FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MID YEAR BUDGET IMPLEMENTATION REVIEW 2025/26

APRIL 2026

MINISTRY OF FINANCE

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1. INTRODUCTION

This report launches our second series of 2025/26 FY fiscal disclosures aimed at providing the public with clear insights into federal spending. This edition presents a detailed assessment of budget performance during the first six months of the 2025/26 FY, covering the period from July to December 2026.

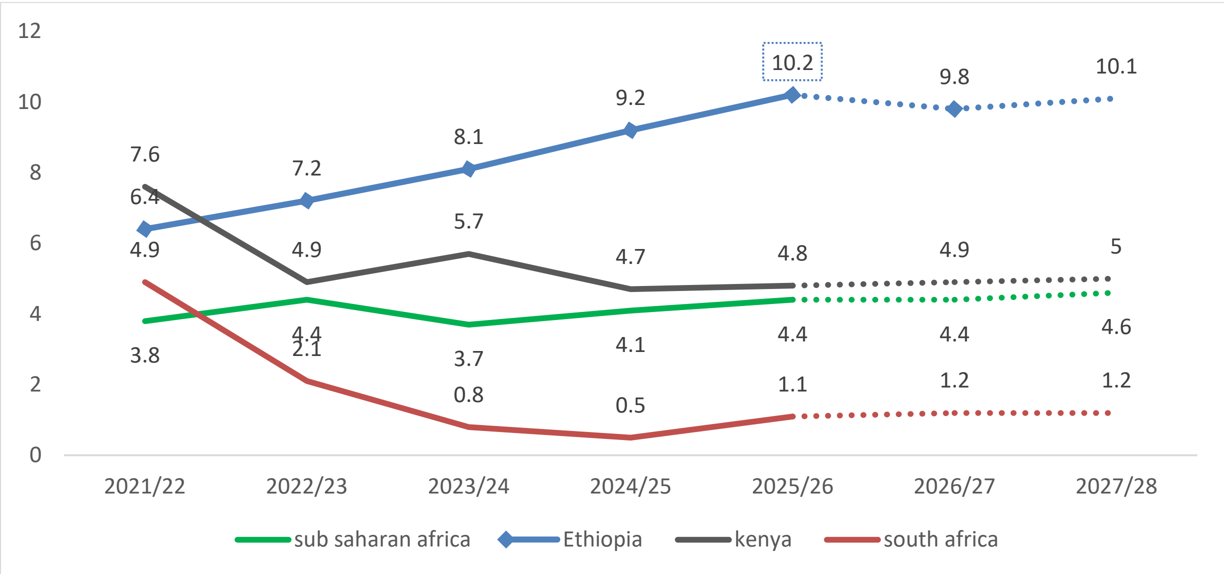
The purpose of this report is to track budget performance and inform fiscal policy implementation to ensure that the budget is executed as planned and to inform government decisions. It also raises the awareness of the public regarding budget administration and execution. Producing and publishing in-year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

The review covers six months period from the beginning of the EFY 2018 (July 2017 to December 2018). It provides detailed analysis of budget execution against approved allocations. It also highlights drivers of macroeconomic performance and assumptions underpinning the budget. The report additionally attempts to highlight the macro developments of the country, primarily focusing on providing in-depth information on the implementation of the Federal government budget.

2. OVERVIEW OF MACROECONOMIC DEVELOPMENTS

Ethiopia has sustained a trajectory of robust economic expansion, largely driven by the strategic implementation of the Homegrown Economic Reform (HGER 1.0 & 2.0). Despite navigating complex domestic and external headwinds, the nation's growth rate has consistently remained double the average for Sub-Saharan Africa (SSA) which stood at 4.4% (figure 2.1). The recent fiscal years have seen a notable acceleration in productivity across diversified sectors, Real GDP growth reaching 9.2% in EFY 2017 (2024/25), up from 8.1% the previous year 2023/24. This sectoral driver's momentum is underpinned by strong performance in agriculture, mining, construction, and manufacturing. Looking ahead to EFY 2018 (2025/26), economic growth is projected to further accelerate, reaching 10.2 percent

Figure 2.1 Real GDP Growth



Source: - *Regional Economic Outlook-for-sub-saharan-africa-october-2025/ Ministry of planning and development*

The external sector showed marked improvement during the first half of EFY 2018, reflecting the impact of recent bold and comprehensive macroeconomic reforms particularly in exchange rate management, monetary policy, and fiscal consolidation. Exports of goods surged to US$ 5.0 billion; a 53.1 percent increase compared to US$3.3 billion recorded during the same period in EFY 2017 (Table 2.1). This strong performance was largely driven by improved incentives for exporters due to exchange rate realignment, redirection of export trade from informal to formal channels and strong global commodity prices for key export products, especially a substantial rise in both the value and volume of gold exports.

Table 2.1. Value of Exports and Imports of goods, in Million USD

Variable	First Six Months		
	EFY 2017	EFY 2018	Growth (%)
Export of Goods	3,275.2	5,015.91	53.1
Imports of Goods	9,154.7	11,287.1	23.3
Trade balance	-5,879.5	-6,271.19	6.7

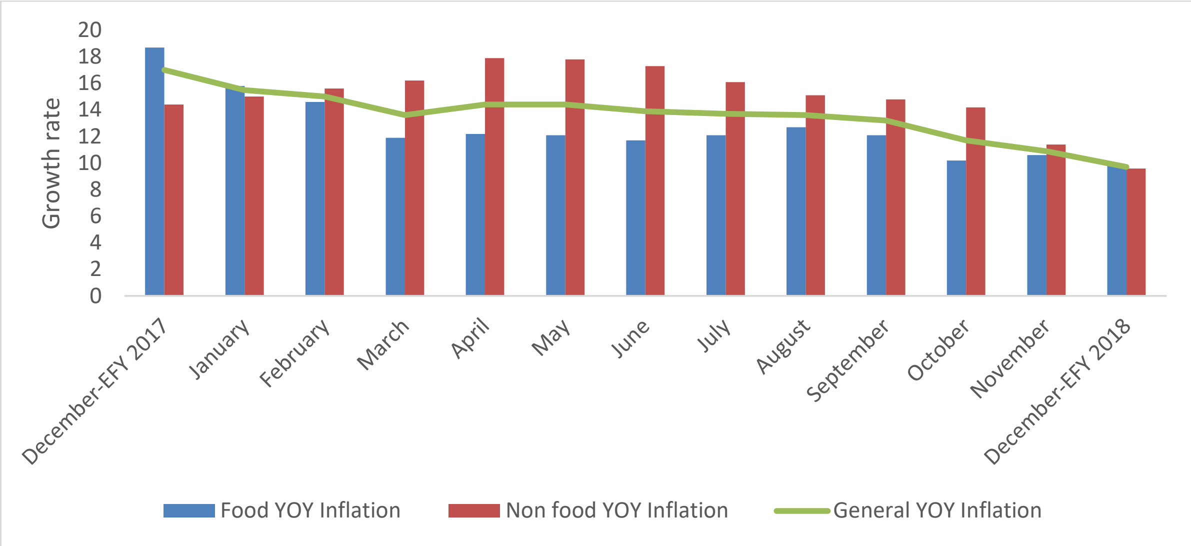
Source: - National Bank of Ethiopia

Concurrently, import value grew by 23.3%, leading to a slight widening of the trade deficit. The deficit expanded from USD 5.9 billion in the first half of EFY 2017 to USD 6.3 billion in the same period of EFY 2018. Imports of some consumer goods and semi-finished products declined, reflecting efforts to strengthen domestic products and reduce reliance on imports for consumptions. This shift suggests that Ethiopia's external sector is gradually becoming more investment driven and productivity-oriented, supporting long-term economic transformation.

A comparison of periods under exchange rate controls with those under a more liberalized regime (after July 2024) reveals a striking improvement. The average premium stood at about 101 percent between August 2023 and July 2024 but fell to around 12 percent between August 2024 and June 2025 following the market determined exchange rate reform.

Headline inflation declined to 9.7% in December 2025 from 17.0% in the previous year the same month. This deceleration, observed in both the food and non-food sectors, is a direct result of the tightened monetary and fiscal stances adopted within the broader macroeconomic reform framework.

Figure 2.2 Year-on-Year Inflation Trends



Source: Ethiopian Statistical Services (ESS), 2025/26

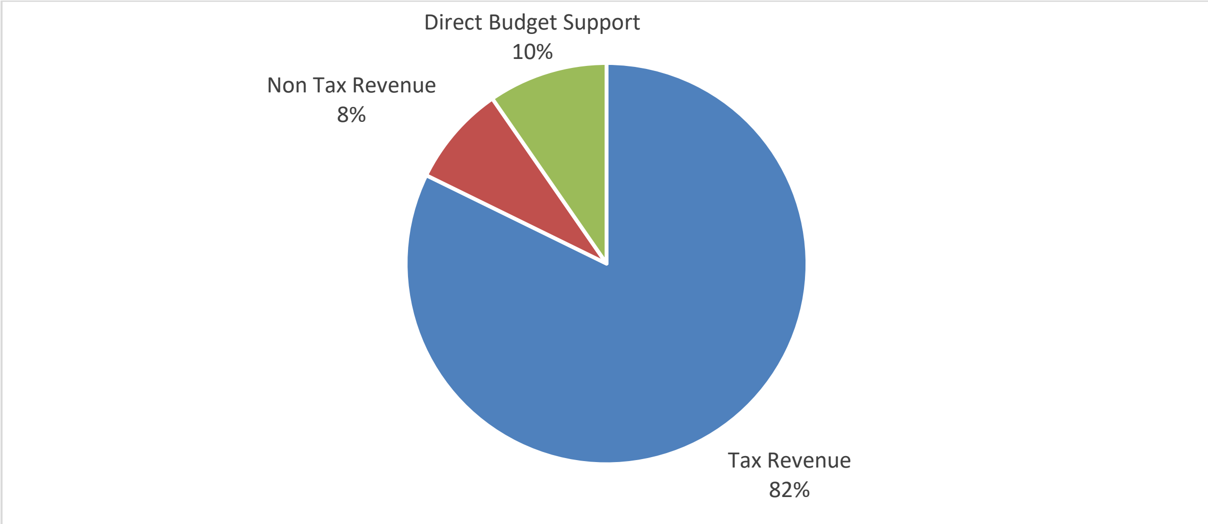
3. FISCAL PERFORMANCE: AN OVERVIEW

During the six months of EFY 2018, the Federal Government mobilized a total of Birr 704.7 billion from tax and non-tax revenues as well as grants from development partners in the form of direct budget support. On the other hand, Birr 798.2 billion total outlays have been made for its recurrent expenses, capital expenditure and regional transfers. The resulting fiscal balance stood at Birr -93.6 billion deficit; this fiscal deficit was effectively managed through a mix of domestic and external financing instruments. The detailed fiscal performance of the government is provided below.

3.1 REVENUE & GRANT PERFORMANCE

The Federal Government approved expenditure budget of Birr1651.9 billion for EFY 2018. As of the end of the first six months, total revenue and grants reached Birr 704.7 billion. This represents 48.1% of the total annual target, it signals a robust upward trajectory with 55.4% nominal growth compared to the same period in the previous fiscal year.

Figure 3.1 Revenue Composition

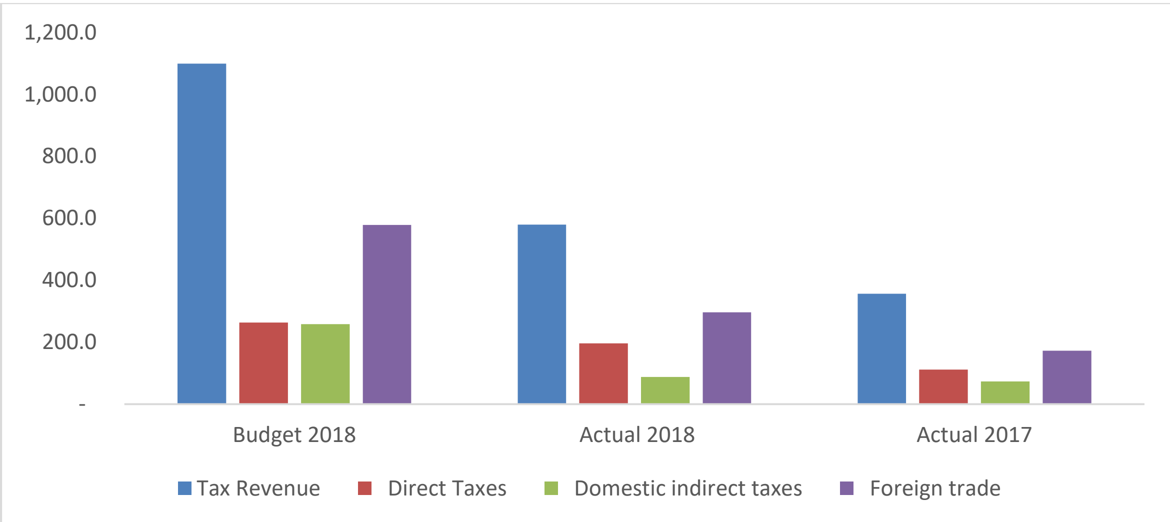


Sources: Ministry of Finance, 2025/26

3.1.1. Tax Revenue

In the first half of the fiscal year, tax revenues amounted to Birr 579.6 billion, representing 52.7 percent of the annual tax revenue target of Birr 1099.1 billion. This collection reflects a nominal increase of 62.7 percent compared to the same period in the previous fiscal year. Figure 3.2 illustrates the performances of various tax categories in EFY 2018 and 2017.

Figure 3.2: Federal Government Tax Revenue by source in Billion ETB



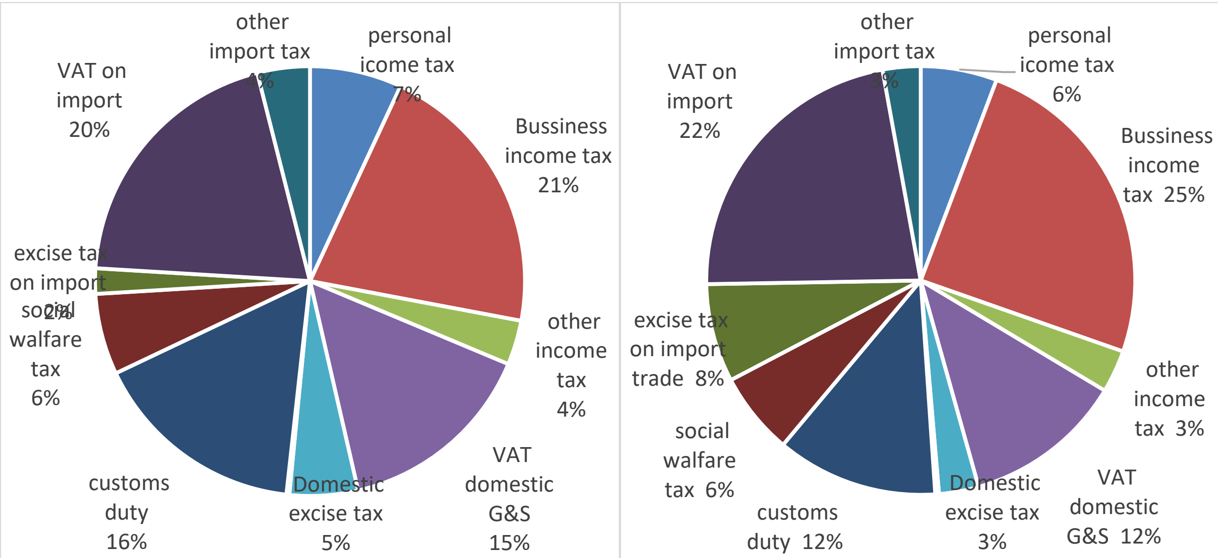
Source: Ministry of Finance, 2025/26

In prior years, seasonal patterns resulted in the highest Corporate Income Tax (CIT) collections typically occurring in the month of October. However, following the introduction of new legislation requiring corporations to make quarterly advance tax payments equivalent to 25 percent of the previous year’s tax liability rather than settling their obligations at year-end, the pattern of collections has shifted.

During the first six months of the fiscal period, revenue from corporate income tax increased by 92.2 percent compared to the same period in the previous year, making it the largest contributor to total tax revenue.

Similarly, personal income tax collections increased by 35.1 percent compared to the corresponding half of the previous fiscal year. In addition, domestic Indirect Taxes recorded a 20.8 percent increase relative to the same period of the previous year.

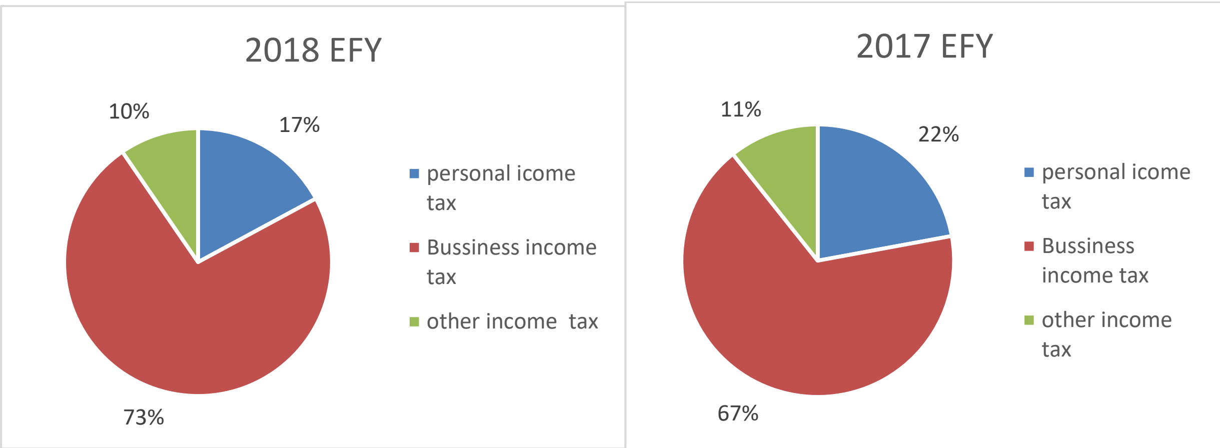
Figure 3.3: Tax Revenue contribution by Source (in Percentage*)*



Source: Ministry of Finance, 2025/26

Revenue from direct taxes such as income, profits, and capital gains reached Birr 195.9 billion in the first six months. This performance represents 74.5 percent of the approved annual budget for this category and marks a 75.6 percent increase compared to the same period last year. Overall, direct taxes accounted for 33.8 percent of total tax revenue collected during the first half of the fiscal year reached 74.5 percent of the approved annual budget for this category and marking 75.6 percent increase over the same period last year. From this tax category, corporate income taxes (CIT) made the collected generated billion 144.1 birr, achieving and 89.4 % percent from the annual targeted and recording a 92.2% increment compared to the previous half year, followed by taxes on personal income (wages and salaries) at 56.0 % percent from the annual target. From direct taxes, corporate Income taxes take makeup the largest share of 73%.

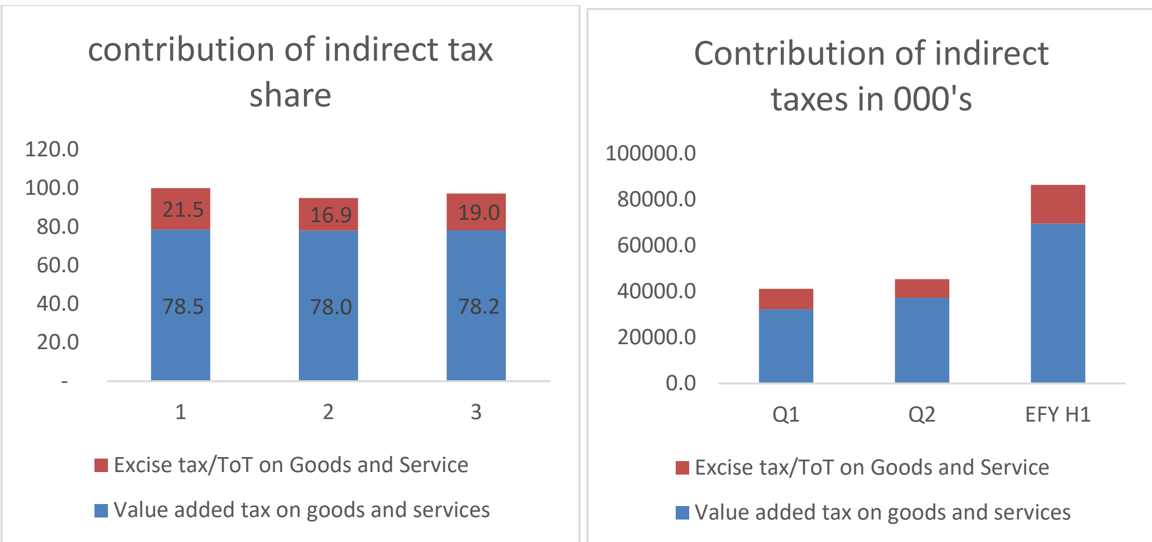
Figure 3.4: Composition of Direct Taxes (in percentage)



Source: Ministry of Finance, 2024/25 & 2025/26

Tax revenue collections from domestic indirect taxes amount to Birr 88.0 billion which is 34.1 percent of the annual target and account for 15.2 percent of the total tax collected during the first half. They comprise VAT on Goods and Services as well as Domestic Excise and Stamp Sales and Duty. The revenue collected from these sources showed an overall 20.8 percent increase during the first half of EFY 2018 compared to the collection in the corresponding period in EFY 2017.

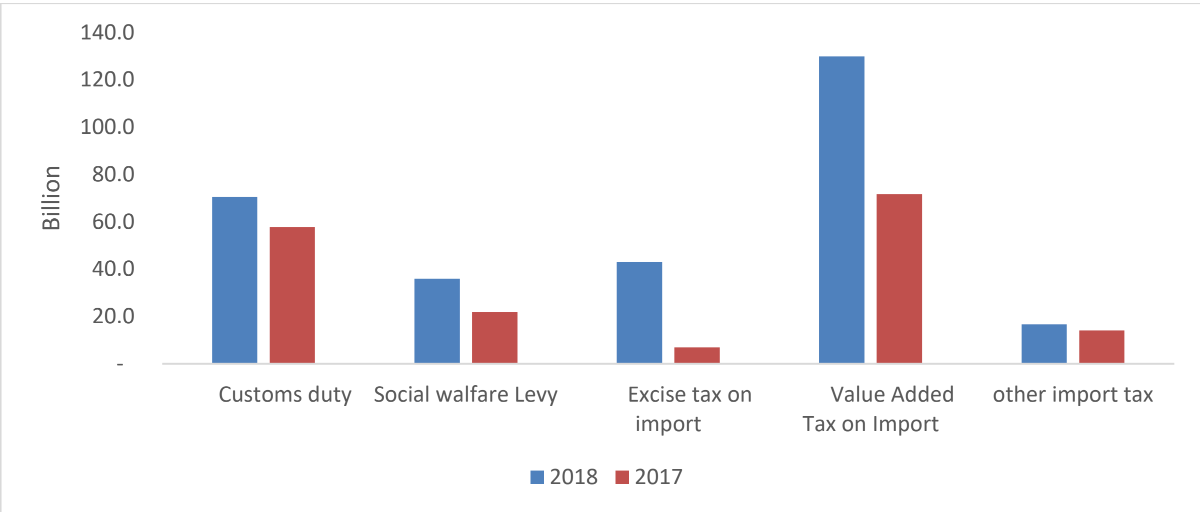
Figure 3.5. Contribution of Indirect Tax



Source: Ministry of Finance, 2025/26

Within the first half of six months of 2018 budget year, a total revenue of 295.8 billion birr was generated from foreign trade taxes. This amount represented an execution rate of 51.1% when compared to the planned budget revenue of 578.4 billion birr. Compared to the same period in 2017, when Birr 171.9 billion was collected, this reflects an increase of Birr 123.9 billion, or 72.1 percent. This is driven by the collection of ETB 70.5 billion from customs duties, ETB 36 billion from social welfare Levy, and ETB 129.8 billion from additional value-added taxes on goods. Furthermore, 16.5 billion was collected from Sur tax and ETB 43 billion from excise taxes on goods, with export taxes contributing a small amount of 0.02 billion birr. The customs revenue collected over this six-month period in the 2018 budget demonstrates an increase of 12.8 billion birr (22.3%) compared to the same period in the 2017 budget year. This data highlights the growth in tax revenue and reflects an effective execution of the budget.

Figure 3.6: performance of foreign trade taxes to revenue in Billion Birr



Source: Ministry of Finance, 2025/26

3.1.2. Non-tax Revenue

During the first half of the Fiscal year, non-tax revenue collections reached Birr 57.2 billion, representing 44.2 % of the annual target and an increase of 26.2 billion or 84.7% as compared to the previous half year's performance.

3.1.3. Direct Budget Support

The Federal Government projected to obtain Birr 235.5 billion budget support from development partners for 2018 EFY to fund the provisions of basic services. For the period under review, Birr 67.8 billion has been collected from direct budget support, which is 28.8 % of the annual target. The remaining balance is expected to be mobilized from the development partners in the remaining second half of the budget year.

3.2. EXPENDITURE BUDGET PERFORMANCE

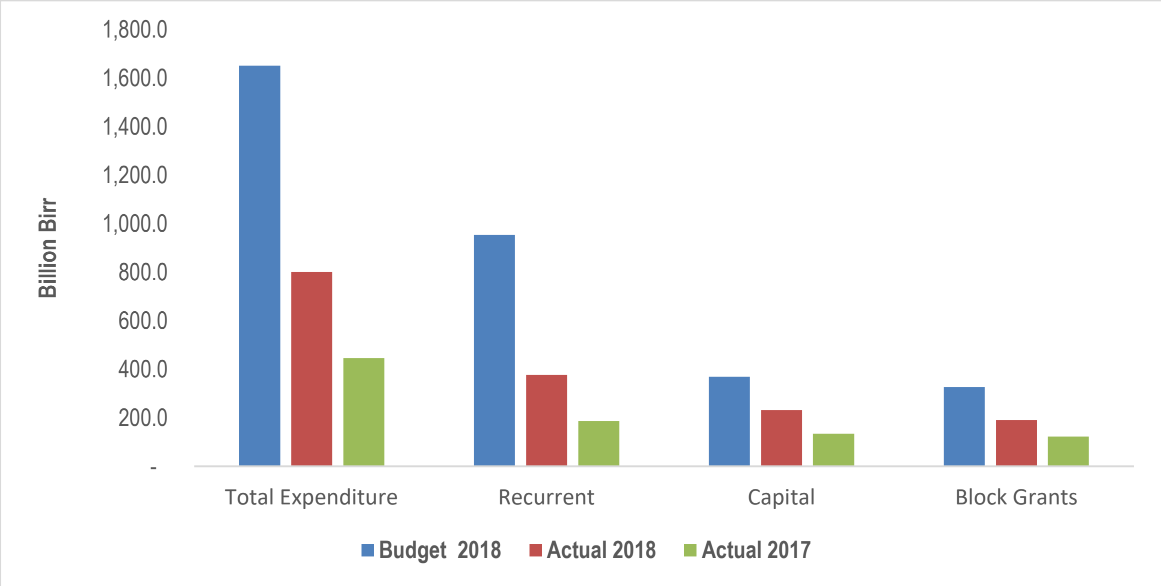
For 2018 Fiscal Year, the Federal Government's total planned expenditure encompassing recurrent and capital expenses, as well as block grant budget supports to regional state Governments were projected at ETB 1,651.9 billion. From the approved budget the Federal Government total expenditures were about ETB 1,324.1 billion, Regional State Budget support ETB 313.8 billion and Sustainable Development Goals (SDG) Support for Regions ETB 14 billion.

From the total allocated budget, ETB 954.8 billion portions were allocated for Federal recurrent expense and ETB 369.3 billion for Federal capital expenditure for 2018 EFY.

The social mitigation protection packages, such as fuel, fertilizer and PSNP program for both urban and rural beneficiaries as well as for salary adjustment of civil servants. Even though the government is determined to allocate relatively more resources to asset-creating capital expenditure, a larger proportion of the budget has been allocated for recurrent expenditure (57.8 percent). On the other hand, the Federal Government allocated (22.4 percent) of the total budget for capital expenditure. Moreover, the Federal Government allocated (19.0 percent) of its overall budget to the Regional Governments in the form of regional block grants (Birr 313.8 billion) and Birr 14 billion for the Sustainable Development Goals (SDGs).

During the first half of the fiscal year performance, a total of 798.2 billion Birr (48.3 percent) was disbursed. As compared to the spending in the previous fiscal year, this showed an increase of 78.6 percent in nominal terms (Figure 3-7).

Figure 3.7: Government Expenditure by Type



Source: Ministry of Finance, 2025/26

During this period, the overall recurrent performances were 374.8 billion birr, representing 39.3% executed from the original budget, and 99% increase compared to the same period of previous year's performances. The recurrent spending was driven by implementation of public servants' salaries increment and social protection measures (subsidies on fuel, fertilizer, and PSNP), on the other hand, by functional classification, administrative services accounted for the largest share at 64.7%, followed by social services (54.9%) while economic development was (50.5%) and other expenditures (31.0%).

On the other hand, looking into the capital budget performance during the first half of the fiscal year, the federal government spent 62.9% of the total capital budget. Out of the total capital expenditure, birr 145.2 billion (60.0 percent of its budget) was spent on economic development, and most of this spending was on construction sector. Specifically, Birr 76.3 billion (68.2 percent of its budget) of the economic development spending was allocated to the Ethiopia roads Authority (ERA). The remaining economic development expenditure was spent by the Ministry of Urban Development and Construction, the Federal Urban Job Creation and Food Security Agency and the federal Urban Land and Property Registration and Information Agency, followed by water resource and agriculture and rural development which amounted to Birr 27.7 billion and Birr 22.3 Billion, respectively.

The disbursement for social development capital projects on the other hand stood at Birr 58.0 billion, of which Birr 42.8 billion (73.8 percent form social spending), was spent on education while the remaining Birr 15.2 billion (26.2 percent) was spent on health, culture, sports and disaster prevention. The federal government also disbursed birr 29.1 billion to finance general development projects (76 percent of its budget) marking an increase of 130.2 percent compared to the previous period.

During the period under review, the Federal Government disbursed a total of 191.2 billon Birr to the Regional Governments in the form of block grants (Birr 185.2 billion) and Sustainable Development Goals (SDGs) support (Birr 5.9 billion). This illustrates 58.3 percent of the planned transfers to the Regional Governments and showed a 54.9 percent nominal increase compared to the previous fiscal year.

3.3. BUDGET DEFICIT

In the first half of the 2018 fiscal year, the federal government generated a total revenue of 704.7 billion birr, while expenditures amounted to ETB 798.2 billion. This resulted in a budget deficit of 93.6 billion birr. The government financed this deficit through domestic and external sources financing.

4. Concluding Remarks

The mid-year review of EFY 2018 confirms notable progress in both macroeconomic stabilization and budget implementation, reflecting the positive momentum generated by Ethiopia's ongoing reform agenda. Strong GDP growth, significant improvements in the external sector, and a sharp decline in inflation all point to the effectiveness of the bold policy adjustments undertaken in exchange rate management, fiscal consolidation, and monetary tightening.

On the fiscal point, revenue performance was robust, with tax collection recording strong double-digit growth, bolstered by reforms under the National Medium-Term Revenue Strategy. Domestic indirect tax collection has shown some improvement compared to the previous year. However, performance remains below target, contributing to a widening fiscal deficit. This underscores the need for strengthened collective efforts through enhanced collaboration with key stakeholders, including the Ministry of Revenue. Tax audits should also be undertaken to identify the underlying causes of the weak performance in performance of Domestic Indirect taxes. On the expenditure side, performance was aligned with government priorities, particularly in economic infrastructure and social development, although recurrent spending remained dominant due to rising debt service and inflation-related outlays.

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

ANNEXES

DESCRIPTIONS	Approved Budget	July-December		Difference against the same period of last year		Six months per f. in % of Annual Budget
	2025/26	2025/26	2023/24	In Birr	In %	
(0)	(1)	2	3	4=2-3	5= (4/3*100)	6= (2/1*100)
Revenue and direct budget support	**1,464,002.80**	**704650.1**	**453464.7**	**251185**	**55.4**	**48.1**
Domestic Revenue	**1,228,532.8**	**636800.2**	**387227.3**	**249572.9**	**64.5**	**51.8**
Tax Revenue	**1,099,113.2**	**579641.1**	**356280.1**	**223361.0**	**62.7**	**52.7**
Direct Taxes	**262866.7**	**195866.6**	**111570.5**	**84296.0**	**75.6**	**74.5**
o/w: Personal income tax	*59484*	*33301.3*	*24649.6*	*8651.7*	*35.1*	**56.0**
Business income tax	*161140*	*144119.1*	*74978.0*	*69141.1*	*92.2*	*89.4*
Domestic indirect taxes	**257855.3**	**87951.7**	**72820.7**	**15130.9**	***20.8***	**34.1**
Value added tax on goods	*93599*	*31187.2*	*24680.0*	*6507.2*	*26.4*	*33.3*
Service Value Added Tax	*110180*	*38258.7*	*29091.4*	*9167.4*	*31.5*	*34.7*
Excise tax/ToT on Goods and Service	*49492*	*16903.3*	*18281.4*	*-1378.1*	*-7.5*	*34.2*
goods and services TOT	280.8	96.7	96.4	0.3	*0.3*	*34.4*
Stamp sales & duty	4303.3	1505.8	671.6	834.2	*124.2*	*35.0*
Foreign trade	**578391.2**	**295822.8**	**171888.8**	**123934.0**	***72.1***	**51.1**
Customs duty	134097	70515.7	57678.7	12837.0	*22.3*	*52.6*
Social welfare Levy	48588	35982.3	21739.5	14242.8	*65.5*	*74.1*
Excise tax	111120	42975.0	6808.5	36166.5	*531.2*	*38.7*
Value Added Tax	239352	129794.3	71598.8	58195.6	*81.3*	*54.2*
Sur tax	45220	16532.6	14045.3	2487.4	*17.7*	*36.6*
Export Tax	14.1	22.8	18.0	4.8	*26.7*	*162.1*
Non Tax revenue	**129419.63**	**57159.1**	**30947.3**	**26211.8**	***84.7***	**44.2**
o/w: Dividend	*17415*	*6027.3*	*8363.7*	*-2336.4*	***-27.9***	**34.6**
DPO GRANT	**235470**	**67849.9**	**66237.4**	**1612.5**	**2.4**	**28.8**
DPO GRANT	*235470*	*67849.9*	*66237.4*	*1612.5*	***2.4***	*28.8*
EXPENDITURE 1/	**1651880**	**798235.7**	**446964.3**	**351271.4**	***78.6***	**48.3**
RECURRENT	**954769.59**	**374750.7**	**188285.2**	**186465.5**	***99.0***	**39.3**
Admin. & General Services	**158858**	**102753.7**	**78539.7**	**24214.1**	***30.8***	**64.7**
o/w: Defense	*80022*	*57728.8*	*49550.5*	*8178.3*	*16.5*	*72.1*
Economic Services	**13470**	**6800.0**	**7778.2**	**-978.2**	***-12.6***	**50.5**
Social Services	**93517**	**51342.8**	**38895.2**	**12447.7**	***32.0***	**54.9**
o/w: Education	*71070*	*38454.7*	*24951.1*	*13503.6*	*54.1*	*54.1*

Health	*12892*	*7767.2*	*6349.9*	*1417.3*	*22.3*	*60.2*
Other Expenditure	**688924**	**213854.1**	**63072.1**	**150782.0**	***239.1***	**31.0**
Interests &charges	234422	140370.9	47710.3	92660.6	*194.2*	*59.9*
Domestic	195677	126480.3	36047.5	90432.8	*250.9*	*64.6*
External	38746	13890.5	11662.8	2227.7	*19.1*	*35.9*
Others	454501	73483.2	15361.8	58121.4	*378.4*	*16.2*
CAPITAL [2/]	**369287.5**	**232334.5**	**135242.3**	**97092.2**	***71.8***	**62.9**
Economic Development	**241860**	**145231.0**	**97611.5**	**47619.5**	***48.8***	**60.0**
o/w: Agricultures	*51614*	*22336.7*	*24905.3*	*-2568.6*	-10.3	43.3
Natural Resource	*29228*	*27743.3*	*14958.5*	*12784.7*	85.5	94.9
Road Construction	*91537*	*76341.7*	*31236.5*	*45105.1*	144.4	83.4
Social Development	**89142**	**57997.7**	**24987.7**	**33010.0**	***132.1***	**65.1**
o/w: Education	*44070*	*42794.4*	*19474.2*	*23320.2*	119.7	97.1
Health	*31729*	*6545.2*	*2431.3*	*4114.0*	169.2	20.6
General Development	**38286**	**29105.8**	**12643.2**	**16462.6**	***130.2***	**76.0**
O/W Cap. Exp.:						
Domestic Source	*342556*	*205069.2*	*105019.6*	*100049.6*	95.3	59.9
External borrowing	*26731*	*27265.3*	*30222.8*	*-2957.5*	-9.8	102.0
Total regional transfer	**327822.39**	**191150.6**	**123436.8**	**67713.7**	***54.9***	**58.3**
Recurrent block grant transfer	*219676*	*137840.8*	*86924.7*	*50916.1*	58.6	62.7
Capital block grant transfer	*94147*	*47373.5*	*31665.6*	*15707.9*	49.6	50.3
SDGs Assistance to regions	14000	5936.2	4846.5	1089.8	22.5	42.4
Overall, Surplus/Deficit	**-187876.72**	**-93585.6**	**6500.4**	**-100086.1**	***-1539.7***	**49.8**
FINANCING	***187877***	***93585.6***	***-6500.4***	**100086.1**	***-1539.7***	**49.8**
				0.0		
External net	**14928**	**10849**	**39919**	**-29070.0**	***-72.8***	**72.7**
External loan (project loan)	26731	27265.3	30222.8	-2957.5	***-9.8***	102.0
DPO and Extended Credit Facility LOAN	112605	17049.9	31353.7	-14303.8	***-45.6***	15.1
Amortization	124408	33466.3	21657.5	11808.7	***54.5***	26.9
Domestic borrowing	***172948***	***139663.9***	***-1781.7***	**141445.6**	***-7938.8***	**80.8**
Banking system	*0*	*86888.2*	*-9901.7*	*96789.9*	-977.5	
Non-bank system	*0*	*52775.8*	*8120.0*	*44655.8*	549.9	
Privatization receipts	*0*	*0.0*	*0.0*	*0.0*	*0.0*	
Others/residual	**0.00**	**(56,927.2)**	**(44,637.6)**	**(12,289.5)**	***27.5***	