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Acknowledgment

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Key Figures and Facts

- *Government revenue and grants increased from Birr 100.1 billion in Q1 FY2023/24 to Birr 177.2 billion in Q1 FY2024/25, equivalent to a 77% nominal and 50.3% real year-on-year (YoY) growth.*
- *Domestic revenue reached Birr 165.4 billion in Q1 FY2024/25, up 65% YoY, with tax revenue comprising 93% of the total and non-tax sources just over 7%, highlighting both the reliance on taxation and the need to diversify revenue streams.*
- *Of the Birr 153.7 billion tax revenue collected in Q1 FY2024/25, the highest in the past five quarters, 77% came from indirect taxes and 23% from direct taxes.*
- *Direct tax revenue in Q1 FY2024/25 rose 36.7% YoY to ETB 35.3 billion, driven by strong personal (44.5% YoY) and business income tax (32.9% YoY) growth, though a 3.9% quarter-on-quarter (QoQ) decline reveals short-term revenue fluctuations.*
- *Indirect taxes in Q1 FY2024/25 reached ETB 118.4 billion, up 70.9% YoY, led by sharp gains in foreign trade taxes (+78.2%) and solid domestic tax growth (+56%), while QoQ momentum remained strong at 47.6%.*
- *Non-tax revenue recorded ETB 11.7 billion in Q1 FY2024/25, down 45% QoQ but up 136.3% YoY, indicating both seasonal fluctuations and the growing importance of fees, fines, royalties, and SOE dividends in public finance.*
- *After a full year of zero grant inflows in FY2023/24, Ethiopia received ETB 11.77 billion in grants and relief in Q1 FY2024/25, signaling renewed donor support or emergency assistance.*
- *In Q1 FY2024/25, 31% of the annual revenue and grants target was achieved, driven by strong trade and personal income tax collections, while weak business and other direct taxes revealed compliance and enforcement gaps in domestic revenue mobilization.*
- *Government expenditure in Q1 FY2024/25 increased sharply by 40.2% in nominal terms (19% in real terms), caused primarily by current spending (50.1%) and regional transfers (27.4%), while capital expenditure remained relatively low at 22.5%, demonstrating inflationary pressures and prioritization of operational and decentralized spending over early-year development projects.*
- *In Q1 of FY2024/25, total government expenditure rose sharply by 40.2% in nominal terms (or 19% after adjusting for inflation).*
- *The budget for Q1 FY2024/25 was allocated primarily to current operational costs (50.1%) and regional transfers (27.4%), while capital expenditure was much lower (22.5%). This demonstrates a prioritization of immediate needs over development projects.*

- *In Q1 FY2024/25, current expenditure surged 59.4% YoY, led by economic services (769.2%) and debt service (108.3%), capital expenditure grew 68.9% YoY but fell 41.8% QoQ, while regional transfers remained stable around ETB 52–55 billion, exhibiting strong support for productive sectors, development projects, and fiscal decentralization amid uneven spending execution.*
- *During Q1 FY2024/25, the government executed 22.7% of its annual budget, performing well in current expenditure (24.7%) and regional transfers (23.7%), but lagging in capital spending (18.3%). Execution was uneven across components, with economic services exceeding expectations (181.8%) while "Others" fell short (3.6%), and delays in capital projects underscored the need for stronger planning and budget oversight.*
- *Ethiopia's Q1 FY2024/25 fiscal deficit stood at ETB 20.97 billion with grants and ETB 32.74 billion without, highlighting the crucial role of grants in reducing the financing gap and the country's vulnerability from limited domestic revenue and rising spending pressures.*
- *In Q1 FY2024/25, deficit was financed mainly through external borrowing (ETB 30.16 billion, driven by CPF concessional loans) and residual adjustments (ETB 52.41 billion), while net domestic borrowing turned sharply negative (–ETB 61.6 billion) due to large bank repayments, signaling a strategic shift away from domestic debt but raising reliance on external financing and debt sustainability concerns.*
- *Total financing in Q1 FY2024/25 reached only 6.9% of the planned target, with net external (-160%) and domestic (-19.1%) borrowing underperforming due to repayments, while CPF concessional loans surged to 5,208.9%, revealing a shift toward deleveraging and heavy reliance on large, front-loaded concessional inflows rather than a balanced financing strategy.*

1. Introduction

This quarterly macroeconomic update presents a detailed analysis of developments in Ethiopia's federal government finance during the first quarter (Q1) of the 2024/25 fiscal year, covering the period from July 1 to September 30, 2024. It focuses on key fiscal components such as revenue and grants performance, government expenditure trends, the fiscal balance, and deficit financing mechanisms. This analysis is situated within the broader context of Ethiopia's ongoing economic reforms and efforts to maintain fiscal discipline amid both external and internal challenges (IMF, 2024).

The report begins by assessing domestic revenue performance, including tax and non-tax revenues, alongside developments in external grants. It highlights progress in revenue mobilization, identifies shortfalls relative to annual targets, and discusses the role of grants in supplementing domestic revenues. The structure of government revenue is also examined to understand its resilience and responsiveness to policy measures.

Government expenditure trends are analyzed next, focusing on execution rates across different spending categories. The update evaluates whether planned budgets were effectively implemented and explores shifts in spending patterns that may reflect evolving policy priorities or fiscal constraints.

Subsequently, the update examines Ethiopia's fiscal balance, both including and excluding external grants, to provide a clearer picture of the underlying fiscal stance. It then analyzes deficit financing, focusing on the composition and trends of financing sources, including domestic and external borrowing. Financing performance against budgeted targets is also discussed, with attention to the implications of borrowing patterns for fiscal sustainability and debt management, emphasizing the importance of balancing short-term financing needs with long-term economic stability. In summary, these analyses provide a comprehensive picture of Ethiopia's fiscal position as the country navigates its economic adjustment and reform agenda.

2. Federal Government Finance

This section analyzes developments in Ethiopia's federal government finance during the first quarter of the 2024/25 fiscal year, covering the period from July 1 to September 30, 2024. The analysis focuses on key components of public finance, including the performance of revenue and grants, government expenditure trends, the resulting fiscal balance, and the approach to deficit financing. It reveals the government's revenue mobilization efforts, the structure and execution of spending, and the financing strategies employed to address fiscal shortfalls. The findings offer insights into the sustainability of Ethiopia's fiscal stance and provide context for assessing policy effectiveness in managing public resources during a period of economic adjustment and ongoing reform.

2.1. Revenue and Grants Performance

Figure 1 shows the quarterly trends in nominal and real revenue and grants in Ethiopia from the first quarter (Q1) FY2023/24 to the first quarter (Q1) FY2024/25. During FY2023/24, nominal revenue fluctuated, rising from Birr 100.1 billion in Q1 to peaks of Birr 139.6 billion in QII and Birr 138.2 billion in QIV, with a decline to Birr 98.2 billion in QIII. The first quarter of FY2024/25 experienced a sharp nominal increase to Birr 177.2 billion, representing a 77 percent year-on-year growth compared to Q1 FY2023/24. These fluctuations likely exhibit a combination of seasonal collection patterns, timing of grant disbursements, and nominal gains from inflation, exhibiting the variability in government revenue inflows across quarters.

In real terms, the trends are more moderate but still show substantial growth. This difference between nominal and real growth, indicating inflationary erosion, is a common challenge in developing economies (World Bank, 2023). Real revenue and grants increased from 251.4 million Birr in Q1 FY2023/24 to 377.7 million Birr in Q1 FY2024/25, a 50.3 percent year-on-year increase, indicating that part of the nominal gains was offset by inflation. Within FY2023/24, real collections peaked at 332.4 million Birr in QII and 305.8 million Birr in QIV, with a dip to 223.3 million Birr in QIII, demonstrating similar seasonal patterns as the nominal figures. The comparison of nominal and real growth emphasizes the importance of considering both measures to assess the government's actual revenue-generating capacity and the sustainability of fiscal performance over time.

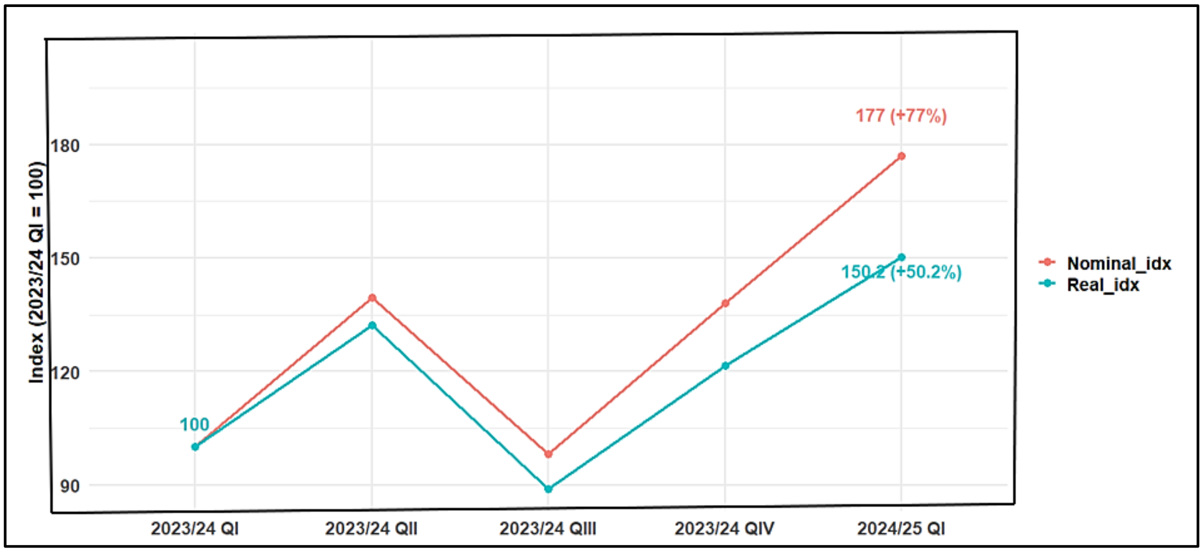

Figure 1: Quarterly Trends in Revenue and Grants (Nominal and Real), Q1 FY2023/24 – Q1 FY2024/25, Indexed to Q1 FY2023/24 = 100

Source: Author's compilation based on data from the Ministry of Finance.

2.1.1. Developments in Domestic Revenue

Domestic revenue performance in the first quarter of the 2024/25 fiscal year showed a significant improvement, reaching Birr 165.4 billion, up from Birr 100.1 billion in the same quarter of the previous fiscal year. This represents a 65 percent year-on-year increase, exhibiting ongoing efforts to strengthen domestic resource mobilization, a key pillar of sustainable development financing (IMF, 2023). The rise may be attributed to improved tax collection mechanisms, a broadened tax base, inflation-driven increases in nominal tax values, and strengthened enforcement of compliance measures.

As shown in Figure 2, domestic revenue displayed notable fluctuations throughout the 2023/24 fiscal year. While collections peaked in QII at Birr 139.6 billion, there was a marked dip in QIII to Birr 98.2 billion, followed by a recovery in QIV (Birr 138.2 billion). The QI 2024/25 figure not only exceeds all previous quarters but also sets a strong start for the fiscal year. Sustaining this momentum will be critical to meeting annual revenue targets and reducing reliance on external financing.

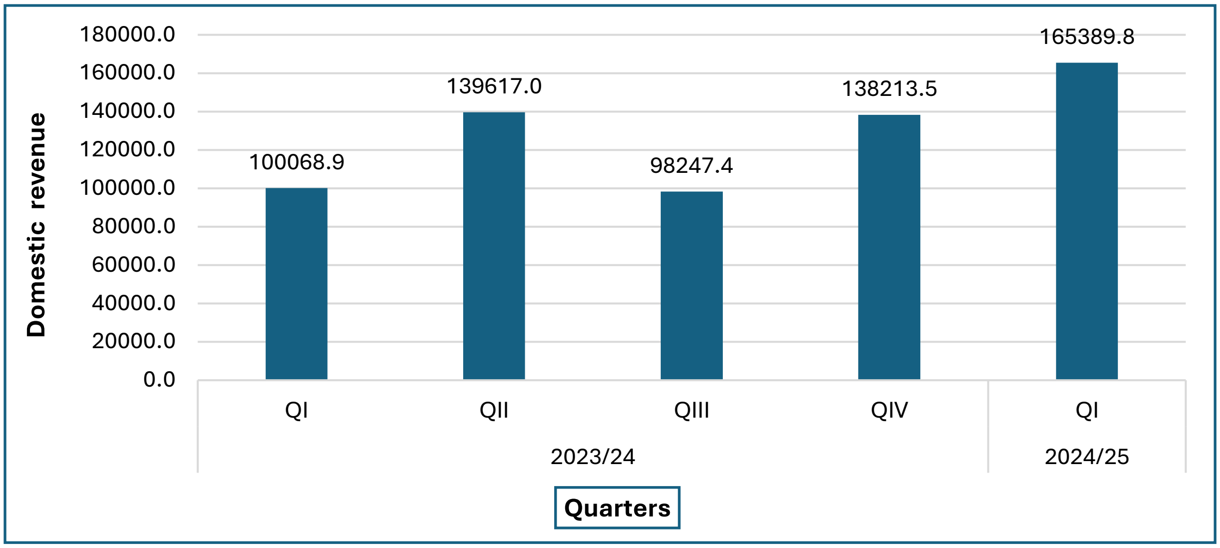

Figure 2: Domestic Revenue by Quarter, Q1 FY2023/24 – Q1 FY2024/25 (in Millions of Birr)

Source: Author's compilation based on data from the Ministry of Finance.

Figure 3 illustrates the composition of domestic revenue for the first quarter of fiscal year 2024/25, highlighting the relative shares of tax and non-tax revenue. Tax revenue dominates the domestic revenue base, accounting for approximately 93 percent of total collections during this period. This strong reliance on tax revenue reveals the government's ongoing focus on strengthening tax administration and broadening the tax base. Meanwhile, non-tax revenue contributed just over 7 percent, primarily driven by fees, licenses, and other government service charges.

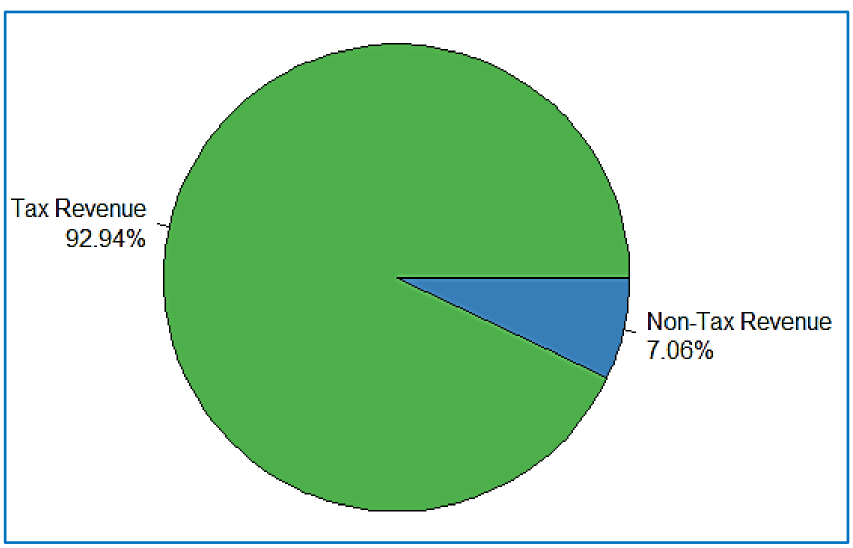

Figure 3: Composition of Domestic Revenue, Q1 FY 2024/25

Source: Author's compilation based on data from the Ministry of Finance.

The significant predominance of tax revenue affirms the critical role of taxation in mobilizing domestic resources and supporting public expenditure. The relatively small share of non-tax revenue suggests limited diversification of revenue sources, which could expose government finances to risks if tax collections fluctuate. Moving forward, efforts to enhance non-tax revenue streams, alongside sustained improvements in tax compliance, will be vital to creating a more resilient and balanced fiscal structure. Maintaining and improving these revenue sources will be crucial for meeting Ethiopia's development financing needs in the year ahead.

2.1.1.1. Tax Revenue Performance

Tax revenue performance in the first quarter of the 2024/25 fiscal year showed a remarkable improvement, reaching Birr 153.7 billion, up from Birr 95.1 billion in the same quarter of the previous fiscal year. This represents a 61.6 percent year-on-year increase, making it the highest quarterly tax revenue figure recorded in the past five quarters. The strong performance may be attributed to enhanced tax administration, expanded use of digital tax platforms, and increased enforcement efforts by the Ministry of Revenues. Inflationary pressures and economic recovery in certain sectors may have also contributed to the growth, particularly in indirect tax categories such as VAT and excise duties.

As portrayed in Figure 4, tax revenue fluctuated considerably throughout the 2023/24 fiscal year. After peaking in Q2 at Birr 132.6 billion, collections declined sharply to Birr 86.2 billion in Q3 before recovering to Birr 117.0 billion in Q4. The exceptional growth in Q1 2024/25 not only reverses this volatility but also signals a promising start to the new fiscal year. However, sustaining this trend will depend on continued policy and administrative reforms, as well as efforts to broaden the tax base and improve compliance across all sectors of the economy.

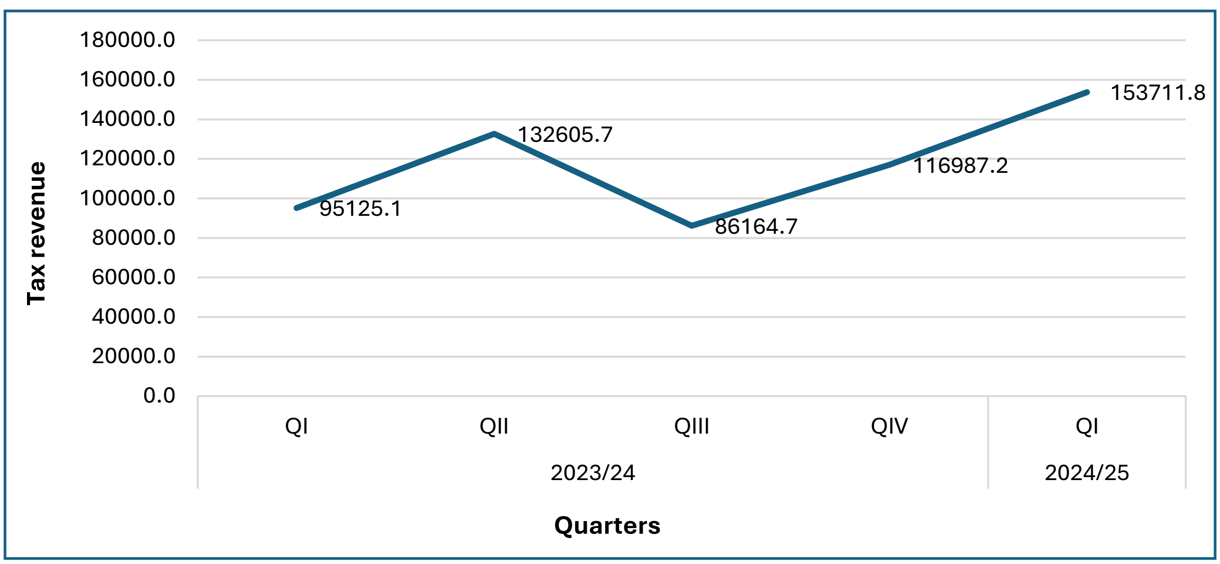

Figure 4: Quarterly Tax Revenue Performance, Q1 FY2023/24 – Q1 FY2024/25 (in Millions of Birr)

Source: Author's compilation based on data from the Ministry of Finance.

Figure 5 displays the composition of tax revenue in the first quarter of the 2024/25 fiscal year, exhibiting the dominant role of indirect taxes in Ethiopia's revenue structure. Out of the total tax revenue of Birr 153.7 billion, Birr 118.4 billion (77.0%) was generated from indirect taxes such as VAT, excise taxes, and customs duties, while Birr 35.3 billion (22.8%) came from direct taxes, including income and corporate taxes. This composition underlines the government's continued reliance on consumption-based taxation, which is generally easier to administer but can be regressive, affecting lower-income households more heavily.

The high share of indirect taxes suggests a tax system still heavily tilted toward transactional and trade-related sources, which is a common characteristic of many low-income countries but raises concerns about equity and progressivity (Bachas *et al.,* 2021). While this structure has supported revenue growth amid recent price pressures and import expansion, it may raise concerns about equity and long-term sustainability. Expanding the share of direct taxes through improved income tax enforcement, formalization of informal businesses, and enhanced taxpayer compliance could help create a more balanced and progressive tax system. Enhancing the direct tax base is particularly important for building a stronger social contract and promoting inclusive development.

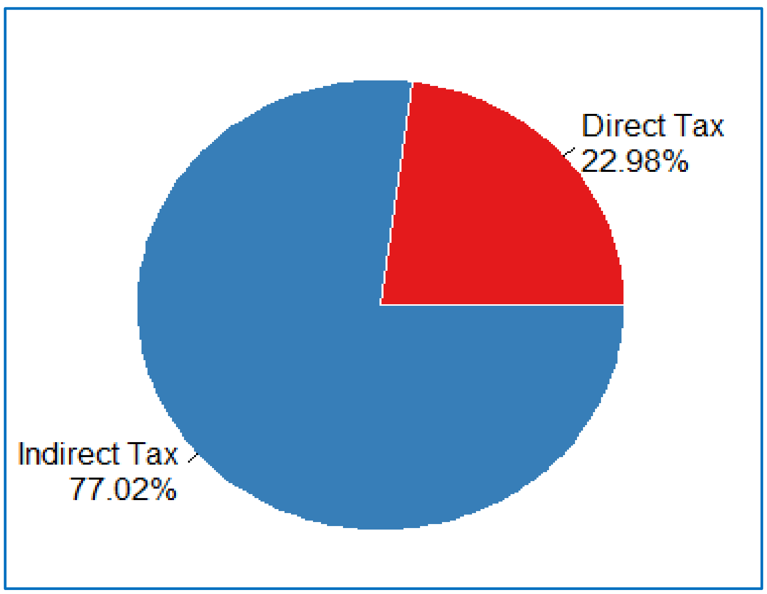

Figure 5: Tax Revenue Breakdown by Type, Q1 FY2024/25

Source: Author's computation based on Ministry of Finance data.

Direct Tax Revenue

Table 1 shows Ethiopia's total direct tax revenue reached ETB 35.3 billion in Q1 FY2024/25, representing a 36.7% increase compared to the same quarter of the previous fiscal year. This annual growth was mainly driven by strong performances in both personal and business income tax categories. Personal income tax rose significantly by 44.5% YoY, reaching ETB 11.8 billion, while business income tax increased by 32.9%, amounting to ETB 19.3 billion. The "Others" component also grew by 33.6%, indicating improvements in overall direct tax mobilization. These figures suggest enhanced tax enforcement, improved income reporting, or stronger economic activity in the formal sector over the past year.

Despite this strong year-on-year performance, Table 1 also reveals a slight 3.9% quarter-on-quarter (QoQ) decline in total direct tax revenue compared to Q4 FY2023/24. The drop is primarily due to an 18.1% QoQ decrease in business income tax, potentially reflecting seasonal business cycles or temporary disruptions in tax compliance. In contrast, personal income tax increased by 34.1% QoQ, indicating stronger wage-related collections or administrative adjustments. The "Others" category declined modestly by 3.7% QoQ. Overall, while the year-on-year trends are positive, the quarter-on-quarter contraction stresses the need to monitor short-term fluctuations and sustain consistent revenue performance.

Table 1: Direct Tax Revenue and Components, Q1 FY2023/24 – Q1 FY2024/25 (Millions ETB)

Category	Q1 FY2023/24	Q4 FY2023/24	Q1 FY2024/25	YoY Change (%)	QoQ Change (%)
Total Direct Tax	25,850.8	36,744.6	35,328.4	36.7%	–3.9%
Income Tax	22,691.0	32,362.6	31,108.2	37.1%	–3.9%
– Personal	8,188.9	8,824.0	11,829.0	44.5%	34.1%
– Business	14,502.1	23,538.6	19,279.2	32.9%	–18.1%
Others[1]	3,159.8	4,382.0	4,220.3	33.6%	–3.7%

Source: Author’s computation based on Ministry of Finance data.

Indirect Tax Revenue

Table 2 indicates total indirect tax revenue surged to ETB 118.4 billion in Q1 FY2024/25, marking a substantial 70.9% year-on-year (YoY) increase from ETB 69.3 billion in Q1 FY2023/24. This remarkable growth was driven by strong performance in both domestic taxes and foreign trade taxes. Domestic tax collections rose by 56.0% YoY, reaching ETB 35.4 billion. Meanwhile, foreign trade taxes, which form the bulk of indirect taxes, increased sharply by 78.2% YoY to ETB 83.0 billion, primarily due to a surge in import tax revenues, which alone grew by 78.2%. Export tax revenues remain marginal, but still registered an 18.4% increase from a low base.

Quarter-on-quarter (QoQ) comparisons also show strong momentum, with indirect taxes rising by 47.6% relative to Q4 FY2023/24. This growth was largely fueled by a 65.6% QoQ increase in foreign trade taxes, with import taxes rising in tandem by 65.7%, likely due to increased import volumes, higher valuation, or better customs enforcement. Domestic tax revenues grew more modestly, at 17.5% QoQ, suggesting ongoing recovery in local economic activity. Notably, export tax revenues declined by 57.4% QoQ, albeit from a very small base, indicating either a fall in

[1] Withholding tax on import, tax on dividend, royalty and interest income

export volumes or a shift in export composition. Overall, Table 2 shows a significant expansion in indirect tax mobilization, particularly through trade-related channels, which may help ease fiscal pressures, but also emphasizes continued reliance on imports as a revenue source.

Table 2: Indirect Tax Revenue and Components, Q1 FY2023/24 – Q1 FY2024/25 (in Millions of Birr)

Category	Q1 FY2023/24	Q4 FY2023/24	Q1 FY2024/25	YoY Change (%)	QoQ Change (%)
Indirect Taxes	69,274.30	80,227.20	118,383.40	70.9%	47.6%
Domestic Taxes	22,694.60	30,134.20	35,395.30	56.0%	17.5%
Foreign Trade Taxes	46,579.80	50,108.30	82,988.10	78.2%	65.6%
– Import	46,574.30	50,093.00	82,981.60	78.2%	65.7%
– Export	5.50	15.40	6.50	18.4%	–57.4%

Source: Author's computation based on Ministry of Finance data.

2.1.1.2. Non-tax Revenue Performance

As illustrated in Figure 6, Ethiopia's non-tax revenue exhibited a sharp upward trend throughout FY2023/24, increasing from ETB 4.94 billion in Q1 to ETB 21.2 billion in Q4. This consistent quarterly growth suggests improved government efforts in mobilizing non-tax sources such as fees, fines, royalties, dividends from state-owned enterprises, and other administrative charges. The most substantial jump occurred between Q3 and Q4, where non-tax revenue surged by 75.7%, probably due to one-off collections, stronger enforcement, or increased profitability of public enterprises toward the end of the fiscal year.

In Q1 FY2024/25, however, non-tax revenue fell to ETB 11.7 billion, marking a 45% decline from the previous quarter. While this represents a strong YoY increase of 136.3% compared to Q1 of the previous fiscal year, the quarter-on-quarter drop indicates possible seasonality in non-tax revenue collection or the absence of large one-off receipts that boosted Q4 performance. Despite the decline from the previous quarter, the strong YoY growth suggests that non-tax revenue remains a growing and increasingly important component of public finance in Ethiopia.

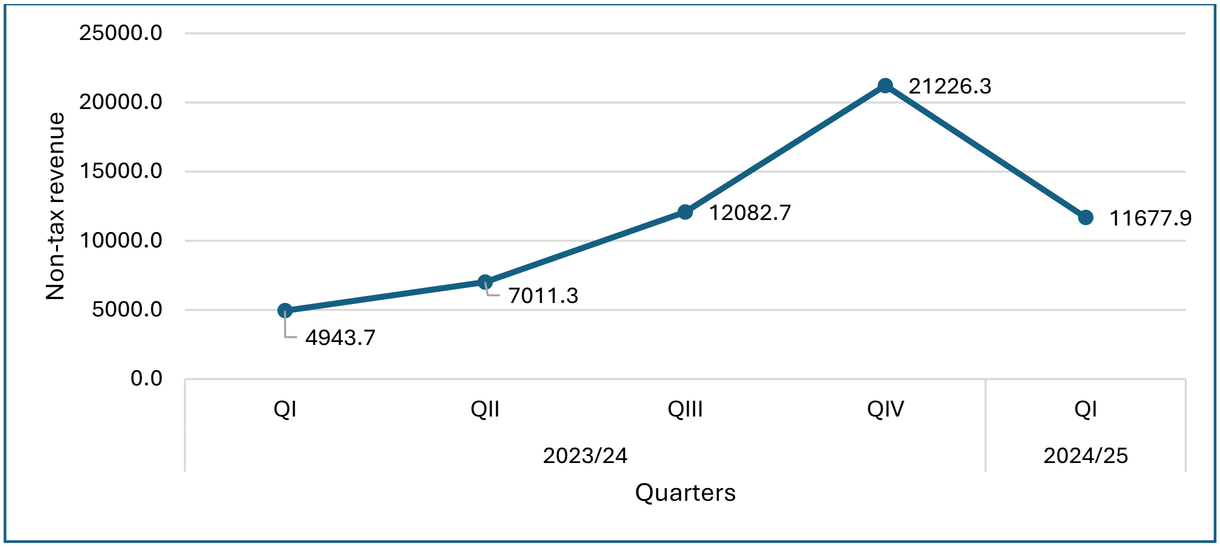

Figure 6: Quarterly Non-Tax Revenue Performance, Q1 FY2023/24 – Q1 FY2024/25 (in Millions of Birr)

Source: Author's computation based on Ministry of Finance data.

2.1.2. Developments in Grants and Relief

Table 3 reveals that Ethiopia did not record any grants and relief inflows throughout FY2023/24, with all four quarters showing zero entries. This prolonged absence of external grants could show reduced donor disbursements, shifts in international aid priorities, or administrative delays in the recording and disbursement of grant agreements. The lack of such inflows may have placed additional pressure on domestic revenue mobilization and borrowing during a period of economic adjustment and post-conflict recovery.

Table 3: Quarterly Grants and Relief to the Government, Q1 FY2023/24 – Q1 FY2024/25 (in Millions of ETB)

Year	Period	Grants and Relief (Million ETB)
2023/24	QI	–
	QII	–
	QIII	–
	QIV	–
2024/25	QI	11,771.30

Source: Author's computation based on Ministry of Finance data.

However, in a notable development, ETB 11.77 billion in grants and relief was recorded in Q1 FY2024/25. This sudden inflow marks a significant shift in the government's external financing position and may signal the resumption of donor support, emergency relief funding, or budgetary assistance from bilateral or multilateral partners. While the source and allocation of these funds are not detailed in the data, the timing suggests a potential response to humanitarian needs or renewed donor engagement. Going forward, sustained and transparent reporting of such inflows will be critical for fiscal planning, aid coordination, and ensuring accountability in the use of external resources.

2.1.3. Revenue Performance Against Annual Budget

In the first quarter of the 2024/25 fiscal year, the Federal Government of Ethiopia achieved an execution rate of 31 percent for total revenue and grants, reflecting a solid start relative to the annual revenue plan. As shown in Figure 7, tax revenue performed relatively well at 30.6 percent, with indirect taxes, such as VAT, excise duties, and trade taxes, leading the way at 34.7 percent. In contrast, direct tax revenue underperformed at 21.9 percent, pointing to possible delays in corporate and personal income tax payments or administrative constraints. Total domestic revenue, which includes both tax and non-tax sources, posted an execution rate of 29.3 percent, indicating that internal resource mobilization is generally on track, albeit slightly below the overall revenue performance.

The most striking observation in Figure 7 is the grants execution rate of 161.4 percent, which far exceeds the annual budgeted amount. This probably exhibits early or unexpected disbursements from development partners, possibly in the form of budget support or humanitarian aid. While helpful in easing short-term fiscal constraints, such front-loaded grants introduce volatility and underline the need for caution in projecting future inflows. On the other hand, non-tax revenue performed weakly, with only 19 percent of the annual target realized. This may signal issues with revenue collection from government services, public enterprises, or other administrative fees. Moving forward, efforts should focus on improving the performance of direct taxes and non-tax revenues to maintain a sustainable and predictable revenue base.

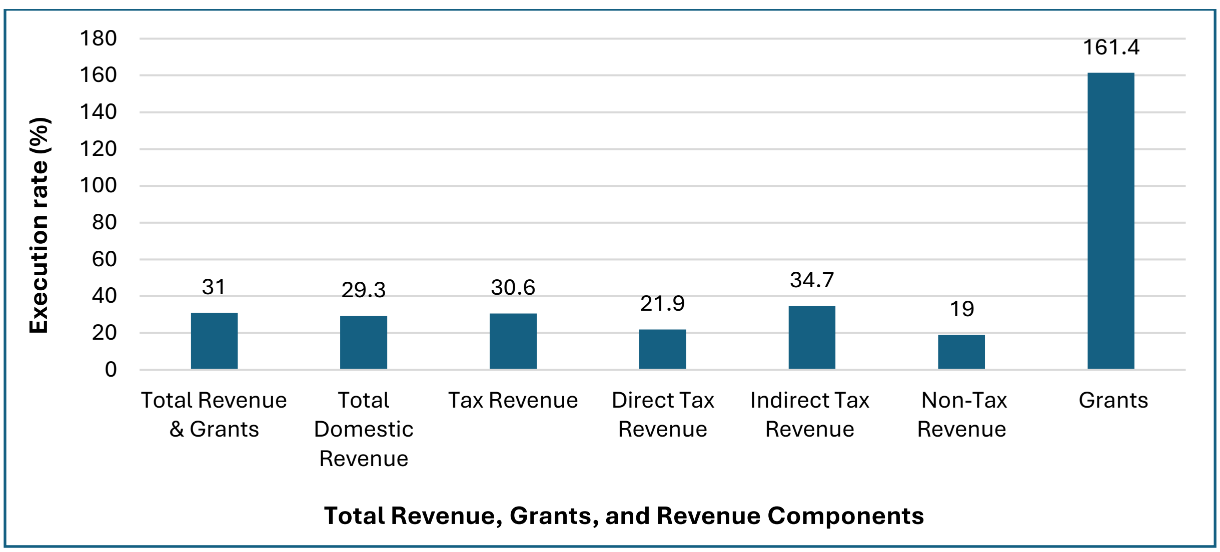

Figure 7: Q1 FY2024/25 Execution Rates of Federal Government Total Revenue, Grants, and Component Sources (% of Annual Budget)

Source: Author's computation based on Ministry of Finance data.

Figure 8 illustrates the execution rates of selected tax subcomponents in Q1 2024/25 show uneven performance across the Federal Government's main revenue streams. Foreign trade taxes recorded the highest execution rate at 38.8 percent, indicating strong import activity and possibly improved customs enforcement. Personal income tax also performed relatively well, achieving 35.8 percent of its annual target, which may reflect steady public sector payroll growth and improvements in withholding systems. In contrast, domestic indirect taxes, such as VAT and excise, posted a more modest execution rate of 27.8 percent, signaling a slower-than-expected recovery in domestic consumption or gaps in tax compliance.

On the other hand, the performance of direct taxes from businesses and other sources was notably weak. Business income tax achieved only 19 percent of its annual target, while other direct taxes (e.g., capital gains, rental income) performed even worse at 15.9 percent. These low execution rates probably suggest possible delays in corporate filings, tax arrears, or administrative bottlenecks that hinder effective collection early in the fiscal year. The disparity between personal and business income tax performance may also show differences in tax enforcement and compliance cultures. Addressing these gaps will be essential to ensure that domestic revenue mobilization remains on track in the coming quarters and to reduce reliance on more volatile revenue sources such as trade taxes and external grants.

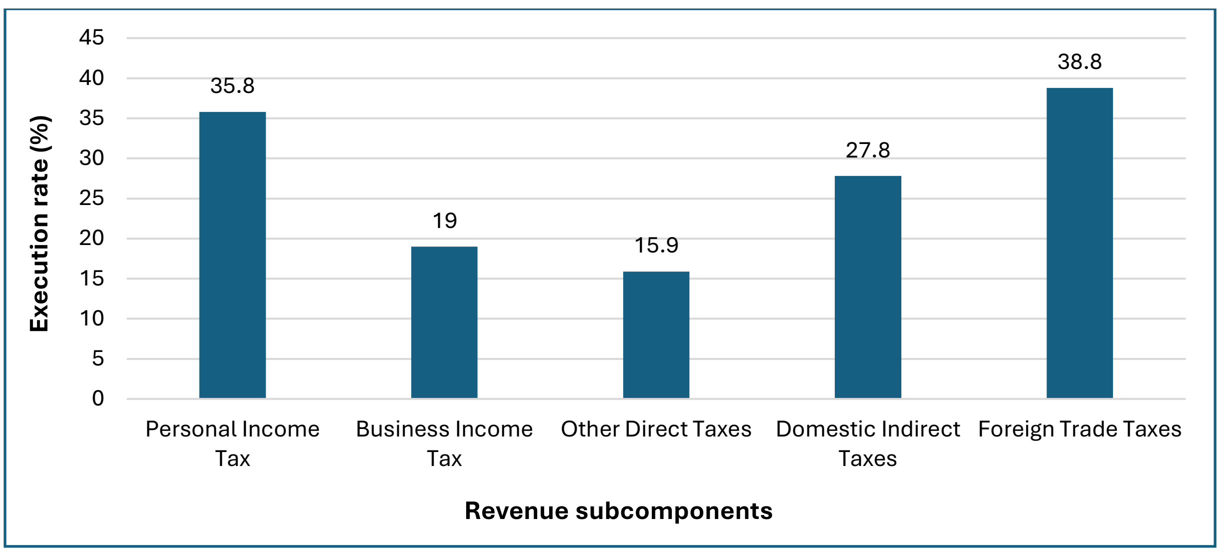

Figure 8: Execution Rates of Selected Direct and Indirect Tax Subcomponents, Q1 2024/25 (% of Annual Budget)

Source: Author's computation based on Ministry of Finance data.

2.2. Government Expenditure Performance

2.2.1. Overview of Total Government Expenditure

Figure 9 portrays the quarterly trends in nominal and real total expenditure in Ethiopia from Q1 FY2023/24 to Q1 FY2024/25, indexed to Q1 FY2023/24. The figure shows that nominal expenditure peaked in QIV FY2023/24 at 208.7 billion Birr, indicating heightened spending toward the end of the fiscal year, probably driven by the completion of budgeted development projects and seasonal operational outlays. The subsequent Q1 FY2024/25 expenditure of 198.1 billion Birr, although slightly lower in nominal terms than the previous quarter, still represents a strong 40.2 percent increase compared to Q1 FY2023/24, signaling an early fiscal commitment for the new fiscal year. The quarterly fluctuations show how government spending is often lumpy and tied to specific programs or capital outlays, rather than evenly distributed across quarters.

In real terms, total expenditure grew more moderately, rising from 355 million Birr in Q1 FY2023/24 to 422.5 million Birr in Q1 FY2024/25, a 19 percent increase, exhibiting the dampening effect of inflation on the actual volume of goods and services procured. The difference between nominal and real growth asserts that while the government appears to spend more in monetary terms, the real economic impact is more modest. The pattern also suggests front-loading of expenditure in some quarters and slower absorption in others, which may affect service delivery and project implementation. Evaluating expenditure in both nominal and real terms, therefore, provides insight not only into fiscal effort but also into the efficiency, timing, and sustainability of government spending over the fiscal year.

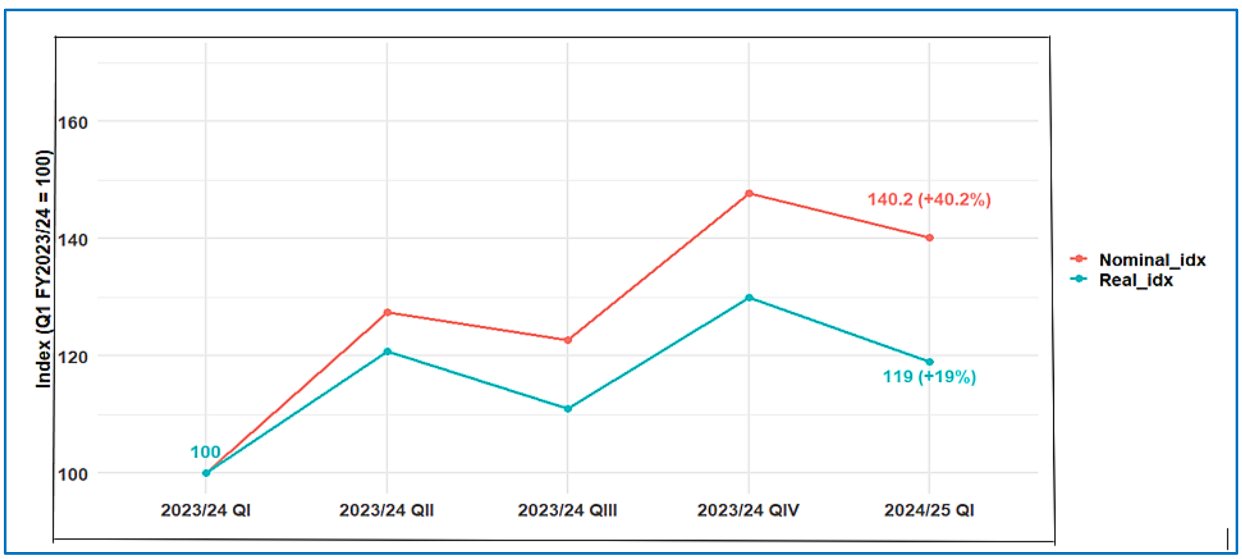

Figure 9: Quarterly Trends in Total Expenditure (Nominal and Real), Q1 FY2023/24 – Q1 FY2024/25, Indexed to Q1 FY2023/24 = 100

Source: Author’s computation based on Ministry of Finance data.

Figure 10 presents the distribution of government expenditure components for the first quarter of 2024/25 fiscal year, disaggregated into current expenditure, capital expenditure, and regional transfers. Current expenditure accounts for 50.13% of total spending, indicating that over half of the budget in Q1 FY2024/25 was devoted to covering operational and administrative costs, including wages, goods and services, and subsidies. Capital expenditure makes up 22.48%, reflecting the government's investment in infrastructure and development projects, though its share remains considerably lower than current spending. Regional transfers constitute 27.40%, showing the government's continued effort to allocate significant resources to subnational administrations. The dominance of current expenditure over capital spending is a recurring feature of Ethiopian public finance, often impacting long-term growth potential (MoF, 2024).

The Q1 expenditure pattern suggests that the government is prioritizing immediate service delivery and regional support over long-term capital investments during the early part of the fiscal year. The dominance of current expenditure may be attributed to front-loaded obligations such as salary payments and recurring subsidies, while capital spending often ramps up in later quarters due to procurement and implementation lags. The relatively high share of regional transfers shows the government's commitment to fiscal decentralization and the timely disbursement of grants to regional states. Overall, the data in Figure 10 reveals a spending structure that supports administrative continuity and regional governance early in the fiscal year, though it may raise concerns about the pacing and adequacy of development-oriented capital investments.

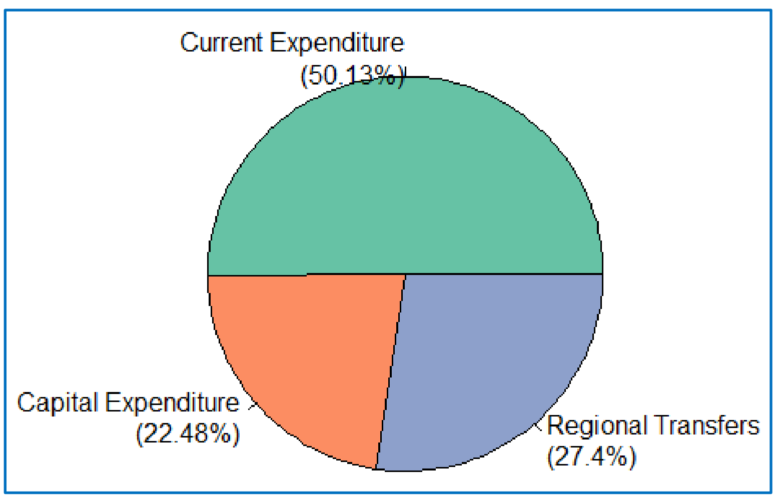

Figure 10: Composition of Government Expenditure, Q1 FY 2024/25

Source: Author's computation based on Ministry of Finance data.

2.2.2. Current Expenditure Performance

Table 4 presents the breakdown of current expenditure and its components from Q1 FY2023/24 to Q1 FY2024/25. Overall, current expenditure increased significantly by 59.4% year-on-year (YoY) and 22.8% quarter-on-quarter (QoQ), reaching ETB 99.3 billion in Q1 FY2024/25. The largest contributor to this surge was economic services, which rose sharply by 769.2% YoY and 624.6% QoQ, indicating a substantial scaling-up of government spending in productive sectors such as agriculture, industry, or trade. Another major driver was debt service, which grew by 108.3% YoY and 63.4% QoQ, demonstrating rising fiscal pressure from increased borrowing or maturing obligations, reflecting broader public debt sustainability concerns (Gelpern *et al.*, 2021).

In contrast, general services, which make up the largest share within current expenditure, remained relatively stable with a modest 22.4% YoY increase but a slight QoQ decline of 1.4%, suggesting a plateau in administrative and governance-related spending. Social services showed a minimal YoY growth of 1.8%, but declined 11.9% QoQ, possibly due to timing delays in disbursement or shifting budget priorities. Other expenditures, which spiked in Q4 FY2023/24, dropped by 20.7% QoQ, yet still showed a massive 664% YoY increase, pointing to volatility in discretionary or contingency spending. In sum, Table 4 highlights a reallocation within current expenditure towards economic and debt-related outlays, signaling a shift in fiscal priorities amid growing macroeconomic pressures.

Table 4: Breakdown of Current Expenditure and Its Components (in million ETB) – Q1 FY2023/24 to Q1 FY2024/25

Category	Q1 FY2023/24	Q4 FY2023/24	Q1 FY2024/25	YoY Change (%)	QoQ Change (%)
Current expenditure	62,295.9	80,899.8	99,321.9	59.4%	22.8%
General services	26,728.2	33,185.3	32,725.8	22.4%	-1.4%
Economic services	1,771.1	2,124.5	15,394.2	769.2%	624.6%
Social services	21,162.2	24,454.5	21,536.3	1.8%	-11.9%
Others Expenditure	602.2	5,798.9	4,600.6	664%	-20.7%
Debt Service	12,032.3	15,336.6	25,065.1	108.3%	63.4%

Source: Author's computation based on Ministry of Finance data.

2.2.3. Capital Expenditure Performance

Table 5 provides a breakdown of capital expenditure and its key components from Q1 FY2023/24 to Q1 FY2024/25. Total capital expenditure rose by 68.9% year-on-year (YoY) to ETB 44.5 billion in Q1 FY2024/25, revealing a continued commitment to development investment compared to the same quarter of the previous year. However, compared to the preceding quarter (Q4 FY2023/24), capital spending declined sharply by 41.8%, indicating a significant slowdown in execution or disbursement of development funds at the start of the new fiscal year. The largest share of capital spending went to economic development, which reached ETB 28 billion, marking a 54.7% YoY increase, though it fell 43.9% QoQ, likely due to project cycle timing or budget absorption challenges.

Social development capital spending also grew significantly by 84% YoY, reaching ETB 12.6 billion in Q1 FY2024/25, yet declined 43% QoQ, mirroring the seasonal drop in capital disbursements. The general development category, while the smallest, recorded the highest YoY growth of 175.4%, signaling increased attention to administrative or cross-sectoral infrastructure projects, though it too fell by 11% QoQ. The quarterly declines across all components point to either front-loading of spending in the previous quarter or a slower rollout of capital projects at the start of the fiscal year. Overall, Table 5 shows the volatility and cyclical nature of capital expenditure, with strong year-on-year growth tempered by notable quarter-on-quarter contraction.

Table 5: Breakdown of Capital Expenditure and Its Components (in million ETB) – Q1 FY2023/24 to Q1 FY2024/25

Category	Q1 FY2023/24	Q4 FY2023/24	Q1 FY2024/25	YoY Change (%)	QoQ Change (%)
Capital expenditure	26,370.9	76,465.1	44,529.8	68.9%	-41.8%
Economic development	18,080.5	49,877.8	27,966.1	54.7%	-43.9%
Social Development	6,860	22,162.3	12,624.5	84%	-43%
General Development	1,430.4	4,425	3,939.1	175.4%	-11%

Source: Author's computation based on Ministry of Finance data.

2.2.4. Trends in Regional Transfers

Figure 11 illustrates the quarterly trend in regional transfers from Q1 FY2023/24 to Q1 FY2024/25. In general, the data show a relatively stable pattern of regional transfers, with amounts fluctuating moderately around the ETB 52–55 billion range each quarter. In Q1 FY2024/25, regional transfers reached ETB 54.28 billion, slightly higher than the ETB 52.64 billion recorded in Q1 of the previous fiscal year, exhibiting a modest 3.1% year-on-year increase. This indicates the government's sustained commitment to fiscal decentralization and continued support for subnational governments in delivering public services.

Despite this general stability, there was a slight dip in transfers in Q4 FY2023/24, falling to ETB 51.33 billion, the lowest in the five-quarter period. This may be attributed to end-of-year budgetary adjustments or temporary constraints in disbursement. The rebound in Q1 FY2024/25 suggests a resumption of normal transfer flows as the new fiscal year began. The consistency in regional transfers over time, as shown in Figure 11, affirms their critical role in maintaining service delivery and subnational fiscal balance, particularly considering broader expenditure shifts toward debt servicing and economic sectors at the federal level.

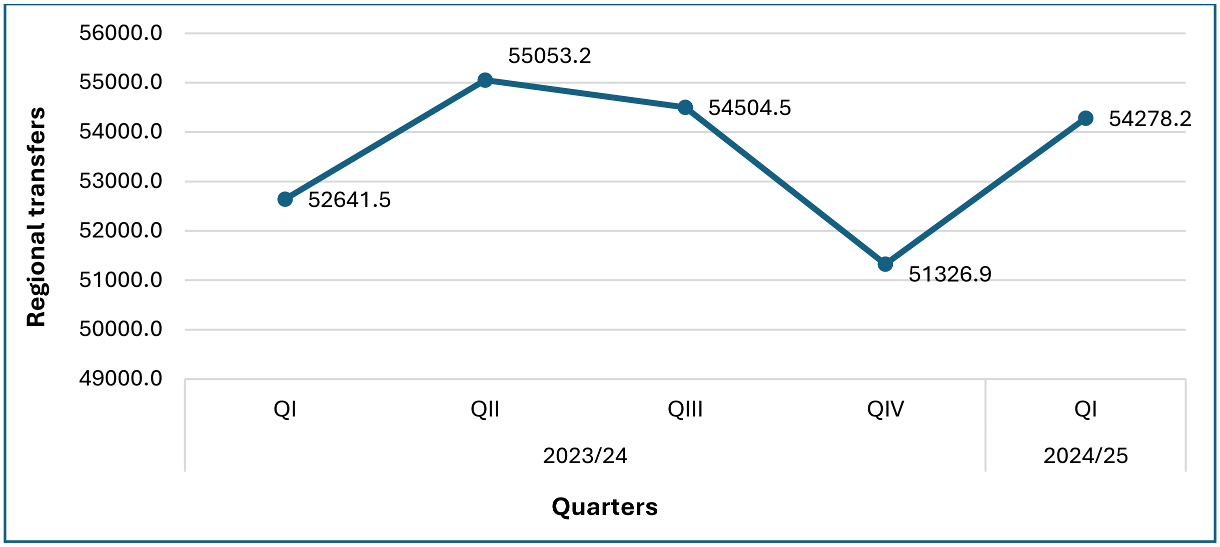

Figure 11: Quarterly Trends in Regional Transfers (in million ETB) – Q1 FY2023/24 to Q1 FY2024/25

Source: Author's computation based on Ministry of Finance data.

2.2.5. Execution Against Budget

The execution rates presented in Figure 12 reveal that the federal government utilized 22.7% of its total annual budget during the first quarter of 2024/25. Among the major expenditure components, current expenditure recorded the highest execution rate at 24.7%, indicating that the government prioritized operational and recurring obligations such as salaries, pensions, subsidies, and debt servicing. Regional transfers also performed relatively well, with a 23.7% execution rate, reflecting the government's effort to maintain intergovernmental fiscal support early in the fiscal year. These figures suggest that essential government functions and subnational financial flows were not significantly delayed during the first quarter.

In contrast, capital expenditure had the lowest execution rate at 18.3%, highlighting continued implementation challenges in development spending. This underperformance could stem from delays in procurement processes, project planning, or disbursement bottlenecks, all of which are common in large-scale public investment programs. Given the role of capital expenditure in driving economic growth and infrastructure development, improving its pace of execution in subsequent quarters is critical. In sum, while the execution of recurrent and transfer spending appears relatively stable, the lag in capital budget implementation may weaken the developmental impact of fiscal policy if not addressed.

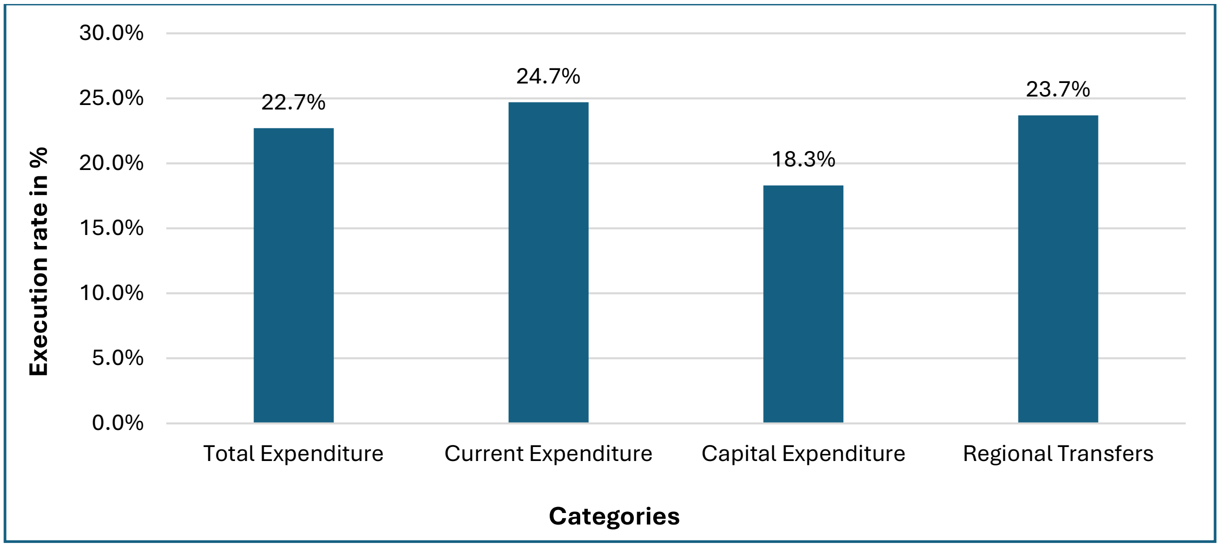

Figure 12: Execution Rates of Total and Major Components of Federal Government Expenditure in Q1 2024/25 (%)

Source: Author's computation based on Ministry of Finance data.

The execution rates of current expenditure components in Figure 13 reveal a mixed picture of federal budget implementation performance in the first quarter of 2024/25. Most components, including social services (31.6%), general services (30.6%), and debt service (28.0%), exhibited moderate and consistent execution levels, suggesting stable allocation toward public service delivery and financial obligations. However, "Others Expenditure" stood out with a very low execution rate of only 3.6%, which may indicate either delayed disbursements or reallocation of funds away from this broad, less-defined category. These results suggest that, overall, current expenditures are being prioritized, especially for social services and debt repayment.

A particularly notable outlier is the economic services category, which recorded an exceptionally high execution rate of 181.8%, far exceeding the quarterly proportional benchmark. This suggests either front-loaded spending for urgent economic programs or possible reclassification or reallocation from other budget lines. While this could exhibit proactive policy implementation in economic areas, such a sharp overshoot may also raise questions about budget planning accuracy and expenditure controls. The contrast between under-execution in some areas and overspending in others shows the need for better in-year budget monitoring and realignment to ensure efficiency and transparency in public financial management.

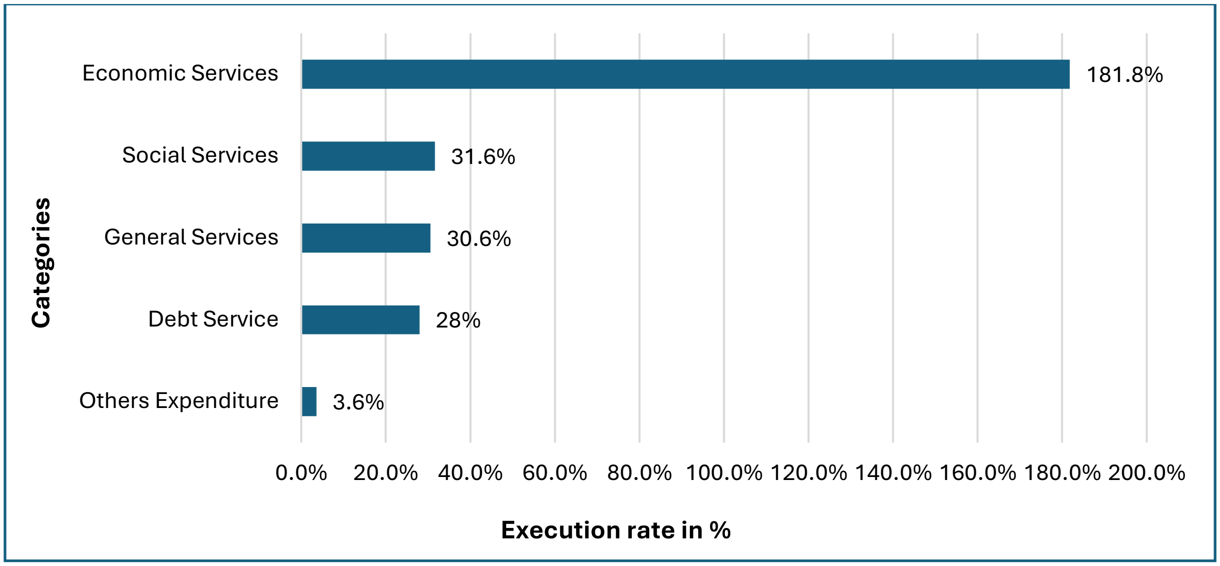

Figure 13: Execution Rates of Current Expenditure Subcomponents in Q1 2024/25 (%)

Source: Author's computation based on Ministry of Finance data.

Figure 14 reveals that capital expenditure execution in Q1 2024/25 remains relatively weak across all major development categories. Social development registered the highest execution rate at 25%, indicating some progress in sectors like education, health, and housing infrastructure. Economic development, which often includes investments in transport, agriculture, and energy, had a lower execution rate of 18.7%, suggesting delays in implementing growth-critical projects. These figures exhibit persistent challenges in capital project planning, procurement, and fund disbursement, common hurdles that often slow down infrastructure delivery in the early part of the fiscal year.

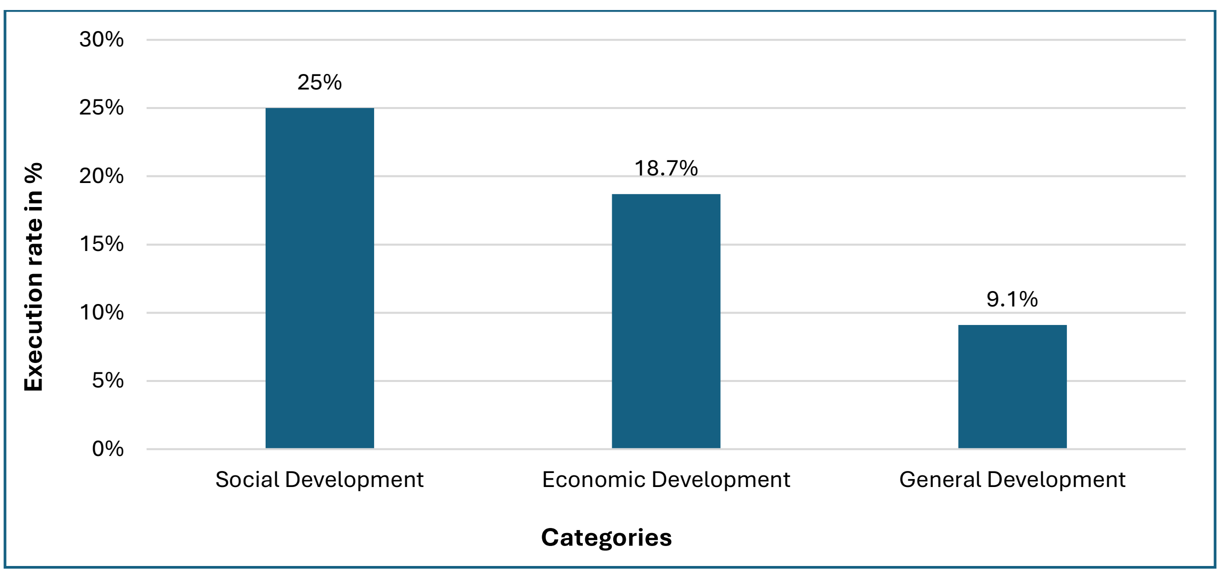

Figure 14: Execution Rates of Capital Expenditure Subcomponents in Q1 2024/25 (%)

Source: Author's computation based on Ministry of Finance data.

The most underperforming component was general development, with an execution rate of just 9.1%, exhibiting significant bottlenecks in cross-sectoral or administrative capital outlays. The overall trend in Figure 14 underscores the need for improved coordination and readiness in capital project implementation to avoid back-loading of expenditures into later quarters, which can compromise quality and effectiveness. Strengthening institutional capacity and streamlining procurement processes will be essential to improve capital budget utilization in the coming periods.

2.3. Overall Fiscal Balance

2.3.1. Overall Balance (Including and Excluding Grants)

Figure 15 portrays Ethiopia's overall fiscal balance for the first quarter of the 2024/25 fiscal year, comparing the deficit outcomes with and without the inclusion of grants. The data shows that the overall fiscal deficit amounted to ETB 20.97 billion when grants are included, and ETB 32.74 billion when grants are excluded. This indicates that grants helped offset nearly ETB 11.77 billion of the financing gap during the quarter, highlighting their continued importance in supporting fiscal operations.

The widening deficit, especially when grants are excluded, reflects a combination of rising expenditures and relatively slower revenue mobilization. Expenditure pressures have been driven by increased spending on humanitarian assistance, reconstruction, and debt service obligations, while domestic revenue performance remains constrained by structural challenges in tax administration and compliance. Additionally, inflationary pressures and exchange rate movements may have eroded the real value of revenues collected during the quarter.

The significant gap between the deficit with and without grants underscores Ethiopia's fiscal vulnerability to external financing flows, a typical challenge for aid-dependent economies (Clemens *et al.*, 2012). While grants play a critical role in narrowing the fiscal gap, reliance on them also exposes the fiscal framework to volatility in donor support. Going forward, enhancing domestic resource mobilization, especially through broadening the tax base and improving tax efficiency, will be essential for reducing dependence on external grants and ensuring fiscal sustainability.

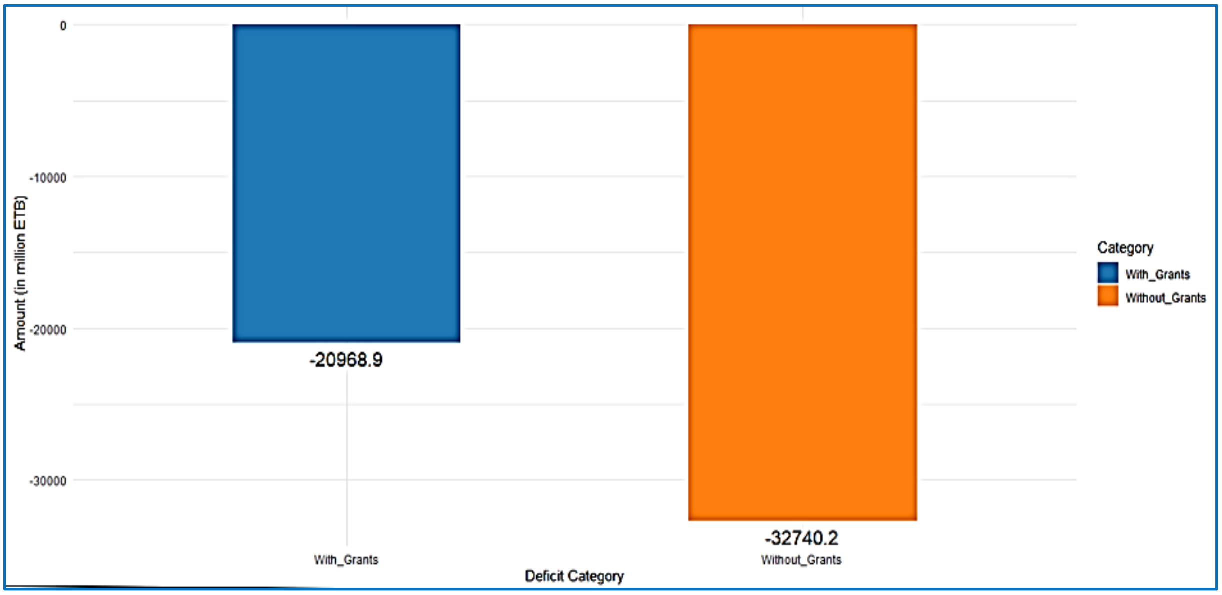

Figure 15: Overall Fiscal Deficit in 2024/25 Q1: With and Without Grants (Million ETB*)*

Source: Author's computation based on Ministry of Finance data.

2.4. Deficit Financing

2.4.1. Composition and Trends in Deficit Financing

Figure 16 shows the composition of government deficit financing in Q1 2024/25. The data reveal a significant shift in financing strategy, with the government relying heavily on external sources and residual adjustments to cover its fiscal deficit. Net external borrowing stood at Birr 30.16 billion, while "Others and Residuals" contributed a substantial Birr 52.41 billion. These two components jointly accounted for all the positive financing during the quarter, indicating that external flows and temporary or accounting-based adjustments were the primary means of deficit coverage.

In contrast, net domestic borrowing recorded a large negative value of Birr 61.61 billion, implying substantial net repayments to the domestic sector, particularly the banking system. This reversal suggests a deliberate policy shift away from domestic debt issuance, possibly to ease inflationary pressures or restore monetary discipline, a strategy often recommended by international financial institutions during periods of high inflation (Cottarelli, 2012). No receipts were recorded from privatization, indicating limited progress in asset sales as a financing tool. The overall financing mix in Q1 reflects a strategy dependent on external inflows and residual budgetary balancing, which may have implications for debt sustainability and fiscal transparency going forward.

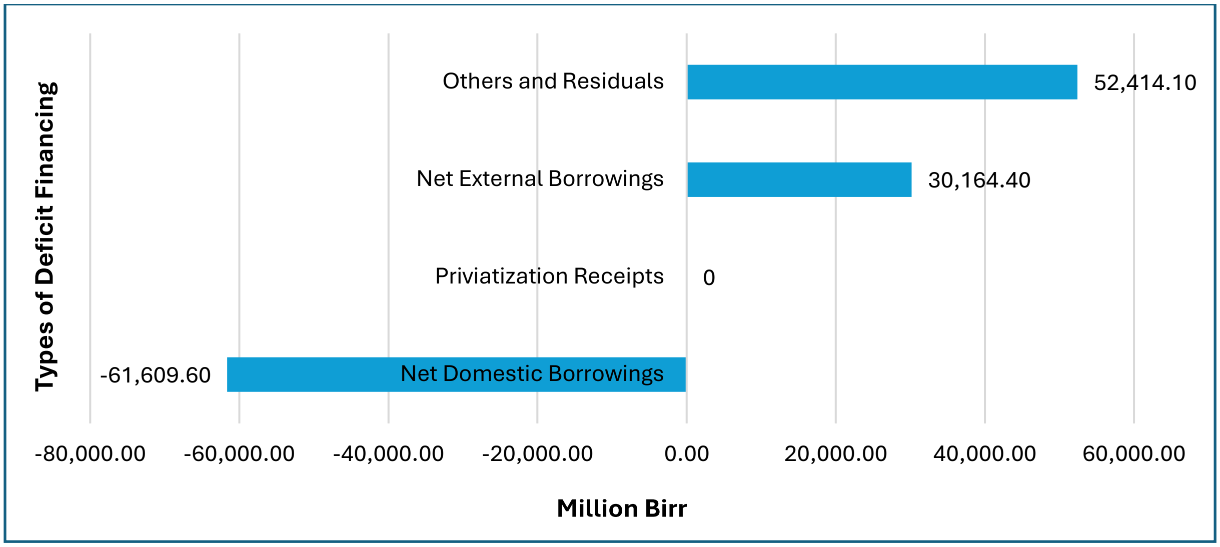

Figure 16: Composition of Government Deficit Financing by Source – Q1 2024/25 (in Million Birr)

Source: Author's computation based on Ministry of Finance data.

Table 6 highlights the composition of external financing in Q1 2024/25, revealing a significant shift in the government's borrowing structure. During the quarter, net external borrowing reached Birr 30.2 billion, marking a sharp increase from the previous quarter and the same quarter a year ago. This surge was driven entirely by the disbursement of Birr 31.4 billion in CPF (Concessional Partnership Framework) loans, which were absent in previous periods. Although gross external borrowing (excluding CPF) fell by 33.9% from the preceding quarter to Birr 10.1 billion, the sizable CPF inflow more than offset this decline, resulting in a strong net positive position. This exhibits the government's increasing reliance on concessional external financing to meet its fiscal needs in the face of constrained domestic borrowing options.

Table 6: Quarterly Developments in Net External Borrowing and Its Components (Q1 2023/24 – Q1 2024/25, Million Birr)

Category	Q1 2023/24	Q4 2023/24	Q1 2024/25	Year-on-Year (%)	Quarter-on-Quarter (%)
Net External Borrowings	3,696.10	6,986.30	30,164.40	716.1	331.8
External Borrowing	6,259.20	15,313.20	10,128.60	61.8	-33.9
CPF Loan	-	-	31,353.70	-	-
Amortization	2,563.10	8,326.90	11,317.90	341.6	35.9

Source: Author's computation based on Ministry of Finance data

At the same time, external debt amortization rose to Birr 11.3 billion in Q1 2024/25, up 35.9% from the previous quarter and 341.6% year-on-year. This underscores a growing debt service burden that accompanies the rising stock of external debt. The contrasting trend, between increased concessional inflows and rising repayments, raises important considerations for debt sustainability going forward. The financing strategy in Q1 2024/25 appears to be one of substituting domestic borrowing (which turned negative) with external concessional resources, possibly to reduce pressure on the domestic financial system and inflation, while still ensuring fiscal continuity.

Table 7 shows a dramatic reversal in domestic financing during Q1 2024/25, with net domestic borrowing turning negative at Birr 61.6 billion, compared to positive financing in the previous quarters. This represents a 196.2% year-on-year decline and a 181.7% drop from Q4 2023/24, indicating that the government repaid more to the domestic sector than it borrowed. The shift shows a sharp change in fiscal operations, probably aimed at reducing monetary expansion or aligning with broader macroeconomic stabilization efforts. It also suggests reduced reliance on domestic debt markets, possibly due to liquidity constraints or a strategic shift toward external concessional financing, as observed in the same quarter.

A breakdown of the sources reveals that this negative domestic financing was caused primarily by net repayments to the banking system, amounting to Birr 69.3 billion, a steep fall from previous quarters. This resulted in a quarter-on-quarter decline of 238.5% and a year-on-year drop of 280.2%. In contrast, financing from non-bank sources remained positive at Birr 7.6 billion, though it also declined significantly year-on-year. The overall picture points to a tightening of domestic borrowing, led by contractionary actions within the banking system, which may help contain inflationary pressures but could also affect liquidity conditions and domestic debt market development if sustained over the medium term.

Table 7: Quarterly Developments in Net Domestic Borrowing and Its Sources (Q1 2023/24 – Q1 2024/25, Million Birr)

Category	Q1 2023/24	Q4 2023/24	Q1 2024/25	Year-on-Year (%)	Quarter-on-Quarter (%)
Net Domestic Borrowings	64,062.70	75,429.80	-61,609.60	-196.2	-181.7
Banking System	38,433.90	49,993.90	-69,250.10	-280.2	-238.5
Non-Bank Sources	25,628.80	25,435.90	7,640.50	-70.2	-70

Source: Author's computation based on Ministry of Finance data

2.4.2. Financing Performance Against Plan

Figure 17 presents the execution rates of total financing and its main components for Q1 2024/25, highlighting significant divergences in the government's financing performance. The overall total financing execution rate stood at a modest 6.9%, indicating that the government met only a small portion of its planned financing needs for the quarter. This suggests challenges in mobilizing resources as initially targeted, possibly showing broader fiscal constraints or shifts in financing strategy amid a challenging macroeconomic environment.

Disaggregating the components reveals contrasting trends: net external borrowings exhibited a deeply negative execution rate of -160%, signaling substantial underperformance or net repayment rather than new borrowing in this category. Similarly, net domestic borrowings also recorded a negative execution rate of -19.1%, showing net repayments to domestic creditors. These negative rates depict the government's move to deleverage or reduce outstanding obligations in both external and domestic markets during the quarter. The combined effect of these shortfalls, yet a slightly positive overall execution rate, suggests that other financing sources, such as residual receipts or off-budget funds, may have partly offset the reductions in traditional borrowing channels.

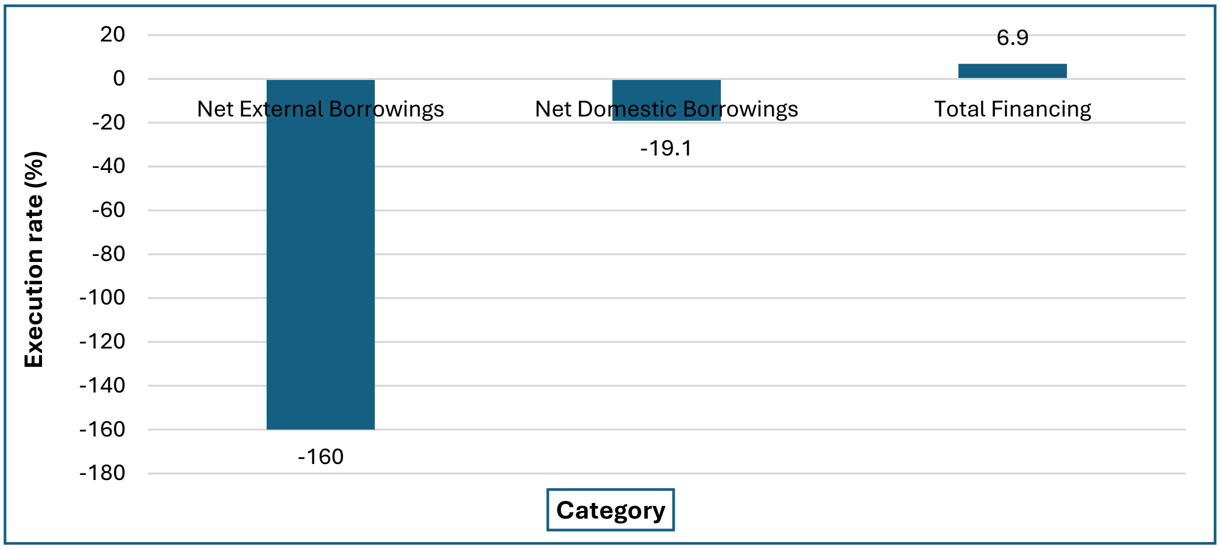

Figure 17: Execution Rates of Total Financing and Its Main Components in Q1 2024/25 (%)

Source: Author's computation based on Ministry of Finance data

Figure 18 depicts the execution rates of major external financing components in Q1 2024/25, revealing highly uneven performance across categories. External borrowing registered an execution rate of 37.7%, indicating that only about one-third of the planned foreign loan inflows were realized during the quarter. Amortization stood at 24.4%, suggesting that roughly one-quarter of the scheduled external debt repayments were executed. This may reflect the effect of payment deferrals, seasonal timing mismatches, or liquidity management decisions by the government.

In stark contrast, the CPF (Concessional Partnership Framework) loan posted an execution rate of 5,208.9%, implying a substantial disbursement that far exceeded the budgeted amount for the period. This surge likely represents a major concessional inflow from development partners, such as the IMF and World Bank, under programmatic budget support arrangements. While such inflows offer crucial short-term fiscal relief, they also point to an increasing reliance on large, front-loaded support packages rather than a steady and diversified external borrowing strategy. This shift may demonstrate adaptive fiscal responses to constrained financing environments, rather than the execution of a pre-planned, balanced borrowing framework.

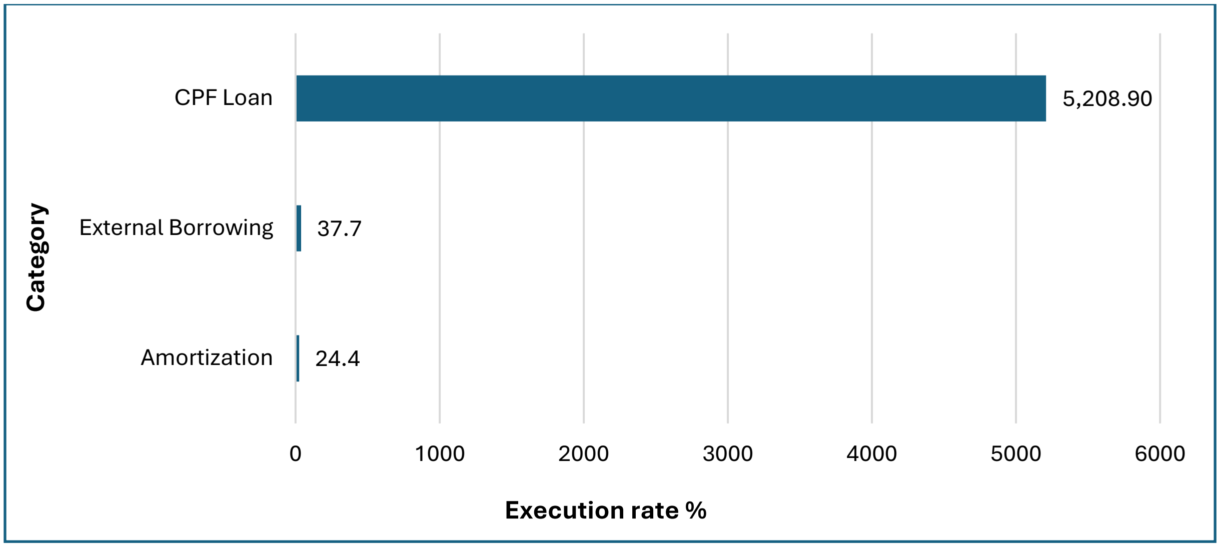

Figure 18: Execution Rates of External Financing Components in Q1 2024/25 (%)

Source: Author's computation based on Ministry of Finance data

3. Concluding Remarks

Ethiopia's fiscal performance in Q1 FY2024/25 reflects a strong start to the new fiscal year, driven by substantial growth in government revenue and renewed grant inflows. Total revenue and grants surged to ETB 177.2 billion, marking a 77% nominal (50.3% real) year-on-year increase from Q1 FY2023/24. Domestic revenue accounted for the bulk of this growth, rising 65% YoY to ETB 165.4 billion, underpinned by improved tax collection, a broadened tax base, inflationary effects, and strengthened compliance measures. Tax revenue remained the dominant source, contributing 93% of domestic revenue, with indirect taxes, particularly foreign trade duties, driving a 70.9% YoY increase. Meanwhile, grants returned after a year-long hiatus, totaling ETB 11.77 billion, highlighting renewed donor support and playing a critical role in narrowing the fiscal gap.

Government expenditure expanded sharply in nominal terms, reaching ETB 198.1 billion, a 40.2% YoY increase, though real growth moderated to 19% due to inflationary effects. Spending was concentrated in current expenditure (50.1%) and regional transfers (27.4%), while capital expenditure accounted for only 22.5%, exhibiting prioritization of operational obligations and fiscal decentralization in the early fiscal period. Current expenditure surged by 59.4% YoY, caused by extraordinary growth in economic services and rising debt service, whereas capital expenditure grew 68.9% YoY but fell sharply by 41.8% quarter-on-quarter, underscoring uneven implementation cycles and persistent delays in development project execution. Regional transfers remained stable, indicating ongoing support for subnational governments.

Budget execution in Q1 revealed both achievements and challenges. Overall, 22.7% of the annual budget was executed, with strong performance in current expenditure and regional transfers but weaker implementation of capital projects. Current expenditure showed imbalances, with very high execution in economic services (181.8%) contrasting with low disbursements in "Others" (3.6%), while capital expenditure lagged across all major categories, risking back-loading of investments into later quarters. These patterns show the importance of strengthened budget monitoring, improved project planning, and timely disbursement to enhance the developmental impact of fiscal policy.

Financing of the fiscal deficit signaled a strategic shift away from domestic borrowing toward external concessional resources. Q1 FY2024/25 saw a deficit of ETB 20.97 billion with grants and ETB 32.74 billion without, financed primarily through external borrowing (ETB 30.2 billion, driven by CPF concessional loans) and residual adjustments, while net domestic borrowing turned sharply negative (–ETB 61.6 billion). Total financing achieved only 6.9% of the planned target, manifesting underperformance in traditional borrowing channels and a move toward deleveraging. The surge in concessional inflows, alongside rising external debt amortization, emphasizes both the critical role of donor support and the need to strengthen domestic revenue mobilization and fiscal sustainability.

Based on the analysis, the following policy recommendations are proposed, prioritized and tailored to address the key findings:

1. Strengthen Domestic Revenue Mobilization

- **Enhance tax compliance and administration**: Focus on improving enforcement, particularly for business income and other direct taxes, where execution rates remain low, to reduce reliance on external grants and concessional loans.
- **Broaden the tax base**: Explore untapped sectors, including digital services and the informal economy, to create a more resilient and diversified revenue structure.
- **Promote balance between direct and indirect taxes**: While indirect taxes dominate, gradually increasing the share of direct taxes can stabilize revenue collection against trade shocks and inflationary pressures.

2. Improve Capital Expenditure Planning and Execution

- **Strengthen project readiness and procurement processes**: Address delays in planning, disbursement, and implementation that caused the 41.8% QoQ contraction in capital spending.
- **Front-load critical development projects**: Ensure that high-priority economic and social infrastructure projects are adequately funded and executed early in the fiscal year to avoid back-loading and service delivery gaps.
- **Enhance monitoring and evaluation**: Implement regular oversight mechanisms for capital projects to ensure timely completion and efficient use of public funds.

3. Optimize Fiscal and Debt Management

- **Balance external and domestic borrowing**: While CPF concessional loans eased financing pressures, overreliance on front-loaded external resources exposes fiscal vulnerability. Gradually restore sustainable domestic borrowing to strengthen monetary stability.
- **Improve debt sustainability monitoring**: Monitor repayment schedules closely given rising amortization obligations, ensuring that concessional inflows do not mask underlying fiscal risks.
- **Maintain fiscal discipline in current spending**: Avoid extreme overshoots in economic services and ensure more even execution across current expenditure components.

4. Strengthen Regional Fiscal Support and Decentralization

- **Maintain stable and predictable transfers**: Continue consistent funding to subnational governments to support local service delivery, while improving monitoring to ensure efficient use of resources.

- **Align regional allocations with development priorities**: Encourage regional administrations to balance operational needs with capital investments to enhance long-term infrastructure outcomes.

5. Enhance Fiscal Planning and Contingency Management

- **Improve in-year budgeting:** Address execution imbalances in both current and capital expenditure, and incorporate contingency plans to manage timing mismatches and seasonal fluctuations.
- **Leverage non-tax revenue sources**: Strengthen collection of fees, royalties, fines, and SOE dividends to diversify revenue streams and reduce dependence on volatile tax and grant inflows.

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