



**ETHIOPIAN FEDERAL
GOVERNMENT BUDGET
HIGHLIGHTS 2021/2022**

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ECONOMIC OUTLOOK

Due to COVID-19, the global economy contracted by 3.5% in the year 2020. It is estimated to grow by 5.6% in the year 2021 and moderate to 4.3% in 2022. Emerging markets and developing economies are still struggling with the aftermath of COVID-19. Poverty reduction gains in low-income countries reversed as the pace of vaccination lagged.

The first half of 2020 showed decline in CPI inflation. Principal factors for this are the collapse of global demand, plunging oil price and to some extent, supply disruptions. However, inflation rebounded quickly as normal activities resumed following easing of COVID-19 control procedures applied throughout the world.



Source: World Bank Global Economic Prospects June 2021 and BDO Analysis

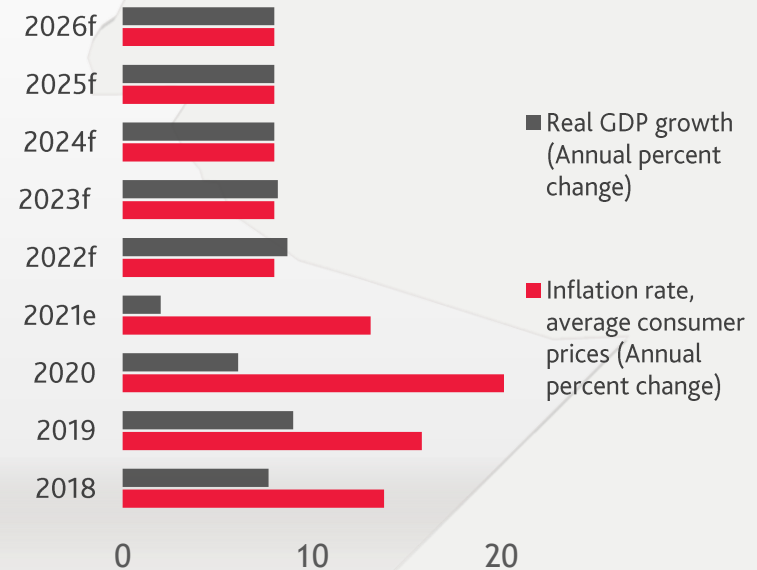


Source: World Bank Global Economic Prospects June 2021 and BDO Analysis

ECONOMIC OUTLOOK

- ❑ The Ethiopian economy grew by only 6.1% in 2020 as a result of Covid-19, conflict in parts of the country, and locust invasion.
- ❑ Covid-19 mainly affected the service sector causing a swift reduction in the potential amount of revenue that could have been collected from the sector. COVID-19 mitigating measures such as blockade of borders and cancelling of flights caused a drastic reduction of external trade, tourist and passenger flow. This in turn has put pressure on export, remittance, FDI, employment, tourism revenue, the aviation sector and government revenue and expenditure.
- ❑ Price hike is caused mainly by a surge in the price of food and food related items. Reaching at 20.4% in the year 2020, it is anticipated to decrease to 13.1% in the year 2021 and further go down to 8% through out the period of projection until 2026.

Average Consumer Price & Real GDP 2018-2026



Source: IMF and BDO Analysis

PROGRAMME BUDGET

- ❑ The Ethiopian budget runs through the period from July 8th of the current year to July 7th of the following year (Hamle 1 – Sene 30). The Gregorian calendar equivalent to the fiscal period 2014 (E.C) is the period from July 8th, 2021 to July 7th, 2022.
- ❑ The Government of Ethiopia (GOE) prepares its budget using programme budgeting system. It is a system that matches budget with its end results. It is also a key tool to measure performance, to bring about accountability, to intertwine plan and budget based on policy and strategy and to coalesce recurrent and capital expenditure.
- ❑ Some of the main assumptions factored in the preparation of the budget are:

- The alignment between programmes, mission and mandates
- Priority to existing capital expenditure projects
- The ten-year prospective plan
- Value for Money
- Results and changes
- Social and economic transformation
- Sustainable development goals
- External and internal debt servicing
- COVID-19's pressure
- Daily aid needs out of the scope of developmental safety net

KEY TAKEAWAYS



The homegrown economic reform outlines policies in respect of revenue collection and wealth allocation to resolve bottlenecks identified during previous budgets.



The new budget for 2021/22 gives priority for education, health, road infrastructure, agriculture and irrigation, clean water provision and other important areas.



The budget assumed increasing revenue collection through improving tax revenue by creating tax awareness among citizens, strengthening the capacity of tax collecting institution, modernizing tax administration and ensuring tax transformation.



For tax revenue projection, tax revenue growth rate was intertwined with nominal GDP Growth Rate.



Custom duty tax revenue estimation is based on the value of taxable good (import tax base), effective tariff and tax rates and foreign exchange rate.



Efficient use of budget and ensuring transparency and accountability are principles to uphold to meet budget goals.

KEY TAKEAWAYS

The following are areas identified by the Ministry of Finance (MOE) in relation to improving government revenue:



Improving tax policy and laws

Modernizing the tax administration system

Improving tax structure

Eliminating illegal trading activities

Expanding tax administration modernization systems that are underway

Expanding tax education to boost the citizens' habit of paying tax voluntarily

Improvement in law enforcement functions

Continuing with tax policy improvement schemes

Introducing new types of taxes and new ways of accomplishing tasks to enable effective tax collection

BUDGET OVERVIEW

- ❑ ETB 476.01 billion was allocated for the previous fiscal year whereas for year 2021/22, ETB 561.67 billion expenditure is budgeted, showing an ETB 85.66 billion (18%) increase.
- ❑ Federal expenditure is classified into four elements: recurrent, capital, subsidies to regions, and support for achievement of sustainable development.
- ❑ Federal recurrent expenditure consists of administration and general, economic, social services and other categories, each of which account for 28.41%, 4.48%, 31.98% and 35.14%, of the expenditure, respectively. Other category refers to expenditures related to activities such as budget support for non-governmental associations , agencies and so on.
- ❑ Out of the total budget (ETB 561.67 billion) administration and general, economic, social services and others represent 8.2%, 1.29%, 9.23%, 10.14%, respectively.
- ❑ Total federal recurrent expenditure accounts 28.87% of the total budget expenditure for the fiscal period.
- ❑ General development accounts for 7.4% of the total federal capital expenditure. And economic development, social development, and others account for 65.4%, 25.8% and 1.3% of the total capital expenditure, respectively.
- ❑ Of the total budget for the fiscal year 2014, 2.4% goes to general development, 21.4% is allocated for economic development, and 8.4% and 0.4% are allocated for social developments and others, respectively.
- ❑ The largest portion of the fiscal year's budget (36.3%) is set aside for subsidies to regional governments while sustainable development activities will receive 2.1% of the total budget for the same year.

BUDGET OVERVIEW

- ❑ Federal expenditure is financed by domestic revenue, external assistance, loans and credits, and domestic borrowing.
- ❑ 90.5% of domestic revenue and 59.5% of the total revenue for the budget year is assumed to be generated from Tax. Non-Tax revenues account 9.4% of Domestic revenues and 6.2% of total revenues. Capital revenue is the smallest source of revenue both as a domestic revenue sub-category and total revenue. Domestic source of revenue is the largest source of revenue for the budget year. External assistance is the third largest means of covering the expenditure.
- ❑ Assistance from multilateral institutions amounts 33.7% of assistance expected from external sources and stood at 4.0% of the total funds anticipated for collection. Assistance from bilateral institutions includes 8.3% of the funds expected to be collected from external assistance and 1% of the total fund for the fiscal year.

- ❑ Protection from basic services category in the external assistance sources of revenue is expected to draw 58% of external assistance while it contains 6.9% of the total finance of the budget year.
- ❑ Loan from multilateral institutions accounts for 39.2% of the total loans and credits while it represents 4.0% of the total source of revenue. Bilateral loan is 15.9% of the total loans and credits and measures 1.6% of the total revenue.
- ❑ Protection of basic services accounts for 44.9% of loans and credits and 4.5% of total revenue. Loan and credits are the smallest source of revenue.
- ❑ Domestic financing is the second largest source of funds amounting 12.3% of the total finance required. It is anticipated to be obtained from banks and the general public.

BUDGET DEFICIT

- ❑ The budget deficit of ETB 125.75 billion for 2021/22 is planned to be covered from loans derived externally and domestically. ETB 25.53, 31.36 and 68.86 billion is expected to be obtained from protection of basis service, project, and domestic loans, respectively.
- ❑ The total budget deficit is estimated to be 2.67% of the GDP while domestic loan will only be 1.46% of GDP.
- ❑ It is also expected that direct borrowing from the National Bank of Ethiopia is expected to stay decreasing and completely cease eventually. The treasury bill market is envisaged to be made stronger and will be used as the main instrument for covering budget deficit.
- ❑ The country is financially distressed the need to achieve healthy loan position has never been very crucial.

	Amount in Billion ETB		Total
A) Total Revenue			435.92
Tax Revenue	334.01		
Non-tax revenue	35.1		
Basic protection service	38.75		
Project Assistance	28.06		
B) Total Expenditure			561.67
Recurrent	162.17		
Capital	183.55		
Assistance to regions	203.95		
Sustainable Development Goals	12		
C) Budget Deficit (2.67% of GDP)			-125.75
External Loan (1.21% of GDP)			
Basic Service Protection	25.53		
Project Loan	31.36	56.89	
Domestic Loan (1.46% of GDP)			68.86

Source: Ministry of Finance Ethiopia 2021

REVENUE BUDGET

- ❑ Principal sources of government revenue are tax, non-tax and external assistance accounting 59.47%, 6.25% and 11.9% of the total revenue funds for 2021/22, respectively.
 - ❑ The Federal government had planned to collect ETB 271.7 billion revenue in the form of tax in the fiscal year 2020/21. However, tax revenue execution was smaller than expected due to the challenges posed by COVID-19 and the conflict taking place in the northern part of the country. For 2021/22, ETB 334.01 billion tax revenue is expected to be collected showing an increase of 22.9% from the previous year's budget.
 - ❑ The bulk of tax revenue amounting ETB 146.97 billion is anticipated to derive from taxes and duties on external trade. The figure shows a 21.1% increase compared to the 2020/21 budget.
- ❑ Amendment to excise tax law was carried out in the previous budget year in order to transfer the tax base for excise tax from cost of production to sales. This is expected to increase the tax revenue.
 - ❑ Amendment on value added tax (VAT) is expected to resolve problems, particularly related to VAT administration and VAT introduction on items that were not previously VAT charged. The amendment was not implemented in the previous budget year due to COVID-19. This has greatly reduced the share of tax to gross national product.
 - ❑ Custom tariff amendments are anticipated to increase the share of tax revenue in gross national product. Custom traffic has already been amended for the budget year. The tariff book can be accessed on <https://www.mofed.gov.et/>

REVENUE BUDGET

- ❑ There is the plan to review previous tax incentives that were not successful in attaining their purpose. Tax incentives waiver is expected increase tax revenue.
 - ❑ Tax administration is key to tax revenue collection. In this regard, amendments targeting at boosting tax administration capacity such are reforms by MoR (Ministry of Revenue), and Customs Commission are underway. The implementation of the reform is being overseen by a workforce of high-ranking ministries.
 - ❑ The reform includes audit and tax debt amendment, information system improvement, electronic tax payment and return amendment, taxpayers information amendment, and the effort to curb illegal trade and contraband.
- ❑ Non-tax revenue is to be collected from residual revenue of National Bank, Commercial Bank of Ethiopia and other institutions and service that charge revenue from budget receiving organizations, sales from public goods and others.
 - ❑ Data have been directly obtained from each organization from which significant amount of revenue will be collected, whereas trend analysis is being applied to estimate small amounts of revenues.
 - ❑ Foreign finance emanates from project aid and loan, in addition to programmes that directly flow to the treasury in the form of assistance and loan. Loan finances in the budget have small interest and long maturity.

REVENUE BUDGET

- ❑ Assistance and credit finances that flow directly to the treasury can be allocated and used for different public expenditures, as are tax and non-tax revenues.
- ❑ Revenues obtained through project assistance and loan are directly used for accomplishing said project. They are estimated based on a list provided by executive bodies, whereas assistance and loan that directly flow to the treasury are estimated based on agreements reached between the government and development partners and evaluation of flow history.
- ❑ Revenues and expenditures are prepared by building on the assumptions presented above. The following table depicts Federal government's budgeted revenue for the fiscal year 2014 (E.C).

Types of Revenue	2020/21 (in Billion ETB)	2021/22 (in Billion ETB)	Percentage Change
Total Revenue and Assistance	350.36	435.93	24.5
Domestic Source of Revenue	304.55	369.11	21.2
Tax Revenue	271.75	334.01	22.9
Direct Taxes	0.66	0.96	46.1
Domestic Indirect Taxes	0.85	0.91	7.5
External Trade Taxes and Duties	121.38	146.97	21.1
Non-Tax Revenues	0.3	0.35	7
Total External Assistance	0.45	0.67	46.7

Source: Ministry of Finance 2021

EXPENDITURE BUDGET

- ❑ For the fiscal year 2020/21, ETB 133.32, 160.33, 176.36 and 6 billion were allocated to recurrent, capital, assistance for regional government and sustainable development goal (SDG) expenditures, respectively.
- ❑ For 2021/22 fiscal year, the allocation for each component of expenditures above is ETB 162.17, 183.55, 203.95 and 12.0 billion respectively, showing a total of 18% increase.
- ❑ Recurrent expenditure for 2021/22 is mainly devoted to costs related to poverty reduction. The figure shows an increase of ETB 28.85 billion or 21.61% compared to 2020/21 fiscal.
- ❑ The capital expenditure for 2021/22 will be obtained from public treasury (ETB 132.80 Billion), external assistance (ETB 26.61 Billion) and external loan (ETB 24.14 Billion). It exceeds the previous year's budget for the same sources by 14.48%.

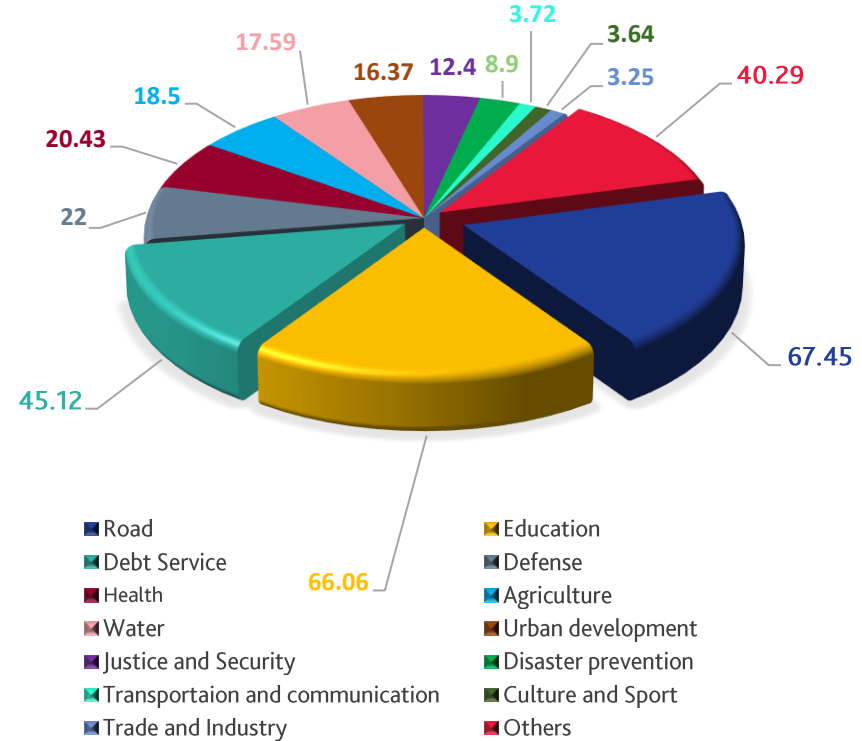
Types of Expenditure	2020/21 (in Billion ETB)	2021/22 (in Billion ETB)	Percentage Change
Recurrent	133.32	162.17	21.64
Capital	160.33	183.55	14.48
Subsidies to Regions	176.36	203.95	15.64
Support for achievement of Development Goal	6.0	12	100
Total	476.01	561.67	18

Source: Ministry of Finance 2021

EXPENDITURE BUDGET

- Budgetary assistance for regional states stood at ETB 203.9 billion, out of which ETB 195.23 billion has been allocated from Treasury. Compared to year 2020/21, the amount of assistance from the Treasury has increased by ETB 25.46 billion (15%).
- The total assistance set to regional states in the year 2021/22 showed an increase of ETB 27.59 billion (15.64%) when compared with the previous budget.
- In the previous fiscal year, ETB 6 billion was allocated to finance Agro-Processing and job creation capital projects in regional states that are deemed to support sustainable development goals and economic transformation. For the new fiscal year ETB 12 billion is proposed to finance small and medium sized irrigation projects.
- 59.7% of the total of ETB 345.72 billion allotted for recurrent and capital expenditures goes to expenditures related to education, road, agriculture, water, health and urban development

Main Budgeted Expenditures for 2021/22 fiscal in Billion ETB



BDO EAST AFRICA ETHIOPIA CONTACTS

BDO East Africa operates in Kenya, Tanzania, Uganda, Ethiopia and Rwanda. For further details and contacts, kindly visit our website www.bdo-ea.com.



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BDO GLOBAL STATISTICS 2020

GLOBAL REVENUES

US\$ **10.3**
BILLION



+7.8% *

(at constant exchange rates)*

TOTAL HEADCOUNT



91,054

PEOPLE

+3.3%

GLOBAL FOOTPRINT



COUNTRIES

1,658

OFFICES



PERCENTAGE REVENUE BY REGION



12%
ASIA PACIFIC



35%
EMEA



53%
AMERICAS

FEE SPLIT BY SERVICE LINE

15% **BSO**

21% **ADVISORY**



42% **A&A**

22% **TAX**