national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

FDRE

Ministry of
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I: Recent Trends in Public Finance: Ethiopia

- **A: Overall situation**
  - ✓ Ethiopia has a population of over 80 million,
  - ✓ The country is a Federal State; consisting of the Federal Government, 9 Regional Governments and 2 City Administrations,
  - ✓ Agriculture is the main stay for 84 % of the population, (it contribute 41.1% of GDP), Service (46.6%) and Industry (13.4%),
  - ✓ Strong economic growth has been witnessed in recent years. Supported by improved agricultural production and large-scale public investment in infrastructure, real GDP growth has averaged 11.4 percent in the past eight years,
  - ✓ Good growth performance has contributed to significant poverty reduction and to good prospect for achieving the MDGs,
  - ✓ In recent years Fiscal policy focuses strengthening domestic revenue mobilization and increase pro – poor spending.

Recent Trends in Public Finance: cont'd

- **B: Revenue and Grant Performance**
- In the past four year tax revenue has raised on average 36%
- In 2006/07 tax revenue was 10.1% of GDP, it has dropped to 8.6% (2008/09), but it picked up to 11.5 in 2010/11 fiscal year,
- Generally grant performance is going down, however Protection of Basic Sectors (PBS) is better, due to the global economic crisis,
- The economic performance and the tax policy reform effort in the past ten years, which was supported by IMF and the recent tax administration effort are a key to the recent tax revenue performance,

Recent Trends in Public Finance: cont'd

Table 1: General Revenue and Grant Outturn, 2006/07-2010/11

In million Birr

	2006/07	2007/08	2008/09	2009/10	2010/11
Total Revenue and Grants	29380	39705	54637	66240	85611
Domestc Revenue	21796	29794	40184	53864	69120
Tax revenue	17353	23801	29008	43318	58981
(annual growth rate)		*37*	*22*	*49*	*36*
Direct taxes	5167	7015	9868	14906	19550
Indirect taxes	12186	16785	19139	28412	39431
Domestic indirect taxes	3997	5092	7325	10727	15705
Import duties & taxes	8189	11693	11814	17685	23726
Non-tax revenue	4444	5993	11176	10546	10139
Grants	7583	9911	14454	12376	16491
		(In percent of GDP)			
Total Revenue and Grants	17.1	16.0	16.3	17.3	16.7
Domestc Revenue	12.7	12.0	12.0	14.1	13.5
Tax revenue	10.1	9.6	8.6	11.3	11.5
Non-tax revenue	2.6	2.4	3.3	2.8	2.0
Grants	4.4	4.0	4.3	3.2	3.2
GDP at current market price	*171989.0*	*248302.7*	*335392.0*	*382938.6*	*511157.0*

Recent Trends in Public Finance: cont'd

- **C: Government Expenditure**

- During 2004/05 fiscal year about 57% of the total government budget was allocated to the poverty reducing sectors and this amount picked up to level of 64.2% in 2007/08 but goes down a bit in 2008/09 to 63.1% budget and pick up again 66 percent in fiscal year just finished 2010/11 .
- Moreover the donor communities had also made an agreement with the government and channeled the entire untied grant to support these sectors through Protecting Basic Services project (PBS) since 2006.
- Hence during the past four years tremendous improvements had been witnessed in both quantity and quality of basic services ,

Recent Trends in Public Finance: cont'd

Table 2 : General Government Expenditure Outturn, 2006/07-2010/11

In million Birr

	2006/07	2007/08	2008/09	2009/10	2010/11
Total Expenditure	35607	46915	57774	72598	93832
Current expenditure	17165	22794	27176	32537	40535
Capital expenditure	18442	24121	30599	40061	53297
o/w Pro- poor Expenditure (rec+Cap)	22360	30050	36213	47789	62378
(percentage share of total expenditure)	63	64	63	66	66
Education	8411	10012	12761	17249	23345
Health	2350	3405	3873	4693	6307
Agriculture	5113	6209	7502	6994	8246
Road	5001	8286	9804	13973	18543
water	1484	2139	2272	4882	5938
(In percent of GDP)					
Total Expenditure	20.7	18.9	17.2	19.0	18.4
Current expenditure	10.0	9.2	8.1	8.5	7.9
Capital expenditure	10.7	9.7	9.1	10.5	10.4
o/w Pro- poor Expenditure (rec+Cap)	*13.0*	*12.1*	*10.8*	*12.5*	*12.2*
Education	*4.9*	*4.0*	*3.8*	*4.5*	*4.6*
Health	*1.4*	*1.4*	*1.2*	*1.2*	*1.2*
Agriculture	*3.0*	*2.5*	*2.2*	*1.8*	*1.6*
Road	*2.9*	*3.3*	*2.9*	*3.6*	*3.6*
water	*0.9*	*0.9*	*0.7*	*1.3*	*1.2*
GDP at current market price	*171989.0*	*248302.7*	*335392.0*	*382938.6*	*511157.0*

Recent Trends in Public Finance: cont'd

- **D: financing**
- The Ethiopian macroeconomic situation during the past five years so unique to the rest of the world, while the rest of the world economy is under deflationary situation, the Ethiopian economy has faced a twin challenges (inflation and low foreign reserve).
- So the government adopt tight Fiscal and Monterey policies
- No fiscal space to finance the gap,
- 2008/09 fiscal year the government domestic borrowing has completely eliminated, and private sector borrowing has been significantly squeezed.
- As a result a number of investments projects both private and public have been postponed, some of planed government expenditure has been cut, and public servant salaries kept squeezed.

Recent Trends in Public Finance: cont'd

Table 3: General Government Financing, 2006/07-2010/11

In million Birr

	2006/07	2007/08	2008/09	2009/10	2010/11
Total Revenue and Grants	29380	39705	54637	66240	85611
Domestc Revenue	21796	29794	40184	53864	69120
Grants	7583	9911	14454	12376	16491
Total Expenditure	35607	46915	57774	72598	93832
Overall balance including grants	-6227	-7210	-3137	-6358	-8221
Overall balance excluding grants	-13811	-17121	-17591	-18734	-24712
Financing	6227	7210	3137	6358	8221
External (net)	1913	2396	3176	4131	7798
Domestic(net)	6246	6580	-417	1758	111
Residual	-1931	-2774	-95	-228	-1146
			(In percent of GDP)		
Total Revenue and Grants	17.1	16.0	16.3	17.3	16.7
Domestc Revenue	12.7	12.0	12.0	14.1	13.5
Grants	4.4	4.0	4.3	3.2	3.2
Total Expenditure	20.7	18.9	17.2	19.0	18.4
Financing	3.6	2.9	0.9	1.7	1.6
External (net)	1.1	1.0	0.9	1.1	1.5
Domestic	3.6	2.7	-0.1	0.5	0.0
GDP at current market price	*171989.0*	*248302.7*	*335392.0*	*382938.6*	*511157.0*

II: The Impact of the Global Economic downturn on the Ethiopian economy

- The Government of Ethiopia and IMF studies the impact of the 2008 global economic crisis , which had serious impact on the country's low level of foreign reserve,
- As a result of high oil and food prices in 2008 and Global Economic Crisis, the country's reserve has declined significantly.
- Receipts from merchandise exports, remittances, export and FDI had been under pressure,
- Hence the IMF (ESF arrangement) offered under, USD 297 million BOP support at the end of 2009,
- As a result level of foreign reserve has been improved,

III: The 2011/12 budget out look

- Real GDP growth in 2011/12 is expected to be within the target of 11 percent;
- However, inflation continue to be a pressure as the 2010/11 moving average figure stood at 18.1 and month-to-month growth is 38.1 percent;
- A radical measure has been taken on the Monetary and Fiscal arrangement;
- Government decided stopping the direct advance credit instrument from NBE to finance budget deficit, restrict through TB sales;
- The implication is that financing of both the federal budget would only be limited to the amount of domestic revenue collected and donor's disbursement ,

The 2011/12 budget out look

- Implementation of the 5 year development plan, Growth and Transformation Plan(GTP), 2010/11-2013/14,
- The GTP was formally presented to IMF and Other development Partners, Accordingly, they said the GTP is ambitious but attainable,
- On the other had, the IMF says Ethiopia should slow down its economic growth to control inflation,
- The GOE see this view an poorly principle. Ethiopia will never slow down its economic growth to control inflation. It's quite simple these huge government infrastructure projects employ million of poor people, if slow down million will be lay off,(*it is just like to find a shoe to fit the foot than to cut the foot to fit shoe).*

The 2011/12 budget out look

- Implementation Arrangement of the New MDGs,
- Regional support **deepening fiscal decentralization** have been and will continue to be the central public policy of the government,
- As part of realizing this objective GoE continued its commitment to devolve fiscal power to the lower level of government,
- In EFY 2004 (2011/12) Birr 15 billion has been allocated for the regional governments apart from the BG transfer allocation,

Gracias

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Hvala

Thank you!

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Merci

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