2%
Budget Support	235.5	1.2%
Expenditure	1,927.7	10.0%
Current expenditure	1,183.7	6.1%
<i>Of which: Wages</i>	287.7	1.5%
Capital expenditure	415.2	2.1%
Subsidies to Regions	314.8	1.6%
SDG Allocations	14.0	0.1%
Budget deficit	416.8	2.2%
External borrowing	139.3	0.7%
Domestic borrowing	277.5	1.4%
Nominal GDP, 2025-26:	19,322	...

Source: MoF Budget Document, Cepheus Research for GDP estimate

Top Ten Expenditures Items

Sector or Ministry	Birr bns	% of Total
1 Debt	463.4	24%
2 Contingencies	269.0	14%
3 Transfer	216.0	11%
4 Urban Development and Constructic	125.2	6%
5 Education	115.5	6%
6 Defense	81.0	4%
7 Agricultural and Rural Development	64.5	3%
8 Health	60.9	3%
9 General Service	56.1	3%
10 Justice and Security	43.3	2%
Total Expenditure	1,927.7	100%

Source: MoF Budget Document

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Treasury bills and bonds in the government’s financing strategy, partly due to limited access to external financing and tight global credit conditions. As a result, demand for domestic financing has pushed the total weighted average yield on Treasury bills up to 18.3%(June 2025) — notably above the National Bank of Ethiopia’s policy rate of 15%.

- **External Financing:** A total of Birr 139 bn, accounting for 33% of the total financing requirement, is projected to be mobilized through external loans from multilateral and bilateral development partners. Notably, as of July 2, 2025, Ministry of Finance announced that it has finalized debt restructuring under the G20 Common Framework, securing a total restructuring package amounting to \$3.5bn. This debt relief is expected to ease near-term external debt servicing pressures and create additional fiscal space to finance priority spending without excessive reliance on domestic borrowing.
- **Domestic Financing:** Approximately two-thirds of the budget deficit is expected to be financed through domestic sources, primarily via Treasury bills (T-bills). In line with the ongoing macroeconomic reform agenda, the government has ceased using direct advances from the National Bank of Ethiopia (NBE) to fund its expenditures. Instead, it has shifted entirely to market-based instruments such as T-bills and government bonds. This increased dependence on domestic financing has exerted upward pressure on T-bill yields, which have risen sharply over the past year. As of June 2025, average rates stood at 17.8%, 19.2%, and 20.1% for the 91-day, 182-day, and 365-day maturities, respectively — up significantly from 9.8%, 7.9%, and 10.9% recorded in August 2024.

Domestic Revenue Breakdown (bns Birr)

TAX and NON-TAX REVENUE TOTAL:	1,229
TAX REVENUE TOTAL	1,099
1 Direct taxes	263
2 Indirect taxes: domestic	258
VAT on domestic goods	94
VAT on domestic services	110
Excise on domestic goods	49
Turnover tax on domestic goods	0
Turnover tax on services	0
Stamp Sales and Duty	4
3 Trade taxes	578
Customs taxes on imports	183
Excise tax on imports	111
VAT on imports	239
Export tax	0
Surtax on imports	45
NON-TAX REVENUE TOTAL:	129
Govt Fees and Charges	69
Sales of Public Goods& Services	9
Non-tax income from Investments	23
Miscellaneous revenue	21
Capital revenue	8

Source: MoF Budget Document

Overview: Budget Assumptions

- The government has projected a real GDP growth rate of 8.9% for the 2025/26 fiscal year, driven by strong performance across key sectors. Industry is expected to lead with robust growth of 13%, the services and agriculture sectors are projected to expand by 7.5% and 6.3%, respectively, with agricultural growth underpinned by improved input supply — including the early distribution of fertilizers — and favorable weather conditions. This optimistic outlook builds on the continued implementation of the Homegrown Economic Reform (HGER) 2.0 program, which aims to advance structural transformation and maintain macroeconomic stability.
- For the recently concluded 2024/25 fiscal year, the government expects GDP growth of 8.1%. However, this outlook is more optimistic than those of other institutions, which forecast growth closer to 7%, citing persistent challenges such as inflationary pressures, external debt vulnerabilities, and tight foreign exchange conditions. However, even the more conservative 7% growth forecast from other institutions remains well above the Sub-Saharan Africa regional average of 3.2% for the same period,
- Average inflation for 2025/26 is projected at 11.9%, indicating some easing from previous peaks but still posing cost-of-living pressures. On the external front, imports are expected to rise by 10.8%, reflecting sustained demand for capital goods and essential consumer products. This could further strain the trade balance unless offset by stronger export performance or increased foreign exchange inflows.

Table 1: GDP Growth Rates					
	2021/22	2022/23	2023/24	2024/25	2025/26
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Budget</i>
GDP	6.4%	7.2%	8.1%	8.4%	8.9%
<i>Agriculture</i>	6.1%	6.3%	7.0%	6.0%	6.3%
<i>Industry</i>	4.9%	6.9%	9.2%	10.0%	13.0%
<i>Services</i>	7.6%	7.9%	7.7%	8.8%	7.5%
Inflation (yearly)	32.5%	26.6%	19.9%	13.9%	11.9%

Source: MoPD, MoP, ESS

Budgetary growth rates

- The approved budget for the upcoming fiscal year stands at Birr 1.9trn, representing a 34% nominal increase compared to the previous year. Recurrent expenditure is set to rise sharply by 48%, indicating increased allocations for salaries, debt servicing, and recurrent operational costs. In contrast, capital expenditure is projected to grow by a more modest 21%, suggesting a relatively slower expansion of new infrastructure and development projects.
- Subsidies to regional states have seen a substantial increase of 13%, reflecting either greater fiscal decentralization or heightened support to address regional budgetary pressures. Meanwhile, the budget allocation for Sustainable Development Goals (SDGs) initiatives remains unchanged at Birr 14bn, implying no real growth despite rising development needs.

Table 2: Overview of FY 2025-26 Approved Budget and Recent Years' Performance, Birr bns

	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Budget</u>
Key Macro Assumptions				
GDP growth	7.2%	8.1%	8.4%	8.9%
Inflation (year-average)	26.6%	19.9%	13.9%	11.9%
Nominal GDP (Birr bns)	8,722	11,752	15,671	19,322
Nominal GDP growth	42.4%	34.7%	33.3%	23.3%
<i>Figures in Birr bns:</i>				
Revenue and Grants	717.6	873.1	930.8	1,510.9
Revenue	685.5	840.1	766.8	1,228.5
Tax Revenue	593.2	716.2	705.2	1,099.1
Non-Tax Revenue	92.2	123.9	61.6	121.3
Capital Revenue	...	...	...	8.1
Grants	32.1	33.0	41.8	46.9
Grants, budget support				235.5
Expenditure	943.9	1120.1	1434.2	1927.7
<i>By functional classification</i>				
Current expenditure	588.0	652.6	799.2	1,183.7
Capital expenditure	355.9	467.5	343.2	415.2
Subsidies to Regions	...	...	277.8	314.8
SDGs contribution	...	...	14.0	14.0
Deficit	226.3	247.0	503.5	416.8
Foreign Financing	28.6	29.3	32.9	139.3
Domestic financing	214.2	228.0	325.6	277.5

Source: MoF Budget Document, NBE

Budgetary growth rates-contd.

- In terms of GDP, the government plans to further increase its tax collections in the 2025/26 fiscal year as part of its broader strategy to raise the tax-to-GDP ratio to 10% by the end of the IMF-supported program in 2027/28 — up from the current level of approximately 6.5%. This indicates a clear policy push toward stronger domestic revenue mobilization to reduce reliance on external borrowing and bridge the fiscal gap.
- As a result of improved revenue collection and fiscal consolidation measures, the budget deficit, which peaked at 4.5% of GDP five years ago, is projected to decline to below 2.5% of GDP in the 2025/26 fiscal year.

Table 3: Overview of FY 2025-26 Approved Budget and Recent Years' Performance, % of GDP

Figures in Percent of GDP

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
	Actual	Actual	Estimate	Budget
Revenue and Grants	8.2%	7.4%	5.9%	7.8%
Revenue	7.9%	7.1%	4.9%	6.4%
Tax Revenue	6.8%	6.1%	4.5%	5.7%
Non-Tax Revenue	1.1%	1.1%	0.4%	0.6%
Grants	0.4%	0.3%	0.3%	0.2%
Expenditure	10.8%	9.5%	9.2%	10.0%
Current expenditure	6.7%	5.6%	5.1%	6.1%
Capital expenditure	4.1%	4.0%	2.2%	2.1%
Subsidies to Regions	...	...	1.8%	1.6%
SDGs contribution	...	...	0.1%	0.1%
Deficit	2.6%	2.1%	3.2%	2.2%
Foreign Financing	0.3%	0.2%	0.2%	0.7%
Domestic financing	2.5%	1.9%	2.1%	1.4%
Nominal GDP, Birr bns	8,722	11,752	15,671	19,322

Source: MoF Budget Document, NBE, Cepheus GDP estimate.

Revenue trends over time

- Total revenue, grants, and direct budget support from WB and AfDB, for the budget year are projected at Birr1.5 trn, representing a 62% increase compared to the previous year. This is expected to bring total revenue and grants to around 8% of GDP, with the revenue-to-GDP ratio alone rising to an estimated 7.8% — up from 6.5% in the previous fiscal year.
- To achieve this, the government has introduced several new tax measures, including the Minimum Alternative Tax (MAT), higher withholding income tax rates, a 15% excise tax and 15% VAT on fuel, the rollout of property taxes across regions, and a new motor vehicle circulation tax, among others. As a result, domestic revenue collections alone are projected to reach Birr 1.2trn this fiscal year.
- While this represents an ambitious effort to strengthen domestic resource mobilization, the current strategy relies heavily on raising the tax burden on the existing formal sector rather than broadening the tax base. This has raised concerns within the private sector, particularly among small and medium-sized enterprises (SMEs), which face rising compliance costs and additional financial pressures amid broader economic headwinds.

Table 4: Revenue Trends and Budget Assumptions

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 Estimate	2025-26 Budget
Revenue in Birr bns							
Revenue and Grants	395.0	449.7	566.8	717.6	873.1	930.8	1,510.9
Revenue	354.3	415.4	540.1	685.5	840.1	766.8	1,228.5
Tax revenue	311.5	361.7	477.8	593.2	716.2	705.2	1099.1
Direct taxes	132.2	170.8	215.8	264.0	340.6	169.4	262.9
Indirect taxes	179.3	190.8	211.5	329.3	375.6	535.8	836.2
Domestic indirect taxes	78.9	84.2	130.7	160.7	197.0	161.9	257.9
Import duties and taxes	100.4	106.6	131.3	168.6	178.5	373.8	578.4
Non-tax revenue	42.8	53.7	62.3	92.2	123.9	61.6	129.4
Grants	40.7	34.3	26.7	32.1	33.0	41.8	46.9
Revenue Growth Rates							
Revenue and Grants	14.5%	13.9%	26.0%	26.6%	21.7%	6.6%	62.3%
Revenue	13.8%	17.2%	30.0%	26.9%	22.6%	-8.7%	60.2%
Tax revenue	16.0%	16.1%	32.1%	24.2%	20.7%	-1.5%	55.9%
Direct taxes	14.1%	29.2%	26.3%	22.3%	29.0%	-50.3%	55.1%
Indirect taxes	17.5%	6.4%	10.8%	55.7%	14.1%	42.7%	56.1%
Domestic indirect taxes	1.4%	6.7%	55.2%	23.0%	22.6%	-17.8%	59.2%
Import duties and taxes	34.1%	6.2%	23.2%	28.4%	5.9%	109.4%	54.7%
Non-tax revenue	-0.1%	25.4%	16.0%	48.1%	34.4%	-50.3%	110.2%
Grants	20.9%	-15.6%	-22.2%	20.4%	2.8%	26.5%	12.2%
Revenue Composition							
Revenue and Grants	100%	100%	100%	100%	100%	100%	100%
Revenue	90%	92%	95%	96%	96%	82%	81%
Tax revenue	79%	80%	84%	83%	82%	76%	73%
Direct taxes	33%	38%	38%	37%	39%	18%	17%
Indirect taxes	45%	42%	37%	46%	43%	58%	55%
Domestic indirect taxes	20%	19%	23%	22%	23%	17%	17%
Import duties and taxes	25%	24%	23%	23%	20%	40%	38%
Non-tax revenue	11%	12%	11%	13%	14%	7%	9%
Grants	10%	8%	5%	4%	4%	4%	3%

Source: NBE, MoF Budget Document and Cepheus Research compilation

Revenue Collection in detail

- Of the planned Birr 1.2trn in revenue collection for the 2025/26 fiscal year, tax revenue accounts for 89% of the total, while the remaining 11% will come from non-tax sources such as fees, dividends, sale of public goods, capital revenue etc.
- Notably, the share of indirect taxes has increased significantly, reaching 58% of total tax revenue for 2024/25. This rise is largely driven by higher windfall revenue from the floating exchange rate regime, which has boosted import-related taxes such as VAT and excise duties. Indirect taxes are therefore expected to remain the dominant source of revenue this fiscal year, reflecting the government's increased reliance on consumption-based taxes rather than direct taxes like income and corporate tax.
- While this shift can yield substantial short-term gains, it also implies a heavier burden on consumers and businesses through higher prices, particularly in an inflationary environment. Sustaining revenue growth will require balancing indirect tax measures with efforts to strengthen direct tax collection and broaden the tax base to reduce overdependence on volatile trade-related revenues.

A detailed breakdown of the 17 revenue categories is presented in the figure below.

Table 5: All Government Revenue Sources Across 17 Categories and 165 line-items--Total Revenue of Birr 1,228.5bn.

Ranked by revenue amount within each category. Figures in Birr bns.

1 Direct Taxes on income 262.9 1 Wages and Salaries 59.5 2 Rental Income 1.6 3 Profits Tax from Corporate Business 161.1 4 Dividend and Chance Winnings 14 5 Capital Gains 2.1 6 Royalty 0 7 Withholding Tax on Imports 16 8 Interest Income Tax 8	6 Turnover Tax: On Services 0.2235 1 Tailoring 0.0000 2 Auditing 0.0010 3 Works Contract 0.0002 4 Lodging 0.0013 5 Cosultancy 0.0012 6 Tourism 0.0002 7 Advertisement 0.0000 8 Financial Services 0.0000 9 Other Services 0.2193	12 Surtax on Imports 45.2 1 Motor Vehicles & Accessories 8 2 Machineries & Accessories 3 3 Building Materials & Metals 6 4 Electrical Equipment & Appliances 4 5 Household, Office Goods & Appliances 2 6 Films, Film Recorders & Reproducers & Musical Instruments 1 7 Stationery, Calculating Machines & Appliances 2 8 Cotton, Yarns & Fabrics, Textiles & Clothing 3 9 Tobacco & Tobacco Products 0 10 Alcohol & Alcoholic Beverages 0 11 Wood and Wood Products 0 12 Pharmaceutical Equipment, Drugs & Chemical 0 13 Food 0 14 Other Goods 16
2 VAT On Domestic Goods 93.6 1 Petroleum & Petroleum Products 3.02 2 Sugar 1.96 3 Salt 0.34 4 Soft Drinks 3.16 5 Mineral Water 0.40 6 Alcohol & Alcoholic Prodcnts 3.19 7 Beer 11.51 8 Tobacco & Tobacco Products 1.29 9 Leather & Leather Products 0.72 10 Plastic Products 0.86 11 Cotton, Yarns & Fabrics 0.15 12 Textile & Cloths 3.66 13 Chemical & Chemical Products 1.29 14 Non Metallic Mineral Products 2.46 15 Iron & Steel 2.61 16 Vehicles & Spare Parts 1.95 17 Machines fixtures and spare parts 0.48 18 Wood and Wood Products 0.28 19 Food 2.75 20 Electrical Goods & Spare Parts 0.52 21 Stationery & Printing Machineries 0.37 22 Agriculture & Forestry Products 2.47 23 Other Goods 48.18	7 Stamp Sales and Duty 4.3 1 Sales Of Stamps 0 2 Stamp Duty on Vehicles 4 3 Other Stamps Duty 0	13 Government Fees & Charges 68.6 1 Passports & Visas 61 2 Registration of Foreigners 2 3 Work Permits 0 4 Court Fines 0 5 Court Fees 1 6 Forfeits 3 7 Business and Professionals Regi 0 8 Warehouse Fees 0 9 Standards Charges 0 10 Cargo Scanning Machine Fee 1 11 Other Fees and Charges 1
3 VAT on Services 110.2 1 Telecommunication 38.8 2 Commission Agent 0.3 3 Tourism 0.4 4 Lodging 0.5 5 Professional Service 6.3 6 Works Contract 18.4 7 Rent of Goods 1.8 8 Garage 0.4 9 Other Services 43.2	8 Customs taxes on Imports 182.7 1 Motor Vehicles & Accessories 29.1 2 Machineries, Capital Goods & Accessories 3.2 3 Building Materials & Metals 20.0 4 Electrical Equipment & Appliances 6.0 5 Household, Office Goods & Appliances 4.3 6 Films, Film Recorders & Reproducers & Musical Instruments 2.6 7 Stationery, Calculating Machines & Appliances 2.3 8 Pharmaceutical Equipment, Drugs & Chemical 6.0 9 Cotton, Yarns & Fabrics, Textiles & Clothing 14.1 10 Tobacco & Tobacco Products 0.2 11 Alcohol & Alcoholic Beverages 0.4 12 Wood and Wood Products 0.1 13 Food 0.3 14 Social Welfare Development Duty 48.6 15 Other Goods 45.5	14 Sales of Public Goods & Services 8.5 1 Sales of Gov't Newspapers, Mag 0.06 2 Media 0.01 3 Advertising Revenue 0.00 4 Veterinary Service 0.01 5 Health Services 0.41 6 Sales of Medicines & Medical St 0.20 7 Medical Examinations & Treatm 0.33 8 Handicrafts 0.02 9 Printed Forms 0.03 10 Prisons Administration Revenue 0.00 11 Research and Development Serv 0.02 12 Vocational and Educational Insti 4.05 13 Cultural Services 0.01 14 Mapping Services 0.01 15 Civil Aviation Services 1.10 16 Road Transport Service 0.20 17 Science & Technology Services 0.00 18 National Examination Service 0.08 19 Farm Products 0.11 20 Forest Products 0.08 21 Collection from Cost Sharing of I 0.49 22 Government House Rent 0.01 23 Other Services 1.30
4 Excise Tax on Domestic Goods 49.5 1 Petroleum And Its Products 0 2 Sugar 5 3 Salt 0 4 Soft Drinks 10 5 Mineral Water 1 6 Alcohol & Alcoholic Products 2 7 Beer 19 8 Tobacco & Tobacco Products 7 9 Textiles 1 10 Plastic Products 0 11 Other Goods 5	9 Excise tax on Imports 111.1 1 Petroleum 81 2 Automobiles 20 3 Textiles 6 4 Tobacco & Tobacco Products 0 5 Alcohol & Alcoholic Beverages 1 6 Other Goods 3	15 Non-tax income: Investments 23.0 1 Dividend income From Governmen 17 2 Interest on Loan to Government 4 3 Interest on Government Bank Ac 1
5 Turnover Tax: On Domestic Goods 0.057 1 Sugar 0.00002 2 Salt 0.00263 3 Food 0.00155 4 Alcohol & Alcoholic Prodcnts 0.00183 5 Chemical & Chemical Products 0.00000 6 Iron & Steel 0.00003 7 Agriculture & Forestry Products 0.00002 8 Wood and Wood Products 0.00050 9 Other Goods 0.05075	10 VAT On Imports 239.4 1 Motor Vehicles & Accessories 29.7 2 Petroleum Products & Lubricants 92.8 3 Machineries, Capital Goods & Accessories 5.7 4 Building Materials & Metals 27.6 5 Electrical Equipment & Appliances 9.0 6 Household, Office Goods & Appli 3.1 7 Films, Film Recorders & Reproducers & Musical Instruments 3.2 8 Stationery, Calculating Machines & Appliances 3.2 9 Personal Goods & Appliances 0.1 10 Pharmaceutical Equipment, Drugs & Chemical 3.7 11 Cotton, Yarns & Fabrics, Textiles 13.9 12 Tobacco & Tobacco Products 0.3 13 Alcohol & Alcoholic Beverages 0.4 14 Wood and Wood Products 0.7 15 Food 0.2 16 Other Goods 45.9	16 Miscellaneous revenue 21.3 1 Gain on Exchange Rate Fluctuati 6 2 Other Miscellaneous Revenue 15
11 Export tax 0.01 1 Leather and Leather Products 0.01	17 Capital revenue 8.1 1 Sales of Moveable and Immoivat 0 2 Collection of Principal from On-I 8	Total Revenue--All 17 Categories: 1228.5

Source: Cepheus Research compilation based on Ministry of Finance Budget Document

Expenditure Trends over time

- Of the total Birr 1.9trn expenditure planned for the 2025/26 fiscal year, 61% is allocated to recurrent spending, highlighting the government's continued prioritization of operational costs and debt servicing over new capital investments.
- The single largest share of recurrent expenditure — 39% of the total recurrent budget, or Birr 463bn — will go towards debt repayments, with external debt servicing alone accounting for Birr 300bn. This underscores the significant fiscal burden posed by accumulated external obligations and foreign currency debt. Wage bills represent another major recurrent cost, absorbing Birr 245bn — a sharp 70% increase compared to the previous year — reflecting mounting public sector salary pressures.
- On the capital expenditure side, a total of Birr 415bn (21% of the total government expenditure) is allocated, with a substantial portion directed to road construction, which will receive Birr 93.6bn — about 23% of the capital budget — including Birr 58bn specifically for new road construction.

TABLE 6: Expenditure Allocation in FY 2025-26 and Recent Trends by Main Categories, Birr bns

Description	2021-22	2022-23	2023-24	2024-25	2025-26	% of Total
	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	
Total Expenditure	561.6	786.6	801.7	1,434.2	1,927.7	100.0%
<i>Growth rate: nominal terms</i>	<i>18.0%</i>	<i>40.1%</i>	<i>1.9%</i>	<i>78.9%</i>	<i>34.4%</i>	<i>....</i>
By Budget Summary Presentation	561.6	786.6	801.7	1,434.2	1,927.7	100.0%
Federal Government Expenditure	345.7	563.2	573.6	1,142.4	1,598.9	82.9%
<i>Recurrent Expenditure</i>	<i>162.2</i>	<i>345.1</i>	<i>370.1</i>	<i>799.2</i>	<i>1,183.7</i>	<i>61.4%</i>
<i>Capital Expenditure</i>	<i>183.5</i>	<i>218.1</i>	<i>203.4</i>	<i>343.2</i>	<i>415.2</i>	<i>21.5%</i>
Subsidies To Regions	203.9	209.4	214.1	277.8	314.8	16.3%
Sustainable Devpt Goals Allocation	12.0	14.0	14.0	14.0	14.0	0.7%
By Economic/Functional basis	561.7	786.6	801.7	1,434.2	1,927.7	100.0%
Other Sectors	59.44	179.2	233.9	626.0	948.3	49.2%
Subsidies To Regions	204.0	209.4	214.1	277.8	314.8	16.3%
Economic	127.3	140.3	136.2	232.2	254.2	13.2%
General	59.7	141.3	112.0	150.2	197.2	10.2%
Social	99.3	102.4	91.5	134.1	199.2	10.3%
Sustainable Devpt Goals Allocation	12.0	14.0	14.0	14.0	14.0	0.7%

Source: MoF Budget document

Regional Subsidy

- A total of Birr 314bn is allocated for regional subsidies in the 2025/26 fiscal year, accounting for about 16.5% of the total national budget. Oromia region will receive the largest share at 34%, followed by the Amhara region at 22% and the Somalia region at 10%. These transfers will be largely financed through domestic borrowing, mainly via treasury bills and bonds, which highlights the government's continued reliance on the domestic debt market to sustain regional operations and service delivery.

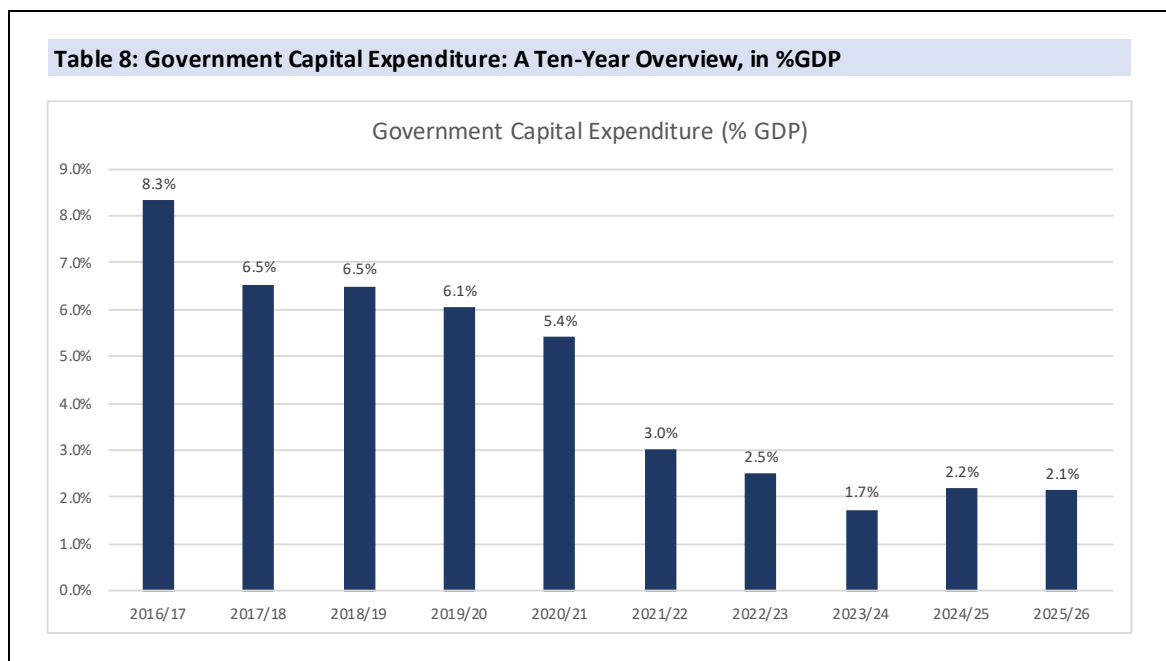
Table 7: Subsidies to Regions, Breakdown for FY 2025-26

	Regional Subsidy	% of Total	SDGs	% of Total
Oromia	108	34%	5	34%
Amhara	68	22%	3	22%
Somalia	31	10%	1	10%
South Ethiopia	22	7%	1	7%
Tigray	19	6%	1	6%
Central Ethiopia	19	6%	1	6%
Sidama	13	4%	1	4%
Southern West Ethiopia Peoples	10	3%	0	3%
Afar	10	3%	0	3%
Benshangul/Gumuz	6	2%	0	2%
Gambela	4	1%	0	1%
Dire Dawa	3	1%	0	1%
Harari	2	1%	0	1%
TOTAL	314.8	100%	14.0	100%

Source: MoF Budget document

Expenditure Quality: Government Capital Expenditure, Wage Bills and Poverty-Reducing Expenditure

- As shown in the figure below, the government's capital expenditure has declined significantly as a share of GDP, falling to 2.1% in this year's budget — down from a five year rate of 5.4% and a ten-year average of 4.4%. Its share of the total budget now stands at about 22%, the lowest level on record.
- This sharp decline signals a strategic shift away from launching new projects toward prioritizing recurrent expenditure, with debt repayment absorbing an increasingly large share of available resources. While this focus may help ease debt sustainability risks in the short term, persistently low capital spending could constrain future growth potential by limiting investments in infrastructure and productive sectors that are critical for long-term development.



Source: MoF Budget Document, NBE

- In response to the impacts of the floating exchange rate regime and the rising cost of living, the government adjusted salaries for approximately 2.4mn civil servants during the 2024/25 fiscal year. As a result, the wage bill rose to Birr 168bn, aligned with the supplementary budget approved in mid-2024/25. However, the adjustment sparked concerns among government employees, who argued that the increase failed to keep pace with the rising cost of living. For the 2025/26 budget year, the wage bill has been further increased to Birr 287bn — a 70% jump from the previous year. This now represents approximately 1.5% of GDP and 15% of total government expenditure.

Table 9: Government Wage Bill Indicators

Government Wage Bill	2021-22	2022-23	Budget 2023-24	Budget 2024-25	Budget 2025-26
In Birr Bns	51.9	75.6	67.5	168.2	287.3
In Percent of Budget	7.7%	9.6%	6.0%	12%	15%
In Percent of GDP	0.8%	1.0%	0.6%	1.1%	1.5%

Source: MoF Budget Document

- The share of the budget allocated to poverty reduction programs has declined significantly, dropping to 41% in the 2025/26 fiscal year — down from an average of 54% over the past five years. This sharp reduction indicates a clear shift in fiscal priorities away from pro-poor spending toward debt servicing and other recurrent expenditures. If sustained, this reduced emphasis on poverty-focused investment could exacerbate inequality and undermine progress on human development outcomes.

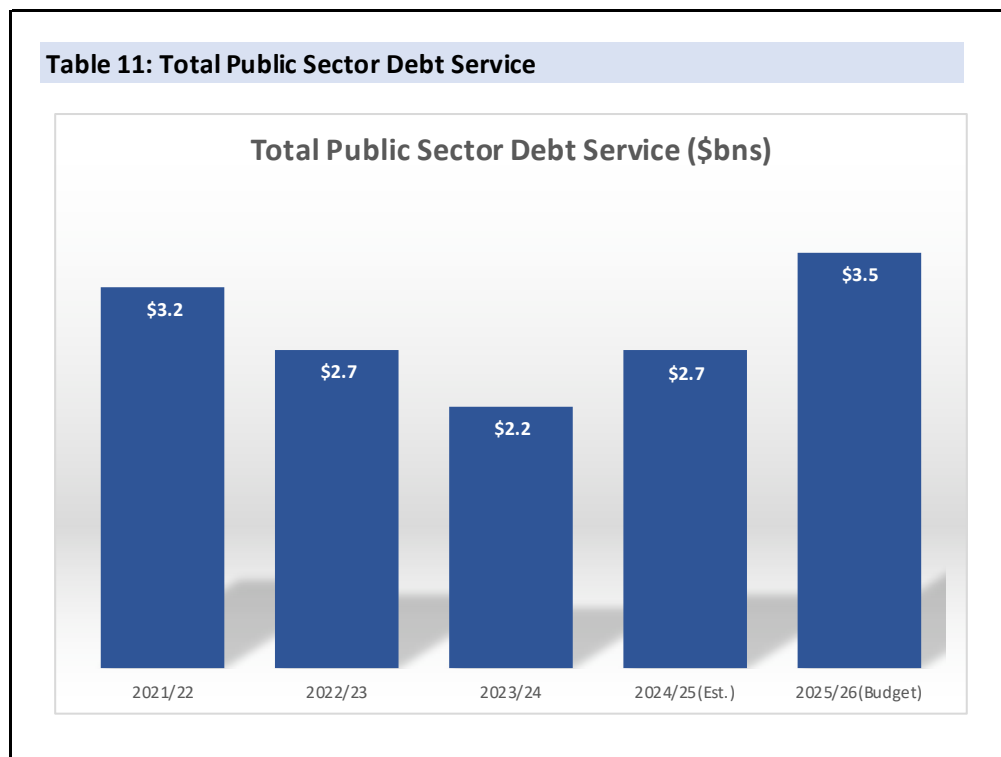
Table 10: Trends in Poverty-Reducing Expenditure, in Birr bns

	2021-22	2022-23	2023-24	2024-25	2025-26
Total Expenditure, per budget document:	561.6	786.6	801.7	1,434.2	1,927.7
Poverty-Reducing Spending, TOTAL	374.9	467.2	455.7	658.1	782.2
1. Poverty-Reducing Expenditure at Federal Level:	159.0	243.8	227.7	366.3	453.4
<i>Of which: Economic Sectors</i>	59.7	141.3	136.2	232.2	254.2
<i>Of which: Social Sectors</i>	99.3	102.4	91.5	134.1	199.2
2. Subsidies to Regions	204.0	209.4	214.1	277.8	314.8
3. SDG Allocations	12.0	14.0	14.0	14.0	14.0
Share of Poverty-Reducing Expenditure in Total Expd:	67%	59%	57%	46%	41%

Source: MoF Budget Document and Cepheus Research compilation. 'Poverty-reducing' definition based on sub-set of items listed above.

Debt Service

- The largest single component of government expenditure for the 2025/26 fiscal year will be debt repayment, which accounts for 24% of the total budget, amounting to Birr 463bn (~\$3.5bn). This is the highest debt service allocation in the past five years, underscoring the growing fiscal burden from accumulated public debt. Of this amount, around \$2.3bn is earmarked specifically for external debt servicing, highlighting significant foreign exchange requirements at a time when the country faces tight external reserves.
- This rising debt service obligation reflects both maturing debt contracts and the impact of currency depreciation under the floating exchange rate regime. While necessary to maintain creditor confidence and avoid arrears, such a high debt repayment share limits fiscal space for critical investments in growth-enhancing sectors and poverty reduction initiatives.

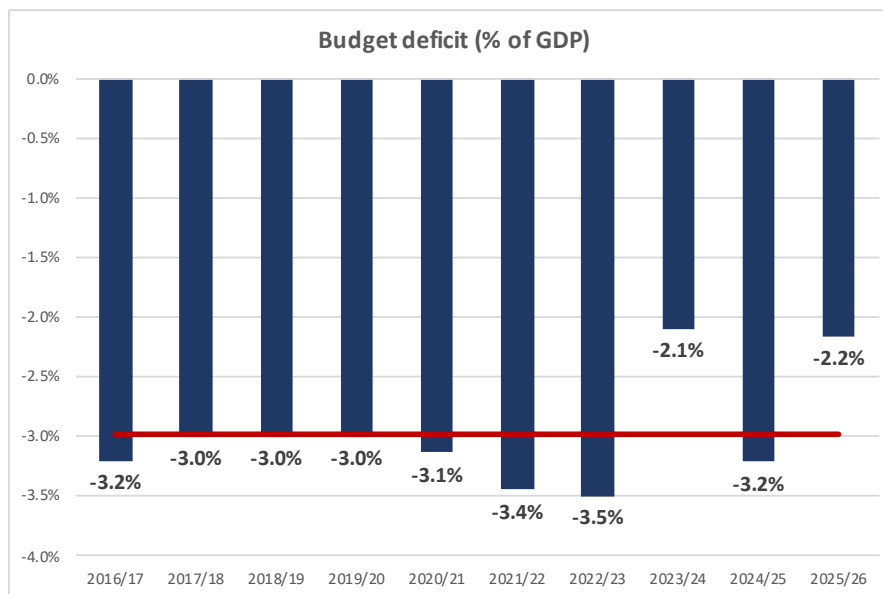


Source: MoF debt Bulletin, Budget Document and Cepheus Research for Estimation

Budget Deficit

- A total fiscal deficit of Birr 417bn (~\$3.2bn) is projected for the 2025/26 fiscal year, representing about 2.2% of GDP. This marks a notable improvement compared to the ten-year average deficit of 3% of GDP, indicating progress toward fiscal consolidation. If the government adheres strictly to the approved budget without introducing supplementary spending during the year, this reduced deficit could help slow the accumulation of public sector debt and ease debt sustainability pressures over the medium term.

Table 12: Budget Deficits (% of GDP) in Ethiopia: A Ten-Year Perspective



Source: MoF and NBE

Overall Financing of the Budget

- A total of Birr 282bn in grants and budget support is expected in the upcoming fiscal year, of which Birr 47bn will come from project grants, while the remaining amount will be provided as direct budgetary support from development partners; World Bank and the African Development Bank (AfDB).
- To finance the projected fiscal deficit of Birr 416birr, about 67% will be covered through domestic borrowing, primarily via the issuance of treasury bills and bonds. The remaining 33% is expected to come from multilateral and bilateral development partners.
- This financing mix indicates the government's continued reliance on the domestic debt market to cover budget shortfalls, which could put upward pressure on domestic interest rates and potentially crowd out private sector borrowing. Meanwhile, the significant share of external budget support remains critical to easing foreign exchange constraints and reducing pressure on foreign reserves.

Table 13: External Grants to the Budget

	Birr bns	USD mns
External Grants Total:	282.4	\$ 2,147
Multilateral Institutions	43.4	\$ 330
African Development Bank /ADB/	5.1	\$ 38
African Development Fund /ADF/	0.9	\$ 7
European Development Fund /EDF/	0.1	\$ 1
European Union /EU/	1.4	\$ 10
International Development Association /IDA/	10.5	\$ 80
International Fund for Agricultural Development /IFAD/	0.9	\$ 7
United Nations Capital development Program /UNCDF/	0.0	\$ 0
United Nations Development Program /UNDP/	0.2	\$ 2
United Nations Fund for Population Activity /UNFPA/	0.2	\$ 2
World Bank /WB/	12.4	\$ 94
World Health Organization /WHO/	0.0	\$ 0
Center for Diseases Control /CDC/	0.1	\$ 1
Global Fund	3.8	\$ 29
Global Alliance for Vaccin Initiative /GAVI/	2.7	\$ 20
Pool Fund /SDG/	3.7	\$ 28
Others	1.4	\$ 11
Bilateral Grants	3.5	\$ 27
Finland /DIDC/	0.1	\$ 1
Germany /KFW/	0.6	\$ 4
Italy /ITALY/	0.6	\$ 4
Netherland	0.7	\$ 5
United Kingdom	1.0	\$ 7
USAID	0.3	\$ 2
Others	0.2	\$ 1
Direct Budget Support	235.5	\$ 1,791
World Bank	27.0	\$ 205
Africa Development Bank	208.5	\$ 1,586

Source: MoF Budget Document.

Conversion to USD based on Birr/USD rate of 131.5 June 30, 2025

Table 14: External Loans for the Budget

	Birr bns	USD mns
External Loans Total:	139.3	\$ 1,059
Multilateral Institution loans:	20.9	\$ 159
African Development Bank /ADB/	0.55	\$ 4
Arab Bank for African Development /BADEA/	0.27	\$ 2
International Development Association /IDA/	9.21	\$ 70
Organization of Petroleum Exporting Countries /OPEC/	0.17	\$ 1
United Nations Capital development Program /UN/	0.85	\$ 6
World Bank /WB/	9.68	\$ 74
Others	0.12	\$ 1
Bilateral loans:	5.8	\$ 44
Finland /DIDC/	0.1	\$ 1
Italy	1.5	\$ 11
REA, Democratic Republic /KOICA/	0.1	\$ 1
Saudi Fund /SAUDI/	1.2	\$ 9
United Kingdom /FCDO/	0.1	\$ 1
United States Agency for International Development	0.1	\$ 1
Japan /JICA/	0.6	\$ 5
Others	2.1	\$ 16
Direct Budget Support	112.6	\$ 856
World Bank	72.0	\$ 547
IMF	34.7	\$ 264
France	5.9	\$ 45

Source: MoF Budget Document.

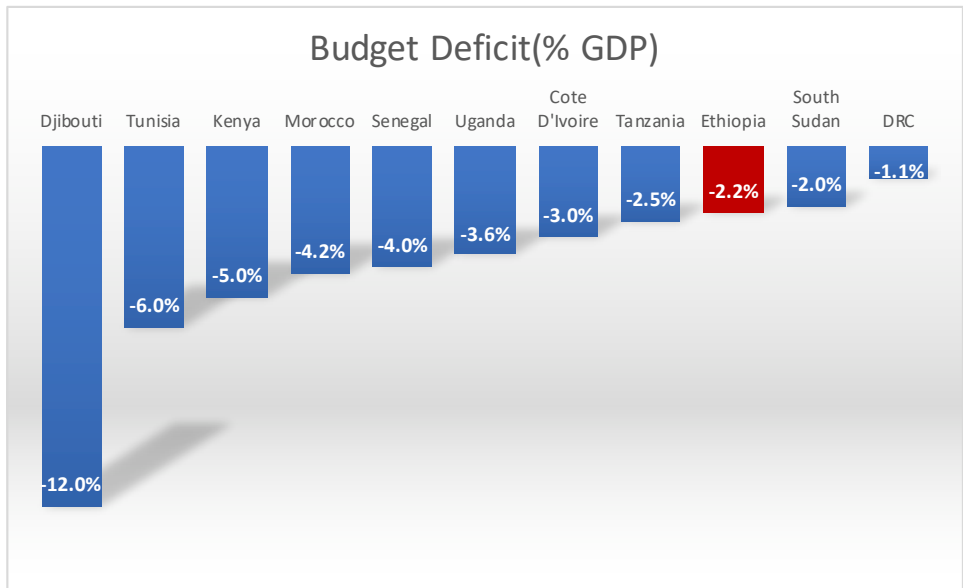
Conversion to USD based on Birr/USD rate of 131.5 June 30, 2025

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Ethiopia’s Budget Deficits in a Cross-Country Context

- Looking at the estimated budget deficit for 2025/26, Ethiopia is projected to have one of the lowest budget deficit rates in the region — if the government can manage its expenditure and tax collection effectively and avoid supplementary spending overruns. For context, in 2024 the average budget deficit for Sub-Saharan Africa was around 4.5% of GDP. Compared to its regional peers in Eastern Africa — including Kenya, Uganda, and Tanzania — Ethiopia’s projected deficit remains relatively low, at about 2.2% of GDP. However, sustaining this lower deficit will depend heavily on achieving ambitious revenue targets and exercising strict expenditure discipline, particularly given rising recurrent costs and external debt service obligations.

Table 15: Budget Deficits in 2025 (% of GDP)



Source: AFDB, MOF Budget document

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

	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	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Ethiopian Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Estimate	Budget
	In Birr millions																				in Birr millions
Revenue and Grants	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	394,966	478,900	566,754	717,587	873,127	930,750	1,510,885
Domestic Revenue	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	354,313	444,600	540,061	685,459	840,095	766,792	1,228,533
o/w:																					
Tax revenue	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	311,477	388,800	477,770	593,232	716,172	705,222	1,099,113
Grants	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	40,653	34,300	26,693	32,128	33,032	41,800	
Expenditure	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	480,143	599,000	779,099	938,772	1,120,077	1,434,200	1,927,700
Recurrent	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	275,967	363,597	517,043	582,855	652,620	799,200	1183700
Capital	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	204,176	235,410	262,056	355,917	467,458	343,200	415200
Overall Balance incl grants	(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)	(85,177)	(120,100)	(212,345)	(221,185)	(246,951)	(503,450)	(416,815)
Financing	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	85,177	120,100	212,345	221,185	246,951	503,450	416,815
External (net)	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	59,529	21,808	3,296	28,641	29,289	...	139,300
Domestic (net)	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	42,104	108,685	262,431	214,243	228,045	...	277,500
GDP in Birr millions	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	3,374,349	4,341,387	6,157,538	8,729,849	11,752,138	15,671,111	19,322,480
Financing, % GDP	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%	2.5%	2.8%	3.4%	2.5%	2.1%	3.2%	2.2%
External net, % GDP	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%	1.8%	0.5%	0.1%	0.3%	0.2%	..	0.7%
Domestic net, % GDP	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%	1.2%	2.5%	4.3%	2.5%	1.9%	..	1.4%

Source: NBE, MOF Budget Document, and Cepheus Research compilation

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