

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MINISTRY OF FINANCE

MID YEAR BUDGET
IMPLEMENTATION REVIEW

APRIL 2025

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1 INTRODUCTION

This report is the first in a series of regular publications designed to inform the public about the Federal Government's budget execution. The report presents a comprehensive assessment of the Federal Government of Ethiopia's budget implementation for the first half of the 2017 Ethiopian Fiscal Year (EFY) (July-December 2024).

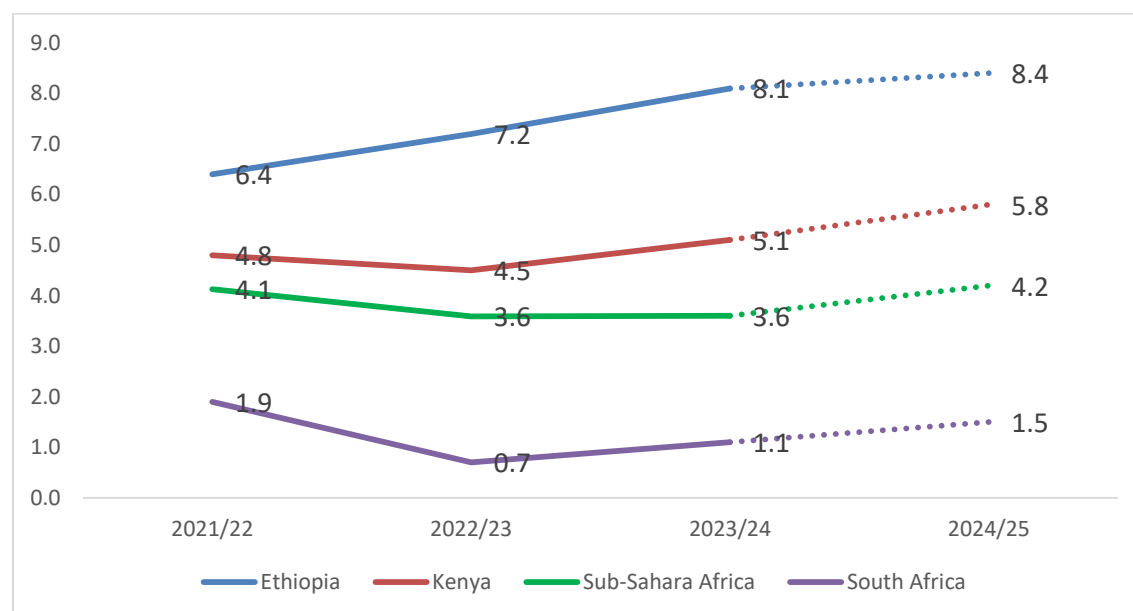
The purpose of the report is to track budget performance and inform fiscal policy implementation to ensure that the budget is executed as planned and to inform government decisions. It also raises the awareness of the public regarding budget administration and execution. Producing and publishing in-year fiscal reports on a frequent and regular basis is also in line with the international good practice of enhancing fiscal transparency. Reporting enhances fiscal transparency and provides policymakers, development partners, and the public with timely and reliable information on government revenue, expenditure, and deficit financing. By doing so, the report increases accountability and contributes to the overall effectiveness and efficiency of Ethiopia's ongoing economic reforms.

The review covers six months period from the beginning of the EFY 2017 (July 2016 to December 2017). It provides detailed analysis of budget execution against approved allocations. It also highlights drivers of macroeconomic performance and assumptions underpinning the budget. The report, on the way, attempts to highlight the macro developments of the country while it mainly emphasizes in providing in depth information on the implementation of the government budget.

2 OVERVIEW OF MACROECONOMIC DEVELOPMENTS

Ethiopia registered strong economic growth underpinned by the successful implementation of the Homegrown Economic Reform (HGER 1.0 & 2.0). The economy registered 8.1% growth in EFY 2016 and projected to grow at 8.4%, in EFY 2017 despite external and domestic challenges, which is double the SSA average. This growth was sourced from all sectors including agriculture, industry and services. The economy is projected to further expand in 8.4% in the current fiscal year which doubles the regional average of 4.2 percent (Figure 2.1). This growth supports the fiscal sector favorably in tax revenue mobilization. This growth forecast was anchored on favorable prospects in the performance of agriculture and air transport, increased output in the mining industry and a growth in exports, among others.

Figure 2-1: Real GDP Growth



Source: October 2024 IMF Regional Economic Outlook Report

The external sector showed marked improvement during the first half of EFY 2017, reflecting the impact of recent bold and comprehensive macroeconomic reforms—particularly in exchange rate management, monetary policy, and fiscal consolidation. Exports of goods surged to US\$3.28 billion, a 104.2 percent increase compared to US\$1.60 billion recorded during the same period in EFY 2016 (Table 1). This strong performance was largely driven by a substantial rise in both the value and volume of gold exports.

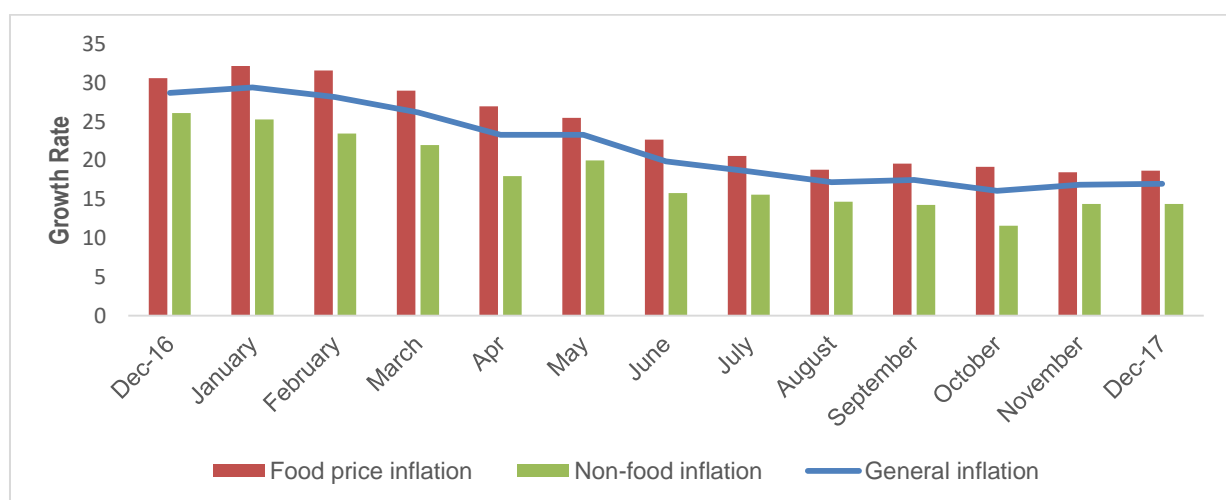
Table 2-1: Value of Exports and Imports of goods, in Million USD

Variable	First Six Months		
	EFY 2017	EFY 2016	Growth (%)
Export of Goods	3,277.0	1604.7	104.2
Imports of Goods	8,634.1	8,990	-4.0
Trade balance	-5,357.1	-7,385.3	-27.5

Source: National Bank of Ethiopia, 2024/25

On the other hand, the growth of value of import contained and showed a decline of 4%. As a result, trade balance deficit significantly narrowed from USD 7.4 billion in the first six months of EFY 2016 to USD 5.4 billion during the same period in EFY 2017 (contracted by 27.5%); shirking down the widened balance of payments of the country before the reform.

A series of measures were undertaken to advance exchange rate unification, resulting in a substantial reduction in the parallel market premium—from over 100 percent to less than 10 percent by December 2024. Inflation has also declined more rapidly than anticipated, with headline inflation falling to 17 percent in December 2024 from 30.6 percent a year earlier (Figure 2). Both food and non-food inflation followed a similar downward trajectory. This swift disinflation reflects the impact of contractionary monetary and fiscal policies implemented under the broader macroeconomic reform agenda.

Figure 2-2: Year-on-Year Inflation Trends

Source: Ethiopian Statistical Service (ESS), 2024/25

3 FISCAL PERFORMANCE: AN OVERVIEW

During the six months of the EFY 2017, the Federal Government mobilized a total of Birr 455.6 billion from tax and non-tax revenues as well as grants from development partners in the form of direct budget support. On the other hand, Birr 446.8 billion total outlays have been made for its recurrent expenses, funding capital projects and regional transfers. The resulting fiscal balance stood at Birr 8.9 billion surplus. The detail fiscal performance of the government is provided below.

3.1 REVENUE & GRANT PERFORMANCE

The Federal Government of Ethiopia approved a budget (both original and supplementary budget) totaling Birr 975 billion for EFY 2017 which would be financed by revenue generated from tax, non-tax and direct budget support. The revenue mobilized from these sources during the first six months of the fiscal year was Birr 455.6 billion. This revenue collection performance is 46.7% of the annual plan while it showed 113.5% nominal growth from the previous fiscal year. This improvement is primarily attributed to enhanced tax collection, driven by policy and administrative measures implemented under the National Medium-Term Revenue Strategy, as well as substantial grant disbursements from the World Bank through Development Policy Operations (DPO) in support of the macroeconomic reform program. Of the total revenue and grants mobilized, tax revenues accounted for the largest share at 78.7 percent, followed by 6.8 percent from non-tax revenues, and 14.5 percent from development partner support in the form of direct budget grants.

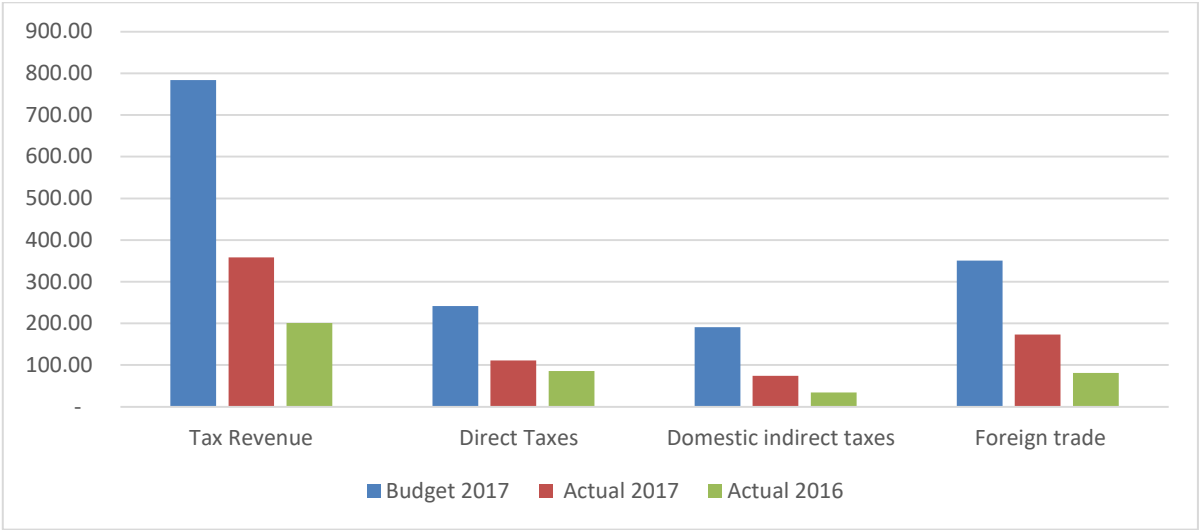
3.1.1 Tax Revenue

During the first half of the fiscal year, tax revenues amounted to Birr 358.4 billion, representing 45.7 percent of the annual tax revenue target of Birr 783.5 billion (Figure 3.1). This collection reflects a nominal increase of 78.2 percent compared to the same period in the previous fiscal year. Figure 3.2 illustrates the contributions of various tax categories to total collections in EFY 2017 and EFY 2016.

Revenue from taxes on income, profits, and capital gains reached Birr 110.7 billion in the first six months, equivalent to 45.8 percent of the approved annual budget for this category and marking a 28.7 percent increase over the same period last year. Within this group, corporate

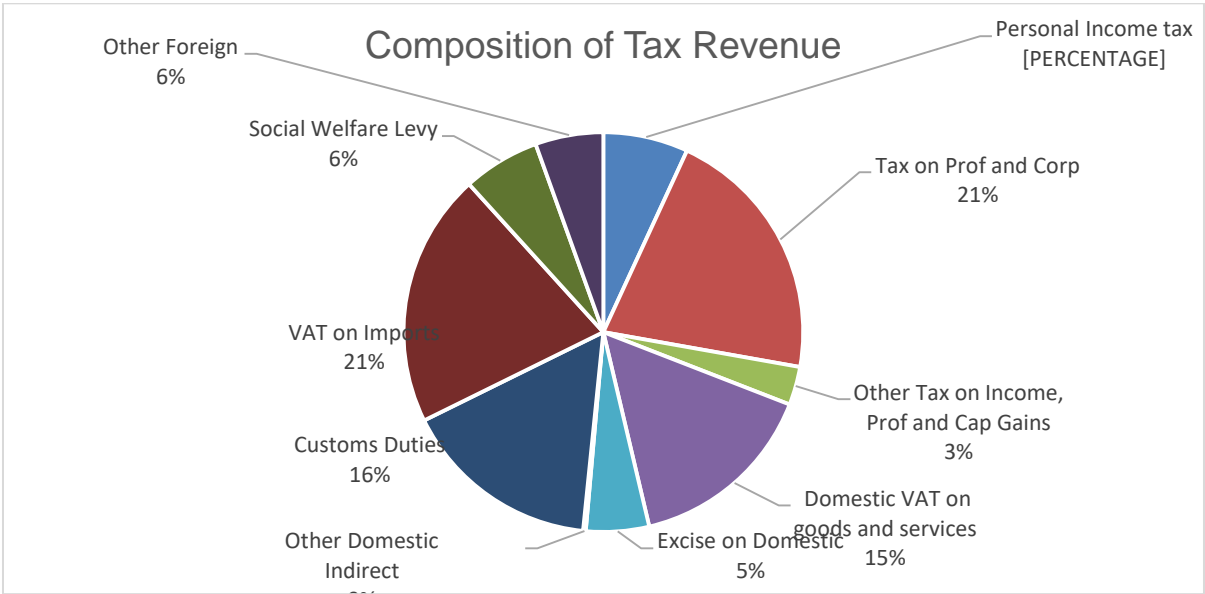
income taxes (CIT) made the largest contribution at 68 percent, followed by taxes on personal income (wages and salaries) at 22 percent, and other income taxes at 10 percent (Figure 3.3).

Figure 3-1: Federal Government Tax Revenue by Source



Source: Ministry of Finance, 2024/25

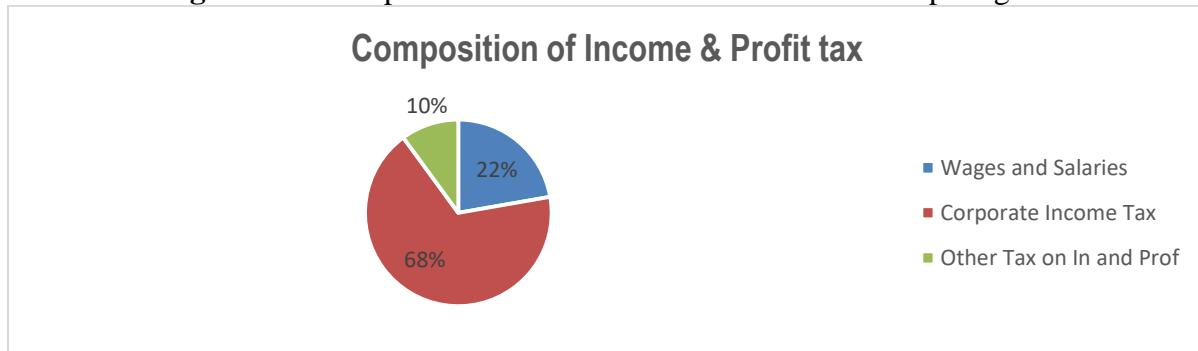
Figure 3-2: Composition of Tax Revenue



Source: Ministry of Finance, 2024/25

Due to seasonality, the highest revenue from the Corporate Income Tax is usually collected in the month of October. Corporate Income Tax is expected to benefit the effort the government is making to improve the business environment.

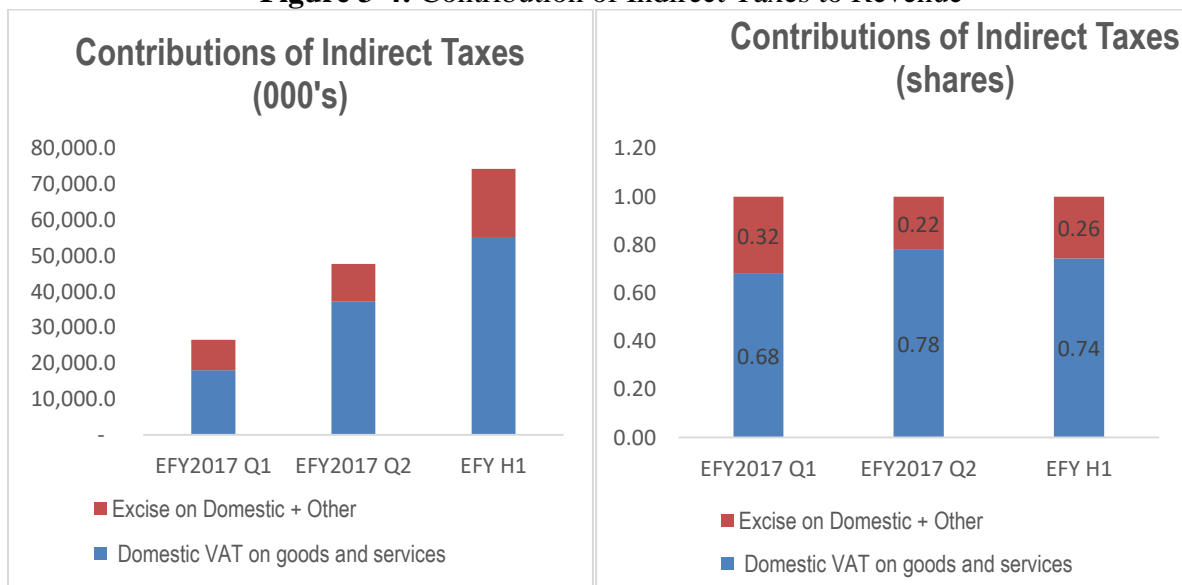
Figure 3-3: Composition of Taxes on Profit Income and Capital gains



Source: Ministry of Finance, 2024/25

Tax revenue collections from domestic indirect taxes amount to Birr 74.3 billion which is 38.9 percent of the annual target and account for 20.7 percent of the total tax collected during the first half. They comprise VAT on Goods and Services as well as Domestic Excise and Stamp Sales and Duty. The revenue collected from these sources showed an overall 118.7 percent increase in during the first half of EFY2017 compared to the collection in the corresponding period in EFY2016. In addition, the share of VAT to this revenue head has generally been increasing with a 6-percentage point increase between the first and second quarter of EFY2017. The strong performance of domestic indirect taxes is contributed by the aggressive implementation of the amendments of the VAT and Excise tax laws albeit the full impact of the laws to be observed in the second half of the fiscal year.

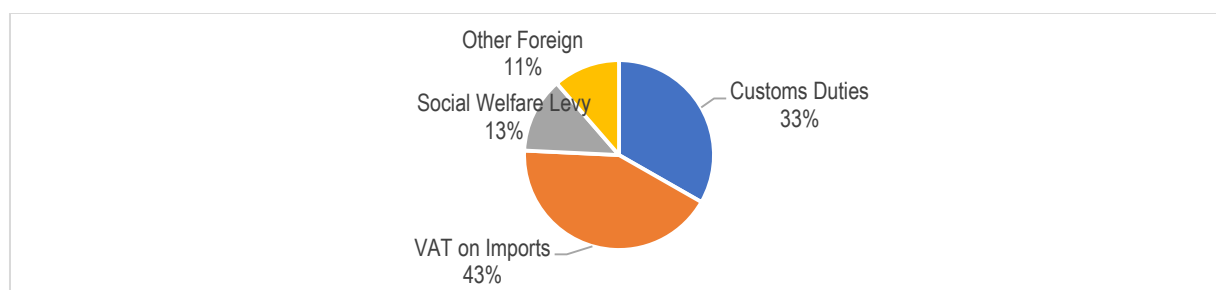
Figure 3-4: Contribution of Indirect Taxes to Revenue



Source: Ministry of Finance, 2024/25

Total tax collection from foreign trade taxes during the first half account for 49.4 percent of total tax collected during six months. The revenue collection from these sources showed a 113.8 percent growth. The foreign trade taxes consists of customs duties, VAT on imports, social welfare levy and other foreign trade taxes, with a combined contribution of 38.1 percent to total tax revenue. VAT on imports and customs duties are the two largest contributors with 43 percent and 33 percent respectively (Figure 3.5). Collections from customs duties grew by 27 percent between the first and second quarter to reach Birr 57. 7 billion by the end of the first half. VAT on imports and social levy recorded 11 percent and 32 percent growth, respectively. The surge in foreign trade tax collections is largely attributed to the windfall tax collection from imports as a result of the forex reform.

Figure 3-5: Composition of foreign trade taxes to revenue



Source: Ministry of Finance, 2024/25

3.1.2 Not-tax Revenue

The sources of the non-tax revenues are collections from administrative fees and charges, sale of public goods and services and dividend income, and other miscellaneous revenues. During the first half a total of Birr 30.9 billion was collected. This was 50.3 percent of the annual target and contributed 6.8 percent to the total revenue and grant collection.

3.1.3 Direct Budget Support

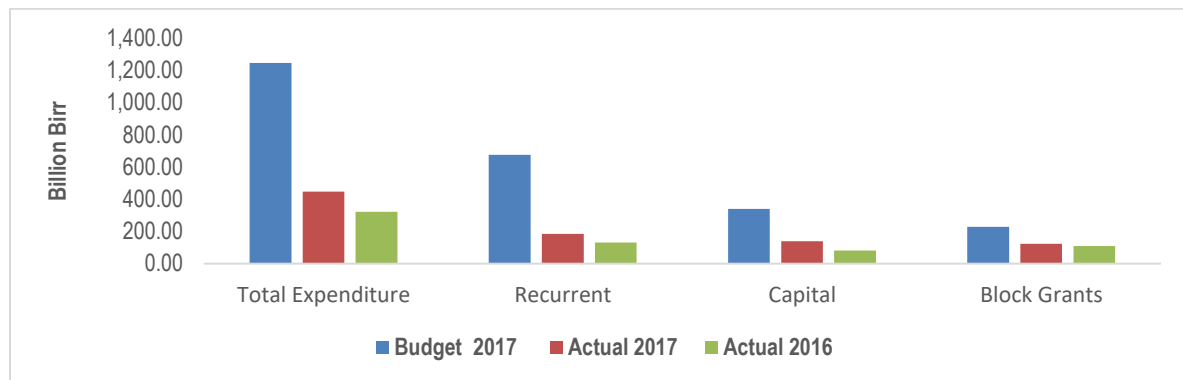
The Federal Government projected to receive Birr 130.3 billion budget support from development partners for EFY 2017 to fund the provisions of basic services. For the period under review, Birr 66.2 billion has been received from direct budget support which is 50.8% of the annual target. The disbursement from the development partners in the form of budget support is obtained for the first time since it is discontinued few years ago. This is in support of the government's bold efforts to implement the comprehensive macroeconomic reforms.

3.2 EXPENDITURE BUDGET PERFORMANCE

The Federal Government envisaged a total of Birr 1.25 trillion expenditure budgets for EFY 2017 excluding amortizations and external project grants. A supplementary budget was provisioned late in October to accommodate the fiscal implications of the comprehensive macroeconomic reform program. On the expenditure side, the supplementary budget allocated significant budget to mitigate the adverse social impact of the macroeconomic reform including the impact of the inflationary pressure and the exchange rate liberalization. Out of the total Birr 582 billion expenditure package envisaged by the supplementary budget, Birr 185 billion is allocated for total debt repayment, while Birr 278 billion and Birr 119 billion were allocated for social mitigation measures of the impact of the reform and to adjust down the fiscal deficit of the current fiscal year respectively. The social mitigation package included subsidies for fuel, fertilizer, edible oil and essential medicines, for expansion of PSNP program of both urban and rural beneficiaries as well as for salary adjustment of civil servants. Even though the government is determined to allocate relatively more resources to asset-creating capital expenditures, the growing recurrent spending need required to correct the fiscal distortions forced a larger proportion of the budget to be allocated for recurrent expenditure (54.2 percent). On the other hand, the Federal Government allocated Birr 340.5 billion (27.3 percent) of the total budget for capital expenditure. Moreover, the Federal Government allocated a total of Birr 229.3 billion (18.4 percent) of its overall budget to the Regional Governments in the form of regional block grants (Birr 215.3 billion) and Birr 14 billion for the Sustainable Development Goals (SDGs). This is excluding the salary adjustment cost of the Regional Civil Service which will be covered by Federal Government budget.

According to the implementation progress of the Federal budget, during the first half of the fiscal year, a total of 446.8 billion Birr (35.9 percent) was spent. Compared to the spending in the previous fiscal year, this showed an increase of 38.9 percent in nominal terms (Figure 3-6).

Figure 3-6: Government Expenditure by Type



Source: Ministry of Finance, 2024/25

During the same period, the overall recurrent budget performance stood at 27.2 percent of the total revised budget for the fiscal year. However, performance varied significantly across functional classifications. An estimated 39.7 percent of the recurrent expenditure was spent on administrative and general services. Other expenditure accounted for 34.3 percent of the recurrent expenditure. Social services and economic developments constitute 21.2 percent and 4.8 percent of the total recurrent expenditure respectively. The execution of the chunk of social mitigation spending package which is under recurrent spending is well on track as transfers to the fuel, fertilizer, edible oil and medicine are done as per the plan. The wage adjustment has been implemented.

On the other hand, looking into the capital budget performance during the first half of the fiscal year, the federal government spent 40.8% of the total capital budget. The share of capital expenditure from total spending showed a 5.5 percentage points increase compared to that of the preceding fiscal year as a result of the significant allocation to PSNP projects. Out of the total capital expenditure, Birr 100.6 billion (41.3 percent of its budget) was spent on economic development, and most of this spending was on construction activities. Specifically, Birr 31.6 billion (31.4 percent) of the economic development spending was apportioned to the Ethiopian Roads Authority (ERA). The remaining economic development expenditure was spent by the Ministry of Urban Development and Construction, the Federal Urban Job Creation and Food Security Agency and the Federal Urban Land and Property Registration and Information Agency. The disbursement for social development capital projects on the other hand, stood at Birr 25.6 billion, of which Birr 20.1 billion (78.5 percent), was spent on education while the remaining Birr 5.5 billion (21.5 percent) was spent on health, culture,

sports and disaster prevention. The Federal Government also disbursed Birr 12.6 billion for funding general development projects (27.5 percent of its capital budget) which is an increase of 48.7 percent compared to the previous period.

During the period under review, the Federal Government disbursed a total of 123.9 billion Birr to the Regional Governments in the form of block grants (Birr 119 billion) and Sustainable Development Goals (SDGs) support (Birr 4.9 billion). This is 54.1 percent of the planned transfers to the Regional Governments and showed a 14.4 percent nominal increase compared to the previous fiscal year.

3.3 BUDGET DEFICIT

During the period under review, the Federal Government recorded a budget surplus of Birr 8.8 billion. The Federal Government managed to collect a total revenue of Birr 455.6 billion which was more than the government expenditure of Birr 446.8 billion. This is mainly due to significant increased revenue receipts as the World Bank and IMF budget supports have been disbursed early as well as strong tax collection while spending follows the natural pattern. However, this surplus is a very temporary as the spending will increase in the second half of the year considering new expenditure pressures recognized by the supplementary budget. The fact that, the fiscal account is running surplus has also helped the effort to control prices.

4 CONCLUDING REMARKS

The mid-year review of EFY 2017 confirms notable progress in both macroeconomic stabilization and budget implementation, reflecting the positive momentum generated by Ethiopia's ongoing reform agenda. Strong GDP growth, significant improvements in the external sector, and a sharp decline in inflation all point to the effectiveness of the bold policy adjustments undertaken in exchange rate management, fiscal consolidation, and monetary tightening.

On the fiscal front, revenue performance was robust, with tax collection recording strong double-digit growth, bolstered by reforms under the National Medium-Term Revenue Strategy. Importantly, the reinstatement of direct budget support, particularly from the World Bank and International Monetary Fund, provided a timely boost to fiscal space. On the expenditure side, performance was aligned with government priorities, particularly in economic infrastructure and social development, although recurrent spending remained dominant due to rising debt service and inflation-related outlays.

The overall fiscal balance registered a modest surplus in the first half of the year, a notable turnaround from previous deficits. However, with new spending pressures arising from the supplementary budget—including expanded subsidies and debt repayments—this surplus is expected to narrow over the second half.

Looking ahead, sustaining fiscal discipline while protecting growth-enhancing and pro-poor spending will be critical. Continued improvements in tax compliance, expenditure efficiency, and public financial management, alongside enhanced donor engagement, will remain essential to ensure the successful execution of the annual budget and the broader reform agenda.

ANNEXES

(In Billions Birr)

DESCRIPTIONS	Original Budget	Revised Budget	JULY - December		Difference against the same period of last year		Six months perf. in % of Revised Annual Budget
	2017	2017	2017	2016	In Birr	In %	
Revenue and direct budget support	570.90	975.36	455.6	213.4	242	113.5	46.7
Domestic Revenue	563.6	845.1	389.4	213.4	175.9	82.4	46.1
Tax Revenue	502.0	783.5	358.4	201.1	157.3	78.2	45.7
Direct Taxes	161.1	241.8	110.8	86.1	24.7	28.7	45.8
<i>o/w: Personal income tax</i>	<i>33</i>	<i>50</i>	<i>24.6</i>	<i>17.8</i>	<i>6.8</i>	<i>38.3</i>	<i>49.7</i>
<i>Business income tax</i>	<i>101</i>	<i>152</i>	<i>75.0</i>	<i>63.1</i>	<i>11.8</i>	<i>18.8</i>	<i>49.2</i>
Domestic indirect taxes	127.3	191.0	74.3	34.0	40.3	118.7	38.9
Value added tax on goods	46.2	69.3	23.7	9.6	14.0	145.4	34.1
Service Value Added Tax	54.4	81.6	31.5	13.6	17.9	131.8	38.6
Excise tax/ToT on Goods and Service	24.4	36.7	18.3	10.3	8.0	77.2	49.9
goods and services TOT	0.1	0.2	0.1	0.0	0.0	96.7	46.3
Stamp sales & duty	2.1	3.2	0.7	0.3	0.3	99.6	21.1
Foreign trade	229.5	350.7	173.4	81.1	92.3	113.8	49.4
Customs duty	87	116	57.7	31.7	26.0	81.9	49.6
Social welfare Levy	16	26	22.3	8.2	14.2	173.5	85.6
Excise tax	19	31	6.2	3.8	2.4	64.4	19.9
Value Added Tax	80	131	73.7	29.0	44.7	154.2	56.4
Sur tax	28	47	13.5	8.5	5.0	59.3	29.0
Export Tax	0.0	0.0	0.0	0.0	0.0	20.2	85.2
Non-Tax revenue	61.57	61.57	30.9	12.3	18.7	152.0	50.3
<i>o/w: Dividend</i>	<i>15</i>	<i>15</i>	<i>2.4</i>	<i>0.3</i>	<i>2.1</i>	<i>691.7</i>	16.4
DBS grant & relief	7	130	66.2	0.0	66.2		50.9
PBS/DBS grant	7	130	66.2	0.0	66.2		50.9
EXPENDITURE 1/	874	1245	446.8	321.7	125.1	38.9	35.9
RECURRENT	401.63	675.63	184.0	131.1	52.9	40.4	27.2
Admin. & General Services	107	107	73.1	55.3	17.8	32.2	68.4
<i>o/w: Defense</i>	<i>66</i>	<i>66</i>	<i>43.3</i>	<i>35.6</i>	<i>7.7</i>	<i>21.7</i>	<i>65.9</i>
Economic Services	8	8	8.8	3.9	4.9	126.5	103.8
Social Services	68	68	39.0	31.9	7.1	22.2	57.2
<i>o/w: Education</i>	<i>45</i>	<i>45</i>	<i>25.1</i>	<i>22.0</i>	<i>3.1</i>	<i>14.1</i>	<i>55.2</i>
<i>Health</i>	<i>10</i>	<i>10</i>	<i>6.3</i>	<i>3.8</i>	<i>2.5</i>	<i>65.4</i>	<i>64.2</i>
Other Expenditure	218	492	63.1	40.0	23.1	57.6	12.8
Interest & charges	90	176	47.7	29.3	18.4	63.0	27.2
Domestic	73	148	36.0	25.2	10.8	42.9	24.4
External	17	28	11.7	4.0	7.6	188.8	42.3

Others	128	316	15.4	10.7	4.6	43.0	4.9
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CAPITAL ^{2/}	243.4	340.5	138.9	82.3	56.6	68.7	40.8
Economic Development	150	244	100.6	54.4	46.2	85.0	41.3
<i>o/w : Agriculture</i>	<i>13</i>	<i>63</i>	<i>25.3</i>	<i>8.7</i>	<i>16.6</i>	<i>190.2</i>	<i>40.4</i>
<i>Natural Resource</i>	<i>19</i>	<i>30</i>	<i>15.0</i>	<i>12.1</i>	<i>2.8</i>	<i>23.5</i>	<i>50.5</i>
<i>Road Construction</i>	<i>82</i>	<i>91</i>	<i>51.2</i>	<i>21.8</i>	<i>29.4</i>	<i>135.3</i>	<i>56.2</i>
Social Development	50	51	25.6	19.4	6.2	32.0	50.5
<i>o/w: Education</i>	<i>34</i>	<i>35</i>	<i>20.1</i>	<i>16.0</i>	<i>4.1</i>	<i>25.6</i>	<i>58.1</i>
<i>Health</i>	<i>9</i>	<i>9</i>	<i>2.4</i>	<i>2.0</i>	<i>0.4</i>	<i>21.5</i>	<i>27.8</i>
General Development	43	46	12.6	8.5	4.1	48.7	27.5
<i>O/W Cap. Exp. :</i>	<i>0</i>	<i>0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>		#DIV/0!
<i>Domestic Source</i>	<i>216</i>	<i>276</i>	<i>107.6</i>	<i>54.8</i>	<i>52.8</i>	<i>96.4</i>	<i>38.9</i>
<i>External borrowing</i>	<i>27</i>	<i>64</i>	<i>31.3</i>	<i>27.5</i>	<i>3.8</i>	<i>13.7</i>	<i>48.9</i>
	<i>0</i>	<i>0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>		#DIV/0!
Total regional transfer	229.29	229.29	123.9	108.3	15.6	14.4	54.1
<i>Recurrent block grant transfer</i>	<i>151</i>	<i>151</i>	<i>87.3</i>	<i>71.5</i>	<i>15.9</i>	<i>22.2</i>	<i>57.9</i>
<i>Capital block grant transfer</i>	<i>65</i>	<i>65</i>	<i>31.7</i>	<i>29.7</i>	<i>1.9</i>	<i>6.4</i>	<i>49.0</i>
<i>SDGs Assistance to regions</i>	<i>14</i>	<i>14</i>	<i>4.9</i>	<i>7.1</i>	<i>-2.1</i>	<i>-30.2</i>	<i>35.3</i>
Overall Surplus/Deficit	-303.39	-270.06	8.8	-108.3	117.1	-108.1	-3.3
FINANCING	303	270	-8.8	108.3	- 117.1	-108.1	-3.3
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External net	-19	143	41	20	20.9	104.3	28.7
External loan (project loan)	27	64	31.3	27.5	3.8		48.9
CPF loan	1	178	31.4	0.0	31.4		17.6
Amortization	46	99	21.7	7.5	14.2		21.8
Domestic borrowing	322	127	-67.2	102.3	- 169.5	-165.7	-52.8
<i>Banking system^{3/}</i>	<i>0</i>	<i>0</i>	<i>-93.3</i>	<i>59.7</i>	<i>-</i> <i>153.0</i>	<i>-256.3</i>	
<i>Non bank system</i>	<i>0</i>	<i>0</i>	<i>26.1</i>	<i>42.6</i>	<i>-16.5</i>	<i>-38.7</i>	
<i>Privatization receipts</i>	<i>0</i>	<i>0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	
Others/residual	(0.00)	(0.00)	17.4	(14.1)	31.5	(223.7)	

* Preliminary actual

1/ all expenditures from domestic sources are authorized payments.

2/ Excludes external project grants and technical assistance.