

We review the recently approved Government Budget for the 2022-23 fiscal year and summarize below some of its most notable elements.

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- Headline Numbers:** The Ethiopian Parliament approved yesterday a government budget with planned expenditure of Birr 787bn (11% of GDP) for the new 2022-23 fiscal year, to be funded by Birr 439bn of revenue collections, Birr 39bn of grants, Birr 43bn of foreign borrowing, and Birr 266bn of domestic borrowing.
- New Taxes:** Budget measures being initiated include a widening of the VAT/excise tax base, new fuel excises, a new property tax, and some tax administration efforts.
- Revenue** is forecast to grow by 37% (14% in real terms), with the largest collections coming from income taxes (Birr 125bn, 28% of total), VAT on imports (Birr 64bn, 15%), customs duties (Birr 62bn, 14%), and VAT on services (Birr 45bn, 10%).
- Expenditure** is rising by 22% vs last year's outturns, with large increases planned for transfers/subsidies (up 9.6x), defence (up 3.8x), and debt service (up 2.8x).
- Wages** are set to rise to Birr 76bn or by 46% (due to new hires plus higher salaries), but will be equivalent to 1% of GDP and thus still at the low end of global norms.
- Capital expenditure** by government will drop to just 3% of GDP, the lowest in a decade, and implying higher state enterprise and private sector capital outlays will be needed if investment-to-GDP ratios are to stay at current levels (28% of GDP).
- Spending Quality:** While poverty-reducing spending is near 60% of the overall budget, the sharply increased allocation for defence and debt service dues (at the expense of social spending and growth-promoting capital expenditure) points to a deterioration in expenditure quality. Whether this is a trend break from long-standing norms or a one-off exception remains to be seen in the coming years.
- External financing:** Only \$706mn of foreign budget grants and \$776mn of foreign budget loans are expected, roughly 81% and 53% of their past five-year averages.
- Domestic financing:** Besides the Birr 266bn in planned domestic borrowing, Government will need to rollover a large volume of T-Bills falling due this year (Birr 23bn per month, Birr 279bn in total). With such high demands on local debt markets, T-Bill rates will likely trend higher towards 10% or the low teens this year.
- Domestic Debt:** Due to Government's heavy reliance on local borrowing, more than half of public debt is now owed to domestic lenders for the first time in years; this shift is reducing credit growth to the private sector, but improving medium-term prospects for foreign funding should minimize such adverse impacts going forward.

Ethiopia's New Budget at a Glance

	Birr bn	% GDP
Revenue and Grants	477.8	6.4%
Revenue	438.8	5.9%
Grants	38.9	0.5%
Expenditure	786.6	10.5%
Current expenditure	345.1	4.6%
<i>Of which: Wages</i>	75.6	1.0%
Capital expenditure	218.1	2.9%
Subsidies to Regions	209.4	2.8%
SDG Allocations	14.0	0.2%
Budget deficit	308.8	4.1%
External borrowing	42.8	0.6%
Domestic borrowing	266.1	3.6%
Nominal GDP, 2022-23:	7,465	...

Source: MoF Budget Document, Cepheus GDP estimate

Ethiopia's Top 10 Budget Expenditures

Federal Govt Expenditure line-items

	Birr bn	% Total
1 Debt service	126.0	22.4%
2 Defence	84.0	14.9%
3 Roads	66.2	11.8%
4 Education	64.7	11.5%
5 Water & Energy	24.7	4.4%
6 Health	19.3	3.4%
7 Urban Development	18.5	3.3%
8 Agriculture	18.5	3.3%
9 Justice & Security	17.0	3.0%
10 Disaster Preparedness	13.1	2.3%

Source: MoF Budget Document, Cepheus GDP estimate

Disclaimer: This report represents solely the views, analysis, and judgement of the Cepheus research team and does not necessarily reflect the views or opinions of the Fund's Managing Partners, Advisors, or Investors.

Overview: Budget Assumptions and Headline Numbers

- **Macro Framework:** The main macroeconomic assumptions underlying this year's Government budget include real GDP growth of 9.2%, year-average inflation of 11.9%, nominal GDP growth (implied) of 22.2%, and import growth (important for trade-related taxes) of 10%.
- The key headline numbers for the budget show: (1) Revenue and Grants of Birr 478bn; (2) Expenditure of Birr 787bn; and (3) a resultant deficit of Birr 309bn. The budget deficit is to be covered by Birr 43bn (\$776mn) of external borrowing and Birr 266bn of domestic borrowing.

Table 1: Overview of FY 2022-23 Budget and Recent Years' Performance, Birr bns					
	FY 2020-21		FY 2021-22		FY 2022-23
	Budget	Actual	Budget	Estimate	Budget
Key Macro Assumptions					
GDP growth	8.5%	6.3%	8.7%	6.6%	9.2%
Inflation (year-average)	9.8%	20.2%	11.9%	32.0%	11.9%
Nominal GDP (Birr bns)	4,020	4,341	...	6,109	7,465
Nominal GDP growth	19.1%	28.6%	22.2%	40.7%	22.2%
Depreciation rate (yr-avg)	...	24.6%	...	24.2%	...
Import growth	4.5%	2.9%	18.0%	25.0%	10.2%
<i>Figures in Birr bns:</i>					
Revenue and Grants	350.0	478.9	436.0	347.8	477.8
Revenue	304.5	444.6	369.1	319.7	438.9
Tax Revenue	271.7	388.8	334.0	294.0	400.2
Non-Tax Revenue	32.8	55.8	35.1	25.7	38.6
Grants	45.5	34.3	66.9	28.1	38.9
Expenditure	476.0	599.0	561.6	642.8	786.6
<i>By functional classification</i>					
Current expenditure	133.3	363.6	162.2	...	345.1
Capital expenditure	160.3	235.4	183.5	...	218.1
Subsidies to Regions	176.4	..	203.9	...	209.4
SDGs contribution	6.0	..	12.0	...	14.0
<i>By spending level</i>					
Federal Govt expenditure	293.7	599.0	345.7	...	563.2
Regional Govt expenditure	182.4	-	215.9	...	223.4
Deficit	126.0	120.1	125.6	295.0	308.8
Foreign Financing	48.0	21.8	57.0	17.0	42.8
Domestic financing	78.0	98.3	68.6	278.0	266.1

Source: MoF Budget Document and Cepheus GDP estimate. FY2021-22 outturn estimates based on data and statements in Budget Document.

Budgetary Figures Relative to GDP:

- Seen relative to GDP, the budget’s revenue and grants target is equivalent to 6.4 percent of GDP, expenditure stands at 10.5 percent of GDP, and the resulting deficit amounts to 4.1 percent of GDP. Despite increases in the Birr value of revenue collections, the decline in the revenue-to-GDP to near 6 percent is particularly notable and suggests either that still-large segments of the economy remain outside the tax net and/or that there is a possible over-estimation of the nominal GDP denominator.
- The above ratios are based on a nominal GDP figure—reflecting budget assumptions—that is projected to reach Birr 7.46 trillion in the just starting fiscal year, up from what is expected to be a GDP figure of Birr 6.1 trillion for the just ended 2021-22 fiscal year.
- Regarding GDP figures, we now estimate nominal GDP for FY 2021-22 will be near Birr 6,109bn, reflecting expectations that Government will report GDP growth of 6.6 percent for the just-ended fiscal year and also considering a likely GDP deflator (based on year-average inflation) of 32 percent. For the new fiscal year, 2022-23, using Government’s real GDP growth of 9.2% and a 11.9% GDP deflator (using year-average inflation) yields a nominal GDP of Birr 7,465bn. An alternative projection using somewhat lower growth (6.5%) alongside somewhat higher inflation (23% year-average) would yield a moderately higher nominal GDP of Birr 7,996bn for this fiscal year.

Table 2: Overview of FY 2022-23 Budget and Recent Years' Performance, % of GDP

Figures in Percent of GDP

	FY 2020-21		FY 2021-22		FY 2022-23
	Budget	Actual	Budget	Estimate	Budget
Revenue and Grants	8.7%	11.0%	9.2%	5.7%	6.4%
Revenue	7.6%	10.2%	7.8%	5.2%	5.9%
Tax Revenue	6.8%	9.0%	7.1%	4.8%	5.4%
Non-Tax Revenue	0.8%	1.3%	0.7%	0.4%	0.5%
Grants	1.1%	0.8%	1.4%	0.5%	0.5%
Expenditure	11.8%	13.8%	11.9%	10.5%	10.5%
Current expenditure	3.3%	0.0%	0.0%	...	4.6%
Capital expenditure	4.0%	8.4%	3.4%	...	2.9%
Subsidies to Regions	4.4%	5.4%	3.9%	...	2.8%
SDGs contribution	0.1%			...	0.2%
Deficit	3.1%	2.8%	2.7%	4.8%	4.1%
Foreign Financing	1.2%	0.5%	1.2%	0.3%	0.6%
Domestic financing	1.9%	2.3%	1.5%	4.6%	3.6%
Nominal GDP, Birr bns	4,020	4,341	4,719	6,109	7,465

Source: MoF Budget Document and Parliament website. Cepheus GDP estimates for FY 2021-22 and 2022-23.

Budgetary Growth Rates:

- Comparing this year’s budget document figures to last year’s budget figures, expenditure growth is programmed to rise by 40% while revenue growth (excluding grants) is seen to rise by 19%.
- Both of these would be moderately positive in real terms if the budget assumption of 12% year-average inflation is realized; more realistically, however, if inflation turns out higher this year (we forecast 23% year-average inflation for the fiscal year) these nominal growth rates will amount to strong expenditure growth on a real basis but a decline for revenue collections in real terms.
- Comparing this year’s budget document figures to the likely outturns for FY 2021-22, however, shows much stronger (planned) revenue growth versus last year. Revenue is expected to show a 37% nominal increase from last year (14% in real terms using projected 23% year-average inflation) but expenditure versus last year will be up just 22% in nominal terms (essentially flat in real terms), reflecting the large spending increases—including supplementary budgets—that took place last year.

Table 3: Budgetary Growth vs Last Year's Budget			
	FY 2021-22	FY 2022-23	
	Budget	Budget	Growth Rate(%)
Revenue and Grants	436.0	477.8	10%
Revenue	369.1	438.9	19%
Tax Revenue	334.0	400.2	20%
Non-Tax Revenue	35.1	38.6	10%
Grants	66.9	38.9	-42%
Expenditure	561.6	786.6	40%
Current expenditure	162.2	345.1	113%
Capital expenditure	183.5	218.1	19%
Subsidies to Regions	203.9	209.4	3%
SDGs contribution	12.0	14.0	16%
Deficit	125.6	308.8	146%
Foreign Financing	57.0	42.8	-25%
Domestic financing	68.6	266.1	288%

Source: MoF Budget Document

Table 4: Budgetary Growth vs Last Year's Estimated Outturns			
	FY 2021-22	FY 2022-23	
	Estimate	Budget	Growth Rate(%)
Revenue and Grants	347.8	477.8	37%
Revenue	319.7	438.9	37%
Tax Revenue	294.0	400.2	36%
Non-Tax Revenue	25.7	38.6	51%
Grants	28.1	38.9	39%
Expenditure	642.8	786.6	22%
Current expenditure	...	345.1	...
Capital expenditure	...	218.1	...
Subsidies to Regions	...	209.4	...
SDGs contribution	...	14.0	...
Deficit	295.0	308.8	5%
Foreign Financing	17.0	42.8	152%
Domestic financing	278.0	266.1	-4%

Source: MoF Budget Document and Cepheus estimates for FY 2021-22 outturns.

Revenue Trends and Composition:

- Revenue outturns in FY 2021-22 show an overall 87 percent performance achievement relative to the set budget, with tax revenues doing much better (88% of the budget) than non-tax revenue (73% of budget). External grants were well below budget expectations, at 42% of anticipated levels.
- For the new fiscal year, revenue is set to rise to Birr 439bn, up from last year’s Birr 320bn estimated outturn, or growth of 37 percent. This is not as stretched as may seem at first glance, given inflation is currently running at 37 percent (though likely to moderate to 22% on a year-average basis). New tax policy measures are also being put in place, including a broadening of the VAT and excise tax base, new fuel excises, various tax administration initiatives, and a new property tax regime (for which a proclamation is expected this fiscal year though full implementation is likely only in FY 2023-24).
- The specific revenue targets set in the budget, across 17 main sub-categories and 163 detailed line-items are presented in Table 7 on the next page.

Table 5: Revenue Performance Relative to Budget, FY 2021-22 in Birr bns

	<u>FY 2021-22 Budget</u>	<u>FY 2021-22 Estimate</u>	<u>Performance vs Budget</u>
Revenue and Grants	436.0	347.8	80%
Revenue	369.1	319.7	87%
Tax Revenue	334.0	294.0	88%
Non-Tax Revenue	35.1	25.7	73%
Grants	66.9	28.1	42%

Source: MoF Budget Document

Table 6: Revenue Trends and Budget Assumptions

<u>Revenue in Birr bns</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22 Est</u>	<u>2022-23 Budget</u>
Revenue and Grants	287.6	344.9	395.0	478.9	347.8	477.7
Revenue	269.6	311.3	354.3	444.6	319.7	438.8
Tax revenue	235.3	268.5	311.5	338.8	294.0	400.1
Direct taxes	97.6	115.9	132.2	174.0	101.2	124.8
Indirect taxes	137.6	152.6	179.3	214.8	192.8	275.4
Domestic indirect taxes	67.2	77.8	78.9	108.2	67.3	103.3
Import duties and taxes	70.4	74.8	100.4	106.6	125.5	172.1
Non-tax revenue	34.4	42.9	42.8	55.8	25.7	38.6
Grants	17.9	33.6	40.7	34.3	28.1	38.9
Revenue Growth Rates	2017-18	2018-19	2019-20	2020-21	2021-22 Est	2022-23 Budget
Revenue and Grants	6.9%	20.0%	14.5%	21.3%	-27.4%	37.4%
Revenue	5.1%	15.5%	13.8%	25.5%	-28.1%	37.3%
Tax revenue	12.0%	14.1%	16.0%	8.8%	-13.2%	36.1%
Direct taxes	19.9%	18.7%	14.1%	31.6%	-41.8%	23.3%
Indirect taxes	6.9%	10.9%	17.5%	19.8%	-10.2%	42.8%
Domestic indirect taxes	7.4%	15.8%	1.4%	37.2%	-37.8%	53.5%
Import duties and taxes	6.4%	6.3%	34.1%	6.2%	17.7%	37.1%
Non-tax revenue	-26.0%	24.5%	-0.1%	30.3%	-54.0%	50.6%
Grants	43.6%	87.7%	20.9%	-15.6%	-18.1%	38.6%
Revenue Composition	2017-18	2018-19	2019-20	2020-21	2021-22 Est	2022-23 Budget
Revenue and Grants	100%	100%	100%	100%	100%	100%
Revenue	94%	90%	90%	93%	92%	92%
Tax revenue	82%	78%	79%	71%	85%	84%
Direct taxes	34%	34%	33%	36%	29%	26%
Indirect taxes	48%	44%	45%	45%	55%	58%
Domestic indirect taxes	23%	23%	20%	23%	19%	22%
Import duties and taxes	24%	22%	25%	22%	36%	36%
Non-tax revenue	12%	12%	11%	12%	7%	8%
Grants	6%	10%	10%	7%	8%	8%

Source: NBE, MoF Budget Document and Cepheus Research compilation

Table 7: All Government Revenue Sources Across 17 Categories and 163 line-items--Total Revenue of Birr 438.8bn.

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

1		124.8
Direct Taxes on income		
1 Corporate taxes	78.6	
2 Taxes on Wages and Salaries	26.3	
3 Withholding tax on imports	7.9	
4 Dividends & lottery	7.0	
5 Interest income tax	3.9	
6 Capital gains tax	1.0	
7 Royalties	0.1	
8 Rental income	0.0	

2		36.7
VAT On Domestic Goods		
1 Beer	3.0	
2 Sugar	1.6	
3 Textile & Clothing	1.5	
4 Alcoholic Products	1.3	
5 Soft Drinks	1.3	
6 Petroleum Products	1.2	
7 Food	1.1	
8 Iron & Steel	1.0	
9 Agricultural products	1.0	
10 Non Metallic Min Products	1.0	
11 Vehicles & Spare Parts	0.8	
12 Tobacco Products	0.5	
13 Chemical Products	0.5	
14 Plastic Products	0.3	
15 Leather Products	0.3	
16 Electrical Goods/Parts	0.2	
17 Machines fixtures/parts	0.2	
18 Mineral Water	0.2	
19 Stationery & Printing	0.1	
20 Salt	0.1	
21 Wood Products	0.1	
22 Cotton, Yarns & Fabrics	0.1	
23 All Other Goods	19.3	

3		45.0
VAT on Services		
1 Telecommunications	15.6	
2 Works Contract	10.6	
3 Professional Service	2.5	
4 Rent of Goods	0.7	
5 Lodging	0.2	
6 Tourism	0.2	
7 Garage	0.1	
8 Commission Agent	0.1	
9 Other Services	14.9	

4		19.8
Excise Tax on Domestic Goods		
1 Beer	6.2	
2 Soft drinks	3.9	
3 Sugar	3.2	
4 Tobacco & Tobacco Products	2.7	
5 Alcohol & Alcoholic Products	1.0	
6 Textiles	0.4	
7 Mineral Water	0.3	
8 Plastic Products	0.0	
9 Salt	0.0	
10 Fuel & Fuel Products	0.0	
11 Other Goods	2.0	

5		0.023
Turnover Tax: On Domestic Goods		
1 Salt	0.001	
2 Alcohol & Alcoholic Products	0.001	
3 Food	0.001	
4 Wood and Wood Products	0.000	
5 Iron & Steel	0.000	
6 Sugar	0.000	
7 Agricultural Products	0.000	
8 Chemical Products	0.000	
9 Other Goods	0.020	

6		0.0892
Turnover Tax: On Services		
1 Lodging	0.0005	
2 Consultancy	0.0005	
3 Advertisement	0.0001	
4 Works Contract	0.0001	
5 Tourism	0.0001	
6 Financial Services	0.0000	
7 Tailoring	0.0000	
8 Auditing	0.0000	
9 Other Services	0.0879	

7		1.7
Stamp Sales and Duty		
1 Stamp Duty on Vehicles	1.7	
2 Other Stamp Duty	0.0	
3 Stamp Sales	0.0	

8		62.2
Customs taxes on Imports		
1 Motor Vehicles & Accessories	12.4	
2 Building Materials & Metals	8.5	
3 Cotton, Yarns, Fabrics, Textiles	7.8	
4 Electrical Equipment	2.6	
5 Pharmaceutical Equip, Drugs	2.6	
6 Household, Office Goods	1.8	
7 Machineries, Capital Goods	1.4	
8 Films, Film/Musical Instruments	1.1	
9 Stationery, Calculating Machines	1.0	
10 Alcohol & Alcoholic Beverages	0.2	
11 Food	0.1	
12 Tobacco & Tobacco Products	0.1	
13 Wood and Wood Products	0.0	
14 Other Goods	22.7	

9		15.4
Excise tax on Imports		
1 Automobiles	8.5	
2 Textiles	2.5	
3 Petroleum	2.4	
4 Alcoholic Products	0.4	
5 Tobacco Products	0.1	
6 Other Goods	1.4	

10		64.0
VAT On Imports		
1 Motor Vehicles & Accessories	12.6	
2 Building Materials & Metals	11.7	
3 Cotton, Yarns, Fabrics, Textiles	5.9	
4 Electrical Equipment	3.8	
5 Machineries, Capital Goods	2.4	
6 Petroleum Products, Lubricants	1.8	
7 Pharmaceutical Equip, Drugs	1.6	
8 Films, Film/Musical Instruments	1.3	
9 Stationery, Calculating Machines	1.3	
10 Household, Office Goods	1.3	
11 Wood and Wood Products	0.3	
12 Alcohol & Alcoholic Beverages	0.2	
13 Tobacco & Tobacco Products	0.1	
14 Food	0.1	
15 Personal Goods & Appliances	0.0	
16 Other Goods	19.5	

11		0.01
Export tax		
1 Leather and Leather Products	0.01	

12		30.4
Surtax on Imports		
1 Building Materials & Metals	6.1	
2 Motor Vehicles & Accessories	5.6	
3 Cotton, Yarns, Fabrics, Textiles	4.0	
4 Electrical Equipment	1.9	
5 Machineries, Capital Goods	1.7	
6 Household, Office Goods	0.9	
7 Stationery, Calculating Machines	0.7	
8 Films, Film/Musical Instruments	0.5	
9 Alcohol & Alcoholic Beverages	0.1	
10 Food	0.1	
11 Tobacco & Tobacco Products	0.1	
12 Pharmaceutical Equip, Drugs	0.1	
13 Wood and Wood Products	0.0	
14 Other Goods	8.8	

13		5.4
Government Fees & Charges		
1 Passport and visa fees	1.9	
2 Confiscated items	1.1	
3 Foreigners' registration fees	0.5	
4 Cargo inspection fees	0.3	
5 Legal service fees	0.3	
6 Work permit fees	0.1	
7 Business license fees	0.1	
8 Court penalties	0.1	
9 Warehouse rentals	0.1	
10 Standards Agency fees	0.0	
11 Other fees and charges	1.0	

14		5.5
Sales of Public Goods & Services		
1 Vocational & Educational fees	3.0	
2 Univ Students Cost-Sharing fees	0.4	
3 Health exam fees	0.3	
4 Health Services fees	0.3	
5 Science & Tech service fees	0.1	
6 Agricultural product sales	0.1	
7 Medical product sales	0.1	
8 Forestry product sales	0.1	
9 Civil Aviation fees	0.1	
10 Govt publications sales	0.1	
11 Cultural service fees	0.0	
12 Mapping services fees	0.0	
13 National Examination fees	0.0	
14 Prison Administration fees	0.0	
15 Research & Devpt fees	0.0	
16 Printed forms	0.0	
17 Handicraft sales	0.0	
18 Media fees	0.0	
19 Entertainment fees	0.0	
20 Veterinary fees	0.0	
21 Advertising fees	0.0	
22 Other fees	0.8	

15		21.0
Non-tax income: Investments		
1 Surplus of State Enterprises	19.2	
2 Interest from Govt Bank Accounts	1.0	
3 Interest from Loans to Agencies	0.6	
4 National Lottery Surplus	0.2	

16		5.1
Miscellaneous revenue		
1 Miscellaneous revenue	5.1	

17		1.6
Capital revenue		
1 Principal dues from on-lending	1.6	
2 Sale of properties	0.1	

Total Revenue--All 17 Categories: 438.8

Source: Cepheus Research compilation based on Ministry of Finance Budget Document and Parliament website.

Expenditure Trends over time:

- This year's expenditure growth versus last year's outturn is targeted to be 22 percent in nominal terms (roughly flat in real terms) and seems to reflect more pronounced macro concerns now about the need to limit inflation and debt accumulation.
- Relative to the size of the economy, total expenditure will also be at a decade low of just 10.5 percent of GDP, versus a high of 18.8 percent of GDP in FY 2012-13.

TABLE 8: Expenditure Allocation in FY 2022-23 and Recent Trends by Main Categories, Birr bns

Description	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	% of Total
	<i>Outturn</i>	<i>Outturn</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	
Total Expenditure	354.2	413.1	387.0	476.0	561.6	786.6	100.0%
<i>Growth rate: nominal terms</i>	29.1%	7.4%	2.0%	23.0%	18.0%	40.1%	....
<i>Growth rate: real terms</i>	22%	-3.6%	-8.0%	3.1%	6.1%	28.2%	....
By Budget Summary Presentation	354.2	413.1	387.0	476.0	561.6	786.6	100.0%
Federal Government Expenditure	197.9	229.9	240.2	293.7	345.7	563.2	71.6%
<i>Recurrent Expenditure</i>	100.7	115.5	109.5	133.3	162.2	345.1	43.9%
<i>Capital Expenditure</i>	97.2	114.4	130.7	160.3	183.5	218.1	27.7%
Subsidies To Regions	149.3	177.2	140.8	176.4	203.9	209.4	26.6%
Sustainable Devpt Goals Allocation	7.0	6.0	6.0	6.0	12.0	14.0	1.8%
By Economic/Functional basis	354.2	413.1	387.0	476.0	561.6	786.6	100.0%
Subsidies To Regions	149.3	177.2	140.7	176.4	204.0	209.4	26.6%
Other Sectors	20.8	20.6	40.2	52.4	59.44	179.2	22.8%
General	38.9	44.7	38.6	47.1	59.7	141.3	18.0%
Economic	68.7	82.1	93.2	113.5	127.3	140.3	17.8%
Social	69.5	82.5	68.0	80.7	99.3	102.4	13.0%
Sustainable Devpt Goals Allocation	7.0	6.0	6.0	6.0	12.0	14.0	1.8%

Source: MoF Budget document and Cepheus Research computation for growth rates. Real rates reflect inflation assumption used in the respective budgets.

Table 9: Subsidies to Regions, Breakdown for FY 2022-23

	<u>Regional Subsidy</u>	<u>% of Total</u>	<u>SDGs</u>	<u>% of Total</u>
Oromia	71.0	34%	4.8	34%
Amhara	44.5	21%	3.0	22%
SNPP	26.6	13%	1.8	13%
Somalia	20.6	10%	1.4	10%
Tigray	12.4	6%	0.8	6%
Sidama	8.5	4%	0.6	4%
South West Ethiopia	6.4	3%	0.4	3%
Afar	6.2	3%	0.4	3%
Benshangul/Gumuz	3.8	2%	0.3	2%
Addis Ababa	3.3	2%	-	0%
Gambela	2.7	1%	0.2	1%
Dire Dawa	1.8	1%	0.1	1%
Harari	1.6	1%	0.1	1%
TOTAL	209.4	100%	14.0	100%

Source: MoF Budget Document

Expenditure Items: Top 10, Highest Growth, and Lowest Growth Line-items

- For the first time in many years, funding for roads is no longer the largest budgetary line-item, being replaced instead by allocations for debt service (Birr 126bn) and defence (Birr 84bn). Shifts in policy priorities are also reflected in line-items showing substantial increments from last year, most notably for transfers/subsidies (up 9.6x), defence (up 3.8x), and debt service (up 2.8x)
- Conversely, line-items showing limited growth include Urban Development and Construction as well as Agriculture and Rural development. Several notable budget categories—such as health, education, trade, and industry—are showing essentially flat levels vs last year’s budget allocations.

Table 10A: Ethiopia's Top 10 Budget Expenditures

Sector or Ministry	Birr bns
1 Debt service	126.0
2 Defence	84.0
3 Roads	66.2
4 Education	64.7
5 Water and Energy	24.7
6 Health	19.3
7 Urban Development and Construction	18.5
8 Agricultural and Rural Development	18.5
9 Justice and Security	17.0
10 Prevention and Rehabilitation	13.1

Source: MoF Budget Document

Table 10B: Budgetary Line-items with Largest and Smallest Growth, Birr bns

<i>Line-items showing largest growth:</i>	Budget FY 2021-22	Budget FY 2022-23	Percent change	As Multiple of previous year
1 Transfers and Subsidies	3.0	29.1	857%	9.6x
2 Labor and Social Affairs	0.2	1.7	617%	7.2x
3 Defense	22.0	84.0	282%	3.8x
4 Debt	45.1	126.0	179%	2.8x
5 Transport and Communication	3.7	8.0	115%	2.2x
6 Contingencies	11.3	24.1	114%	2.1x
7 General Service	19.1	37.0	94%	1.9x
8 Mines	0.4	0.6	48%	1.5x
9 Prevention and Rehabilitation	8.9	13.1	46%	1.5x
10 Water Resources & Energy	17.6	24.7	41%	1.4x
11 Justice and Security	12.4	17.0	37%	1.4x
<i>Line-items showing smallest growth:</i>	Budget FY 2021-22	Budget FY 2022-23	Percent change	As Multiple of previous year
1 Urban Development and Construction	83.8	85.2	2%	1.0x
2 Agricultural and Rural Development	18.5	18.5	0%	1.0x
3 Culture and Sport	3.6	3.6	-1%	1.0x
4 Trade and Industry	3.3	3.2	-1%	1.0x
5 Education	66.1	64.8	-2%	1.0x
6 Health	20.4	19.3	-5%	0.9x
7 Organs of State	6.2	3.4	-45%	0.5x

Source: MoF Budget document and Cepheus Research compilation.

Expenditure Quality: Poverty-Reducing Expenditure, Wages, and Government Capital Expenditure

- **Increased allocations for defence and debt service have reduced the share of the budget devoted to directly poverty-reducing expenditure, which is now near 60% of total vs 80% a few years ago.**
- **Another consequence of higher defence and debt service allocations is that capital expenditure—though rising in nominal terms—is falling as a share of the budget and as a share of GDP.**
- **With respect to the Government wage bill, this will reach Birr 76bn this year, or 10% of the budget. At just 1% of GDP, however, it is at the low end of the wage/GDP ratios seen in African/EM countries.**
- **The specific expenditure allocations put forth in the budget, across 18 main sub-categories and 227 detailed line-items are presented in Table 12 on the next two pages.**

Table 11A: Trends in Poverty-Reducing Expenditure, in Birr bns

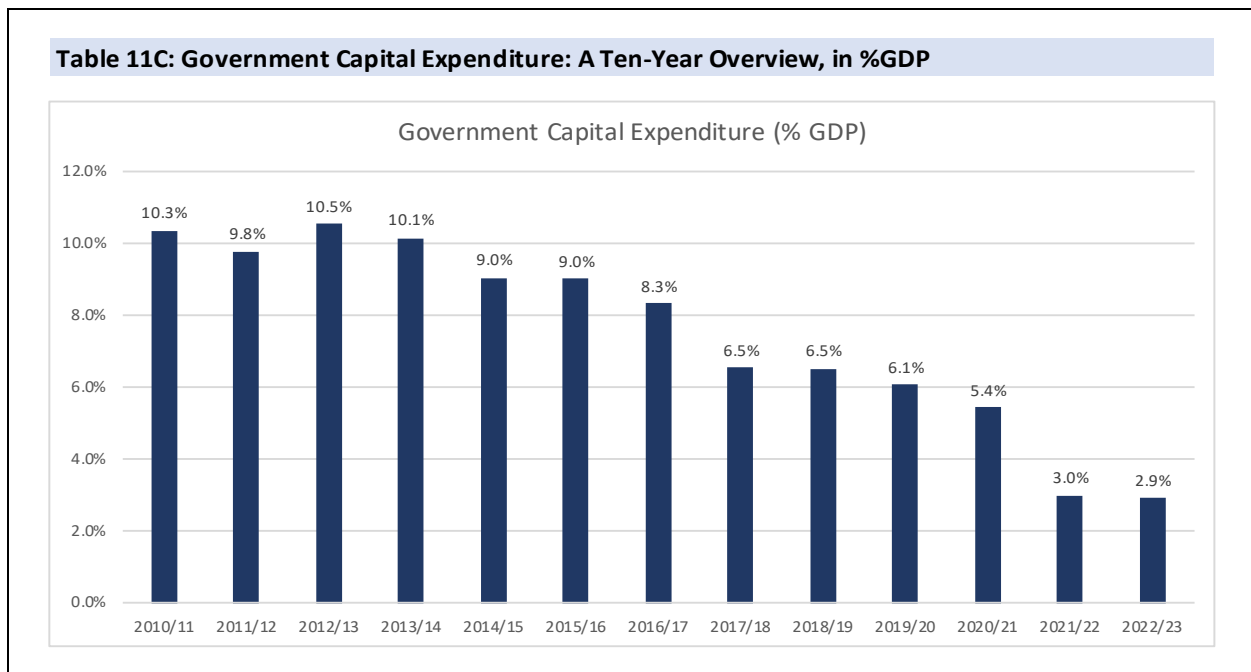
	2018-19	2019-20	2020-21	2021-22	2022-23
Total Expenditure, per budget document:	413.1	387.0	476.0	561.6	786.6
Poverty-Reducing Spending, TOTAL	347.8	307.9	376.2	442.6	466.1
1. Poverty-Reducing Expenditure at Federal Level:	164.6	161.2	194.2	226.6	242.7
<i>Of which: Economic Sectors</i>	82.1	93.2	113.5	127.3	140.3
<i>Of which: Social Sectors</i>	82.5	68.0	80.7	99.3	102.4
2. Subsidies to Regions	177.2	140.7	176.0	204.0	209.4
3. SDG Allocations	6.0	6.0	6.0	12.0	14.0
Share of Poverty-Reducing Expenditure in Total Expd:	84%	80%	79%	79%	59%

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

Table 11B: Government Wage Bill Indicators

	2021-22	Budget 2022-23
Government Wage Bill		
In Birr Bns	51.9	75.6
In Percent of Budget	7.7%	9.6%
In Percent of GDP	0.8%	1.0%

Source: MoF Budget Document



Source: MoF Budget Document, NBE, and IMF

Table 12: Federal Government Expenditure Allocation--By Detailed Line-items, Birr bns

Total Expenditure by detailed government department/agency/unit									
	Budget 2020-21	Budget 2021-22	Budget 2022-23	Change in Birr terms		Budget 2020-21	Budget 2021-22	Budget 2022-23	Change in Birr terms
Total Federal Govt Expenditure	293.7	345.7	563.2	217.5					
1 Administration and General	47.11	59.67	141.34	81.67	2 Economy	113.5	127.3	140.3	12.9
1.1 Organ of State	7.38	6.16	3.37	(2.79)	2.1 Agricultural and Rural Development	15.31	18.50	18.47	(0.03)
Palace Administration	0.72	0.91	0.95	0.04	Ministry of Agriculture	13.10	16.13	16.01	(0.12)
Ministry of Peace	3.29	4.32	0.87	(3.45)	Ethiopian Agricultural Research Institute	0.90	0.93	0.92	(0.00)
House of The People's Representativ	0.38	0.39	0.41	0.02	Ethiopian Environment and Forest Research Institute	0.10	0.36	0.40	0.04
Office of the Prime Minister	0.21	0.23	0.41	0.18	Environment, Forest and Climate Change Commission	0.20	0.21	0.28	0.07
House of the Federation	0.04	0.05	0.25	0.20	Ethiopian Institute of Bio-Diversity	0.15	0.16	0.20	0.04
Office of the Auditor General	0.10	0.11	0.22	0.10	Veterinary Drug and Animal Feed Administration and (	0.07	0.09	0.20	0.11
Office of the National Election Boar	2.59	0.09	0.21	0.12	Ethiopian Agriculture Authority	...	...	0.17	...
Office Of The President	0.03	0.03	0.03	(0.01)	National Animal Genetic Improvement Institute	...	0.11	0.14	0.03
Council of Constitutional Inquiry	0.02	0.02	0.02	0.00	Agricultural Transformation Agency	0.07	0.07	0.07	0.00
Center for the Study of Constitution :	...	0.01	0.01	(0.00)	Federal Cooperative Agency	0.06	0.07	0.07	0.00
Ministry Of Federal and Pastoral Dev	...	...	...	...	Ethiopian Coffee and Tea Development and Marketing	0.07	0.20	...	...
					The National Institute for Control and Eradication of T	0.08	0.09	...	...
					Ethiopian Agricultural Research Council Secretariat	0.04	0.05	...	...
					Ethiopia Commodity Exchange Authority	0.05	0.04	...	...
					Ethiopian Horticulture and Agricultural Investment Aut	...	...	...	...
1.2 Justice and Security	10.41	12.41	16.99	4.59	2.2 Water Resources & Energy	21.5	17.6	24.75	7.2
Federal Police Commission	4.62	5.12	6.84	1.71	Irrigation Development Commission	16.10	12.10	15.16	3.06
Federal Prison Administration	1.31	1.48	1.74	0.26	Ministry of Water, Irrigation and Energy	0.41	0.46	8.72	8.25
Federal Courts	0.97	0.91	1.48	0.57	National Meteorology Agency	0.13	0.30	0.81	0.51
National Intelligence and Security Se	0.73	0.92	1.33	0.41	Water Technology Institute	0.05	0.12	0.06	(0.05)
Ethiopian Police University	...	0.77	1.31	0.54	Water Development Commission	4.21	3.80	...	...
Information Network Security Agenc	0.86	0.92	1.23	0.31	Basins Development Authority	0.51	0.55	...	...
Ministry of Justice	...	...	0.90	...	Ethiopian Rural Energy Development and Promotion Ct	...	0.20	...	...
Artificial Intelligence Center	...	0.29	0.53	0.25	Ethiopian Energy Authority	0.03	0.04	...	...
Federal Attorney General	0.70	0.75	0.45	(0.30)	Water Development Fund	0.02	0.02	...	...
Emigration, Citizenship and Vital Eve	0.44	0.48	0.45	(0.04)					
Documents Authentication and Regi	0.17	0.20	0.20	(0.00)	2.3 Trade and Industry	2.48	3.25	3.22	(0.03)
Ethiopian Human Right Commission	0.10	0.10	0.11	0.01	Ministry of Trade and Industry	0.98	1.56	1.82	0.26
Institution of The Ombudsman	0.08	0.09	0.09	0.01	Manufacturing Industry Development Institute	...	...	1.04	...
Federal Ethics And Anti-Corruption C	0.10	0.11	0.08	(0.03)	Ethiopian Investment Commission	0.10	0.11	0.11	0.00
Agency for Civil Society Organizatio	0.07	0.07	0.07	(0.00)	Ethiopian Enterprise Development	...	...	0.09	...
Justice and Legal System Research a	0.08	0.08	0.07	(0.02)	Public Enterprises Holding and Administration Agency	0.10	0.10	0.08	(0.03)
National Dialogue Commission	...	...	0.04	...	Ethiopian Standards Agency	0.07	0.23	0.06	(0.17)
Financial Intelligence Center	0.04	0.04	0.04	(0.00)	Ethiopian National Accreditation Office	0.02	0.02	0.02	0.00
Judiciary Administration Council	...	...	0.03	...	Textile Industry Development Institute	0.47	0.44	...	...
Federal Tax Appeal Commission	0.02	0.02	0.02	(0.00)	Metals Industry Development Institute	0.21	0.20	...	...
Office of the Reconciliation Commis	...	0.02	...	...	Leather Industry Development Institute	0.15	0.17	...	...
Transfer	0.10	...	...	...	Chemical and Construction Inputs Industry Developme	0.10	0.11	...	...
Administrative Boundary and Identit	...	0.03	...	...	Federal Small and Medium Manufacturing Industry De	0.08	0.08	...	...
Agency For Refugee and Returnee A	0.05	...	...	...	Food, Drink and Pharmaceutical Industry Development	0.06	0.07	...	...
					Ethiopian Meat and Dairy Industry Development Instit	0.06	0.07	...	...
					Ethiopian Kaizen Institute	0.04	0.05	...	...
					Trade Practice and Consumers' Protection Authority	0.04	0.04	...	...
1.3 Defense	16.50	22.00	84.00	62.00	2.4 Mines	0.18	0.41	0.61	0.20
Ministry of National Defense	16.50	22.00	84.00	62.00	Ministry of Mines & Petroleum	0.07	0.32	0.32	0.01
					Geological Surveys of Ethiopia	0.11	0.10	0.29	0.19
1.4 General Service	12.83	19.11	36.98	17.87	2.5 Transport and Communication	3.04	3.72	8.01	4.29
Ministry of Finance	1.18	2.43	22.10	19.67	Maritime Affairs Authority	1.54	1.59	3.70	2.11
Ministry of Revenue and Customs At	4.35	5.66	6.86	1.20	Ministry of Transport & Logistics	0.13	0.15	3.64	3.50
Ministry of Foreign Affairs	3.09	3.86	3.65	(0.21)	Ethiopian Civil Aviation Authority	0.37	0.40	0.56	0.16
Ministry of Innovation and Technolo	1.26	1.30	1.00	(0.29)	Insurance Fund Administration Agency	0.04	0.05	0.10	0.05
Ethiopian Space Science and Techno	0.26	0.30	0.72	0.41	Transport Authority	0.78	1.53	...	...
African Leadership Excellence Acade	...	...	0.58	...	Ethiopian Press Agency	0.19	...	...	...
Republican Security Force	0.17	0.18	0.24	0.06	Ministry of Communication and Information Technolog	...	...	...	...
Diaspora Agency	0.23	0.24	0.24	(0.01)					
Ethiopian Biotechnology Institute	0.19	0.19	0.22	0.03	2.6 Urban Development and Construction	70.99	83.82	85.20	1.38
Ethiopian News Agency	0.15	0.23	0.19	(0.04)	Ethiopian Roads Authority	58.82	67.45	66.26	(1.19)
Central Statistics Agency	0.57	0.59	0.18	(0.41)	Ministry of Urban and Construction	6.53	7.78	18.51	10.73
Civil Service Commission	0.17	0.17	0.16	(0.01)	Construction Project Management Institute	0.37	0.60	0.34	(0.26)
Ethiopian Communications Authority	0.07	0.08	0.14	0.06	Construction works Inspection Authority	0.12	0.13	0.10	(0.03)
Ethiopian Foreign Relation Strategic	0.01	...	0.11	...	Federal Urban Job Creation and Food Security Agency	4.83	7.56	...	...
Government Communication Service	...	...	0.10	...	Federal Urban Land & Land Related Property Registrat	0.25	0.24	...	...
Policy Study Institute	0.10	0.11	0.09	(0.02)	Integrated Infrastructure Development Coordinating A	0.07	0.04	...	...
Technology and Innovation Institute	0.22	0.29	0.08	(0.21)	Road Fund Office	0.01	0.02	...	...
Ethiopian Broadcast Authority	0.05	0.05	0.06	0.01					
National Metrology Institute of Ethic	0.05	0.05	0.05	(0.00)					
Ministry of Planning and Developme	0.05	0.05	0.05	(0.01)					
The Accounting and Auditing Board c	0.04	0.04	0.04	(0.01)					
Public Procurement and Property Ad	0.02	0.03	0.04	0.01					
Ethiopian Intellectual Property Offic	0.03	0.03	0.03	0.00					
Public Procurement and Property Dis	0.03	0.04	0.02	(0.02)					
Grand Renaissance Dam Coordinatic	0.01	0.02	0.02	(0.00)					
Job Opportunity Creation Commissio	0.07	2.37	...	...			
Meles Zenawi Leadership Academy	0.20	0.36	...	...			
Geospatial Information Institute	0.23	0.30	...	...			
Ethiopian Radiation Protection Auth	0.03	0.04	...	...			
Institute of Strategic Affairs	...	0.09	...	...			
Ministry of Public Service and Humai	...	...	...	...	

Source: MoF Budget Document and Cepheus Research compilation

Table 12, continued: Federal Government Expenditure Allocation--By Detailed Line-items, Birr bns

	Budget 2020-21	Budget 2021-22	Budget 2022-23	Change in Birr terms		Budget 2020-21	Budget 2021-22	Budget 2022-23	Change in Birr terms
3 Social	80.69	99.29	102.45	3.15					
3.1 Education	56.80	66.06	64.76	(1.30)	3.2 Culture and Sport	3.53	3.64	3.61	(0.02)
Addis Ababa University	2.59	2.97	2.88	(0.09)	Culture and Sport Minister	...	...	2.14	...
Hawassa University	1.84	2.00	2.86	0.86	Tourism Ministry	...	...	0.53	...
Jigjiga University	1.36	1.47	2.79	1.32	National Archive and Library Agency	0.22	0.23	0.24	0.01
Bahir Dar University	2.14	2.30	2.13	(0.17)	Sport Academy	...	...	0.19	...
Gonder University	1.81	1.96	1.87	(0.09)	Authority for Research and Conservation of Cultural He	0.11	0.13	0.16	0.03
Jimma University	1.92	2.06	1.85	(0.21)	Ethiopian Wildlife Conservation Authority	0.14	0.15	0.15	0.00
Haramaya University	1.72	1.88	1.69	(0.19)	Catering and Tourism Training Institute	0.06	0.07	0.13	0.06
Arba Minch University	1.59	1.75	1.67	(0.07)	Ethiopia National Theater	0.05	0.06	0.05	(0.01)
Wollo University	1.17	1.33	1.65	0.33	Ethiopia National Anti-Doping Office	0.02	0.02	0.02	0.00
Addis Ababa Science and Technology	1.66	1.71	1.64	(0.07)	Sport Commission	2.64	2.66	...	...
Ministry of Education	1.23	1.28	1.59	0.31	Ministry of Culture and Tourism	0.15	0.16	...	...
Medewollabo University	1.34	1.55	1.48	(0.06)	Ethiopian Youth Sports Academy	0.08	0.09	...	...
Dilla University	1.43	1.55	1.46	(0.09)	Athlete Tirunesh Dibaba Sport Training Center	0.05	0.06	...	...
Wolayita Sodo University	1.24	1.41	1.46	0.05					
Debrebirhan University	1.05	1.29	1.38	0.09	3.3 Health	19.38	20.43	19.33	(1.10)
Semera University	1.09	1.37	1.35	(0.02)	Ministry of Health	15.87	15.99	14.13	(1.87)
Wellega University	1.26	1.39	1.35	(0.04)	St. Paul Hospital Millennium Medical College	1.59	1.92	1.74	(0.19)
Ambo University	1.30	1.36	1.33	(0.03)	Ethiopian Health Insurance Agency	0.33	0.71	1.37	0.66
Debre Tabor University	1.10	1.20	1.28	0.08	All Africa Leprosy, Tuberculosis and Rehabilitation Trai	0.40	0.45	0.46	0.01
Adama Science and Technology Univ	1.16	1.28	1.28	0.00	Saint Peter Specialized Hospital	0.25	0.27	0.33	0.06
Mekele University	1.90	2.67	1.27	(1.40)	Ethiopian Food, Drug and Health Care Administration /	0.28	0.32	0.33	0.01
Mizan/Teppi University	1.14	1.33	1.25	(0.08)	Ethiopian Physical Support Service	...	...	0.26	...
Arsi University	1.12	1.23	1.23	(0.00)	Ethiopian Public Health Institute	0.21	0.24	0.22	(0.03)
Wachemo University	1.08	1.79	1.23	(0.57)	Amanuel Mental Specialized Hospital	0.15	0.17	0.18	0.01
Debre markos University	1.15	1.24	1.22	(0.02)	Eka Kotebe Mental and General Hospital	0.17	0.20	0.18	(0.03)
Dire Dawa University	1.01	1.15	1.14	(0.01)	National Blood Bank Service	0.10	0.11	0.14	0.03
Welkite University	1.07	1.13	1.12	(0.00)	National HIV/AIDS Prevention & Control Secretariat	0.04	0.04	...	...
Bule Hora University	1.01	1.08	1.10	0.02					
Selale University	0.71	1.01	1.10	0.09	3.4 Labor and Social Affairs	0.21	0.23	1.67	1.44
National Educational Assessment and	0.44	1.05	1.10	0.05	Ministry of Labor and Skills	...	...	1.49	...
Metu University	1.07	1.12	1.09	(0.03)	Ministry of Women, Children and Youth Affairs	0.10	0.11	0.18	0.07
Woldiya University	1.05	1.10	1.08	(0.02)	Ministry of Labor and Social Affairs	0.11	0.13	...	...
Oda Bultum University	0.68	1.01	1.06	0.05					
Dembi Dolo University	0.71	1.00	1.06	0.06	3.5 Prevention and Rehabilitation	0.77	8.93	13.06	4.13
Mekdela Amba University	0.73	1.00	1.05	0.05	National Disaster Risk Management Commission	0.77	8.93	13.06	4.13
Kebridehar University	0.83	1.00	1.05	0.05	The Strategic Food Reserve Agency	...	...	...	...
Debark University	0.79	0.99	1.04	0.05					
Bonga University	0.74	0.99	1.04	0.05	4 Others	52.38	59.44	179.19	119.75
Injibara University	0.69	0.99	1.04	0.05	4.1 Transfer	2.04	3.04	29.14	26.10
Werabe University	0.69	0.99	1.04	0.05	Ethiopian Agricultural Works Corporation	...	...	17.00	...
Jinka University	0.67	0.99	1.04	0.05	Ethiopian Business Corporation	...	...	5.28	...
Assosa University	0.94	0.99	0.96	(0.02)	Ethiopian Railways Corporation	...	...	4.00	...
Axum University	1.18	1.27	0.85	(0.43)	Public Service Employee Transport Service Enterprise	0.28	0.30	0.31	0.01
Gambella University	0.76	0.79	0.82	0.03	Public Employees Social Security Agency	...	0.22	0.10	(0.12)
Borena University	...	0.08	0.77	0.68	Ethiopian Patriotic Association	0.01	0.02	0.02	0.01
Raya University	0.74	0.99	0.69	(0.30)	Ethiopian Academy of Sciences	0.01	0.01	0.01	...
Adigrat University	1.07	1.12	0.69	(0.43)	Ethiopian Red Cross Association	0.01	0.01	0.01	...
Federal Technical Vocational Educati	0.33	0.36	0.59	0.23	Industrial Parks Development Corporation	...	1.19	2.41	...
Ethiopian Civil Service University	0.51	0.52	0.52	(0.01)	Ethiopian Electric Power	1.00	1.00	...	...
Kotebe University	...	...	0.43	...	Ethiopian Airports Enterprise	0.20	0.17	...	...
Education and Training Authority	...	...	0.08	...	Ethiopian Broadcasting Corporation	0.50	0.10	...	...
Ministry of Science and Higher Educa	1.39	1.30	...	...	Tourism Ethiopia	0.04	0.04	...	...
Federal Technical Vocational Educati	0.49	0.57	...	...			
Higher Education Relevance and Qual	0.05	0.05	...	...	4.2 Debt Service	36.98	45.12	125.96	80.84
Higher Education Strategy Center	0.04	0.04	...	...	Internal Debt	15.48	13.30	70.00	56.70
					External Debt	21.51	31.81	55.96	24.14
					4.3 Contingencies	13.36	11.28	24.09	12.81
					Provision For Salary and Operating Expenditure	12.35	10.27	23.08	12.81
					Commitments	1.00	1.00	1.00	...
					Provision For Bank Charges	0.01	0.01	0.01	...

Source: MoF Budget Document and Cepheus Research compilation

Overall Financing of the Budget

- Total government borrowing of Birr 308bn (4.1 percent of GDP) will be needed to cover the deficit projected for this year. Around 85 percent of this total (Birr 266bn) is to be borrowed from domestic lenders, while the remaining 15 percent (Birr 43bn or ~\$776mn) is to be covered by foreign loans.
- The composition of deficit financing has shifted sharply towards domestic sources of funds in recent years; foreign financing comprised as much as 70 percent of the deficit financing in 2019-20, but is now down to just 14 percent of total budget deficit financing.

Table 13: Budget Deficit Funding Sources in Recent Years

	FY 2021-22, Estimate		FY 2022-23, Budget	
	Birr bns	% GDP	Birr bns	% GDP
Budget Deficit	295.0	4.8%	308.8	4.1%
Foreign Borrowing	17.0	0.3%	42.8	0.6%
From Multilateral Institutions	15.3	0.3%	23.6	
From Bilateral lenders	1.7	0.0%	19.2	
Domestic Borrowing	278.0	4.6%	266.1	3.6%
<i>By lender--estimates</i>				
From Commercial Bank of Ethiopia	85.6	1.4%	...	...
From National Bank of Ethiopia	78.1	1.3%	...	...
From Private Banks	68.1	1.1%	...	...
From Pension Funds	45.9	0.8%	...	...
From DBE	0.0	0.0%	...	...
From Others	0.0	0.0%	...	...
<i>By Instrument--estimates</i>				
Treasury Bills	200.2	3.3%	...	...
Direct Advances	77.8	1.3%	...	...
Treasury Bonds	0.0	0.0%	...	...
Treasury Bills	0.0	0.0%	...	...
Nominal GDP, Birr bns	6,108.9	...	7,464.7	...

Source: MoF Budget Document for FY 2022-23 budget data, and Cepheus estimates of 2021-22 budget outturns.

Note: Borrowing composition are estimates for FY 2021-22 based on profile of nine-month borrowing up to March 2022 in Public Debt Bulletin.

Table 14: Composition of Budget Deficit Financing--Trends in Recent Years

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Actual	Actual	Actual	Actual	Estimate	Budget
Budget Deficit: In Birr bns	66.6	68.1	85.2	120.1	295.0	308.8
Share Financed by Domestic Borrowing	58%	48%	30%	82%	94%	86%
Share Financed by Foreign Borrowing	42%	52%	70%	18%	6%	14%

Source: MoF Budget Document. Note: Exceptional budget financing items, in years where applicable, classified with domestic financing.

External Financing Trends for the Budget

- Budgetary grants of close to \$706mn are anticipated this fiscal year, with the largest sources in the budget shown as coming from the World Bank, the EU, AfDB, UK, and US.
- External budgetary borrowing of \$776mn is, in turn, largely anticipated from World Bank loans, supplemented also by some limited bilateral loans from countries such as China and Italy.
- It is worth noting that the sum of *budgetary* grants and loans does not represent the full amount of external funding and assistance that flows into Ethiopia. On the grant side, a substantial amount of *non-budget* grants flow directly to non-government entities such as NGOs, aid agencies, food/humanitarian relief suppliers, and private beneficiaries; this amounted to \$1.7bn last year, per balance of payments data, and will likely rise further this year reflecting large humanitarian and relief related aid flows. On the lending side too, not included in budgetary loan figures are borrowings by state enterprises and by private corporates with the ability/approval to contract loans from abroad; this amounted to near \$1bn last year, per balance of payments data, and will also likely rise further this year reflecting healthier balance sheets at some SOEs, Ethiopian Airlines aircraft purchases, and improving conditions for private corporates seeking out external borrowing.

Table 15: External Grants to the Budget

	Birr bns	USD mns
External Grants Total:	38.9	\$ 706
Multilateral Institutions	24.9	\$ 451
African Development Bank (ADB)	1.8	\$ 32
European Development Fund (EDF)	0.1	\$ 3
European Union (EU)	1.1	\$ 19
IDA--World Bank	9.0	\$ 163
IFAD	0.2	\$ 3
UNICEF	2.9	\$ 52
UNFPA	0.4	\$ 8
World Bank (WB)	1.5	\$ 27
World Food Program (WFP)	0.4	\$ 7
World Health Organization (WHO)	0.3	\$ 5
Center for Diseases Control (CDC)	0.6	\$ 11
Global Fund	2.5	\$ 45
Global Alliance (GAVI)	0.3	\$ 5
SDG Implementation	3.9	\$ 70
Others	0.1	\$ 2
Bilateral Grants	6.4	\$ 116
Canada (CIDA)	0.5	\$ 9
China	0.0	\$ 0
Finland (DIDC)	0.2	\$ 4
France	0.0	\$ 0
Germany (KfW)	0.1	\$ 2
Ireland	0.3	\$ 6
Italy	0.4	\$ 8
Korea (KOICA)	0.0	\$ 0
Spain	0.0	\$ 0
Sweden (SIDA)	0.1	\$ 3
Netherlands (KNCB)	0.2	\$ 4
United Kingdom	2.5	\$ 46
United States (USAID)	1.6	\$ 29
Denmark (DANIDA)	0.1	\$ 2
Others	0.2	\$ 3
Protecting Basic Services Program	7.7	\$ 139
European Union (EU)	7.7	\$ 139

Source: MoF Budget Document.

Conversion to USD based on assumed FY 2022-23 year-avg Birr/USD rate of 55.1.

Table 16: External Loans for the Budget

	Birr bns	USD mns
External Loans Total:	42.8	\$ 776
Multilateral Institution loans:	23.6	\$ 428
African Development Bank (ADB)	0.4	\$ 8
Arab Bank for African Devpt (BADEA)	0.4	\$ 7
IDA--World Bank	15.0	\$ 273
IFAD	0.8	\$ 14
World Bank	7.0	\$ 127
Bilateral loans:	5.9	\$ 108
China	0.9	\$ 16
Finland (DIDC)	0.4	\$ 7
Italy	0.5	\$ 10
Korea (KOICA)	0.1	\$ 2
Saudi Fund (Saudi Arabia)	0.1	\$ 1
United Kingdom	0.0	\$ 1
United States (USAID)	0.0	\$ 1
Japan (JICA)	0.3	\$ 5
China EXIM Bank	2.4	\$ 43
Others	1.2	\$ 22
Protecting Basic Services Program:	13.2	\$ 240
IDA--World Bank	13.2	\$ 240

Source: MoF Budget Document.

Conversion to USD based on assumed FY 2022-23 year-avg Birr/USD rate of 55.13

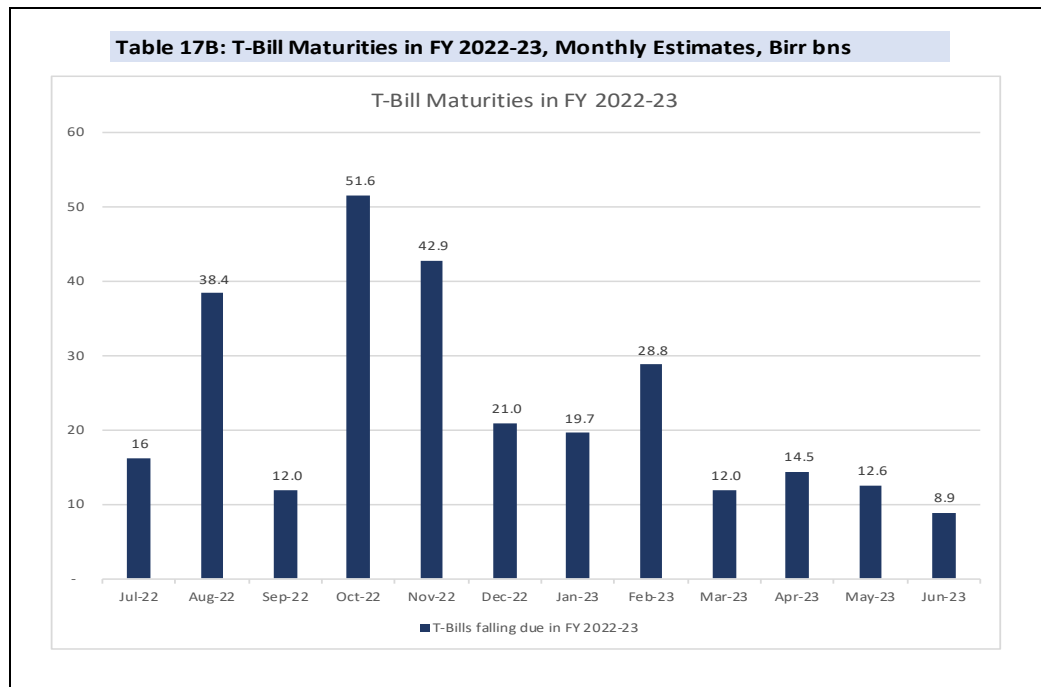
Debt Rollover Requirements in FY 2022-23: Treasury Bills

- Besides the need for new domestic borrowing of Birr 266bn to cover the budget deficit, Government will also need to rollover the large volume of T-Bills whose repayments are falling due this year.
- By our estimates, given the stock of T-Bills issued last fiscal year and taking into account their short maturities (mostly 182-day and 365-day tenors), an average Birr 23bn will be falling due in each of the coming 12 months, for a total of Birr 279bn during the 2022-23 fiscal year.
- With such high demands on local debt markets, T-Bill rates (currently near 8%) will likely trend higher to 10% or the low teens during the course of the fiscal year. In the near-term, the Government’s use of local lenders to finance most of its deficit will work to absorb credit supplies that would have otherwise been channelled to the private sector. However, such adverse impacts should gradually be minimized in the coming quarters as foreign funding inflows improve over the medium-term.

Table 17A: Treasury Bills Falling Due in FY 2022-23, Based on Issuance Volumes Last Year and Maturity Dates, Birr bns

Due in...	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
T-Bills of 28-Days	4.4	-	-	-	-	-	-	-	-	-	-	-
T-Bills of 91-Days	3.4	0.7	1.4	-	-	-	-	-	-	-	-	-
T-Bills of 182-Days	5.4	32.8	8.8	6.6	13.8	12.9	-	-	-	-	-	-
T-Bills of 365-Days	3.1	5.0	1.8	45.0	29.1	8.1	19.7	28.8	12.0	14.5	12.6	8.9
All T-Bills Maturing in each month:	16.3	38.4	12.0	51.6	42.9	21.0	19.7	28.8	12.0	14.5	12.6	8.9
Fiscal Year Total:	278.6											

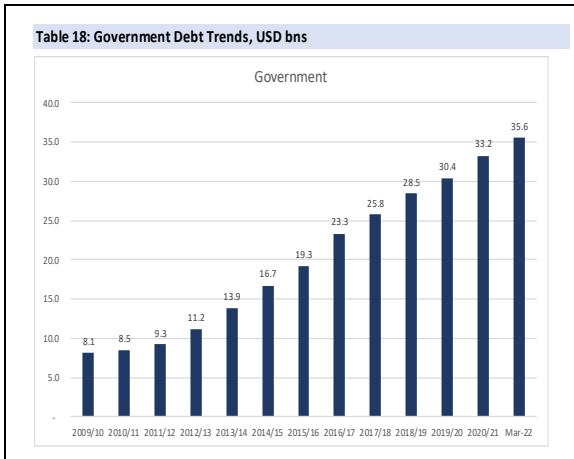
Source: Cepheus Research estimates based on NBE data on T-Bills issued in FY 2021-22 and their respective maturity dates.



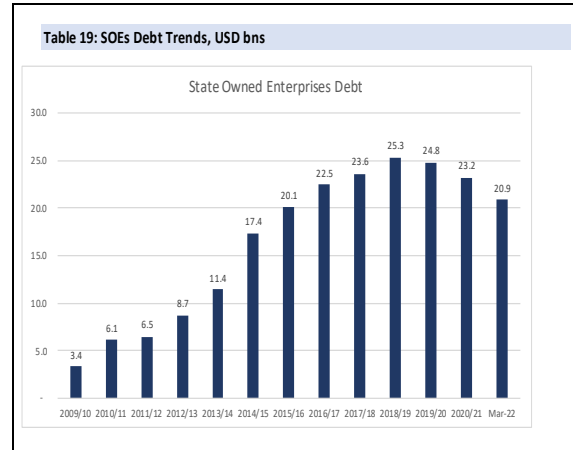
Source: Cepheus Research estimates based on NBE data on T-Bills issued in FY 2021-22 and their respective maturity dates.

Trends in Debt and Debt Service Composition:

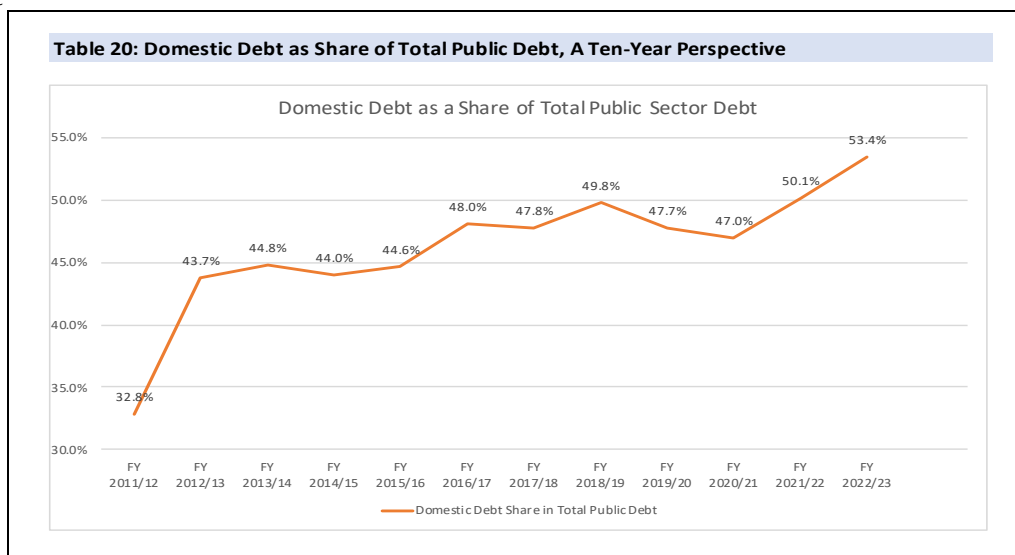
- With reduced foreign loans being contracted in the past few years, and a much higher reliance on local borrowing, domestic debt now makes up slightly more than half of total public debt versus 33 percent ten years ago.
- In parallel, more than half of this year’s Birr 126bn of Government debt service will be going to repay domestic lenders, up sharply from last year when just 29% of such payments went to local lenders.



Source: MOFEC



Source: MOFEC



Source: MoF Debt Bulletin, Cepheus Research estimate for FY 2022-23

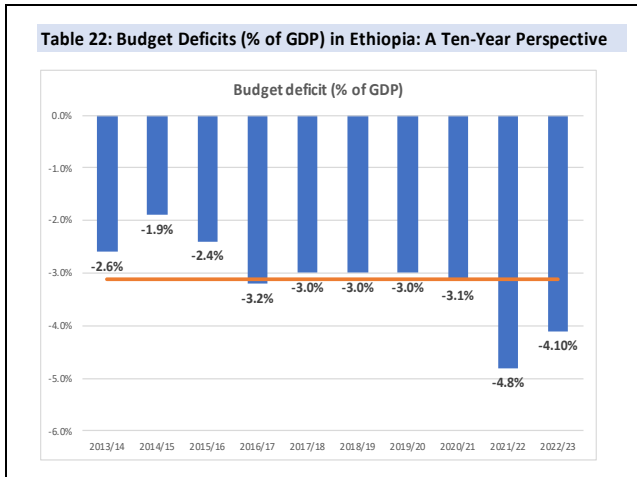
TABLE 21: Debt Service Payment Allocations in Government Budget

	2018-19	2019-20	2020-21	2021-22	2022-23
Total debt service allocation in budget:	22.5	25.2	37.0	45.1	126.0
For DOMESTIC debt service, Birr bns:	8.3	9.8	15.5	13.3	70.0
For EXTERNAL debt service, Birr bns:	14.3	15.4	21.5	31.8	56.0
Percent for Domestic Debt	37%	39%	42%	29%	56%
Percent for External Debt:	63%	61%	58%	71%	44%

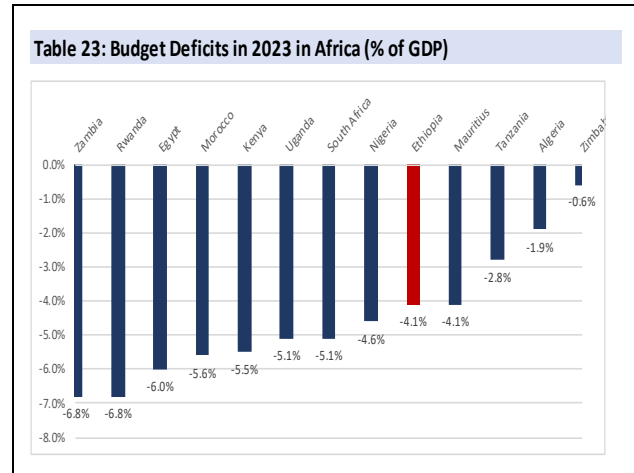
Source: MoF Budget Documents

Ethiopia’s Budget Deficits and Debt in a Cross-Country Context:

- Ethiopia’s budget deficit levels have mostly stayed within a narrow range of 3 to 4 percent of GDP over the past decade, and generally compare favorably versus other peer countries.
- Seen in a cross-country context, Ethiopia’s public debt-to-GDP ratio (at 53% of GDP in FY 2020-21 and an estimated 48% in 2021-22) also compares favorably versus the 74% of GDP average for African countries and the 85% of GDP average for emerging markets.



Source: MoF, NBE, Cepheus Research estimates.



Source: AfDB, MoFEC

Table 24: General Government Gross Debt (%GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Nigeria	17.6	18.3	17.5	20.3	23.4	25.3	27.7	29.2	34.5	37.0
Tanzania	30.0	32.7	36.1	39.2	39.8	40.7	40.5	39.0	40.5	40.8
Uganda	19.5	22.1	24.8	28.5	31.0	33.6	34.9	37.6	46.4	51.6
Algeria	9.3	7.1	7.7	8.7	20.4	26.8	38.3	46.2	51.3	62.5
Kenya	37.6	39.8	41.3	45.8	50.4	53.9	56.4	58.6	67.6	68.1
Rwanda	19.1	26.1	28.3	32.4	36.6	41.3	44.9	49.8	64.6	68.6
South Africa	37.4	40.4	43.3	45.2	47.1	48.6	51.6	56.3	69.4	69.1
Morocco	56.5	61.7	63.3	63.7	64.9	65.1	65.2	64.8	76.4	76.3
Ghana	35.4	42.9	50.1	53.9	55.9	57.0	62.0	62.7	78.3	81.8
Angola	26.7	33.1	39.8	57.1	75.7	69.3	93.0	113.6	136.8	86.3
Egypt	73.8	84.0	85.1	88.3	96.8	103.0	92.5	84.2	89.6	93.5
Mauritius	55.1	57.5	60.6	65.0	65.0	64.3	66.2	84.6	99.2	100.7
Zambia	25.4	27.1	36.1	65.8	61.6	66.3	80.5	99.7	140.2	123.2
AVERAGE	34.1	37.9	41.1	47.2	51.4	53.5	58.0	63.6	76.5	73.8
Ethiopia	39.4	44.1	44.2	50.7	51.8	55.3	58.4	54.7	53.7	53.0

Source: IMF WEO

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

Ethiopian Fiscal Year	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	2019-20	2020-21	2021-22	2022-23
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Actual	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	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	394,966	478,900	347,761	477,701
Domestic Revenue	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	354,313	444,600	319,663	438,771
o/w:																						
Tax revenue	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	311,477	338,800	294,011	400,140
Grants	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	40,653	34,300	28,098	38,930
Expenditure	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	480,143	599,000	642,761	786,600
Recurrent	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:																						
Defence	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	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	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	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	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	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	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	1,393	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	1,849	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	(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)	(85,177)	(120,100)	(295,000)	(308,899)
Financing	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	85,177	120,100	295,000	308,899
External (net)	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	59,529	21,808	17,000	42,760
Domestic (net)	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	42,104	98,292	278,000	266,070
GDP in Birr millions	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	3,374,349	4,341,387	6,108,871	7,464,722
Financing, % GDP	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%	2.5%	2.8%	4.8%	4.1%
External net, % GDP	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%	1.8%	0.5%	0.3%	0.6%
Domestic net, % GDP	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%	1.2%	2.3%	4.6%	3.6%

Source: NBE, MoF, and Cepheus Research compilation